

Chris Kenny
Chief Executive
Legal Services Board
One Kemble Street
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14 July 2014

Dear Chris,

SRA Board decisions on client protection

I understand that the Legal Services Board will shortly consider the Solicitors Regulatory Authority (SRA) Board decisions on regulatory changes in so far as they relate to client protection. We responded – negatively – to three of the SRA's consultations on the proposed changes; on PII; on the Compensation Fund Eligibility; and on Accounting Reporting Requirements, as we had concerns over a majority of the proposals from the perspective of a mortgage lender. The responses are available on our [website](#). We are especially disappointed with the SRA Board's decisions in relation to PII and the compensation fund eligibility.

We believe that a move to reduce solicitors' minimum PII cover to £500,000, and the removal of the eligibility of lender clients to claim under the compensation fund, will oblige mortgage lender clients of solicitors to consider different routes by which they can obtain appropriate protection of their position. Amongst the measures, we expect that lender clients will require the conveyancing firms on their panels, as a minimum, to maintain the existing levels of cover required by the SRA.

However, it is unclear whether firms which currently sit on lender panels, will be able to afford or be accepted for the existing levels of cover. The Association of British Insurers has warned that lower premiums cannot be expected as a result of this change, which was the major benefit anticipated by the SRA as a result of reduced cover and the SRA itself has given no robust evidence of how the insurance market can be expected to react.

My expectation is that lenders will take swift action to ensure that any risks to them from these changes are minimised. They will revise their view of those firms with which they are prepared to work, in the light of firms' ability to secure PII cover to an appropriate level.

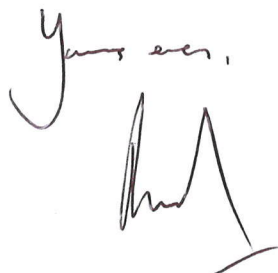
Our expectation is that smaller firms and sole practitioners may be disproportionately affected by this review. This would potentially represent a significant shift in conveyancing market dynamics, given one of our large lender member has estimated that sole practitioners and two partner firms make up just under half of their panel, which itself consists of thousands of firms.

The extremely short timeframe for which to implement the rule changes compounds the likelihood that lenders are forced into taking fast and potentially drastic action to protect their current pipeline of work and transition to the proposed new minimum from October.

Given the LSB's remit for competition, I thought it appropriate to draw this scenario to your attention, as you come to consider the SRA decisions as I suspect that these potential consequences are both unintended and unwelcome. I am also aware that the Association of British Insurers and the Law Society of England and Wales may be in contact with you to express similar concerns.

All good wishes

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cc. Gwyneth Nurse, HM Treasury