

PROFESSIONAL & FINANCIAL RISKS

New law firm application

Guidance notes for presenting your submission to the Solicitors Regulation Authority and insurers



Miller



Compliance Office.

The process of becoming a law firm can seem daunting, especially when preparing your submission to the Solicitors Regulation Authority (SRA) and trying to get professional indemnity insurance (PII).

This guide has been created to help you understand the authorisation process and provide you with the information you need to create a clear and concise submission.

Miller Insurance Services LLP (Miller) is an independent and specialist broker, and market leader in the provision of solicitors' PII. We have a dedicated team who assist new law firms in obtaining a PII quotation, which is a requirement of the SRA application process. Utilising our broad market access and specialist knowledge, we continue to search the insurance market whilst the new law firm is awaiting SRA approval to ensure we secure the most appropriate cover at a competitive price. Once approved, we work with the new law firm to agree cover and arrange the necessary policy documentation.

The Compliance Office Ltd is a specialist SRA consultancy that provides advice and support on law firm risk and compliance issues. In addition to project managing the SRA authorisation process for its clients, it also provides outsourced compliance support, anti-money laundering audits, e-learning and more.



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Planning

What is the best way to start planning?

Preparing an outline business plan will help crystallise your thinking about what it is you want to achieve and how you will achieve it. It should, first and foremost, be a helpful planning tool for you. As you develop your plan, you also need to focus on what the SRA and a professional indemnity insurer will want to know about your business and try to incorporate this. To a certain extent, both will be looking for the same type of information. Both will want to know that your business is likely to be financially viable, well managed with good systems, controls and procedures in place and that those providing the services will be competent.

Try not to make your business plan too long or complicated – it should be focused and clearly expressed.

You also need to think about who will undertake key roles, such as the Compliance Officer Legal Practice (COLP), the Compliance Officer Finance and Administration (COFA) and Money Laundering Reporting Officer (MLRO). If you are applying to become a sole practitioner, it is likely you will have to undertake all these roles yourself as they cannot be undertaken by someone who is not part of the firm.

Finally, it also helps to set out on a month-by-month basis your likely first year's expenditure and income. The SRA is always concerned that new firms are going to be viable and will want to be confident that your income will be sufficient to support expenditure, including any loans. Some insurers look further ahead and may request financial forecasts for a three-year period.

Is a business plan required by the SRA?

It is not an absolute requirement, but it may help the application process. If prepared carefully, it can answer many questions that the SRA would raise. To aid this, a section of your business plan should outline your proposals for achieving regulatory compliance. Other information the SRA will be interested to see will depend on the nature of your business and the work your firm will undertake. For example, the SRA particularly likes to know that there will be a business continuity plan in place. If referral arrangements are to be used to generate business, it would help to explain briefly how they will operate to ensure compliance.

AT THE BACK OF THIS GUIDE YOU CAN FIND DETAILED NOTES ON WHAT TO INCLUDE IN YOUR BUSINESS PLAN, WHICH MAY FORM A USEFUL STARTING POINT, AS WELL AS A DRAFT CASH FLOW FORECAST THAT CAN BE USED AS A TEMPLATE.

Form completion

What forms do I need to complete and how do I access them?

All SRA application forms can be accessed through your online 'mySRA' account.

FA1

This is the form that provides details of the firm seeking authorisation. The same form applies whether you are planning to be a sole practice, a recognised body or a licensed body (ABS).

FA2

This must be completed by all the individuals who need approval – e.g. COLP and COFA. Note that for small firms it may not be necessary to complete this form as, in certain circumstances, your COLP and COFA are deemed approved (see page 9).

FA3

This must be completed where the firm will have an entity 'manager' (a Partner/Director/Member) or shareholder that requires approval if it is not an SRA-regulated entity.

FA8

This must be completed by those applicants proposing to offer financial services and the information is used by the SRA to notify the FCA.

FA10

The SRA is required by the government to collect information under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 about the firms it regulates. The information provided is used to approve the applicant firm to carry out work within the scope of the MLRs.

WHERE CAN I GET FURTHER HELP TO COMPLETE THE REQUIRED FORMS?

The Compliance Office works with many lawyers and investors on the authorisation of new law firms. Its consultants are experts in managing this process from start to finish.

For further guidance visit www.complianceoffice.co.uk or call 01789 868 444

Office manual

Will the SRA want to see my office manual as part of my application?

No – but to prepare your business plan properly you will need to have clarity over required processes. The SRA may ask some specific questions about your compliance arrangements. For example, if you have indicated that much of your business will come through referrals from a claims management company, the SRA may ask you to explain how you will ensure compliance with the Code of Conduct and the LASPO (Legal Aid, Sentencing and Punishment of Offenders Act 2012).

Where can I get help in preparing an office manual?

The Compliance Office's law firm manual is perfect for ensuring that your firm meets the SRA's obligation to have effective risk and compliance systems in place. Its comprehensive editable policies, procedures and logs provide a cost-effective toolkit for achieving firm-wide compliance with the SRA's Standards and Regulations.

Alternatively, one of the Compliance Office's consultants can help you to prepare a bespoke office manual for your firm.

FOR MORE INFORMATION SEE

www.complianceoffice.co.uk/templates



Approved persons

COLPs and COFAs: are they deemed approved?

All compliance officers must be approved as suitable by the SRA. However, a practising lawyer who meets certain requirements is deemed to be approved and therefore does not need to seek approval to hold those roles.

01

You must be a lawyer who is a manager of your firm;

02

Your firm must have a turnover of not more than £600,000;

03

You must not be subject to any regulatory investigation or finding;

04

You must not be a compliance officer for any other authorised body.

For new firm applications, this means that any prospective COLP or COFA wanting to take advantage of the deeming provisions does not need to complete form FA2 – but they must be nominated as the COLP or COFA on form FA1 and in the appropriate drop down box you need to indicate that they meet the deeming criteria.

A COFA does not have to be a lawyer. This role is often held by an accountant or an individual who has a background in financial management, and they will always have to apply to be approved using form FA2. Bear in mind that both of the compliance officer roles must be held by either a Partner/Member/Director or employee of the firm (whether full time or part time), therefore you cannot nominate an accountant outside of your practice who advises you in a professional capacity.

I am not planning to hold client money; do I still need a COFA?

Yes – the COFA is expected to have a role which encompasses all aspects of the firm's financial management. If you do not propose to handle client money, the SRA will want to know how you will avoid doing so.

Questions they may raise could include how you intend to bill your clients and how you will deal with professional disbursements.

Professional indemnity insurance (PII)

How do I apply for a PII quote?

As part of your submission, you must present a quotation for PII – this is where Miller can help you. There are four key elements that are required when making an application for PII:

01 THE PROPOSAL FORM

02 BUSINESS PLAN

03 CASH FLOW FORECAST

04 CV(S)

The proposal form contains the key information about your risk. It will ask you at this stage to predict the type and amount of work you will be doing. From the information you provide, the insurer will use their own unique rating matrix to calculate your insurance premium.

The Miller proposal form has been specifically developed to show underwriters your predictions, together with an indication of how you will run the business. As mentioned on page 4 of this guide, a business plan is required as part of your PII submission and it is this document that gives you the opportunity to explain the risks associated with the area of work you will be undertaking and how you plan to mitigate them.

THE MILLER PROPOSAL FORM CAN BE OBTAINED FROM

www.miller-insurance.com/solicitors_quote

The guidance notes on what should be included in your business plan on page 14 were produced by an experienced PII underwriter so although it is relatively basic, it is good structure to follow.

The cash flow forecast is important to show that you have the means to support the business in its embryonic stage. Under the SRA Minimum Terms that govern the PII rules, an insurer has to cover you for six years should the business fail, even if the premium is not paid and also has to cover any excesses payable even if the firm does not. So it follows that the financial viability of the firm can be just as crucial as the way the firm is risk managed.

Finally, you will need to show insurers CVs for the main partners and fee earners. This is to demonstrate the suitable experience and PQE of its key people, not only in Law but also with business management. Underwriters would normally want to see at least three years PQE for a Sole Principal and Partners/ Members/Directors.

Once all the documents have been produced and checked (remember the quality of the presentation is crucial) forward these to solicitors@miller-insurance.com, where one of our dedicated team will review your documentation prior to it being sent out to market.

What is the process for obtaining a PII quote?

01

PROPOSAL FORM REVIEW

We will review your submission prior to approaching insurers for accuracy and advise you on any gaps.

02

APPROACH INSURERS

We will start to approach insurers for your proposed firm's profile. Remember not all insurers cover start-ups, nor does every insurer cover every type of legal work.

03

FIRST QUOTE RECEIVED

Once we receive the first quote, we will confirm to you in writing, so that you can progress your SRA application.

04

FURTHER QUOTES OBTAINED

Whilst your application progresses, we will continue to seek further quotes so that when you receive SRA approval and need to place cover, you have as wide a choice as possible.

05

SRA APPROVAL

Once your application with the SRA is approved, you will need to review the quotations we have supplied.

06

QUOTE ACCEPTANCE

Following a review of all the quotations, let us know which you prefer and we will prepare the policy wording and insurance certificate and send these out to you.



miller

SRA fees and decision process

How much does the SRA charge for handling applications?

The application fee for a sole practitioner or recognised body law firm is £200. The fee for a licensed body (ABS) application is £2,000 plus £150 for each individual and entity requiring approval.

FURTHER INFORMATION ABOUT THE SRA'S APPLICATION

fees can be accessed at www.sra.org.uk/mysra/fees

How long will it take the SRA to make a decision after the application is submitted?

This is difficult to answer as it depends on the complexity of the application or on whether there are aspects of the application that cause the SRA concern. As a very rough guide, expect your application to take about three months. The first month after any application is submitted is usually taken up with the SRA's due diligence checks on all those seeking approval. Financial checks are done through an external agency and you will be asked to consent to the enquiries being made.

A correctly prepared application, including a good business plan, could speed up the application process because the SRA may need to raise fewer questions.

Checklist

What should be included in the SRA application?

As well as the correctly completed forms, you should also include:

- your business plan
- an offer of insurance from a participating insurer which has not expired on the date of submission to the SRA
- a structure diagram showing all Partners/Members/Directors, as well as shareholders where applicable, and constitutional documents (such as LLP agreements or shareholders agreements)
- a certificate of good standing from the professional body of any non-lawyer professional who is applying for a role requiring approval e.g. an accountant applying to be your COFA. This should be dated within three months at the point of submission to the SRA.

ALL ITEMS MUST BE SUBMITTED ONLINE VIA THE SRA'S MYSRA SYSTEM.

Support

Where can I get help with any other questions?

Please do not hesitate to contact Miller if you have questions in relation to your PII requirements, or the Compliance Office for questions relating to the application process or help with regulatory compliance issues.

OUR CONTACT DETAILS ARE:

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Other insurances

As well as purchasing PII, there are other insurance coverages available for new start-ups that Miller can assist with.

Directors' & officers' liability

We can assist you with protection for those in a managerial capacity, including your COLP & COFA.

Cyber

The common misconception is that only large law firms are at risk, and as a consequence, most firms fail to take the necessary actions to cover their business against cyber criminals.

It's simple. If you handle client money and data, you're an attractive target. More worryingly, most data breaches occur from human error and it happens without their knowledge.

Cyber cover probably costs less than you think. We offer a range of cyber policies for all firms sizes, which includes:

- Emergency response
- Business interruption cover
- Fines & investigations cover
- Electronic data cover
- Protecting your reputation

**IF YOU WOULD LIKE TO KNOW MORE ABOUT THESE POLICIES,
PLEASE EMAIL**

solicitors@miller-insurance.com



Appendices

Draft cash flow forecast

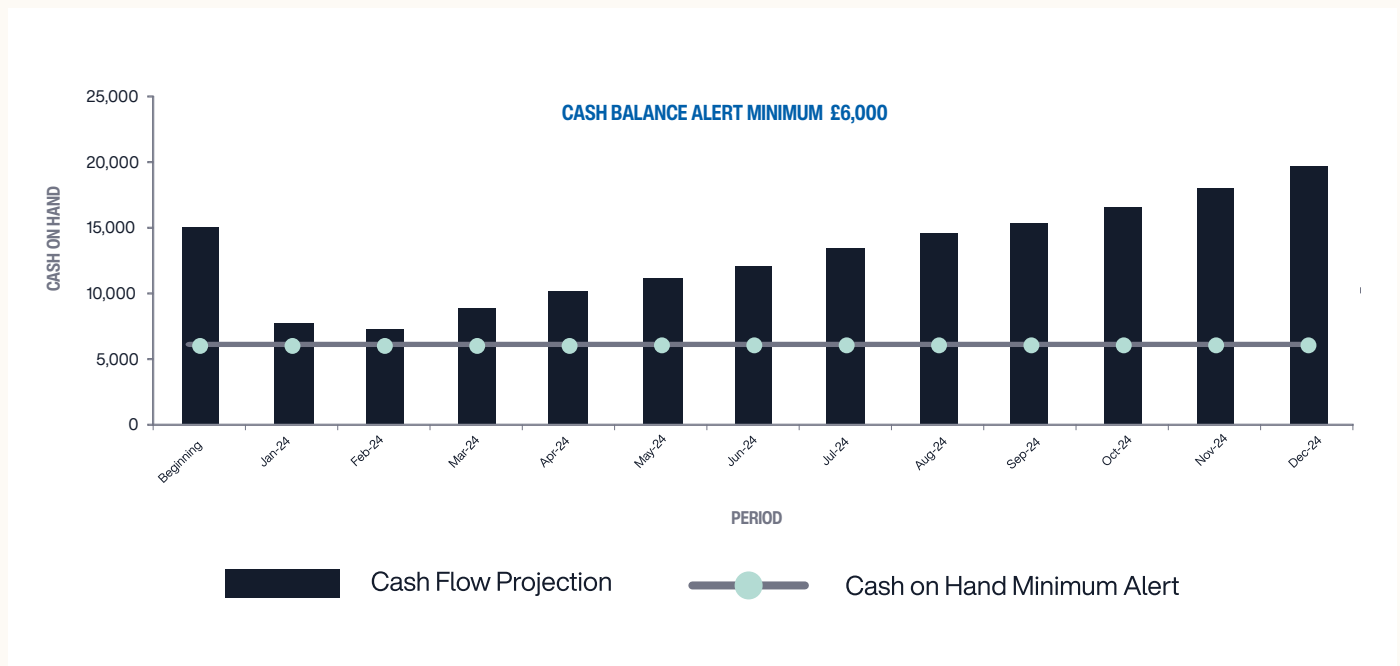
CASH FLOW PROJECTION

ABC Solicitors

Starting date	Jan-24												
Cash balance alert minimum	£6,000												
	Beginning	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Cash on hand (beginning of month)	£15,000	£15,000	£7,680	£7,350	£8,940	£10,295	£11,200	£12,125	£13,425	£14,545	£15,365	£16,565	£18,065
CASH RECEIPTS													
Fees received			£3,200.00	£3,500.00	£3,700.00	£4,000.00	£4,200.00	£4,700.00	£4,700.00	£5,000.00	£5,200.00	£5,700.00	£6,200.00
Returns and allowance													
Collections on accounts receivable													
Interest, other income													
Loan proceeds													
Owner contributions													
Total cash receipts		£0.00	£3,200.00	£3,500.00	£3,700.00	£4,000.00	£4,200.00	£4,700.00	£4,700.00	£5,000.00	£5,200.00	£5,700.00	£6,200.00
Total cash available	£15,000	£15,000.00	£10,880.00	£10,850.00	£12,640.00	£14,295.00	£15,400.00	£16,825.00	£18,125.00	£19,545.00	£20,565.00	£22,265.00	£24,265.00
CASH PAID OUT													
Sundries		£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00
Wages		£300.00	£300.00	£300.00	£400.00	£400.00	£500.00	£600.00	£600.00	£600.00	£750.00	£750.00	£750.00
Rents and Rates		£0.00	£0.00	£0.00	£700.00	£800.00	£800.00	£800.00	£800.00	£800.00	£800.00	£800.00	£800.00
Office Equipment		£1,500.00								£230.00			
Office, Web and Signage		£1,000.00	£200.00							£0.00			
Post, Stationery and Print		£150.00	£160.00	£160.00	£125.00	£125.00	£125.00	£130.00	£130.00	£130.00	£130.00	£130.00	£140.00
Advertising		£400.00	£400.00	£400.00	£400.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00
Bank		£50.00						£50.00					
Electricity				£200.00			£200.00			£200.00		£200.00	
Telephone		£0.00	£250.00			£350.00			£300.00			£300.00	
Mobile Phone		£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00	£20.00
Accountant							£100.00	£200.00	£200.00	£100.00	£200.00	£100.00	£200.00
Insurance PII		£3,000.00											
Training & Books		£200.00		£130.00			£130.00		£130.00				
SRA			£1,500.00	£0.00	£0.00	£0.00	£0.00	£200.00		£200.00	£200.00		£200.00
SUBTOTAL		£6,820.00	£3,030.00	£1,410.00	£1,845.00	£2,095.00	£2,275.00	£2,400.00	£2,580.00	£2,680.00	£2,500.00	£2,700.00	£2,510.00
Loan principal payment													
Capital purchases													
Other startup costs													
To reserve and/or escrow													
Owners' withdrawal		£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00
TOTAL CASH PAID OUT		£7,320.00	£3,530.00	£1,910.00	£2,345.00	£3,095.00	£3,275.00	£3,400.00	£3,580.00	£4,180.00	£4,000.00	£4,200.00	£4,510.00
Cash on hand (end of month)	15,000	£7,680.00	£7,350.00	£8,940.00	£10,295.00	£11,200.00	£12,125.00	£13,425.00	£14,545.00	£15,365.00	£16,565.00	£18,065.00	£19,755.00

CASH FLOW PROJECTION

ABC Solicitors



Business plan – guidance notes

A business plan can be described as a document of your thought processes as you analyse your competition, the market, your operating expenses, management and staffing needs. The business plan should serve various purposes. It is necessary to obtain a quotation. More importantly, it is an analysis of your business that forces you to think about how well it will work.

It is a vital piece of information for underwriters when determining how viable the business proposition is. It is worth speaking to Miller when drafting your plan as they will be able to offer useful insight into what concerns underwriters may have about your proposed areas of practice.



A GOOD BUSINESS PLAN SHOULD INCLUDE THE FOLLOWING INFORMATION:

Executive summary

01

The executive summary should provide the reader with a succinct overview of the entire business plan. The summary should include the purpose of the plan, business details, market analysis, marketing / sales strategy, organisation and personnel and financial data.

These are discussed in more detail below.

Business description

02

This should provide an overview of how all of the elements of your company fit together. In other words, the origins, how's, why's and wherefores of your proposed business.

- Why are you setting this business up?
 - How much experience do you have in your chosen fields?
 - What will be involved in the work you undertake i.e. contentious vs. non-contentious; blue chip companies vs. SME; targeting high net worth individuals vs. high street firm ethos.
 - Your distinctive competencies – primary facts that will lead to your success.
-

Market analysis

03

This section should reflect your knowledge of the industry and present highlights and analysis of your market research.

- Industry description and outlook
 - Target markets – do you have an existing client base or are you starting from scratch?
 - Market test results – potential customers contacted, localities of other firms doing similar
-

Marketing / sales strategy

04

The objective here is to describe the activities that will allow you to meet the sales / fees indicated in your prospective financial statements.

- Overall marketing strategy
 - Sales strategy
 - 1-year goal; 3-year goal
-

A GOOD BUSINESS PLAN SHOULD INCLUDE THE FOLLOWING INFORMATION:

Organisation and personnel

05

This section must emphasise your management's talent and skills and indicate why they are a part of the company's distinctive advantage that cannot easily be replicated by your competition. In the case of sole practitioner entities, this will need to reflect your talent and skill-set.

- Management staff structure
- Key managers / list of qualified staff and their respective roles
- CVs for all qualified staff members
- Planned additions to the qualified / non-qualified team
- COFA, COLP, MLRO and why they are qualified for these roles

Risk management

06

This section must explain what risks are associated with your proposed area of practice and what steps you propose to implement to successfully mitigate. The amount of detail required in this section will largely depend on the nature of the work to be undertaken. The higher the risk, i.e. conveyancing, the more detail required. Also where the category of work is widely defined, such as commercial or litigation, you need to be specific about the work proposed.

- Onboarding and client section
- Risk assessment process
- Categorisation of risk – high / medium / low
- Processes and procedures
- Case management systems
- KYC obligations
- Money laundering

MILLER HAS A SEPARATE GUIDE ON HOW TO PREPARE A RISK MANAGEMENT SUBMISSION WHICH IS AVAILABLE UPON REQUEST.

Financial data

07

- Current funding requirements – will you be funding this entity yourself, or through a bank loan? How much money will be needed to get the practice off the ground?
 - Use of funds / consideration of overheads – will your practice be based from your home or will you be renting office premises?
 - Funding requirements over the next 1-3 years
 - Historical / prospective financial data (cash flow statements etc)
-

Regulatory compliance

08

The objective here is to demonstrate that you have identified basic policies, systems and procedures to ensure your firm is compliant. The detail required will depend on your size and the type of work you want to do. However, all firms should mention that they will have the following:

- client care policy covering service standards, costs information and complaints handling
 - conflicts checking procedures
 - confidentiality policy/procedures
 - systems and procedures for handling client money
 - anti-money laundering procedures
 - anti-discrimination and equality and diversity policy
 - undertakings policy.
-

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