

Client protection, interventions and the compensation fund

July 2021

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

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 and client 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://referral.sra.org.uk/consumers/problems/claim-papers/) [\[https://referral.sra.org.uk/consumers/problems/claim-papers/\]](https://referral.sra.org.uk/consumers/problems/claim-papers/) 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 2019/20 are as at 31 October 2020.

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Interventions

Interventions in the past 10 years

The number of interventions peaked following the recession of 2008, which saw us intervene into many firms reliant on residential conveyancing. This was an area of work badly affected by the economic downturn. For the last few years, the number of interventions has reduced to a relatively constant rate.

Number of interventions 2010-2020

Year	Number of interventions
2010/11	56
2011/12	42
2012/13	50
2013/14	51
2014/15	40
2015/16	37
2016/17	50
2017/18	33
2018/19	37
2019/20	40

Over the past seven years, the three most common reasons for carrying out an intervention were to protect the interests of clients, because we found there were serious breaches of our rules, and/or we suspected someone in the firm of 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 2020/21, we were able to decrease the contribution from £60 to £50 for individual solicitor contributions and from £1,150 to £950 for firm contributions.

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

The rising threat of dubious investment schemes

Fraudsters are always coming up with ways to win people's trust and take advantage of them. They often present investment opportunities offering excellent returns as a means to take people's money – such as their pension pot. These schemes can be particularly attractive in today's economy.

The 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://referral.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/) [https://referral.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/] highlights examples of such schemes.

Although the vast majority of solicitors act with honesty and integrity, a small number abuse their position of trust or take risks by assisting in schemes they do not understand or know to be dubious or fraudulent. Some people have lost their life savings. Losses reported to us linked to dubious investment schemes over recent years run into the hundreds of millions.

In many instances, our compensation fund is not able to make payments to people who have lost money because the claim does not fall within our rules ([see more under compensation fund claims history](#) [#_Compensation_fund_claims]). However, the sums we have paid out come to a considerable amount. And, the risk of further claims has led us to increase the profession's contribution to the compensation fund for several years.

We updated [our warning notice](https://referral.sra.org.uk/solicitors/guidance/investment-schemes-including-conveyancing/) [https://referral.sra.org.uk/solicitors/guidance/investment-schemes-including-conveyancing/] in 2020 to raise awareness with the public and the profession about the risks of dubious investment schemes.

Compensation fund payments in the past seven years

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.

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

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 with in the same 12-month time period. This is why, in some years, more claims were closed than were made.

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

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
1	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

2	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
3	Conveyancing fraud - £2.4m	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

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 £3.2m per year.

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

Further information

[Making a claim on the compensation fund](https://referral.sra.org.uk/consumers/problems/claim-papers/) [https://referral.sra.org.uk/consumers/problems/claim-papers/]

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

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

[Compensation fund contribution level principles](https://referral.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/#:~:text=The%20principles,Principle%20one%20%2D%20The&text=The%20Compensation%20Fund%20is%20a%20key%20consumer%20protection%20for%20people,;) [https://referral.sra.org.uk/mysra/fees/compensation-fund-contribution-level-principles/#:~:text=The%20principles,Principle%20one%20%2D%20The&text=The%20Compensation%20Fund%20is%20a%20key%20consumer%20protection%20for%20people,;]

[Protecting users of legal services – prioritising payments from the SRA Compensation Fund \(consultation\)](https://referral.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/?s=c) [https://referral.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/?s=c]

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