

Sonia Sheffield  
Solicitors Regulation Authority  
The Cube  
199 Wharfside Street  
Birmingham B1 1RN



17 March 2014

Dear Sonia,

**SRA consultation on the introduction of a minimum financial strength rating requirement for Participating Insurers**

The Panel would like to make a brief response to your consultation and in doing so indicate our support for the introduction of a minimum financial strength rating requirement for Participating Insurers.

We agree that the consequences of unrated insurers exiting the market can leave consumers without financial protection, even when they have legitimate claims. We are also aware that the Financial Services Compensation Scheme (FSCS) and the regulator's own compensation fund will not necessarily cover all claims which could arise if a Participating Insurer exits the market. Given the often long-term nature of claims, where a situation necessitating a claim may not be discovered for a long period of time, it is also important that insurers are stable enough to be able to pay their run-off claims.

These issues are something the Panel had concerns about when we reported on regulators' financial protection arrangements in 2013. Many of the people we interviewed as part of our study viewed the current situation, where insurers do not need to have a minimum financial strength rating, as a high risk to consumers.<sup>1</sup>

We support the SRA's recommendation to introduce a minimum rating set in the 'Bs' for Participating Insurers. This should be set within the 'secure' (and not the 'good') group, and will allow the majority of firms currently insured with an unrated insurer to maintain their cover, provided these insurers do actually obtain a B rating, which seems likely. It is also the option most likely to minimise disruption while maintaining and improving consumer protection, and should therefore have a minimal impact on access to justice.

---

<sup>1</sup> Legal Services Consumer Panel, *Financial Protection Arrangements*, June 2013, pp. 28-29.

We also agree that the ratings should be set by recognised ratings agencies, and that these should be limited to Standard and Poor's, A.M. Best, Fitch and Moody's to begin with, along with the ability for the SRA to add other agencies to the recognised list where this would be beneficial. However, we caution that the European Commission recently introduced legislation to reduce over-reliance on credit ratings agencies, and to reform the structure of such agencies, which it recognises may suffer from conflicts of interest and the absence of liability towards investors.<sup>2</sup>

It is crucial the rating applies to the insurer itself and not to another entity within the wider group, or to reinsurance with rated insurers. The insurer itself needs to have the rating since it is that entity which will be responsible for dealing with any claims.

I hope these brief comments are helpful. Please contact Harriet Gamper, Consumer Panel Associate, with any enquiries.

Yours sincerely



Elisabeth Davies  
Chair

---

<sup>2</sup> European Commission press release, *Stricter rules for credit rating agencies to enter into force*, June 2013.