



Solicitors  
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Authority

# **Responses to Client money in legal services – safeguarding consumers and providing redress: Delivering and paying for a sustainable compensation fund**

**Questions 1 and 2 (apportionment of contributions) and 11 (equality, diversity and inclusion)**

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May 2025

## Question 1

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Do you agree that changing the apportionment of compensation fund contributions to 70% individuals and 30% firms is an appropriate and proportionate approach to setting contribution levels for 2025/26? Please give reasons for your answer.

### Responses which were supportive

'Yes. The current basis is unaffordable. But changes must be made to the way solicitors are allowed to practice. It used to be a solicitor was liable for all losses. This changed with limited liability partnerships and privately owned companies.' (Individual solicitor)

'Probably yes, given that the risk would seem to be related to the number of lawyers practising, rather than to firms per se.' (Law firm)

'We think the proposed new apportionment seems fairer, given the shift in the numbers of solicitors and firms over the last 15 years.' (Law firm)

'Yes. As a small firm we were shocked to have to pay more in the practising certificate round than for professional indemnity insurance for the year. The current split disproportionately affects Black and minority ethnic/disabled/women led firms, and legal aid firms too.' (Law firm)

'Yes.' (Law firm)

'Our membership has also shown support for a model where a greater proportion of the compensation fund is funded on a 'per lawyer' rather than 'per firm' basis.' (Local Law Society)

'We agree that given the changes in the constitution of the profession (an increase in individual solicitors and a decrease in number of firms) since the 50/50 split was imposed in 2010, it is right to review the respective contributions of individual solicitors and firms. Many of our members have the individual contributions paid for by their firms so in many respects, the percentage apportionment makes little difference as firms will pay the combined amount in any event. In firms (usually smaller ones) where the individual fees are not paid for, there is clearly a benefit to those firms if the proportion is split 70/30 [70% individual and 30% firm]. We don't disagree with this.' (Local Law Society)

### Responses which were neither opposed nor supportive

'The Panel prefers to remain neutral on the apportionment of contributions as the arguments made are not compelling enough for us to make an informed decision, nor has the SRA evidenced how this apportionment will categorically help with the sustainability of the fund.' (Legal Services Consumer Panel)

'The numbers highlighted in the SRA paper relating to the number of interventions into firms from the compensation fund, in terms of both frequency and severity, is a concerning trend for the insurance market. It is also concerning that the average pay outs from the Fund each year far exceed the payments into the Fund. It seems appropriate that a re-think of the Compensation Fund's funding mechanism is now required. Insurers believe that increases should be levied against the profession to ensure the ongoing survival of the compensation

fund. We also believe that liabilities arising from fraud should be covered in their entirety by the profession through the levy.

'Fraud remains under many other insurance policies uninsurable as it has the potential to encourage criminality where there are no economic repercussions; Professional Indemnity Insurance should not be immune from this. We believe such a change would improve the accountability of the industry and lead to more investment from the regulator in fraud prevention methods that would manage fraud risk at firms which would allow insurers to focus on underwriting negligence risk.' (Other organisation)

'Changes to the apportioning of contributions between individual solicitors and firms would increase costs for most of our firms, and unsurprisingly a majority do not support your proposal. However, a significant minority are in favour, recognising the importance of the Fund to the whole profession. The reductions for small firms would, it seems to us, be very modest in absolute terms, while the material effects for very large firms are likely to meet resistance.' (Representative body)

'We're neutral on that.' (Law firm)

'It depends. I am a sole practitioner and the draconian practising certificate fee I had to pay this year is hard to bear especially. As you have decided that a traditional sole practitioner pays for the firm of the sole practitioner which is one and the same as well as the solicitor who is the sole practitioner this could still be burdensome. If the sole practitioner is limited to 1 fee earner and 1 owner then there needs to be some method for dealing with that. You could have exceptions if they have a claims history as at the moment being compliant, providing an excellent service and having no claims is being penalised. The larger firms did not bulk at the contribution this year to the indemnity fund so I get the impression you intend to squeeze out the sole practitioners (1 person firm 1 fee earner) so reducing competition which will impact upon the public's freedom to select where they get their legal services from.' (Law firm)

'We are on the fence with this approach. We are a very small legal aid high street firm. We are not a big corporate entity. Whilst the individual increase accounts for the big corporate firms needing to pay more for their individuals, we do not agree that a 30% firm contribution is fair and proportionate for smaller firms like ours.' (Law firm)

'The proposal is better than the existing policy but in reality there should be 3 categories for the proportionate split being: a) Individual Contribution b) Small firm Contribution c) Large firm contribution The small firm and large firm categories being determined by a mix of monies held in the client account annually and annual turnover. The greater risk in the size of a claim for the compensation fund is from the larger firms as Axiom demonstrated.' (Representative group)

'Smaller firms have sometimes expressed the view that, under the current 50/50 split, it is unfair that they should make the same contribution into the Compensation Fund at firm level as a large firm. However, this fails to recognise the reality that larger firms pay the individual contribution due from the solicitors that they employ. The SRA's modelling for their proposed switch to a 70/30 split between individual solicitors and firms respectively suggests that firms with up to 25 solicitors will benefit. This will probably look appealing to smaller (a majority of) firms, but it would, perversely, move the burden of maintaining the Fund unduly strongly towards larger firms, whose clients will never make claims upon it. The very small reduction at firm level would be paid for by increases growing at exponential pace by firm size. Most of our member firms would see a noticeable increase, and much larger firms would experience very material increases. We note that currently, firms who carry no client money make no

contributions to the fund. We would argue that solicitors who do not hold client money should not be exempt from contributing to the Compensation Fund.’ (Representative group)

‘If the sole purpose of the fund were to compensate clients for losses from client accounts, then this exemption might be defensible, but as the fund is also used to cover losses which should have been insured and the costs of interventions, and as there are circumstances in which even firms operating third party managed accounts could be intervened, their ongoing exemption from the firm contribution cannot be justified. For the SRA to use exemption from making Compensation Fund contributions as an incentive for firms to move towards the use of third party managed accounts (with their lower client protections and higher costs) is irresponsible and doubly damaging to clients. In our survey: - • 42% were in favour of making the change from 50/50 to 70/30 • 58% were against Even though a majority of member firms, perhaps reflecting on the increased costs they will face, do not support your proposal, a significant minority are in favour, maybe because they recognise the importance of the Fund to the whole profession. The reductions for small firms would, it seems to us, be very modest in absolute terms.’ (Representative group)

‘All contributions should be paid for by all solicitors on the roll whether practising or not.’ (Individual solicitor)

‘I don’t feel we have been given enough contextual data to comment sensibly.’ (Individual solicitor)

‘As a trade body we seek the best outcomes for consumers in civil justice. We are aware that our law firm membership consists mainly of larger firms and not sole practitioners, and as a result we will refrain from answering questions in relation to apportionment of contributions. However, we are supporters of the fund and what it represents in relation to consumer protections.’ (Representative body)

## **Responses which were opposed**

‘No. In our response to the SRA’s recent discussion paper, we suggested that the current method of charging a flat fee for all members and another flat fee for firms, combined with the significant increase in this year’s levy, does justify the SRA looking again at how the levy is spread across the profession to ensure it remains fit for purpose. This is particularly important in light of the significant increase in the cost the levy poses for sole practitioners and smaller firms, especially legal aid firms that are already struggling due to low, unsustainable fee rates.

We appreciate the SRA’s engagement with this suggestion, but we do not think the case has been made for the proposed reapportionment. The SRA should be able to use forward planning and its banking facility to smooth out contributions and avoid ballooning demands on the profession, of the sort we saw in 2024.

While the changes proposed in the consultation document would alleviate some of the pressure on smaller firms, it would do so at the expense of larger firms, many of which have risk management procedures in place that make it highly unlikely that they would ever give rise to a claim from the Compensation Fund.

The Compensation Fund makes concrete the commitment of the profession to provide consumers with a final layer of protection from the omissions or wrongdoing of a small minority of solicitors. Indeed, the profession take pride in this responsibility, which is a crucial point of distinction from non-regulated providers of legal services, and an essential principle

of professionalism. Nevertheless, we think it is important that contributions are levied in a way that is both sustainable and fair.

'Our preference would be to maintain the current arrangements, imperfect as they may be, until the SRA has taken the time to consider different options and investigate whether they are likely to be better (in terms of sustainability and fairness) than the current formula. We would welcome the opportunity to respond to more considered, well-evidenced proposals in this area as part of a future consultation.' (The Law Society)

'We agree that steps should be taken to make apportionment fairer for profession. We also agree that the market has changed significantly since the methodology was set in 2010. However, we are concerned from the figures that this may make payments unrealistic for individual solicitors. We note that the examples of apportionment of the fund payment in the paper on page 11 work on an average fund total of 14.2 million however, the 2024-2025 contribution amounted to 31.6 million which would significantly change the levels of contribution.

'Whilst we agree that steps should be taken to address the financial impact on smaller firms, who offer specialist services and access to legal advice that are perhaps less profitable but vital for consumers, we do not think the current proposals are transparent enough. We are also disappointed that a flat rate is still being proposed for all firms regardless of risk and amount of client's money held in client accounts.' (Representative body)

'Changing the apportionment of Compensation Fund contributions to 70% individuals and 30% firms is not considered an appropriate and proportionate approach to setting contribution levels for 2025/26. This request appears to be triggered or necessitated by the SRA's historic regulatory conduct.' (Representative body)

'We have seen no evidence to suggest that there is a pressing need to change the funding methodology for the compensation fund. Whilst the current model is far from perfect, our concern – if the SRA's proposal were to be effected – is that firms might seek to pass on the cost of individual contributions to employees, in circumstances where they currently mostly pay those contributions at firm level. We feel that any change to the current model (in future) ought to recognise this reality, and so perhaps a 'turnover' or 'risk-based' funding differentiation might appeal more than the 'numbers-based' approach proposed here. In discussions we have had with some member firms, there has been a willingness and sense of fairness from larger firms that a risk based approach (i.e. based on average sums held in client account) would be fairer to smaller firms. This is information which is readily available to the SRA to make the relevant calculations.' (Local Law Society)

'We pay both, so it does not matter to us. However, we see no reason to depart from the current 50/50.' (Law Firm)

'No, I think it should be 50% individuals and 50% firms. Firms are generally more able to contribute than individuals. Individuals in the profession vary greatly in their ability to pay as well from Magic Circle Partners down to one man bands in the North East of England. I'm not aware of any means testing.' (Individual solicitor)

'The Fund is in need of a fundamental change. The Fund should be split into 2 areas covering (i) the costs of SRA interventions into firms to protect administration of legal services as well as the handling and storage of non-client account files (payable by all solicitors firms based on turnover) and (ii) client interests and money (payable by only those with client accounts and covering the administrative costs, for example, paying for staff who deal with applications to the Fund, as well as the handling and storage of client files relating to payments and matters involving client accounts. This is the only sustainable way for the

future as more and more solicitors move to third party managed accounts and alternative payment arrangements. Contributions should remain currently split 50/50 between individual solicitors and firms, as the burdens on individual solicitors should remain minimal. The fact that many firms choose to pay the individual contributions on behalf of the solicitors they employ is a matter for firms and if this increases the financial burden on many larger firms, that is their choice - we would prefer the burden to be entirely or largely on firms (i.e. individual solicitors (10%) and firms (90%) and for these purposes, sole practitioners should have to register as a firm (i.e. a sole practitioner would register individually and as a firm) just as a very large firm does. Sole practitioners should be discouraged as the regulatory risk is very high.' (Law firm)

'No. The fact is that the Practising Certificate fee for individual solicitors is usually paid by the firm where they work. The proposed change will make little difference for most solicitors or firms.' (Law firm)

'No. Has the SRA conducted any research into how many individuals actually pay their own contributions to the Fund? In our collective experience working in law firms across England and Wales, very few firms actually expect individuals to pay their own contributions and firms cover the cost as part of the bulk renewal of practicing certificates. This is particularly important in small firms or firms outside of big cities where salaries are not as high; to expect employed solicitors to pay these fees would be a further barrier to recruitment and retention. Changing the apportionment would therefore do nothing to address any of the equality issues raised in this part of the consultation, nor would it actually be of assistance to small firms already struggling with cash flow but who are unable to ask Solicitors in their employ to start paying their own contributions.' (Law firm)

'No, the impact on sole practitioners remains unreasonable in this scenario. We have already seen a huge decline in the number of firms in the last decade - small firms need to be encouraged to remain in business and our regulator needs to take an active role in ensuring that happens. A differential model is the only fair and effective charging model. There are lots of options, for example requiring riskier Limited Liability Partnerships to charge pay more. My preference is that a firm's contribution is based on the amount of client cash it handled over the year prior - firms that are handling large amounts of client cash should pay more. This could be made simple if the SRA issued contribution bands, with firms then self-assessing their contribution.' (Individual solicitor)

'The proposal imposes a greater burden on individual solicitors to bear the burden of the necessary increase in contributions to the Compensation Fund. However, the recent adverse impact on the Compensation Fund has been caused by the failure of large firms that have been poorly managed. It seems unfair to punish all individual solicitors with an increase that affects them disproportionately. Arguably since the impact on the Fund has been caused by the failure of a small number of firms, then firms should bear the additional cost. The appropriate balance therefore seems to be a 50/50 split between firms and solicitors.' (Local Law Society)

'Our members thought that changing the apportionment from 50/50 to 70/30 or even 60/40 would make little difference to many small firms but the mid-size firms and above would suffer disproportionately where they support their staff and pay the fees. Therefore our members consider it something of a red herring to approach it as a clear line between contributions funded by individual solicitors and those paid by the entity. Moving from a 50/50 to 70/30 could impact substantially the ability of firms to invest in training, recruitment, and staff wellbeing options. However, they also queried, having carried out some rudimentary calculations, if the numbers worked, i.e. if fixing the apportionment so that

individuals solicitors bore the greater percentage burden would increase contributions overall.' (Local Law Society)

'The suggested split of 70% individuals and 30% firms could be seen as unfair, particularly for smaller firms or sole practitioners. This shift places a heavier burden on individuals who may already face significant financial pressure. Firms, especially larger ones, generally have more resources and can better absorb risks, making a higher contribution from them more reasonable. A 70/30 split might disproportionately affect those without the financial buffer of larger firms, potentially making the contributions more unaffordable for smaller practices. Therefore, a more balanced approach, where firms contribute a larger share, would be fairer and more sustainable.' (Law firm)

'No. It should all be done by the number of individuals. The regulator has seemingly tried to effectively regulate small firms and sole traders out of the market and then have the audacity to make them pay a disproportionately large part of the bill is morally reprehensible. The fact that this is only being looked at after SSB and Axiom and when the SRA has decided not to impose the £5m cap adds insult to injury.' (Individual solicitor)

'No. I agree with the Law Society's response to this question of the Consultation. Namely, the impact upon larger firms would be disproportionate and would lead to concomitant increased costs for consumers, and decrease the competitiveness of the English legal market globally.' (Individual solicitor)

'This may disproportionately impact individuals whose firms do not meet their employee's practising certificate costs. The biggest burden should be borne by the firm - it is a requirement of the right to practice. Could the contribution level be set by reference to the turnover of the firm in bandings?' (Other organisation)

'No, we do not believe the case for reapportionment has been made. The profession has already had to pay significant increases in levy contributions, we can see no justification for changing the contribution proportions. The SRA should be able to adopt financial planning and projections to avoid significant spikes in contributions as have been required to be paid in 2024. The proposed changes may favour smaller firms, however this disproportionately could shift the burden of expense to larger firms. Our preference would be to retain the current proportions of a 50/50 split between firms and solicitors. We have not seen any supporting evidence of a change to current arrangements would represent an improvement for the profession.' (Local Law Society)

'We consider the Firm contribution should be higher than the individual, 70% Firm 30% individuals - it is firms that are bailed out not individuals.' (Law firm)

'No, I do not agree. The status quo should be maintained. The change to the fund and apportionment of the fund is being proposed as a result of the two-high profile interventions and the profession is having to pay for the failings of the regulator.' (Law firm)

'No. The current climate is such, that to expect increased contributions is not fair or reasonable.' (Law firm)

'No. We would prefer to maintain the current arrangements until an alternative formula is agreed.' (Local Law Society)

'No, I think that the fund should fall 100% on the firms but payable per solicitor. Almost universally firms pay for their solicitors and by making the payment per individual would ensure a fairer balance between small and large firms.' (Individual solicitor)

'Contributions should be firm based but relate to size, turnover, risk factors - but this does not change the risk in terms of the requirement from the fund only the additional collection of monies from those within the profession. Ultimately firms pay the practising certificate fees of the individuals anyway so to an extent it is a moot point.' (Law firm)

'Claims on the Compensation Fund ('the Fund') are made when law firms are unable to refund client monies to their clients, usually as a result of dishonesty. The Fund provides a safety net for clients and reassurance that client monies are protected when clients instruct a law firm. The Fund exists to safeguard consumer confidence in the delivery of legal services by law firms. The current drain on the Fund is caused by law firms not individual solicitors. We cannot see any justification therefore for the apportionment of the contributions to be changed.

'All individual solicitors (except those working for the Crown Prosecution Service) have to pay a contribution to the Fund. Law firms usually pay for their solicitors in any event so it would be robbing Peter to pay Paul so to speak to change the apportionment. The overall bill would remain the same for firms. Where it would hit harder would be for individual solicitors whose firms do not pay for their practising certificate and Compensation Fund contributions – such as in house solicitors for example. The latter do not benefit directly from the existence of the Fund. If the SRA proposals were accepted and individual solicitors' contributions were increased the individual solicitors would be required to pay these higher payments from their own funds.

The SRA seeks to justify this change by referring to a beneficial reduction in the level of firm contributions for smaller firms but as mentioned above the overall cost would be the same if the firm pays for its own individual solicitors. The SRA also introduces an argument from its equality and impact assessment about the effect 'on small firms; Black & Asian solicitors, solicitors from lower or intermediate socio-economic backgrounds, those aged 45 and upwards and disabled solicitors'. Again, this argument does not bear close analysis as the firms for which those individual solicitors work will foot the bill in any event so this proposal is just tinkering with the figures and should be rejected.' (Local Law Society)

'The SRA's approach to contributions does not expressly recognise that our member firms will pay the contribution of individual solicitors who are either partners or employees. As such the contribution made by firms is the aggregate of the individual fees and the entity fee. As member firms employ 12% of the profession, they contribute significantly to the Fund in circumstances where the risk of them causing any grants to be made by the Fund are remote. The proportion of the contribution by our members will increase if the split between individual and firm contributions shifts towards individuals. However, we recognise that there is a wider public interest in the profession as a whole maintaining trust and confidence through the Compensation Fund.

'We can see no compelling reason to depart from the current simple system. A payment based on risk profile will be contentious and complex although, as the Consultation recognises, it is likely to benefit our members. A turnover based calculation also seems to put a greater burden on those firms who are least likely to cause a claim. Whilst we note some large firms (defined by the SRA as the largest 1000 firms) have caused claims they are numerically small and the practical effect is that the burden of the scheme would fall even more on the very large firms such as our members where insurance rather than the Compensation Fund will bear any losses to clients.' (Local Law Society)

'Part of the rationale for this consultation is that there are increasing claims on the Fund and the number and size of failing firms. This suggests that issues with firms and/or their

compliance with SRA rules are not being caught early enough to protect clients/consumers. If monitoring of firms, improving compliance and catching issues earlier could be improved, then concerns around the funding model for the Fund and its purpose may become redundant. In that context, it may be better to focus on identifying problems at firms sufficiently early that the public is protected from the issues that cause the Fund to be relied on. Perhaps Part 3 of this Consultation should be held back until after the SRA has considered and made appropriate changes to the matters covered in Parts 1 and 2 and assessed their effectiveness to see whether there is still any need or appetite to alter the Compensation Fund mechanisms.

'In the meantime, we do not consider there is adequate evidence provided in the consultation to justify a change from the current flat fee model, including the 50:50 split between individuals and firms. We would note that a change that increased the proportion of funding from individuals would effectively lead to a differentiated model of funding whereby larger firms with larger numbers of solicitors would be disproportionately funding the Fund. This would need to be carefully considered and assessed as to fairness and impact before being pursued.

'For example, arguments could legitimately be raised that the Fund should be proportionately funded by reference to the parts of the profession most commonly responsible for calls on the Fund. This may in fact be smaller firms that face issues, rather than larger firms who will be disproportionately impacted by this proposed change of approach to the 50:50 flat-funding model.

'While it may be true that when a large firm fails or leads to calls on the Fund, the impact may be bigger, the consultation has not so far assessed the extent or regularity of such issues arising as compared to the greater population of issues and calls on the Fund. The consultation also should consider whether focusing largely on the most recent period and the two unusually large interventions in the last 24 months (i.e. Axiom Ince and Metamorph) is appropriate compared to the general population of issues that have led to claims on the Fund over the last ten years or so. The SRA's Compensation Fund Annual Report for the year ended 31 October 2023 notes that the 2022/23 year 'saw the highest number of interventions in recent times with 65 interventions effected' and that the 'impact of the higher number of smaller interventions and the two exceptionally large interventions was the largest financial impact on the fund in the past 14-year period'. This suggests both that the last year was an outlier in the greater scheme of things and that a key driver of larger claims on the Fund was a much higher number of small interventions – i.e. interventions into smaller firms.' (Law firm)

'We have seen no evidence to suggest that there is a pressing need to change the funding methodology for the compensation fund. Whilst the current model is far from perfect, our concern – if the SRA's proposal were to be effected – is that firms might seek to pass on the cost of individual contributions to employees, in circumstances where they currently mostly pay those contributions at firm level. We feel that any change to the current model (in future) ought to recognise this reality, and so perhaps a 'turnover' or 'risk-based' funding differentiation might appeal more than the 'numbers-based' approach proposed here. In discussions we have had with some member firms, there has been a willingness and sense of fairness from larger firms that a risk based approach (i.e. based on average sums held in client account) would be fairer to smaller firms. This is information which is readily available to the SRA to make the relevant calculations.' (Local Law Society)

'Changing the apportionment of Compensation Fund contributions to 70% individuals and 30% firms is not considered an appropriate and proportionate approach to setting

contribution levels for 2025/26. This request appears to be triggered or necessitated by the SRA's historic regulatory conduct.' (Representative body)

## Question 2

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Are there any other important apportionment issues you think we have not considered here? If so, please explain what they are.

'If a member of the public instructs a firm that has limited liability - such as a limited company, the customer should be aware that they are not fully recovered if there are losses. Limited liability companies should be obliged to notify clients that any compensation will be limited.' (Individual solicitor)

'Risk area? Maybe weight contributions by practice area?' (Law firm)

'There should be a reduction for firms doing legal aid work. This now pure publicly spirited access to justice work and should be reflected in the contributions. Legal aid firms are subject to very rigorous auditing by the Legal Aid Agency all of which is unfunded, and to recognise this would be a step in the right direction.' (Law firm)

'We are not aware of any other important apportionment issues as between individuals and firms. However, it is clear from the consultation (and which perhaps many solicitors are unaware of) that the Compensation Fund is being used not just to compensate clients but also to cover SRA intervention costs—without, in our view, sufficient oversight or transparency. The profession receives little accountability on how the funds for interventions are allocated and spent and the extent to which the SRA seeks to and succeeds in recovery from the intervened firms and/or its partners. The SRA must provide greater clarity on the fund's expenditure aside from the compensation payments and ensure solicitors are not unfairly burdened with rising costs.' (Local Law Society)

'Fairness. If the report into Axiom Ince is read then the SRA is responsible for the costs it incurred as it should have dealt with the matter earlier as the regulator. Whilst it is regulating the profession it does have a duty to ensure it does and reduce the impact on the rest of the profession. We are now all paying the price for its failure.' (Law firm)

'As mentioned above, we are a small legal aid high street firm. Why should we be paying the same amount towards the fund as a big corporate firm who turnovers significantly more than us?' (Law firm)

'Asking junior solicitors to pay personally seems harsh.' (Law firm)

'The north/south divide in property values, incomes and revenue.' (Individual solicitor)

'Whilst it is right that many firms choose to pay the individual contributions on behalf of the solicitors they employ, there are a number of 'Firms' where solicitors are engaged on an 'eat what you kill' basis and moving the burden from to 70% individuals and 30% firms is unfair to individuals, unsustainable, unreasonable and unjustified. Not all firms pay the individual contributions on behalf of the solicitors they employ and this change would be grossly unfair to those individuals working for firms that expect the individual solicitor to pay their fee whilst the firm pays its fee. This is another example of the SRA favouring the big firms at the expense of the individual solicitor and smaller more innovative solicitors firms.' (Law firm)

'We would like to see research into how many firms expect employed Solicitors to cover their own contributions to the Fund, rather than the firm paying on their behalf, and how those results compare across size of firm/turnover etc. Without that research we cannot

understand how it can be claimed that a change of apportionment would assist small firms, or firms providing lower paid but vital services.’ (Law firm)

‘The role of limited liability partnerships, and accumulator firms, could also be considered in the differential fees model. Sole practitioners need to be better supported for a whole range of reasons that are signalled in your paper (shrinking pool, unsustainable model, higher impact on Black and minority ethnic solicitors).’ (Individual solicitor)

‘The SRA recognizes in the consultation the importance of understanding how any change to the percentage apportionment could impact on individual solicitors, including those working inhouse. Our members felt that the proposal could be detrimental to inhouse solicitors who will be required to contribute an equivalent amount to their private practice counterparts but in circumstances where it is known that their activities do not result in claims against the Fund. Members felt that a change that results in increases to individual contributions may have an adverse impact on the number of inhouse roles, with entities opting for non-qualified staff or changing current policies to require the individual solicitor to personally meet the cost.’ (Local Law Society)

‘Yes, there are several important apportionment issues that may not have fully considered: 1. Firm Size and Financial Capacity: The SRA's approach may not account for the varying financial capacities between different sizes of firms. Smaller firms or sole practitioners may struggle more with a higher individual contribution, whereas larger firms can absorb higher fees more easily. A tiered contribution model based on firm size or turnover could be more equitable. 2. Risk Profiles: The risk of claims can differ greatly depending on the type of legal services offered. Firms specialising in high-risk areas (e.g. conveyancing) may face a higher likelihood of claims, yet they might not be asked to contribute more proportionately. A more tailored approach that factors in the risk associated with different practice areas could ensure a fairer system. 3. Impact on New Entrants: The current model may place a disproportionate financial burden on new practitioners or firms just starting out, who may not yet have the financial reserves to handle increased contributions. It could be a disincentive. A phased approach or lower contributions for new entrants could help mitigate this. 4. Public Interest: The SRA may not have fully considered how the proposed changes could affect the public interest. Firms may pass on higher costs to clients. This could lead to increased fees, making legal services less affordable and accessible, particularly for clients with lower incomes who may be disproportionately impacted by rising costs. 5. Contributions Based on Claims History: The SRA might consider introducing a system where firms with higher claims histories pay more towards the fund. This would create a more direct link between a firm's actual risk profile/performance and its contribution, encouraging better risk management and reducing claims.’ (Law firm)

‘Sole practitioners and small firms did not ask for the market to be opened up to outside investors and massive behemoths to be created. That was forced on the profession. They should not have to bail ABS firms and Northern high volume low claim firms that operate in a completely different segment of the market with completely different risk profiles. Why are small firms expected to insure against the failure of firm's operating on boom and bust risk strategies? no other regulated field operates like this. To put it into context it would be the same as asking a GP to insure the losses of a plastic surgeon.’ (Individual solicitor)

‘Individuals per their share from net income after tax, the firm can at least get tax relief.’ (Law firm)

'Yes, you are allowing the outcome of the two high-profile interventions to dominate this consultation. The Compensation Fund up until this point has worked (albeit not perfectly). Other options need to be explored properly including those based on risk.' (Law firm)

'I think that it is important to recognise that the larger firms should bear the greater burden. This is why I would make the payment fully on the firms but based on the number of solicitors in the organisation.' (Individual solicitor)

'Linking contributions to risk factors would be more appropriate BUT it is the case that most solicitors and firms are legitimate and it is the very few that cause the problems, especially if the oversight of the same is lacking.' (Law firm)

'We consider there would be a disproportionate impact on larger firms if the proposed change to a 70:30 funding model was introduced, as the reality is that firms pay the contributions of the solicitors who work there. It is unclear whether the SRA has taken that into account when considering the proposed change to apportionment. Further analysis should be undertaken into the types of issues and firms that underpin claims on the Fund (including the extent to which different types of accepted claims are or are not recompensed) so that this analysis can assist in informing any proposals to alter the current apportionment methodology.' (Law firm)

'All firms are keen to retain the compensation fund, as it is seen as something tangible for consumers to rely upon, and something to provide additional reputational confidence for the legal profession. In the absence of evidence to suggest that the funding model needs to change, it is our view that it should remain broadly as it is, with perhaps some more transparency around payments that are made and how the fund's rules are being interpreted/applied (or not as the case may be). Changing the funding model would take a huge amount of time and energy, and our members would much prefer that the SRA invests its limited resources into the issues set out above in section 2.' (Local Law Society)

'Hourly rates recovered by the law firm does not account for changes in contributions. It is up to the firm whether it pays for the solicitor's contribution or not to ensure the individual has a certificate.' (Individual solicitor)

'Our members come from firms of varying sizes but agree that it is inequitable to charge a single rate of contribution per firm which would result in a sole practitioner paying the same as a large practice. Basing contribution to the compensation fund on firm turnover is both the fairest and simplest solution.' (Representative group)

'The Panel does not identify any additional apportionment issues that the SRA should consider at this time. The current proposal appears comprehensive and well-reasoned.' (Legal Services Consumer Panel)

'As smaller firms are squeezed financially and the profession moves towards larger firms and fewer small practices, it seems sensible to move towards a larger share of contributions being paid by those large firms - who also present a greater risk.' (Law firm)

'We consider there would be a disproportionate impact on larger firms if the proposed change to a 70:30 funding model was introduced, as the reality is that firms pay the contributions of the solicitors who work there. It is unclear whether the SRA has taken that into account when considering the proposed change to apportionment. Further analysis should be undertaken into the types of issues and firms that underpin claims on the Fund (including the extent to which different types of accepted claims are or are not recompensed

via STAs) so that this analysis can assist in informing any proposals to alter the current apportionment methodology.' (Law firm)

## Question 11.

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In the context of this consultation, do you agree with our assessment of equality, diversity and inclusion considerations in our impact assessment? If not, what else do you think we should consider?

'Yes other than as previously stated in the other two parts - sole practitioner (1 owner who is the fee earner) situation needs to be considered in the interests of equality.' (Law firm)

'No, it is necessary to include those matters and as a public body, you presumably share in the public sector equality duty.' (Individual solicitor)

'Agree that specific considerations is needed across the SRA regulatory model for sole practitioners, given the impact on Black and minority ethnic lawyers.' (Individual solicitor)

'We appreciate that smaller firms, which are likely to have managers from more diverse backgrounds, may be more impacted by the costs of the proposed changes. However, we believe that protecting the money of all clients, particularly the more diverse clients of such smaller firms, as well as protecting the reputation of the whole profession and the trust in legal services provide reasonable justifications for a regulator taking reasonable steps to enhance those protections.' (Law firm)

'The equality and impact assessment doesn't address the position of clients with impaired capacity, children and young people, disabled clients etc in the context of protection of their money and obtaining redress from the Fund.' (Law firm)

'I have no further comment on Equality Diversity and Inclusion. I would however say that I fail to see how the personal questions about sexuality and religion are in any way relevant. They are also badly drafted and a 'prefer not to say' option is now standard in such circumstances. We have not been given the opportunity to make any general comments about the consultation nor our own personal experience. Here is mine. My reasons for commenting are that I have considerable experience of the issues that arise in relation to this consultation. I have held a practising certificate every year since 1981. I have been an equity partner and a senior employee (the latter as Director of Risk) in over 20 firms. I was involved in the lender litigation of the 90s (acting for banks and building societies). I have conducted investigations for the Law Society (prior to the SRA) of solicitor misconduct. I currently conduct AML External Audits for some of the largest firms in the country as a freelance solicitor. It is impossible to comment on specific proposals without addressing the elephant in the room, the number and size of recent interventions because of misuse of client money. Not just Axiom Ince but that was an example of a risk (consolidators moving too quickly and without sufficient regulatory scrutiny in buying up law firms) that was identified by the SRA but apparently not acted upon. Removing the concept of the client account affects a much wider economic system than just the solicitors' profession. It would be most acutely felt in real estate (but not just in that sector) where stakeholders include financial institutions, insurers, other professions as well as members of the public (who probably encounter our profession more in relation to property transactions than any other single type). This is an SRA Problem but is not a solution that can be addressed by the SRA in isolation. I say SRA Problem because the Carson McDowell report made clear that the light touch regulation of independent accountants' reports was the category error that those of us who have an interest in solicitors' regulation predicted at the time. The profession has had to pay a nearly threefold increase in contributions to the Compensation Fund which is

particularly hard when the SRA will not acknowledge its contribution to the regulatory failure these interventions represent. To take the most insignificant example possible, I have had to pay a significant increase: I am a freelance solicitor and don't even have a client account. I find this whole consultation very skewed to the end of ending client accounts without any real consideration of making an existing process better. As a commentator has said, it is like banning all shops from accepting cash because of a few till robberies. In what follows, by 'client account' I mean an account in the name of a solicitor/firm which is operated by them.' (Individual solicitor)

'We share the concerns highlighted by the SRA's equality impact assessment, that: 'significant increases to the contributions required [for the Compensation Fund] could disproportionately impact small law firms who are least able to manage large increases'; and 'that there are specific equality impact considerations in respect of small firms, in that black and Asian solicitors, solicitors from lower or intermediate socio-economic backgrounds, solicitors aged 45 and upwards and disabled solicitors are overrepresented in small firms'. (Local Law Society)

'The key point with any new regulation is fairness. The SRA needs to ensure that the burden of regulation does not fall disproportionately on one particular sector of the profession such as SME firms. This is not about the particular ethnic diversity of any one sector but ensuring that a fair risk-based approach is taken to regulation such that firms who have a good regulatory record are not subject to over scrutiny compared to firms who have a worse regulatory record but are larger.' (Law firm)

'The impact assessment conducted by the SRA has found that the change would affect small and medium firms, high-street practices, and legal services that focus on consumers. These services frequently cater to diverse and vulnerable client groups. By shifting financial burdens onto individual solicitors, the bill makes it more difficult for them to continue operating. This could, in turn, reduce access to justice for those reliant on their firms and create barriers for firms with a special duty of care to disadvantaged and under-represented groups.' (Law firm)

'The SRA should conduct a more detailed assessment of the potential impacts on both the firms and the communities they assist before any changes are made. A more thorough analysis by the SRA would be of value to the firms and their clients. Understanding how proposed changes could pose challenges for smaller firms is crucial. It is important that the SRA considers these effects meticulously.' (Law firm)

'I haven't read it, but I suspect charging smaller, riskier, firms more will adversely impact firms with more diverse partnerships.' (Law firm)

'While the items within the draft equality impact assessment were very complex from an accounts rules perspective for an equality and diversity expert to digest in that content, there does not appear to be information within the equality impact assessment that we strongly disagree with.' (Law firm)

'We have no particular comments on the SRA's assessment of equality, diversity and inclusion in the impact assessment other than to urge the SRA to ensure that before implementing any changes to the current regulations the SRA are able to demonstrate that any barriers to inclusivity in respect of this consultation have been removed and to show that a sufficient level of response to this consultation has been received so as to ensure that it is properly representative and inclusive of the majority of the profession.' (Law firm)