

Client protection, interventions and compensation fund - corporate report 2021/22

Read in Welsh [\[https://consultations.sra.org.uk/sra/research-publications/diogelu-cleientiaid-ymyriadau-ar-gronfa-iawndal-2021-22/\]](https://consultations.sra.org.uk/sra/research-publications/diogelu-cleientiaid-ymyriadau-ar-gronfa-iawndal-2021-22/)

20 July 2023

If we suspect that people are at risk of receiving legal services from a dishonest solicitor, or it is, for some other reason, necessary to protect the interests of clients, we can take action and close down a firm or a solicitor's practice. We call this an intervention.

When we intervene we take possession of all client money, files and documents and we take steps to return them to their owners. The firm is then no longer able to operate.

Our compensation fund [can make payments to members of the public and small businesses](https://www.sra.org.uk/consumers/problems/solicitor-owes-money/) [\[https://www.sra.org.uk/consumers/problems/solicitor-owes-money/\]](https://www.sra.org.uk/consumers/problems/solicitor-owes-money/) 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.

The charts in this section detail our work in this area and highlight key trends and patterns.

Please note, our business year is 1 November to 31 October. Unless otherwise stated, these figures are as of the October in the latter year – ie, the figures for 2021/22 are as at 31 October 2022.

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[Interventions in the past 8 years](#)

The number of interventions remained relatively constant from 2014/15 until 2019/20, at around 40 per year. This decreased to 26 and 25 interventions in 2020/21 and 2021/22, respectively.

It may be that support packages offered during the Covid-19 pandemic provided a short-term financial solution to some firms that were otherwise struggling and could have faced an intervention during this time.

We are starting to see a number of firms in financial difficulty and we have already carried out a significant intervention into a group of law firms in 2022/23.

Figures from the first quarter of 2022/23 suggest that intervention numbers may be more in line with the average number of interventions seen in previous years. This may be because of the end of the financial support discussed above, or the poorer economic outlook in general.

| | |
|----------------|----|
| 2014/15 | 40 |
| 2015/16 | 37 |
| 2016/17 | 50 |
| 2017/18 | 33 |
| 2018/19 | 37 |
| 2019/20 | 40 |
| 2020/21 | 26 |
| 2021/22 | 25 |

The general trend in the reasons for intervention has continued. The three most common reasons for intervention remain as: to protect the interests of clients, for serious breaches of our rules, and/or reason to suspect dishonesty.

[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 cover 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. 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.

For 2022, we were able to decrease the contribution from £40 to £30 for individual solicitor contributions and from £760 to £690 for firm contributions.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Ind solicitor contribution | £32 | £32 | £40 | £90 | £60 | £50 | £40 | £30 |
| Firm contribution | £548 | £548 | £778 | £1,680 | £1,150 | £950 | £760 | £690 |

The threat of dubious investment schemes

In many instances, our compensation fund is not able to make payments to people who have lost money due to investing their money in these schemes. This is because the claim does not fall within our rules, often because such schemes are activity that is not part of the usual business of a solicitor (see more under compensation fund claims history). However, we have still paid out a considerable amount.

The compensation fund saw lower volumes of claims being made related to investment schemes and new rules were implemented on 5 July 2021 that should further reduce the potential burden on the compensation fund.

Compensation fund payments in the past 8 years

The total payments we make each year depend on a number of factors: 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.

In 2020/21, the compensation fund received a large volume of applications following a particularly large intervention into a group of law firms, [Kingly Solicitors](https://consultations.sra.org.uk/sra/news/kingly-intervention-files/). This single intervention accounts for more than £10m worth of payments, which is why the total amount of payments made peaks in 2020/21. In 2021/22, the figure returned to an amount more in keeping with the average for the years between 2014/15 and 2019/20 (£13.2m per year).

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Number of interventions | 40 | 37 | 50 | 33 | 37 | 40 | 26 | 25 |
| Total compensation fund payments | £17.8m | £10.3m | £15.2m | £18.1m | £7.5m | £10.4m | £26.9m | £15.2m |

Compensation fund claims history

The number of claims made and those leading to payment will depend on a number 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.

We can only make payments if the claim falls within our rules. And, there are rules that cover where we may refuse a claim, such as when it:

- 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 dealt 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 2021/22 was £680,000. The claim related to money in a probate matter where a firm, into which we later intervened, had taken client money. Executors for the estate made the claim on the compensation fund.

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Claims made | 1,054 | 1,561 | 2,174 | 2,648 | 1,425 | 1,120 | 1,599 | 1,242 |
| Claims closed | 1,426 | 1,531 | 1,710 | 3,217 | 1,553 | 1,146 | 1,910 | 1,458 |
| Claims leading to payment | 645 | 604 | 680 | 1,553 | 488 | 367 | 295 | 645 |
| Approx. average value of successful claim | £28,000 | £17,000 | £22,000 | £12,000 | £15,000 | £28,000 | £38,500 | £24,000 |

Top 3 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:

| 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---------|---------|---------|---------|---------|---------|---------|---------|
|---------|---------|---------|---------|---------|---------|---------|---------|



| | | | | | | | | |
|---|---|----------------------------|---------------------------|----------------------------|-------------------------------|---------------------------|------------------------|------------------------|
| 1 | Return of deposit - £3.5m | Probate - £3.9m | Sale proceeds - £4.5m | Probate - £5.3m | Probate - £2.7m | Sale proceeds - £2.9m | Probate - £5.6m | Probate - £7.8m |
| 2 | Probate - £3.4m | Sale proceeds - £1m | Probate - £3.3m | Conveyancing fraud - £3.7m | Mortgage fraud - £0.9m | Return of deposit - £2.7m | Deposit - £1.7m | Sales proceeds - £1.4m |
| 3 | Return of payment on account of costs - £2.2m | General client money - £1m | Return of deposit - £2.6m | Sale proceeds - £2.8m | Theft of client money - £0.8m | Probate - £2m | Sales proceeds - £0.9m | Deposit - £1.4m |

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 are 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 list shows the interventions and compensation fund payments costs we have recovered over the past eight years. On average, we have recovered around £2.8m per year.

Year Payments

| | |
|---------|-------|
| 2014/15 | £3.7m |
| 2015/16 | £1.9m |
| 2016/17 | £3.5m |
| 2017/18 | £4.7m |
| 2018/19 | £2.5m |
| 2019/20 | £2.9m |
| 2020/21 | £1.1m |
| 2021/22 | £2.1m |

Further information

[Making a claim on the compensation fund](https://www.sra.org.uk/consumers/problems/solicitor-owes-money/) [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/) [https://consultations.sra.org.uk/solicitors/guidance/consumer-intervening-protect-clients/]

[Investment schemes that are potentially dubious \(report\)](https://www.sra.org.uk/sra/how-we-work/reports/investment-schemes-that-are-potentially-dubious/) [https://www.sra.org.uk/sra/how-we-work/reports/investment-schemes-that-are-potentially-dubious/]

[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) [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 2020 to 2023](https://consultations.sra.org.uk/sra/corporate-strategy/) [https://consultations.sra.org.uk/sra/corporate-strategy/]