

Statement

Axiom Ince intervention – SRA Compensation Fund update

29 November 2023

We will not be imposing an overall cap on claims against the compensation fund arising from Axiom Ince.

And those claims will be prioritised to make sure that the most pressing – such as for domestic conveyancing – will be dealt with first in order to maintain the financial solvency of the fund.

By taking this prioritisation approach and managing the cashflow demands on the fund, we will not be calling on solicitors to make an in-year contribution at this point, but will keep this under review in the light of any further interventions or other unforeseen events.

The fund was set up to protect consumers of legal services and to maintain trust and confidence in the profession. Its purpose statement specifically refers to 'financial loss due to fundamental ethical failures – such as dishonesty or lack of integrity of solicitors'.

In the case of Axiom Ince, the intervention was prompted by suspected dishonesty in the form of misuse of client funds and breaches of the SRA Accounts Rules, issues which clearly sit within the core principles of the fund. Our previous statement [https://www.sra.org.uk/sra/news/axiom-ince-intervention-information/#heading_7239] on this matter has further information.

The rules of the compensation fund enable us to impose a discretionary £5m overall cap on claims from an intervention as a method of protecting the solvency of the fund. The idea of a cap was introduced some years ago and in a different context - that of investment scheme fraud. It was against that backdrop that the cap was set at a fixed level of £5m, which we cannot raise or lower.

The fund rules allow us to use our judgement to impose the cap dependent on the circumstances of the case, for example to balance the need to provide appropriate protection for consumers with the need to maintain the solvency of the fund.

In the case of Axiom, the scale of consumer loss, were the cap to be applied, would be too large, and would lead to an unacceptable loss in public confidence in solicitors. However, by adopting a careful prioritisation approach to the settling of claims, our aim is to manage the short-term solvency of the fund and avoid extreme consumer detriment.

Given the increasing number and size of interventions in recent years, there is a longer-term question about the compensation fund and consumer protection more generally. We will be considering whether we can reduce the risk of similar firm failures in the future.

We will also consider what part, if any, a cap can or should play in our client protection arrangements, and how the level of any cap is set to balance better trust and confidence in solicitors, while making sure that protection is viable and proportionate in the long term.

Since the intervention, we have only paid out a limited number of emergency claims against strict criteria, such as where there was a risk of homelessness or imminent insolvency, or if a client was under a contractual obligation to complete on a private domestic property purchase. Now that a decision has been taken not to impose a cap, these criteria have been developed into detailed guidance for claimants that explain the prioritisation process and provide an indication of timescales for claims to be considered.

This guidance and the criteria can be found on our previous statement [https://www.sra.org.uk/sra/news/axiom-ince-intervention-information/#heading_7239] on this matter.

To date, we have received claims totalling approximately £33m. A claim against Axiom Ince's professional indemnity insurance is under way and the level of funds which may be recovered from the existing freezing order on assets obtained by the firm is still to be determined. If funds are recovered from the insurance claim or from the sale of frozen assets, then these will be used to replenish the compensation fund.

In December, our Board will consider a medium-term work programme reviewing our client protection and compensation fund arrangements and whether they remain fit for purpose for the future. This will go hand in hand with a review of our risk management and operational arrangements for identifying risks in the marketplace to clients and client funds.