



Solicitors
Regulation
Authority

Compensation Funds and Consumer Protection

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October 2024

SRA Compensation Fund

- Purpose is to protect consumers and uphold professional standards
- Originally set out in Solicitors Act 1941. Continued and modified by Solicitors Act 1974 and again by Legal Services Act 2007.
- SRA has power to make rules governing operation of the Fund.
- Current Rules are SRA Compensation Fund Rules 2021.

Purpose of the Fund

- To protect consumers of legal services who have lost money due to ethical failures of those we regulate.
- Uphold trust and integrity of the legal profession.
- Does not provide “compensation” in traditional sense – contributes to replacing misused client money.

Holding Client Money

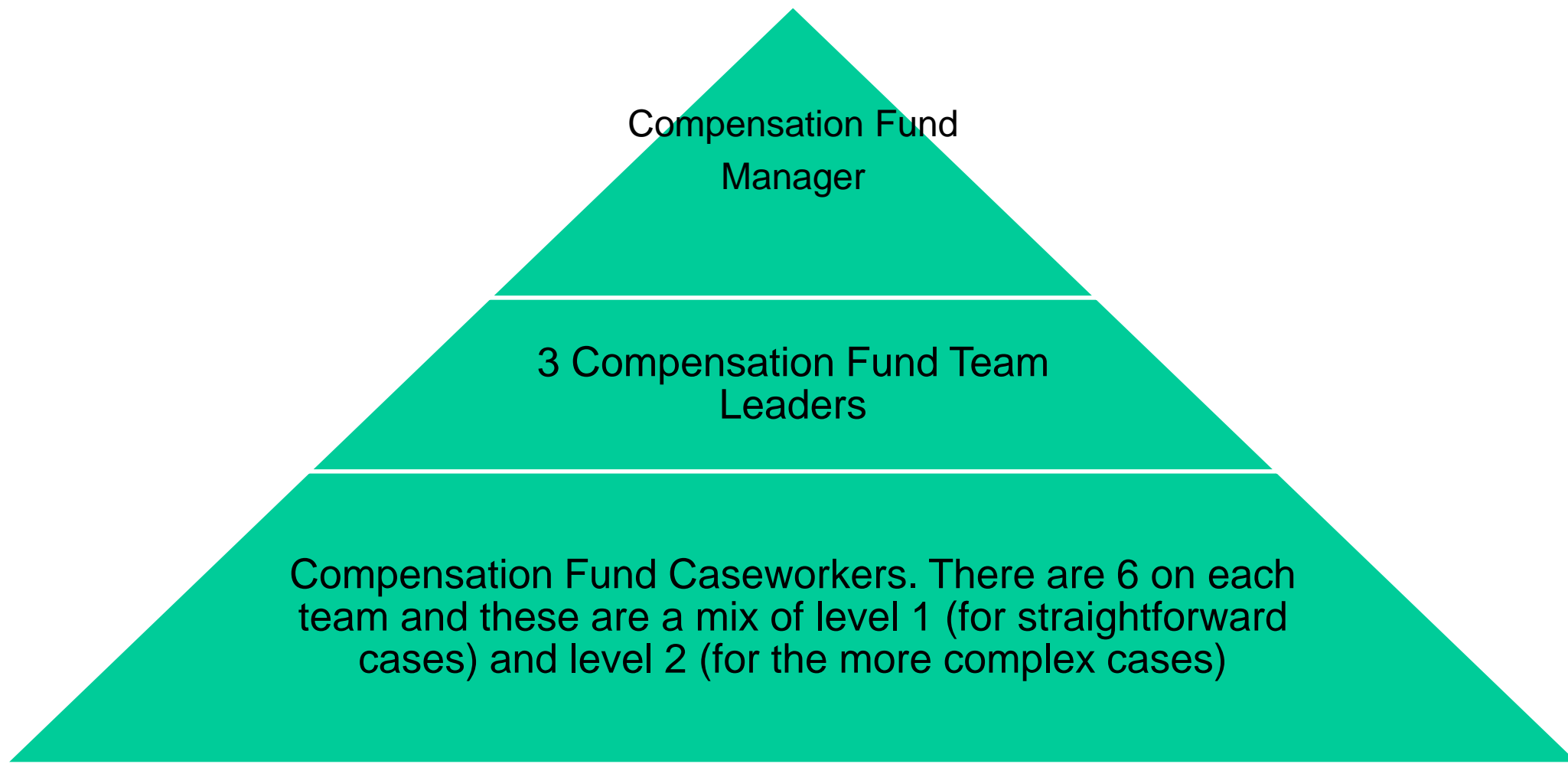
SRA Accounts Rules impose strict requirements, including:

- Held separately from firm's money, in E&W account
- Returned to client promptly
- Missing money must be replaced
- Money for fees may only be transferred after written notification/bill of costs presented
- Mandatory systems and controls around record keeping and reconciliations
- Reporting accountants reports must be obtained (subject to de minimis account holdings) and disclosed to SRA if the report is qualified (material breaches which leave client money at risk).

How the Fund is funded

- Annual levy split 50:50 between regulated individuals and authorised firms which hold client money.
- Levy calculated based on assessment of various factors including - value of current claims, anticipated future claim volumes/value and intervention costs.
- Take account of key principles set by our Board:
 - Maintain viability of Fund
 - Keep contributions manageable
 - Collect contributions in a manageable way
 - Transparency in managing Fund's reserves.

Administering the Fund



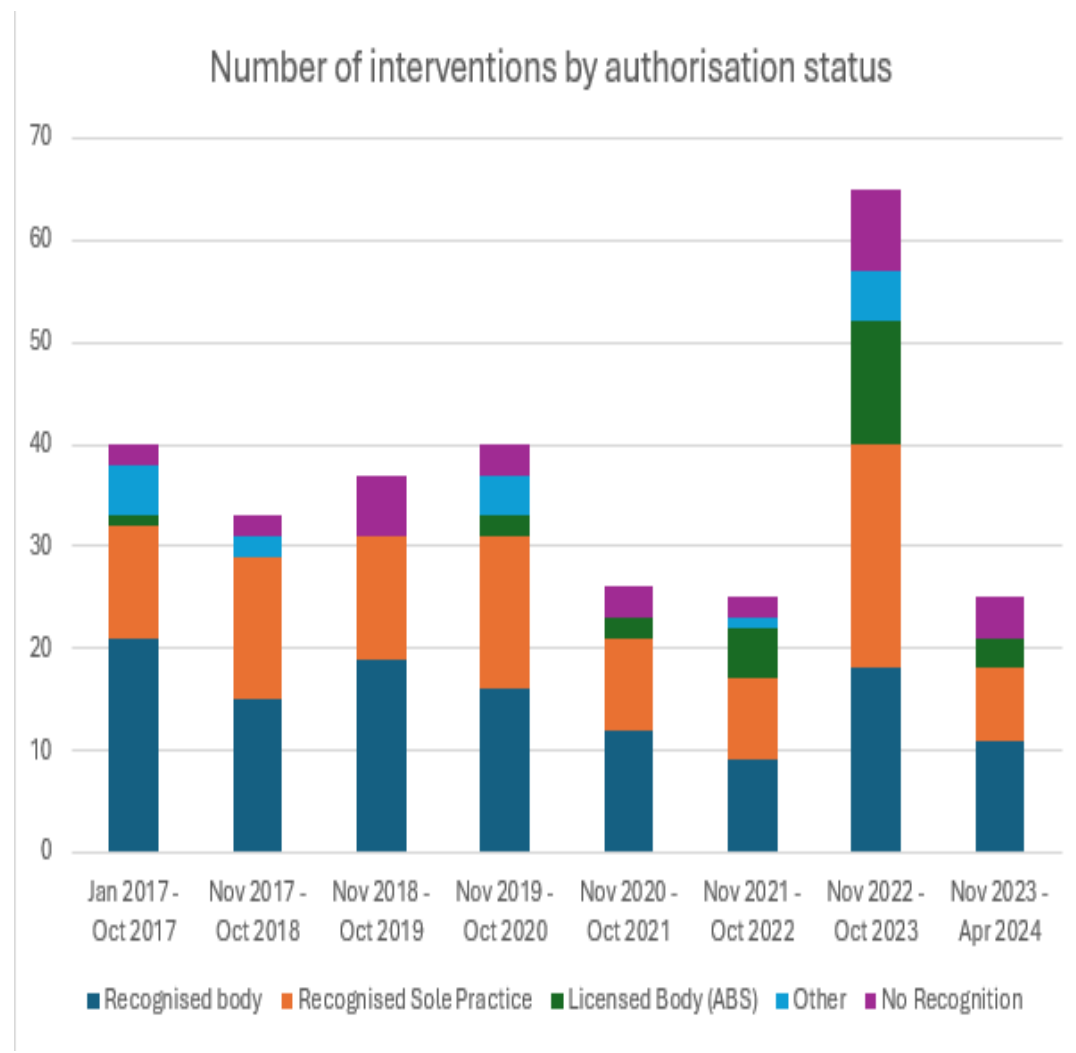
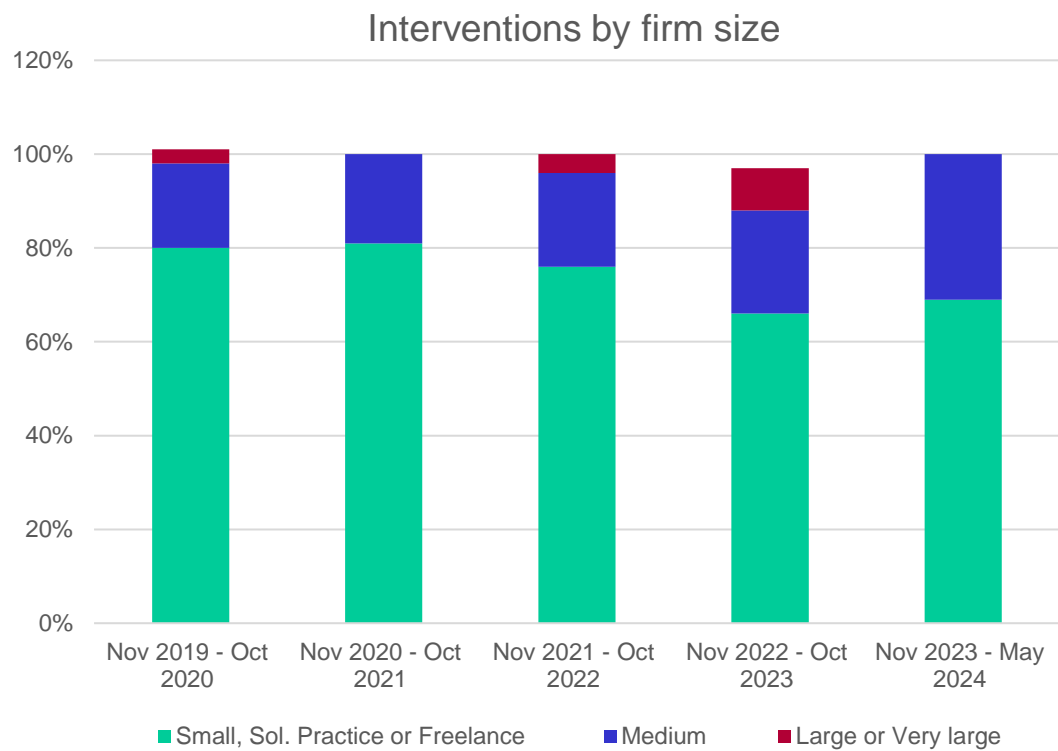
Fund's two stage test

- Is there legal power to make a payment?
 - Loss caused by “defaulting practitioner”
 - The loss is due to dishonesty / failure to account / no PII cover
 - Applicant meets eligibility criteria
 - Matter giving rise to loss was usual business of a regulated entity
 - Do exclusions or cap (£2m per claim, unless exceptional circumstances) apply
- Should we use our discretion to refuse/reduce a payment?
 - Time limit – 12 months unless good reason
 - Are other remedies available? Discretionary fund of last resort.
 - Did applicant cause own loss or was a third party responsible?
 - Multiple claims cap of £5m in certain circumstances

Recent trends and future challenges

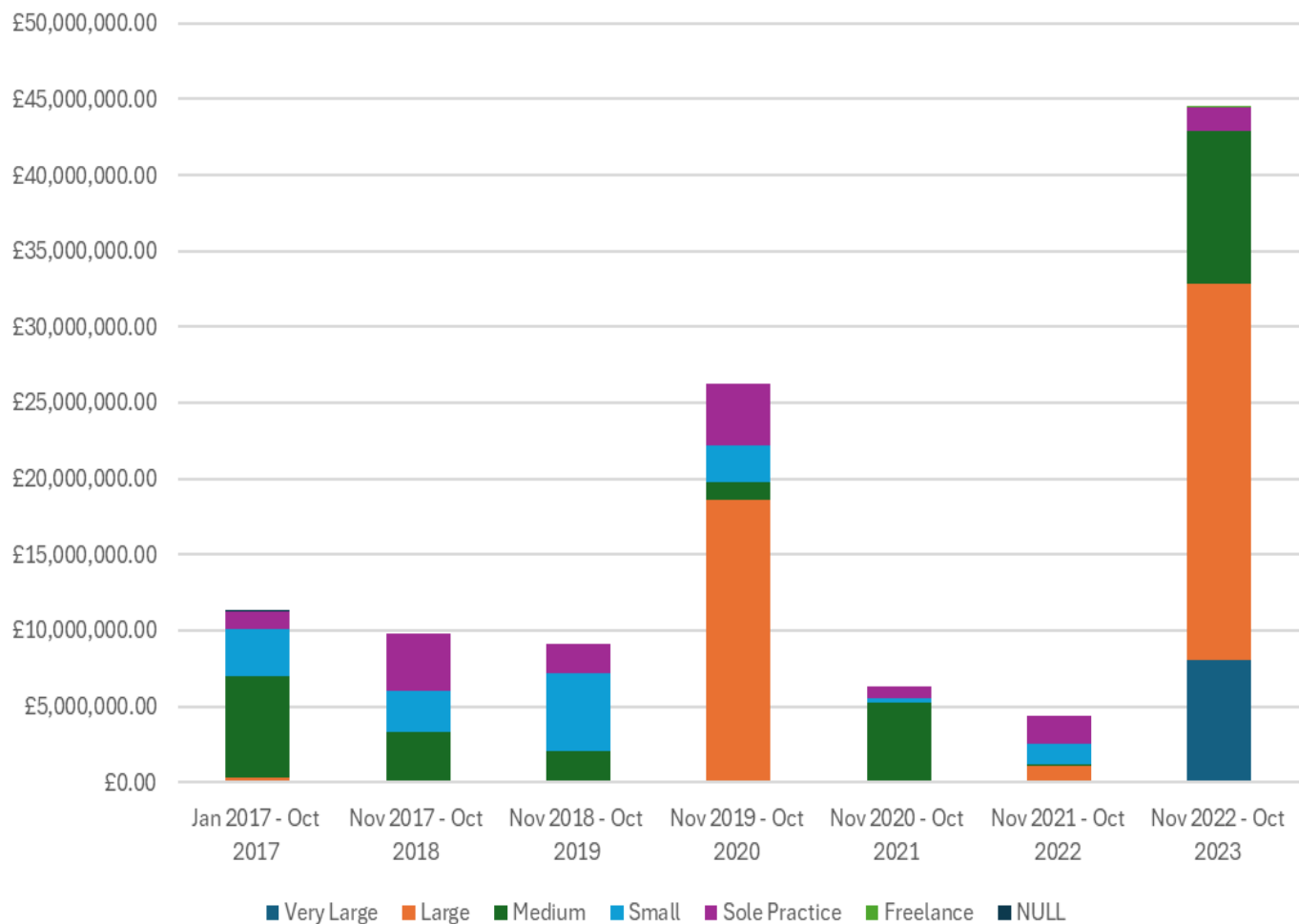
- Trends
 - number of interventions has more than doubled.
 - scale of interventions – we have recently seen several large/significant interventions, including the largest ever potentially misappropriated funds (c£65m).
 - this has raised questions about the appropriateness of the current £5m cap for connected claims.
 - significantly increasing the contributions that solicitors and law firms must pay next year as a result.
- Key challenges
 - ensuring the financial sustainability of the compensation fund and the method by which firms contribute to the fund.
 - The legal market is continuously evolving, with new business models and service delivery methods emerging, in particular increased use of new technology.

Recent trends and future challenges

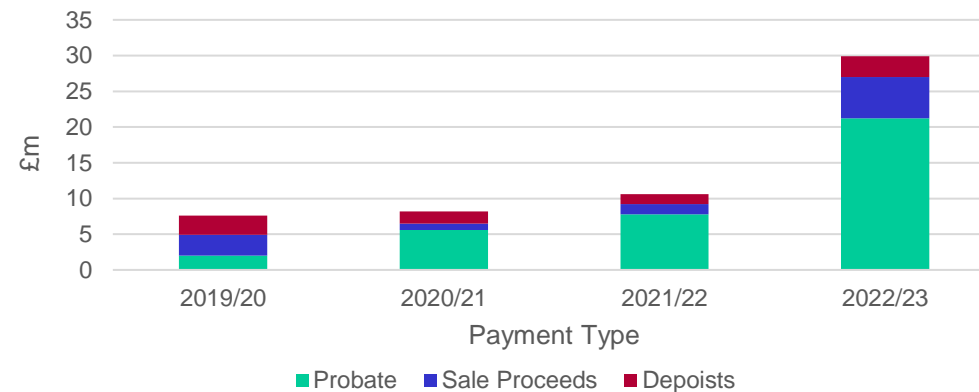


Recent trends and future challenges

Comp Fund Payments by Firm Size



Top 3 Compensation Fund payment types



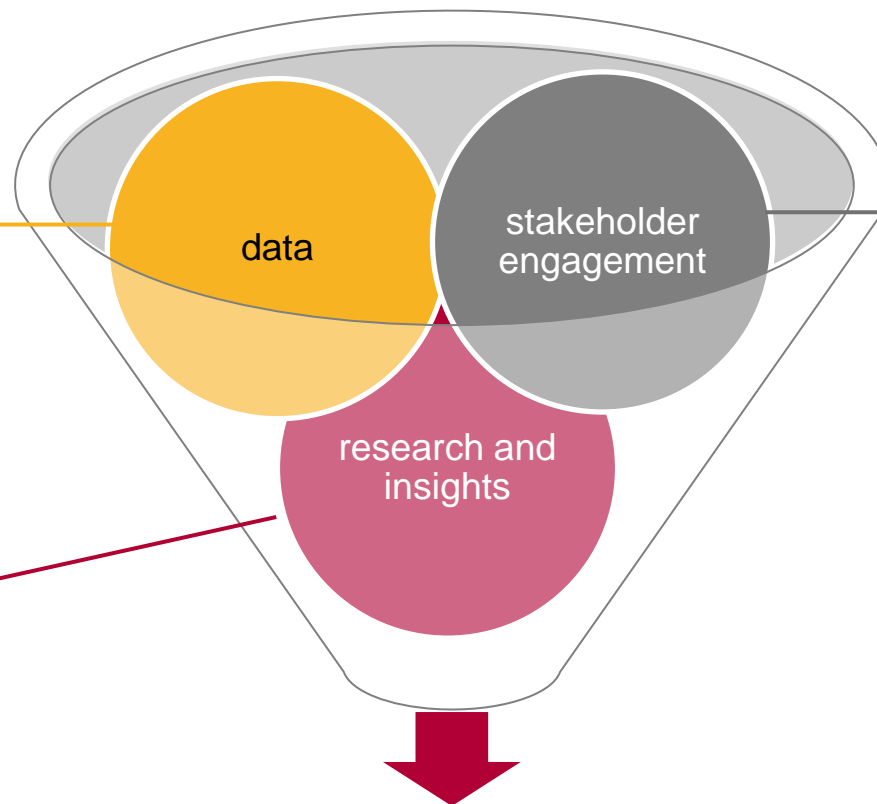
Consumer Protection Review

- Started in February 2024
- A deliberately wide lens, looking at:
 - Managing risks to consumers: holding client money, protections in place
 - The safety net of the compensation fund
- Overall aim of the review to ensure:
 - consumers appropriately protected when using regulated firm
 - public confidence and trust in legal services is maintained
 - competitive, dynamic legal market that supports access to justice through enabling consumer choice while keeping costs of legal services down

The early stages of the review: February to August

- Internal data and analysis
- Thematic review on how firms grow

- What other regulators and jurisdictions do
- Consumer deliberative research



- Roundtables and discussions
- Public focus groups
- Public polling
- Discussion paper responses

1

**How firms hold
client money**

2

**Protecting client
money held by
firms (managing
risk)**

3

**Protecting
consumers through
our Compensation
Fund if firms lose
money**

Research into International approaches



 How client money is held

 How consumer compensation funds are managed

What stakeholders have told us

Diverse range of views on whether and when firms should hold client money and if extra checks are needed

Mixed opinions from the profession whether interest on client accounts should be shared with clients or offset operational costs

Some support for more checks and balances to reduce risk, meaning fewer need the compensation fund

Some scepticism about safety, cost and knowledge of what Third Party Managed Accounts can offer, along with current market capacity

Stakeholder feedback

Newer technologies present opportunities, but solicitors need knowledge, processes and systems in place

Strong support for a universal compensation fund – all deserve to be fully protected regardless of wealth

Some openness to different contribution mechanisms to the compensation fund

A majority of consumers were willing to pay a small amount more for legal services in return for stronger consumer protections

What we will consult on

1

How firms hold client money

- Propose measures to reduce the incentive for firms to hold client money.
- Set out the longer-term question of whether firms should hold client money at all, and whether there are suitable alternative models to the status quo.

2

Protecting client money held by firms

- Propose measures around enhanced checks and balances within firms.
- Consideration of how we can monitor for risks in firms

3

Protecting consumers if firms lose money

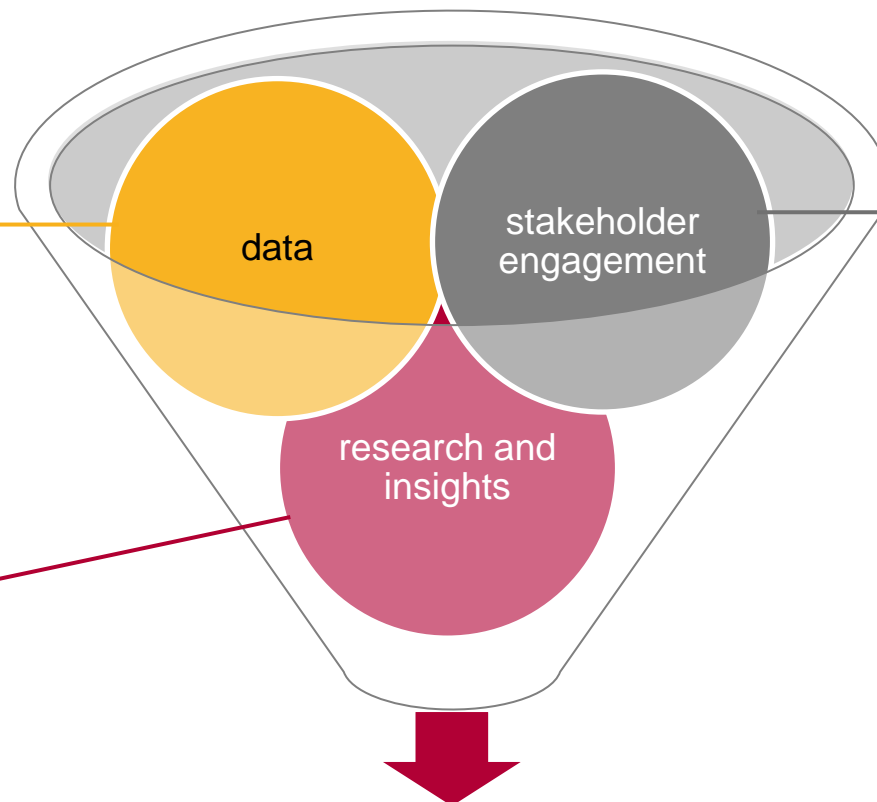
- No significant appetite to change who qualifies for the Compensation Fund, or the individual £2m claim cap.
- Will explore options for the £5m connected claims cap and firm/individual contributions.
- More detailed compensation fund consultation in 2025.

Consultation starts soon for \approx 14 weeks

Next steps for consultation

- Explore gathering additional insights to understand where there may be increased consumer risks
- Insights from calls to customer-facing teams

- Deep-dive into alternative models for holding client money
- 1-2-1 interviews with the profession on consultation topics where group formats wouldn't elicit what we'd like to know



- Roundtables, discussions and focus groups with the profession, consumer groups and consumers
- Social media polls, sli.do
- Consultation paper responses

Consumer protection review in 2025

Further operational priorities /
rule changes

Next steps for client money
work

Compensation fund
consultation

Other consultation(s) tbc