

SRA BOARD
23 January 2024

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This paper will be published

Chief Executive's Report

Purpose

- 1 This report provides an update to the Board on our priorities and any key developments that it needs to be aware of. It also provides information on important external developments and our engagement activity with key stakeholders.

Recommendations

- 2 The Board is asked to:
 - a) consider the Chief Executive's report.

If you have any questions about this paper please contact: Paul Philip, Chief Executive, paul.philip@sra.org.uk, 0121 329 6940.

Chief Executive's Report

Update against priorities / key developments

Post Office

- 3 There has been increasing media interest in the Post Office scandal following the recent ITV drama. Clearly, the miscarriages of justice in this case have severely impacted the lives of hundreds of sub-postmasters. We have live investigations into the actions of lawyers in this case.
- 4 We have had an increase in media enquiries into our role in relation to it, particularly whether we should expedite action in this case. In addition to briefing the media, we are publishing a statement, offering an update on our October 2022 statement. It sets out our approach to our investigation, how we are still gathering evidence, including from the ongoing public inquiry. We will take action where we find evidence that solicitors have fallen short of the standards the public expects.

Anti-Money Laundering (AML) update

- 5 We have commenced a number of workstreams to implement the new powers granted to us under the Economic Crime and Corporate Transparency Act. We will bring proposals to the Board on the use of the new unlimited fining powers ahead of a consultation to be issued in the spring. We have responded to a letter from the LSB about the new regulatory objective setting out that we welcome the changes and that our priority areas for the coming year are money laundering, financial sanctions and fraud.
- 6 The Treasury is due to consult shortly on changes to the 2017 money laundering regulations. We will consider the consultation once published.

Solicitors Qualifying Examination (SQE)

- 7 On 13 December 2023 we opened two consultations on arrangements for qualified lawyers seeking admission to the roll. One [consultation](#) seeks views on our proposal to prevent a qualified lawyer who has attempted and failed an SQE assessment from being exempted from that assessment. The other [consultation](#) seeks views on proposed changes to how we gain assurance about the English or Welsh language proficiency of a qualified lawyer granted an exemption from SQE2.
- 8 Geoff Coombe's five-year contract as SQE Independent Reviewer comes to an end in January 2024. I have thanked Geoff for the care and diligence with which he undertook this role, both in the run up to the SQE's introduction and during the first years of its delivery. Following an open recruitment process, we have

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appointed Ricardo Le, Associate Professor and Academic Lead for Assessment at Warwick Medical School, to the role.

Fixed penalties published

- 9 We have started to publish details of the first fixed penalties we have issued since introducing the new fixed financial penalty regime. These related to breaches to our [Transparency rules](#) and [submission of diversity data](#). Firms are sent notices of potential fines, with the opportunity to put the issue right. In many cases, the threat of penalties is resulting in firms becoming compliant.

Firm diversity data collection

- 10 We [published](#) the results of our firm diversity data collection in December 2023 based on the data reported by 99% of regulated law firms, covering more than 203,000 people working in 9,276 firms. Diversity in law firms is increasing, but there is still underrepresentation in the larger firms for women, Black, Asian and minority ethnic solicitors, disabled lawyers and those from less privileged backgrounds. We are following up the 1% of firms which did not report their diversity data when required and issued the first fixed penalty notice in December.
- 11 At the time of writing, of the 95 cases opened to follow up the failure to report firm diversity data, 73 firms are now compliant (77%). Five fixed penalties have been issued to date, of these, one firm is now compliant and four have not yet come into compliance.

Intervention into Axiom Ince

- 12 The Legal Services Board (LSB) has announced its plans to have an independent review of the events leading up to our intervention of Axiom Ince. It has appointed Solicitors firm Carson McDowell to carry out the review, which is based in Northern Ireland and not regulated by us. We have not yet seen the full terms of reference for the review. These will be shared with us, and we understand that they will be published this month. The news release can be found [here](#).
- 13 There has been significant and ongoing media coverage of our decision to intervene into Axiom Ince and its implications. Although we are limited in what we can say in response given that there are ongoing investigations, we have published a statement to clarify key points about the case and reflecting on the issue it raises. We have also provided an update on its implications for the Compensation Fund. This included the fact we will not impose an overall cap on claims, as the scale of consumer loss would be too large and would lead to an unacceptable loss in public confidence in solicitors. Early learning includes regular corroboration with banks on any client account statements and consideration of residual balances and the role of the independent

accountant. The latter two issues are now in our work plan and the former is in place.

CTS cyber attack

- 14 In December, we updated the Board on a cyber incident involving a firm called CTS which provided IT services for law firms. We have since emailed the profession to reinforce the importance of having business continuity arrangements in place to minimise the impact and for firms to notify us if affected by cyber incidents. The majority of firms affected are now operating normally and we are working with other relevant agencies to understand the full impact and any lessons that can be taken from this.

Consumer segmentation and professional indemnity insurance research published

- 15 We are using the findings from two key research projects that concluded in September to drive better outcomes for consumers.
- 16 Our [research](#) with Bayes Business School on consumer segmentation was welcomed by the LSB and by the Legal Services Consumer Panel, who described it as ‘seminal research’ and recommended it as a key piece of supporting evidence for attendees of their seminar on unmet legal needs.
- 17 The research found that the traditional way of segmenting consumers of legal services based on demographic factors was limited in value, as not everyone with a similar legal need or shared demographics will prefer delivery with the same attributes (such as channel, responsiveness or pricing). Key findings include:
- There are distinct segments of consumers according to their preferences for different attributes of legal service provision and these are not driven by demographic factors.
 - Many legal services providers believe that their communications are clear and effective, but consumers disagree. Consumers of legal services highly value approachability and clear explanations and offering these is likely to improve access to legal services.
 - Along with perceptions of high costs, consumers often feel vulnerable accessing legal services because of information asymmetry.
 - More information about the legal system and how to pay for it can reduce people's legal anxiety, empower them and boost their confidence in legal processes and providers.
- 18 We are using the findings to inform a number of activities, for example by pushing harder on our Transparency Rules, based on the evidence that consumers do not

find information is communicated clearly. We are also using the findings to shape our ongoing research project looking specifically at consumer vulnerabilities within the context of legal services provision, having further evidence that vulnerability can be linked to a number of factors. We will be presenting the findings at the LSB 'Reshaping Legal Services' conference which is designed to bring together a wide range of stakeholders in ensuring legal services work better for those who need them.

- 19 Our [econometric analysis](#) of Professional Indemnity Insurance (PII) data, commissioned in collaboration with the LSB helped to position us as an authoritative voice as it provided the first empirical evidence for the drivers of high PII premium rates. It is being used by the LSB in its current review of PII and is an important piece of evidence as we consider consumer protections.

Innovation and technology

- 20 In November, we [published](#) the latest report in our Risk Outlook series on the opportunities and risks presented by Artificial Intelligence (AI) in law firms. We also [published](#) the latest edition of Lawtech Insight in December. These publications included practical insights about how small and medium-sized businesses can harness technology.

Regulatory Information Service

- 21 Together with the other front-line Regulators, through the Legal Choices Governance group, we are now developing a Regulatory Information Service (RIS). This was a key recommendation of the 2016 Competition and Markets Authority's market study into the supply of legal services. Our ambition is that this will be a single portal for consumers to access information about legal service providers – linking to existing resources where necessary – so that people and small businesses can be better informed about services offered and quality before engaging a provider. We are beginning the 'Discovery Phase' of the project, which will develop the detailed project specification and implementation plans. The Chair of the Legal Choices Governance Board has also written to the LSB to highlight progress on this issue.

The Law Society's 'Green Paper' on Proposals for a 21st Century Justice System

- 22 In October, the Law Society (TLS) published proposals for government justice reforms. The key proposal was the creation of a digital tool ('Solutions Explorer') to enable individuals and small businesses to identify their legal issue and the appropriate resolution method. TLS anticipated that this should be co-designed with users, and that it would cost £30m but could result in savings for claimants, defendants and the courts of potentially £75m over 5 years. Other policy proposals included to: strengthen and rationalise the Ombudsman landscape, enhance powers for the Small Business Commissioner, increase awareness and availability of unbundled services with safeguards, implement a Costs Council to

set hourly rates and to review limits for higher value cases, and make improvements to the sustainability of legal aid. We are engaging with TLS on the proposals. We will explore how the Solutions Explorer proposals might overlap with Legal Choices, as well as learning more about the feedback they have received on their proposals.

SRA Law Society collaborative working protocol

- 23 There are three areas listed in the protocol that we have agreed to work collaboratively with TLS on in particular: technology, AML and EDI.
- 24 We continue to meet and work with TLS on economic crime issues. We attended a recent Law Society taskforce meeting and published a Q&A on our website by way of follow up. We worked with TLS and other legal regulators to issue an update to the Legal Sector Affinity Group Guidance. This included changes relating to the Economic Crime Act and to the treatment of ultimate beneficial owners for customer due diligence.
- 25 On technology, we have been working with TLS in its capacity as a member of the consortium for our Regulators Pioneer Fund project exploring the use of alternative methods of dispute resolution through technology and innovation, which started in September 2023. We are currently working on the initial research phase of the project.
- 26 We continue to liaise with TLS about our EDI work. We work closely with TLS to improve the diversity data we have about the profession and over the coming year, we will be collaborating on plans to increase the disclosure of diversity data by individual solicitors and better coordinate our approach to publishing this data. We are proposing to update our EDI resources this year and will be liaising with TLS about this to understand where the gaps are and build a shared understanding of good practice and the initiatives that work. We are also continuing to engage with TLS and some of its diversity networks to review the EDI issues relevant to our introduction of the SQE.

Internal Governance Rules review

- 27 Following the evidence sessions on the regulation of legal professions at the Justice Select Committee in December, the LSB has [written](#) to the Committee setting out its intention to review the [Internal Governance Rules](#) (IGRs – rules produced by the LSB to meet one of its duties in the Legal Services Act 2007 and are intended to enhance regulatory independence from Approved Regulators). This follows comments made by some Approved Regulators and Regulatory bodies during the evidence sessions to the Committee. The LSB is planning to write to Approved Regulators and Regulatory Bodies to ask for views on how the IGR's are working in practice and areas for improvement.

UK Regulators Network

- 28 We have been accepted as an Associate Member of the UK Regulators Network (UKRN). The UKRN brings together regulators from the utility, financial, transport and housing sectors, for the benefit of consumers and the economy. It aims to foster a culture of collaboration and learning across regulators, sharing knowledge and innovation, and exploring cross-cutting issues. It has various networks that we will be taking part in.

Stakeholder engagement and public affairs

- 29 Along with the Board Chair, I gave oral evidence to the Justice Select Committee of the House of Commons for its inquiry session on the regulation of legal services.
- 30 Since my last report, I have spoken at a ‘top table’ event held by the Sole Practitioners Group (SPG), setting out our current priorities. I have also spoken at the Bournemouth and District Law Society Compliance Conference and, along with the Chair and other Executive Directors, spoken at the International Conference of Legal Regulators (ICLR) in Dublin. In October, we attended the annual Legal Wales conference and took part in a session focusing on ‘Delivering Excellence in Legal Services’. We also participated in the LSB’s inaugural meeting of the Welsh legal services regulatory forum in Cardiff in November.
- 31 Our annual compliance conference took place in Birmingham in October and virtually in November. We had almost 1,000 attendees at our in-person event, with more than 10,000 online views. 97% of delegates found the events useful or very useful, with a similar proportion saying they would attend a similar event again.
- 32 I have written pieces in The Times and New Statesman about our enforcement powers and the importance of tackling money laundering. We also achieved national media coverage for our publication of diversity data in the profession, as well as our progress tackling strategic litigation against public participation (SLAPPs).
- 33 We have responded in writing to the Office for Legal Complaints’ call for evidence on its draft corporate strategy, the LSB’s separate consultations on First-tier complaints and draft statutory guidance on promoting technology and innovation to improve access to legal services and Treasury on reform of the Anti-Money Laundering and Counter Terrorism Financing Supervisory Regime.