



Strategic Risk **Annual Report 2020**

Chair's Foreword

Judith Worthington, Chair of Strategic Risk Committee, CILEx Regulation

As indicated in last year's annual report, the committee set out an ambitious work programme for 2020 and it was inevitable that the rate of progress over the past year in some areas would be impacted by the restrictions placed on activity by the pandemic. That said, the committee were impressed and reassured by the speed and efficiency with which the office and the executive which supports its work adapted to new ways of working. We held one face to face meeting in February 2020 and following that all meetings have taken place virtually and, in the committee's view, with no negative impact on its ability to carry out its scrutiny role.



We set out in this year's report substantial areas of progress with clear plans for taking forward those activities which are still 'work in progress'. We highlight in particular the need for prioritisation of the implementation of new CRM system to allow the supervision of regulated individuals, a key role of the committee.

Of note, is the contribution made by the committee as it brings its independent external experience and perspective to CILEx Regulation's work. For example, developing indicators of quality to assist consumers in making choices; consumers' understanding of freelance solicitors and regulated firms; the risks and benefits to consumers (and members) of further extending authorisation across individuals and firms. We highlight in particular in the report the first analysis of diversity data for entity authorisations up to the end of 2020; whilst this is a requirement of the LSB, it is nevertheless good practice and assists CILEx Regulation and the committee in their monitoring role.

Looking to the future, in line with the expanding role of the committee, there will be oversight of a number of initiatives coming into scope during the year, for example the new education standards, CILEx Regulation's work on becoming a Designated Professional Body, the implementation of proposals for the regulation of ACCA firms offering non-contentious probate, and the further development of the transparency rules.

On a personal level, as I step down from the role of chair of the Strategic Risk Committee as my term in that role comes to an end, I would like to thank David Pope and his team for their support to the committee over this year and send my successor Andy Burman my very best wishes as he takes over.

Introduction

- CILEx Regulation operates an outcomes-focused, proportionate and risk-based approach to regulation.
- It is designated to authorise both individuals and entities.
- This report outlines the work undertaken by the Strategic Risk Committee in relation to risk in 2020.
- It also identifies areas for development of our risk-based approach to regulation.

Functions of the Strategic Risk Committee

The Strategic Risk Committee (known after as ‘the committee’) provides an oversight function for the review and application of CILEx Regulation’s risk framework and how this should be applied to our entity authorisation processes. In addition, it can consider and decide whether to endorse decisions to reject or revoke authorisation for CILEx Regulation’s firms. It also oversees supervision of both regulated individuals and practitioners.

The committee is made up of five members, comprising both Lay and Professional members, all of whom have helped support CILEx Regulation in its work during 2020. They are Judith Worthington, Andy Burman, Kim Painter, Sarah Ryan and Vicky Smith.

After the first face to face meeting in 2020, the committee moved to remote meetings for the remainder of 2020. The intention is that this will continue for the majority of 2021 meetings.

The committee has been fully supportive of both the CILEx Regulation staff and the regulated firms during 2020. They were keen to understand how CILEx Regulation was coping with the move to a remote operation including the impact on supervisory activity, as well as the support and guidance that was provided to firms. They also took a keen interest in how staff wellbeing was being supported throughout the year.

Individual Supervision

The expectation of the committee for 2020, was that they would see the integration of the practitioner risk matrix within the new CRM system. This would then enable a review of the assessed levels of risk and input in to how CILEx Regulation could structure appropriate levels of individual supervision, based on that risk assessment.

However, the scheduling of work on the new CRM system in 2020 meant that work only progressed slowly on our risk matrices, so they were unable to be integrated in 2020 as planned.

The committee remains fully supportive of the importance of the introduction of the practitioner risk matrix as a key driver for appropriate and risk based supervisory activities for individual members. Whilst recognising the challenges that were faced during the year, the committee’s concern at the delay was relayed to the executive.

Similarly, the work on new education standards, and CILEx Regulation’s approach to future supervision for criminal advocacy, stretched beyond 2020 and should now conclude in 2021. The Strategic Risk Committee will then be involved in the oversight work.

Areas for development

The expectation remains for the committee to be reviewing the first outputs from the risk matrices in 2021 and then feeding into the future decisions on CILEx Regulations supervisory approach.

Similarly, the anticipated new education standards will require their involvement with oversight work.

Having made the submission on evidence gathering to the LSB on approaches to ongoing competence, CILEx Regulation believes that the committee will become involved in looking at the possible future outputs as part of its collaborative work in this area.

Entity Authorisation and Supervision

Despite the move to remote meetings, the Committee continued to have an important role in delivering its key oversight function. It received full updates on the move to a fully desk-based supervision and how firms and staff were being supported.

Whilst it was unable to conduct the annual review of the application process to ensure that the risk frameworks are being applied correctly (this will be addressed at the end of 2021), it did receive the annual report on the risks identified for applicants, and entities at the time of their annual return, which again was used at the 2020 entity event.

As indicated above, they sought clarity on the progress with the new CRM and how that would positively impact on applicants and the assessment of risk.

Of the work planned for 2020, the committee assisted our Consumer Officer by considering what indicators of quality will best assist consumers in making a choice of legal provider. This helped shape our response to the CMA call for evidence ahead of their review of progress made in transparency of legal services.

Any oversight work for CILEx Regulation becoming a Designated Professional Body under the Financial Services and Markets Act 2000 was delayed at the FCA's request but will be picked up in 2021 now the application is progressing.

The expansion of the scope of their oversight to other regulatory areas was further reflected by the work on fee caps for claims management activities which is now commencing.

CILEx Regulation utilises the committee to provide a view on a variety of regulatory matters. During the year they considered the impact of freelance solicitors and how consumers might understand the difference between them and a regulated firm.

They also considered how we might look at extending our authorisations to different types of individuals and firms, and the risks and benefits this might provide to members and consumers.

Areas for development

The committee will continue its watching role on the implementation of the CRM and how that impacts on Entities and the assessment of risk.

The committee will continue to be involved in our work around transparency. In addition to a new area of law (Immigration), which has been rescheduled for this year, they will continue to provide input on our thoughts on what indicators of quality will best assist consumers in making a choice of legal provider.

They will provide an oversight to our work in becoming a Designated Professional Body and the other associated financial services work related to firms.

Having reviewed CILEx Regulation’s proposed approach to enable ACCA firms to continue to offer non contentious probate services to their clients, and any risks that this might pose, the committee will provide oversight on the implementation of the proposals as the application progresses.

Anti Money Laundering

The Strategic Risk Committee has continued to provide a valuable oversight to the Anti Money Laundering (AML) work of CILEx Regulation, including the progress that CILEx Regulation made in 2020 in completing the action plan that was agreed with Office for Professional Body Anti Money Laundering Supervision (OPBAS).

They were informed of the outcomes of the second supervisory assessment carried out by OPBAS and will oversee progress with the agreed action plan for 2021.

They have been advised of the wider supervisory activities that have been carried out including work related to the Economic Crime Plan, intelligence sharing and law enforcement activities. They also saw the publication of the second AML Supervision report in 2020.

Areas for development

In 2021 the committee will oversee the progress that CILEx Regulation makes against the outstanding areas identified by OPBAS in their action plan.

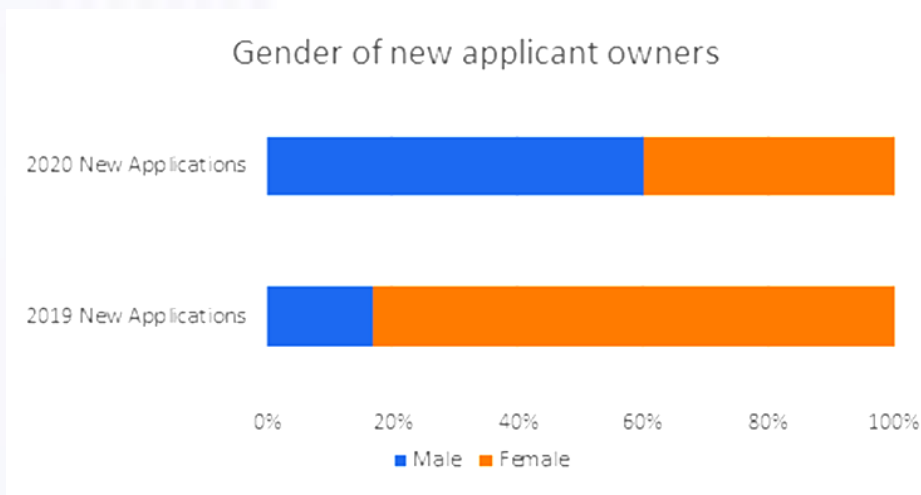
Following the delay in 2020, they will expect to see the integration of the AML Risk Matrix within the CRM and to then review how this can aid the approach to supervision.

As we continue to develop the effectiveness of the information we supply to our regulated community, CILEx Regulation will wish to involve them further in the growth of supervisory evidence within the AML Supervision report

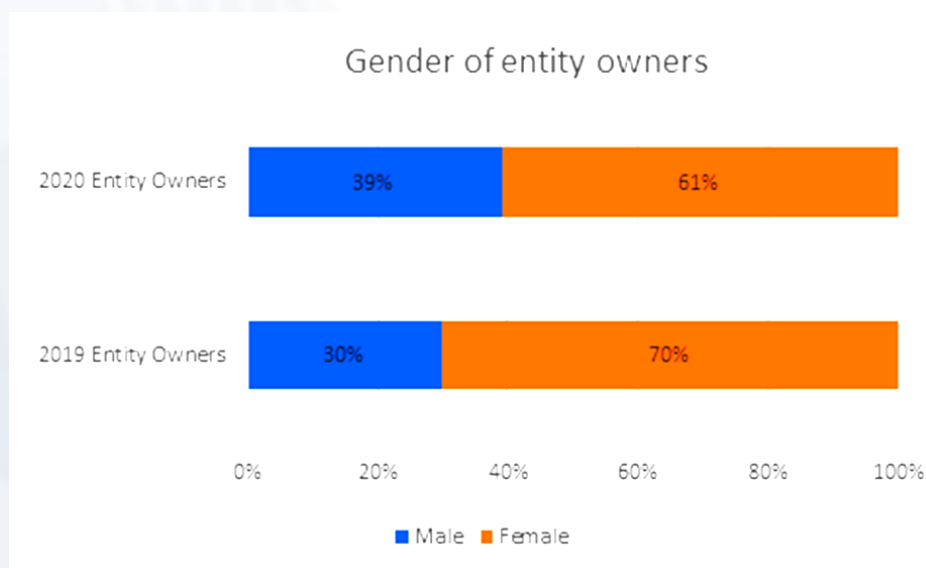
Analysis of Equality and Diversity data for applicant firms

We have reviewed the diversity data for entity authorisation applications processed up to the end of 2020, in relation to gender and ethnicity, to consider the overall impact of decision making on a number of groups with protected characteristics. (It should be noted that due to the systems in place prior to an applicant submitting an application, there were no refused applications and there are limited numbers of applications for entity regulation at present. Therefore, findings may be of limited value.)

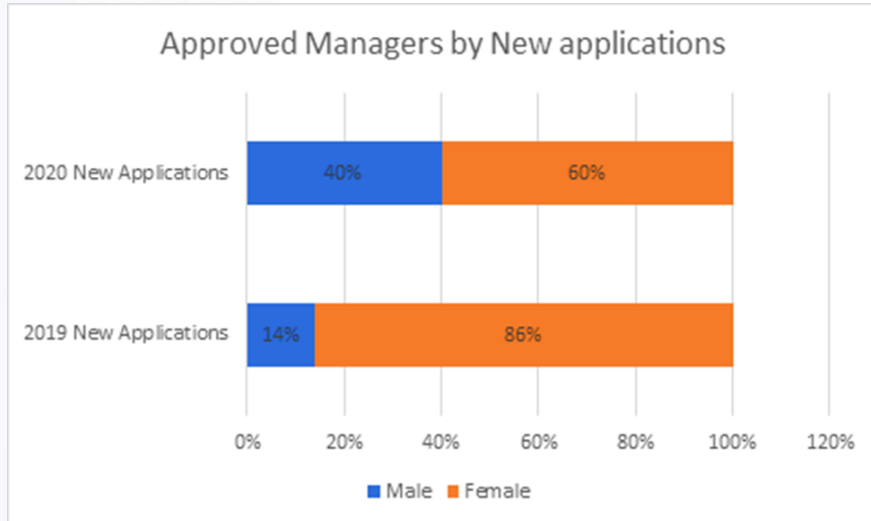
As we highlighted in last year’s report, we saw a change in the gender of applicants in 2020. This year saw more applications from male (60%) entity owners than female (40%).



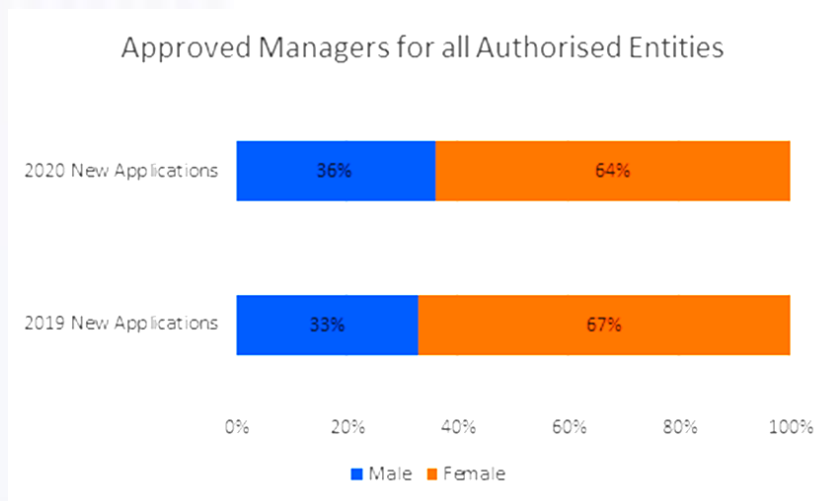
For the authorised firms at the end of 2020, there are more female (61%) entity owners than male (39%).



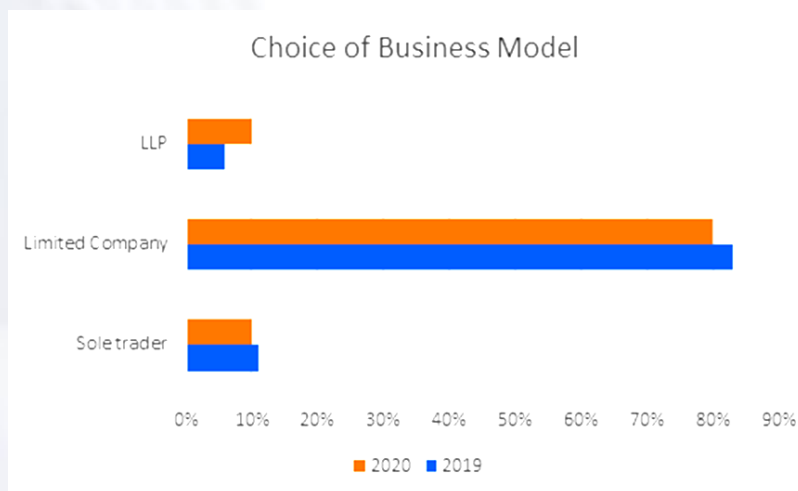
In line with ownership, the applications to be an approved manager in a firm in 2020 show an increase in male (40%) approved managers to female (60%) approved managers from 2019.



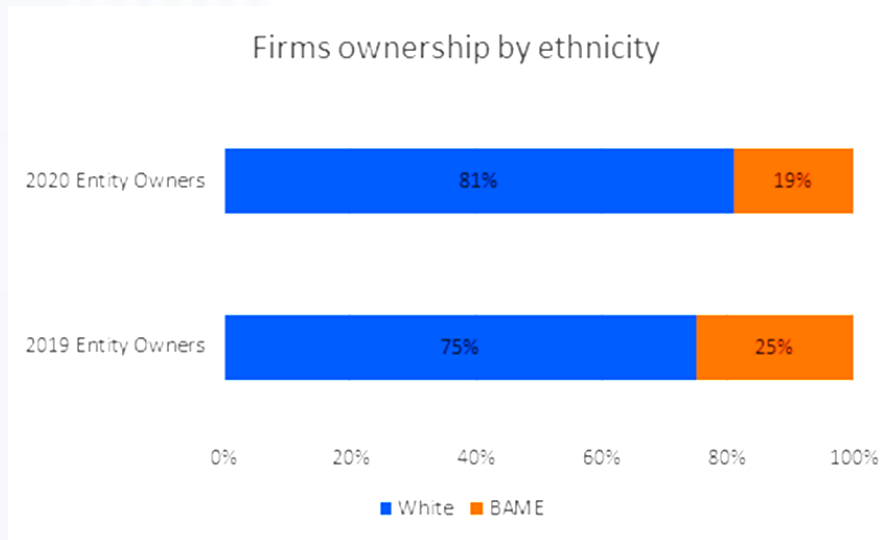
For the approved managers at the end of 2020, there remain more female (64%) than male (36%).



The favoured model remains a Limited Company although often these are operated by one approved manager/owner.



- The majority of entity applications continue to be from white applicants.
- To the end of 2020, there were four firms with owners from a BAME1 background (19%) compared to seventeen from a white background (81%). This was affected by two firms moving out of regulation.



This information is collected to enable us to inform the Legal Services Board and to monitor the diversity of our regulated firms. This will continue to be monitored for 2021.

Conclusion

- The work of the Strategic Risk Committee in 2021 will continue to be mainly focused on guiding the development of our policy on risk relating to individuals and firms. Whilst it remains our intention to move towards a more statistics-based report in future years demonstrating the detail of the committees work, the number of firms currently authorised is not yet sufficient to provide meaningful information.
- The committee will wish to see the timetable for implementation of the new CRM system progress to allow the strategy on supervision of regulated individuals to finally progress in 2021.
- Working with the committee, CILEx Regulation will be focusing on quality indicators as the next stage of development of its Transparency rules, alongside a continued focus on AML supervision and progression of the DPB and ACCA applications.