

Vicky Purtil

Director of Authorisation and Supervision
CILEx Regulation Limited (CRL)
Kempston Manor, Manor Drive
Kempston, Bedford
MK42 7AB

Dear Vicky

Proposed Interim Compensation Scheme: Maximum Grants vs Fund Required

Thank you for asking me to provide an opinion in the above matter for your Members' consultation document.

Scope of Instructions

The scope of my instructions was as follows:

1. Review the claims/risk experience of The Current Scheme
2. Review the proposed design of The Interim Scheme
3. Review available comparator data/Schemes etc, commenting on comparability

And hence advise on:

- **Revised maximum discretionary grants under the proposed Interim arrangements**
- **What your minimum viable compensation fund should be**

Work Carried Out

I have reviewed the Scheme Rules, (anonymised) detailed individual Firm data, published comparator claims data for similar Schemes and the most recent insurance premium quote (and policy wording) for the current Scheme. I then independently constructed a financial model of the expected claims experience of the Interim Scheme based on my experience of similar Schemes and extensive knowledge of insurers' pricing methods. I understand the following key constraints apply to claims made under both the current and Interim Schemes:

- Key Rule: **grants only made if funds available**
- Key Eligibility: **claimant must have incurred loss, due to member dishonesty, no other means of redress, in hardship**

Significant Uncertainties

In forming my opinion, I have considered the significant uncertainties arising from the following:

- **CILEx's Regulated membership base (covered by the Compensation Scheme) is very small and unique:**
 - Very low exposure (c100 solicitors pa), mostly in low risk categories, mostly 1-2 partner firms
 - High incentive not to be dishonest: 'intervention' (personal costs)/SDT (Solicitors' Disciplinary Tribunal) referral/strike off
 - Very low potential claim frequency, very high potential claim severity (size), very short potential interim Scheme life
 - Very high barriers for claimant: eg must have incurred loss, due to dishonesty, no other means of redress, in hardship
 - No claims to date on current Scheme, no Firm 'interventions', no known risk issues
 - Risk profile/exposures in small schemes can change drastically year-on-year (eg new large Firms authorised/de-authorised)

Overall Opinion

- The Interim Scheme design needs to cap claims for both claimants and the Fund, with my suggestion as follows:
 - **Overall Caps: £250k per individual / £250k per firm / £250k per year** (currently: at least £500k)
 - **Caps by Claim Type: £250k probate & conveyancing / £10k all other claim types** (currently: no distinction)
 - **Same Rules and Eligibility Criteria to apply**
 - **Minimum Viable Fund: £250k**

In my opinion, given the significant uncertainties, the Interim Scheme and associated initial fund is expected to be viable and meet all claims in full over the next 6-12m, in all but the most extreme scenarios, meeting the overall current Scheme philosophy at an affordable cost.

The minimum viable Fund (£250k) has been set at a level to meet all claims in full in a reasonable, but not catastrophic (worst case) stress-test. This builds an initial contingency fund, which could be released over time (eg following further actuarial advice) as more data is collected / any claims emerge etc. It also:

- not only gives short-term viability but also enables longer-term operation, if needed, with minimal change/effort
- is easy to explain (without complex/spurious statistics) as 'expected 25-year claim cost' (based on current risk profile)
- is conservative and consistent with published high-level comparator data and implied insurer pricing
- meets public perception (public interest/claimant security) that 'fully funded for the benefits promised'

Given the unique, very small and relatively low risk profile of CILEx's Regulated membership base, it is perfectly possible to have zero claims (the current Scheme's experience since inception) by the end of the 12m interim period.

Yours sincerely

John Birkenhead