



Compensation Arrangements Annual Report 2021

Introduction

The purpose of the CILEx Regulation (CRL) Compensation Arrangements is to recompense clients who have been provided with legal services through a CRL authorised and regulated firm ('a CILEX Authorised Entity') and who have incurred a loss due to the dishonest misappropriation or dishonest failure to account of that authorised entity, its owners, managers, or employees.

At the outset of 2021, any approved claims under the scheme would have been funded by an insurance policy which underwrote the compensation arrangements (although there was also provision for a small cash fund to be maintained).

All grants under the CRL Compensation Arrangements are discretionary and can only be made within the limits of the scheme.

Changes to the administration of the compensation arrangements

During 2021 the insurance company underwriting the insurance policy decided to withdraw from the compensation market and notified CRL that the policy would not be renewed after 30 July 2021. CRL reached agreement for the policy to be extended to 30 October 2021 to enable alternative arrangements to be put in place.

CRL engaged an actuary to assess the claims risk and to recommend requirements for the alternative compensation arrangements. CRL consulted on a proposal for a temporary smaller cash-backed scheme. This proposal was submitted to the Legal Services Board on 18 August 2021 and was approved on 2 September 2021.

During 2021 CRL commenced its work on the future approach to provision of compensation arrangements, with the intention of consulting on its proposals in early 2022.

Compensation arrangements and CILEX-ACCA probate firms

The Legal Services Board approved CRL's application to become the regulator of Association of Chartered Certified Accountants (ACCA) firms for the reserved activity of probate. These new CILEX-ACCA probate firms provide clients with access to compensation arrangements via their Professional Indemnity Insurance, and so are not within the scope of the Compensation Arrangements.

Management of the compensation arrangements

The Compensation Fund is held, managed, administered and distributed by CRL on behalf of the Chartered Institute of Legal Executives.

The CRL Board, as Trustees of the Fund, delegate the power to make final grants for the purposes of the CRL Compensation Arrangements Rules to CRL staff, officer holders or other appointed individuals, including adjudicators, as set out in the scheme of delegation. The adjudicators were not required to meet in 2021.

Contributions and discretionary grants

During 2021, each Authorised Entity made contributions to the Fund at the prescribed rate, which is approved annually by the Legal Services Board. These contributions were utilised towards payment of the premium for the insurance policy which underpinned the Compensation Arrangements.

There were no claims made on the Compensation Arrangements.

Conclusion

During 2022 CRL will consult on an alternative approach to the provision of compensation arrangements, with the intention of submitting proposals to the Legal Services Board later in the year.