Solicitors Regulation Authority

News release

SRA consults on Compensation Fund changes

21 January 2020

- Proposals would lead to greater clarity on when grants are made
- Also protect the long-term sustainability of the fund
- Proposals build on stakeholder feedback from earlier consultation

We have launched a 12-week consultation on our Compensation Fund [https://www.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/?s=o] . Views are sought from the profession, public and representative groups on the proposals. They aim to continue protecting clients who lose money because of dishonesty by a solicitor, or in circumstances where they cannot claim on a law firms' professional indemnity insurance, while at the same time making sure management of the fund remains sustainable.

The proposals build on the feedback provided in responses to a 2018 consultation on both professional indemnity insurance arrangements [https://www.sra.org.uk/sra/consultations/consultation-listing/access-legal-services/#download] and how the fund is managed. Changes made as a result of this feedback include introducing a maximum cap on related claims and dropping proposals for the introduction of a hardship test.

As well as making sure the fund remains sustainable, the new proposals also seek to make it clearer when it is likely a grant from the fund would be made.

We aim to make sure grants are prioritised and focused where they are most needed, and demonstrate our decisions are made consistently against clear, objective criteria to show the Compensation Fund is operated in a transparent way. This will help consumers understand the protection provided to them.

Proposals include:

- Focusing eligibility criteria on people that need most protection and removing the current hardship tests
- Only allowing applications from people that have been provided or are a recipient of a legal service from the solicitor involved
- Reducing the single claim limit to £500,000, and being clearer about how we apply this limit

- Capping the total amount payable for a group of related claims
- No longer allowing claims where an insurance policy has been voided or has already paid out money

Paul Philip, SRA Chief Executive, said: "The Compensation Fund provides an essential safety net for those who need it, helping to maintain trust in the profession when things go wrong. However, funding the scheme comes at a cost, which is borne by the wider profession and ultimately their clients.

"We have seen how significant risks in the market over recent years, including solicitor involvement in dubious investment schemes, have affected the Fund and contributions from the profession.

"We want to strike the right balance between protecting clients' money and making sure that the Fund remains sustainable for the future. We think the proposals we are consulting on find that balance, but we want to hear the views of all those involved."

The consultation will run to 21 April. Once finalised, any agreed changes will need approval by our Board and Legal Services Board.

As well as the consultation document, we have published a fuller version of consultation responses [https://www.sra.org.uk/sra/consultations/consultation-listing/access-legal-services/#download] , evidence and analysis [https://www.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/#download] , and the proposed rules [https://www.sra.org.uk/sra/consultations/consultation-listing/comp-fund-reform-2020/#download] .