



## Client protection, interventions and the compensation fund

June 2022

Read in Welsh [\[https://higher-rights.sra.org.uk/sra/research-publications/diogelu-cleientiaid-ymyriadau-gronfa-iawndal-2020-21/\]](https://higher-rights.sra.org.uk/sra/research-publications/diogelu-cleientiaid-ymyriadau-gronfa-iawndal-2020-21/)

If we know 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://higher-rights.sra.org.uk/consumers/problems/solicitor-owes-money/) [\[https://higher-rights.sra.org.uk/consumers/problems/solicitor-owes-money/\]](https://higher-rights.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 below 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 2020/21 are as at 31 October 2021.

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### [Interventions](#)

#### Interventions in the past 10 years

Since the recession of 2008, which saw us intervene into many firms reliant on residential conveyancing, the number of interventions has reduced to a relatively constant rate. The number of interventions is lower for 2020/21, however, year on year variation in intervention numbers is not unusual (see the similar drop from 50 in 2016/17 to 33 in 2017/18). There is no immediate apparent reason for the reduction in interventions last year, but we continue to remain focused on supporting solicitors to address issues before they lead to an intervention, and in controlling risks through strong engagement and the use of controls.

<b>2010/11</b>	56
<b>2011/12</b>	42
<b>2012/13</b>	50
<b>2013/14</b>	51
<b>2014/15</b>	40
<b>2015/16</b>	37
<b>2016/17</b>	50
<b>2017/18</b>	33
<b>2018/19</b>	37
<b>2019/20</b>	40
<b>2020/21</b>	26

The general trend in the reasons for intervention has continued. The three most common reasons for intervention remain 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 2021/22, we were able to decrease the contribution from £50 to £40 for individual solicitor contributions and from £950 to £760 for firm contributions.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Ind solicitor contribution</b>	£32	£32	£32	£40	£90	£60	£50	£40
<b>Firm contribution</b>	£548	£548	£548	£778	£1,680	£1,150	£950	£760

## **The threat of dubious investment schemes**

Contributions to the compensation fund have decreased mainly due to the reduced risk of potentially high value claims being made on the compensation fund relating to dubious investment schemes. These schemes may try to use real law firms as middlemen to make dubious investment schemes seem legitimate, trustworthy and safe. Our 2020 [thematic review](https://higher-rights.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/) [https://higher-rights.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/] highlights examples of such schemes, which normally fall into four areas: buyer-led developments or refurbishments (eg off-plan); fractional developments (eg rooms, spaces or units within wider schemes); alternative investments (eg precious metals, fine wines); and complex financial products (eg loans, shares, bonds).

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.

The overall total payments we make each year from the fund 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.

## **Compensation fund payments in the past seven years**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Number of interventions</b>	51	40	37	50	33	37	40	26
<b>Total comp fund payments</b>	£24.2m	£17.8m	£10.3m	£15.2m	£18.1m	£7.5m	£10.4m	£26.9m

## **Compensation fund claims - 2020-2021**

The compensation fund received a very large volume of applications from a single intervention, which is the main cause for the increase in claims made. This is despite the decrease in the number of interventions. In addition, other payments were made to a large group of claims that relate to a non-intervened firm.

## 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 and nature 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 with in the same 12-month time period. This is why, in some years, more claims were closed than were made.
- The largest payment made within 2020-2021 was an urgent payment of £1.6million which related to a conveyancing transaction where the applicants were contractually bound to complete the day the intervention took place.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Claims made</b>	1,737	1,054	1,561	2,174	2,648	1,425	1,120	1,599
<b>Claims closed</b>	2,006	1,426	1,531	1,710	3,217	1,553	1,146	1,910
<b>Claims leading to payment</b>	952	645	604	680	1,553	488	367	616
<b>Approx. average value of successful claim</b>	£25,000	£28,000	£17,000	£22,000	£12,000	£15,000	£28,000	£41,698

Please note that, due to a data error, we misreported the number of claims made and claims closed in our 2015/16 Annual Review. The figures shown now are correct.

## 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 the table below.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>1</b>	Probate - £4.8m	Return of deposit - £3.5m	Probate - £3.9m	Sale proceeds - £4.5m	Probate - £5.3m	Probate - £2.7m	Sale proceeds - £2.9m	Probate - £8.2m
<b>2</b>	Unredeemed mortgage - £3.6m	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
<b>3</b>	Conveyancing fraud - £2.4m	Return of payment	General client	Return of deposit - £2.8m	Sale proceeds	Theft of client	Probate - £2m	Sales proceeds

on money – £2.6m	money –	- £0.9m
account £1m	£0.8m	
of costs –		
£2.2m		

Please note, due to a data error, we previously misreported the value of sale proceeds for 2016/17 in our 2016/17 and 2017/18 Annual Reviews. The figures shown now are correct.

## **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 table below shows the interventions and compensation fund payments costs we recovered over the past seven years. On average, we have recovered around £2.9m per year but this is very dependent on the details and circumstances of the interventions.

<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
£3.2m	£3.7m	£1.9m	£3.5m	£4.7m	£2.5m	£2.9m	£1.2m

## **Further information**

- [Making a claim on the compensation fund](https://higher-rights.sra.org.uk/consumers/problems/solicitor-owes-money/) [https://higher-rights.sra.org.uk/consumers/problems/solicitor-owes-money/]
- [Guidance – How we approach decisions to intervene](https://higher-rights.sra.org.uk/solicitors/guidance/consumer-intervening-protect-clients/) [https://higher-rights.sra.org.uk/solicitors/guidance/consumer-intervening-protect-clients/]
- [Investment schemes that are potentially dubious \(report\)](https://higher-rights.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/) [https://higher-rights.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/]
- [Compensation fund contribution level principles](https://higher-rights.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/#principles) [https://higher-rights.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/#principles]
- [Protecting users of legal services – prioritising payments from the SRA Compensation Fund \(consultation\)](https://higher-rights.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/) [https://higher-rights.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/]
- [SRA corporate strategy 2020 to 2023](https://higher-rights.sra.org.uk/sra/corporate-strategy/) [https://higher-rights.sra.org.uk/sra/corporate-strategy/]