

**INVITATION TO TENDER AS PANEL SOLICITORS TO
THE PROFESSIONAL INDEMNITY SCHEME**

In this document the following expressions have the following meanings:-

“Council”	:	The Council of the Law Society
“Company”	:	Hong Kong Solicitors Indemnity Fund Ltd.
“PIS Claims Committee”	:	The committee appointed by the Council or the Company with power to settle, prosecute or defend claims made under the Rules
“First Report”	:	In the case of the Defence Panel Solicitors, the first report prepared by them on liability, quantum, reserve of a claim, the likelihood of a payment out of the Fund In the case of Indemnity Panel Solicitors, the first report prepared by them on indemnity
“Fund”	:	The Fund referred to in Rule 3 of the Rules
“Guide To Professional Conduct”	:	The Hong Kong Solicitors’ Guide to Professional Conduct, Volumes 1 and 2 issued by The Law Society of Hong Kong
“Indemnified”	:	Any person entitled to indemnity under the terms of the Rules
“Indemnity”	:	The indemnity to which any Indemnified is entitled pursuant to Rule 10 of the Rules
“Manager”	:	The entity appointed by the Company to manage certain aspects of the Scheme
“Panel Solicitors”	:	Solicitors firms in Hong Kong on the panel appointed by the Council of The Law Society in accordance with Rule 17 of the Rules

“Panel Solicitors’ Guide”	:	The Guide for Panel Solicitors Working Under the Solicitors Professional Indemnity Scheme issued by the Manager
“Rules”	:	The Solicitors (Professional Indemnity) Rules
“Scheme”	:	The Law Society Professional Indemnity Scheme established pursuant to Section 73A of the Legal Practitioners Ordinance and the Rules
“Society”	:	The Law Society of Hong Kong

1. INTRODUCTION

The Council of the Society invites tenders for appointment as Panel Solicitors in accordance with the provisions of this document. The basis of the tender, the role of Panel Solicitors and the procedure for tender are fully set out in this document which explains the following:-

- The operational structure of the Scheme and the conduct of claims
- The role of Panel Solicitors
- Qualifications for tenderers
- Panel Solicitors’ fees
- Term of Appointment
- Panel Solicitors’ Undertaking
- Panel Solicitors’ team
- Tender procedure

The purpose of the tender is to ensure impartiality in the selection of the Panel and that tenderers of the highest calibre and professionalism are appointed in the handling of claims.

2. THE OPERATIONAL STRUCTURE OF THE SCHEME AND THE CONDUCT OF CLAIMS

The Scheme is a self-insurance scheme established by the Society in 1986 to provide compulsory professional indemnity cover for solicitors practising in Hong Kong. Indemnity is provided from the Fund. The establishment, operation, maintenance and administration of the Fund, and the conditions under which it provides Indemnity, are governed by the Rules. The Rules currently in force are set out in **Appendix 1**.

The Company was established by the Society in 1989 and is empowered under Schedule 2 to the Rules to manage and administer the Fund, subject to the directions and requirements of the Society from time to time.

The Company has delegated the authority to handle third party claims against an Indemnified firm to the PIS Claims Committee. The terms of reference of the PIS Claims Committee are set out in **Appendix 2**. The Company has appointed a manager, currently ESSAR Insurance Services Ltd. (“Manager”). Some management functions have been delegated to the Manager.

The Company has appointed Aon Hong Kong Ltd. as its broker to place reinsurance for the Fund’s liabilities.

Subject to the conditions and exclusions in the Rules, the Fund provides Indemnity against losses arising from any claim made against solicitors during the relevant period of indemnity (from 1 October to 30 September in any year) in respect of any description of civil liability incurred in connection with their practice. Indemnity is also provided in respect of claims made after the period of indemnity which arise out of circumstances which were notified to the Company during the period of indemnity.

The indemnity limit provided by the Fund for the 2021/2022 year is HK\$20 million (inclusive of costs) for each and every claim.

The Indemnified is required by the Rules to notify the Company in writing as soon as practicable of any claim, or receipt from any person of an intention to make a claim, or circumstances which may give rise to a claim.

If proceedings have been issued and served upon the Indemnified, the Manager will appoint Panel Solicitors. Occasionally matters can be

resolved at an early stage by an insured taking proactive steps under the Manager's supervision, and Panel Solicitors may be appointed to advise and/or assist with this.

The Professional Indemnity Scheme 2020/21 Annual Report is attached as **Appendix 3**.

Tenderers are referred to Appendices 1 to 3 for full details of the Scheme, the operation of the Fund and claims statistics.

3. THE ROLE OF PANEL SOLICITORS

The Manager will appoint 2 separate sets of Panel Solicitors when a claim is made against a solicitor seeking Indemnity from the Fund.

One set of Panel Solicitors to be known as Defence Panel Solicitors will be retained jointly by the Company and the Indemnified in the defence of the claim.

A separate set of Panel Solicitors to be known as Indemnity Panel Solicitors will be retained solely by the Company to investigate and advise on indemnity.

The tasks of Defence and Indemnity Panel Solicitors and the procedures they should follow in the conduct and settlement of claims are set out in detail in the Panel Solicitors' Guide and a copy will be provided by the Manager to Panel Solicitors upon their appointment.

The tasks of Panel Solicitors are summarised in general terms below:

Defence Panel Solicitors:

- To act in the joint interests of the Company and the Indemnified in the conduct of the defence; to advise on liability, quantum and reserve of a claim, the likelihood of a payment out of the Fund; and to review these issues periodically;
- To obtain the joint instructions of the Company and the Indemnified at all stages in the defence of the claim and to revert to the Manager if the Indemnified fails to agree with the instructions of the Company;

- To keep confidential all information acquired in relation to the claim for the benefit of the Company and the Indemnified and to disclose such information to third parties only with the consent of both clients;
- To liaise with the Manager and in particular:
 - To provide all draft pleadings to the Manager in order that the Manager may express their views on the pleadings;
 - To provide them with copies of pleadings, witness statements, orders and important correspondence;
 - To obtain their instructions before instructing Counsel and expert witnesses, making or accepting any offer of settlement, or taking any substantive step in the proceedings;
 - To keep them fully informed of the developments of the claim;
 - To bring to their attention if the Indemnified wishes to bring contribution or third party proceedings against another solicitors firm.

Indemnity Panel Solicitors:

- To investigate and advise the Company on the provision of indemnity and to review the issue of indemnity as and when instructed to do so;
- To keep confidential all information acquired in relation to their investigation of indemnity to the Company and not to disclose such information to the Indemnified or any other third parties without the consent of the Company.

All Panel Solicitors:

- To follow the Panel Solicitors' Guide when conducting Scheme work and any guidelines in the Panel Solicitors' Guide revised from time to time;
- To submit their First Reports and subsequent reports on a regular basis;

- To observe the Guide to Professional Conduct and in particular, the Principles on conflict of interest and to advise the Manager immediately of any conflict. (Please refer to sections 6 and 8 of the Invitation to Tender for the details).
- To attend meetings of the PIS Claims Committee, the Company and the Council as and when required;
- To perform their duties as Panel Solicitors with diligence in accordance with the standards reasonably expected from a law firm and in compliance with their professional and legal obligations.

Panel Solicitors should note that the duty of confidentiality endures even after the termination of their appointment without limit in point of time except and until such confidential information or matter enters the public domain through no fault of Panel Solicitors.

The performance of Panel Solicitors is monitored by the Manager and a performance report will be submitted to the Council periodically.

4. PANEL SOLICITORS' SCALE FEES

Panel Solicitors are currently paid in accordance with the following fee structure:-

Post Qualification Experience	High Court HK\$	District Court HK\$
a. Solicitors practising in Hong Kong		
Over 15 years	5,800	3,860
13 – 15 years	5,500	3,660
9 – 12 years	5,200	3,460
7 – 8 years	4,500	3,000
5 – 6 years	3,900	2,600
2 – 4 years	3,200	2,130
Newly admitted	2,600	1,730
Trainee Solicitor	1,700	1,130
b. Litigation Clerk	1,300	860
c. Law Costs Draftsman	1,800	1,800

In addition to Panel Solicitors' scale fees, all translation work is conducted at the rate of HK\$1,000 per hour.

Work is charged on the basis of the actual time incurred. No minimum charge in terms of minutes is allowed. Bills may be submitted periodically and are assessed by the Manager for reasonableness. The procedure for submitting bills is set out in the Panel Solicitors' Guide.

The Council acknowledges that the current rates may not reflect the market rates and may consider appropriate adjustments. For the retainer commencing 1 February 2023, tenderers are invited to complete a Proposal for Fee Structure setting out their own proposal on fees.

Tenderers should note the following when they are considering their fee proposals:

- There are currently seven Panel firms and the Council is contemplating the appointment of eight Panel firms for this tender. The Council reserves the right to vary the size of the Panel for the appointment commencing 1 February 2023 and at any time during the period of appointment.
- The Society cannot guarantee the volume of work or the total amount of fees Panel Solicitors will receive. From 1 April 2018 to 31 March 2022 the number of new claims assigned to Panel firms was 222. The total amount of fees paid to Panel Solicitors from 1 April 2018 to 31 March 2022 was approximately HK\$163 million.
- The Manager has a discretion to allocate claims to the Panel Solicitors whom they regard as being most appropriate for the claim, having regard to the views and the wish of Indemnified, the complexity of the claim, the relevant expertise, and any conflict of interest.
- It is expected the fee structure, to be determined by the Council upon the completion of the tender, will be fixed for the whole period of appointment.

5. TERM OF APPOINTMENT

The successful tenderer will become a Panel Solicitor subject to satisfactory performance from the date of appointment until 31 March 2028. Either party may terminate the appointment by giving to the other party not less than 3 months' notice in writing.

In the event that all Panel Solicitors have a conflict of interest in respect of a particular claim or otherwise cannot accept instructions, the PIS Claims Committee is empowered to appoint a firm or firms of solicitors outside the Panel to act for an Indemnified and/or the Company.

6. CONFLICT OF INTEREST AND PANEL SOLICITORS' UNDERTAKING

Panel Solicitors must confirm they do not have a conflict of interest to act for the Fund upon their appointment. Subject to the Undertaking below, Panel Solicitors are free to represent other clients in other matters whose interests may differ from the Company, the Society and/or the Fund (including in contentious proceedings) both during and after the termination of their retainer, provided:

- Panel Solicitors have put in place information barriers and other measures as the Manager may consider appropriate to protect all information acquired in relation to the claim made under the Scheme;
- Panel Solicitors comply with the guidelines in the Panel Solicitors' Guide and the Guide to Professional Conduct.

It is not in the overall interests of the Scheme to permit Panel Solicitors to act in a claim against a firm of solicitors. It is a condition of their appointment that Panel Solicitors undertake not to accept instructions to act for any person, firm or company in a claim against a solicitor which claim may give rise to the solicitor seeking indemnity from the Fund.

A sample undertaking by way of indication is attached as **Appendix 4**.

7. QUALIFICATIONS FOR TENDERERS

Tenderers must fulfil the following qualifications:-

- They must be a registered law firm entitled to advise and practise Hong Kong law in Hong Kong;
- They must maintain a sufficient number of qualified and experienced staff in Hong Kong to provide the majority of services required of Panel Solicitors;

- They must employ at least one Cantonese-speaking solicitor within the team conducting Scheme work.

Historically, the underlying subject matter of the claims defended by Panel Solicitors has been in the areas of conveyancing, litigation, and corporate and commercial matters. The Council will consider the extent to which the practice areas of tenderers are suitable. Therefore, tenderers are required to set out details of established practices in the aforementioned areas in the Application for Tender.

In addition, proven experience in handling complex insurance litigation and in particular professional indemnity insurance and other specialized areas such as probate, matrimonial work, capital markets and financial services would be an advantage. As the Scheme work is often in the field of professional negligence, the experience of members of the proposed teams in dealing with professional negligence claims is a factor the Council will take into account. The Council will also take into account the level of diversification of tenderers' practice areas, as greater diversification is likely to prove useful in certain cases.

In view of the complexity and importance of Panel work, the Society emphasises that Panel Solicitors are required to demonstrate high professional standards in accordance with the Guide to Professional Conduct, and to carry out their work with the appropriate levels of skill and care. Accordingly, tenderers are asked to provide details of any final judgments or wasted costs orders entered against them and/or any final disciplinary orders made against solicitors who have been proposed for the team.

8. PANEL SOLICITORS' TEAM

The team conducting Scheme work must observe the following guidelines:

- The team should contain a maximum of 4 solicitors, one of whom is a partner responsible for supervising the team and conducting claims, and the others, assistant solicitors. One of the assistant solicitors must have no less than 5 years' post-qualification experience.
- The majority of the team members, and in particular the supervising partner must be resident in Hong Kong.

- The supervising partner must notify and seek the approval of the Manager of any change in the composition of the team.
- Panel firms may apply on a claim by claim basis to the Manager for an additional fee earner if a claim requires particular expertise or for administrative reasons e.g. a member of the team is on holiday, sick leave and a replacement is necessary.
- Routine Scheme work should be assigned to the junior fee earners in the team.
- Supervising partners should interface with the Indemnified and finalize all advice to the Indemnified and Manager.
- To eliminate any potential or actual conflict of interest, no member of a Panel firm shall be a member of the PIS Claims Committee. Accordingly, any member of a firm which has successfully tendered shall upon the appointment of their firm resign from the PIS Claims Committee.

9. TENDER PROCEDURE

Tenderers should complete the Society's standard forms of Application for Tender and the Proposal for Fee Structure. The Application for Tender should be completed with a view to evidencing clearly to the Council how tenderers meet the qualifications for tenderers in point 7 of this Invitation to Tender.

In order to reflect the importance attached to appointing Panel Solicitors of the highest calibre and professionalism, and to allow an unbiased view of the qualitative aspects of the tenders, the Application for Tender and the Fee Proposal should be placed in 2 separate sealed envelopes stapled together, marked respectively:

"Appointment of PIS Panel Solicitors - Application for Tender"

"Appointment of PIS Panel Solicitors - Proposal for Fee Structure"

The Council will consider only the Application for Tender when deciding which firms to appoint as Panel Solicitors. After selection of

the Panel Solicitors, the Council will set fees that will apply to all Panel Solicitors by reference to all the Proposals for Fee Structure it has received.

The 2 sealed envelopes should be deposited with the Society at 3/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong by 12:00 noon on Thursday, 24 November 2022.

Tenders submitted otherwise than in the forms of the Application for Tender and Proposal For Fee Structure or submitted after 12:00 noon on Thursday, 24 November 2022 will not be accepted.

The tender box will be opened by the Chairman of the PIS Panel Solicitors Selection Board and the Secretary General and all tender applications will be considered by the PIS Panel Solicitors Selection Board with recommendations to the Council for appointment. A list of members of Council of the Society and members of the PIS Panel Solicitor Selection Board is attached as **Appendix 5**. Council members whose firms have submitted the Application for Tender and Proposal for Fee Structure will be precluded from the selection and appointment process.

In making its decisions, the Council will compare the tendering firms on their merits, considering how well the tendering firms meet the qualifications for tenderers set out in point 7 of this Invitation to Tender.

Additionally, the Council seeks to ensure that there is a range of expertise on the Panel of Solicitors, in order to ensure that cases can be dealt with by the most appropriate firm.

Tenderers should note that the lowest tender will not automatically be accepted.

It is expected that the successful tenderer will be notified in writing before the end of January 2023.

Acceptance of any tender will not create any contract between the Society, the Company and the successful tenderer. The appointment of the successful tenderer will be strictly subject to a contract to be entered into with the Society.

Tenderers are expected to submit their tender on the basis of this document and the information supplied. Any request for further information in respect of the tender should be directed to the Society at the above address. Any further information so requested may be supplied at the absolute discretion of the Society and will be made available to all other tenderers.

APPENDICES

1. Solicitors (Professional Indemnity) Rules
2. PIS Claims Committee Terms of Reference
3. Professional Indemnity Scheme 2020/2021 Year Annual Report
4. Sample Undertaking (by way of indication only)
5. List of Council Members and Members of the PIS Panel Solicitors Selection Board

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Solicitors (Professional Indemnity) Rules

(Cap. 159, sections 73 and 73A)

[1 October 1989]

(Format changes—E.R. 2 of 2019)

1. Citation

These rules may be cited as the Solicitors (Professional Indemnity) Rules.

2. Interpretation

In these rules, unless the context otherwise requires—

authorized insurers (獲認可保險人) means persons carrying on liability insurance business or pecuniary loss insurance business and recognized as such by the Society;

authorized reduction amount (獲批准扣減款額) means the amount of the reduction in the total amount of contribution authorized from time to time by the Council referred to in paragraph 2(7)(a) of Schedule 1; *(L.N. 363 of 1991)*

basic contribution (基本供款) means the amount which is established by applying the formula set out in paragraph 2(1)(a)(i) of Schedule 1 (and which is represented by the letter “C” in such formula) as varied by paragraph 2(2), (3) or (7) of Schedule 1; *(L.N. 363 of 1991)*

certified public accountant (practising) (執業會計師) has the same meaning as in the Professional Accountants Ordinance (Cap. 50); *(23 of 2004 s. 56)*

Claims Committee (申索委員會) means the committee appointed by the Council or the Company with power to settle, prosecute or defend claims made under these rules or the former Rules; (*L.N. 58 of 1993*)

Company (彌償公司) means Hong Kong Solicitors Indemnity Fund Limited; (*L.N. 218 of 1999*)

contribution (供款) means the contribution referred to in rule 4;

firm (律師行) means the firm as from time to time constituted, whether of a sole practitioner or a partnership, carrying on the Practice;

first indemnity period (首段彌償期間) means the period commencing on 1 October 1989 and expiring on 30 September 1990, both days inclusive;

first Master Policies (首份總保單) means the 2 professional indemnity insurance policies entered into between the Society and authorized insurers effective on 1 October 1986;

former Master Policy (前總保單) means the master policy entered into between the Society and authorized insurers, expiring on 30 September 1986;

former Practice (前執業業務) means a Practice which no longer carries on business practising as a solicitor; (*L.N. 173 of 2016*)

former principal (前主管) means a principal in a Practice on the date when such Practice becomes a former Practice; (*L.N. 173 of 2016*)

former Rules (前規則) means the Solicitors (Professional Indemnity) (Amendment) Rules 1986 (*L.N. 236 of 1986*) and the Solicitors (Professional Indemnity) Rules 1987 (*L.N. 402 of 1987*); (*L.N. 111 of 1992*)

former solicitor (前律師) means a person who has ceased by reason of death, retirement or otherwise to be a solicitor

in Practice and who has been provided with Indemnity or insured under any Master Policy or former Master Policy or whose successors in business have been provided with Indemnity or insured under any Master Policy or former Master Policy including the estate and legal representatives of such person;

fund (基金) means the fund referred to in rule 3;

gross fee income (總費用收入) means—

- (a) all professional fees, remuneration, commission and charges of any kind whatsoever which are rendered in connection with the indemnified's Practice; and
- (b) all income derived by any service, administrative or trustee company (other than any company which accepts moneys for investment other than as a trustee) or trust in so far as its activities are carried out solely in connection with the Practice but excluding any income derived by any company within this paragraph for services rendered to the indemnified's Practice or to any other company within this paragraph where and to the extent that such income is included in the gross fee income of the indemnified's Practice or of such other company as aforesaid;

indemnified (獲彌償保障者) means the firm named in the receipt referred to in rule 9, or any principal in the firm, any person employed or working in connection with the Practice (including any assistant solicitor, any foreign lawyer, any solicitor who is a consultant in the firm, and any trainee solicitor), any solicitor who has ceased by reason of death, retirement or otherwise to practise as principal in the firm, any person who was employed or who worked in connection with the Practice (including any assistant solicitor, any foreign lawyer, any consultant and any trainee solicitor) and their estate and legal representatives, and also includes any

service, administrative or nominee company or trust in so far as its activities are carried out in connection with the Practice; (*L.N. 51 of 2019*)

Indemnity (彌償) means the indemnity to which an indemnified, a former solicitor, or any person who was employed or who worked in connection with the Practice (whether as an assistant solicitor, a foreign lawyer, consultant, trainee solicitor or otherwise), or their estate and legal representatives are entitled under rule 10; (*L.N. 51 of 2019; L.N. 10 of 2020*)

indemnity period (彌償期間) means a period (being a period during which either Indemnity or insurance under any Master Policy or former Master Policy has been or is being provided) commencing on 1 October in any year and expiring on 30 September in the following year, both days inclusive;

insurance fund (保險基金) means the fund or funds established and maintained by the Society under the former Rules as part of the Professional Indemnity Insurance Scheme; (*L.N. 111 of 1992*)

insured (受保人) means a person who is covered by professional indemnity insurance under the Professional Indemnity Insurance Scheme; (*L.N. 111 of 1992*)

Master Policies (總保單) means the first Master Policies and the second Master Policies, and Master Policy means any of such policies;

panel solicitor (委員會律師) means a firm of solicitors appointed by the Company—

- (a) to act on behalf of an indemnified or a former solicitor in respect of any claim against the indemnified or the former solicitor for which the indemnified or the former solicitor seeks Indemnity from the Company under these rules; or

- (b) to advise the Company on its obligations under these rules; (*L.N. 173 of 2016*)

period of indemnity (彌償時段) means the period specified in the receipt issued under rule 9 or in the case of a former solicitor means the indemnity period;

Practice (執業業務) means the business of practising as a solicitor, including the acceptance of obligations connected with and incidental to such practice as—

- (a) trustee;
- (b) executor;
- (c) attorney acting under a power of attorney;
- (d) tax agent;
- (e) patent agent;
- (f) trade-mark agent;
- (g) company secretary;
- (h) company director; (*L.N. 173 of 2016*)
- (i) notary public, provided the solicitor is so qualified; (*L.N. 173 of 2016*)
- (j) the neutral in any form of alternative dispute resolution procedure; (*L.N. 173 of 2016*)
- (k) China-Appointed Attesting Officer; or (*L.N. 173 of 2016*)
- (l) civil celebrant of marriages appointed under the Marriage Ordinance (Cap. 181), (*L.N. 173 of 2016*)

undertaken by the indemnified or his predecessor in business alone or with others, provided always that wherever any fees or other income accrue therefrom they inure to the benefit of that business; (*L.N. 266 of 1999*)

principal (主管) means a partner or sole practitioner of a firm and shall also include any solicitor holding out as such a partner or sole practitioner;

Professional Indemnity Insurance Scheme (專業彌償保險計劃) means the professional indemnity scheme set out in the former Rules, which became effective on 1 October 1986 and which was replaced on 1 October 1989 by the Professional Indemnity Scheme; (*L.N. 363 of 1991; L.N. 111 of 1992*)

Professional Indemnity Scheme (專業彌償計劃) means the professional indemnity scheme set out in these rules, as from time to time amended by agreement between the Society and the Company;

related costs (有關連訟費) means all costs and expenses—

- (a) incurred with authorized insurers' or the Company's prior written consent in the defence or settlement of any claim against the indemnified or a former solicitor; or (*L.N. 10 of 2020*)
- (b) incurred by the Company in the exercise of its power under paragraph 8(1)(d) of Schedule 3; (*L.N. 173 of 2016*)

relevant date (有關日期) means—

- (a) the date when a claim for which Indemnity is provided is first made against the indemnified or a former solicitor;
- (b) where the circumstances which might give rise to such a claim first came to the notice of the indemnified or a former solicitor on a date earlier than the date referred to in paragraph (a), that earlier date; or
- (c) where the firm has ceased the Practice at the date referred to in paragraph (a) or (b) (as may be

applicable), the date when the cause of action first accrued against the firm; (*L.N. 162 of 2001*)

second Master Policies (第二份總保單) means the 3 professional indemnity insurance policies entered into between the Society and authorized insurers effective on 1 October 1987;

unqualified staff (不合資格職員) means persons who are not solicitors.

3. The fund

- (1) The Society is hereby authorized to establish and maintain a fund in accordance with the provisions of these rules.
- (2) Subject to these rules, the fund shall provide indemnity against such loss as is mentioned in section 73A(1) of the Ordinance, in respect of the first indemnity period and each subsequent indemnity period and, subject to the former Rules, the fund shall provide indemnity against such loss as is mentioned in such former Rules. (*L.N. 363 of 1991; L.N. 111 of 1992; L.N. 58 of 1993*)
- (3) The second Master Policies taken out and maintained and the certificates of insurance issued under such second Master Policies shall continue to provide cover subject to and in accordance with their terms in respect of their respective periods up to and including 30 September 1989.

4. Establishment and maintenance of the fund

The fund shall be established and maintained by contributions which shall be made or caused to be made by solicitors in respect of the first and each subsequent indemnity period in accordance with the provisions of Schedule 1 and by payment into the fund of the insurance fund.

(*L.N. 363 of 1991; L.N. 111 of 1992; L.N. 58 of 1993*)

5. Management and administration of the fund

The fund shall be held, managed and administered in accordance with the provisions of Schedule 2 by the Company.

6. Compulsory Indemnity

- (1) Subject to rule 7, every solicitor who is, or is held out to the public as, a solicitor in Practice in Hong Kong shall be required to have and maintain Indemnity.
- (2) Any current practising certificate which has been issued to a solicitor who is required to have and maintain Indemnity and who fails to have Indemnity shall be suspended and such person shall not be qualified to act as a solicitor pursuant to section 7 of the Ordinance while he shall fail to have Indemnity.

7. Exemption

- (1) Rule 6 shall not apply to a solicitor or a class of solicitors for the time being exempted by the Council from compliance with these rules or to a solicitor or a class of solicitors engaged only in a category or categories of professional business specified by the Council.
- (2) The Council may—
 - (a) exempt from compliance with these rules any solicitor or any class of solicitors specified by the Council;
 - (b) exempt from compliance with these rules any solicitor or any class of solicitors engaged only in a category or categories of professional business specified by the Council;

- (c) grant such exemption either indefinitely or for a specified period or subject to such other conditions as the Council may from time to time determine; and
- (d) revoke any exemption granted.

8. Production of documents and information

- (1) Subject to subrule (3) every principal who is in Practice in Hong Kong shall, on or before 15 August in each indemnity period or such other date as may be allowed by the Council, produce to the Company or to a person specified by the Company—
 - (a)
 - (i) a report in such form as the Company may specify with the approval of the Council and signed by a certified public accountant (practising) containing particulars of the gross fee income in accordance with this rule attributable to the Practice for the immediately preceding accounting year of the Practice; or
 - (ii) if a report mentioned in subparagraph (i) is not available, subject to the approval of the Council and such terms as the Council may think fit, a report in such form as the Company may specify and signed by a certified public accountant (practising) containing particulars of the gross fee income attributable to the Practice for the accounting year of the Practice ending not earlier than 31 March in the preceding year; and (*L.N. 266 of 1999; 23 of 2004 s. 56; L.N. 154 of 2007*)
 - (b) such other information in connection with the Practice made up to 31 July (or other date as determined by the Council) in the same indemnity period required by the Company in a form approved by the Company for the

purpose of assessing the contributions payable by that Practice, including the following—

- (i) (in addition to the report referred to in paragraph (a)) particulars of the gross fee income attributable to the Practice for the immediately preceding accounting year of the Practice; (*L.N. 154 of 2007*)
- (ii) the names of all the principals in the Practice;
- (iii) the names of all foreign lawyers in the Practice;
- (iv) the names of all other solicitors, including assistant solicitors and consultants employed in or otherwise involved in the Practice;
- (v) the names of all trainee solicitors in the Practice; and
- (vi) the name and address of the firm carrying on the Practice. (*L.N. 266 of 1999*)

(c) (*Repealed L.N. 266 of 1999*)

(1A) For the purposes of subrule (1)(a), a certified public accountant (practising) is qualified to sign the report referred to in subrule (1)(a)(i) or (ii) only if—

- (a) the accountant is a certified public accountant (practising) holding a practising certificate as provided in the Professional Accountants Ordinance (Cap. 50);
- (b) the accountant has neither been at any time during the period covered by the report, nor subsequently before signing the report, a partner, clerk or servant of the Practice to which the report relates; and
- (c) the accountant is not subject to any notice of disqualification under subrule (1B). (*L.N. 153 of 2012*)

(1B) If—

- (a) the accountant has been found guilty by the Disciplinary Committee constituted under section 33(3) of the Professional Accountants Ordinance (Cap. 50) of professional misconduct or dishonourable conduct; or
 - (b) the Council is satisfied that the gross fee income of the Practice reported by the accountant was inaccurate and that the accountant was negligent in signing that report,

the Council may at any time notify the accountant concerned that the accountant is not qualified to sign the report, and the Council may give notice of this fact to any firm on whose behalf the accountant may have signed the report, and after the accountant has been so notified, unless and until the notice of disqualification is withdrawn by the Council, the accountant is not qualified to sign the report. (*L.N. 153 of 2012*)
- (1C) In coming to its decision under subrule (1B), the Council must take into consideration any observations or representations made or given by the accountant or on whose behalf by the professional body of which the accountant is a member. (*L.N. 153 of 2012*)
- (2) Production with the approval of the Council of a certified public accountant (practising)'s report of gross fee income for a period other than the immediately preceding accounting year of the Practice, in accordance with subrule (1)(a)(ii), shall not relieve any principal in that Practice of his obligation to produce to the Company a report in respect of the immediately preceding accounting year of the Practice and such report, when available, shall be produced immediately on demand by the Society or the Company. (*L.N. 162 of 2001; 23 of 2004 s. 56; L.N. 154 of 2007*)
- (3) If a principal in a Practice supplies particulars of the gross fee income of the Practice and the other information in connection with the Practice in accordance with subrule (1)

or (2), the other principals in the same Practice shall not in addition be required to supply such particulars or information.

- (4) Subject to subrule (3), if any principal referred to in subrule (1) fails to show reasonable cause for not supplying particulars of the gross fee income of the Practice or the other information in connection with the Practice, in accordance with subrule (1) or (2) within 30 days of the receipt of notice from the Society requesting him to show reasonable cause for not supplying the particulars or the other information— (*L.N. 162 of 2001*)
- (a) such failure shall be an event of professional misconduct on the part of such principal and the other principal or principals in such Practice as at the date of such failure; and
 - (b) without prejudice to any other power or remedy of the Society, the Council may apply to the Court for an order compelling such principal or each of the other principals in the Practice to disclose such particulars and information.

(*L.N. 266 of 1999*)

8A. Investigatory powers

- (1) In order to ascertain whether full and accurate information has been provided in accordance with these rules and to obtain the information that has not been provided, the Company may appoint a person (*the appointed person*) whom it thinks fit.
- (2) The Company may require a solicitor who is or was a principal of a Practice to produce to the appointed person accounting and other records and documents, information and explanations relating to the Practice specified by that person at times and places as specified by him.

- (3) Any solicitor to whom a requirement is made under subrule (2) shall comply with such requirement.
- (4) The appointed person—
 - (a) shall report in writing to the Company on matters about which he has been required by the Company to report; and
 - (b) may report to the Company on any other matter if he thinks it fit to do so,and the Company may then report any such matter to the Council.
- (5) A requirement under subrule (2) shall be made in writing and sent or delivered by the Company to the solicitor at the principal practising address of the solicitor last known to the Society or the Company.
- (6) Where a requirement is sent by registered post or recorded delivery to the address referred to in subrule (5), the solicitor to whom it is sent shall be deemed to have received it 2 days after the requirement is so sent.

(L.N. 266 of 1999)

9. Receipt

Upon receipt of the initial contribution due in accordance with the provisions of Schedule 1, the Company shall issue a receipt in respect of the relevant firm and indemnity period or part of the indemnity period.

(L.N. 162 of 2001)

10. Entitlement to Indemnity

- (1) Upon issue of the receipt referred to in rule 9, the indemnified shall be entitled to be provided severally with Indemnity out of the fund in the manner set out in rule 11 and to the extent,

and subject to conditions and exclusions, set out in rule 17(3) and Schedule 3 against all losses to the indemnified whensoever occurring arising from any claim first made against the indemnified during the period of indemnity in respect of any description of civil liability whatsoever incurred in connection with the Practice or from any such claim made during or subsequent to the period of indemnity arising out of circumstances notified to the Company during the period of indemnity as circumstances which may give rise to a claim. (*L.N. 10 of 2020*)

- (2) A former solicitor, or any person who was employed or who worked in connection with the Practice (whether as an assistant solicitor, foreign lawyer, consultant, trainee solicitor or otherwise), or their estate and legal representatives, if not provided with Indemnity under subrule (1), shall be entitled to be provided with Indemnity out of the fund to the extent set out in paragraph 3 of Schedule 3 against the losses and in respect of the civil liability referred to in subrule (1) arising from any claim first made against him during the currency of the Professional Indemnity Scheme as if a receipt referred to in rule 9 had been issued to him but no receipt pursuant to rule 9 will be issued and no contribution shall be payable.
- (3) Rules 11, 12, 13 and 16 and paragraphs 1, 4, 5, 7 and 8 (except subparagraph (9)) of Schedule 3 apply to any of the following persons referred to in subrule (2) as if they were an indemnified— (*L.N. 58 of 1993; L.N. 359 of 1993; L.N. 162 of 2001; L.N. 51 of 2019*)
 - (a) a former solicitor, or any person who was employed or who worked in connection with the Practice (whether as an assistant solicitor, foreign lawyer, consultant, trainee solicitor or otherwise); and
 - (b) their estate and legal representatives.

(*L.N. 51 of 2019*)

11. Provision of Indemnity

- (1) Indemnity shall be provided in any one or any combination of the following ways—
 - (a) by payment, in or towards satisfaction of the claim or claimant's costs or both, to or to the order of the claimant making the claim;
 - (b) by payment, in respect of the claim, claimant's costs or related costs or any combination of them, to or to the order of the indemnified against whom the claim is made;
 - (c) by payment, in or towards discharge of related costs, to or to the order of the legal advisers, adjusters or other persons by whom or in respect of whose services such costs were incurred. (*L.N. 173 of 2016*)
- (2) Notwithstanding any insolvency or bankruptcy of any indemnified, the Company may, for the purposes of subrule (1), decide in which or which combination of the above ways any Indemnity shall be provided.

12. Indemnity exclusively from the fund

- (1) Indemnity shall be provided exclusively out of the fund and any claim thereto shall lie and be made solely against the fund.
- (2) The Company shall have no obligation to provide any Indemnity save to the extent that the same can be provided out of the fund.
- (3) In no circumstances shall any claim to Indemnity lie or be made against the Society or the Council.
- (4) Subject to rule 14, the fund shall be available exclusively for the purposes specified in rule 3. (*L.N. 363 of 1991*)

- (5) In no circumstances shall the fund or any part thereof be available or be treated by any person as available (whether by virtue of any claim, attachment, execution or proceeding or otherwise howsoever) for or in connection with any other purpose.

13. Disputes

Subject to paragraph 8(1)(c) of Schedule 3, a dispute or difference concerning the existence or quantum of any liability for any contribution to be made or caused to be made by any solicitor in accordance with rule 4 or concerning any claim or the quantum of any claim in respect of which Indemnity is to be provided in accordance with rules 10, 11 and 12 shall be referred to a single arbitrator to be appointed in default of agreement by the President of the Society for the time being. Any such arbitration shall take place and be conducted between the indemnified who is a party to the dispute or difference and the Company representing the fund, and the arbitrator's decision shall be final and binding.

(L.N. 173 of 2016)

14. Continued maintenance and release of the fund

- (1) Following the expiry of the last indemnity period in respect of which the fund shall provide Indemnity, the fund shall continue to be held, managed and administered by the Company for so long as and to the extent that the Society, in the light of the reports made to it by the Company, may consider necessary or appropriate for the purpose of providing indemnity in respect of any claim made or intimated during any indemnity period or any insurance period under the former Rules, as the case may be, arising out of circumstances notified during any indemnity period or insurance period, as the case may be, as circumstances which might give rise to such claim. *(L.N. 111 of 1992)*

- (2) When the Society considers it unnecessary or inappropriate that all or any part of the fund should be held, managed and administered for such purpose, the Society may at any time require all or any part of the fund not so required to be released to the Society.
- (3) The Society shall apply such fund released to it, if and to the extent the Society considers it practicable, in any other way permitted by section 73A(2) of the Ordinance or for the benefit of the solicitors' profession as a whole in such manner as it may think fit.

15. Failure to make payment

- (1) If any principal liable to make payment under or in respect of the Professional Indemnity Scheme of any amount for which the indemnified is not provided with Indemnity or which is to be reimbursed to the Company on behalf of the fund without reasonable excuse fails to make payment of such amount on demand for payment of the same being made by the Society then such failure shall be an event of professional misconduct on the part of such principal.
- (2) A demand for payment of the amount referred to in subrule (1) shall only be made by the Society after the Company or their agent has given written notice to such principal that payment of such sum is required by the Company to reimburse the fund or for payment into Court, or settlement, or satisfaction of judgment on any claim and payment is not made within 14 days of such notice being given by the Company or their agent to such principal.

(L.N. 359 of 1993)

16. Payment of amounts not covered by scheme

- (1) When an amount for which Indemnity is not provided is required by the Company or their agent for payment into

court or settlement or satisfaction of judgment on any claim, the Company or their agent shall give notice in writing to the indemnified requiring payment of such amount and each principal in the firm shall thereupon become severally liable to pay the same to the Company.

- (2) If such amount is not paid to the Company within 14 days after service of such notice, the Company may pay the same on behalf of the indemnified and each principal in the firm shall thereupon become further liable to the Company for interest on such amount from the date of payment of the same by the Company at the same rate as allowed for a judgment debt from time to time under section 49 of the High Court Ordinance (Cap. 4). *(25 of 1998 s. 2)*

17. Panel of firms of solicitors

- (1) The Council is to appoint a panel of firms of solicitors from which the Company may appoint a panel solicitor.
- (2) The Company may, if it considers it necessary to do so, appoint a firm of solicitors which is not on the panel appointed by the Council under subrule (1) to act as a panel solicitor.
- (3) Unless the contrary has been expressly agreed in writing by the Company—
- (a) an indemnified, a former solicitor or any person who was employed or who worked in connection with the Practice (whether as an assistant solicitor, foreign lawyer, consultant, trainee solicitor or otherwise), or their estate and legal representatives are only to be represented by the panel solicitor appointed by the Company to represent them in connection with any claim for which Indemnity is sought under rule 10; and

- (b) an indemnified, a former solicitor or any person who was employed or who worked in connection with the Practice (whether as an assistant solicitor, foreign lawyer, consultant, trainee solicitor or otherwise), or their estate and legal representatives must not instruct any other firm of solicitors to represent them in connection with any such claim or be provided with Indemnity in respect of costs incurred by them as a result of instructing any such other firm of solicitors. *(L.N. 10 of 2020)*

(L.N. 173 of 2016)

18. Reporting

- (1) Notwithstanding his duty of confidentiality owed to any solicitor referred to in rule 6, the panel solicitor may report to the Claims Committee full details of any claim made against the Practice of which the solicitor is or was a principal or employee in respect of any act or omission which is the subject matter of a claim under the Professional Indemnity Scheme and may report to the Claims Committee the failure or refusal of the solicitor to co-operate with the panel solicitor concerning the claim. *(L.N. 468 of 1994; L.N. 266 of 1999)*
- (2) Where it appears to the Claims Committee that there may have been professional misconduct, whether in relation to the circumstances giving rise to the claim, the handling of the claim, any failure or refusal to co-operate with the Claims Committee or the panel solicitors, or otherwise, the Claims Committee may at any time inform the Council of full details of such professional misconduct and the circumstances under which it was committed and supply the Council with any related documents. *(L.N. 266 of 1999)*
- (3) Where the Claims Committee has informed the Council under subrule (2), the Council may take any action as it thinks fit, including referring the details and documents supplied by the

Claims Committee to the Tribunal Convenor of the Solicitors
Disciplinary Tribunal Panel. (*L.N. 266 of 1999*)

19. The Council

The powers conferred by these rules on the Society shall be
exercisable by the Council as it may from time to time resolve.

Schedule 1

[rr. 2, 4 & 9 & Schs. 2 & 3]

(L.N. 173 of 2016)

Contributions to Fund

1. Obligation to make contributions

Every principal in Practice shall, in respect of himself and of all assistant solicitors, foreign lawyers and consultants in his firm, make or cause to be made the contributions as are set out in paragraph 2 in respect of that Practice.

(L.N. 51 of 2019)

2. Calculation of contribution

(1) (a) Save in the cases referred to in subparagraphs (2) (when the amount of contribution shall be assessed by the Company as therein provided), (3) (which provides that the amount of the basic contribution shall be not less than the minimum amount as therein provided), (4) (which provides for the due date for payment of the contribution) and (7) (when the amount of contribution may be reduced as therein provided), the amount of all contributions for the first indemnity period and for each subsequent indemnity period shall be calculated— *(L.N. 363 of 1991; L.N. 65 of 2010)*

(i) according to the formula—

$$C = (N * \$20,000) + (M * \$13,000) + S$$

Where—

* = multiplied by;

Solicitors (Professional Indemnity) Rules

Schedule 1

S1-4

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- C = the amount (subject to any appropriate adjustment made under subparagraph (3)) of the basic contribution which may also be the contribution;
- N = number of principals (as at 31 July immediately preceding such indemnity period);
- M = number of assistant solicitors, consultants (as at 31 July immediately preceding such indemnity period) and foreign lawyers (as at 31 July immediately preceding such indemnity period commencing on or after 1 July 2019); and
- S = the amount established from the following table—

Gross fee income of the firm \$ Million	Amount \$
over 0 but not exceeding 5	$2.64\% \times \text{gross fee income}$
over 5 but not exceeding 6	142,000
over 6 but not exceeding 7	161,000
over 7 but not exceeding 8	181,000
over 8 but not exceeding 9	197,000
over 9 but not exceeding 10	212,000
over 10 but not exceeding 11	228,000
over 11 but not exceeding 12	241,000
over 12 but not exceeding 13	253,000
over 13 but not exceeding 14	265,000
over 14 but not exceeding 15	274,000
over 15 but not exceeding 16	281,000
over 16 but not exceeding 17	286,000
over 17 but not exceeding 18	290,000

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Schedule 1

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Gross fee income of the firm \$ Million	Amount \$
over 18 but not exceeding 19	295,000
over 19 but not exceeding 20	299,000
over 20 but not exceeding 21	302,000
over 21 but not exceeding 22	306,000
over 22 but not exceeding 23	309,000
over 23 but not exceeding 24	313,000
over 24 but not exceeding 25	316,000
over 25 but not exceeding 50	1.27% × gross fee income (subject to a maximum amount of \$543,000)
over 50 but not exceeding 75	1.09% × gross fee income (subject to a maximum amount of \$673,000)
over 75 but not exceeding 100	0.90% × gross fee income (subject to a maximum amount of \$732,000)
over 100	0.73% × gross fee income

and the gross fee income of the firm shall be determined by the particulars contained in the gross fee income report produced under rule 8(1)(a) plus a factor to be applied by the Company to this figure to compensate for the historical basis of the gross fee income calculation (such factor not to exceed 10%) and shall be subject to adjustment as provided in sub-subparagraph (b)(iv); or (*L.N. 162 of 2001; L.N. 154 of 2007; L.N. 51 of 2019*)

- (ii) in the circumstances set out in subparagraph (6), according to the formula—

$$F \times C$$

Where—

C = the amount (subject to any appropriate adjustment made under subparagraph (3)) of the basic contribution which may also be the contribution; and

F = the appropriate factor referred to in subparagraph (6)(d).

- (b) (i) The contribution for the first indemnity period and for all subsequent indemnity periods shall be regulated by the number of principals, assistant solicitors, consultants, and from 1 July 2019 onwards, foreign lawyers, engaged or employed in the Practice from time to time and the gross fee income of the firm. (*L.N. 51 of 2019*)
- (ii) Information regarding gross fee income of the firm and unqualified staff and the information described as N and M in sub-subparagraph (a) shall be properly recorded and the indemnified shall at all times allow the Company to inspect such records.
- (iii) Particulars of the name and the position held in the Practice of every principal, assistant solicitor and consultant and the numbers of and positions held by unqualified staff at 1 October 1989 shall be submitted by the firm to the Company on or before 8 October 1989. Thereafter a return shall be sent to the Company on or before the last day of December, March, June and September in each year commencing on 31 December 1989 showing every subsequent change in such particulars (and

the date of such change) occurring since the date of the previous return. (*L.N. 51 of 2019*)

- (iiia) From 1 July 2019 onwards, the return referred to in sub-subparagraph (b)(iii) must also include particulars of the name and the position held in the Practice of every foreign lawyer and any change in such particulars since the date of the previous return. (*L.N. 51 of 2019*)
- (iv) Upon receipt by the Company of the report of gross fee income and information pursuant to rule 8(1) to enable the Company to assess the contribution for the next period of indemnity, the Company will also, based on such information and the other information referred to in sub-subparagraph (b)(iii), calculate and adjust the contribution for the preceding indemnity period in accordance with the formula for calculating the contribution for such preceding indemnity period. Any difference in the amount of the assessed contribution paid for the preceding indemnity period and the contribution established by such calculation shall be met by a further payment by the firm, or in the event of the firm being dissolved prior to payment, by the principals of the firm immediately prior to such dissolution to the Company, or, notwithstanding paragraph 4, by a refund to the firm or such principals by the Company, as the case may be. (*L.N. 162 of 1993; L.N. 154 of 2007*)

- (c) If any principal who is required to make contributions in accordance with paragraph 1 fails to provide the Company with a certified public accountant (practising)'s report of the gross fee income or other information referred to in sub-subparagraph (b)(iii) pursuant to rule 8(1), then such principal and the other principal or principals, if any, in the Practice shall be jointly and severally liable to pay— (*23 of 2004 s. 56; L.N. 154 of 2007*)
- (i) for the first indemnity period, an amount equal to 400% of the total amount payable by the firm as premium under and in respect of the second Master Policies for the period from 1 October 1987 to 30 September 1988; and
 - (ii) thereafter, for each subsequent indemnity period an amount equal to 200% of the rate of contribution for the preceding indemnity period until such principal or principals have made disclosure of such particulars of the gross fee income or other information as was required.
- (d) On a principal making good all failures under sub-subparagraph (c), the Company must assess the contribution payable in respect of the Practice, and—
- (i) if the amount of the contribution as assessed is less than the amount of the contribution paid, the difference must be repaid to the firm without interest; or

- (ii) if the amount of the contribution as assessed exceeds the amount of the contribution paid, the firm must on demand pay and each principal of the firm is jointly and severally liable to pay to the Company the balance of the amount of the contribution together with interest on the amount of the balance calculated in accordance with paragraph 5(3) until receipt of payment by the Company. (*L.N. 173 of 2016*)
- (2) In the case of a solicitor or solicitors commencing a Practice during any indemnity period the contribution payable in respect of such Practice for the year of commencement of Practice shall be assessed by the Company based on the average contribution paid for the current indemnity period by firms of similar composition to the Practice and be paid pro rata and such basis shall continue to be applied until such Practice shall have submitted a certified public accountant (practising)'s report of gross fee income and other information in accordance with the foregoing provisions of this paragraph. Subject to subparagraph (7), the basic contribution payable by such Practice during any indemnity period shall not be less than \$20,000. (*L.N. 363 of 1991; 23 of 2004 s. 56; L.N. 154 of 2007; L.N. 65 of 2010*)
- (3) Subject to subparagraph (7), the basic contribution payable in respect of a Practice for an indemnity period shall not be less than \$20,000. (*L.N. 363 of 1991; L.N. 65 of 2010*)
- (4) The contribution payable for an indemnity period shall be due and payable to the Company on or before 30 September immediately preceding the indemnity period but in the case of the first indemnity period it shall be payable on the date decided by the Society and in the case of a Practice referred to in subparagraph (2) the contribution payable for its first period of indemnity shall be paid forthwith on demand.

- (5) (a) Notwithstanding anything to the contrary in this paragraph, the Company may, with the authority of a resolution of the Council, at any time during an indemnity period demand in writing from every principal who is required to make contributions in accordance with paragraph 1 at any time during the indemnity period when the demand is made such further sum as may be authorized by the Council to make up a deficit or anticipated deficit in the fund, and such principal shall be bound to pay such further sum to the Company within 30 days after the date of issue of such written demand.
- (b) Subject to the amount of payments received from such principal being sufficient to cover the amount of the deficit or anticipated deficit, the sum which such principal shall be required to pay shall be that proportion of the deficit or anticipated deficit as the total amount of the contributions payable after appropriate adjustment as provided in subparagraph (1)(b)(iv) by such principal for the indemnity period when the demand is made bears to the total amount of the contributions payable after adjustment by all principals under the Professional Indemnity Scheme for such indemnity period, provided that such principal may be required to make an interim payment on account of the sum which such principal is to pay hereunder. Such interim payment (which shall be subject to subsequent adjustment) shall be that proportion of the deficit or anticipated deficit as the contribution paid by such principal for the indemnity period when the demand is made bears to the total amount of the contributions then paid for such indemnity period.

- (6) (a) If during any period of 4 indemnity periods immediately prior to any indemnity period, an insurer or the Company on behalf of the indemnified has paid, or is deemed, pursuant to sub-subparagraph (b), to have paid, any claim, then the contribution payable for such indemnity period shall not be the basic contribution but shall be calculated in accordance with the formula set out in paragraph 2(1)(a)(ii) by multiplying the basic contribution by the appropriate factor established pursuant to sub-subparagraph (d).
- (b) (i) For the purposes of sub-subparagraph (a), if during any period of 4 indemnity periods immediately prior to any indemnity period, an insurer or the Company on behalf of a former Practice has paid any claim and a former principal of such former Practice is a principal at the relevant date, then the claim so paid shall be deemed to have been paid on behalf of the firm of which such former principal is a principal at the relevant date, except that where there is more than one former principal of such former Practice who is a principal at the relevant date the claim so paid shall be divided equally among each such former principal whose share of such claim shall be deemed to have been paid on behalf of the firm of which such former principal is a principal at the relevant date.
- (ii) For the purposes of this sub-subparagraph, *the relevant date* (有關日期) means 31 July immediately prior to any indemnity period.

- (c) For the purposes of sub-subparagraph (d), claims paid during such period—
 - (i) shall not include—
 - (A) for all claims first made before 1 October 2019 against persons who are entitled to be provided with Indemnity—any amount in excess of \$10,000,000 in respect of any one claim; (*L.N. 52 of 2019*)
 - (AB) for all claims first made on or after 1 October 2019 against persons who are entitled to be provided with Indemnity—any amount in excess of \$20,000,000 in respect of any one claim; (*L.N. 52 of 2019*)
 - (B) the amount of any claim paid by insurers under the former Master Policy on behalf of the indemnified prior to 1 October 1986 the full amount of which is paid by the indemnified to authorized insurers under the first Master Policies prior to 1 October 1986 provided that this exclusion shall only apply in respect of claims paid by insurers under the former Master Policy (and repaid by the indemnified) which do not exceed the aggregate of 50% of the premiums paid by the indemnified in respect of compulsory professional indemnity insurance in respect of the 4 indemnity periods prior to 1 October 1986;
 - (C) the amount of any deductible paid by the indemnified;

- (D) the legal costs and disbursements incurred in successfully defending a claim made against the indemnified;
 - (E) the legal costs and disbursements (including defence and claimants' costs) paid in respect of a successful claim made against the indemnified under the former Master Policy; and
 - (F) the amount of any claim paid under or in respect of a policy of insurance other than the former Master Policy or the Master Policies or Master Policy;
- (ii) shall include all legal costs and disbursements (including defence and claimants' costs) which are paid in respect of a successful claim made against the indemnified under the Master Policies or a Master Policy.
- (d)
 - (i) If claims so paid exceed 0% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 50% of premiums or contributions so paid, a factor of 1.06 shall be applied to the contribution.
 - (ii) If claims so paid exceed 50% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 100% of premiums or contribution so paid, a factor of 1.13 shall be applied to the contribution.
 - (iii) If claims so paid exceed 100% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding

the indemnity period but do not exceed 200% of premiums or contributions so paid, a factor of 1.33 shall be applied to the contribution.

- (iv) If claims so paid exceed 200% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 300% of premiums or contributions so paid, a factor of 1.53 shall be applied to the contribution.
- (v) If claims so paid exceed 300% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 400% of premiums or contributions so paid, a factor of 1.78 shall be applied to the contribution.
- (vi) If claims so paid exceed 400% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 500% of premiums or contributions so paid, a factor of 1.98 shall be applied to the contribution.
- (vii) If claims so paid exceed 500% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 600% of premiums or contributions so paid, a factor of 2.18 shall be applied to the contribution.
- (viii) If claims so paid exceed 600% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 700% of premiums or contributions so paid, a factor of 2.43 shall be applied to the contribution.

- (ix) If claims so paid exceed 700% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 800% of premiums or contributions so paid, a factor of 2.63 shall be applied to the contribution.
 - (x) If claims so paid exceed 800% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 900% of premiums or contributions so paid, a factor of 2.88 shall be applied to the contribution.
 - (xi) If claims so paid exceed 900% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 1 000% of premiums or contributions so paid, a factor of 3.00 shall be applied to the contribution.
 - (xii) If claims so paid exceed 1 000% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period, a factor of 3.50 shall be applied to the contribution.
- (7) (a) The Company may, with the authority of a resolution of the Council passed at any time during an indemnity period, reduce the total amount of the contributions established in accordance with this paragraph, which are payable by firms, during the next indemnity period by the amount as is authorized by the Council. (*L.N. 65 of 2010*)
- (b) The benefit of such reduction shall be available only to those firms which are entitled to indemnity during both the indemnity period when the resolution of the Council

referred to in sub-subparagraph (a) is passed and during the next indemnity period and shall be obtained by reducing the amount of the contribution payable by any such firm for such next indemnity period by the amount established in accordance with sub-subparagraph (c).

- (c) The amount by which the contribution of any such firm referred to in sub-subparagraph (b) shall be reduced shall be that proportion of the authorized reduction amount as the total amount of the contributions payable after appropriate adjustment as provided in subparagraph (1)(b)(iv) by that firm for the indemnity period when the resolution of the Council is passed bears to the total amount of contributions payable after adjustment by all firms under the Professional Indemnity Scheme for such indemnity period. (*L.N. 363 of 1991*)

3. Decisions by the Council

For the purpose of determining the amount of any contribution required by these rules, the Council's decision shall be final and binding on all persons affected on any question arising as to—

- (a) the maximum amount of contribution or basic contribution payable for any indemnity period;
- (b) the number of principals in a firm at any date;
- (c) the number of unqualified staff employed for the purpose of the Practice at any date;
- (d) the number of assistant solicitors, foreign lawyers and consultants in a firm at any date; (*L.N. 51 of 2019*)
- (e) any information or other matter on the basis of which any adjustment in contribution is assessed in accordance with paragraph 2(1)(b)(iv);

- (f) the amount of any additional contribution to meet the amount of any deficit or anticipated deficit under paragraph 2(5);
- (g) the calculation of the amount of any claim paid and claims loading under paragraph 2(6) and all matters which are to be included or excluded when establishing the amount of claims paid;
- (h) the date on which a Practice becomes a former Practice;
- (i) whether a firm is eligible to receive any benefit under paragraph 2(7)(b); (*L.N. 363 of 1991*)
- (j) the amount of the reduction in the contribution payable by a firm under paragraph 2(7)(c). (*L.N. 363 of 1991*)

4. No refund of contributions

A contribution is not refundable.

5. Interest on overdue contributions

- (1) The Company may at any time demand in writing from each principal of the firm who is required to make contribution in respect of the firm to pay any outstanding balance of the amount of the contribution together with interest on the outstanding balance calculated in accordance with subparagraph (3).
- (2) Each principal of the firm is jointly and severally liable to pay to the Company the amount under subparagraph (1) within 14 days after the issue of the written demand.
- (3) Interest is to be calculated—
 - (a) from the date on which the outstanding balance is due and payable or from any later date as the Company may specify in the written demand; and

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- (b) at the same rate as allowed for a judgment debt from time to time under section 49 of the High Court Ordinance (Cap. 4).

(L.N. 173 of 2016)

Schedule 2

[r. 5]

(L.N. 173 of 2016)

Management and Administration of Fund

1. Power of Company to manage fund

The Company shall hold, and have power to manage and administer, the fund, subject only to—

- (a) such directions, conditions and requirements as the Society may from time to time issue to or impose upon it; and
- (b) such arrangements as the Society may from time to time agree with it.

2. General powers

Without prejudice to the generality of paragraph 1 the management and administration of the fund shall include power—

- (a) to collect and recover contributions due to the fund in accordance with Schedule 1;
- (b) to deposit or invest in such manner as the Company may determine all or any part of the fund, including any interest, dividends, profits, gains or other assets accruing to or acquired by the fund;
- (c) to arrange such insurances as the Company may determine in respect of the fund and its assets and the fund's liability under these rules and the former Rules to provide indemnity in respect of claims and costs and expenses; and to handle all aspects of any such insurances, including the payment of premiums thereon

out of the fund and the making and recovery of claims thereunder; (*L.N. 111 of 1992*)

- (d) to receive, investigate and handle claims to indemnity and other notices prescribed to be given to the Company by these rules, including settlement and making of ex gratia payments out of the fund in respect thereof and conduct of any dispute or difference referred to arbitration under rule 13; (*L.N. 111 of 1992; L.N. 173 of 2016*)
- (e) to investigate and handle any claim made or intimated against any indemnified, insured, or former solicitor in respect of which they are or may be entitled to be provided with Indemnity out of the fund or in respect of which the conduct is by these rules assigned to the Company, including settlement and making of ex gratia payments and conduct of any proceedings arising in respect of such claim; (*L.N. 111 of 1992; L.N. 173 of 2016*)
- (f) to claim and recover reimbursement in respect of any sums paid by way of indemnity in any circumstances in which such reimbursement may be claimed under these rules or the former Rules; (*L.N. 111 of 1992*)
- (g) to exercise any right of subrogation, subject to paragraph 8(6) of Schedule 3;
- (h) to maintain full and proper records and statistics (which, subject to paragraph 4, shall at all reasonable times be available on request to the Society for inspection and copying) as to the fund and all aspects of its management and administration;
- (i) to make to and review with, the Council annually and at any other time that the Council may require, written and (if the Council so requires) oral reports as to the

fund and, subject to paragraph 4, its management and administration, including recommendations as to the contributions which are or may be required in respect of past, present and future indemnity periods and the circumstances in which, extent to which and conditions and exclusions subject to which Indemnity should in any future indemnity period be provided out of the fund.

3. Additional powers

The Company shall further have full power—

- (a) to engage the assistance of any third party in respect of any aspect of the management and administration of the fund;
- (b) to delegate to any third party any aspect of the management and administration of the fund;
- (c) to institute such proceedings and conduct such proceedings as it may consider necessary or appropriate for the due management and administration of the fund (including but not limited to the taking of proceedings to recover contributions due to the fund or any other payment payable in accordance with the terms of the Professional Indemnity Scheme or the Professional Indemnity Insurance Scheme from every principal liable to pay the same or from the firm in which he was a principal when the amount becomes or became due and payable) in its own name or (subject to prior consent of the Society) in the name of the Society; (*L.N. 111 of 1992*)
- (d) to disburse or reimburse out of the fund all administrative and legal and other costs, overheads, fees and other expenses and liabilities incurred in respect of the fund and these rules, including without prejudice to the generality of the foregoing any such

costs, overheads, fees and other expenses and liabilities incurred by the Society or the Company, acting in good faith, in respect of all or any of the following—
(*L.N. 173 of 2016*)

- (i) the establishment or maintenance, or the management, administration or protection, of the fund;
- (ii) the handling of any claim for Indemnity from the fund;
- (iii) the handling of any claim by a third party against an indemnified or a former solicitor. (*L.N. 173 of 2016*)

4. Use of information and documents

Without prejudice to rule 18, and rule 11 of the former Rules, information and documents obtained by the Company about any particular Practice or member thereof in the course of investigating and handling any claim made or intimated or any circumstances notified as is mentioned in rule 10(1) or in paragraph 1(1) of the Schedule to the former Rules may be used by the Company for the purpose of preparation of general records, statistics, reports and recommendations (not identifying the particular Practice or member) for or to the Society, but shall not otherwise be disclosed or available to the Society without prior consent of the Practice (or any successor Practice thereto) or the member concerned. (*L.N. 111 of 1992*)

Schedule 3

[rr. 2, 10 & 13 & Sch. 2]

(L.N. 173 of 2016)

Exclusions and Conditions

1. Exclusions

- (1) Save as provided below, the fund shall not provide Indemnity in respect of the deductibles of any one claim as set out in paragraph 2(2):

Provided that—

- (a) the Company may at any time pay or include in any payment made out of the fund in respect of any claim, claimant's costs or related costs the whole or any part of any deductible applicable thereto, and in that event the firm in respect of which Indemnity was or would have been provided over and above the deductibles shall thereafter on request reimburse to the Company on behalf of the fund the whole or (subject as further provided below) such part of the deductible applicable to that payment as the Company may request and interest on the amount so requested by the Company from the date of the payment at the same rate as allowed for a judgement debt from time to time under section 49 of the High Court Ordinance (Cap. 4) and each principal and former principal in such firm shall be jointly and severally responsible to the Company for such reimbursement accordingly; and *(25 of 1998 s. 2; L.N. 173 of 2016)*
- (b) if, in relation to any claim—

- (i) there is no admission or finding or acceptance of liability on the part of the indemnified; and
- (ii) there is no payment made from the fund to the claimant in respect of the claimant's claim against the indemnified,

the Company may waive in writing in whole or part the Company's right to be reimbursed the amount of the deductible paid out of the fund, and amend or revoke the waiver. (*L.N. 173 of 2016*)

- (2) The Company will not provide Indemnity to the indemnified or a former solicitor in respect of— (*L.N. 359 of 1993; L.N. 162 of 2001*)

- (a) (*Repealed L.N. 359 of 1993*)
- (b) any claim arising from any notice received by the indemnified prior to 1 October 1989 from any person advising or intimating that it is the intention of such person to hold the indemnified responsible for any act or omission, and any legal proceedings brought in respect of any such act or omission, in connection with the Practice;
- (c) losses arising out of any claim—
 - (i) for death, bodily injury, physical loss or physical damage to property of any kind whatsoever (other than property in the care, custody and control of any of the indemnified in connection with the Practice for which the indemnified is responsible, not being property occupied or used by the indemnified for the purposes of the Practice);
 - (ii) for the payment of a trading debt incurred by the indemnified;

- (iii) brought about by the dishonesty, fraudulent act or fraudulent omission of any person who was a principal at the relevant time; (*L.N. 58 of 1993; L.N. 162 of 2001*)
- (iiia) brought about by the dishonesty, fraudulent act or fraudulent omission of an employee of the firm or the indemnified unless the indemnified can prove or show to the satisfaction of the Company that such dishonesty, fraudulent act or fraudulent omission of the employee did not occur as a result of recklessness or dishonesty or a fraudulent act or fraudulent omission on the part of any person who was a principal at the relevant time in the conduct or management of the Practice; (*L.N. 546 of 1994; L.N. 162 of 2001*)
- (iv) directly or indirectly caused by or contributed to, by or arising from ionising radiation or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel, the radio-active toxic explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof; directly occasioned by pressure waves caused by aircraft or other aerial devices travelling at sonic or supersonic speeds; or from war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power;
- (v) in respect of any liability incurred in connection with a Practice conducted wholly outside Hong Kong;
- (vi) made by Carrian Investments Limited (**CIL**), Carrian Holdings Limited (**CHL**) or any of their

respective subsidiary (which has the same meaning as in section 15 of the Companies Ordinance (Cap. 622)) or associate companies or by the shareholders, creditors or liquidators of any of them in respect of professional or other work done by the indemnified for or on behalf of or for the benefit of CIL, CHL or any of their respective subsidiary or associate companies at any time prior to the liquidation of such companies but the Company shall remain liable in respect of professional or other work done for or on behalf of or for the benefit of the liquidators of such companies; *(28 of 2012 ss. 912 & 920)*

- (vii) notwithstanding paragraph 7 but without prejudice to the generality of paragraph 8(8), where non-compliance by the indemnified with a condition of these rules has involved or led to a substantial prejudice, whether or not capable of measurement in monetary terms, to the handling or settlement of the claim; *(L.N. 58 of 1993)*
- (viii) for wrongful dismissal or any other alleged breach by the indemnified in respect of any contract of employment; or for wrongful termination or any other alleged breach by the indemnified in respect of any contract for supply to, or use by, the indemnified of services, materials, equipment or other goods; or for any other relief in respect of any such contract; *(L.N. 162 of 2001)*
- (ix) in respect of any undertaking given by any indemnified or on his behalf (whether in his own name or in the name of the Practice) to any person in connection with the provision of finance, property, assistance or other advantage

whatsoever to or for the benefit of him or any other indemnified or of his or any other indemnified's spouse or children or of any business firm, company, enterprise, association or venture owned or controlled by him or any other indemnified in a beneficial capacity whether alone or in concert with others, except to the extent that he shall establish that any such undertaking was given by him or on his behalf without him knowing that the undertaking was or was likely to be connected with the provision of any such finance, property, assistance or other advantage;

- (x) *(Repealed L.N. 173 of 2016)*
- (xi) which arises directly or indirectly from or is in any way connected with the fact that any Computer Equipment is not Year 2000 Compliant or any cost or expense incurred in preventing or remedying the same (except insofar as the Computer Equipment in question is not owned or operated by the indemnified or a company, the principal business of which is the provision of services ancillary to the indemnified's business of practising as a solicitor and such claim arises solely from advice which the indemnified has given to his clients in the course of his business of practising as a solicitor);
(L.N. 218 of 1999)
- (d) a direct or indirect loss by the indemnified of the amount of his fees or profit costs; *(L.N. 58 of 1993; L.N. 173 of 2016)*
- (e) a loss or expense incurred by the indemnified in connection with a claim against the indemnified, including a loss or expense however incurred whether in connection with the notification of the claim to the

Company, the investigation of the claim by the Company or panel solicitor, the preparation of the defence and the defence of the claim and the settlement of the claim or in connection generally with the indemnified's obligations under paragraph 8(10) or otherwise, unless the Company has specifically agreed or specifically agrees in writing that it will pay them. For the purpose of this subparagraph loss and expense includes costs incurred by the indemnified in producing or reproducing and delivering files and documents required by the Company and panel solicitors, the costs incurred by the indemnified in respect of attendance at any meeting or court of law and the value of time expended by the indemnified in connection with the activities mentioned in this subparagraph. (*L.N. 58 of 1993*)

- (2A) For the purposes of paragraph 1(2)(c)(iii) and (iiia), a person was a principal at the relevant time if he was a principal—
- (a) at the time of the event which was alleged to give rise to the claim;
 - (b) at the time when the claim was first made against the indemnified; or
 - (c) in the case of a claim which arose out of circumstances previously notified to the Company, at the time when such notification was given to the Company. (*L.N. 162 of 2001*)
- (3) In subparagraph (2)(c)(xi) (notwithstanding anything to the contrary in these rules)—
- (a) **Computer Equipment** (電腦設備) includes but is not limited to any or any combination or part of data, computer hardware, firmware, operating system, application, software, computer chip including microprocessor chip or embedded control logic which

is integrated or incorporated into another product or component, and any equipment, system, medium or device for processing, transmitting, storing or retrieving data, irrespective of by whom it is owned or operated;

(b) ***Year 2000 Compliant*** (符合2000年數位標準) means that neither the performance nor functionality of any Computer Equipment is affected by any date or dates prior to, during or after Year 2000 and, in particular but without limitation, that—

- (i) no value for current date will cause any interruption or error in operation;
- (ii) date based functionality must behave consistently for dates prior to, during and after Year 2000;
- (iii) in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules; and
- (iv) Year 2000 must be recognized as a leap year.
(*L.N. 218 of 1999*)

(4) The Company may at its discretion, having regard to all or any of the circumstances of any claim made against any indemnified as may seem relevant to the Company, waive the exclusion set out in subparagraph (2)(c)(xi) in respect of such claim (other than any claim arising from obligations attaching to that indemnified as a result of acting as a director or officer of any company, the principal business of which is not the provision of services ancillary to the indemnified's business of practising as a solicitor) in the event that that indemnified has completed and submitted to the Company before 30 September 1999 a questionnaire in a form to be determined by the Company to the satisfaction of the Company. (*L.N. 218 of 1999*)

2. Determination of limit of Indemnity

- (1) The Indemnity covers that part of the indemnified's loss that exceeds the deductibles referred to in subparagraph (2) up to a sum not exceeding the difference between such deductibles and— (*L.N. 528 of 1994; L.N. 52 of 2019*)
 - (a) for all claims first made before 1 October 2019 against persons who are entitled to be provided with Indemnity—\$10,000,000 in respect of any one claim; (*L.N. 52 of 2019*)
 - (b) for all claims first made on or after 1 October 2019 against persons who are entitled to be provided with Indemnity—\$20,000,000 in respect of any one claim. (*L.N. 52 of 2019*)
- (2) The deductibles for the purposes of subparagraph (1) are— (*L.N. 173 of 2016*)
 - (a) where the indemnified is a sole practitioner at the relevant date, the first \$30,000 in respect of any one claim;
 - (b) where the indemnified is a partnership, in respect of any claim against that partnership or its predecessors in business, the first \$20,000 of any one claim multiplied by the number of principals in the firm at the relevant date;
 - (c) in addition to sub-subparagraph (a) or (b), \$15,000 of any one claim multiplied by the number of assistant solicitors, foreign lawyers and consultants in the firm at the relevant date. (*L.N. 51 of 2019*)
- (3) Notwithstanding subparagraph (2), the aggregate of the amounts set out in subparagraph (2)(a) or (b) and (c) in respect of any firm shall not exceed the first \$200,000 of any one claim.

(4) (a) Where—

- (i) a claim (*first-mentioned claim*) is made against the indemnified or a former solicitor in any indemnity period; and
 - (ii) one or more claim has been made against the same indemnified or former solicitor in that indemnity period or the 2 preceding indemnity periods,
- then in addition to the deductibles described in subparagraph (2)(a) or (b) and subparagraph (2)(c) and subject to subparagraph (3)—
- (iii) where the first-mentioned claim is the second such claim in the 3 consecutive indemnity periods referred to in sub-sub-subparagraphs (i) and (ii), the first-mentioned claim shall be subject to a further deductible of an amount equivalent to 50% of the deductible applicable to the first claim in those 3 indemnity periods;
 - (iv) where the first-mentioned claim is the third such claim in the 3 consecutive indemnity periods referred to in sub-sub-subparagraphs (i) and (ii), the first-mentioned claim shall be subject to a further deductible of an amount equivalent to 100% of the deductible applicable to the first claim in those 3 indemnity periods;
 - (v) where the first-mentioned claim is the fourth or any subsequent such claim in the 3 consecutive indemnity periods referred to in sub-sub-subparagraphs (i) and (ii), the first-mentioned claim shall be subject to a further deductible of an amount equivalent to 200% of the deductible applicable to the first claim in those 3 indemnity periods.

- (b) For the purpose of sub-subparagraph (a), a number of claims arising out of the same act or omission shall be treated as one claim. (*L.N. 162 of 2001*)

3. Extent of Indemnity to former solicitors and former employees

(L.N. 51 of 2019)

- (1) (a) Where a former solicitor ceased to be a solicitor in Practice in Hong Kong on or before 30 September 1986, he shall be provided with Indemnity for that part of his loss which exceeds the relevant amount set out in sub-subparagraph (b) up to but not exceeding the relevant amount set out in sub-subparagraph (c) in respect of any one claim.
- (b) Such former solicitor shall not be provided with Indemnity by the Company in respect of—
- (i) the first \$20,000 of any one claim where he was in Practice as a sole practitioner at the date when he ceased to be a solicitor in Practice in Hong Kong;
 - (ii) the first \$10,000 of any one claim where he was in Practice as a partner at the date when he ceased to be a solicitor in Practice in Hong Kong;
 - (iii) the first \$5,000 of any one claim where he was in Practice as an assistant solicitor or consultant at the date when he ceased to be a solicitor in Practice in Hong Kong.
- (c) The Indemnity under sub-subparagraph (a) shall not in respect of any one claim exceed the difference between the relevant amount set out in sub-subparagraph (b) and \$10,000,000 or any of the following amounts, whichever is the smaller— (*L.N. 528 of 1994*)

- (i) if such former solicitor was in Practice as a sole practitioner immediately before he ceased to be a solicitor in Practice in Hong Kong, \$550,000;
- (ii) if such former solicitor was in Practice as a sole practitioner immediately before he ceased to be a solicitor in Practice in Hong Kong and one or more assistant solicitors or consultants were employed in the Practice, \$550,000 plus an amount of \$200,000 multiplied by the largest number of assistant solicitors and consultants employed at any one time in that Practice within the 12 months preceding the date on which the sole practitioner ceased to be a solicitor in Practice in Hong Kong;
- (iii) if such former solicitor was in Practice in partnership immediately before he ceased to be a solicitor in Practice in Hong Kong, an amount of \$350,000 multiplied by the number of partners in that partnership immediately before he ceased to be a solicitor in Practice in Hong Kong;
- (iv) if such former solicitor was in Practice in partnership immediately before he ceased to be a solicitor in Practice in Hong Kong and one or more assistant solicitors or consultants were employed in that Practice, an amount of \$350,000 multiplied by the number of partners in that partnership plus an amount of \$200,000 multiplied by the largest number of assistant solicitors and consultants employed at any one time in that Practice within the 12 months preceding the date on which he ceased to be a solicitor in Practice in Hong Kong;
- (v) if such former solicitor was in Practice as an assistant solicitor or consultant immediately before

he ceased to be a solicitor in Practice in Hong Kong, \$200,000.

- (2) (a) Where a former solicitor ceased to be a solicitor in Practice in Hong Kong on or after 1 October 1986, he shall be provided with Indemnity for that part of his loss which exceeds the amount set out in sub-subparagraph (b) up to but not exceeding the difference between the relevant amount set out in sub-subparagraph (b) and—*(L.N. 528 of 1994; L.N. 52 of 2019)*
- (i) for all claims first made before 1 October 2019 against the former solicitor—\$10,000,000 in respect of any one claim; *(L.N. 52 of 2019)*
 - (ii) for all claims first made on or after 1 October 2019 against the former solicitor—\$20,000,000 in respect of any one claim. *(L.N. 52 of 2019)*
- (b) For the purpose of sub-subparagraph (a), such former solicitor shall not be provided with Indemnity in respect of—
- (i) the first \$30,000 of any one claim where he was in Practice as a sole practitioner at the date when he ceased to be a solicitor in Practice;
 - (ii) the first \$20,000 of any one claim where he was in Practice as a partner at the date when he ceased to be a solicitor in Practice in Hong Kong;
 - (iii) the first \$15,000 of any one claim where he was in Practice as an assistant solicitor or consultant at the date when he ceased to be a solicitor in Practice in Hong Kong.
- (c) If any person (other than a former solicitor described in sub-subparagraph (a)) who was employed or who worked in connection with the Practice ceases to be employed or to work in connection with the Practice on

or after 1 July 2019, that person must be provided with Indemnity under rule 10(2) for that part of that person's loss that exceeds \$15,000 and— (*L.N. 51 of 2019; L.N. 52 of 2019; L.N. 10 of 2020*)

- (i) for all claims first made before 1 October 2019 against that person—up to but not exceeding \$10,000,000 in respect of any one claim; (*L.N. 52 of 2019*)
 - (ii) for all claims first made on or after 1 October 2019 against that person—up to but not exceeding \$20,000,000 in respect of any one claim. (*L.N. 52 of 2019; L.N. 10 of 2020*)
- (3) In applying rule 16 for the purpose of this paragraph, the reference to “principal” in that rule shall be taken as a reference to “former solicitor”. (*L.N. 162 of 2001*)

4. Related costs

For the purpose of calculating the indemnified's loss in respect of any one claim, related costs shall be aggregated with the sum paid in respect of such claim and claimant's costs.

(*L.N. 173 of 2016*)

5. Recoveries subsequent to claim settlement

All recoveries or payments recovered or received subsequent to a claim settlement shall be applied as if recovered prior to such settlement and all necessary adjustments shall then be made between the indemnified and the Company.

6. Maximum liability of the fund

- (1) The aggregate liability of the fund for all claims arising from the same act or omission (whether or not made or intimated or arising out of circumstances notified during the same

indemnity period) against any indemnified or former solicitor or any combination of persons entitled to Indemnity under these rules shall in no event exceed in total the Indemnity limit determined in accordance with paragraph 2 or 3, whichever is smaller.

(2) *(Repealed L.N. 173 of 2016)*

(L.N. 162 of 2001)

7. Non-compliance

- (1) Where non-compliance with any of these rules by the indemnified results in prejudice to the handling or settlement of a claim to Indemnity whether or not the prejudice would have entitled the Company to refuse to provide Indemnity in respect of the claim under paragraph 1(2)(c)(vii), the indemnified shall upon request reimburse to the Company on behalf of the fund the difference between any sum paid out of the fund in respect of that claim and the sum which would have been paid in the absence of the prejudice and interest on the amount of the difference so paid from the date of the payment thereof at the same rate as allowed for a judgment debt from time to time under section 49 of the High Court Ordinance (Cap. 4) and each principal in such indemnified shall be jointly and severally responsible to the Company for such reimbursement accordingly. *(L.N. 58 of 1993; L.N. 359 of 1993; 25 of 1998 s. 2; L.N. 173 of 2016)*
- (2) It shall be a condition precedent of the right of the Company on behalf of the fund to such reimbursement that it shall first have provided full Indemnity for the indemnified by payment (up to the limits contained in paragraphs 2 and 3) in or towards satisfying, or in or towards enabling the indemnified to satisfy the claim and claimants' costs in accordance with the terms hereof. *(L.N. 58 of 1993)*

8. General conditions

(E.R. 2 of 2019)

- (1) (a) The indemnified shall not admit liability for, or settle, any claim falling under rule 10 or incur any costs or expenses in connection therewith without the prior consent of the Company (such consent not to be unreasonably withheld). *(L.N. 173 of 2016)*
- (b) Subject to sub-subparagraph (c) and to the limitation on the amount of the fund's liability contained in paragraphs 2 and 3, if the indemnified unreasonably refuses to consent to or to accept any proposed settlement made by the Company or continues any legal proceedings in connection therewith the fund's liability to provide Indemnity to the indemnified shall be limited to the amount for which the claim against the indemnified could have been so settled plus any related costs incurred up to the date of such refusal.
- (c) (i) If a difference or dispute arises between the indemnified and the Company regarding the contest, defence, settlement or otherwise of a claim, the difference or dispute must be referred by the Claims Committee to a counsel (to be mutually agreed on by the indemnified and the Company or failing agreement to be appointed by the President of the Society) for a determination whether the claim should be contested, defended, settled or otherwise disposed of, and the counsel is to be instructed to certify whether the counsel has found substantially in favour of the Company. *(L.N. 173 of 2016)*
- (ii) The determination referred to in sub-sub-subparagraph (i) shall be binding on the

indemnified and the Company and shall be conclusive between them.

- (iii) The Claims Committee shall make available to the indemnified a draft of the terms of the reference to the counsel, and the indemnified shall make available to the Claims Committee his comments, if any, on the draft within 7 days of the draft being made available to him. *(L.N. 173 of 2016)*
- (iv) If the comments of the indemnified are given in accordance with sub-sub-subparagraph (iii), they shall be sent to the counsel. *(L.N. 173 of 2016)*
- (v) Unless the Claims Committee otherwise agrees, it shall be a condition precedent to the making of a reference to the counsel that the indemnified deposits with the Company an amount fixed by the Claims Committee as security for the costs of the reference (in case costs have to be reimbursed by the indemnified under sub-sub-subparagraph (viii)) within 7 days of the Claims Committee requiring the indemnified to do so. *(L.N. 173 of 2016)*
- (vi) If the indemnified fails to deposit the amount in accordance with sub-sub-subparagraph (v), he shall be bound by the decision of the Claims Committee in respect of the difference or dispute referred to in sub-sub-subparagraph (i).
- (vii) Subject to sub-sub-subparagraph (viii), the costs of the reference to the counsel shall be paid by the Company. *(L.N. 173 of 2016)*
- (viii) If the counsel certifies that he has found substantially in favour of the Company, the indemnified shall reimburse the Company for the costs of the reference to the counsel paid by the

Company in accordance with this subparagraph.
(*L.N. 173 of 2016*)

- (ix) Subject to sub-sub-subparagraph (x), where the costs of the reference are to be reimbursed by the indemnified, the amount referred to in sub-sub-subparagraph (v) may be applied by the Company in or towards reimbursement of those costs to the Company.
 - (x) (A) If the amount deposited in accordance with sub-sub-subparagraph (v) is less than the amount payable by the indemnified in respect of the costs of the reference, the indemnified shall pay the balance to the Company within 7 days of the request made by the Company.
 - (B) If there is any surplus after the payment of the costs of the reference by the indemnified, it shall be returned to the indemnified without interest.
- (xi) The balance mentioned in sub-sub-subparagraph (x)(A) shall be recoverable as a civil debt and shall carry simple interest at the judgment rate determined for the time being under section 49(1)(b) of the High Court Ordinance (Cap. 4) from the date of payment by the Company to the date of actual payment of the amount outstanding by the indemnified.
- (xii) If the counsel does not find substantially in favour of the Company, the amount referred to in sub-sub-subparagraph (v) shall be refunded by the Company to the indemnified without interest.
(*L.N. 173 of 2016*)

- (xiii) The Claims Committee may, in its sole discretion, extend or abridge any of the time limits specified under this sub-subparagraph (including the time limits mentioned in sub-sub-subparagraphs (iii) and (v)).
- (xiv) For the purpose of sub-sub-subparagraph (i), **contest** (爭辯) includes a contest in respect of the defence, prosecution, appeal or taking of interlocutory or any ancillary steps or procedures in legal proceedings to which a claim relates.
- (xv) For the purpose of this sub-subparagraph, costs of the reference to the counsel include fees of the counsel. (*L.N. 266 of 1999; L.N. 173 of 2016*)
- (d) Subject to sub-subparagraph (c), the Company may, in its discretion and at any time, take over in the name of the indemnified the conduct of the defence or settlement of any claim, including any claim in respect of which the indemnified may become entitled to partial indemnity under any insurance with any insurers and any claim which but for paragraph 2(2) or 3(1)(b) or (2)(b) would have fallen within the scope of the Indemnity provided by these rules; and the indemnified must at their own cost give all reasonable assistance to the Company and panel solicitors and co-operate in the defence or settlement of any claim. (*L.N. 173 of 2016*)
- (2) The indemnified must notify the Company in writing as soon as practicable of— (*L.N. 173 of 2016*)
 - (a) any claim made during the period of indemnity against the indemnified, which falls within rule 10; (*L.N. 162 of 2001*)

- (b) the receipt by the indemnified of notice from any person of any intention to make any such claim; and (*L.N. 173 of 2016*)
 - (c) any circumstances of which the indemnified becomes aware during the period of indemnity and which may (whether during or after the period of indemnity) give rise to any such claim. (*L.N. 173 of 2016*)
- (3) (*Repealed L.N. 173 of 2016*)
- (4) Any notice to be given to the Company under subparagraph (2) must be received by the Company not later than the last day of the period of indemnity during which such claim is made, notice is received or circumstances become known, except that the Company may, in its sole discretion, accept such notification not later than 60 days following the last day of such period of indemnity. (*L.N. 173 of 2016*)
- (5) If due notice is given to the Company under subparagraph (2)(b) or (c), any claim subsequently made (whether during or after the period of indemnity) pursuant to such an intention to claim or arising from circumstances so notified shall be deemed to have been made at the date when such notice was given. (*L.N. 162 of 2001; L.N. 173 of 2016*)
- (6) The Company on behalf of the fund waives any rights of subrogation against any employee of the firm or indemnified save where those rights arise in connection with a dishonest or criminal act by that employee. (*L.N. 162 of 2001*)
- (7) Notices to the Company to be given hereunder shall be deemed to be properly made if given to the Company at its registered office or to such other person or body as the Society may from time to time determine.
- (8) If the indemnified shall prefer any claim to Indemnity out of the fund knowing the same to be false or fraudulent as regards amount or otherwise the Indemnity shall become void

only in respect of such fraudulent claim or that fraudulent part of an otherwise valid claim.

- (9) For the avoidance of doubt, any adjustment by way of claims loading which may at any future date or in respect of any future period be may by reference to any claim or claims first made or intimated during any period of indemnity is not loss arising from any such claim or claims under rule 10 and shall in no event be recoverable hereunder.
- (10) On request the indemnified shall give all information and assistance that the Claims Committee or panel solicitors may reasonably require— (*L.N. 173 of 2016*)
 - (a) in considering whether the indemnified is entitled to Indemnity out of the fund in respect of a claim which is made against the indemnified, or which may arise from a notice or circumstance of which notice is given to the Company under subparagraph (2); or
 - (b) in handling a claim which is made against the indemnified or a notice or circumstance of which notice is given under subparagraph (2). (*L.N. 58 of 1993; L.N. 173 of 2016*)

9. Special condition

- (1) If the issue of a receipt under rule 9 has been withheld or delayed as a result of a failure to pay any contribution due in accordance with these rules by a principal of the firm and a claim has been made or intimated against the indemnified in respect of which the indemnified would otherwise have been entitled to be provided with Indemnity, the Company must provide the payment (up to the limit provided for in paragraphs 2 and 3) in or towards satisfying, or enabling the indemnified to satisfy, the claim, claimant's costs and related costs.

- (2) Each principal of the firm must, on request, reimburse to the Company the whole or such part as the Company may request of any payment so made and interest on the amount calculated in accordance with paragraph 5(3) of Schedule 1. Each principal of the firm so indemnified under subparagraph (1) is jointly and severally liable to the Company for the reimbursement.

(L.N. 173 of 2016)

TERMS OF REFERENCE

1. The “Company” means the Hong Kong Solicitors Indemnity Fund Limited. The "Insurers" means those Insurers/Underwriters set out in Schedule 1 for policy years from 1996 onwards. The "Manager" means Essar Insurance Services Limited.
2. The Company has empowered the Claims Committee and Manager to perform the functions as specified herein.
3. The Claims Committee shall comprise a CHAIRPERSON, a Vice CHAIRPERSON, Members appointed by the Council or the Company from time to time, a nominee of the Manager.
4. A quorum for the Claims Committee shall comprise the CHAIRPERSON (or in his absence the Vice CHAIRPERSON and in his absence the Acting CHAIRPERSON), a nominee of the Manager and one other Member who may be the Vice CHAIRPERSON.
5. The Claims Committee is empowered to adjust, settle, submit to arbitration, compromise, initiate, prosecute or defend all claims in favour of or against an Indemnified (as defined in the Solicitors (Professional Indemnity) Rules (Cap. 159M) (the “Rules”)) pursuant to or in connection with the Professional Indemnity Scheme constituted pursuant to the Rules provided that the Claims Committee’s authority of settlement is limited to that specified in paragraph 2(1) of Schedule 3 to the Rules at the relevant time. Where part of any settlement or compromise entails the purchase of real property, approval of the Company is required.
6. (1) The Claims Committee's power of settlement is delegated to the Manager to the extent that the Manager is empowered to compromise, make ex-gratia payments, admit liability and generally conclude any claim where the sum involved does not exceed the amount of the deductibles payable by the particular Indemnified in respect of that claim by more than HK\$500,000.00 (exclusive of claimant's costs).

- (2) Where a claim has been concluded save for the question of costs, the Claims Committee's power of settlement is delegated to the Manager to the extent that the Manager may agree to settle any claim for costs where the sum involved does not exceed HK\$300,000.00 alternatively the Manager may authorise taxation of such costs.
7.
 - (1) In the event of disagreement as to whether a claim should be contested or compromised in respect of claims notified in the indemnity years 1996/97 and 1997/98, the following provisions shall apply :-
 - (a) The Claims Committee is empowered to authorize settlement of the claim for a figure of not more than HK\$1 million (inclusive of claimant's costs and defence costs and inclusive of the applicable deductibles payable by the Indemnified). If such settlement can be reached, the Insurers will not be involved.
 - (b) The claim shall be contested if the Claims Committee and Insurers are not in agreement as to the conduct of the claim and the Claims Committee is unable or unwilling to settle the claim within the terms of the relevant policies with the Insurers. It is open to the Claims Committee and Insurers to reach agreement as to the handling of a claim notwithstanding an earlier disagreement in relation to such claim.
[Thus, neither the Claims Committee nor Insurers can impose on each other a settlement which would involve payment by the other of amounts that they are not willing to sanction by way of settlement.]
 - (2) Since the indemnity year 1998/99, the Insurers have agreed to follow the decisions of the Claims Committee and to follow in all respects the Rules. The Rules may change from time to time. All participating Insurers are deemed to have agreed and accepted those changes. The participating Insurers also agreed to adopt the interpretation of certain words as contained in the Rules. Therefore, the Claims Committee may, within their discretion, determine whether a claim should be contested. The Claims Committee should, in the spirit of co-operation with the Insurers, endeavour to reach agreement with the Insurers but is not bound to do so.
8. The Claims Committee shall so far as reasonably possible meet not less than once a quarter and more frequently when required.
9.
 - (1) It is recognized that, from time to time, emergency instructions to settle or exercise the other powers of the Claims Committee are required and the Chairman (or in his absence the Vice Chairman and in his absence any other members of the Claims Committee) is entrusted in such event with all of the powers of the Claims Committee as to settlement or otherwise.
 - (2) It is also recognised that, on some occasions, the number of matters falling outside the Manager's discretion and therefore requiring a decision from the Claims Committee will exceed the number of items that can be reasonably considered by the Claims Committee when they meet. In such circumstances, the Manager may circulate Panel Solicitors' reports seeking instructions on relatively straight forward non-urgent matters to two members of the Claims Committee who shall be entrusted with all the powers of the Claims Committee as to settlement or otherwise.

10. The Claims Committee is empowered to authorize any expenditure it thinks fit in the handling of claims including, but not limited to, the engagement of one or more Leading Counsel, Junior Counsel, Panel Solicitors and expert witness provided that such power is delegated to the Manager to the extent that the Manager is empowered to:-
 - (1) appoint Panel Solicitors where proceedings have been issued and served on an Indemnified or otherwise as appropriate;
 - (2) authorize the engagement of Junior Counsel, including but not limited to, the authorization of Counsel to draft defenses, replies and requests for Further and Better Particulars; and
 - (3) authorize the engagement of expert witnesses if Panel Solicitors so recommend.However, the Manager may not, without the prior approval of the Claims Committee, authorize:
 - (1) the engagement of Leading Counsel;
 - (2) the issue of any proceedings against a Third Party; and
 - (3) the instruction of either Leading or Junior Counsel to advise in writing on liability, merits, quantum or evidence save where there is a direction from the Court that Counsel provides either an advice or a Certificate of Length of Hearing.
11. The Chairman (and in his absence the Vice Chairman and in his absence the Acting Chairman) shall convene meetings of the Claims Committee and shall give instructions to the Manager for distribution of papers to the members of the Claims Committee. The Manager shall make arrangements for the preparation and circulation of Minutes of meetings of the Claims Committee.
12. No Member of the Claims Committee shall be a member of any of the firms of Panel Solicitors.
13. No Member of the Claims Committee shall deliberate on or see papers concerning:-
 - (1) Claims against his firms; or
 - (2) Claims in which his firm is acting for any of the parties engaged in the claim including, but not limited to, the party making the claim against a solicitor in respect of which the papers have been prepared.
14. In the event that all existing Panel Solicitors have a conflict of interest with regard to a claim or certain expertise or specialised knowledge is required to handle a claim, the Claims Committee is empowered to appoint a firm or firms of solicitors outside the panel to act for an Indemnified and/or the Company as appropriate.
15. Each year, the Manager shall submit a quarterly report to the Assistant Director of the Professional Indemnity Scheme (the "Assistant Director") providing details of all existing claims. From time to time, the Manager shall submit a report to the Claims Committee providing information of (a) all claims settled and closed and (b) all dormant claims reviewed, in the intervening period since the previous report. Each year the Manager shall submit a report to the Assistant Director making recommendations as to the enlargement or otherwise of the number of Panel Solicitors and shall express opinions on the performance of the Panel Solicitors instructed during such period.

16. For the avoidance of doubt, the Claims Committee, its Members acting in the course of their duties as Members of the Claims Committee, and the Manager are authorized to receive information from Panel Solicitors pursuant to rule 18 of the Rules with power to pass on to the Council any such information as they shall think fit from time to time.

Schedule 1

HONG KONG SOLICITORS INDEMNITY FUND LTD. COMPULSORY PI SCHEME SCHEDULE OF UNDERWRITERS AND/OR REINSURERS	
96/97	HIH Casualty & General Insurance Ltd FAI First Pacific Insurance Co Ltd India International Insurance Pte Ltd China Insurance Co Ltd
97/98	HIH Casualty & General Insurance Ltd FAI First Pacific Insurance Co Ltd India International Insurance Pte Ltd China Insurance Co Ltd
98/2000	HIH Casualty & General Insurance Ltd India International Insurance Pte Ltd China Insurance Co Ltd The Ming An Insurance Co (HK) Ltd
2000/2005	Asia Insurance Company Ltd Swiss Reinsurance Company Ltd India International Insurance Pte Ltd The Ming An Insurance Co (HK) Ltd SCOR Reinsurance Company (Asia) Ltd
2005/2006	Asia Insurance Company Ltd Sompo Japan Insurance Inc Wing Lung Insurance Co. Ltd
2006/2009	Asia Insurance Company Ltd Sompo Japan Insurance Inc Wing Lung Insurance Co. Ltd
2009/2013	Asia Insurance Company Ltd Sompo Japan Insurance Inc Wing Lung Insurance Co. Ltd
2013/2018	Asia Insurance Company Ltd Sompo Japan Insurance Inc Wing Lung Insurance Co. Ltd Zurich Insurance Company Ltd
2018/2023	Asia Insurance Company Ltd Sompo Insurance (Hong Kong) Company Ltd CMB Wing Lung Insurance Company Ltd Zurich Insurance Company Ltd Berkley Insurance Company



PROFESSIONAL INDEMNITY SCHEME



2020 / 2021
ANNUAL REPORT

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Board of Directors

For the year ended 30 September 2021

Brian W. Gilchrist



Richard Keady



Amirali B. Nasir
(Chairman)



Colin B. Cohen



Christopher G. Howse

Ng Wai Yan



David G. Smyth



Peter C.L. Lo



Patrick R. Moss



Norris H.C. Yang



Alexander H.Y. Leung

Corporate Information

MEMBERS OF THE HONG KONG SOLICITORS INDEMNITY FUND LIMITED ("COMPANY")

Amirali B. Nasir
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Norris H.C. Yang
The Law Society of Hong Kong ("Society")

PRINCIPAL PLACE OF BUSINESS

3/F Wing On House, 71 Des Voeux Road,
Central, Hong Kong

COMPANY SECRETARY

ESSAR Insurance Services Ltd. ("ESSAR")

AUDITORS

Mazars CPA Limited

BANKERS

Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Limited
Bank of China (Hong Kong) Limited

INVESTMENT MANAGERS

AllianceBernstein Hong Kong Limited ("AB")
Grantham Mayo Van Otterloo ("GMO")
Mercer Global Investments Europe Limited ("MGIE")
MFS Investment Management ("MFS")
PIMCO Asia Limited ("PIMCO")
Ruffer LLP ("Ruffer")

INVESTMENT CONSULTANT

Mercer Investments (HK) Limited ("Mercer")

INSURANCE BROKER ("BROKER")

Aon Hong Kong Limited ("Aon")

MANAGER OF THE PROFESSIONAL INDEMNITY SCHEME ("PIS")

ESSAR (a subsidiary of the Aon Group of Companies)

PANEL SOLICITORS

Deacons
Dentons Hong Kong LLP
Fred Kan & Co.
Howse Williams
Mayer Brown
Norton Rose Fulbright
P. C. Woo & Co.
Reynolds Porter Chamberlain

Membership of Committees, Sub-Committee and Working Party of the PIS

For the year ended 30 September 2021

PIS CLAIMS COMMITTEE

Members:

Brian W. Gilchrist (*Chairman*)
Colin B. Cohen (*Vice-Chairman*)
Simon P. Clarke
Johnny C.M. Fee
Olivia H.Y. Kung (*Joined in February 2021*)
Jeffrey H. Lane (*Resigned in January 2021*)
George D. Lamplough
Gary A. Seib
Jamie J. Stranger (*Joined in February 2021*)
Gareth H. Thomas
Ronald W.T. Tong
Careen H.Y. Wong
Felix K.Y. Yau

Secretary:

ESSAR

PROFESSIONAL INDEMNITY ADVISORY COMMITTEE

Members:

David G. Smyth (*Chairman*)
Kevin R. Bowers (*Resigned in May 2021*)
Ming Chung*
Richard Keady
Susan P.S.K. Liang
Amirali B. Nasir
Ng Wai Yan
Peter K.H. Ngai
Robin S. Peard (*Resigned in January 2021*)
Thomas S.T. So
Fiona J. Stewart*
Gareth H. Thomas

*Account Director, ESSAR

Secretary:

ADPIS

PIS INVESTMENT SUB-COMMITTEE

Members:

Peter C.L. Lo (*Chairman*)
John S. Gale
Ip Shing Hing
Elen Lau
Kher Sheng Lee
Kevin C.K. Shum
Norris H.C. Yang

Secretary:

Gigi Liu, Assistant Director, Professional Indemnity Scheme
("ADPIS")

PIS PANEL SOLICITORS SELECTION BOARD

Members:

Amirali B. Nasir (*Chairman*)
Brian W. Gilchrist
Stephen W.S. Hung
Roden M.L. Tong

Secretary:

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:

Ng Wai Yan (*Chairman*)
Amirali B. Nasir
Thomas S.T. So
Wong Kwai Huen

Secretary:

ADPIS

The Company

The Company is a company limited by guarantee with no share capital. It was set up by the Society on 14 April, 1989 to hold, manage and administer the Hong Kong Solicitors Indemnity Fund (“Fund”) under the PIS. As the Company’s business is to manage the PIS and provide indemnity to members through the Fund, and not to operate an insurance business, it does not fall within the provisions of the Insurance Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the PIS. The PIS is governed by the Solicitors (Professional Indemnity) Rules (“Rules”) Cap. 159M, which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of Section 14 of the Inland Revenue Ordinance Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund’s financial transactions and of the disposition of the Fund’s assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund’s financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society (“Council”) considers that in the interests of the Society and its members the Fund’s financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2021.

There is a division of responsibility between the Company and the Council.

The **Company** is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-committee and advises the Council on matters pertaining to the smooth and effective operation of the PIS.

The **Council** is responsible for the appointment of the Company’s Directors, Panel Solicitors and Committee Members and the enforcement of the Rules.

The **PIS Claims Committee** supervises the conduct and resolution of claims.

The **Professional Indemnity Advisory Committee** reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.

The **Investment Sub-Committee** reviews the performance of the investments of the Fund regularly. It also considers ways and means to invest the Fund.

The **PIS Panel Solicitors Selection Board** establishes the procedures necessary for the tendering of panel solicitors for the PIS (“Panel Solicitors”). It also considers all tender applications and provides recommendations regarding the appointment of suitably qualified firms to the panel.

The **Working Party on PIS Gross Fee Income Reports and Contributions** is responsible for considering the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report or failed to pay their annual contributions.

All Company Directors, Committee Members and Working Party Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

The PIS

The PIS, subject to the conditions and exclusions set out in the Rules, provides indemnity to an Indemnified (as defined in the Rules, which includes the solicitors and employees of a firm) against losses arising from claims in respect of civil liability incurred in connection with the Practice (as defined in the Rules). Only an Indemnified can notify a claim under the PIS.

The PIS limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October 1994. It was further increased to HK\$20 million (inclusive of costs) on 1 October 2019.

As at 30 September 2021, the total liability incurred by the PIS for the 2020/2021 indemnity year was HK\$21,315,621 of which HK\$5,179,836 was in respect of claim payments (including costs) and HK\$16,135,785 was in respect of claim reserves. Since the inception of the PIS in 1986 and up to 30 September 2021, the PIS paid a total of HK\$2,194,462,174 on claims (including costs), and the total amount reserved for claims as of 30 September 2021 was HK\$152,260,592.



The PIS

TABLE 1

CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2021

Indemnity year	Total claim payments (HK\$)	Total claim reserves (HK\$)	Total claim payments & reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	-	40,361,002
1993/1994	33,580,438	-	33,580,438
1994/1995	55,445,647	-	55,445,647
1995/1996	80,837,814	-	80,837,814
1996/1997	77,886,412	25,376	77,911,788
1997/1998	186,920,201	150,000	187,070,201
1998/1999	398,853,589	124,271	398,977,860
1999/2000	81,993,132	-	81,993,132
2000/2001	66,343,041	-	66,343,041
2001/2002	85,233,262	724,069	85,957,331
2002/2003	74,748,301	-	74,748,301
2003/2004	63,335,125	-	63,335,125
2004/2005	67,253,868	-	67,253,868
2005/2006	76,988,132	-	76,988,132
2006/2007	34,849,449	5,100,000	39,949,449
2007/2008	37,078,372	3,000,000	40,078,372

The PIS

TABLE 1

CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2021 (Cont'd)

Indemnity year	Total claim payments (HK\$)	Total claim reserves (HK\$)	Total claim payments & reserves (HK\$)
2008/2009	67,529,349	913,719	68,443,068
2009/2010	80,212,809	695,597	80,908,406
2010/2011	65,001,249	–	65,001,249
2011/2012	59,014,068	3,544,696	62,558,764
2012/2013	60,330,673	725,091	61,055,764
2013/2014	73,663,874	26,491,339	100,155,213
2014/2015	24,760,051	18,483,368	43,243,419
2015/2016	51,384,100	31,870,932	83,255,032
2016/2017	57,287,417	5,613,739	62,901,156
2017/2018	47,454,817	15,293,662	62,748,479
2018/2019	21,160,845	21,192,856	42,353,701
2019/2020	23,250,978	2,176,092	25,427,070
2020/2021	5,179,836	16,135,785	21,315,621
TOTAL	2,194,462,174	152,260,592	2,346,722,766

Note:

- (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.
- (2) The table shows the amount of claims paid out in respect of the indemnity year 1986/1987 to 2020/2021.
- (3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid, these amounts will be adjusted.
- (4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.
- (5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

The Fund, Reinsurance and Insolvency Cover

The Fund's stop-loss reinsurance arrangements were renewed for five years up to 30 September 2023 where the Fund is to be responsible for all claims up to an annual aggregate amount of HK\$145 million (inclusive of costs) and all liability in excess of HK\$145 million will be borne by reinsurers.

An insolvency insurance policy runs in tandem with the reinsurance programme. It covers the Fund against the insolvency of one or more of its reinsurers.

The limits of liability retained by the Fund, the cover provided by stop loss reinsurance and the amounts of reinsurance premiums paid by the Fund over the last 35 indemnity years up to 2020/2021 are shown in Table 2.

TABLE 2

PROTECTION LIMITS PROVIDED BY THE PIS AND REINSURANCE PREMIUMS

Indemnity year	No. of members holding practising certificate ¹	Amount retained by Fund under stop loss reinsurance (HK\$)	Limit of stop loss reinsurance (HK\$)	Excess of loss reinsurance premium (HK\$)	Stop loss reinsurance premium (HK\$)	Insolvency cover premium (HK\$)	Total insurance premium paid per year (HK\$)
1986/1987	1,807	25,000,000	50,000,000	5,500,000	1,350,000	-	6,850,000
1987/1988	1,998	25,000,000	25,000,000	12,500,000	1,720,000	-	14,220,000
1988/1989	2,152	30,000,000	20,000,000	15,500,000	1,600,000	-	17,100,000
1989/1990	2,326	30,000,000	20,000,000	19,500,000	1,500,000	-	21,000,000
1990/1991	2,479	30,000,000	20,000,000	22,500,000	1,500,000	-	24,000,000
1991/1992	2,721	30,000,000	40,000,000	24,700,000	5,250,000	-	29,950,000
1992/1993	2,981	30,000,000	60,000,000	26,000,000	5,650,000	-	31,650,000
1993/1994	3,307	30,000,000	60,000,000	29,500,000	5,650,000	-	35,150,000
1994/1995	3,596	30,000,000	60,000,000	42,500,000	6,515,000	-	49,015,000
1995/1996	3,896	30,000,000	60,000,000	42,500,000	7,675,000	-	50,175,000
1996/1997	4,309	30,000,000	90,000,000	37,750,000	8,440,000	-	46,190,000
1997/1998	4,619	30,000,000	90,000,000	45,000,000	7,755,000	-	52,755,000
1998/1999	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	-	109,099,050
1999/2000	4,890	-	-	-	-	-	-
2000/2001	5,070	-	-	83,232,650	-	-	123,253,900
				40,021,250 ²	-	-	
2001/2002	5,173	-	-	95,262,866	-	-	95,262,866
2002/2003	5,301	-	-	128,899,595	-	-	128,899,595
2003/2004	5,422	-	-	172,230,412	-	-	172,230,412
2004/2005	5,593	-	-	218,023,353	-	-	218,023,353

The Fund, Reinsurance and Insolvency Cover

TABLE 2

PROTECTION LIMITS PROVIDED BY THE PIS AND REINSURANCE PREMIUMS (Cont'd)

Indemnity year	No. of members holding practising certificate ¹	Amount retained by Fund under stop loss reinsurance (HK\$)	Limit of stop loss reinsurance (HK\$)	Excess of loss reinsurance premium (HK\$)	Stop loss reinsurance premium (HK\$)	Insolvency cover premium (HK\$)	Total insurance premium paid per year (HK\$)
2005/2006	5,757	100,000,000	Unlimited	-	75,000,000	-	75,000,000
2006/2007	5,925	100,000,000	Unlimited	-	79,500,000	-	79,500,000
2007/2008	6,205	100,000,000	Unlimited	-	79,500,000	-	79,500,000
2008/2009	6,465	100,000,000	Unlimited	-	79,500,000	4,100,000	83,600,000
2009/2010	6,782	100,000,000	Unlimited	-	79,500,000	7,069,503 ³	86,569,503
2010/2011	7,149	100,000,000	Unlimited	-	79,500,000	11,679,500	91,179,500
2011/2012	7,483	100,000,000	Unlimited	-	79,500,000	13,729,500	93,229,500
2012/2013	7,864	100,000,000	Unlimited	-	79,500,000	13,729,500	93,229,500
2013/2014	8,279	125,000,000	Unlimited	-	65,000,000	9,500,000	74,500,000
2014/2015	8,647	125,000,000	Unlimited	-	65,000,000	9,500,000	74,500,000
2015/2016	9,076	125,000,000	Unlimited	-	65,000,000	9,500,000	74,500,000
2016/2017	9,463	125,000,000	Unlimited	-	65,000,000	9,500,000	74,500,000
2017/2018	9,903	125,000,000	Unlimited	-	65,000,000	9,500,000	74,500,000
2018/2019	10,344	145,000,000	Unlimited	-	61,502,000 ⁴	9,612,708	71,114,708
2019/2020	10,790	145,000,000	Unlimited	-	61,503,000	9,930,160	71,433,160
2020/2021	11,235	145,000,000	Unlimited	-	61,504,250	9,932,310	71,436,650

(1) Figures as of 31 December of that indemnity year (e.g. no of members holding practising certificate as of 31 December 1987 is 1,807).

(2) Amount paid to reinsurers in place of HIH.

(3) Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010.

(4) Stop Loss and Insolvency insurance premiums for indemnity year 2018/2019 onwards are inclusive of premium levies charged by the Insurance Authority.

Manager and Broker of The PIS

A tender was conducted in 2009 and ESSAR and Aon had been reappointed as the manager (“Manager”) of the PIS and Broker of the Society and the Company respectively for the period from 1 April 2010 to 31 March 2014. The contract has been extended in 2013, 2017 and 2021 and will expire on 31 March 2026.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the PIS. It is also responsible for conveying the needs of the PIS to underwriters and negotiating with them to obtain the best reinsurance terms for the PIS. The reinsurance premiums paid from 1 October 2005 onwards do not carry any brokerage. Aon is remunerated by service fees in accordance with the Broker and Manager agreement between Aon, ESSAR and the Company.

Reinsurance policies are placed with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the supervision of the PIS Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Claims Handling Procedure

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be resolved which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, money set aside for unresolved claims and they represent the Fund’s potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum or both.

As the matter proceeds and further information becomes available, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at regular (six-monthly) intervals until all claims for that year have been resolved or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

Recent Amendments to the Rules

The PIS contribution formula was amended on 1 July 2019 to incorporate a foreign lawyer employed by a Hong Kong law firm into the calculations of PIS contribution, deductible and claims loading in the same manner as an assistant solicitor or consultant practising in a Hong Kong law firm.

On 1 October 2019, the indemnity limit under the PIS Rules has been increased from HK\$10 million per claim to HK\$20 million per claim, both on a cost-inclusive basis. The increased limit of HK\$20 million per claim applies to any claims made on or after 1 October 2019 against persons who are entitled to indemnity under the PIS.

On 1 May 2020, the Rules were amended so that any person seeking indemnity under the PIS is to be represented by the Panel Solicitors appointed by the Company to act on that person's behalf. If that person appoints any other firm of solicitors, that person must obtain the Company's prior written consent or else no indemnity will be provided in respect of the costs incurred.

Claims Experience

Tables provided in this report are subject to the following remarks:

- (i) It is often difficult to determine under which category a particular claim should fall, given the fact that, among other things, many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive.
- (ii) A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the indemnified should have become aware of circumstances giving rise to the claim.
- (iii) A claim may sometimes be settled by the indemnified without indemnity being sought from the PIS if the cost of the claim is lower than the indemnified firm's deductible. The statistics therefore do not include all those claims which have been lodged but settled outside the PIS.
- (iv) With the exception of Table 3.1, the claims statistics in the tables are computed on the basis of data collected up to 30 September 2021, excluding the grace period for notification of claims. The statistics for the 2020/2021 indemnity year are therefore to that extent incomplete.
- (v) All data have been calculated to their nearest decimal point.

CLAIMS EXPERIENCE

Overall Claims Statistics

TABLE 3.1

NUMBER OF CLAIMS (INCLUDING NOTIFICATIONS OF CIRCUMSTANCES WHICH MAY GIVE RISE TO A CLAIM) AS AT 30 SEPTEMBER 2021

Indemnity year	Number of claims	% increase/ decrease from previous year
1986/1987	64	–
1987/1988	58	–9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	–60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	–1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	–46%
2000/2001	230	–13%
2001/2002	215	–7%
2002/2003	269	25%
2003/2004	165	–39%
2004/2005	159	–4%
2005/2006	165	4%
2006/2007	142	–14%
2007/2008	309	118%
2008/2009	147	–52%
2009/2010	139	–5%
2010/2011	173	24%
2011/2012	126	–27%
2012/2013	239	90%
2013/2014	148	–38%
2014/2015	133	–10%
2015/2016	167	26%
2016/2017	171	2%
2017/2018	134	–22%
2018/2019	128	–4%
2019/2020	137	7%
2020/2021	146	7%

Note:

(1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

CLAIMS EXPERIENCE

Overall Claims Statistics

TABLE 3.2

DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2021

Indemnity year	Claims closed		Claims outstanding		Total
	With payment	Without payment	With reserve or payment	Without reserve or payment	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	51	67	0	0	118
1993/1994	66	77	0	0	143
1994/1995	38	113	0	0	151
1995/1996	44	106	0	0	150
1996/1997	59	115	2	0	176
1997/1998	127	207	1	1	336
1998/1999	298	182	3	0	483
1999/2000	68	195	0	0	263
2000/2001	61	166	3	0	230
2001/2002	59	154	2	0	215
2002/2003	51	216	2	0	269
2003/2004	42	123	0	0	165
2004/2005	28	131	0	0	159
2005/2006	27	138	0	0	165
2006/2007	25	114	2	1	142
2007/2008	27	279	3	0	309
2008/2009	28	116	3	0	147
2009/2010	25	113	1	0	139
2010/2011	18	151	2	2	173
2011/2012	24	91	6	5	126
2012/2013	26	203	7	3	239
2013/2014	20	100	12	16	148
2014/2015	13	89	6	25	133
2015/2016	10	62	15	80	167
2016/2017	10	70	22	69	171
2017/2018	8	32	17	77	134
2018/2019	4	27	14	83	128
2019/2020	2	14	22	99	137
2020/2021	0	7	15	124	146
TOTAL	1,507	3,801	160	585	6,053

CLAIMS EXPERIENCE

Overall Claims Statistics

TABLE 3.3

LOSS RATIOS AS AT 30 SEPTEMBER 2021

Indemnity year	Number of claims	Annual contributions (HK\$)	Claims losses (HK\$)	Loss ratio
1997/1998	336	106,778,078	187,070,201	175%
1998/1999	483	112,178,110	398,977,860	356%
1999/2000	263	85,231,403	81,993,132	96%
2000/2001	230	95,910,707	66,343,041	69%
2001/2002	215	236,886,755	85,957,331	36%
2002/2003	269	222,237,005	74,748,301	34%
2003/2004	165	219,607,685	63,335,125	29%
2004/2005	159	217,611,219	67,253,868	31%
2005/2006	165	242,335,709	76,988,132	32%
2006/2007	142	256,756,900	39,949,449	16%
2007/2008	309	283,223,840	40,078,372	14%
2008/2009	147	318,613,840	68,443,068	21%
2009/2010	139	301,445,650	80,908,406	27%
2010/2011	173	309,996,404	65,001,249	21%
2011/2012	126	362,665,656	62,558,764	17%
2012/2013	239	366,030,827	61,055,764	17%
2013/2014	148	369,525,742	100,155,213	27%
2014/2015	133	390,058,607	43,243,419	11%
2015/2016	167	403,475,742	83,255,032	21%
2016/2017	171	423,357,453	62,901,156	15%
2017/2018	134	446,710,654	62,748,479	14%
2018/2019	128	480,940,823	42,353,701	9%
2019/2020	137	537,306,944	25,427,070	5%
2020/2021	146	513,573,274	21,315,621	4%

Note:

- (1) Loss ratio is the ratio of contributions to claims losses (claims paid and reserved). 100% loss ratio means the contributions equal to the incurred losses. 200% loss ratio means the amount of claims losses is double the contributions collected.
- (2) Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about four years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2017/2018 indemnity year onwards cannot therefore be taken as the final loss ratios.
- (3) Contribution before reduction is used for 2010/2011-2011/2012 and 2013/2014-2020/2021 indemnity years.
- (4) See footnote 5 of Table 7.1 for the amount of net contributions received after reduction and/or adjustment to reduction for 2010/2011-2011/2012 and 2013/2014-2020/2021 indemnity years.

CLAIMS EXPERIENCE

Apportionment of Claim Payments and Claims Reserves Between Reinsurers and the Fund

Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005.

On 1 October 2005, the Fund entered into reinsurance arrangements whereby the Fund would retain all claims losses (inclusive of costs) for up to HK\$100 million per indemnity year, and all liability in excess of HK\$100 million would be borne by reinsurers. The level of retention is reviewed by the Board at the renewal of the reinsurance policies after consideration of actuarial advice and the financial position of the Fund. As shown in Table 1, the current level of retention under the reinsurance policy (which runs up to 30 September 2023) is HK\$145 million/indemnity year. As shown in Table 4.1 below, the Fund has not triggered its reinsurance policies since the change in 2005.

TABLE 4.1

APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2021

Indemnity year	Total claim payments (HK\$)	Claim payments which fall within the Fund's retention (HK\$)	% of claim payments borne by the Fund	Claim payments borne by reinsurers (HK\$)	% of claim payments borne by reinsurers	Deductibles paid by indemnified firms (HK\$)	Deductibles as a % of claim payments
1986/1987	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/1988	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/1989	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/1990	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/1991	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/1992	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/1993	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/1994	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/1995	55,445,647	18,363,146	33.1%	34,223,830	61.7%	2,858,671	5.2%
1995/1996	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/1997	77,886,412	35,358,725	45.4%	36,692,472	47.1%	5,835,215	7.5%
1997/1998	186,920,201	60,728,787	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/1999	398,853,589	145,550,124	36.5%	233,475,810	58.5%	19,827,655	5.0%
1999/2000	81,993,132	31,229,635	38.1%	45,006,921	54.9%	5,756,576	7.0%
2000/2001	66,343,041	29,430,242	44.4%	32,159,118	48.5%	4,753,681	7.2%
2001/2002	85,233,262	32,882,222	38.6%	48,553,233	57.0%	3,797,807	4.5%
2002/2003	74,748,301	30,590,524	40.9%	40,117,924	53.7%	4,039,853	5.4%

CLAIMS EXPERIENCE

Apportionment of Claim Payments and Claims Reserves Between Reinsurers and the Fund

TABLE 4.1

APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2021 (Cont'd)

Indemnity year	Total claim payments (HK\$)	Claim payments which fall within the Fund's retention (HK\$)	% of claim payments borne by the Fund	Claim payments borne by reinsurers (HK\$)	% of claim payments borne by reinsurers	Deductibles paid by indemnified firms (HK\$)	Deductibles as a % of claim payments
2003/2004	63,335,125	25,451,548	40.2%	34,408,880	54.3%	3,474,697	5.5%
2004/2005	67,253,868	23,275,213	34.6%	40,722,755	60.6%	3,255,900	4.8%
2005/2006	76,988,132	73,266,542	95.2%	-	0.0%	3,721,590	4.8%
2006/2007	34,849,449	32,434,504	93.1%	-	0.0%	2,414,945	6.9%
2007/2008	37,078,372	34,497,627	93.0%	-	0.0%	2,580,745	7.0%
2008/2009	67,529,349	62,716,849	92.9%	-	0.0%	4,812,500	7.1%
2009/2010	80,212,809	77,490,747	96.6%	-	0.0%	2,722,062	3.4%
2010/2011	65,001,249	61,865,418	95.2%	-	0.0%	3,135,831	4.8%
2011/2012	59,014,068	55,861,737	94.7%	-	0.0%	3,152,331	5.3%
2012/2013	60,330,673	56,969,830	94.4%	-	0.0%	3,360,843	5.6%
2013/2014	73,663,874	71,081,374	96.5%	-	0.0%	2,582,500	3.5%
2014/2015	24,760,051	22,886,223	92.4%	-	0.0%	1,873,828	7.6%
2015/2016	51,384,100	48,476,600	94.3%	-	0.0%	2,907,500	5.7%
2016/2017	57,287,417	54,939,110	95.9%	-	0.0%	2,348,307	4.1%
2017/2018	47,454,817	44,999,817	94.8%	-	0.0%	2,455,000	5.2%
2018/2019	21,160,845	19,857,035	93.8%	-	0.0%	1,303,810	6.2%
2019/2020	23,250,978	21,955,978	94.4%	-	0.0%	1,295,000	5.6%
2020/2021	5,179,836	5,134,836	99.1%	-	0.0%	45,000	0.9%
TOTAL	2,194,462,174	1,274,010,673	58.1%	795,152,216	36.2%	125,299,285	5.7%

Note:

The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

CLAIMS EXPERIENCE

Apportionment of Claim Payments and Claims Reserves Between Reinsurers and the Fund

TABLE 4.2

APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2021

Indemnity year	Total claim reserves (HK\$)	Claim reserves to be borne by the Fund (HK\$)	% of reserves borne by the Fund	Claim reserves to be borne by reinsurers (HK\$)	% of reserves borne by reinsurers
1996/1997	25,376	25,376	100.0%	–	–
1997/1998	150,000	150,000	100.0%	–	–
1998/1999	124,271	4,675	3.8%	119,596	96.2%
2000/2001	–	–	–	–	–
2001/2002	724,069	189,777	26.2%	534,292	73.8%
2002/2003	–	–	–	–	–
2006/2007	5,100,000	5,100,000	100.0%	–	–
2007/2008	3,000,000	3,000,000	100.0%	–	–
2008/2009	913,719	913,719	100.0%	–	–
2009/2010	695,597	695,597	100.0%	–	–
2010/2011	–	–	–	–	–
2011/2012	3,544,696	3,544,696	100.0%	–	–
2012/2013	725,091	725,091	100.0%	–	–
2013/2014	26,491,339	26,491,339	100.0%	–	–
2014/2015	18,483,368	18,483,368	100.0%	–	–
2015/2016	31,870,932	31,870,932	100.0%	–	–
2016/2017	5,613,739	5,613,739	100.0%	–	–
2017/2018	15,293,662	15,293,662	100.0%	–	–
2018/2019	21,192,856	21,192,856	100.0%	–	–
2019/2020	2,176,092	2,176,092	100.0%	–	–
2020/2021	16,135,785	16,135,785	100.0%	–	–
TOTAL	152,260,592	151,606,704	99.6%	653,888	0.4%

Note:

All claims notified in the 1986/1987, 1987/1988, 1988/1989, 1989/1990, 1990/1991, 1991/1992, 1992/1993, 1993/1994, 1994/1995, 1995/1996, 1999/2000, 2003/2004, 2004/2005 and 2005/2006 indemnity years have been resolved. There is no outstanding reserve for the claims in those indemnity years.

CLAIMS EXPERIENCE

Panel Solicitors' Costs

Where proceedings have already been issued and served on the Indemnified and the Indemnified have confirmed that they wish to make a claim for indemnity under the PIS, the Manager will instruct two firms of Panel Solicitors: one firm to represent the Indemnified in the defence of the third-party claim on the basis of a joint retainer by the indemnified and the Company (i.e. Defence Panel Solicitors) and a second firm to conduct indemnity investigation on the basis of a retainer by the Company alone (i.e. Indemnity Panel Solicitors). The Panel Solicitors' costs (include both Defence and Indemnity Panel Solicitors costs) as a proportion of claims payments and reserves are set out in Table 5 below.

TABLE 5

PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2021 AS A PROPORTION OF CLAIM PAYMENTS AND CLAIM RESERVES

Indemnity year	Total claim payments (HK\$)	Panel Solicitors' costs (HK\$)	Panel Solicitors' costs as a % of claim payments	Total claim reserves (HK\$)	Reserves for Panel Solicitors' costs (HK\$)	Reserves for Panel Solicitors' costs as a % of claim reserves
1986/1987	24,843,393	5,174,616	20.8%	-	-	-
1987/1988	13,673,564	5,381,029	39.4%	-	-	-
1988/1989	29,291,950	7,111,194	24.3%	-	-	-
1989/1990	12,470,291	7,995,055	64.1%	-	-	-
1990/1991	7,581,520	3,344,250	44.1%	-	-	-
1991/1992	8,663,605	3,327,344	38.4%	-	-	-
1992/1993	40,361,002	9,927,565	24.6%	-	-	-
1993/1994	33,580,438	15,663,625	46.6%	-	-	-
1994/1995	55,445,647	11,532,687	20.8%	-	-	-
1995/1996	80,837,814	19,064,073	23.6%	-	-	-
1996/1997	77,886,412	21,552,227	27.7%	25,376	25,376	100.0%
1997/1998	186,920,201	54,542,099	29.2%	150,000	150,000	100.0%
1998/1999	398,853,589	104,243,530	26.1%	124,271	124,271	100.0%
1999/2000	81,993,132	34,256,831	41.8%	-	-	-
2000/2001	66,343,041	27,158,748	40.9%	-	-	-
2001/2002	85,233,262	42,906,535	50.3%	724,069	124,069	17.1%
2002/2003	74,748,301	28,494,999	38.1%	-	-	-
2003/2004	63,335,125	19,895,158	31.4%	-	-	-
2004/2005	67,253,868	12,810,926	19.0%	-	-	-
2005/2006	76,988,132	33,702,728	43.8%	-	-	-
2006/2007	34,849,449	11,866,094	34.0%	5,100,000	-	-

CLAIMS EXPERIENCE

Panel Solicitors' Costs

TABLE 5

PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2021 AS A PROPORTION OF CLAIM PAYMENTS AND CLAIM RESERVES (Cont'd)

Indemnity year	Total claim payments (HK\$)	Panel Solicitors' costs (HK\$)	Panel Solicitors' costs as a % of claim payments	Total claim reserves (HK\$)	Reserves for Panel Solicitors' costs (HK\$)	Reserves for Panel Solicitors' costs as a % of claim reserves
2007/2008	37,078,372	15,707,142	42.4%	3,000,000	–	–
2008/2009	67,529,349	24,468,778	36.2%	913,719	263,719	28.9%
2009/2010	80,212,809	23,181,013	28.9%	695,597	195,597	28.1%
2010/2011	65,001,249	25,691,116	39.5%	–	–	–
2011/2012	59,014,068	30,573,056	51.8%	3,544,696	255,398	7.2%
2012/2013	60,330,673	24,271,614	40.2%	725,091	725,091	100.0%
2013/2014	73,663,874	51,907,958	70.5%	26,491,339	2,106,451	8.0%
2014/2015	24,760,051	17,712,217	71.5%	18,483,368	3,143,206	17.0%
2015/2016	51,384,100	27,872,216	54.2%	31,870,932	4,872,212	15.3%
2016/2017	57,287,417	40,915,888	71.4%	5,613,739	859,602	15.3%
2017/2018	47,454,817	26,280,266	55.4%	15,293,662	544,729	3.6%
2018/2019	21,160,845	17,270,733	81.6%	21,192,856	2,092,856	9.9%
2019/2020	23,250,978	15,959,672	68.6%	2,176,092	1,264,103	58.1%
2020/2021	5,179,836	5,179,836	100.0%	16,135,785	1,285,785	8.0%
TOTAL	2,194,462,174	826,942,818	37.7%	152,260,592	18,032,465	11.8%

CLAIMS EXPERIENCE

Claims by Area of Practice

In the 2020/2021 indemnity year, litigation claims remained the highest by number (36%), followed by Conveyancing claims (31%) and Commercial claims (19%).

TABLE 6.1

FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

AREA OF PRACTICE	INDEMNITY YEAR										Total no. of claims in 5 indemnity years	% of total no. of claims in 5 indemnity years
	2016/2017	% of total no. of claims	2017/2018	% of total no. of claims	2018/2019	% of total no. of claims	2019/2020	% of total no. of claims	2020/2021	% of total no. of claims		
Commercial	48	28.07%	27	20.15%	19	14.84%	29	21.17%	28	19.18%	151	21.09%
Conveyancing	36	21.05%	26	19.40%	36	28.13%	24	17.52%	45	30.82%	167	23.32%
Litigation	61	35.67%	49	36.57%	44	34.38%	58	42.34%	53	36.30%	265	37.01%
Probate	7	4.09%	9	6.72%	11	8.59%	2	1.46%	6	4.11%	35	4.89%
Landlord & tenant	0	0.00%	2	1.49%	0	0.00%	1	0.73%	0	0.00%	3	0.42%
Patents, trademarks	6	3.51%	8	5.97%	8	6.25%	10	7.30%	4	2.74%	36	5.03%
Tax matters	4	2.34%	2	1.49%	0	0.00%	4	2.92%	0	0.00%	10	1.40%
Breach of confidential information	1	0.58%	1	0.75%	0	0.00%	1	0.73%	0	0.00%	3	0.42%
Data breach	1	0.58%	0	0.00%	1	0.78%	3	2.19%	2	1.37%	7	0.98%
Others	7	4.09%	10	7.46%	9	7.03%	5	3.65%	8	5.48%	39	5.45%
TOTAL	171		134		128		137		146		716	

Note:

The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.2

VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

AREA OF PRACTICE	INDEMNITY YEAR										Total value of claims in 5 indemnity years (HK\$)	% of total value of claims in 5 indemnity years
	2016/2017 (HK\$)	% of total value of claims	2017/2018 (HK\$)	% of total value of claims	2018/2019 (HK\$)	% of total value of claims	2019/2020 (HK\$)	% of total value of claims	2020/2021 (HK\$)	% of total value of claims		
Commercial	10,368,761	16.48%	5,965,058	9.51%	2,287,105	5.40%	5,471,244	21.52%	1,624,769	7.62%	25,716,937	11.98%
Conveyancing	31,529,437	50.13%	31,893,505	50.83%	28,875,677	68.18%	3,892,000	15.31%	18,718,573	87.82%	114,909,192	53.51%
Litigation	17,338,208	27.56%	13,119,803	20.91%	11,190,919	26.42%	8,974,541	35.30%	469,795	2.20%	51,093,266	23.79%
Probate	354,256	0.56%	5,282,441	8.42%	-	-	-	-	-	-	5,636,697	2.62%
Landlord & tenant	-	-	1,497,605	2.39%	-	-	-	-	-	-	1,497,605	0.70%
Patents, trademarks	-	-	-	-	-	-	-	-	-	-	-	-
Tax matters	2,786,488	4.43%	3,678,300	5.86%	-	-	5,652,623	22.23%	-	-	12,117,411	5.64%
Breach of confidential information	-	-	-	-	-	-	-	-	-	-	-	-
Data breach	-	-	-	-	-	-	-	-	334,399	1.57%	334,399	0.16%
Others	524,006	0.83%	1,311,767	2.09%	-	-	1,436,662	5.65%	168,085	0.79%	3,440,520	1.60%
TOTAL	62,901,156		62,748,479		42,353,701		25,427,070		21,315,621		214,746,027	

Note:

- (1) Value of claims includes claims paid and reserved. The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.
- (2) Claims notified in the recent indemnity years may still be at the early stages of the claims. The value of claims may therefore be immature and subject to further developments.

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.3

NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING

(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

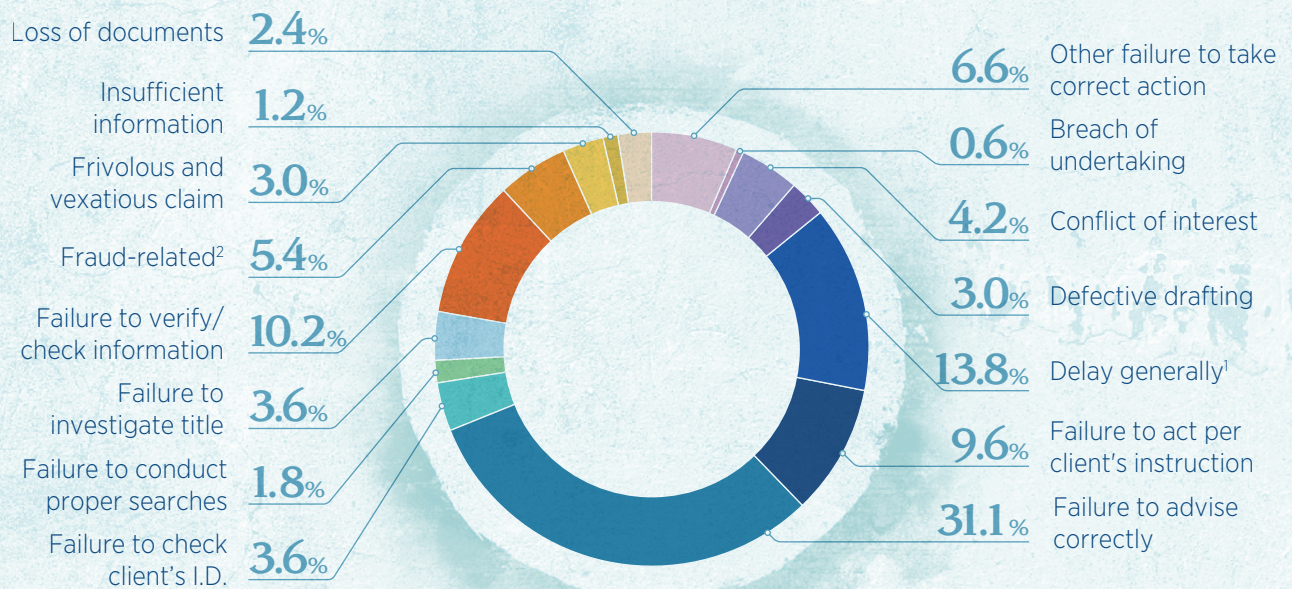
Type of errors in conveyancing	INDEMNITY YEAR					Total no. of claims in 5 indemnity years	% of total no. of claims in conveyancing
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	NO. OF CLAIMS						
Breach of undertaking	0	0	1	0	0	1	0.6%
Conflict of interest	3	1	1	0	2	7	4.2%
Defective drafting	1	1	1	0	2	5	3.0%
Delay	0	0	2	2	1	5	3.0%
Failure to act per client's instruction	3	4	4	4	1	16	9.6%
Failure to advise correctly	13	7	8	7	17	52	31.1%
Failure to check client's I.D.	1	2	1	0	2	6	3.6%
Failure to conduct proper searches	0	0	2	0	1	3	1.8%
Failure to investigate title	3	0	1	0	2	6	3.6%
Failure to verify/check information	2	5	3	2	5	17	10.2%
Fraud by client*	2	3	0	0	1	6	3.6%
Fraud by employee*	2	1	0	0	0	3	1.8%
Fraud by principal*	0	0	0	0	0	0	0.0%
Frivolous and vexatious claim	2	0	3	0	0	5	3.0%
Insufficient information	0	1	0	0	1	2	1.2%
Late/failed registrations	0	0	4	3	3	10	6.0%
Late/failed stamping	0	0	1	0	1	2	1.2%
Loss of documents	1	0	1	1	1	4	2.4%
Missed time limits/deadlines	1	1	1	2	1	6	3.6%
Other failure to take correct action	2	0	2	3	4	11	6.6%
TOTAL	36	26	36	24	45	167	

* Data only includes those claims where the major cause giving rise to the claims is fraud.

CLAIMS EXPERIENCE

Claims by Area of Practice

NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

- Delay 3.0%
- Late/failed registrations 6.0%
- Late/failed stamping 1.2%
- Missed time limits/deadlines 3.6%

(2) Includes sub-types:

- Fraud by client 3.6%
- Fraud by employee 1.8%

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.4

VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING

(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

Type of errors in conveyancing	INDEMNITY YEAR					Total value of claims ** in 5 indemnity years (HK\$)	% of total value of claims in conveyancing
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	VALUE OF CLAIMS (HK\$)						
Conflict of interest	1,208,789	-	7,032,733	-	138,460	8,379,982	7.3%
Delay	-	-	935,981	-	-	935,981	0.8%
Failure to act per client's instruction	5,609,531	2,409,557	2,641,074	1,427,750	-	12,087,912	10.5%
Failure to advise correctly	4,203,627	6,011,031	6,272,184	376,227	9,710,866	26,573,935	23.1%
Failure to check client's I.D.	3,312,093	11,143,859	10,251,128	-	-	24,707,080	21.5%
Failure to conduct proper searches	-	-	193,934	-	-	193,934	0.2%
Failure to investigate title	4,633,250	-	-	-	-	4,633,250	4.0%
Failure to verify/check information	6,311,945	1,635,007	-	-	1,707,931	9,654,883	8.4%
Fraud by client*	4,331,746	4,767,561	-	-	-	9,099,307	7.9%
Fraud by employee*	-	923,230	-	-	-	923,230	0.8%
Fraud by principal*	-	-	-	-	-	-	0.0%
Insufficient information	-	706,696	-	-	-	706,696	0.6%
Loss of documents	736,252	-	-	-	-	736,252	0.6%
Missed time limits/deadlines	483,638	4,296,564	-	2,009,889	2,050,000	8,840,091	7.7%
Other failure to take correct action	698,566	-	1,548,643	78,134	5,111,316	7,436,659	6.5%
TOTAL	31,529,437	31,893,505	28,875,677	3,892,000	18,718,573	114,909,192	

* Data only includes those claims where the major cause giving rise to the claims is fraud.

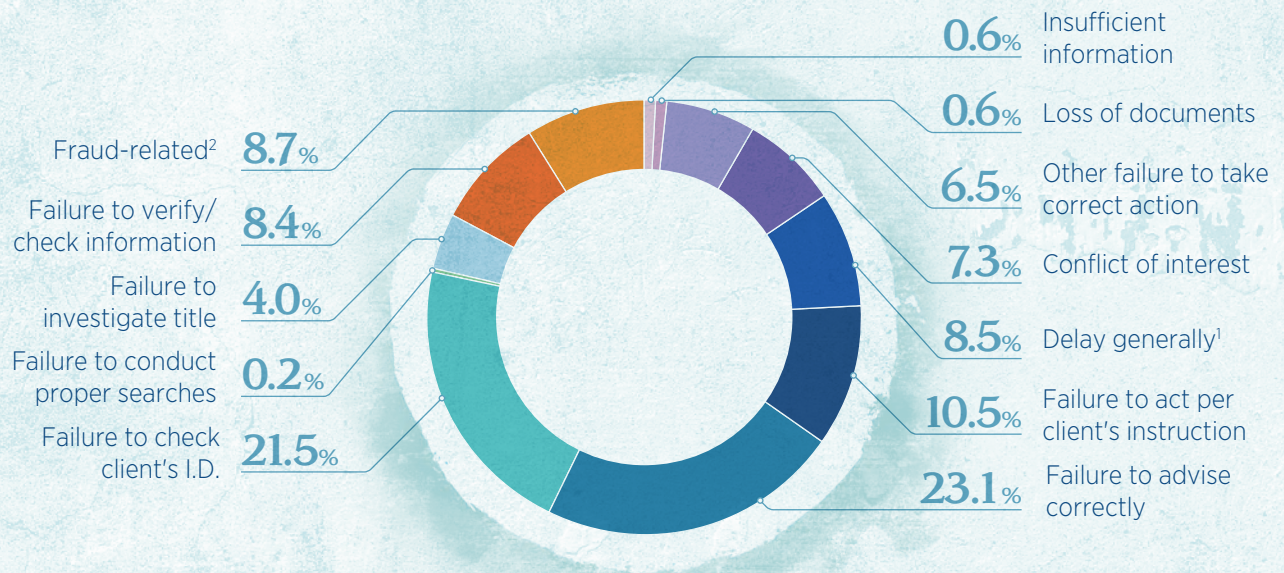
** Value of claims includes claims paid and reserved.

CLAIMS EXPERIENCE

Claims by Area of Practice

CHART 6.4

VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

- Delay 0.8%
- Missed time limits/deadlines 7.7%

(2) Includes sub-types:

- Fraud by client 7.9%
- Fraud by employee 0.8%

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.5

NUMBER OF CLAIMS BY TYPE OF ERRORS IN LITIGATION

(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

Type of errors in litigation	INDEMNITY YEAR					Total no. of claims in 5 indemnity years	% of total no. of claims in litigation
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	NO. OF CLAIMS						
Breach of confidentiality	1	0	2	1	0	4	1.5%
Conflict of interest	2	0	1	4	2	9	3.4%
Defective drafting	0	2	2	6	5	15	5.7%
Defective/failed service of documents/notices	0	2	0	2	2	6	2.3%
Delay	7	5	6	6	3	27	10.2%
Failure to act per client's instruction	3	7	3	5	6	24	9.1%
Failure to advise correctly	17	15	14	12	11	69	26.0%
Failure to comply with court order	0	0	0	1	0	1	0.4%
Failure to conduct proper searches	0	1	0	1	0	2	0.8%
Failure to verify/check information	2	0	0	1	3	6	2.3%
Fraud by client*	2	0	0	0	0	2	0.8%
Fraud by employee*	0	0	0	0	0	0	0.0%
Fraud by principal*	0	0	0	2	1	3	1.1%
Frivolous and vexatious claim	16	8	6	5	4	39	14.7%
Insufficient information	2	1	0	2	0	5	1.9%
Late notices	0	0	0	0	1	1	0.4%
Late service of proceedings	0	0	0	1	1	2	0.8%
Late/failed issue of proceedings	0	1	0	1	1	3	1.1%
Late/failed registrations	0	0	1	1	0	2	0.8%
Loss of documents	0	1	1	0	0	2	0.8%
Missed time limits/deadlines	1	1	2	0	4	8	3.0%
Other failure to take correct action	8	5	6	7	9	35	13.2%
TOTAL	61	49	44	58	53	265	

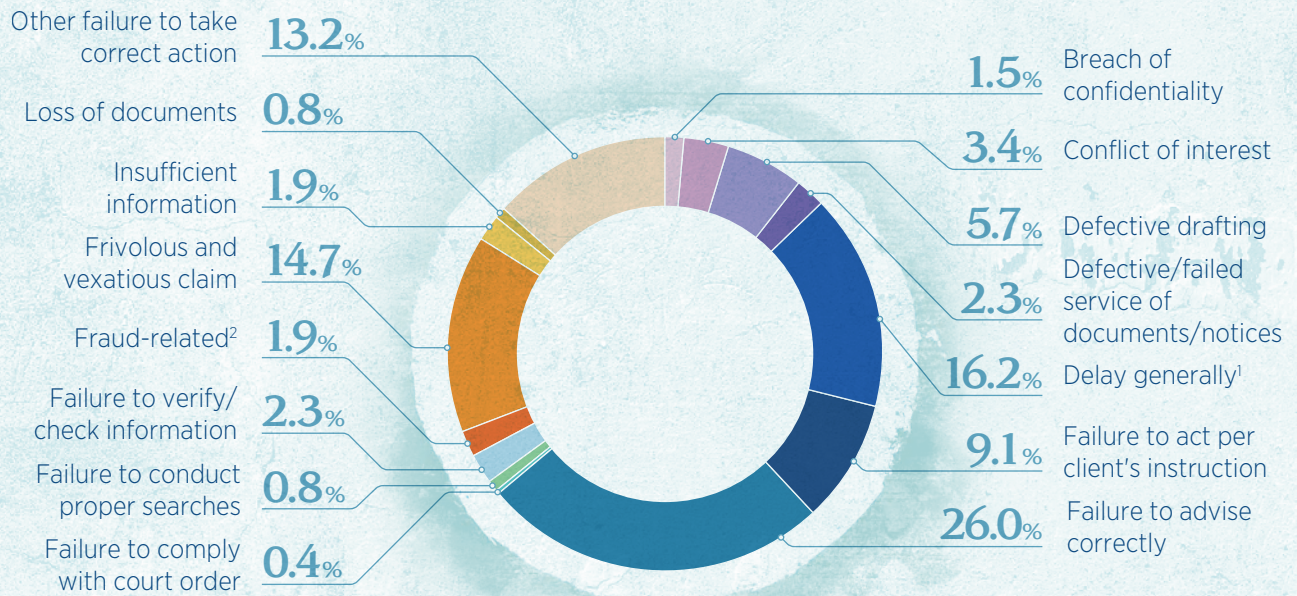
* Data only includes those claims where the major cause giving rise to the claims is fraud.

CLAIMS EXPERIENCE

Claims by Area of Practice

CHART 6.5

NUMBER OF CLAIMS BY TYPE OF ERRORS IN LITIGATION
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

- Delay 10.2%
- Late notices 0.4%
- Late service of proceedings 0.8%
- Late/failed issue of proceedings 1.1%
- Late/failed registrations 0.8%
- Missed time limits/deadlines 3.0%

(2) Includes sub-types:

- Fraud by client 0.8%
- Fraud by principal 1.1%

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.6

VALUE OF CLAIMS BY TYPE OF ERRORS IN LITIGATION

(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

Type of errors in litigation	INDEMNITY YEAR					Total value of claims** in 5 indemnity years (HK\$)	% of total value of claims in litigation
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	VALUE OF CLAIMS (HK\$)						
Defective drafting	-	-	-	2,126,189	-	2,126,189	4.2%
Delay	-	1,701,573	-	959,353	-	2,660,926	5.2%
Failure to act per client's instruction	1,215,090	10,450,744	-	2,044,140	469,795	14,179,769	27.8%
Failure to advise correctly	11,287,510	-	9,737,558	1,884,495	-	22,909,563	44.8%
Failure to conduct proper searches	-	27,983	-	-	-	27,983	0.1%
Fraud by client*	-	-	-	-	-	-	0.0%
Fraud by employee*	-	-	-	-	-	-	0.0%
Fraud by principal*	-	-	-	-	-	-	0.0%
Frivolous and vexatious claim	1,667	673,053	587,146	1,080,595	-	2,342,461	4.6%
Insufficient information	368,831	-	-	199,397	-	568,228	1.1%
Missed time limits/deadlines	-	266,450	-	-	-	266,450	0.5%
Other failure to take correct action	4,465,110	-	866,215	680,372	-	6,011,697	11.8%
TOTAL	17,338,208	13,119,803	11,190,919	8,974,541	469,795	51,093,266	

* Data only includes those claims where the major cause giving rise to the claims is fraud.

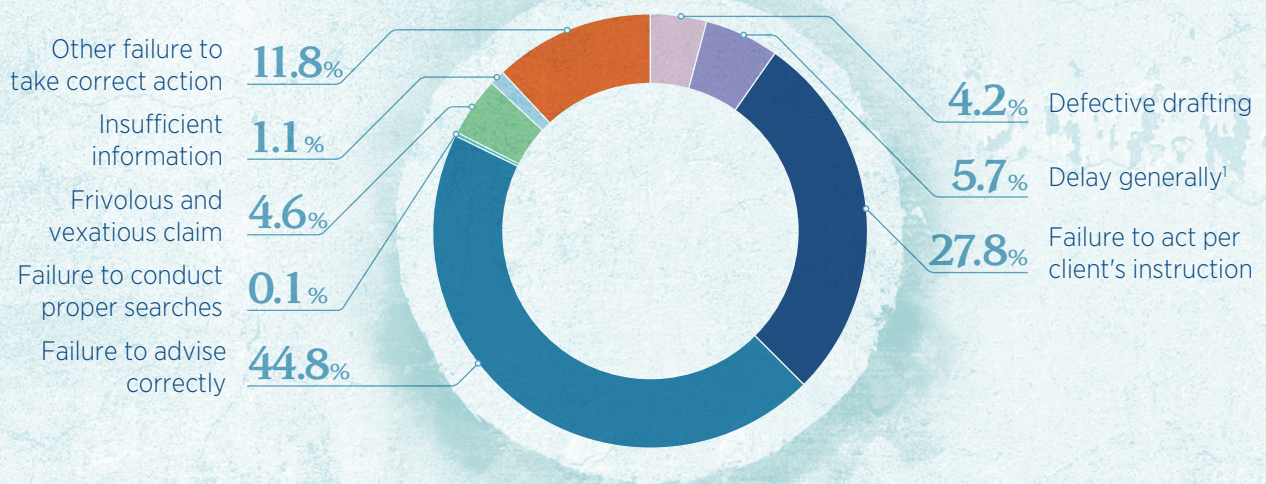
** Value of claims includes claims paid and reserved.

CLAIMS EXPERIENCE

Claims by Area of Practice

CHART 6.6

VALUE OF CLAIMS BY TYPE OF ERRORS IN LITIGATION
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

- Delay 5.2%
- Missed time limits/deadlines 0.5%

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.7

NUMBER OF CLAIMS BY TYPE OF ERRORS IN COMMERCIAL

(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

Type of errors in commercial	INDEMNITY YEAR					Total no. of claims in 5 indemnity years	% of total no. of claims in commercial
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	NO. OF CLAIMS						
Breach of confidentiality	2	2	0	2	1	7	4.6%
Breach of undertaking	4	1	0	0	0	5	3.3%
Conflict of interest	0	3	0	2	3	8	5.3%
Defective drafting	4	2	2	5	4	17	11.3%
Delay	1	1	3	0	0	5	3.3%
Failure to act per client's instruction	3	1	0	3	0	7	4.6%
Failure to advise correctly	5	5	1	9	6	26	17.2%
Failure to supervise	0	0	1	0	0	1	0.7%
Failure to verify/check information	1	0	0	1	1	3	2.0%
Fraud by client*	16	3	0	0	2	21	13.9%
Fraud by employee*	0	0	0	0	0	0	0.0%
Fraud by principal*	3	0	1	1	4	9	6.0%
Frivolous and vexatious claim	2	1	3	0	0	6	4.0%
Insufficient information	0	0	0	0	1	1	0.7%
Late/failed registrations	3	4	4	1	2	14	9.3%
Missed time limits/deadlines	0	1	1	3	0	5	3.3%
Other failure to take correct action	4	3	3	2	4	16	10.6%
TOTAL	48	27	19	29	28	151	

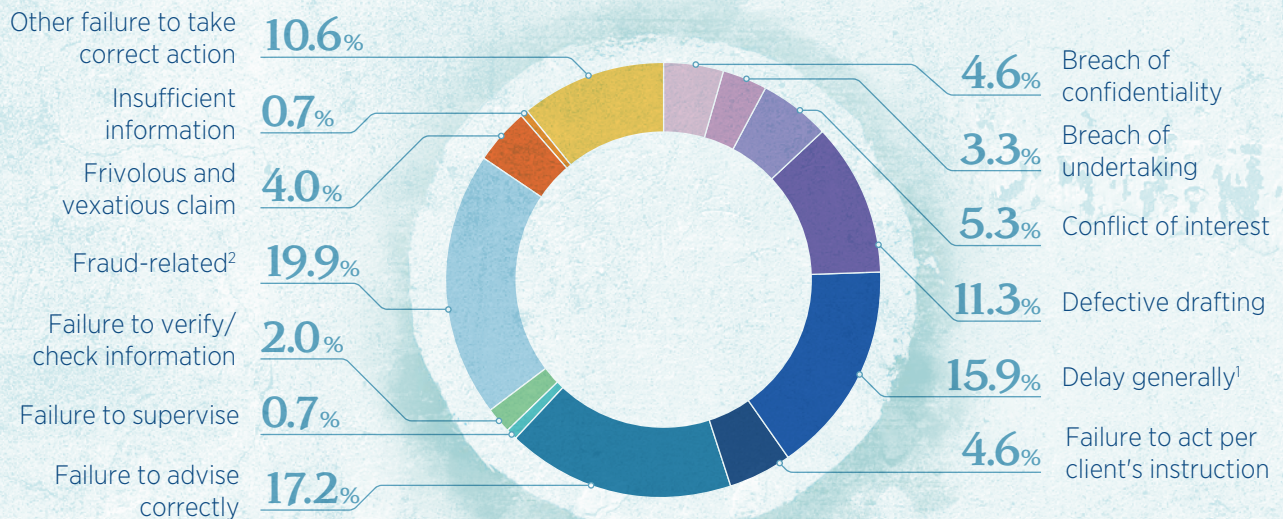
* Data only includes those claims where the major cause giving rise to the claims is fraud.

CLAIMS EXPERIENCE

Claims by Area of Practice

CHART 6.7

NUMBER OF CLAIMS BY TYPE OF ERRORS IN COMMERCIAL
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

- Delay 3.3%
- Late/failed registrations 9.3%
- Missed time limits/deadlines 3.3%

(2) Includes sub-types:

- Fraud by client 13.9%
- Fraud by principal 6.0%

CLAIMS EXPERIENCE

Claims by Area of Practice

TABLE 6.8

VALUE OF CLAIMS BY TYPE OF ERRORS IN COMMERCIAL
(1 OCTOBER 2016 – 30 SEPTEMBER 2021)

Type of errors in commercial	INDEMNITY YEAR					Total value of claims** in 5 indemnity years (HK\$)	% of total value of claims in commercial
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021		
	VALUE OF CLAIMS (HK\$)						
Breach of confidentiality	-	796,456	-	-	-	796,456	3.1%
Breach of undertaking	119,866	-	-	-	-	119,866	0.5%
Conflict of interest	-	163,716	-	1,013,243	279,738	1,456,697	5.7%
Defective drafting	10,226,717	-	-	-	-	10,226,717	39.8%
Delay	-	5,004,886	181,310	-	-	5,186,196	20.2%
Failure to act per client's instruction	-	-	-	1,273,449	-	1,273,449	5.0%
Failure to advise correctly	-	-	-	2,857,644	398,171	3,255,815	12.7%
Failure to supervise	-	-	1,296,348	-	-	1,296,348	5.0%
Fraud by client*	1,667	-	-	-	-	1,667	0.01%
Fraud by employee*	-	-	-	-	-	-	0.0%
Fraud by principal*	20,511	-	-	-	946,860	967,371	3.8%
Frivolous and vexatious claim	-	-	809,447	-	-	809,447	3.1%
Other failure to take correct action	-	-	-	326,908	-	326,908	1.3%
TOTAL	10,368,761	5,965,058	2,287,105	5,471,244	1,624,769	25,716,937	

* Data only includes those claims where the major cause giving rise to the claims is fraud.

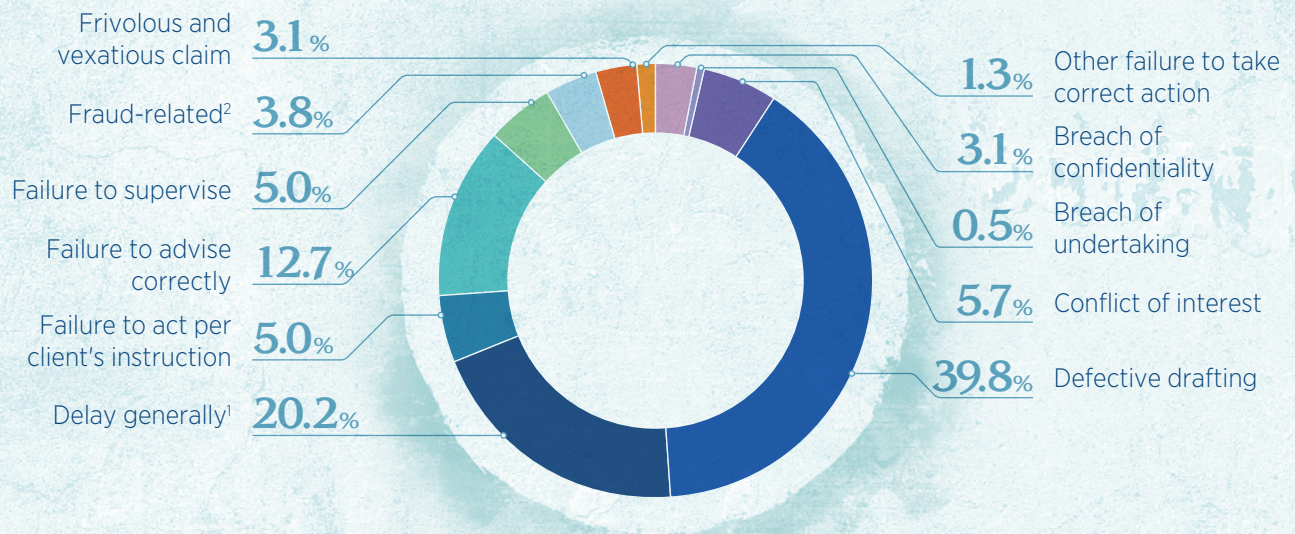
** Value of claims includes claims paid and reserved.

CLAIMS EXPERIENCE

Claims by Area of Practice

CHART 6.8

VALUE OF CLAIMS BY TYPE OF ERRORS IN COMMERCIAL
(1 OCTOBER 2015 – 30 SEPTEMBER 2021)



(1) Includes sub-types:

— Delay 20.2%

(2) Includes sub-types:

— Fraud by client 0.01%

— Fraud by principal 3.8%

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.1

COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES

Indemnity year	Claims losses (HK\$ million)	Annual contributions (HK\$)	No. of claims	Contractual reinsurance premium (HK\$)	Actual reinsurance premium (HK\$)
1998/1999	399.0	112,178,110	483	109,099,050 (2 years excess of loss 3 years stop loss)	109,099,050 (for 1998/99 & 1999/2000)
1999/2000	82.0	85,231,403	263		123,253,900 (40,021,250 for HIH replacement)
2000/2001	66.3	95,910,707	230	83,232,650	95,262,865.81
2001/2002	86.0	236,886,755	215	113,625,000	128,899,595.32
2002/2003	74.7	222,237,005	269	164,756,250	172,230,412.38
2003/2004	63.3	219,607,685	165	238,896,563	218,023,353.30
2004/2005	67.3	217,611,219	159	340,427,602	75,000,000
2005/2006	77.0	242,335,709	165	75,000,000	79,500,000
2006/2007	40.0	256,756,900	142	79,500,000	79,500,000
2007/2008	40.1	283,223,840	309	79,500,000	79,500,000
2008/2009	68.4	318,613,840	147	79,500,000	79,500,000
2009/2010	81.0	301,445,650	139	79,500,000	79,500,000
2010/2011	65.0	309,996,404	173	79,500,000	79,500,000
2011/2012	62.6	362,665,656	126	79,500,000	79,500,000
2012/2013	61.1	366,030,827	239	79,500,000	79,500,000
2013/2014	100.2	369,525,742	148	65,000,000	65,000,000
2014/2015	43.2	390,058,607	133	65,000,000	65,000,000
2015/2016	83.3	403,475,742	167	65,000,000	65,000,000
2016/2017	63.0	423,357,453	171	65,000,000	65,000,000
2017/2018	62.7	446,710,654	134	65,000,000	65,000,000
2018/2019	42.4	480,940,823	128	61,500,000	61,500,000
2019/2020	25.4	537,306,944	137	61,500,000	61,500,000
2020/2021	21.3	513,573,274	146	61,500,000	61,500,000

CLAIMS EXPERIENCE Other Analyses

TABLE 7.1

COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES (Cont'd)

Note:

- (1) Claims losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the five-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the five years.
- (4) Contribution before reduction is used for 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years.
- (5) The amount of net contribution received after reduction and/or adjustment to reduction for the 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years is as follows:

	(HK\$)
2010/2011	208,253,791
2011/2012	244,862,160
2013/2014	246,990,173
2014/2015	261,393,082
2015/2016	270,133,570
2016/2017	214,320,797
2017/2018	298,978,937
2018/2019	322,119,379
2019/2020	269,900,620
2020/2021	110,241,281

- (6) Actual reinsurance premium has not yet taken into account any profit sharing received or may be received from reinsurers as specified in the terms and conditions of the relevant reinsurance programme, which may be subject to future adjustment.

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.2

COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE

(1 OCTOBER 2020 – 30 SEPTEMBER 2021)

(including firms which ceased practice and firms which changed names)

No. of solicitors/ foreign lawyers in firm	No. of firms	No. of firms with claims	% of firms with claims	Total no. of claims	% of total no. of claims	Contribution payments (HK\$ thousand)	Net contribution received after reduction (HK\$ thousand)	Claim payments (HK\$ thousand)	Claim reserves (HK\$ thousand)
1	210	4	1.90%	4	2.74%	16,197.3	4,693.6	0.0	0.0
2 to 5	439	36	8.20%	49	33.56%	90,701.6	20,472.4	2,929.0	6,436.1
6 to 10	156	15	9.62%	20	13.70%	64,452.1	13,357.7	573.4	457.1
11 to 20	76	12	15.79%	14	9.59%	55,537.7	12,271.2	0.0	0.0
21 to 30	30	4	13.33%	4	2.74%	40,534.7	7,909.0	0.0	0.0
31 to 50	32	10	31.25%	17	11.64%	61,315.6	14,025.4	1,279.2	9,242.6
Over 50	32	15	46.88%	38	26.03%	184,834.3	37,512.0	398.2	0.0
TOTAL	975	96	9.85%	146	100.00%	513,573.3	110,241.3	5,179.8	16,135.8

Note:

- (1) The percentages of the number of claims are calculated to the nearest decimal point only, the aggregation of these percentages may therefore not add up to 100%.
- (2) Contribution payments refer to contribution before reduction for the 2020/2021 indemnity year.

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.3

CONTRIBUTIONS AND CLAIMS LOADINGS

(1 OCTOBER 2020 – 30 SEPTEMBER 2021)

(including firms which ceased practice and firms which changed names)

No. of solicitors/ foreign lawyers in firm	No. of firms	No. of firms with claims loadings	% of firms with claims loadings	Contribution payments (HK\$ thousand)	Net contribution received after reduction (HK\$ thousand)	Claims loadings (HK\$ thousand)	Claims loadings as a % of contribution payments	Claims loadings as a % of net contribution received after reduction
1	210	0	0.00%	16,197.3	4,693.6	0.0	0.00%	0.00%
2 to 5	439	18	4.10%	90,701.6	20,472.4	2,307.4	2.54%	11.27%
6 to 10	156	7	4.49%	64,452.1	13,357.7	1,258.8	1.95%	9.42%
11 to 20	76	3	3.95%	55,537.7	12,271.2	774.2	1.39%	6.31%
21 to 30	30	0	0.00%	40,534.7	7,909.0	0.0	0.00%	0.00%
31 to 50	32	2	6.25%	61,315.6	14,025.4	677.2	1.10%	4.83%
Over 50	32	4	12.50%	184,834.3	37,512.0	3,014.8	1.63%	8.04%
TOTAL	975	34	3.49%	513,573.3	110,241.3	8,032.4	1.56%	7.29%

Note:

Contribution payments refer to contribution before reduction for the 2020/2021 indemnity year.

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.4

COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2021

Indemnity year	Gross fees of the profession (HK\$)	Contribution payments (HK\$)	Contributions as a % of gross fees
1997/1998	11,786,875,405	106,778,078	0.91%
1998/1999	13,111,052,058	112,178,110	0.86%
1999/2000	11,089,453,975	85,231,403	0.77%
2000/2001	11,015,561,030	95,910,707	0.87%
2001/2002	11,619,410,157	236,886,755	2.04%
2002/2003	11,221,835,142	355,129,255*	3.16%
2003/2004	10,921,884,902	219,607,685	2.01%
2004/2005	10,635,107,496	217,611,219	2.05%
2005/2006	11,725,199,370	242,335,709	2.07%
2006/2007	12,906,183,745	256,756,900	1.99%
2007/2008	15,069,395,251	283,223,840	1.88%
2008/2009	18,446,786,551	318,613,840	1.73%
2009/2010	18,586,558,400	301,445,650	1.62%
2010/2011	18,337,954,982	309,996,404	1.69%
2011/2012	20,980,069,083	362,665,656	1.73%
2012/2013	22,091,586,220	366,030,827	1.66%
2013/2014	22,910,937,538	369,525,742	1.61%
2014/2015	25,195,546,098	390,058,607	1.55%
2015/2016	27,002,303,290	403,475,742	1.49%
2016/2017	28,349,935,256	423,357,453	1.49%
2017/2018	30,285,031,806	446,710,654	1.48%
2018/2019	33,163,330,195	480,940,823	1.45%
2019/2020	36,603,517,408	537,293,894	1.47%
2020/2021	36,608,061,854	513,573,274	1.40%

Note:

- (1) Contribution before reduction is used for 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years.
- (2) See footnote 5 of Table 7.1 for the amount of net contributions received after reduction and/or adjustment to reduction for 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years.

* Shortfall Contributions are included in the Contributions collected for the 2002/2003 indemnity year.

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.5

COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2020 — 30 SEPTEMBER 2021)
(including firms which ceased practice)

No. of solicitors/ foreign lawyers in firm	No. of firms	Gross fees of the profession (HK\$)	Contribution payments (HK\$)	Net contribution received after reduction (HK\$)	Contribution payments as a % of gross fee income	Net contribution received after reduction as a % of gross fee income
1	210	395,859,821	16,197,254	4,693,621	4.09%	1.19%
2 to 5	439	2,932,110,086	90,701,579	20,472,405	3.09%	0.70%
6 to 10	156	2,804,567,047	64,452,088	13,357,650	2.30%	0.48%
11 to 20	76	3,199,424,739	55,537,672	12,271,241	1.74%	0.38%
21 to 30	30	3,480,092,664	40,534,744	7,908,962	1.16%	0.23%
31 to 50	32	5,393,968,276	61,315,607	14,025,442	1.14%	0.26%
Over 50	32	18,402,039,221	184,834,330	37,511,960	1.00%	0.20%
TOTAL	975	36,608,061,854	513,573,274	110,241,281	1.40%	0.30%

Note:

Contribution payments refer to contribution before reduction for the 2020/2021 indemnity year.

CLAIMS EXPERIENCE

Other Analyses

TABLE 7.6

COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES

Indemnity year	Annual contributions (HK\$)	Claims loadings (HK\$)	Total incurred losses (HK\$)	Loadings as % of losses	Loadings as % of contributions	Recovery by way of deductibles (HK\$)
1997/1998	106,778,078	3,996,258	187,070,201	2.14%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	398,977,860	1.46%	5.18%	19,827,655
1999/2000	85,231,403	4,187,326	81,993,132	5.11%	4.91%	5,756,576
2000/2001	95,910,707	5,547,161	66,343,041	8.36%	5.78%	4,753,681
2001/2002	236,886,755	17,716,648	85,957,331	20.61%	7.48%	3,797,807
2002/2003	222,237,005	12,044,600	74,748,301	16.11%	5.42%	4,039,853
2003/2004	219,607,685	10,909,400	63,335,125	17.22%	4.97%	3,474,697
2004/2005	217,611,219	10,485,444	67,253,868	15.59%	4.82%	3,255,900
2005/2006	242,335,709	9,119,595	76,988,132	11.85%	3.76%	3,721,590
2006/2007	256,756,900	9,946,895	39,949,449	24.90%	3.87%	2,414,945
2007/2008	283,223,840	9,504,563	40,078,372	23.71%	3.36%	2,580,745
2008/2009	318,613,840	7,765,371	68,443,068	11.35%	2.44%	4,812,500
2009/2010	301,445,650	7,518,788	80,908,406	9.29%	2.49%	2,722,062
2010/2011	309,996,404	9,017,161	65,001,249	13.87%	2.91%	3,135,831
2011/2012	362,665,656	11,358,408	62,558,764	18.16%	3.13%	3,152,331
2012/2013	366,030,827	14,052,008	61,055,764	23.02%	3.84%	3,360,843
2013/2014	369,525,742	10,972,544	100,155,213	10.96%	2.97%	2,582,500
2014/2015	390,058,607	8,522,812	43,243,419	19.71%	2.19%	1,873,828
2015/2016	403,475,742	8,582,913	83,255,032	10.31%	2.13%	2,907,500
2016/2017	423,357,453	10,152,721	62,901,156	16.14%	2.40%	2,348,307
2017/2018	446,710,654	11,570,352	62,748,479	18.44%	2.59%	2,455,000
2018/2019	480,940,823	10,212,232	42,353,701	24.11%	2.12%	1,303,810
2019/2020	537,306,944	9,958,110	25,427,070	39.16%	1.85%	1,295,000
2020/2021	513,573,274	8,032,391	21,315,621	37.68%	1.56%	45,000

Note:

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years.
- (4) See footnote 5 of Table 7.1 for the amount of net contributions received after reduction and/or adjustment to reduction for 2010/2011–2011/2012 and 2013/2014–2020/2021 indemnity years.

CLAIMS EXPERIENCE Other Analyses

TABLE 7.7**OUTSTANDING LIABILITIES OF THE FUND**

Indemnity year	Outstanding liabilities of the Fund (HK\$)
1996/1997	8,882
1998/1999–2000/2001	93,825
2001/2002	189,777
2006/2007	5,100,000
2007/2008	3,000,000
2008/2009	913,718
2009/2010	695,597
2011/2012	3,544,696
2012/2013	725,091
2013/2014	26,491,339
2014/2015	18,483,367
2015/2016	31,870,932
2016/2017	5,613,739
2017/2018	15,293,663
2018/2019	21,192,856
2019/2020	2,176,092
2020/2021	16,135,785
TOTAL	151,529,359

Note:

- (1) The outstanding liabilities in 1996/97, 1998/99, 1999/2000 and 2000/2001 relate to claims liabilities to be borne by the Fund as a result of the insolvency of the following reinsurers:
1996/1997: HIH and FAI First Pacific
1998/1999–2000/2001: HIH
- (2) The outstanding liability of the Fund for indemnity years not shown in the table above is nil.

Ongoing Issues

HIH REINSURERS

HIH, FAI and FAI Pacific ("HIH Reinsurers") were excess of loss and stop loss insurers for the PIS from 1987 to 2001. The first two above-mentioned companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first two companies on 27 August 2001. A provision has been made in the Fund Accounts to cover the anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2021 is set out in Table 8.

The Company has also conducted an actuarial analysis on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH Reinsurers, the total outstanding liabilities of the Fund as at 30 September 2021 were approximately HK\$501 million.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The final scheme distributions for HIH and FAI were paid by the scheme administrators on 15 June 2021.

A total of US\$17,191,896.04 were paid by HIH, of which US\$1,215,170.64 were repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. The recovery ratio against the total acknowledged liability of US\$31,657,130.27 (net of the additional premium paid to reinsurers who replaced HIH etc.) was approximately 45%.

A total of US\$117,882.39 was paid by FAI. The recovery ratio against the total acknowledged liability of US\$169,611.89 was approximately 70%.

The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 30 April 2022, a total of HK\$29,364,649.08 was paid by FAI Pacific as interim dividend and threshold payments (i.e. settlements for small claims). ESSAR has been informed by the scheme administrators that they are working on the timeline for the distribution of the final dividend for FAI Pacific.

TABLE 8

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH, FAI AND FAI PACIFIC
AS AT 30 SEPTEMBER 2021

(1) Outstanding claims provision recoverable from reinsurers

Indemnity year	(a) Excess of Loss layer			(b) Stop Loss layer			(c) "Incurred but not reported" reserve ¹			TOTAL (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1996/1997	-	-	-	-	-	8,882	-	-	-	8,882
1998/1999-2000/2001	6,757,016 ²	-	-	-	-	-	(83)	-	(132)	6,756,801
	6,757,016	-	-	-	-	8,882	(83)	-	(132)	6,765,683

Note:

(1) No stop loss insurance since 2001/2002.

(2) Includes the drop down cover totalling \$6,666,721.

(3) For indemnity years not shown in the table above, the outstanding claims provision recoverable from reinsurers is nil.

Ongoing Issues

(2) Claims receivables from reinsurers

Indemnity year	(a) Excess of loss layer			(b) Stop loss layer			(c) Drop down layer	TOTAL
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	(a)+(b)+(c)
1988/1989-1999/2000	231,946,940	1,365,851	48,301,834	N/A	N/A	N/A	N/A	281,614,625
1997/1998-2000/2001	N/A	N/A	N/A	37,500,000	-	8,628,414	6,663,190	52,791,604
	231,946,940	1,365,851	48,301,834	37,500,000	-	8,628,414	6,663,190	334,406,229

ANNUAL REVIEW OF THE FINANCIAL POSITION OF THE FUND AND CONTRIBUTION REDUCTIONS

In 2010, the Rules were amended to allow contribution reductions to member firms. After consideration of actuarial advice, claims experience and the financial position of the Fund, contribution reductions were provided in the following indemnity years:

Indemnity Year	% Reduced
2010/2011	33 $\frac{1}{3}$ %
2011/2012	33 $\frac{1}{3}$ %
2012/2013	Nil
2013/2014	33 $\frac{1}{3}$ %
2014/2015	33 $\frac{1}{3}$ %
2015/2016	33 $\frac{1}{3}$ %
2016/2017	50%
2017/2018	33 $\frac{1}{3}$ %
2018/2019	33 $\frac{1}{3}$ %
2019/2020	50%
2020/2021	80%
2021/2022	33 $\frac{1}{3}$ %

The amount of reductions made over the years totaled approximately HK\$2.11 billion.

Performance of the Fund's Investments

The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The investment objectives are:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

Mercer has been appointed as the Company's investment consultant since December 2010 to provide monitoring and ad hoc consulting services.

The PIS Investment Sub-Committee and Mercer meet with two of the investment managers every quarter to discuss their performance and outlook on market trends. The Sub-Committee also assists the Board of the Company to review the cash flow position of the Fund.

The net returns on the portfolios managed by the investment managers for the 12-month period ended 31 December 2020 and 2021 were as follows:

Investment manager	Type of portfolio	Net return		Portfolio size (in USD)	
		2020	2021	As of 31 December 2020	As of 31 December 2021
AB	Bonds	5.0%	-1.3%	98,488,227	97,758,577
MFS	Equities	15.7%	19.3%	100,900,551	120,351,225
GMO	Equities	8.3%	13.6%	69,021,355	78,411,586
Ruffer	Multi-Asset (mainly equities and bonds)	14.4%	10.0%	85,582,148	94,179,519
PIMCO	Bonds	7.6%	-1.4%	98,716,993	97,301,305
MGIE	Bonds	6.0%	0.1%	100,095,054	125,059,171
Overall portfolio return		10.2%	6.5%	552,804,328	613,061,383

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund and the profession. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

Abbreviated Terms Used in This Report

AB	AllianceBernstein Hong Kong Limited
ADPIS	Assistant Director, Professional Indemnity Scheme
Aon	Aon Hong Kong Limited
Cap. 41	Insurance Ordinance
Cap. 112	Inland Revenue Ordinance
Company	Hong Kong Solicitors Indemnity Fund Limited
Council	Council of the Society
ESSAR	ESSAR Insurance Services Limited
FAI	FAI General Insurance Company Limited
FAI Pacific	FAI First Pacific Insurance Co. Limited
Fund	Hong Kong Solicitors Indemnity Fund
GMO	Grantham Mayo van Otterloo
HIH	HIH Casualty and General Insurance Limited
HIH Reinsurers	HIH, FAI and FAI Pacific
Manager	Manager of the PIS, currently ESSAR
Mercer	Mercer Investment Consulting Limited
MFS	MFS Investment Management
MGIE	Mercer Global Investments Europe Limited
PIMCO	PIMCO Asia Limited
PIS	Professional Indemnity Scheme
Ruffer	Ruffer LLP
Rules/Cap. 159M	Solicitors (Professional Indemnity) Rules
Society	The Law Society of Hong Kong

The above abbreviations may not apply to the audited accounts of the Fund. The terms used in the audited accounts of the Fund are separately defined.

AUDITED FINANCIAL STATEMENTS

Hong Kong Solicitors Indemnity Fund

30 September 2021

Independent Auditor's Report

To the Manager of

Hong Kong Solicitors Indemnity Fund

(established in Hong Kong)

OPINION

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 52 to 80, which comprise the statement of financial position as at 30 September 2021, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 September 2021, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report. We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF MANAGER FOR THE FINANCIAL STATEMENTS

Hong Kong Solicitors Indemnity Fund Limited (the "Manager") is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Certified Public Accountants
Hong Kong, 27 April 2022

The engagement director on the audit resulting in this independent auditor's report is:

Chan Chi Ming Andy

Practising Certificate number: P05132

Statement of Comprehensive Income

Year ended 30 September 2021

	Note	2021 HK\$	2020 HK\$
Net contributions revenue	3	27,394,199	162,681,278
Net investment income	4	453,827,879	290,396,148
Other income	5	-	100,737
Net income		481,222,078	453,178,163
Net claims expenses	6	(82,126,699)	(154,418,438)
Operating expenses	7	(14,565,950)	(20,159,282)
Surplus from operations		384,529,429	278,600,443
Net movement in claims provision and claims receivable relating to reinsurance contracts with HIH Group	8	7,467,031	5,492,700
Surplus before income tax		391,996,460	284,093,143
Income tax expense	9	-	-
Surplus for the year		391,996,460	284,093,143
Other comprehensive income			
Items that are reclassified or may be reclassified subsequently to profit or loss:			
<i>Financial assets at fair value through other comprehensive income</i>			
Gains on changes in fair value arising during the year		-	(12,440,532)
Reclassification for net changes in fair value to profit or loss		-	(60,899,398)
Other comprehensive loss for the year to statement of changes in equity on page 54		-	(73,339,930)
Total comprehensive income for the year		391,996,460	210,753,213

Statement of Financial Position

At 30 September 2021

	Note	2021 HK\$	2020 HK\$
Current assets			
Claims provision recoverable	10	929,000	731,000
Financial assets at fair value through profit or loss	11	4,508,192,551	4,080,650,180
Amount due from Hong Kong Solicitors Indemnity Fund Limited	12	1,927,198	1,820,925
Accounts and other receivables	13	3,426,596	2,218,734
Prepaid reinsurance premium		71,425,000	–
Cash at bank		296,055,001	154,466,649
		4,881,955,346	4,239,887,488
Current liabilities			
Outstanding claims provision	10	501,851,000	479,658,000
Contributions received in advance		329,024,876	101,702,646
Contributions refundable		1,562,316	979,873
Accrued charges and other payables		201,340	227,615
		832,639,532	582,568,134
NET ASSETS		4,049,315,814	3,657,319,354
Reserves			
Fair value reserve		–	–
Accumulated fund		4,049,315,814	3,657,319,354
TOTAL EQUITY		4,049,315,814	3,657,319,354

These financial statements on pages 52 to 80 were approved and authorised for issue by the Manager on 27 April 2022 and signed on its behalf by

Director of the Manager
Amirali Bakirali NASIR

Director of the Manager
Peter LO Chi Lik

Statement of Changes in Equity

Year ended 30 September 2021

	Fair value reserve HK\$	Accumulated fund HK\$	Total HK\$
At 1 October 2019	73,339,930	3,373,226,211	3,446,566,141
Surplus for the year	-	284,093,143	284,093,143
Other comprehensive loss			
Net movements in fair value of financial assets at fair value through other comprehensive income	(73,339,930)	-	(73,339,930)
Total comprehensive income for the year	(73,339,930)	284,093,143	210,753,213
At 30 September 2020	-	3,657,319,354	3,657,319,354
At 1 October 2020	-	3,657,319,354	3,657,319,354
Surplus for the year and total comprehensive income for the year	-	391,996,460	391,996,460
At 30 September 2021	-	4,049,315,814	4,049,315,814

Statement of Cash Flows

Year ended 30 September 2021

	Note	2021 HK\$	2020 HK\$
OPERATING ACTIVITIES			
Cash generated from operations	17	115,302,844	44,260,611
Net cash from operating activities		115,302,844	44,260,611
INVESTING ACTIVITIES			
Dividend received		-	1,190,743
Interest received		32,508	25,700,787
Proceeds from disposal of debt securities measured at fair value through other comprehensive income		-	2,975,113,899
Proceeds from disposal of financial assets at fair value through profit or loss		26,253,000	408,965,081
Purchases of debt securities measured at fair value through other comprehensive income		-	(920,026,325)
Purchases of financial assets at fair value through profit or loss		-	(2,627,770,062)
Net cash from (used in) investing activities		26,285,508	(136,825,877)
Net increase (decrease) in cash and cash equivalents		141,588,352	(92,565,266)
Cash and cash equivalents at beginning of year		154,466,649	247,031,915
Cash and cash equivalents at end of year, represented by cash at bank		296,055,001	154,466,649

Notes to the Financial Statements

Year ended 30 September 2021

1. GENERAL

Hong Kong Solicitors Indemnity Fund (the “Fund”) was established by The Law Society of Hong Kong (the “Law Society”) to provide indemnity to solicitors in practice in Hong Kong pursuant to the terms and conditions of the Solicitors (Professional Indemnity) Rules (Chapter 159M). Hong Kong Solicitors Indemnity Fund Limited (the “Manager” or “HKSIFL”) is a company limited by guarantee, and incorporated in Hong Kong. The Manager is authorised by the Law Society to manage and administer the Fund. The Law Society is a member of the Manager and the directors of the Manager are appointed by the Council of the Law Society.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Fund and effective from the current year. A summary of the principal accounting policies adopted by the Fund is set out below.

Adoption of new/revised HKFRSs

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs. The adoption of the amendments does not have any significant impact on the financial statements.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for financial assets at fair value through profit or loss (“FVPL”), which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund’s contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Recognition and derecognition (Continued)

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("FVOCI"); (iii) equity investment measured at FVOCI; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Fund's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model (the "reclassification date").

1) *Financial assets measured at amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Fund's financial assets at amortised cost include cash at bank, accounts and other receivables, and amount due from HKSIFL.

2) *Financial assets at FVPL*

These investments include financial assets that are not measured at amortised cost or FVOCI, including financial assets held for trading and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which does not include any dividend earned on the financial assets. Dividend income is presented separately from fair value gain or loss.

A financial asset is classified as held for trading if it is:

- (i) acquired principally for the purpose of selling it in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or
- (iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

The Fund's financial assets mandatorily measured at FVPL include quoted funds.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Fund's financial liabilities include accrued charges and other payables.

All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets and other items

The Fund recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost to which the impairment requirements apply in accordance with HKFRS 9. Except for the specific treatments as detailed below, at each reporting date, the Manager measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Manager measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the external credit risk ratings.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items (Continued)

Definition of default

The Manager considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Fund may not receive the outstanding contractual amounts in full if the financial instrument that meets any of the following criteria.

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Fund, in full (without taking into account any collaterals held by the Fund); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Manager considers that default has occurred when a financial asset is more than 90 days past due unless the Manager has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Manager compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Manager considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Fund.

Irrespective of the outcome of the above assessment, the Manager presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Manager assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items (Continued)

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Simplified approach of ECL

For contributions receivable, the Fund applies a simplified approach in calculating ECL. The Fund recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower.
- (b) a breach of contract, such as a default or past due event.
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- (e) the disappearance of an active market for that financial asset because of financial difficulties.
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Fund writes off a financial asset when the Manager has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof based on historical experience of recoveries of similar assets. The Manager expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Fund's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Contributions are recognised as revenue (earned contributions) proportionally over the period of indemnity arrangement. Contributions received in advance (previously presented as contract liabilities) represent contributions invoiced and received but not earned at the end of reporting period.

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Indemnity liabilities

1) Recognition and measurement

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to claimants. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Fund. The Fund does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Fund and statistical analyses for the claims incurred but not enough reported, and the estimated expected ultimate cost of more complex claims.

2) Claims provision recoverable

Contracts entered into by the Fund with reinsurers under which the Fund is compensated for losses on indemnities made by the Fund. The benefits to which the Fund is entitled under its reinsurance contracts held are recognised as claims provision recoverable. These assets consist of short-term and long-term receivables that are dependent on the expected claims and reinsurance recoveries arising under the related reinsurance contracts. Amounts recoverable from or payable to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

3) Outstanding claims provisions

Full provision is made for the estimated gross cost of claims notified but not settled on a case-by-case basis and those claims incurred but not enough reported ("IBNER") at the end of the reporting period using the best information available at that time, including inflation where necessary.

Cost of claims includes claims handling expenses and reinsurance recoveries. Reinsurance recovery on reported outstanding claims is also calculated on a case-by-case basis. Any differences between the original claim provisions and subsequent settlements are included in profit or loss.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Indemnity liabilities (Continued)

3) Outstanding claims provisions (Continued)

Provision is also made for the estimated cost of servicing claims notified but not settled and the claims handling expenses on IBNER at the end of the reporting period in accordance with management experience of claim development history, including an estimate of reinsurance recoveries due. Provision would be adjusted, if necessary, after considering independent actuarial review of indemnity liabilities as at the end of reporting period. Claims are not discounted.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is also the Fund's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Manager expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A related party is a person or entity that is related to the Fund.

- (a) A person or a close member of that person's family is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity is controlled or jointly controlled by a person identified in (a).
 - (ii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (iii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Critical accounting estimates

Estimates and assumptions concerning the future are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

The ultimate liability arising from claims provision

The estimation of the ultimate liability arising from claims made is the Fund's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Fund will ultimately pay for such claims. Estimation of the ultimate cost of liability claims can be a complex process. Significant factors affecting the trends that influence the liability estimation process are the inconsistent court resolutions and jurisprudence.

The Manager takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

Notes to the Financial Statements

Year ended 30 September 2021

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates (Continued)

The ultimate liability arising from claims provision (Continued)

	2021 HK\$	2020 HK\$
Outstanding claims provision — Case reserves	152,261,000	173,283,000
Claims incurred but not enough reported		
— Claims losses	216,952,000	182,209,000
— Allowance for indirect claims handling expenses	45,135,000	53,214,000
— Risk margin	87,503,000	70,952,000
	349,590,000	306,375,000
	501,851,000	479,658,000

Loss allowance for ECL

The Manager estimates the loss allowance for cash at bank, accounts and other receivables and amount due from HKSIFL by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Fund's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of cash at bank, accounts and other receivables and amount due from HKSIFL. Details of the key assumption and inputs used in estimating ECL are set out in note 14.2(e) to the financial statements.

Future changes in HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current year, which the Fund has not early adopted. The Manager is in the process of assessing the possible impact on the future adoption of the new/revised HKFRSs, but is not yet in a position to reasonably estimate their impact on the financial statements of the Fund.

3. NET CONTRIBUTIONS REVENUE

	2021 HK\$	2020 HK\$
Gross contributions earned	98,819,199	234,106,278
Reinsurance and insolvency insurance premium	(71,425,000)	(71,425,000)
Net contributions revenue	27,394,199	162,681,278

Notes to the Financial Statements

Year ended 30 September 2021

4. NET INVESTMENT INCOME

	2021 HK\$	2020 HK\$
Interest revenue calculated using the effective interest method:		
– Cash at bank and cash deposits in investment accounts	32,508	495,120
– Debt securities mandatorily measured at FVOCI	–	12,879,002
Dividend income from financial assets at FVPL	–	1,190,743
Gain on derecognition of debt securities mandatorily measured at FVOCI	–	60,899,398
(Loss) Gain on disposal of financial assets at FVPL	(267,000)	35,395,452
Net fair value gain of financial assets at FVPL		
– Equity securities and unlisted quoted funds mandatorily measured at FVPL	454,062,371	179,536,433
Net investment income	453,827,879	290,396,148

5. OTHER INCOME

	2021 HK\$	2020 HK\$
Sundry income	–	100,737

6. NET CLAIMS EXPENSES

	2021 HK\$	2020 HK\$
Gross claims paid	70,697,424	53,372,005
Claims recovered	(10,565,725)	(8,884,567)
Net claims paid	60,131,699	44,487,438
Change in gross outstanding claims provision and incurred but not enough reported claims (“IBNER”)	22,193,000	108,458,000
Change in claims provision recoverable (including IBNER recoveries)	(198,000)	1,473,000
Change in net outstanding claims provision	21,995,000	109,931,000
Net claims expenses	82,126,699	154,418,438

Notes to the Financial Statements

Year ended 30 September 2021

7. OPERATING EXPENSES

	2021 HK\$	2020 HK\$
Accounting fee	358,500	312,000
Administration fee paid to HKSIFL	13,141,710	13,399,585
Auditor's remuneration	147,000	147,000
Bank charges	2,747	9,503
Exchange loss, net	-	483,784
Investment management fee	-	1,970,891
Legal and professional fees	730,233	2,661,949
Sundry expenses	185,760	1,004,815
Withholding tax on dividend received	-	169,755
	14,565,950	20,159,282

8. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HIH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia ("HIH Group"), were placed into liquidation. Given the limited information provided by the liquidators at that time except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from the HIH Group would be appropriate. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$8,034,359 (2020: HK\$5,906,344) was recovered from the HIH Group and the provision for impairment previously made was reversed and credited to profit or loss. Meanwhile, HK\$567,328 (2020: HK\$413,644) was repaid to reinsurers which replaced the HIH Group in the reinsurance program covering the indemnity years during the period from 1 October 2000 to 30 September 2005 and the amount was debited to profit or loss.

9. TAXATION

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong profits tax.

Notes to the Financial Statements

Year ended 30 September 2021

10. OUTSTANDING CLAIMS PROVISION AND CLAIMS PROVISION RECOVERABLE

	2021 HK\$	2020 HK\$
Gross		
Outstanding claims provision	152,261,000	173,283,000
Claims incurred but not enough reported ("IBNER")	349,590,000	306,375,000
Total gross claims provision	501,851,000	479,658,000
Recoverable from reinsurers		
Claims provision	731,000	731,000
Provision for IBNER recoveries	198,000	-
Total claims provision recoverable	929,000	731,000
Net		
Outstanding claims provision	151,530,000	172,552,000
IBNER	349,392,000	306,375,000
Total net claims provision	500,922,000	478,927,000

(a) Analysis of movements in outstanding claims provision and IBNER is as follows:

	Gross HK\$	2021 Reinsurers' shares HK\$	Net HK\$	Gross HK\$	2020 Reinsurers' shares HK\$	Net HK\$
Provision for outstanding claims	173,283,000	(731,000)	172,552,000	143,864,000	(2,204,000)	141,660,000
IBNER	306,375,000	-	306,375,000	227,336,000	-	227,336,000
At 1 October	479,658,000	(731,000)	478,927,000	371,200,000	(2,204,000)	368,996,000
Claims paid in the year	(70,697,424)	10,565,725	(60,131,699)	(53,372,005)	8,884,567	(44,487,438)
Provision during the year	92,890,424	(10,763,725)	82,126,699	161,830,005	(7,411,567)	154,418,438
At 30 September	501,851,000	(929,000)	500,922,000	479,658,000	(731,000)	478,927,000
Provision for outstanding claims	152,261,000	(731,000)	151,530,000	173,283,000	(731,000)	172,552,000
IBNER	349,590,000	(198,000)	349,392,000	306,375,000	-	306,375,000
At 30 September	501,851,000	(929,000)	500,922,000	479,658,000	(731,000)	478,927,000

Notes to the Financial Statements

Year ended 30 September 2021

10. OUTSTANDING CLAIMS PROVISION AND CLAIMS PROVISION RECOVERABLE (CONTINUED)

(b) Analysis of movements in claims provision recoverable is as follows:

	Note	2021 HK\$	2020 HK\$
Claims provision recoverable from reinsurers		834,000	834,000
Loss allowance — HIH Group	(i)	(103,000)	(103,000)
Total net claims provision		731,000	731,000

(i) Loss allowance — HIH Group

The movement in the loss allowance — HIH Group during the year is summarised below.

	2021 HK\$	2020 HK\$
At beginning of reporting period	103,000	480,000
Amount written off	—	(377,000)
At end of reporting period	103,000	103,000

11. FINANCIAL ASSETS AT FVPL

	2021 HK\$	2020 HK\$
At fair value		
Financial assets at FVPL		
Mandatorily measured at FVPL		
Unlisted quoted funds	4,508,192,551	4,080,650,180

12. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Notes to the Financial Statements

Year ended 30 September 2021

13. ACCOUNTS AND OTHER RECEIVABLES

	2021 HK\$	2020 HK\$
Contributions receivable	1,516,573	1,524,400
Other receivables	1,910,023	694,334
	3,426,596	2,218,734

The contributions receivable is receivable from law firms in Hong Kong. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all solicitors held out to the public as being in Practice in Hong Kong are required to maintain indemnity with the Fund. The carrying amounts of contributions receivable and other receivables are considered reasonable approximations of their fair values.

No credit period is provided by the Fund and all payments are due by 30 September except in the case of new firms, payments are due on presentation of debit notes.

The contributions receivable represents (i) cheques received by 30 September pending for clearance and (ii) contributions due from ceased firms. All cheques were subsequently cleared in October 2021. The outstanding contributions from ceased firms are regularly reviewed and considered by the Manager. Information about the Fund's exposure to credit risks and loss allowance for accounts and other receivables is included in note 14.2(e).

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to indemnity risk and financial risks because of the nature of its operations and the use of financial instruments in its operating activities.

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules (the "Rules") promulgated under Section 73A(l) of the Hong Kong Legal Practitioners Ordinance, legal practitioners are provided with indemnity against loss arising from claims in respect of civil liability incurred in connection with the practice of the legal practitioners.

14.1 Indemnity risk

The principal risk that the Fund faces is the possibility of the actual claims exceeding the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Under the Rules, the indemnity provided to legal practitioners is subject to a ceiling of HK\$10,000,000 in respect of any one claim for all claims made before 1 October 2019 and HK\$20,000,000 in respect of any one claim for all claims made on or after 1 October 2019, inclusive of the applicable deductibles.

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors, such as:

- Occurrence risk — the possibility that the number of insured events will differ from those expected.
- Severity risk — the possibility that the cost of the events will differ from those expected.
- Development risk — the possibility that changes may occur in the amount of the Fund's obligation at the end of the indemnity period.

The Manager attempts to diversify this risk by entering into reinsurance contracts with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority. To minimise the risk of reinsurer defaults, the Fund has also put in place insolvency insurance cover. The cover insures the Fund against the insolvency of one or more of its reinsurers.

(ii) Sources of uncertainty in the estimation of future claim payments

Claims are indemnified on a claims-made basis. The Fund provides indemnity against losses arising from any claim first made against an indemnified during the indemnity period and notified to the Fund within 60 days of the expiry of the period of indemnity. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not enough reported claims ("IBNER"). There are several variables that affect the amount and timing of cash flows from the indemnity liabilities. These mainly relate to the inherent risks of the business activities carried out by individual legal practitioners and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the other recoveries. The Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The indemnity liabilities comprise a provision for IBNER and a provision for reported claims not yet paid at the end of the reporting period. The amount of claims is particularly sensitive to the level of court awards and to the development of legal precedent on similar matters and tort.

In calculating the estimated cost of unpaid claims, the Fund's estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of claims and contributions earned in a particular indemnity year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as contribution rate changes, anticipated market experience and historical claims inflation.

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(ii) Sources of uncertainty in the estimation of future claim payments (Continued)

The estimation of IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where information about the claim event is available. IBNER claims may not be apparent to the insured until many years after the event that gave rise to the claims has happened.

(iii) Sensitivity analysis

The purpose of the sensitivity analysis is to assess the relative importance of key factors used in the net of reinsurance actuarial valuation of outstanding claims of the Fund as at the end of reporting period. In this context, the outstanding claim liabilities include a risk margin.

The key factors considered in the sensitivity analysis of the claim liabilities include:

- an increase or decrease of 5% in the average claims cost per claim (2020: N/A*);
- an increase or decrease of 5% in the claims handling expense (2020: 5%); and
- an increase or decrease of 5% in the risk margin (2020: 5%).

* Average claims cost per claim was not considered in the sensitivity analysis of the claim liabilities as at 31 September 2020.

The sensitivity values shown for each factor are independent of changes to other factors. In practice, a combination of adverse and favourable changes could occur.

The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

The sensitivity of net claims liability to changes in the following factors is:

	2021 HK\$'000	2020 HK\$'000
Increase (decrease) in net outstanding claims and decrease (increase) in profit after tax and equity by:		
— as a result of 5% increase (decrease) in average claims cost per claim*	18,540	Not applicable
— as a result of 5% increase (decrease) in claims handling expense	2,257	2,660
— as a result of 5% increase (decrease) in risk margin	4,365	3,547

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(iv) Loss development triangle

The development of claims over a period of time on a gross and net basis is shown below in form of tables. The tables show the cumulative incurred claims, including both notified and IBNER claims, for each successive indemnity year at the end of each reporting period, together with cumulative claim payments as at the end of current reporting period.

Gross claims – 2021

	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	Total HK\$'000
Indemnity Year	85,978	105,675	109,550	109,512	111,686	
One year later	64,268	82,593	73,520	107,539		
Two years later	66,185	83,003	74,246			
Three years later	84,308	66,324				
Four years later	63,652					
Current estimate of cumulative gross claims	63,652	66,324	74,246	107,539	111,686	423,447
Cumulative gross payments to date	(54,939)	(45,000)	(19,857)	(21,956)	(5,135)	(146,887)
Sub-total	8,713	21,324	54,389	85,583	106,551	276,560
Gross claims in respect of years prior to 2017						92,653
Unallocated claims handling expenses and risk margin						132,638
Total gross claims liability						501,851

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(iv) Loss development triangle (Continued)

Net claims – 2021

	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	Total HK\$'000
Indemnity Year	85,978	105,675	109,550	109,512	111,686	
One year later	64,268	82,593	73,520	107,539		
Two years later	66,185	83,003	74,246			
Three years later	84,308	66,324				
Four years later	63,652					
Current estimate of cumulative net claims	63,652	66,324	74,246	107,539	111,686	423,447
Cumulative net payments to date	(54,939)	(45,000)	(19,857)	(21,956)	(5,135)	(146,887)
Sub-total	8,713	21,324	54,389	85,583	106,551	276,560
Net claims in respect of years prior to 2017						91,921
Unallocated claims handling expenses and risk margin						132,441
Total net claims liability						500,922

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(iv) Loss development triangle (Continued)

Gross claims – 2020

	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	Total HK\$'000
Indemnity Year	82,530	85,978	105,675	109,550	109,512	
One year later	67,271	64,268	82,593	73,520		
Two years later	50,074	66,185	83,003			
Three years later	46,207	84,308				
Four years later	81,013					
Current estimate of cumulative gross claims	81,013	84,308	83,003	73,520	109,512	431,356
Cumulative gross payments to date	(40,482)	(39,157)	(42,763)	(14,645)	(2,892)	(139,939)
Sub-total	40,531	45,151	40,240	58,875	106,620	291,417
Gross claims in respect of years prior to 2016						64,075
Unallocated claims handling expenses and risk margin						124,166
Total gross claims liability						479,658

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.1 Indemnity risk (Continued)

(iv) Loss development triangle (Continued)

Net claims – 2020

	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	Total HK\$'000
Indemnity Year	82,530	85,978	105,674	109,550	109,512	
One year later	67,271	64,269	82,593	73,520		
Two years later	50,074	66,185	83,003			
Three years later	46,207	84,308				
Four years later	81,013					
Current estimate of cumulative net claims	81,013	84,308	83,003	73,520	109,512	431,356
Cumulative net payments to date	(40,482)	(39,157)	(42,763)	(14,645)	(2,892)	(139,939)
Sub-total	40,531	45,151	40,240	58,875	106,620	291,417
Net claims in respect of years prior to 2016						63,344
Unallocated claims handling expenses and risk margin						124,166
Total net claims liability						478,927

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.2 Financial risk

The financial risks to which the Fund is exposed include market risk (including foreign currency risk, interest risk and other price risk), liquidity risk and credit risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Manager appointed six investment managers who operate independently of each other. Two of the investment managers offer equity pooled funds which the Fund has invested in since November 2011. One of the investment managers offers mixed pooled fund which the Fund has invested in since November 2017. The remaining managers offer fixed income securities pooled funds which the Fund has invested in since January 2020. The Fund adopts a conservative investment strategy to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at FVPL which are primarily denominated in United States Dollars ("USD"). As HKD is closely pegged with USD, the currency risk in this respect is considered not significant.

The Fund does not hedge its foreign currency risks. However, the Manager monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

Exchange differences arising from financial assets at FVPL are classified as change in fair value of financial assets at FVPL.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to monitor the risk undertaken.

At 30 September 2021, it is estimated that a general increase/decrease of 50 basis points (2020: 50 basis points) in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$1,480,000 (2020: HK\$772,000). The increase/decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.2 Financial risk (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of unlisted quoted funds in respect of its investments in unlisted quoted funds classified as financial assets at FVPL.

As at 30 September 2021, if there had been a 12% (2020: 5%) increase/decrease in market value of unlisted quoted funds while all other variables were held constant, the Fund's surplus would be increased/decreased by approximately HK\$540,983,000 (2020: HK\$204,033,000) due to changes in fair value of financial assets at FVPL.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to market price risk in existence at that date. It is also assumed that the fair values of the Fund's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables. The stated changes represent Manager's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the end of next annual reporting period.

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

(e) Credit risk

The carrying amount of financial assets, except for financial assets at FVPL, recorded in the financial statements, which is net of impairment losses, best represents the Fund's maximum exposure to credit risk without taking into account the value of any collateral obtained or other credit enhancements.

There was no change in the estimation techniques or significant assumptions made during the year.

Notes to the Financial Statements

Year ended 30 September 2021

14. INDEMNITY AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

14.2 Financial risk (Continued)

(e) Credit risk (Continued)

Contributions receivable and claims provision recoverable

Credit risk is the risk that a counterparty in a transaction may default. It arises from the credit terms extended to reinsurers, law firms with cheque payments pending clearance and other activities undertaken by the Fund. To manage credit risk, receivable balances are monitored on an ongoing basis with the result that the Fund's exposure to bad debts is not significant. The Fund's exposure to credit risk is influenced by the individual characteristics of each legal practitioner and reinsurer. The Manager has a policy in place for the selection of its reinsurers. Reinsurance of the Fund is placed with respectable reinsurers and insolvency covers are also arranged in case of default from these reinsurers. As a result, except for the claims provision recoverable from HIH Group which was fully impaired as mentioned in note 10(b)(i), the Manager considers that the Fund's exposure to credit risk associated with the claims provision recoverable is not significant. The Fund has no significant concentration of credit risk relating to the contribution receivable with exposure spreading over a number of legal practitioners.

Amount due from HKSIFL

The Manager considers the amount due from HKSIFL is subject to low credit risk and the ECL of this receivable is insignificant after taking into account the financial position and credit quality of the counterparty.

Cash at bank

Cash at bank are placed at financial institutions that have sound credit rating and the Manager considers they do not have significant credit risk.

15. FAIR VALUE MEASUREMENT

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 (lowest level): unobservable inputs for the asset or liability.

Notes to the Financial Statements

Year ended 30 September 2021

15. FAIR VALUE MEASUREMENT (CONTINUED)

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2021

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at FVPL:				
Unlisted quoted funds	4,508,192,551	–	–	4,508,192,551

2020

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at FVPL:				
Unlisted quoted funds	4,080,650,180	–	–	4,080,650,180

During the years ended 30 September 2021 and 2020, there were no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

The fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

16. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager will actively and regularly review the Fund's overall financial position and recommend to the Council of the Law Society whether the contributions for the next indemnity year should be revised. No changes were made in the objectives, policies or processes during the years ended 30 September 2021 and 2020.

Notes to the Financial Statements

Year ended 30 September 2021

17. CASH GENERATED FROM OPERATIONS

	2021 HK\$	2020 HK\$
Surplus before income tax	391,996,460	284,093,143
Net fair value gain of financial assets at FVPL	(454,062,371)	(179,536,433)
Gain on derecognition of debt securities at FVOCI	-	(60,899,398)
Loss (Gain) on disposal of financial assets at FVPL	267,000	(35,395,452)
Interest income	(32,508)	(13,374,122)
Dividend income from financial assets at FVPL	-	(1,190,743)
Changes in working capital:		
(Increase) Decrease in claims provision recoverable	(198,000)	1,473,000
(Increase) Decrease in amount due from HKSIFL	(106,273)	216,734
(Increase) Decrease in accounts and other receivables	(1,207,862)	583,837
(Increase) Decrease in prepayments	(71,425,000)	71,425,000
Increase in outstanding claims provision	22,193,000	108,458,000
Increase (Decrease) in contract liabilities	227,322,230	(130,732,377)
Increase (Decrease) in contributions refundable	582,443	(848,188)
Decrease in accrued charges and other payables	(26,275)	(12,390)
Cash generated from operations	115,302,844	44,260,611

18. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$13,141,710 (2020: HK\$13,399,585) payable to the Manager.

19. CONTINGENT ASSETS

	2021 HK\$	2020 HK\$
Profit commissions from reinsurers	203,800,000	179,200,000

The profit commissions relate to the Stop Loss reinsurance programs covering (i) the indemnity years during the period from 1 October 2013 to 30 September 2018 of HK\$130,000,000 (2020: HK\$130,000,000) and (ii) the indemnity years during the period from 1 October 2018 to 30 September 2023 of HK\$73,800,000 (2020: HK\$49,200,000). The conditions for the determination of the amount of profit commission receivable from the reinsurers shall be concluded on 30 September 2022 and 30 September 2027 for the two reinsurance programs respectively. The profit commission income for these indemnity years and the corresponding assets have not been recognised.



HONG KONG SOLICITORS
INDEMNITY FUND LIMITED

LETTER OF UNDERTAKING

To: The Law Society of Hong Kong
3/F., Wing On House
71 Des Voeux Road
Central
Hong Kong

**RE : ACCEPTANCE OF APPOINTMENT AS PANEL SOLICITORS TO
THE PROFESSIONAL INDEMNITY SCHEME ("THE SCHEME")**

We, _____, confirm that there is no conflict of interest for us to act under the Scheme and accept the Law Society's appointment of our firm to be Panel Solicitors.

We undertake that:-

- (a) we will not accept instructions to act for any person, firm or company in making a claim against a solicitor which claim may result in such solicitor seeking an indemnity from Hong Kong Solicitors Indemnity Fund Ltd. or the Professional Indemnity Scheme and/or the Solicitors Indemnity Fund; and
- (b) we will abide by the Guide for Panel Solicitors Working Under the Professional Indemnity Scheme and any guidelines promulgated by the Law Society and/or the Manager of the Scheme in the future.

Name of Senior Partner: _____

Signature of Senior Partner: _____

Name of Firm:

Dated this ____ day of _____ 2022

The Law Society of Hong Kong

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