

Future market changes in the legal sector and their potential impact on client money

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1. Executive summary

The Solicitors Regulation Authority (SRA) commissioned Frontier Economics to study future market changes in the legal sector and their potential impact on client money, in the context of their [Consumer Protection Review](https://update.sra.org.uk/sra/consultations/discussion-papers/consumer-protection-review/) [<https://update.sra.org.uk/sra/consultations/discussion-papers/consumer-protection-review/>].

This research has been conducted in two stages. First, we carried out a focused evidence review of over 90 publications, to gather insights on key changes affecting the legal sector which may impact consumers and client money. Second, we held in-depth conversations with a small number of sector experts, to explore the issues identified from our evidence review in greater detail.

Our research identifies a range of potential risks to consumers, with a focus on the safety of client money in the legal sector. Our report highlights the following risk factors relating to client money in the short to medium term.

- Risk of misappropriation. Evidence suggests that this risk is heightened when firms face financial difficulty, when employees work under high pressure or when there is insufficient supervision taking place.
- AI and cyber risks. These risks are identified as significant and therefore should be considered high priority for legal service providers, as these may have significant and costly consequences for clients of firms of all types and sizes. Our research suggests that there is scope for improvement in preparedness and cyber risk management across the board.
- Long-term viability of legal firms. Any risk of firm closure, whether driven by financial distress or structural issues, may put client money at risk, at least in the short term before any claims for insurance or compensation materialise.

The findings highlighted in this research would be strengthened by internal SRA evidence gathering and empirical analysis of secondary data. Analysis of changes to factors including firm funding models, structures and solicitor demographics over time, coupled with data on claims from the SRA's Compensation Fund, can help understand risk

factors in a more quantitative sense. This could then be used to confirm or indeed challenge any trends identified by publications and external commentators.

The SRA could also continue to monitor the developments identified in this report, to ensure that sustainable and transparent business practices are maintained and that legal firms take appropriate action to mitigate the concerns identified.

[Read the full report \(PDF 26 pages, 590KB\)](https://update.sra.org.uk/globalassets/documents/sra/research/frontier---risks-for-consumer-protection.pdf)

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