



Compensation Arrangements CRL Report 2022

Introduction

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

Since 2021, grants under the scheme will be paid from a cash fund (CILEX Compensation Fund) provided by Chartered Institute of Legal Executives (CILEX) and CRL. All grants under the CRL Compensation Arrangements are discretionary and can only be made within the limits of the scheme.

CILEX-ACCA probate firms provide access to compensation arrangements via their Professional Indemnity Insurance, and so are not within the scope of the compensation arrangements.

Changes to the administration of the compensation arrangements

In 2021 CRL engaged an actuary to assess the claims risk and recommend requirements for alternative compensation arrangements. A proposal for a temporary smaller cash backed scheme was approved by the Legal Services Board on 2 September 2021.

During 2022 CRL continued its work on the future approach to provision of compensation arrangements, particularly around reducing the risks of claims being made on the scheme. In addition to exploring alternatives for reinstating insurance backed compensation arrangements, CRL consulted on an option to move to Third Party Managed Accounts (TPMAs) for those firms seeking to hold client money. This identified significant concerns for the firms with the proposal and so CRL and CILEX agreed to extend the existing interim arrangements for a further 12 months.

CRL held a meeting with the firms in December to explore how the firms reduce the risk posed to consumers in relation to loss of funds. Further meetings with the firms will be held in 2023. The expectation is the makeup of CRL firms will change in 2023 as the number of firms authorised for conveyancing reduce.

Management of the compensation arrangements

The Compensation Fund is held, managed, administered and distributed by CRL on behalf of the CILEX.

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 2022.

Contributions and discretionary grants

During 2022, 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 growing the fund which now underpins the Compensation Arrangements.

There were no claims made on the Compensation Arrangements.

Conclusion

During 2023 CRL will continue its work on an alternative approach to the provision of compensation arrangements. The outcome of the Legal Services Board investigation will influence the options for any proposal that may be available to be submitted to the Legal Services Board later in the year.