

Consumer protection review

What are we trying to do

In February 2024, we launched a review of our overall approach to protecting consumers who place their trust in regulated law firms – our consumer protection review.

Who needs to know

Since then, we have heard from a range of consumers and their representatives, as well as solicitors and those in the legal sector, on their views as to what is the best approach to appropriately protecting consumers.

What's going on

Our public <u>consultation on the subject of Client money in legal services - safeguarding consumers and providing redress [#consultation]</u> was open from November 2024 to February 2025.

Since the public consultation closed, we've reviewed the 450+ responses received. We've also considered feedback from consultation engagement events and from our earlier discussion paper, as well as other insights including in-depth consumer research.

Our consultation considered steps we could take in the more immediate term to better protect client money. It also asked some big, fundamental questions about change over the longer term in two areas – the model of solicitors holding client money, and the model of funding the compensation fund, which the profession pays for and which protects clients in the event their money held by solicitors is misappropriated. We have heard a lot of views, with some appetite for change to address the root causes of risks to client money. However, we have always said these are complex issues, that cannot be solved with quick fixes.

We consider there is a strong case to properly explore the long-term transformation of the model of holding client money and how the compensation fund is funded.

However, our immediate focus is on making changes to better protect and safeguard client money under the current system. This is also the focus of the strategic priorities outlined in our proposed 2025/26

<u>Business Plan and Budget</u>

[https://consultations.sra.org.uk/link/8d7906ad7c554d6a9c0faaf0e499cd82.aspx] and relevant LSB Directions post-Axiom Ince.

We will be issuing a progress report and proposals for consultation in several areas later in 2025. These will be published alongside the responses we received to consultation questions on these topics (where we have permission to do so).

We then plan to return to the longer term questions of solicitors holding client money and the compensation fund after we have made changes to the current system, when we can give them the robust consideration they need. This will build on the views and insights we have already gained from stakeholders and will involve working further with those stakeholders. We will also share a summary of the consultation feedback we received on these topics later this year.

Consultation

Client money in legal services - safeguarding consumers and providing redress

As part of the wider review, we launched an in-depth public consultation, that was open from November 2024 to February 2025.

The consultation was divided into three parts:

- Part 1: The model of solicitors holding client money
 [https://consultations.sra.org.uk/link/76eee49fd7a0492dafc4e4134c1a8a9b.aspx]

 Covering issues such as how, when and for how long law firms should hold client money (if at all), alternatives to operating a client account and if rules around interest earnt on client accounts, or how long firms can hold client money after the end of a case, need changing so they better serve client's interest.
- Part 2: Protecting the client money that solicitors hold
 [https://consultations.sra.org.uk/link/4de2ee049a6447f3b3d5e43132f26b53.aspx]
 Covering issues relating to controls, checks and balances firms are obliged to have in place to protect money held in client accounts. Including how accountants' reports are prepared and when they need submitting to the regulator and approaches to dormant firms.
- Part 3: Delivering and paying for a sustainable compensation fund
 [https://consultations.sra.org.uk/link/99ade8dc557444bab08038cbbca1b22e.aspx].
 Covering issues such as how funding of the scheme is split between law firm and individual solicitor contributions and whether, in the longer term, contributions should be varied based on considerations such as size of firm, areas of law or other risk factors. The consultation also explores questions around potential payment caps and whether certain types of claim should remain eligible.

Research

As part of our review, and to help inform the proposals and ideas in the consultation, we commissioned a series of external research reports:

- <u>Consumer insights expectations and preferences</u> [https://consultations.sra.org.uk/link/7238b8d97c20474bbedd758e808ea86f.aspx]
- <u>Future market developments risks to client money</u> [https://consultations.sra.org.uk/link/3f95f7e9c64446a7ae25ae321157d413.aspx]
- <u>Different approaches to managing client money</u> [https://consultations.sra.org.uk/link/bff40674226e47fdb40739e7734f6f38.aspx]
- <u>Compensation schemes in other regulatory bodies and jurisdictions</u> [https://consultations.sra.org.uk/link/d13b936f5f1d46908714c39064fb271b.aspx]
- <u>Online polling of consumer views</u> [https://consultations.sra.org.uk/link/fdef113615ec42aca204c4fd5865d15f.aspx]

Wider activity

The consultation launch is just one element of a wider programme of work emerging from the Consumer Protection Review. Other activity already completed, or underway includes:

- Publication, earlier this year, of warning notices to law firms on mergers and acquisitions
 [https://consultations.sra.org.uk/link/684c96512d5b485c8728bbf3c97353fc.aspx]
 and what to do when money is missing from the client account
 [https://consultations.sra.org.uk/link/d2ba3b22c0e14d2c8df2c159026ff61d.aspx]
- Conducting a review, and implementing resulting improvements, regarding the our internal processes for how it handles investigations and interventions.
- Improving how we use data about law firms and complaints to spot patterns, including by increasing investment in technology and resource in this area.

Open all [#]

Resources

Consultation

Client money in legal services - safeguarding consumers and providing redress

- Part 1: The model of solicitors holding client money
 [https://consultations.sra.org.uk/sra/consultations/consultation-listing/holding-client-money/].
- <u>Part 2: Protecting the client money that solicitors hold</u> [https://consultations.sra.org.uk/sra/consultations/consultation-listing/client-money-legal-services/].
- <u>Part 3: Delivering and paying for a sustainable compensation fund</u> [https://consultations.sra.org.uk/sra/consultations/consultation-listing/delivering-sustainable-compensation-fund/].

Research

- <u>Consumer insights expectations and preferences</u>
 <u>Ihttps://consultations.sra.org.uk/sra/research-publications/client-money-consumer-protection-arrangements/l</u>
- <u>Future market developments risks to client money</u> [https://consultations.sra.org.uk/sra/research-publications/future-market-changes-legal-sector-client-money/]
- <u>Different approaches to managing client money</u>
 [https://consultations.sra.org.uk/sra/research-publications/how-regulators-jurisdictions-manage-consumer-compensation/]
- Compensation schemes in other regulatory bodies and jurisdictions [https://consultations.sra.org.uk/sra/research-publications/regulators-jurisdictions-hold-client-money/]
- <u>Online polling of consumer views</u> [https://consultations.sra.org.uk/sra/research-publications/consumer-polling/]

The compensation fund

The <u>compensation fund [https://consultations.sra.org.uk/consumers/compensation-fund/]</u> 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.

Contributions

Years Individual solicitors Firm contribution

2013/14 £56	£836
2014/15 £32	£548
2015/16 £32	£548
2016/17 £32	£548
2017/18 £40	£778
2018/19 £90	£1,680
2019/20 £60	£1,150
2020/21 £50	£950
2021/22 £40	£760
2022/23 £30	£690
2023/24 £30	£660



February 2024 background to the 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, including Axiom Ince
intervention-and-impacts/], 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.

Consumers are at the heart of this review and we are looking at two main areas:

- 1. **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?
- 2. 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?

In considering changes to our approach, we will need to get the balance right. For instance, bolstering or even maintaining the current level of consumer protection might not be in the public interest if it is unsustainable. It could lead to large increases in prices or reduced choice for consumers.