

## Client Protection Annual Report 2022/23

20 December 2024

### About our client protection work

A key part of our role in helping drive confidence and trust in legal services is stepping in where needed to protect clients and the wider public.

An intervention will involve taking away client money and files from a firm's or a solicitor's practice. This is to keep the money and files safe. This will effectively close down the firm or solicitor's practice they will no longer be able to operate. We will do this if we consider that people are at risk of receiving legal services from a dishonest solicitor, or it is otherwise necessary to protect the interests of clients.

And when people entrust their money to solicitors, they need to know that they will be protected from financial loss should things go wrong. For instance, this could be in circumstances where negligence, fraud or other dishonesty occurs, or where a law firm collapses.

We make sure the firms we regulate have professional indemnity insurance so that clients can make claims for losses if a firm has been negligent. We also operate our own financial protection arrangements: the compensation fund can make payments to members of the public and small businesses to replace money taken or improperly used by their solicitor. Usually, people make a claim on the fund after we have intervened into a law firm they were using.

We manage the fund, and law firms and solicitors pay into it through an annual contribution. We look to recover the costs of intervening into firms, and successful claims made on our compensation fund, through a range of avenues, including from a firm's insurers.

### About this report

The report provides data on our work in this area and highlights key trends over a seven-year period. This includes new data for the period November 2022 to October 2023\*. It is part of a suite of reports which [cover our work for the 2022/23 year](https://consultations.sra.org.uk/sra/research-publications/corporate-reports-2022-23/) [https://consultations.sra.org.uk/sra/research-publications/corporate-reports-2022-23/].

The areas it covers are:

- interventions (numbers, reasons and case studies)
- the compensation fund (payments, claims history and why we make payments)
- our consumer protection review
- recovering costs.

This report does not provide detail of our operational performance in this area – that is provided separately through [regular updates to our Board through our balanced scorecard](https://consultations.sra.org.uk/sra/how-we-work/our-board/public-meetings/archive/) [https://consultations.sra.org.uk/sra/how-we-work/our-board/public-meetings/archive/].

\* Please note, our business year is 1 November to 31 October. Unless otherwise stated, the figures relate to 31 October 2023 – the end of the reporting year.

### Summary of key findings

- It appears that the risks in the legal market may be shifting. We have seen a recent change in the number and size of interventions we are carrying out.
- Interventions rose to 65 in 2022/23, more than twice as many as the year before (25). Recent years have also seen us deal with failures at larger firms. This includes our largest ever intervention – into the law firm Axiom Ince – in 2023. This followed more than £60m of clients' money going missing due to a suspected fraud.
- The increase in size of some of our interventions has seen the compensation fund coming under increasing pressure. The total number of compensation fund payments has risen – in 2022/23 these payments were the highest we have paid out in the last seven years, at £41m.
- In this year, around two-thirds of these payments (more than £27m) related to [our intervention into the Metamorph Group of law firms](https://consultations.sra.org.uk/sra/news/press/2023-press-releases/metamorph-information-jan-2023/) [https://consultations.sra.org.uk/sra/news/press/2023-press-releases/metamorph-information-jan-2023/], which took place between December 2022 and January 2023. This work is ongoing – to date (August 2024), we have now paid out more than £31m in claims related to Metamorph, while we have been able to recoup £30.5m from Metamorph's accounts.
- The fund plays a critical role in protecting the public and maintaining trust in the profession. We have been able to steadily reduce contributions to the fund over the last five years, but the trend of increasing claims, driven by recent large interventions, means we need to increase the profession's contributions to the fund. This will allow us to rebuild fund reserves over the next two to three years.
- Considering the shifting risk in the sector, we have also launched [our consumer protection review](https://consultations.sra.org.uk/sra/consultations/discussion-papers/consumer-protection-review/) [https://consultations.sra.org.uk/sra/consultations/discussion-papers/consumer-protection-review/]. It focuses on two main areas – how to reduce the risks that something goes wrong at a regulated law firm which causes harm to consumers, particular in relation to client money, and our compensation fund arrangements. Following extensive engagement on these issues, in November 2024, we [published a consultation](#)



<https://consultations.sra.org.uk/sra/news/press/2024-press-releases/client-money-consultation-october-2024/> on how and when law firms handle client money, and how this money is protected.

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## **Interventions in the past seven years**

The number of interventions has fluctuated over the past seven years, and there has been a large increase in the number of interventions in the past year. We carried out more than twice as many interventions (65) in 2022/23 as the year before (25).

One reason for this could be fall out after the Covid-19 pandemic. Support packages offered during the pandemic provided a short-term financial solution to some firms that were otherwise struggling and could have faced an intervention during this time. After the pandemic, when those firms experienced greater financial difficulty, we have stepped in and carried out an intervention if an orderly closure was not possible. There is also a recent pattern of us having to intervene into larger firms, where the scale of the impact on consumers is much greater. [The section on our consumer protection review has more information on what we are doing to address this issue. \[#heading\\_6de3\]](#)

### **Year Number of interventions**

2016/17	50
2017/18	33
2018/19	37
2019/20	40
2020/21	26
2021/22	25
2022/23	65

## **Reasons for interventions**

There are statutory grounds we refer to when deciding whether to intervene into a solicitor's practice or a firm. We can refer to one or more of them if an intervention takes place. The three most common statutory grounds on which we decide to intervene are: to protect the interests of clients, for serious breaches of our rules and suspected dishonesty.

## **Intervention case study - Axiom Ince**

In August 2023, we intervened into the practice of the sole shareholder of a large law firm, Axiom Ince. We did this after suspecting dishonesty and breaches of our Accounts Rules. As well as closing down their personal practice, we intervened into two of the other directors also working at the firm. We estimated there was more than £60m of client money missing. The nature of the suspected dishonesty was sophisticated and included falsified bank statements and letters.

The missing money meant that it was unlikely that the whole firm would be able to carry on operating in the long term. The firm announced its intention to call in the administrators on 1 October 2023. The firm would no longer be able to deliver legal services effectively to its remaining clients, so we stepped in to protect them, intervening into the firm on 3 October 2023.

[We had also referred the issue to the relevant law enforcement agencies, and the SFO is running an investigation and has made arrests](#) <https://consultations.sra.org.uk/sra/news/press/2023-press-releases/axiom-ince-intervention-and-impacts/>. We have been liaising with the SFO as it progresses its investigation. We have agreed with the SFO to pause our investigation on this matter until it has completed its investigation. We had already taken action to protect the public in the interim by restricting the practice of key individuals.

This was our largest ever intervention and we continue to deal with its impacts. We continue to work through the claims made to our compensation fund, making payments to individuals and businesses who have lost their money.

The scale of the intervention and money lost – alongside more and larger interventions in recent years – has raised questions about the issue of consumer protection and the role of the compensation fund, which is funded by the contributions of solicitors and law firms. [In early 2024, we announced our consumer protection review, which is considering a range of issues.](#) <https://consultations.sra.org.uk/home/hot-topics/consumer-protection-review/> These include whether we can improve how we spot risks, whether we have the right checks and balances in place to protect client money, and the compensation fund. Following extensive engagement on these issues, in November 2024, we [published a consultation](#) <https://consultations.sra.org.uk/sra/news/press/2024-press-releases/client-money-consultation-october-2024/> on how and when law firms handle client money, and how this money is protected.

The oversight regulator for legal services, the Legal Services Board, has carried out an independent review of the events leading up to the Axiom Ince intervention. It published the results of the review in October 2024, and [we have responded](#) <https://consultations.sra.org.uk/sra/news/press/2024-press-releases/axiom-ince-update-october-2024/>, including emphasising how, in 2023, we quickly identified lessons learned from this case, tightened up

processes and committed to addressing the wider issues the report raises, such as how we can better protect client's money.

## Interventions case study - immigration practices

[In 2023, we acted quickly to intervene into and close down three law firms.](https://consultations.sra.org.uk/sra/news/press/2023-press-releases/three-immigration-firms/)

[\[https://consultations.sra.org.uk/sra/news/press/2023-press-releases/three-immigration-firms/\]](https://consultations.sra.org.uk/sra/news/press/2023-press-releases/three-immigration-firms/) We did this after a news story alleged that three solicitors, each of whom was practising immigration law at their respective firms, had been advising their clients to submit false asylum and human rights claims. They had also been overcharging for work.

After considering the evidence gathered as part of the undercover news story and carrying out our own investigation, we intervened into the firms, effectively closing them down. We did this one week after the news first broke in the media. We intervened on the grounds of suspected dishonesty and a failure to follow our rules. The practising certificates of all three individuals were suspended. We also issued a section 43 order against a non-solicitor working in a fourth law firm. We have referred the solicitors to the Solicitors Disciplinary Tribunal.

## The compensation fund

The compensation fund is a discretionary fund of last resort. It can make payments where money has been taken or not accounted for by someone we regulate. In some circumstances, it can also make payments where a loss should have been covered by a firm's indemnity insurance, but the firm did not have a policy in place.

Law firms and solicitors pay into the compensation fund through an annual contribution. Each year, our Board carefully considers and sets the contribution to the compensation fund that the firms and individuals we regulate must pay. [There are underlying principles on how the contribution levels are set](https://consultations.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/) [\[https://consultations.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/\]](https://consultations.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/):

- the overriding principle will be to maintain the viability of the fund
- we will ensure that the professional contributions to the fund are as manageable as possible for those we regulate
- we will collect the contributions to the fund in a way that is manageable for those we regulate
- we will be transparent about the fund monies and their management.

The contributions fund the payments made, reserves we set aside for future claims, and the costs of handling the claims themselves. This includes the cost of intervening into firms where client money and files are at risk.

After keeping the individual solicitor contribution at £30 and slightly reducing the firm contribution from £690 to £660 in 2023/24, we have increased contributions for 2024/25. Individual contributions will be £90 and firm contributions will be £2,220. This will allow fund reserves significantly impacted by a substantial increase in the number of interventions and volume of claims over the past 18 months to be rebuilt over the next two to three years.

More information can be found in [our announcement on compensation fund contributions for 2024/25.](https://consultations.sra.org.uk/sra/news/press/2024-press-releases/compensation-fund-pc-fees-2024/) [\[https://consultations.sra.org.uk/sra/news/press/2024-press-releases/compensation-fund-pc-fees-2024/\]](https://consultations.sra.org.uk/sra/news/press/2024-press-releases/compensation-fund-pc-fees-2024/)

	<b>Individual solicitor contribution</b>	<b>Firm contribution</b>
<b>2016/17</b>	£32	£548
<b>2017/18</b>	£40	£778
<b>2018/19</b>	£90	£1,680
<b>2019/20</b>	£60	£1,150
<b>2020/21</b>	£50	£950
<b>2021/22</b>	£40	£760
<b>2022/23</b>	£30	£690
<b>2023/24</b>	£30	£660
<b>2024/25</b>	£90	£2,220

## Compensation fund payments in the past seven years

The total payments we make each year depends on several factors, including the number and nature of interventions we have carried out, some of which may have taken place the previous business year, and the value of individual claims.

The payments made in 2022/23 totalled £41m. Around £27.2m of this relates to [our intervention into the Metamorph Group law firms](https://consultations.sra.org.uk/sra/news/press/2023-press-releases/metamorph-information-jan-2023/) [\[https://consultations.sra.org.uk/sra/news/press/2023-press-releases/metamorph-information-jan-2023/\]](https://consultations.sra.org.uk/sra/news/press/2023-press-releases/metamorph-information-jan-2023/), which took place across December 2022 and January 2023. We did this to protect clients' interests. Our work to recompense individuals and businesses who held their money in the Metamorph client account is ongoing. From November 2022 to August 2024, we have paid out more than £31m from the compensation fund, while recouping £30.5m from Metamorph's accounts.

## Number of interventions Total comp fund payments

<b>2016/17</b>	50	£15.2m
<b>2017/18</b>	33	£18.1m
<b>2018/19</b>	37	£7.5m
<b>2019/20</b>	40	£10.2m
<b>2020/21</b>	26	£27m
<b>2021/22</b>	25	£15m
<b>2022/23</b>	65	£41m

Please note that the total compensation fund payments for 2019/20, 2020/21 and 2021/22 differ slightly from what we have reported in previous years (with no more than a £200,000 margin). This is so the figures reflect the published accounts (where previous figures were based on grants approved rather than actually paid during the financial year).

### Compensation fund claims history

The number of claims made and those leading to payment will depend on a range of factors, such as the number of interventions carried out, the number of law firm clients affected and whether we are able to make a payment.

The Fund is a discretionary fund of last resort. We can only make payments if a claim falls within <https://consultations.sra.org.uk/solicitors/standards-regulations/compensation-fund-rules/#:~:text=The%20Fund%20is%20a%20discretionary,making%20a%20grant%20are%20satisfied.1> [ur rules](https://consultations.sra.org.uk/solicitors/standards-regulations/compensation-fund-rules/#:~:text=The%20Fund%20is%20a%20discretionary,making%20a%20grant%20are%20satisfied.1). [Examples of circumstances where we would refuse a claim include when it:](https://consultations.sra.org.uk/solicitors/standards-regulations/compensation-fund-rules/#:~:text=The%20Fund%20is%20a%20discretionary,making%20a%20grant%20are%20satisfied.1)

- should be dealt with by the firm's insurer
- is from a business with a turnover of £2m or more per year
- is for losses resulting from activity that is not part of the usual business of a solicitor
- is made outside the time limit
- arises from the client not taking proper care of their money.

### Compensation fund claims history - headline numbers

Not all claims made and closed are handled within the same 12-month time period. This is why in some years more claims were closed than were made.

The largest payment made in 2022/23 was £1.2m. An individual had invested part of their pension fund into a property, and the solicitor gave the funds away to third parties. The solicitor was found to have acted dishonestly. We have recovered a portion of the funds, with work ongoing to recover the rest.

	<b>Claims made</b>	<b>Claims closed</b>	<b>Claims leading to payment</b>	<b>Approx. average value of successful claim</b>
<b>2016/17</b>	2,174	1,710	680	£22,000
<b>2017/18</b>	2,648	3,217	1,553	£12,000
<b>2018/19</b>	1,425	1,553	488	£15,000
<b>2019/20</b>	1,120	1,146	367	£28,000
<b>2020/21</b>	1,311	1,286	655	£41,000
<b>2021/22</b>	1,209	1,409	710	£22,000
<b>2022/23</b>	2,506	2,043	1,102	£37,000

Please note that, due to a data error, we previously misreported the approximate average value of a successful claim for 2020/21 and 2021/22. The figures shown now are correct.

### Compensation fund - top three reasons we made payments

The most common reasons why we make payments relate to areas of practice where large financial transactions take place, such as conveyancing and probate. These reasons are reflected in this table:

	<b>1</b>	<b>2</b>	<b>3</b>
<b>2016/17</b>	Sale proceeds - £4.5m	Probate - £3.3m	Return of deposit - £2.6m
<b>2017/18</b>	Probate - £5.3m	Conveyancing fraud - £3.7m	Sale proceeds - £2.8m
<b>2018/19</b>	Probate - £2.7m	Mortgage fraud - £0.9m	Theft of client money - £0.8m
<b>2019/20</b>	Sale proceeds - £2.9m	Return of deposit - £2.7m	Probate - £2m
<b>2020/21</b>	Probate - £5.6m	Deposit - £1.7m	Sales proceeds - £0.9m
<b>2021/22</b>	Probate - £7.8m	Sales proceeds - £1.4m	Deposit - £1.4m
<b>2022/23</b>	Probate - £23.1m	Sales proceeds - £6.1m	Deposit - £6m

### [Consumer protection review](#)

Over the last decade, our approach to protecting consumers has generally worked well.

Yet the legal landscape looks like it's changing. Recently we have had to step in more often to deal with failing firms. This includes a recent increase in big firm failures, where the scale of the impact on consumers is much greater.

Shifting risks could potentially lead to significant consumer detriment, so we are doing a comprehensive review of consumer protection.

The review focuses on two main areas:

- Managing risks: what we can do to reduce the risk that consumers suffer harm in the first place. For instance, can we improve our monitoring processes, or would there be benefits to tightening up our rules around firms holding client money?
- The safety net: our compensation fund can make good consumers' losses when money has gone missing. This could be, for instance, due to a solicitor's dishonesty or the collapse of a firm. How affordable will such protections be over the long term if risks are increasing?

Following extensive engagement with stakeholders on these areas, [we launched a consultation](https://consultations.sra.org.uk/sra/news/press/2024-press-releases/client-money-consultation-october-2024/) looking at potential changes to how and when law firm handle client money, and how this money is protected.

[More information on our consumer protection review is available](https://consultations.sra.org.uk/sra/consultations/discussion-papers/consumer-protection-review/)

## Recovering costs

We seek to recover the costs of intervening into a firm we regulate. This includes:

- the costs of using an external law firm to assist us in intervening
- any payments we make from the compensation fund
- any court and internal investigation costs from the firm involved.

Our funding comes from the law firms and the solicitors we regulate, so recovering costs is important as ultimately our costs will likely be passed onto the public who buy legal services.

We will consider all avenues in recovering costs, including taking action against the intervened solicitors or managers, the firm's insurer and, in certain cases, the firm's former partners and directors.

The table shows the combined recoveries of intervention costs and compensation fund payments over the past seven years. On average, we have recovered around £2.6m per year.

### Year Payments

2016/17	£3.5m
2017/18	£4.7m
2018/19	£2.5m
2019/20	£2.9m
2020/21	£1.1m
2021/22	£2.1m
2022/23	£1.1m

## Further information

[Making a claim on the compensation fund](https://www.sra.org.uk/consumers/problems/solicitor-owes-money/)

[Guidance - How we approach decisions to intervene](https://consultations.sra.org.uk/solicitors/guidance/consumer-intervening-protect-clients/)

[Compensation fund contribution level principles](https://consultations.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/#:-:text=The%20principles,-Principle%20one%20-%20The&text=The%20Compensation%20Fund%20is%20a%20key%20consumer%20protection%20for%20people,a%20level%20of%20unan)

[SRA corporate strategy 2023 to 2026](https://consultations.sra.org.uk/sra/consultations/consultation-listing/corporate-strategy-2023-26/)