



Ministry  
of Justice

# Research to explore law firms' use of interest on general (undesignated) client accounts

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# Headline Messages

The following two-page infographic summarises findings based on a survey of law firms in England and Wales carried out independently by Pye Tait Consulting (604 responses).

## Current use of interest

86% return interest to clients – this can be in full/partial and the frequency and method of calculation differs between firms.



4% say they currently use the interest to help fund 'free', related, pro bono or charitable activities.

## Reliance on the interest

92% are not very/not at all reliant on the interest to operate on a sustainable footing.



94% believe that being unable to retain the interest would have little or no impact on their firm.

## Potential adaptability to using interest in other ways



89% of law firms have not made or are not planning to make changes to the use of interest from general client accounts.



61% do not face barriers to using the interest in ways they would like.

## Interest commitments to clients

**55%** set a de minimis amount above which they pay interest back to clients (most common amount is **£20**).

have an official policy in place relating to the use of interest, though only 6% publish this on their website.

**95%**



Wide variations in what firms deem a 'fair sum' to pay back to clients – driven mainly by SRA guidance and Bank of England base rate.

**61%** report no discernible differences between clients in terms of what clients expect to receive back – shaped by factors such as length of time money held and case complexity.



## What does this mean?

An era of higher interest rates raises fresh questions around what is a 'fair amount' for clients to receive back, though where money is held for a short time, firms are of the view that clients do not commonly seek to reclaim it.

There is no obvious signal that firms intend to increase their own funding of free, related, pro bono or charitable activities.

There is potential merit in exploring whether interest on client accounts could be used in other ways to improve access to justice, for which views from the sector and clients will be important.

# Executive Summary

## Background

Current banking practices allow law firms in England and Wales to use different types of client accounts to hold client funds in trust, ensuring they are used for their intended legal purpose. The most common type is a 'general client account' into which a firm pools money from all clients into a single bank account. Under current Solicitors Regulation Authority (SRA) Account Rules, solicitors must account to clients for a 'fair sum' of interest (which is not subject to further definition) unless the solicitor and client agree in writing to a different arrangement.

The Ministry of Justice (MoJ) is currently exploring the potential use of stable funding options, such as Schemes that Secure the Interest on Lawyers' Client Trust Accounts (SILCAs), to ensure people receive the support they need to resolve legal issues fairly. This could help to provide long-term access to justice work. SILCAs were introduced in Australia and Canada in the late 1960s to provide funding for legal services for low-income individuals and other charitable purposes. They typically operate as Interest on Lawyers' Trust Accounts (IOLTAs). SILCA proceeds can be reconstituted as grants, pro bono schemes and other public service initiatives depending on the scheme, and a portion is sometimes used to cover certain costs associated with regulation.

## Research objectives

With the above context in mind, the MoJ commissioned Pye Tait Consulting to:

1. Identify the different ways law firms in England and Wales use income from general client accounts
2. Understand any free and related services, as well as charitable activities, to which law firms already contribute using interest from general client accounts
3. Understand the extent of reliance law firms place on interest for their own general financial arrangements, such as to offset banking charges
4. Establish how common particular practices are across the sector
5. Distinguish between practices used by law firms based on key firmographic characteristics

Although the MoJ does not hold a view on this, the research also intends to help the MoJ consider whether a scheme such as an IOLTA might be appropriate in the future in England and Wales.

## Methodology

The research involved a survey of law firms based in England and Wales, comprising solicitors, licensed conveyancers and other types of firms, spanning all employment size-bands. The survey achieved 604 responses against a target of 600.

Most of the achieved sample (551 firms against a target of 550) are solicitors regulated by the SRA. The remainder (53 against a target of 50) are comprised of licensed conveyancers.

Most survey responses were achieved using Computer-Assisted Telephone Interviewing (CATI) and the remainder (13) were online self-completions following promotion of the survey by regulators of law firms, instigated with the help of the Legal Services Board (LSB).

Further details on the sampling methodology can be found in Appendix 1 and the respondent profile can be found in Appendix 2.

**The main findings from the survey are summarised below, followed by a summary of the conclusions, forward considerations and key differences based on firmographics (employment size-band, type of law firm etc.).**

### Firms' current use of interest on general client accounts

- Firms use interest from general client accounts in a variety of ways – notably a third (33 per cent) always fully remit interest from general client accounts to their clients, 53 per cent remit it partially/sometimes and 23 per cent (not mutually exclusive) use it to help cover the costs of administering client accounts and handling client funds.
- There appears to be limited current use of interest from general client accounts for pro bono or charitable purposes – only 2 per cent use it to help fund 'free' or related services, and 2 per cent give it to other organisations involved in pro bono or charitable work. Among this small cohort, funds are used for purposes such as one-off advice sessions, preparing documents and working with non-profit organisations.

### Propensity to use interest in other ways

- Most surveyed firms (92 per cent) are not at all or not very reliant on interest from general client accounts in order to operate on a sustainable footing, while a similar proportion (94 per cent) feel that if they were no longer able to retain interest from general client accounts, this would have little or no impact on their firm.
- Most firms (89 per cent) have not made any recent changes, or are not considering making changes soon, to the use of interest from general client accounts.

- Of those that have instigated changes (base of 39), examples include using more interest funds to cover administrative or other firm costs, remitting more to clients, or providing more to other organisations involved in pro bono or charitable work.
- Almost two thirds of all surveyed firms (64 per cent) do not currently face any barriers when using interest from general client accounts in the ways they would like to.
- Whilst the objectives of this research did not extend to examining technological developments in project and payment systems that could influence how client monies are held by law firms, Project Meridian (discussed further in section 3.3) provides one possible example of change that could affect the use of general client accounts in the future. The implication of the system for the future of conveyancing – if rolled out – is that it could see funds bypass the use of conveyancers' client accounts.

### **Client interest commitments**

- Over half of surveyed firms (55 per cent) set a 'de minimis' amount of interest above which they are prepared to pay back to clients. This ranges from £0 to £250 – the mean is £38 and the modal (most commonly mentioned) amount is £20.
- When asked what they consider to be a 'fair sum' to pay back to clients (in percentage terms) above any de minimis amount, answers range from 0 per cent to 100 per cent – the mean is 38 per cent of the interest and the mode is 100 per cent.
- A third (33 per cent) of law firms currently consider at least 80 per cent to be a fair sum to pay back; three years ago, a similar (albeit slightly lower) proportion (29 per cent) would have considered at least 80 per cent to be a fair sum to pay back to clients.
- Two key influencing factors driving the fair sum are SRA guidance and Bank of England base rate, which has risen from 0.1 per cent in December 2021 to 5.25 per cent by spring 2024.
- Most firms (61 per cent) do not believe there to be any differences between clients in terms of clients' expectations for the proportion of interest they would expect to receive back. There is a general sense that clients often do not expect to receive any interest back, or do not ask about interest. Firms mainly put this down to funds only being held for a short time as well, or their own interest payment policy which 95 per cent of firms reportedly have in place.

### **Managing general client accounts**

- The process of determining and passing on interest to clients does not appear to present an administrative burden to surveyed firms. When asked to rate the

significance of the burden on a scale from 1 (no burden) to 10 (significant burden), the mean score is 2.5 out of 10.

- The approximate total annual cost to firms of administering a general client account is difficult to quantify accurately from this survey study alone due to the inclusion of salary data in survey responses, although some pro rata adjustments have been made in the estimates (see section 5.1.2 for the rationale and limitations). The mean annual reported cost is £5,351.30. The median – which helps to reduce the influence of outliers – is £775.00 and the modal answer (mentioned by 25 per cent of firms) is nil.
- Types of costs involved include accountancy and book-keeping, financial administration, bank charges/transaction costs, auditing, and reconciliation.
- Most surveyed firms (94 per cent) manage their client accounts in-house, while 4 per cent outsource to third-party legal accounts services. Those choosing to outsource say that it proves more cost-effective, enables faster processing, enables them to access specialist accounting expertise, and saves time in-house.
- For more than half of surveyed firms (53 per cent) the interest on general client accounts is remitted to another bank account in the name of their firm. This potentially makes it easier for firms to use the interest in different ways.
- More than half of firms (57 per cent) are satisfied with their current bank arrangement relating to interest on their general client accounts.

## Summary of key differences based on firmographics

### *Use of interest on general client accounts*

- 34 per cent of solicitors compared with 21 per cent of licensed conveyancers say their main use of interest on general client accounts is to fully remit it to clients
- 43 per cent of licensed conveyancers compared with 11 per cent of solicitors say that their main use of the interest is to help cover administration/handling costs
- 27 per cent of conveyancing/property firms, compared with 10 per cent of firms working in other legal service areas, say they face regulatory restrictions to using interest in their preferred ways
- 82 per cent of surveyed medium and large firms believe they face no barriers to using the interest on general client accounts compared with 65 per cent of micro and small firms – a statistically significant difference.

### *Setting a de minimis amount*

- More than half of surveyed solicitors (58 per cent) compared with just over a quarter (28 per cent) of the smaller sample of licensed conveyancers set a de minimis amount above which they pay interest back to clients – a statistically significant difference.
- The most commonly mentioned (modal) de minimis amount is higher among firms based in Wales (£50) compared to England (£20).
- The mean de minimis amount is significantly lower among firms self-reporting as facing no competition (£22) compared with firms facing local competition (£34), regional competition (£55) and national competition (£47).
- The mean de minimis amount is significantly higher among firms licensed as an Alternative Business Structure (ABS) (£59) compared with those not licensed as an ABS (£35).

### *A fair amount to pay back to clients*

- Law firms' perceptions of what they currently deem a 'fair amount' to pay back to clients varies across the size-bands – significantly higher among micro firms (45 per cent of the interest) compared with small firms (25 per cent of the interest).
- The current modal answer of 100 per cent of the interest was mentioned by 30 per cent of law firms overall, with sub-group proportions below:
  - Mentioned by 37 per cent micro, 17 per cent small, 25 per cent medium and large
  - Mentioned by 32 per cent of solicitors, 28 per cent of other types of law firm
  - Mentioned by 61 per cent licensed as an ABS, 26 per cent not licensed as an ABS – a significant difference
- The mean fair amount is significantly lower among firms self-reporting as facing no competition (18 per cent of the interest) compared with firms facing local competition

(34 per cent), regional competition (58 per cent) and national competition (45 per cent of the interest).

- The mean fair amount is significantly higher among firms licensed as an ABS (63 per cent of the interest) compared with those not licensed as an ABS (35 of the interest).
- In considering an appropriate fair amount, a higher proportion of property/conveyancing firms are influenced by rates used by other law firms (25 per cent) and inflation (22 per cent) compared with law firms working in other legal service areas (10 per cent and 7 per cent respectively).

### ***Managing general client accounts***

- The mean annual reported cost for managing general client accounts is significantly higher among medium and large firms (£7,665) compared with small firms (£3,468). The median (£775) is similar across the size bands, while the mode (£0) is the same across the size-bands.
- Some 27 per cent of solicitors said the cost of managing general client accounts was nil, compared with just 6 per cent of licensed conveyancers – a significant difference. It may be the case for example that licensed conveyancers – being more routinely involved in property transactions – expend more time and cost in managing client account monies, or that they are better placed to more precisely identify the costs involved.
- A significantly higher proportion of medium and large firms mentioned bank charges and reconciliation costs as being among the types of costs incurred relating to general client accounts, than micro and small firms. This could be due to larger firms having more clients, more transactions, and processing greater amounts of money.

## **Conclusions**

(See section 6.1 for further details on each conclusion).

1. Law firms in England and Wales are generally committed to remitting interest from general client accounts to their clients, although there are wide variations between firms in how much is paid back and how that amount is determined.
2. As interest rates have risen over the past two years, this raises fresh questions around what is a 'fair amount' of interest for clients to receive back and what (if anything) clients would reasonably expect to receive anyway.
3. For the most part, law firms are not reliant on interest from general client accounts to operate on a sustainable footing and losing this interest would have little impact on their firm.

4. Very few law firms currently use interest from general client accounts to fund free, related, pro bono or charitable activities.
5. Despite a period of rising interest rates, most law firms have not signalled changes to how they use interest from general client accounts.
6. Most law firms are not reliant on the interest from general client accounts, although rising interest rates and the high proportion of firms that pass at least some interest back to clients, means that careful consideration and consultation would be important regarding any planned changes to how this interest is used.

## Forward considerations

The MoJ may wish to take forward some or all of the following considerations:

1. Seek insights from clients of law firms, to understand what their expectations are regarding repayment of interest, for example depending on the sums of money involved and length of time this is held by law firms – especially in a period of comparatively high interest rates compared to the preceding 10+ years.

Of note here, The Law Society's Financial Benchmarking Survey 2024 found that total net interest income rose to £27.5m in 2023, compared to £2.6m in 2022, representing a total increase of over 1,000 per cent.<sup>1</sup>

2. Work with other legal sector regulators such as the SRA and the Council for Licensed Conveyancers (CLC) to explore the pros and cons of: i) updating standards and guidance regarding an appropriate de minimis amount of interest to pay back to clients; and ii) helping to achieve greater consistency between firms in what might be deemed a 'fair sum' to pay back to clients, factoring in inflation, administrative costs to firms and rising interest rates.
3. Evidence and conclusion 6 suggest that there is merit in exploring further how interest from general client accounts could work harder for individuals who may face greater barriers to accessing legal services. The MoJ has already undertaken research into SILCA schemes used in other countries and territories, which may offer best practice alternatives to consider.

However, the effects of inflation and rising interest rates could make law firms and clients less favourable. This makes it important to undertake broad consultation on any planned changes to consider the potential implications (positive and negative) for law firms and clients.

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<sup>1</sup> The Law Society (2024) Financial Benchmarking Survey 2024.

[https://d17yqm1j5pr274.cloudfront.net/Uploads/t/a/s/lmsfinancialbenchmarkingsurvey2024\\_910456.pdf](https://d17yqm1j5pr274.cloudfront.net/Uploads/t/a/s/lmsfinancialbenchmarkingsurvey2024_910456.pdf)>  
Accessed 24 May 2024

Furthermore, fluctuations in interest rates could affect the sustainability (longer-term) of interest being used to support access to justice activity, making it worthwhile to consider how this is navigated in other countries that use SILCA scheme models.

4. Stay attune to the potential implications of technological innovations in payment systems and processes, such as those examined as part of Project Meridian, that could potentially have a game-changing impact over the next few years on client monies being held by law firms, particularly within conveyancing.
5. After giving due consideration to (3) and (4) consult on proposed models for possible SILCA schemes, including potential implications (positive and negative) for law firms, clients and any possible unintended consequences.

# 1. Introduction

## 1.1 Background

### 1.1.1 About the Ministry of Justice

The Ministry of Justice (MoJ) is responsible for all aspects of delivering an effective, transparent and responsive justice system in England and Wales, which keeps people safe, emphasises fairness, guarantees individual rights and gives businesses confidence to flourish.

The MoJ wishes to identify and consider the relative merits of a stable funding route for long-term future access to justice work. Once such model used for funding civil legal services in other countries (not adopted in the UK) involves the use of schemes that secure the interest on lawyers' client trust accounts (SILCAs). Prior to examining how SILCAs work (section 1.1.3), it is important to make clear what is meant by client accounts and how these are currently used by law firms in England and Wales.

### 1.1.2 Types of client accounts used by law firms in England and Wales

Law firms in England and Wales comprise solicitors, licensed conveyancers and other types of firms that provide legal services to clients.<sup>2</sup> A client account – held in a bank or building society – is a type of account used by law firms exclusively for holding client money related to regulated services delivered by the firm. This is separate to any office bank accounts. Client monies are typically held in trust for the benefit of clients and the law firm is responsible for safeguarding and managing these funds, and ensuring they are used for their intended legal purpose.

Current banking practices allow law firms in England and Wales to use different types of client accounts:

- 'Designated client accounts' reference a particular client, from which the client usually earns 100 per cent of the accrued interest
- 'General client accounts' involve pooling monies into a single account for multiple clients of the law firm

General client accounts are understood to be more commonly used by law firms; furthermore, pooling funds in this way attracts a higher level of interest than designated client accounts. This raises questions around what may be deemed a 'fair' amount to pay

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<sup>2</sup> Further details can be found in Appendix 1 (Sampling Methodology) and Appendix 2 (Respondent Profile).

back to clients in lieu of interest earned and what might be a suitable 'de minimis' amount<sup>3</sup> to set in payment of interest policies.

It is worth noting that the Legal Services Act 2007 abolished the distinction made in the Solicitors Act 1974 between general and designated client funds, meaning firms should enter their own arrangement with clients, normally outlined as part of their client interest policy.

The Solicitors Regulation Authority (SRA) allows for a degree of flexibility in its Accounts Rules<sup>4</sup> concerning payment of interest. Rule 7.1 states that firms must "account to clients or third parties for a fair sum of interest on any client money held"; and rule 7.2 states that firms "may by a written agreement come to a different arrangement with the client or the third party for whom the money is held as to the payment of interest" and as long as they "provide sufficient information to enable them to give informed consent."

The Code of Conduct for Solicitors<sup>5</sup> meanwhile states in section 4.1 that firms should "properly account to clients for any financial benefit [they] receive as a result of their instructions, except where they have agreed otherwise."

During the years of historically low interest rates following the UK banking system crash of 2008 (Bank of England base rate remained lower than 1 per cent between 2009 and late 2021) interest calculations were unlikely to generate an amount in excess of the administration costs associated with managing client monies. As such, it was standard practice for law firms in England and Wales to withhold any calculations below £20. However, base rate has risen from 0.1 per cent in December 2021 to 5.25 per cent as of June 2024. Furthermore, inflation – typically less than 3 per cent between 2014 and 2020 – rose dramatically in late 2021 and 2022, peaking at 10.7 per cent in November 2022 before gradually receding to 2 per cent in May 2024.

### **1.1.3 About SILCAs – models and how they work**

To provide broader context and illustrate how interest from general client accounts are used in some other countries, it is worth providing a brief overview of SILCAs.

SILCAs were first established in Australia and Canada in the late 1960s to generate funds for legal services to help people on low incomes get the legal help they need, as well as for other charitable purposes. In these countries, and in the US, they typically operate as

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<sup>3</sup> The term 'de minimis' (meaning of minimal importance or negligible) in this context refers to a baseline amount of interest above which law firms would be prepared to pay back to clients. The de minimis amount is typically set at a threshold sufficient to cover the administration costs associated with managing client monies.

<sup>4</sup> SRA Account Rules. <<https://www.sra.org.uk/solicitors/standards-regulations/accounts-rules/>> Accessed 20 May 2024

<sup>5</sup> SRA Code of Conduct for Solicitors, RELs and RFLs. <<https://www.sra.org.uk/solicitors/standards-regulations/code-conduct-solicitors/>> Accessed 20 May 2024

Interest on Lawyers' Trust Accounts (IOLTAs), or IOLA in New York state. Similar schemes also operate in New Zealand, South Africa and Zimbabwe.

There are different mechanisms between schemes and countries in the types of accounts set up, how revenues are calculated and how the resulting proceeds are ultimately used, such as provision of legal aid and legal education. SILCA proceeds can be reconstituted as grants, pro bono schemes and other public service initiatives, and a portion is sometimes used to cover certain costs associated with regulation.

In the US for example, the American Bar Association (ABA) Commission on IOLTA supports the operation of IOLTA programmes nationwide, and provides information, materials and technical assistance on programme design and operation. At state level, it is common practice for a non-profit organisation to administer and distribute the financial resources generated by IOLTAs. Most US schemes are mandatory, with others opt-out and voluntary programmes.

France uses Caisse des Règlements Pécuniaires des Avocats (CARPA), which are self-regulatory bodies that operate under the authority of bar associations. (Pursuant to French law, lawyers are prohibited from handling client funds themselves). This model was introduced primarily to guarantee the secure handling of client funds and to monitor the origin and use to prevent money laundering. Whilst the CARPA account can sometimes generate a source of funding for legal help for clients on low income, this is localised at the discretion of each Bar Association.

#### **1.1.4 Past consultation work concerning SILCA schemes in England and Wales**

In 2010, the UK government carried out a consultation on Proposals for the Reform of Legal Aid in England and Wales<sup>6</sup> which sought views on establishing some form of SILCA based on one of two possible delivery models: Model 'A', under which solicitors would retain client monies in their client accounts, but would remit interest to the government; or model 'B', under which general client accounts would be pooled into a government bank account, similar to CARPA. The consultation received over 5,000 responses.

The government's response<sup>7</sup> highlighted that a large minority (46 per cent) favoured model A, with a further 43 per cent having no preference on either model A or B. Views were somewhat divided on whether such a scheme ought to be mandatory, voluntary (opt-in) or voluntary (opt-out) and almost two thirds (64 per cent) foresaw potential barriers.

Respondents mentioned that solicitors already account for the interest to the clients and forego their entitlement to it; some use the money towards the costs of administering

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<sup>6</sup> MoJ (November 2010) Proposals for the Reform of Legal Aid in England and Wales  
<https://assets.publishing.service.gov.uk/media/5a7c811ae5274a559005a531/7967.pdf> Accessed 20 May 2024

<sup>7</sup> MoJ (June 2011) Legal Aid Reform in England and Wales – Government response  
<https://assets.publishing.service.gov.uk/media/5a7c0fa040f0b63f7572b1a2/8072.pdf> Accessed 20 May 2024

accounts and the handling of clients' money generally; some use the money to fund related services such as "free conveyancing" for remortgages; and others explicitly put the money towards pro bono or other charitable work.

Emerging concerns principally focused on such schemes being unlikely to yield amounts of money sufficient to justify the "damage" that they would cause; would not provide a certain income; would be relatively easily avoided; may reduce the level of pro bono work; may reduce the level of interest, service and competitiveness of the sector; and may cause significant harm to a number of small businesses.

At the time, the government decided not to introduce IOLTAs, citing the effects of the global economic crisis and being sympathetic to the argument that having a choice of bank in which to place client monies helped firms to secure better rates and services for both their clients and themselves. The government also commended those providers that already use monies generated from their client accounts to help fund pro bono and charitable work and encouraged other providers to follow the example set, with a potential role for The Law Society in providing strategic input and guidance.

## **1.2 Research aims and objectives**

With this context in mind, the MoJ commissioned Pye Tait Consulting to research the current practices of law firms in England and Wales relating to the use of interest accrued on general client accounts. This understanding will help the MoJ to build a picture of how reliant law firms are on the interest for their own purposes and identify what steps, if any, are being taken to use interest to fund free or related services, or any charitable activities.

The findings will also help the MoJ to consider whether an IOLTA-type scheme might be appropriate in the future. Although the MoJ does not hold a view on this – a point made clear to law firms taking part in the research – it is important to understand the potential implications for law firms of changing the existing framework governing how client money is handled, and ensure this is adequately factored into the MoJ's considerations when exploring different policy options.

The specific objectives of this research were to:

1. Identify the different ways law firms in England and Wales use income from general client accounts
2. Understand any free and related services, as well as charitable activities, to which law firms already contribute using interest from general client accounts
3. Understand the extent of reliance law firms place on interest for their own general financial arrangements, such as to offset banking charges
4. Establish how common particular practices are across the sector

5. Distinguish between practices used by law firms based on key firmographic characteristics

## 1.3 Methodology and population of interest

### 1.3.1 Sampling and survey design

The research involved a survey of law firms in England and Wales that confirmed – via an upfront screening question – that they made use of general client accounts.

The survey target (n=600) comprised solicitors (n=550) and non-solicitors (n=50).

Solicitors were the main focus of the research given they represent the largest share of law firms in England and Wales, with a total of 9,291 firms of solicitors regulated by the SRA as of April 2024.<sup>8</sup>

For solicitors, representative survey quotas were established by employment size-band and nation. Adjusted quotas were then applied to groups that would otherwise be underrepresented, notably medium and large firms, as well as firms based in Wales. For the smaller survey target of non-solicitors, no hard quotas were applied.

Further details about the sample strategy and targets can be found in **Appendix 1**.

### 1.3.2 Survey delivery

A total of 604 survey responses were achieved, including 551 solicitors and 51 non-solicitors.

Of the total, 591 were achieved using Computer-Assisted Telephone Interviewing (CATI) and the remainder (13) comprised online self-completions following promotion of an online link to the survey by legal sector regulators to the firms they work with. Promotional efforts were instigated with the help of the Legal Services Board (LSB) via key contacts within the various regulators.

Contacts for the CATI survey were sourced from Moody's FAME database, supported by web searching.

### 1.3.3 Margins of error

The achievement of 551 responses from solicitors yields a statistically acceptable overall margin of error of ±4 per cent at the 95 per cent confidence level based on a population of 9,291 firms as noted above.

This means that, had the survey been repeated, 95 times out of 100 the results would be true for the population give or take 4 percent. It should be noted that margins of error are

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<sup>8</sup> SRA Breakdown of solicitor firms. <[https://www.sra.org.uk/sra/research-publications/regulated-community-statistics/data/solicitor\\_firms/](https://www.sra.org.uk/sra/research-publications/regulated-community-statistics/data/solicitor_firms/)> Accessed 20 May 2024.

inevitably higher for questions not answered by all respondents and where cross-tabulations of the results are performed.

#### **1.3.4 Presentation of findings in this report**

The report presents the survey findings by main and sub-themes, using a combination of charts, tables and descriptive analysis.

Where base numbers of responses for questions are sufficient, cross-tabulations are also shown by employment size-band, defined as follows:

- Micro (<10 staff)
- Small (10-49 staff)
- Medium and large (50+ staff)

Differences in the distribution of results between other respondent sub-groups are referenced where meaningful. To help determine this, statistical significance testing has been carried out for all questions. The term 'significant' is only used within this report to denote statistically significant differences.

Some survey questions were asked of all respondents and some only of a subset of respondents. Base numbers responding to each question are shown as part of each chart. These appear either in the X axis (for all respondents) or adjacent to the Y axis labels in brackets for size-band cohorts.

Percentages contained in charts and tables may not always add up to 100 per cent due to the effect of rounding.

All survey results within this report are presented unweighted. The lack of precise population data concerning law firms that hold general client accounts, backed up by the high incidence of screen-outs<sup>9</sup> among non-solicitors responding to the survey, combine to make weighting inappropriate. However, achieved responses are broadly representative by size-band and nation, while cross-tabulations illustrate patterns.

Supplementary data tables have been produced in MS Excel, which offer cross-tabulations of all survey results and associated statistical significance testing by the following groupings:

- Employment size-band
- Country of registered office
- Type of law firm
- Whether or not licensed as an alternative business structure (ABS)<sup>10</sup>
- Nature of the competition

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<sup>9</sup> A screen-out refers to a firm falling outside scope of the research when stating in response to the opening survey question that they did not use general client accounts.

<sup>10</sup> An alternative business structure is a firm that has non-lawyers in its ownership and management structure.

- Main legal service area

Further details on these groupings, including the numbers of survey respondents within each category, can be found in **Appendix 2**.

## 2. Current Use of Interest on General Client Accounts

This chapter sets out the various ways law firms use interest accrued on general client accounts, including the extent of which interest contributes to providing free, related pro bono or charitable activities.

### 2.1 How firms use interest on general client accounts

Surveyed law firms were asked what they do with the interest accrued on general client accounts. With the exception of 'fully remitted to clients in all cases', the response options were not mutually exclusive.

On average, firms gave 1.2 answers, suggesting that each tends to use the interest in a limited range of ways (Figure 1).

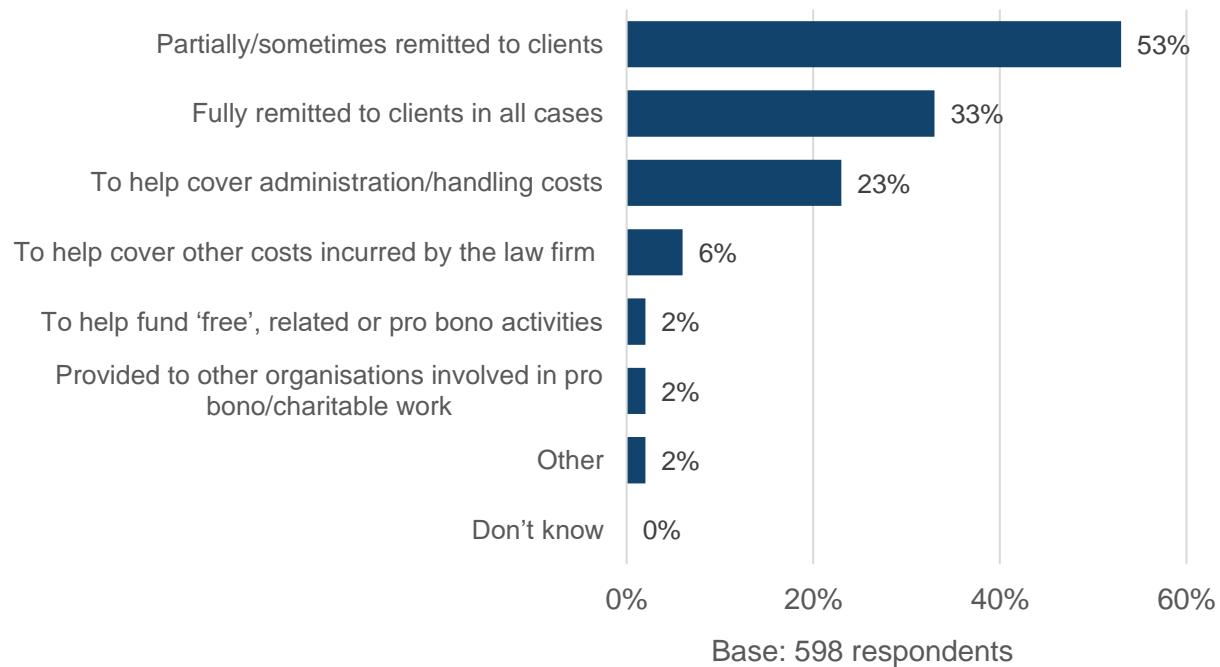
A third of firms (33 per cent) said they fully remit interest to clients in all cases. More than half (53 per cent) said they partially/sometimes remit interest to clients and just over a fifth (23 per cent) use it to help cover administration and handling costs.

Very few firms (4 per cent) reportedly use the interest to help fund 'free', related, pro bono or charitable activities.<sup>11</sup>

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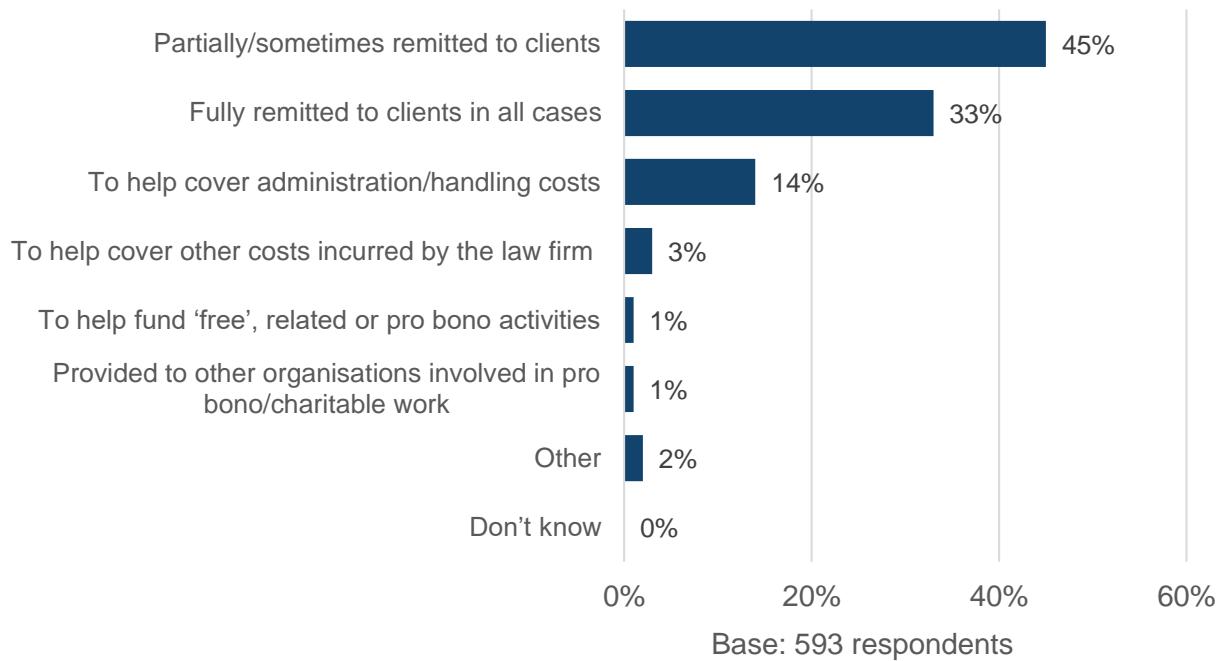
<sup>11</sup> The survey did not explore the extent to which firms undertake pro bono or charitable activities per se. It may be the case for example that firms do contribute to these activities but do so using other funds.

**Figure 1 Ways that firms use interest on general client accounts**



Based on their answers, firms were then asked which **one** of the options they selected referred to the **main way** interest is used by their firm. The results (Figure 2) follow a similar pattern to Figure 1.

**Figure 2 Single main way that firms use interest on general client accounts**



Analysis by employment size-band does not reveal any significant differences. However, it is observable that medium and large firms (defined in section 1.3.4) have a slightly reduced tendency compared with micro and small organisations to fully remit interest to

clients and a slightly greater tendency to use it to help cover administration, handling and other costs (Table 1).

**Table 1 Single main way that firms use interest on general client accounts (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>593</b>	<b>357</b>	<b>180</b>	<b>56</b>
Partially/sometimes remitted to clients	45%	41%	52%	52%
Fully remitted to clients in all cases	33%	35%	32%	23%
To help cover administration/handling costs	14%	16%	11%	16%
To help cover other costs incurred by the law firm	3%	3%	1%	7%
To help fund 'free', related or pro bono activities	1%	1%	1%	0%
Provided to other organisations involved in pro bono/charitable work	1%	2%	1%	0%
Other	2%	3%	2%	2%
Don't know	0%	0%	0%	0%

Analysis by type of law firm does not reveal statistically significant differences, however:

- 34 per cent of solicitors compared with 21 per cent of licensed conveyancers say their main use of the interest is to fully remit it to clients
- 43 per cent of licensed conveyancers compared with 11 per cent of solicitors say that their main use of the interest is to help cover administration/handling costs

Despite a rise in interest rates since 2022, many firms when providing additional comments about how they use the interest described it as "minimal" due to being held for a short period of time. It should be noted that it was not within the remit of this research to explore amounts of money held on general client accounts and amounts of interest accrued.

"Interest is minimal. A small part is retained by our firm to cover administration costs and the rest is given to charity."

*Solicitor, micro firm*

We use the Bank of England base rate then deduct 10 per cent of interest towards our administration costs and the client receives the remaining 90 per cent.

*Solicitor, micro firm*

“If the client presses, we can agree 70/30 in favour of the client generally.”

*Solicitor, micro firm*

“Our fees are competitive – these would have to increase if interest was passed on.”

*Licensed conveyancer, medium/large firm*

## 2.2 Funding of free, related, pro bono or charitable activities

The findings in this section are based on the very small minority of firms (Figure 1) saying that they use interest from general client accounts to help pay for free, related or pro bono activities, as well as providing funding to other organisations involved in pro bono or charitable work.

From a base of **nine firms** providing free, related or pro bono services:

- Such services include providing one-off advice sessions, preparing documents and working with non-profit organisations – each mentioned by four respondents, i.e. just less than half of the those answering this question
- These nine firms were then asked what proportion of the cost of these services is paid for using interest from general client accounts. On average, interest from client accounts contributes to just over a third (38 per cent) of the cost. This suggests that law firms mainly fund these services from other sources, such as office accounts

From a base of **14 firms** providing funding to other organisations involved in pro bono or charitable work:

- All (fully comprising micro and small organisations) provide this to registered charities, whilst two mentioned private fundraising activities
- These 14 firms were then asked what proportion of these charitable contributions are made up of interest from general client accounts. On average, interest from client accounts contributes to just under two thirds (62 per cent) of the total, with the modal (most common) answer being 100 per cent. This points to interest from client accounts being a key driver of charitable giving.

“We hold a maximum of £10,000 in client accounts. The interest generated is given to a local charity, currently mental health related.”

*Solicitor, micro firm*

### 3. Propensity to Use Interest in Other Ways

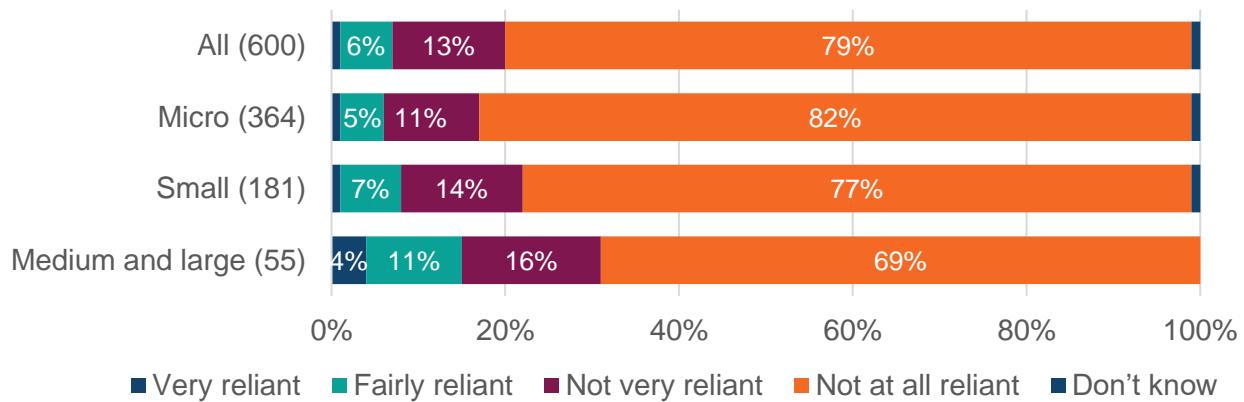
This chapter explores how reliant law firms are on the interest they receive from general client accounts, and the likely impact on firms if they were unable to retain the interest. It then looks at firms' adaptability to changing how interest is used, including any changes undertaken or planned, what those changes look like, and any barriers faced in using interest in the ways firms would like.

#### 3.1 Current reliance on interest from general client accounts

Firms were asked the extent to which they rely on interest from general client accounts to operate on a sustainable footing. Generally, this does not appear to be the case, with most firms (92 per cent) not at all or not very reliant on these funds.

It can be observed that medium and large firms appear slightly more reliant on the interest than smaller firms, albeit still a small minority (Figure 3).

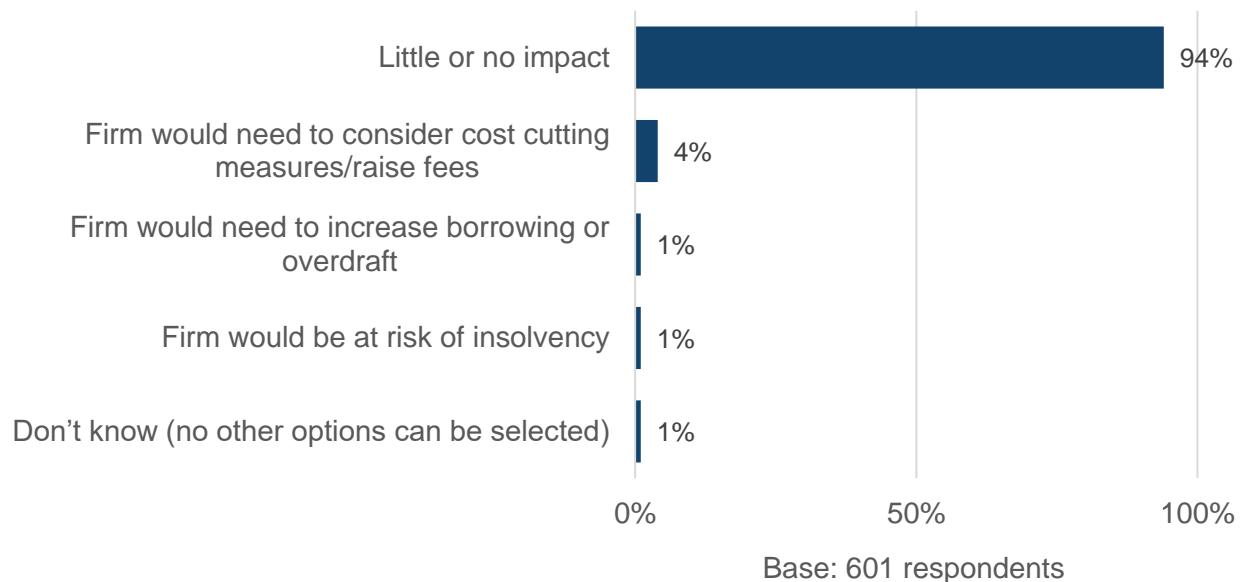
**Figure 3 Extent of firms' reliance on interest from general client accounts (by size-band)**



Results are similar by type of law firm (solicitors compared with licensed conveyancers) and main legal service area (property/conveyancing compared with others).

When asked about the likely impact on their firm if they were no longer able to retain the interest from general client accounts, almost all (94 per cent) said it would have little or no impact (Figure 4).

**Figure 4 Likely impact on firms if unable to retain the interest**



The pattern is similar by size-band, although a greater proportion of medium and large firms (13 per cent) compared with micro and small firms (3 per cent and 4 per cent respectively) say they would need to consider cost cutting measures or raise fees if they were no longer able to retain the interest.

Whilst this clearly only applies to a minority of medium and large firms, this is a statistically significant difference, reinforcing the finding from Figure 3 that larger firms appear to be slightly more dependent on the interest from general client accounts.

**Table 2 Likely impact on firms if unable to retain the interest (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>601</b>	<b>363</b>	<b>182</b>	<b>56</b>
Little or no impact	94%	96%	94%	86%
Firm would need to consider cost cutting measures/raise fees	4%	3%	4%	13%
Firm would need to increase borrowing or overdraft	1%	1%	1%	4%
Firm would be at risk of insolvency	1%	1%	0%	2%
Don't know	1%	1%	1%	2%

Results are similar by type of law firm and main legal service area.

## 3.2 Potential adaptability to using interest in other ways

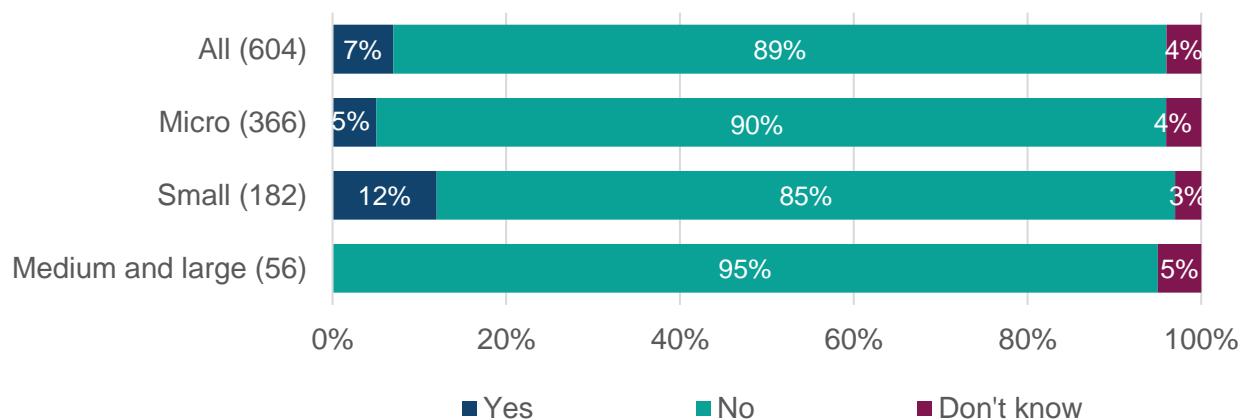
### 3.2.1 Changes made/being considered to how interest is used

Surveyed law firms were asked whether they have made recent changes, or are considering making any changes soon, to the use of interest from general client accounts.

Most firms (89 per cent) answered 'no' and therefore appear to be keeping to the status quo, with a similar pattern by size band (Figure 5).

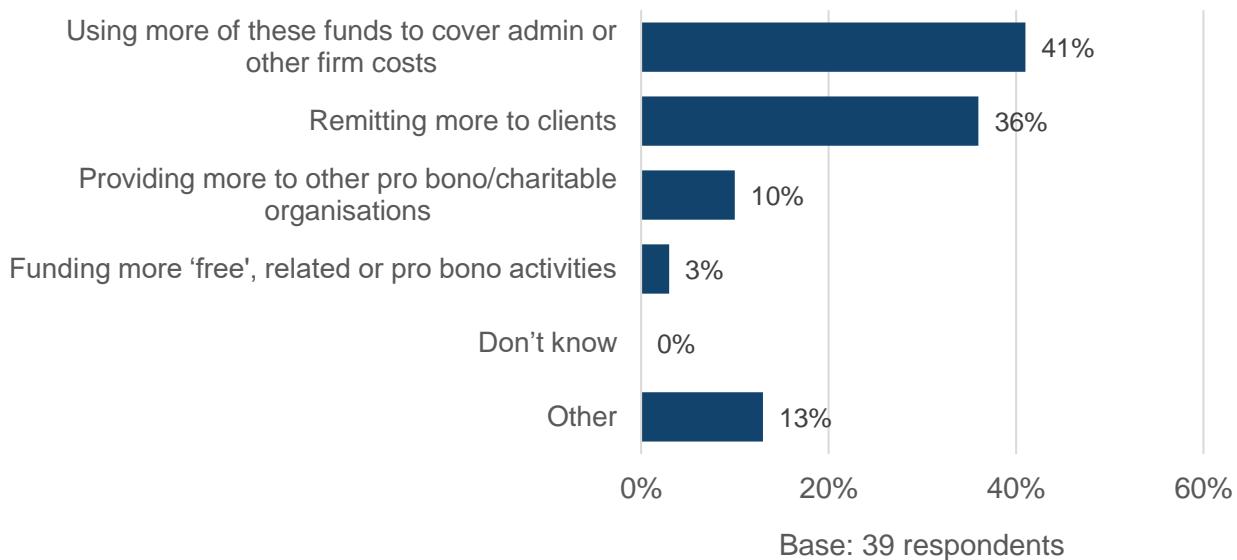
It should be noted that a greater proportion of licensed conveyancers (19 per cent) compared with solicitors (6 per cent) answered 'yes' to this question. This is a statistically significant difference, albeit still a minority of firms. The results are similar by main legal service area.

**Figure 5 Whether made/considering making changes to the use of interest from general client accounts (by size-band)**



Among the minority of firms reporting having made or considering making changes to the way they use interest from general client accounts (39 total respondents), the most common types of changes include using more of these funds to cover admin/other firm costs (mentioned by 41 per cent) or remitting more interest back to clients (mentioned by 36 per cent) – Figure 6.

**Figure 6 Types of changes made/being considered to the use of interest from general client accounts**



Respondents selecting 'other' were asked for further details of the types of changes made or being considered. Their answers include:

- Improving the service to clients
- Changing how frequently interest is paid back to clients
- Trying to get a better interest rate from their bank
- Reviewing the level of interest paid to clients

A similar response pattern to this question is evident across the size-bands, although base numbers for this question are low so results should be treated with caution (Table 3).

**Table 3 Types of changes made/being considered to the use of interest from general client accounts (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>39</b>	<b>18</b>	<b>21</b>	<b>0</b>
Using more of these funds to cover admin or other firm costs	41%	33%	48%	N/A
Remitting more to clients	36%	44%	29%	N/A
Providing more to other pro bono/charitable organisations	10%	11%	10%	N/A
Funding more 'free', related or pro bono activities	3%	6%	0%	N/A
Don't know	0%	0%	0%	N/A
Other	13%	11%	14%	N/A

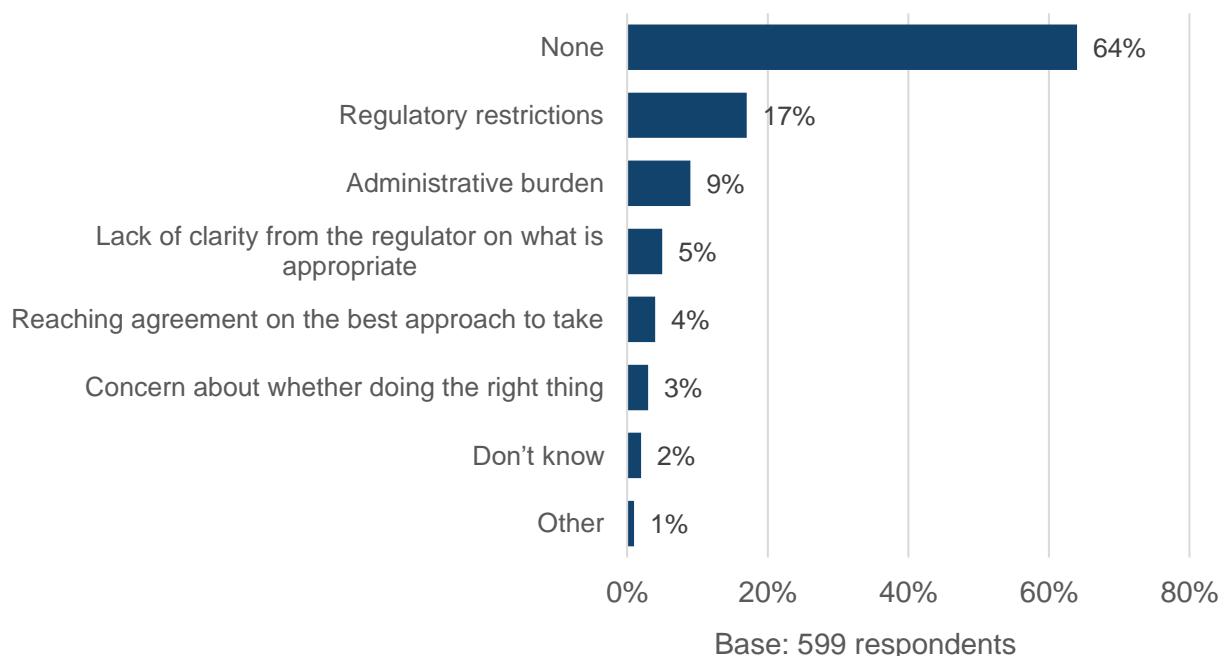
Among 29 solicitors and 10 licensed conveyancers responding to this question, 28 solicitors compared with 60 per cent of licensed conveyancers say they intend to remit more interest to clients. A possible reason for this could be licensed conveyancers holding large amounts of money for property transactions which – should interest rates continue to rise – could see greater amounts of interest generated.

### 3.2.3 Barriers to using the interest in preferred ways

Firms were asked what barriers – if any – they face when using interest from general client accounts in ways that they would like. Almost two thirds (64 per cent) believe they do not face any barriers, with the most commonly mentioned barrier being 'regulatory restrictions,' mentioned by 17 per cent (Figure 7).

On the matter of regulatory restrictions, many firms mentioned in additional comments that they follow guidance from the SRA or CLC concerning the de minimis amount, including guidance that a "fair sum" should be paid back to clients. Whilst these do not necessarily constitute "restrictions", there were no other obvious points raised relating to regulation and it may be that some firms perceive the guidance as restrictive. For example, two firms referred to "SRA rules" concerning a de minimis amount and a number of firms feel the term "fair sum" is too ambiguous.

**Figure 7 Barriers faced when using interest from general client accounts in preferred way(s)**



Analysis by size-band reveals that 82 per cent of surveyed medium and large firms believe they face no barriers to using the interest on general client accounts compared with 65 per cent of micro and small firms – a statistically significant difference (Table 4).

This could be the case, for example, where greater resourcing and access to a wider range of specialist expertise within these larger organisations could help to overcome knowledge-related or more practical challenges.

**Table 4 Barriers faced to using interest from general client accounts in preferred way(s) (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>599</b>	<b>364</b>	<b>179</b>	<b>56</b>
None	64%	60%	67%	82%
Regulatory restrictions	17%	20%	15%	7%
Administrative burden	9%	10%	8%	9%
Lack of clarity from the regulator on what is appropriate	5%	5%	4%	4%
Reaching agreement on the best approach to take	4%	3%	4%	5%
Concern about whether doing the right thing	3%	4%	1%	0%
Don't know	2%	2%	3%	2%
Other	1%	2%	1%	0%

Analysis by type of law firm does not reveal statistically significant differences, however it is worth noting that 27 per cent of conveyancing/property firms, compared with 10 per cent of firms working in other legal service areas, say they face regulatory restrictions.

### 3.3 Technological developments

Whilst the objectives of this research did not extend to examining technological developments in project and payment systems that could influence how client monies are held by law firms, the case study below provides one example of a possible change that could affect the use of general client accounts in the future.

## Project Meridian

In April 2023, the Bank for International Settlements (BIS) and the Bank of England successfully completed Project Meridian.<sup>12</sup> The project set out to investigate how recent rapid advances in financial technology could deliver innovations in real-time gross settlement (RTGS) systems, which sit at the core of modern electronic payment systems.

As a prototype use case, the project examined the housing transaction process in terms of links between banks, conveyancers and HM Land Registry. The idea would be that funds only move if an asset on another ledger also moves, aiming to reduce costs and risks, and increase efficiencies. Synchronisation would be achieved by the introduction of a new entity called a synchronisation operator. The operator would not hold any funds but would orchestrate the exchange in ownership of funds and assets.

The implication of the system for the future of conveyancing – if taken forward – is that it could see funds bypass the use of conveyancers' client accounts. To explain further – within the conveyancing system, the traditional process at the point of exchange involves the buyer sending deposit funds to their conveyancer's client account. Ahead of completion on a property purchase, the buyer then sends the remaining cash funds to that account, or the mortgage lender disperses funds to the conveyancer. At the moment of completion, the buyer's conveyancer requests that funds are sent to the seller's conveyancer.

In the synchronised settlement system, deposit funds are initially put on "hold" in the buyer's bank account(s) so that they cannot be used for other purchases. Ahead of completion, the remaining cash funds are put on hold in the buyer's bank account(s), or the mortgage funds are put on hold in a mortgage account at the lender. Just before settlement, all the funds are earmarked in RTGS accounts. At the moment of completion, funds flow between banks' RTGS accounts and a new digital deed is time stamped.

A proposed outcome of Project Meridian is that central banks can use the findings from the project to inform considerations on whether to implement synchronisation in their RTGS systems. As they do this, BIS states that further exploration is needed relating to the potential for synchronisation to drive innovation in wholesale payments and support the emergence of new payments infrastructures, in collaboration with participants in a range of asset markets.

<sup>12</sup> Bank for International Settlements (BIS) Innovation Hub/Bank of England (2023) Project Meridian – Simplifying transactions through innovation. <<https://www.bis.org/publ/othp63.pdf>> Accessed 20 May 2024

## 4. Interest Commitments to Clients

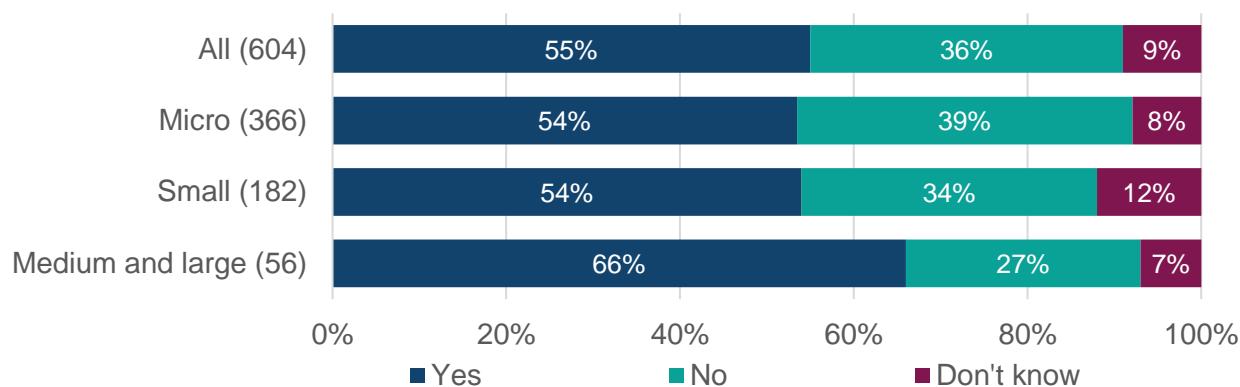
This chapter examines in more detail what law firms pay back to clients from the interest accrued on general client accounts, including the different practices used by firms and factors influencing those practices. It also covers firms' views on clients' expectations for receiving interest back, whether firms have a published policy in place and how that policy is communicated to clients.

### 4.1 De minimis amount to pay back to clients

Over half of surveyed firms (55 per cent) confirmed that they set a 'de minimis' amount<sup>13</sup> of interest. This rises to 66 per cent among medium and large firms (Figure 8).

It is also worth noting that more than half of surveyed solicitors (58 per cent) compared with just 28 per cent of the smaller sample of non-solicitors set a de minimis amount – a significant difference. Responses are similar by main legal service area.

**Figure 8 Whether firms set a de minimis amount of interest they are prepared to pay back to clients (by size-band).**



Firms that set a de minimis amount were asked what amount they set currently (£) and what they set three years ago, i.e. when interest rates were still historically low.

The most common (modal) amount reported by surveyed firms is £20 – the same today as three years ago.

However, there appears to have been a slight uplift over the past three years when looking at the range and mean amounts set, being £25 three years ago and £38 today (Table 5).

<sup>13</sup> The term 'de minimis' (meaning of minimal importance or negligible) in this context refers to a baseline amount of interest above which law firms would be prepared to pay back to clients. The de minimis amount is typically set at a threshold sufficient to cover the administration costs associated with managing client monies.

**Table 5 De minimis amount of interest paid back to clients**

Time period	Range	Mean	Mode
Current	£0-250	£38	£20
Three years ago	£0-150	£25	£20

Base: 324 respondents

The mean de minimis amounts set by firms appear broadly consistent across the size-bands, with a similar uplift over three years by size of firm (Table 6).

**Table 6 De minimis amount of interest paid back to clients (means by size-band)**

Time period	All	Micro	Small	Medium and large
<b>Base</b>	<b>324</b>	<b>190</b>	<b>98</b>	<b>36</b>
Current	£38	£38	£38	£35
Three years ago	£25	£26	£25	£25
Change	+£13	+£12	+£13	+£10

There are, however, some observable differences when looking at the averages for the de minimis amount across various sub-groups, as follows:

- The mode is higher among firms based in Wales (£50) compared to England (£20)
- The mean is significantly lower among firms self-reporting as facing no competition (£22) compared with firms facing local competition (£34), regional competition (£55) and national competition (£47)
- The mean is significantly higher among firms licensed as an ABS (£59) compared with those not licensed as an ABS (£35)
- The mean is £38 among solicitors, compared with £44 among licensed conveyancers

Some firms provided additional comments in relation to the de minimis amount they choose to set. Among these, 30, including 29 solicitors, set the de minimis amount based on available guidance, of which most cited SRA guidance and one mentioned CLC guidance dating back several years.

Some firms stated that the amount paid back to clients is decided on a case-by-case basis and depends on factors such as the amount of time client money has been held in the general client account and the amount of interest accrued.

## 4.2 A 'fair amount' to pay back to clients

### 4.2.1 Perceived fair amount

Above any de minimis amount, all surveyed firms were asked what they consider a 'fair amount' to pay back to clients in terms of a percentage of accrued interest. Firms were asked to give a current percentage and what they would have deemed a fair amount three years ago.

Here, the picture is more mixed than is the case with the de minimis amount, with a full range of answers from 0 to 100 per cent of the interest.

- A third (33 per cent) of firms currently consider at least 80 per cent to be a fair sum to pay back; three years ago, a similar (albeit slightly lower) proportion (29 per cent) would have considered at least 80 per cent to be a fair sum to pay back to clients
- The current mean fair amount is 38 per cent – slightly higher than 32 per cent three years ago
- The current modal amount is 100 per cent, compared with 0 per cent three years ago

**Table 7 Perceived fair amount of interest (per cent) to pay back to clients**

Time period	Range	Mean	Mode
Current	0-100%	38%	100%
Three years ago	0-100%	32%	0%

Base: 490 respondents

The mean 'fair amount' amount varies across the size-bands – significantly higher among micro firms (45 per cent of the interest) compared with small firms (25 per cent of the interest). The greatest uplift over the past three years is evident among medium and large firms, at +14 per cent of the interest (Table 8).

**Table 8 Perceived fair amount of interest (per cent) to pay back to clients (by size-band)**

Time period	All	Micro	Small	Medium and large
<b>Base</b>	<b>490</b>	<b>307</b>	<b>139</b>	<b>44</b>
Current	38%	45%	25%	35%
Three years ago	33%	39%	22%	21%
Change	+5%	+6%	+3%	+14%

Further observable differences in terms of the fair amount can be seen across other sub-groups, as follows:

- The current modal answer of 100 per cent was mentioned by 30 per cent of law firms overall, with sub-group proportions below:
  - Mentioned by 37 per cent micro, 17 per cent small, 25 per cent medium and large
  - Mentioned by 32 per cent of solicitors, 28 per cent of other types of law firm
  - Mentioned by 61 per cent licensed as an ABS, 26 per cent not licensed as an ABS – noteworthy as a significant difference
- The current mean fair amount is significantly lower among firms self-reporting as facing no competition (18 per cent of the interest) compared with firms facing local competition (34 per cent), regional competition (58 per cent) and national competition (45 per cent)
- The current mean fair amount is significantly higher among firms licensed as an ABS (63 per cent of the interest) compared with those not licensed as an ABS (35)
- Whilst not a significant difference, the mean fair amount is 42 per cent among property/conveyancing firms compared with 37 per cent among firms working in other legal services areas

#### 4.2.2 Examples of practices

Additional comments from law firms point to a wide range of practices pertaining to what firms consider a fair amount of the interest to pay back to clients, with examples given below:

- Among **micro firms**, examples were given of:
  - Paying back anything over £20
  - Offering a 70/30 split in favour of clients after administration and other fees costs have been deducted

- Retaining 20 per cent for the firm
- Among **small firms**, examples were given of:
  - Keeping all interest unless a minimum of £250 is accrued, in which case it would be returned to the client
  - Paying back anything over £5
  - Paying back a percentage (typically fluctuating between 1.55 per cent and 1.85 per cent depending on bank interest rates)
- Among **medium and large firms**, examples were given of:
  - Paying up to £80 maximum, depending on case complexity
  - Paying back over £50
  - Paying back 15 per cent
  - Taking a small admin charge but then paying back £80 to £100 if this is over the de minimis amount.

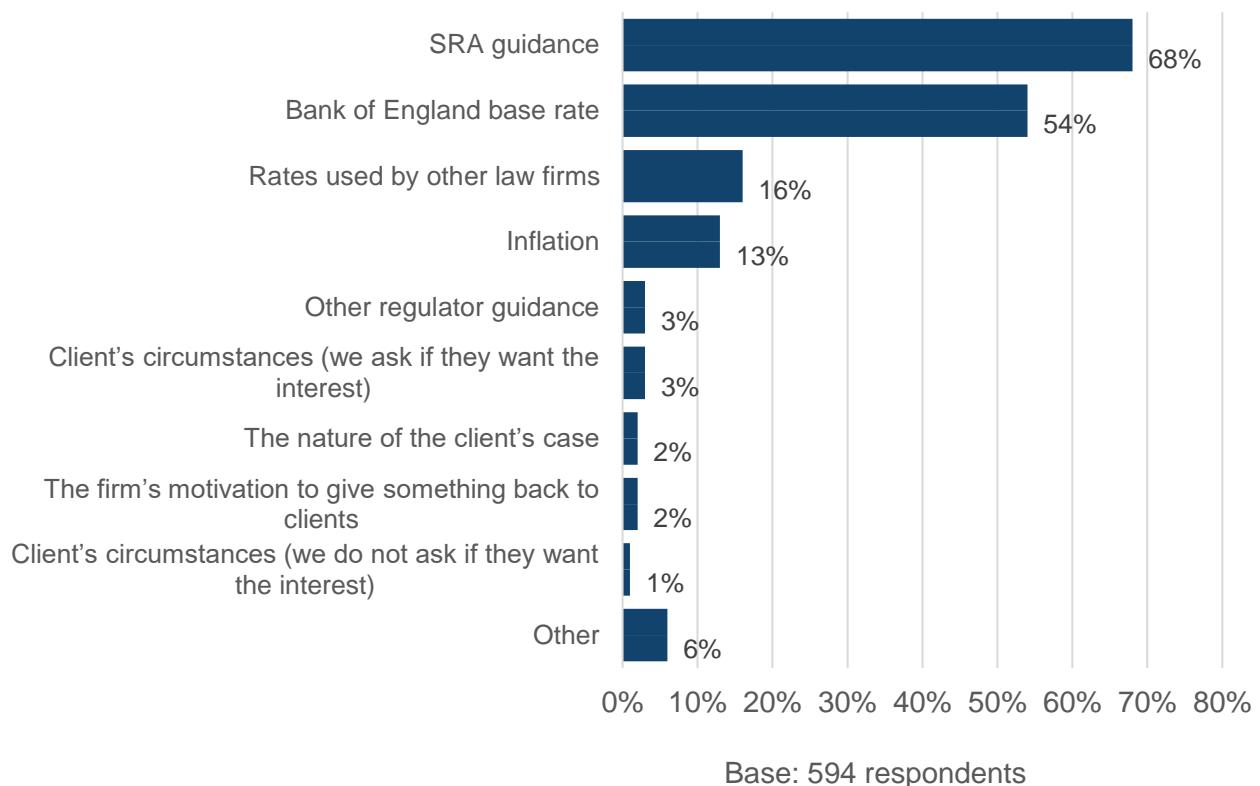
There are no discernible differences by type of law firm or main legal service area – with a similarly wide range of practices used.

#### **4.2.3 Factors influencing the 'fair amount' paid back to clients**

Surveyed firms were then asked which, from a range of factors, help to determine what their firm considers a 'fair amount' to pay back to clients. The two main drivers are SRA guidance, mentioned by more than two thirds (68 per cent) of firms; and the Bank of England base rate, mentioned by more than half (54 per cent) of firms – not mutually exclusive (Figure 9).

With the base rate having risen from 0.1 per cent in December 2021 to 5.25 per cent in spring 2024, this likely explains the uplift in what firms perceive as a fair amount to pay back to clients (section 4.2.1).

**Figure 9 Factors influencing the fair amount to pay back to clients**



Analysis by size-band reveals that surveyed medium and large firms are more likely to be influenced by SRA guidance than small firms – a significant difference.

Conversely, micro firms appear more likely to be influenced by rates used by other law firms compared with medium and large firms – again a significant difference (Table 9).

**Table 9 Factors influencing the fair amount to pay back to clients (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>594</b>	<b>360</b>	<b>180</b>	<b>54</b>
SRA guidance	68%	69%	63%	80%
Bank of England base rate	54%	54%	53%	57%
Rates used by other law firms	16%	21%	12%	4%
Inflation	13%	17%	9%	6%
Other regulator guidance	3%	3%	3%	4%
Client's circumstances (we ask if they want the interest)	3%	5%	1%	4%
The nature of the client's case	2%	1%	3%	4%
The firm's motivation to give something back to clients	2%	3%	3%	0%
Client's circumstances (we do not ask if they want the interest)	1%	1%	1%	2%
Other	6%	6%	6%	4%

Analyses by type of law firm and main legal service area do not reveal statistically significant differences, however it is worth noting that a higher proportion of property/conveyancing firms are influenced by rates used by other law firms (25 per cent) and inflation (22 per cent) compared with law firms working in other legal service areas (10 per cent and 7 per cent respectively).

The 4 per cent of law firms mentioning 'client circumstances' as a factor influencing the fair amount they choose to pay back were asked for further details about what tends to inform that.

Among 24 responding firms, the most common answer is the complexity of the client's case. More complex cases mean more time spent working on behalf of the client, with higher administrative and postage costs etc., in turn leading to less interest being paid back to clients. Others mentioned taking into account benefits being claimed by the client, their employment status, or whether they are a juvenile or of pensionable age.

"We ask the client if they would like the interest returned but they generally tell us to keep it towards our administration costs as the interest is only minimal."

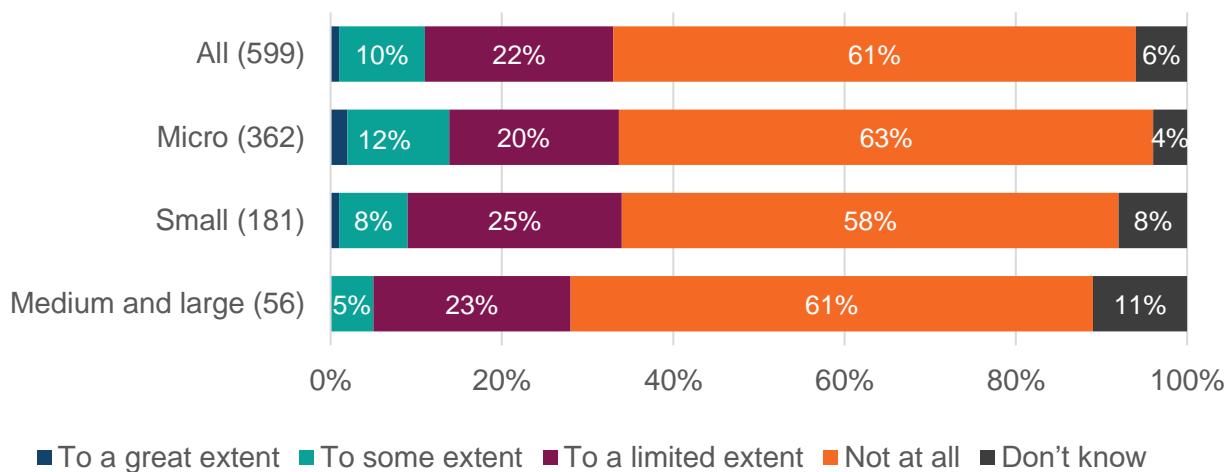
*Solicitor, micro firm*

## 4.3 Perceived client expectations

Surveyed firms were asked whether they believe there to be any differences between clients in terms of their expectations for the proportion of interest they might expect to receive back.

Most firms (61 per cent) are of the view that there are no discernible differences between clients, with a similar picture across the size bands. That said, around a third believe – to a greater or lesser extent – that differences are evident (Figure 10).

**Figure 10 Extent to which differences are believed to exist between clients in terms of expectations for interest to be paid back to them (by size-band)**



Results are similar by type of law firm and main legal service area.

All surveyed firms were then asked what factors typically influence the proportion of interest that clients might expect to receive back. Many reiterated other drivers of interest payments to clients, such as the firm's policy relating to paying back interest, how long the money is held, and prevailing interest rates. Those mentioning client expectations for the most part said that clients typically do not expect to receive any interest back, or do not ask about interest. This is mainly put down to the funds only being held for a short time.

A minority of firms mentioned that client expectations can sometimes be shaped by the complexity of the case, types of services being requested and the workload of the solicitor. Building on the point made around complexity of work on the previous page, the inference here is that clients could be less likely to expect interest if they perceive that the firm is working hard on their behalf to help them achieve their legal goals.

Two firms made reference to certain clients being “savvy”, such as probate clients, where money could be held for a comparatively longer time and they might therefore expect to receive interest.

"If clients are forthcoming with a request, they can have the interest paid back but it is a financial burden to the firm in terms of time and admin and most appreciate this as it is stipulated at the start."

*Solicitor, micro firm*

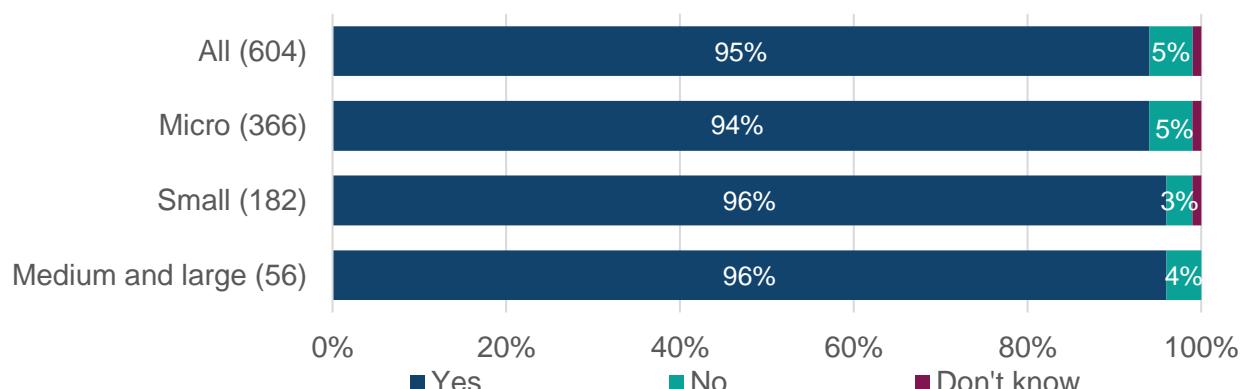
"It mainly depends on how savvy the client is. Some clients want us to put the money into a high interest-bearing account."

*Solicitor, medium/large firm*

#### **4.4 Interest policy covering payment of interest on general client accounts**

The vast majority of surveyed firms (95 per cent) report that they have an official policy in place covering the payment of interest on general client accounts, with a similar picture across the size-bands (Figure 11).

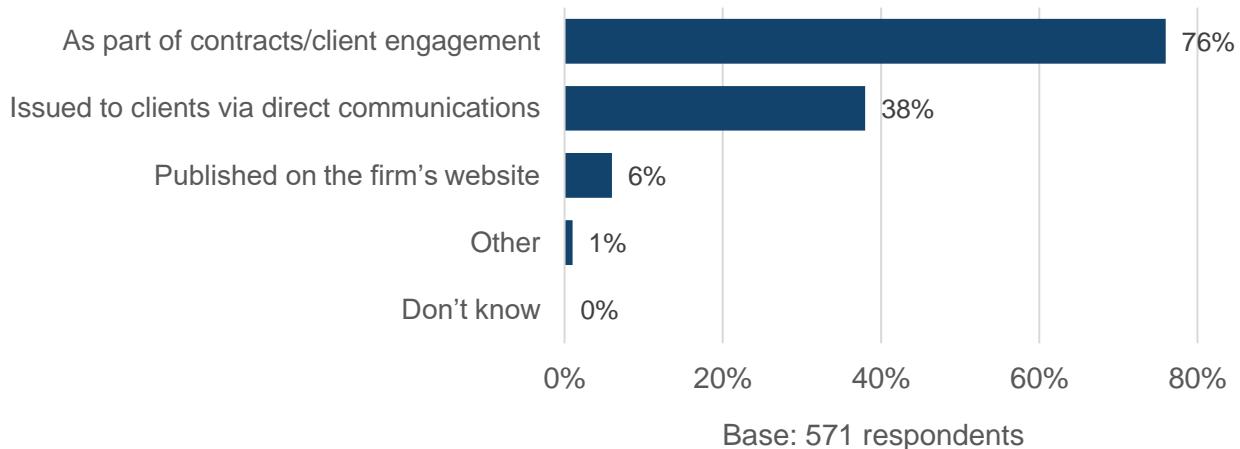
**Figure 11 Whether firms have an official policy in place covering the payment of interest on general client accounts**



Results are similar by type of law firm and main legal service area.

Among firms with an official policy in place, more than three quarters (76 per cent) make this clear as part of contracts/client engagement and 38 per cent as part of direct communications with clients (not mutually exclusive). Only 6 per cent said that they publish their interest policy on their website (Figure 12).

**Figure 12 Ways in which the interest policy is communicated**



The findings suggest that, for the most part, clients will not have access to this information at the point of choosing a law firm to work with, although it is unclear how much of a priority this would be for clients, especially if amounts are only held in a client account for a short time.

Analysis by size-band reveals a similar pattern, with no significant differences (Table 10).

**Table 10 Ways in which the interest policy is communicated (by size-band)**

Reasons given	All	Micro	Small	Medium and large
<b>Base</b>	<b>571</b>	<b>344</b>	<b>173</b>	<b>54</b>
As part of contracts/client engagement	76%	76%	73%	85%
Issued to clients via direct communications	38%	37%	41%	39%
Published on the firm's website	6%	6%	5%	11%
Other	1%	1%	1%	2%
Don't know	0%	0%	1%	0%

Again, the results are similar by type of law firm and main legal service area.

Among the small minority of firms that do not have an official policy in place, their main reason is that minimal amounts of interest are accrued which they feel makes such a policy unnecessary.

Other reasons include:

- Arrangements with each client are set on a case-by-case basis
- The firm does not pass on any interest back to the client
- The firm passes all interest back to the client

- Payment of interest forms such a minor part of the business that this does not warrant a policy
- SRA guidance does not state that a policy is required

“Interest is generally minimal so it isn't really discussed or bought up either by, or with, the client.”

*Solicitor, micro firm*

## 5. Managing General Client Accounts

This chapter reveals law firms' perceptions of the burden of managing client accounts, as well as the scale and types of costs involved. It then provides information on current banking and administrative arrangements as they relate to general client accounts, the extent to which firms are happy with these arrangements, and technological developments that could influence how client monies are transmitted and received in the future.

### 5.1 Burden of managing general client accounts

#### 5.1.1 Perceived scale of the burden

On a scale from 1 (not at all) to 10 (significantly), surveyed firms were asked to what extent they consider the process of passing interest back to clients to be an administrative burden for their firm.

The mean score of 2.5 (similar across the size bands) suggests that the burden to firms is low.

**Table 11 Rating of the burden of passing interest back to clients (by size-band)**

	All	Micro	Small	Medium and large
<b>Base</b>	<b>598</b>	<b>362</b>	<b>181</b>	<b>55</b>
<b>Mean scores</b>	2.5	2.5	2.4	2.6

The results are similar by type of law firm and main legal service area.

“Due to the type of work we carry out we do not hold large amounts so it is not a financial issue to administer.”

*Solicitor, micro firm*

“There are minimal costs for administering a client account as we don't hold much client money. We are only a small firm dealing with family law.”

*Solicitor, micro firm*

### **5.1.2 Estimation of costs involved in managing general client accounts**

Firms were then asked to estimate the approximate total annual cost to their firm of administering a general client account, including any offsetting for banking fees and other administrative costs.

In examining such numbers, it is important to consider the risk of over-estimation bias in research of this nature. To refine the calculations, the effect of over-estimation was reduced to some extent by taking account of two further pieces of information obtained from firms:

1. Whether the given estimates included salary amounts for one or more individuals responsible for managing general client accounts (23 per cent confirmed this to be the case)
2. Among this subset of firms incorporating salary amounts into their estimates (97 in total), the proportion of time these individuals typically spend on managing general client accounts – the average reported is 24 per cent of their time

For most respondents, the financial estimates given by firms have been taken at face value in calculating averages. For the subset of 97 respondents mentioned above who quoted salary amounts, the financial estimates have been manually adjusted to account for the reported proportion of time spent on managing general client accounts.

The resulting averages are shown in Table 12. It is important to treat these numbers with extreme caution as they have not been independently verified.

- The mean annual reported cost is £5,351 and is significantly higher among medium and large firms (£7,665) compared with small firms (£3,468)
- The median – which helps to reduce the influence of outliers – is £775 and similar across the size bands
- The modal answer (mentioned by 25 per cent of firms) is nil – the same across the size-bands

**Table 12 Cost to firms of managing general client accounts (by size-band)**

	All	Micro	Small	Medium and large
<b>Base</b>	<b>601</b>	<b>366</b>	<b>180</b>	<b>55</b>
<b>Mean</b>	£5,351	£5,927	£3,468	£7,665
<b>Median</b>	£775	£800	£650	£738
<b>Mode</b>	£0.00	£0.00	£0.00	£0.00

The modal amount of £0 is true across all subgroups analysed for this research (as per those listed in Appendix 2) with the exception of non-solicitors (licensed conveyancers). Among this latter group, the mode is £1,200.

Furthermore, 27 per cent of solicitors gave an answer of £0, compared with just 6 per cent of licensed conveyancers – a significant difference. It may be the case for example that licensed conveyancers – being more routinely involved in property transactions – expend more time and cost in managing client account monies, or that they are better placed to more precisely identify the costs involved.

Firms were asked for further details to explain their estimated cost for managing client accounts. The main reasons given are:

- Minimal interest is paid on general client accounts, resulting in minimal administrative costs
- Costs are swallowed up by administrative roles within the organisation, making these difficult to calculate
- Technology automates interest calculations, reducing the amount of manual work needed
- No additional costs involved besides bank fees
- Interest is not paid to clients by policy, again meaning administrative costs do not apply

“An estimated figure is hard to give specific when the software does the work and the majority of the time we do not hold money for a period that would earn significant interest.”

*Solicitor, medium and large firm*

"These costs are incorporated into my administrator's role and is a very small percentage of that salary."

*Solicitor, small firm*

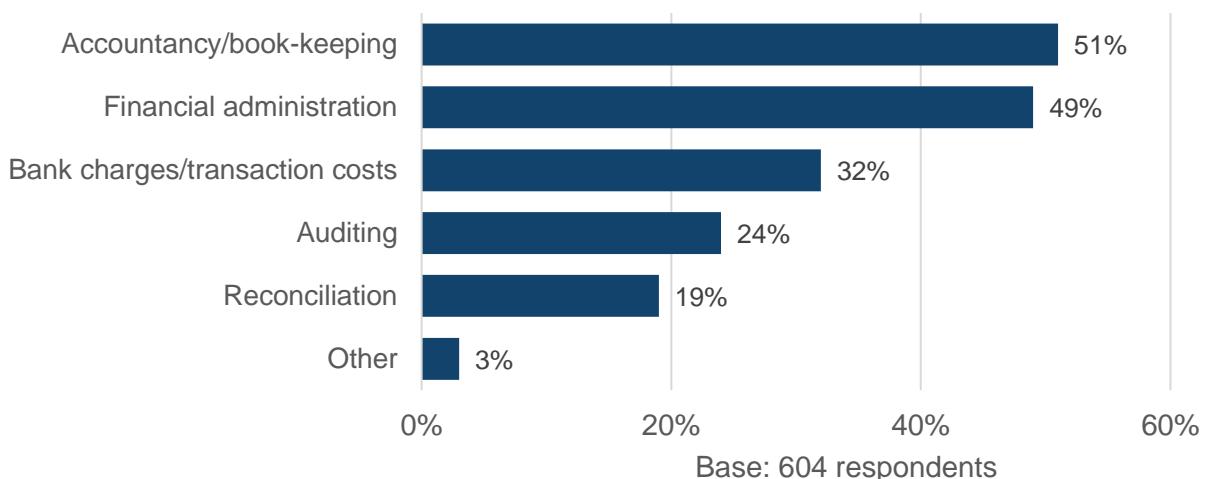
"We do a great deal of probate so it can be complex applying the interest, reconciliation, bank administration and also liaising with the fee earner."

*Solicitor, small firm*

### 5.1.3 Types of costs involved

Firms report a range of different costs are involved in managing general client accounts, most commonly accountancy/book-keeping, financial administration, and bank charges/transaction costs (Figure 13).

**Figure 13 Types of costs involved in managing general client accounts**



The pattern is similar across the size-bands, although a significantly higher proportion of medium and large firms mentioned bank charges and reconciliation costs as being among the types of costs incurred relating to general client accounts, than micro and small firms (Table 13). This could be due to larger firms having more clients, more transactions, and processing greater amounts of money.

**Table 13 Types of costs involved in managing general client accounts (by size-band)**

Cost categories	All	Micro	Small	Medium and large
<b>Base</b>	<b>558</b>	<b>339</b>	<b>166</b>	<b>53</b>
Accountancy/book-keeping	51%	52%	45%	60%
Financial administration	49%	43%	57%	60%
Bank charges/transaction costs	32%	31%	27%	49%
Auditing	24%	26%	21%	25%
Reconciliation	19%	19%	15%	34%
Other	3%	1%	6%	6%

The results are similar by type of law firm and main legal service area.

Several firms provided additional comments to say that costs are mainly subsumed within the following types of job roles:

- Finance Manager
- Office Manager
- Accountant
- Financial administrator/bookkeeper
- Secretary

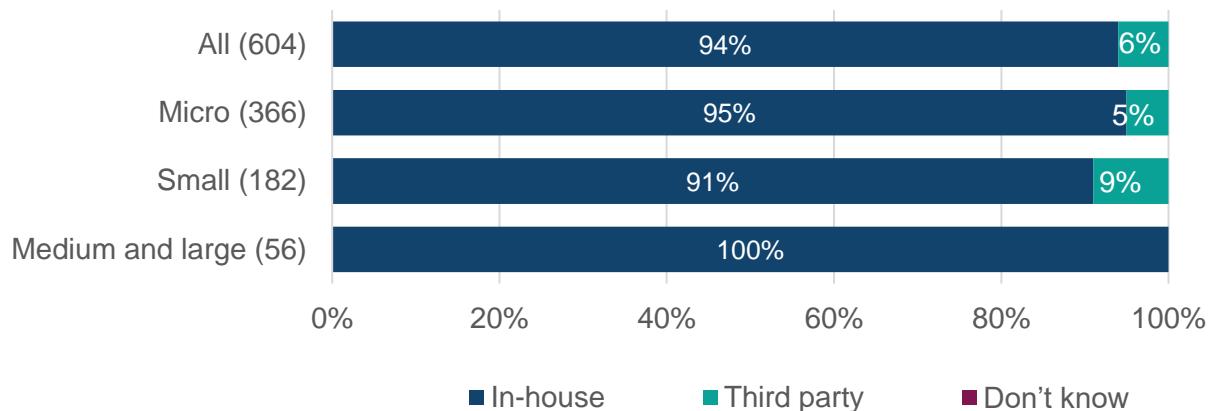
## 5.2 Current banking and administrative arrangements

### 5.2.1 How general client accounts are managed

Almost all surveyed firms (94 per cent) report that they manage their general client accounts in-house, with the remainder making use of Third Party Managed Accounts (TPMAs).

The picture is similar across the size-bands, rising to 100 per cent among medium and large firms. This is likely due to these firms having access to a wider range of in-house functions, such as accountants (Figure 14).

**Figure 14 How general client accounts are managed**

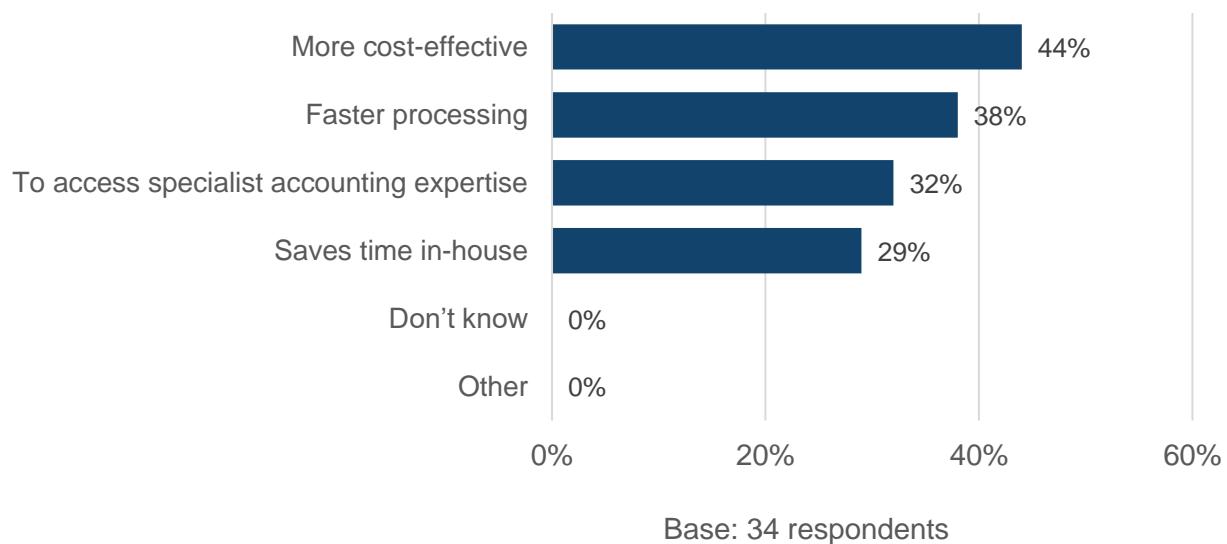


Whilst the results are similar by type of law firm, a marginally higher proportion of licensed conveyancers (9 per cent) compared with solicitors (5 per cent) use TPMAs.

The minority of firms that use TPMAs said that they do so for a range of reasons and benefits, notably that it proves more cost effective, permits faster processing, and enables access to specialist accounting expertise (Figure 15).

A breakdown by size-band has not been provided for this question due to the low base and the question not being applicable to surveyed medium and large firms.

**Figure 15 Reasons for using third party managed accounts**

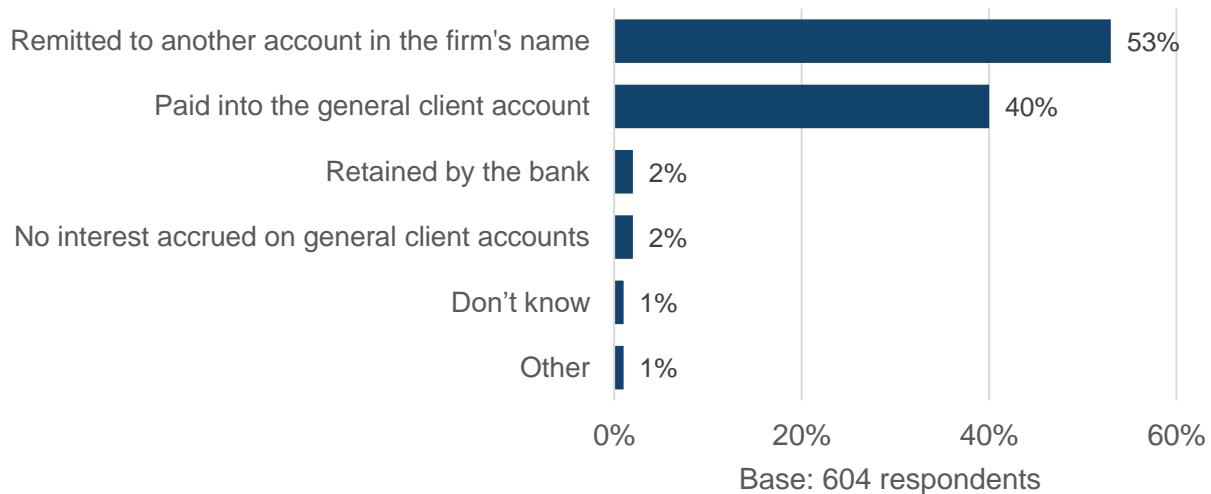


### 5.2.2 Bank arrangements relating to interest payments

Surveyed firms were asked to describe the main current arrangement with their bank regarding payment of interest on their general client accounts.

Whilst a large minority (40 per cent) receive this interest in the general client account, more than half (53 per cent) receive it to another bank account in the name of their firm. It could be that this arrangement makes it easier for firms to use the accrued interest in different ways (Figure 16).

**Figure 16 Main arrangement with the bank relating to interest accrued on the general client account**



Results are similar by size-band (Table 14), type of law firm and main legal service area.

**Table 14 Main arrangement with the bank relating to interest accrued on the general client account (by size-band)**

Arrangements	All	Micro	Small	Medium and large
<b>Base</b>	<b>604</b>	<b>366</b>	<b>182</b>	<b>56</b>
Remitted to another account in the firm's name	53%	52%	57%	50%
Paid into the general client account	40%	40%	37%	45%
Retained by the bank	2%	2%	2%	2%
No interest accrued on general client accounts	2%	2%	2%	2%
Don't know	1%	1%	1%	2%
Other	1%	2%	1%	0%

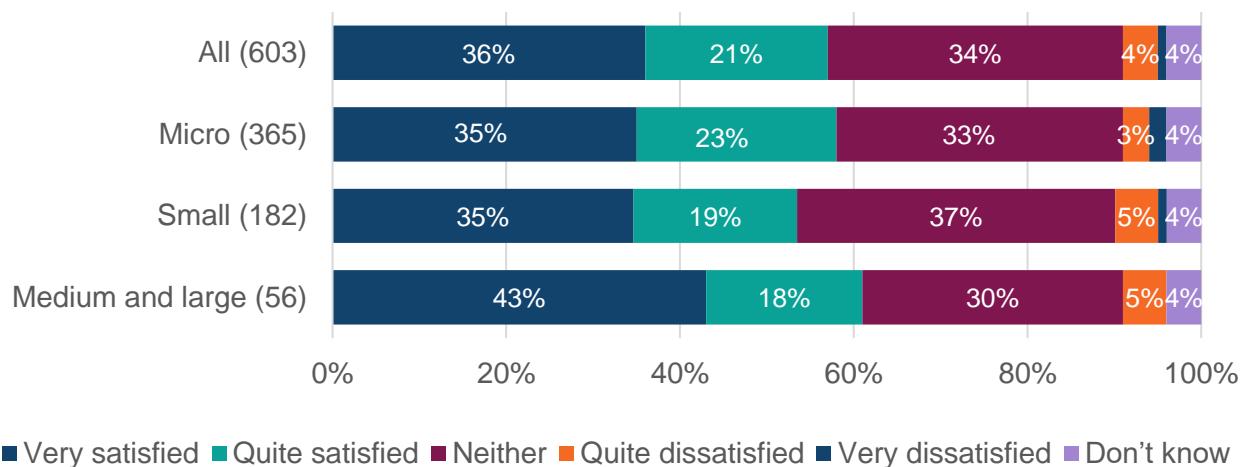
Respondents mentioning that interest is retained by their bank (13 in total) all stated that this is used to offset banking charges. The research did not examine the specific circumstances around how such arrangements are put in place between firms and their banks.

## 5.3 Satisfaction with current banking arrangements

Most surveyed firms (57 per cent) are satisfied with their current banking arrangements relating to what happens to the interest on their general client accounts. Around a third (34 per cent) are ambivalent and a small minority dissatisfied.

Perspectives are similar across by size-band (Figure 17), type of law firm and main legal service area.

**Figure 17 Satisfaction with current banking arrangements**



■ Very satisfied ■ Quite satisfied ■ Neither ■ Quite dissatisfied ■ Very dissatisfied ■ Don't know

Among firms that are satisfied with their current arrangements, most simply said they were happy with current arrangements and could not identify what they would want to change. Several praised their bank's service, said they had a good working relationship with their bank, or found the bank's services and apps to be easy to work with.

“It supplements our income and allows us to invest in the business. We would not change the arrangement.”

*Licensed conveyancer, medium/large firm*

“We would like more notifications from the bank at the time regarding interest paid rather than just on the statement.”

*Solicitor, micro firm*

Firms dissatisfied with their current arrangements mentioned interest rates being very low, poor service, and banks changing payment dates or frequency of interest payments which poses additional administrative burdens for firms. Indeed, only a very small minority of firms answering this question mentioned that interest rates on their general client accounts have increased.

“We are not always made aware of interest rate changes so we have to consistently make sure we are up to date.”

*Solicitor, micro firm*

“We are currently in the process of moving to another bank for a better rate of interest.”

*Solicitor, small firm*

## 6. Conclusions and Forward Considerations

### 6.1 Conclusions

- 1. Law firms in England and Wales are generally committed to remitting interest from general client accounts to their clients, although there are wide variations between firms in how much is paid back and how that amount is determined.**

For the most part and among three quarters (78 per cent) of law firms, the most common practice is to fully or mainly/sometimes remit interest from general client accounts back to clients (Figure 2). There are no significant differences in this respect by type or size of firm. This raises the question of how much of this interest is remitted to clients and what law firms consider a fair amount to pay back, revealing notable variations across the sector.

While more than half of firms (55 per cent) set a de minimis amount above which they pay interest back to clients, more than a third (36 per cent) do not. Furthermore, there are significant differences between certain subgroups of law firm in relation to what that de minimis amount looks like (section 4.1). The most common (modal) amount is £20.

There are more pronounced variations in what firms consider a 'fair amount' of interest to pay back to clients in per centage terms, with answers ranging from 0-100 per cent and some significant differences by certain subgroups (section 4.2.1). Furthermore, firms are using a variety of approaches to determine what they pay back to clients, based on either values (£) or percentage amounts (section 4.2.2).

- 2. As interest rates have risen over the past two years, this raises fresh questions around what is a 'fair amount' of interest for clients to receive back and what (if anything) clients would reasonably expect to receive anyway.**

During a period of historically low interest rates, variations between firms in terms of policy and practice relating to interest on general client accounts would likely have had little impact on clients due to the small amounts of interest involved.

However, the rapid rise in interest rates between 2022 and 2024 could be leading to a wider variety of policies and practice across the sector, un-levelling the playing field for clients seeking legal services.

While most firms (61 per cent) are of the view that there are no discernible differences between clients in terms of the interest they would expect to receive back, the client perspective remains unclear and potentially merits further exploration.

For instance, many clients may not think about or prioritise recouping interest on monies held in firms' client accounts, especially where they are principally focused on their main legal objective such as a property purchase, or where money is only held for a short time. Furthermore, it is highly likely that clients (not consulted within the scope of this research) simply place trust in law firms to look after their interests appropriately.

An additional consideration is that clients potentially lack upfront information about law firms' interest policy. Whilst 95 per cent of firms have an official policy in place regarding payment of interest on general client accounts, only 6 per cent publish this information on their website (Figure 12).

**3. For the most part, law firms are not reliant on interest from general client accounts to operate on a sustainable footing and losing this interest would have little impact on their firm.**

Only a small proportion (17 per cent) of surveyed law firms say that their main use of interest is to cover administrative or other costs incurred by their firm (Figure 2). Furthermore, 92 per cent say they are not at all or not very reliant on the interest to operate on a sustainable footing.

If firms were unable to retain the interest, 94 per cent are of the view that this would have little impact on their firm. This percentage is similar across the size-bands, although medium and large firms appear to be slightly more dependent on the interest.

Estimating the costs to law firms of managing general client accounts through a survey-based approach has its limitations and the figures presented in this report (section 5.1.2) should be treated with caution. The median (to eliminate the effect of outliers) is £775.00, and the mode (mentioned by 25 per cent of firms) is nil. The mode is the same across all types and sizes of firms with the exception of licensed conveyancers, for whom costs appear to be comparatively higher than among solicitors.

**4. Very few law firms currently use interest from general client accounts to fund free, related, pro bono or charitable activities.**

Only 2 per cent of surveyed law firms mainly use the interest from general client accounts to fund free, related or pro bono activities, and a further 2 per cent mainly provide this to charitable organisations.

Whilst the survey did not explore the extent to which these firms undertake these activities per se (for example funded from other sources) it is likely that years of historically low interest rates has provided little opportunity for firms to use interest from general client accounts in ways that might work harder for civil society.

**5. Despite a period of rising interest rates, most law firms have not signalled changes to how they use interest from general client accounts.**

Most law firms (89 per cent) say they have not made, or are not considering making, changes to the use of interest from general client accounts (Figure 5). Similarly, almost two thirds (64 per cent) do not currently face barriers to using interest in ways they would like (Figure 7).

Taken together, these findings suggests that law firms are broadly content with how they currently make use of interest and there is no obvious signal that firms intend to increase their own funding of free, related, pro bono or charitable activities.

**6. Most law firms are not reliant on the interest from general client accounts, although rising interest rates and the high proportion of firms that pass at least some interest back to clients, means that careful consideration and consultation would be important regarding any planned changes to how this interest is used.**

Almost all (92 per cent) of firms are not at all or not very reliant on the interest from general client accounts, meaning there is potentially room to explore whether interest on client accounts could be used more widely to improve access to justice, or to support other pro bono activities in England and Wales.

However, inflation, combined with rising interest rates, means that law firms could increasingly use more of this interest to cover firm costs, while clients could expect to receive more interest back, with firms responding (Figure 6).

Client views have not been sought via this research and it is not clear how informed clients ultimately are about what interest is potentially made on their money and therefore how they would feel knowing it is not returned to them. Young first-time buyers with low savings may have historically little appreciation of interest after an era of negligible payments but that may be starting to change.

## **6.2 Forward considerations**

The following respond to the MoJ's request for forward considerations based on this research:

1. Seek insights from clients of law firms, to understand what their expectations are regarding repayment of interest, for example depending on the sums of money involved and length of time this is held by law firms – especially in a period of comparatively high interest rates compared to the preceding 10+ years.

Of note here, The Law Society's Financial Benchmarking Survey 2024 found that total net interest income rose to £27.5m in 2023, compared to £2.6m in 2022, representing a total increase of over 1,000 per cent.<sup>14</sup>

2. Work with other legal sector regulators such as the SRA and the Council for Licensed Conveyancers (CLC) to explore the pros and cons of: i) updating standards and guidance regarding an appropriate de minimis amount of interest to pay back to clients; and ii) helping to achieve greater consistency between firms in what might be deemed a 'fair sum' to pay back to clients, factoring in inflation, administrative costs to firms and rising interest rates.
3. Evidence and conclusion 6 suggest that there is merit in exploring further how interest from general client accounts could work harder for individuals who may face greater barriers to accessing legal services. The MoJ has already undertaken research into SILCA schemes used in other countries and territories, which may offer best practice alternatives to consider.

However, the effects of inflation and rising interest rates could make law firms and clients less favourable. This makes it important to undertake broad consultation on any planned changes to consider the potential implications (positive and negative) for law firms and clients.

Furthermore, fluctuations in interest rates could affect the sustainability (longer-term) of interest being used to support access to justice activity, making it worthwhile to consider how this is navigated in other countries that use SILCA scheme models.

4. Stay attune to the potential implications of technological innovations in payment systems and processes, such as those examined as part of Project Meridian, that could potentially have a game-changing impact over the next few years on client monies being held by law firms, particularly within conveyancing.
5. After giving due consideration to (3) and (4) consult on proposed models for possible SILCA schemes, including potential implications (positive and negative) for law firms, clients and any possible unintended consequences.

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<sup>14</sup> The Law Society (2024) Financial Benchmarking Survey 2024.

[https://d17yqm1j5pr274.cloudfront.net/Uploads/t/a/s/lmsfinancialbenchmarkingsurvey2024\\_910456.pdf](https://d17yqm1j5pr274.cloudfront.net/Uploads/t/a/s/lmsfinancialbenchmarkingsurvey2024_910456.pdf)

Accessed 24 May 2024

# Appendix 1 – Sampling Methodology

## A1.1 Survey sample strategy

### A1.1.1 Original (pre-pilot) survey sample strategy

Prior to piloting the survey, a sample strategy was developed which envisaged achieving a representative set of survey responses from two core groups of law firm, stratified by Standard Industrial Classification (SIC) code:

- 69.10/2 – Solicitors
- 69.10/9 – Activities of patent and copyright agents; other legal activities (other than those of barristers and solicitors) not elsewhere classified

The population of enterprises pertaining to each of the above SIC codes was drawn from ONS Nomis, comprising data on VAT or PAYE based enterprises compiled from the Inter Departmental Business Register (IDBR). This source was used to disaggregate the population data by employment size-band and nation, respectively.

It should be noted that SIC codes are not a perfect science for classifying firms and population numbers therefore differ to those published by the SRA concerning firms it specifically regulates (cf. section 1.3.1).

At the highest level, the pre-pilot sample strategy was formulated as per Table 15.

**Table 15 Pre-pilot survey sample strategy by SIC code**

Firm type	Total firms in Eng/Wales	Percentage mix	Representative survey target
69.10/2 – Solicitors	11,490	62%	373
69.10/9 – Other types of law firm	6,995	38%	227
<b>Total</b>	<b>18,485</b>	<b>100%</b>	<b>600</b>

Initial testing and piloting of the survey involved the following three steps:

1. Testing of the appropriateness and feasibility of the survey questions via a large law firm working in partnership with Pye Tait Consulting as part of the survey design phase
2. A review of the survey introductory script and questions by The Law Society (organised by the MoJ)
3. Completion of 10 pilot responses to the survey from a variety of firm types and sizes, supplemented by questions asked of respondents to gauge views on the ease of being

able to answer the questions and to ensure the survey duration did not exceed 20 minutes.

Step 3 identified a higher incidence of survey 'screen-outs' among non-solicitors falling within SIC code 69.10/9. A screen-out refers to a firm falling outside scope of the research when stating in response to the opening survey question that they did not use general client accounts. The main exception was licensed conveyancers, of which there are circa 220+ firms regulated by the CLC.

Generally, the high incidence of screen-outs within SIC code 69.10/9 during the pilot stage was deemed to present a risk to overall survey delivery within the original proposed timeframe. As such, it was agreed with the MoJ to re-formulate the survey sample strategy to focus principally on solicitors (n=550) including breakdowns by employment size-band and nation, topped up by a much smaller sample of non-solicitors without quotas for employment size-band and nation (n=50).

Supporting the rationale for this binary split is the fact solicitors make up the largest single proportion of law firms in England and Wales. Specifically, the SRA reports that it regulated 9,291 firms of solicitors as of April 2024.<sup>15</sup> This compares with smaller numbers of firms operating under the auspices of other legal sector regulators.

### A1.1.2 Final (post-pilot) survey sample strategy

This section sets out the final agreed sample strategy for the survey of solicitors (n=550).

Table 16 presents the steps and breakdown by employment size-band, then Table 17 presents the steps and breakdown by nation.

**Table 16 Three-step sample strategy and achieved targets (solicitors by size-band)**

Step 1 – Population and representative targets

Size Band	Total firms in Eng/Wales	Percentage mix	Representative survey target
Micro (0 to 9 staff)	8,695	76%	416
Small (10 to 49 staff)	2,150	19%	103
Medium and large (50+ staff)	645	6%	31
<b>Total</b>	<b>11,490</b>	<b>100%</b>	<b>550</b>

<sup>15</sup> SRA Breakdown of solicitor firms. <[https://www.sra.org.uk/sra/research-publications/regulated-community-statistics/data/solicitor\\_firms/](https://www.sra.org.uk/sra/research-publications/regulated-community-statistics/data/solicitor_firms/)> Accessed 20 May 2024.

## Step 2 – Manual adjustment

Size Band	Manually adjusted target	Percentage mix
Micro (0 to 9 staff)	350	64%
Small (10 to 49 staff)	150	27%
Medium and large (50+ staff)	50	9%
<b>Total</b>	<b>550</b>	<b>100%</b>

## Step 3 – Achieved responses

Size Band	Achieved responses	Percentage mix
Micro (0 to 9 staff)	335	61%
Small (10 to 49 staff)	163	30%
Medium and large (50+ staff)	53	10%
<b>Total</b>	<b>551</b>	<b>100%</b>

**Table 17 Three-step sample strategy and achieved targets (solicitors by nation)**

## Step 1 – Population and representative targets

Size Band	Total firms	Percentage mix	Representative survey target
England	11,060	96%	529
Wales	430	4%	21
<b>Total</b>	<b>11,490</b>	<b>100%</b>	<b>550</b>

## Step 2 – Manual adjustment

Size Band	Manually adjusted target	Percentage mix
England	500	91%
Wales	50	9%
<b>Total</b>	<b>550</b>	<b>100%</b>

## Step 3 – Achieved responses

Size Band	Achieved responses	Percentage mix
England	500	91%
Wales	51	9%
<b>Total</b>	<b>551</b>	<b>100%</b>

## A1.2 CATI survey response rate information

The CATI survey response rate was approximately:

- 1 in every 3 firms with whom we completed a successful survey script introduction
- 1 in every 10 unique firms contacted

It should be noted that, as the survey progressed, activity focused principally on solicitors and licensed conveyancers through randomly stratified sampling. This was intentional due to a need to reduce high incidences of screen-outs among other types of law firm and affected the ability of the survey to reach its target.

As such, the screen-out information in Table 18 should not be used to estimate the non-use of general client accounts in the legal sector as a whole as this will be an underestimation.

**Table 18 CATI survey response rate numbers**

Category	Total cases
Total unique firms contacted (includes non-answers, requests to call back, requests to send email)	5,695
Total survey script introductions	1,700
CATI survey completions	591
Screen-outs	184
Leads not successful	645
Declined to take part (survey policy)	79
Declined to take part (not willing to discuss finances)	35
Declined (other)	166

## Appendix 2 – Respondent Profile

The tables below summarise the numbers of survey respondents according to a range of specific characteristics.

Size-band	No. respondents
<b>Base</b>	<b>604</b>
Micro (<10 staff)	366
Small (10-49 staff)	182
Medium and large (50+ staff)	56

Country of registered office	No. respondents
<b>Base</b>	<b>604</b>
England	551
Wales	53

Type of law firm	No. respondents
<b>Base</b>	<b>604</b>
Solicitor (SRA-regulated)	551
Licensed Conveyancer (CLC-regulated)	51
Other	2

Responses classified as 'Other' include 'CILEX'.

Whether licensed as an alternative business structure (ABS)	No. respondents
<b>Base</b>	<b>575</b>
Yes	91
No	439
Don't know	45

<b>Nature of the competition</b>	<b>No. respondents</b>
<b>Base</b>	<b>577</b>
Mainly local	344
Region-wide	103
Nationwide	105
International	5
No competition faced	26
Don't know	14

<b>Main legal service area (derived from detailed table below)</b>	<b>No. respondents</b>
<b>Base</b>	<b>584</b>
Conveyancing/Property	255
All Other Legal Service Areas	329

<b>Detailed legal service area (accounting for largest proportion of work)</b>	<b>No. respondents</b>
<b>Base</b>	<b>584</b>
Arbitration and alternative dispute resolution	2
Children	4
Claims management	3
Commercial/corporate work for listed companies	12
Commercial/corporate work for non-listed companies	11
Consumer	1
Conveyancing	82
Criminal	39
Discrimination/civil liberties/human rights	-
Employment	13
Family/matrimonial	80
Financial advice and services (Regulated by the SRA)	1
Immigration	54
Intellectual property	-
Landlord and tenant (Commercial and Domestic)	2

<b>Detailed legal service area (accounting for largest proportion of work)</b>	<b>No. respondents</b>
Litigation - other	24
Mental health	1
Non-litigation (other)	1
Payment protection insurance	-
Personal injury	10
Planning	1
Probate and estate administration	30
Property - residential	151
Property - commercial	22
Social welfare	1
Wills, trusts and tax planning	25
Youth Court	-
Other	14

Detailed legal service areas classified as 'Other' include: agricultural, corporate law, gambling, insurance-related, legal aid, mergers and acquisitions, shipping.

# Appendix 3 – Survey Questionnaire

## Research to Explore Law Firms' Use of Interest on General (Undesignated) Client Accounts

### Introduction

[Redacted]

### Screening question

- Firstly, does your firm make use of general or undesignated client accounts, i.e. where you hold monies for more than one client on a pooled basis?

1	Yes	
2	No [auto screen-out]	
3	Don't know [auto screen-out]	

### PART 1: Banking and administrative arrangements

- Does your firm manage its general client accounts in-house or is this outsourced to a third-party legal accounts service?

1	In-house	
2	Third party	
3	Don't know	

- [If Q1=2] What are your reasons for outsourcing the management of general client accounts? [Select all that apply]

1	To access specialist accounting expertise	
2	Faster processing	
3	More cost-effective	
4	Saves time in-house	
5	Don't know	
6	Other	

If Other – please specify:

- Which ONE of the following best describes the current arrangement with your bank regarding payment of interest on your general client accounts?

1	Interest is paid into the general client account	
2	Interest is remitted to another bank account in the name of your firm	
3	Interest (or a portion thereof) is claimed by the bank	
4	Don't know	
5	Other	

If Other – please specify:

4. [If Q3=3] What are the reasons for the bank claiming the interest? [Select all that apply]

1	To offset banking charges	
2	Don't know (no other options can be selected)	
3	Other	

If Other – please specify:

5. How satisfied is your firm with the current bank arrangement relating to what happens to interest on your general client accounts?

1	Very satisfied	
2	Quite satisfied	
3	Neither satisfied nor dissatisfied	
4	Quite dissatisfied	
5	Very dissatisfied	
6	Don't know	

6. [Unless Q5=6] What are the reasons for your answer to the previous question, including anything you would ideally like to change about this arrangement?

7. What would you say is the approximate total annual cost to your firm of administering a general client account, including any offsetting for banking fees and other administrative costs?

Enter a **whole number** (rounded, no decimal point) excluding the £ symbol.

If zero, enter 0.

8. [If Q7>0] Does this figure include an annual salary amount for any individual responsible for general client accounts?

1	Yes	
2	No	

9. [If Q8=1] You mentioned that this figure includes a salary amount. Approximately what **percentage** of their time is spent on activities specifically relating to general client accounts?

The answer should be expressed as a whole figure from 0-100 without the % symbol.

Double-check the answer is a percentage.

If the respondent doesn't know, leave blank.

10. What types of costs are involved?

1	Accountancy/bookkeeping	
2	Auditing	
3	Bank charges/transaction costs	
4	Financial administration	
5	Reconciliation	
6	Other	

If Other – please specify:

Add additional notes here, for example if costs are recorded as 'zero' or if unsure about the costs:

## PART 2: Interest policy

11. Does your firm have an official policy in place that covers the payment of interest on general client accounts?

1	Yes	
2	No	
3	Don't know	

12. [If Q11=2] What are your reasons for not having a policy in place?

13. [If Q11=1] How, if at all, is this policy communicated to clients and potential clients? [Select all that apply]

1	Published on the firm's website	
2	Issued to clients via direct communications (email, in-person meetings etc.)	
3	As part of contracts/client engagement	
4	Don't know (no other options can be selected)	
5	Other	

If 'Other' – please specify:

### PART 3: Use of interest

14. In which of the following ways does your firm use interest accrued on general client accounts?  
**[Select all that apply]**

1	Fully remitted to clients in all cases <b>(no other options can be selected)</b>	
2	Sometimes remitted to clients (depending on certain factors)	
3	To help cover the costs of administering client accounts and handling client funds	
4	To help cover other costs incurred by the law firm	
5	To help fund 'free' or related services, including any pro bono activities undertaken by the firm	
6	Provided to other organisations involved in pro bono or charitable work	
7	Don't know <b>(no other options can be selected)</b>	
9	Other	

If Other – please specify:

15. **[Unless Q14=7/Masked to show only those options selected in Q14]** Which ONE of the options you just selected refers to the MAIN way interest is used by your firm – in other words, the largest share of it?

1	Fully remitted to clients in all cases	
2	Sometimes remitted to clients (depending on certain factors)	
3	To help cover the costs of administering client accounts and handling client funds	
4	To help cover other costs incurred by the law firm	
5	To help fund 'free' or related services, including any pro bono activities undertaken by the firm	
6	Provided to other organisations involved in pro bono or charitable work	
7	Don't know	
9	Other	

If Other – please specify:

16. Generally speaking, how reliant is your firm on interest from general client accounts in order to operate on a sustainable footing?

1	Very reliant	
2	Fairly reliant	
3	Not very reliant	
4	Not at all reliant	
5	Don't know	

17. If you were no longer able to retain interest from general client accounts, what impact would this have on your firm, as follows? **[Select all that apply]**

1	Firm would be at risk of insolvency	
2	Firm would need to increase borrowing or overdraft	
3	Firm would need to consider cost cutting measures/raise fees	
4	Little or no impact	
5	Don't know <b>(no other options can be selected)</b>	

## PART 4: Remitting interest to clients

18. Does your firm set a “de minimis” amount of interest that you are prepared to pay back to clients? In other words, you only pay interest back to clients above this amount?

1	Yes	
2	No	
3	Don't know	

19. [If Q18=1] What is that de minimis amount **in pounds (£)**: i) at present; and ii) three years ago, i.e. April 2021?

Enter a **whole number** (rounded, no decimal point) excluding the £ symbol.

1	At present (£)	
2	Three years ago (£)	

Please use this space to add any comments relating these numbers:

20. Above any de minimis amount, what does your firm consider a ‘fair sum’ to pay back to clients? By that we mean a fair and appropriate **percentage** of accrued interest to pay back to clients. Again, please answer in terms of the present day and three years ago, i.e. April 2021.

The answer should be expressed as a whole figure from 0-100 without the % symbol.

Double-check the answer is a percentage.

If the respondent doesn't know, leave blank.

1	At present (%)	
2	Three years ago (%)	

Please use this space to add any comments relating these numbers:

21. Which of the following factors help to determine what your firm would consider a ‘fair sum’ to pay back to clients? [Select all that apply]

1	Rates used by other law firms	
2	Bank of England base rate	
3	Inflation	
4	SRA guidance	
5	Other regulator guidance	
6	The client's individual circumstances – they are asked if they want the interest	
7	The client's individual circumstances – they are not asked if they want the interest	
8	The nature of the client's case	
9	The firm's motivation to want to give something back to clients	
10	Other	

If ‘Other’ – please specify:

22. [If Q21=6/7/8] What is it about the client's circumstances or case that can influence what your firm considers a 'fair sum' to pay back to clients?

23. To what extent would you say there are differences between your clients in terms of their expectations for the proportion of interest they might expect to receive back?

1	To a great extent	
2	To some extent	
3	To a limited extent	
4	Not at all	
5	Don't know	

24. What factors would you say can influence the proportion of interest that clients might expect to receive back?

25. On a scale from 1 (not at all) to 10 (significantly), to what extent would you say that passing on interest to clients presents an administrative burden to your firm?

## PART 5: Funding free, related, pro bono or charitable activities

26. [If Q14=5] You mentioned earlier that the interest from your firm's general client accounts helps to pay for free or related services, including any pro bono activities (in the public good) undertaken by your firm.

What types of services does this help to pay for? [Select all that apply]

1	Full representation and court appearances	
2	One-off advice sessions	
3	Preparing documents	
4	Conducting research	
5	Working with non-profit organisations	
6	International work	
7	Don't know (no other options can be selected)	
8	Other	

If Other – please specify:

27. [If Q14=5] Approximately what **percentage** of the total cost of these free or related services is made of interest from general client accounts?

The answer should be expressed as a whole figure from 0-100 without the % symbol.

If the respondent doesn't know, leave blank.

28. [If Q14=6] You mentioned earlier that the interest from your firm's general client accounts is provided to pro bono or other organisations involved in charitable work.

Which of the following types of organisations do you provide funds to? [Select all that apply]

1	Registered charities	
2	Non-Governmental Organisations (NGOs)	
3	Other non-profit organisations	
4	Private fundraising initiatives	
5	Don't know (no other options can be selected)	
6	Other	

If Other – please specify:

29. [If Q14=6] Approximately what **percentage** of the total funding provided to these other organisations is made of interest from general client accounts?

The answer should be a whole figure from 0-100 without the % symbol.

If the respondent doesn't know, leave blank.

30. Has your firm made recent changes, or is it considering making any changes soon, to the use of interest from general client accounts?

1	Yes	
2	No	
3	Don't know	

31. [If Q30=1] In what ways has your firm made changes, or is considering making changes? [Select all that apply]

1	Remitting more to clients	
2	Using more of these funds to cover administrative or other firm costs	
3	Funding more 'free' or related services, including any pro bono activities	
4	Providing more to other organisations involved in pro bono or charitable work	
5	Don't know (no other options can be selected)	
6	Other	

If Other – please specify:

32. What barriers – if any – does your firm face when using interest from general client accounts in ways that you would like to? [DO NOT PROMPT] [Select all that apply]

1	None (no other options can be selected)	
2	Reaching agreement within the firm on the best approach to take	
3	Regulatory restrictions	
4	Lack of clarity on what is considered appropriate by the regulator	
5	Administrative burden	
6	Concern about whether doing the right thing	
7	Don't know (no other options can be selected)	
8	Other	

If Other – please specify:

33. Do you have any final comments relating to the use of interest on general client accounts?

#### PART 6: Firmographic questions

Finally, we just have a few questions to understand the nature of your firm.

34. Which of the following best describes your firm?

1	Solicitor	
2	Cost lawyer	
3	Licensed conveyancer	
4	Notary	
5	Patent, trade mark or copyright attorney	
6	Other	

If Other – please specify:

35. Which organisation is your **main** regulator? [DO NOT PROMPT]

1	Solicitors Regulation Authority (SRA)	
2	Costs Lawyer Standards Board (CLSB)	
3	Council for Licensed Conveyancers (CLC)	
4	The Faculty Office	
5	Intellectual Property Regulation Board (IPReg)	
6	Other	

If Other – please specify:

36. [If Q34=1 or 3] Which areas of legal service does your firm offer? [DO NOT PROMPT] [Select all that apply]

1	Arbitration and alternative dispute resolution	
2	Children	
3	Claims management	
4	Commercial/corporate work for listed companies	
5	Commercial/corporate work for non-listed companies	
6	Consumer	
7	Criminal	
8	Discrimination/civil liberties/human rights	
9	Employment	
10	Family/matrimonial	
11	Financial advice and services (Regulated by the SRA)	
12	Immigration	
13	Intellectual property	
14	Landlord and tenant (Commercial and Domestic)	
15	Litigation - other	
16	Mental health	
17	Non-litigation (other)	
18	Payment protection insurance	
19	Personal injury	
20	Planning	
21	Probate and estate administration	
22	Property - residential	
23	Property commercial	
24	Social welfare	
25	Wills, trusts and tax planning	
26	Youth Court	
27	Other	

If Other – please specify:

37. [Masked to only show options selected in Q36] Which ONE of these legal service areas accounts for the largest single share of your work?

1	Arbitration and alternative dispute resolution	
2	Children	
3	Claims management	
4	Commercial/corporate work for listed companies	
5	Commercial/corporate work for non-listed companies	
6	Consumer	
7	Criminal	
8	Discrimination/civil liberties/human rights	
9	Employment	
10	Family/matrimonial	
11	Financial advice and services (Regulated by the SRA)	
12	Immigration	
13	Intellectual property	
14	Landlord and tenant (Commercial and Domestic)	
15	Litigation - other	
16	Mental health	
17	Non-litigation (other)	
18	Payment protection insurance	
19	Personal injury	
20	Planning	
21	Probate and estate administration	
22	Property - residential	
23	Property commercial	
24	Social welfare	
25	Wills, trusts and tax planning	
26	Youth Court	
27	Other	

38. Is your firm licensed as an Alternative Business Structure (ABS), i.e. with non-lawyers in their ownership and management structure?

1	Yes	
2	No	
3	Don't know	

39. How would you describe the nature of the competition that your firm faces?

1	Mainly local	
2	Region-wide	
3	Nationwide	
4	International	
5	No competition faced	
6	Don't know	

The following questions are to be completed by the CATI interviewer based on sample and contact data.

40. Standard Industrial Classification (SIC) code

1	69.10/2 – Solicitors (qualified to deal with, for example: conveyancing, drawing up of wills, advising clients on legal matters, instructing barristers, etc.)	
2	69.10/9 – Activities of patent and copyright agents; other legal activities (other than those of barristers and solicitors) not elsewhere classified	

41. Employment size band

1	Micro (< 10 staff)	
2	Small (10 to 49 staff)	
3	Medium (50-249 staff)	
4	Large (250+ staff)	

42. County of registered office

1	England	
2	Wales	



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