ICAEW APPLICATION TO THE LEGAL SERVICES BOARD UNDER PART 3 OF SCHEDULE 4 TO THE LEGAL SERVICES ACT FOR THE APPROVAL OF THE ONGOING OPERATION OF THE COMPENSATION SCHEME

17 AUGUST 2026

Introduction

1. The Institute of Chartered Accountants in England and Wales (ICAEW) is required as an approved regulator and licensing authority under the Legal Services Act 2007 (the Act) to have in place appropriate compensation arrangements (Scheme) for the purposes of consumer protection.

2. Since 2014, the ICAEW Legal Services Compensation Scheme (formerly the Probate Compensation Scheme) has been in place. It is intended to operate as a scheme of last resort for consumers and small businesses / charities which suffer loss because of fraud or other dishonesty by an accredited probate firm during authorised work.

3. Details of the Scheme are available on ICAEW's website
We are mindful of the Legal Services Board's (LSB's) consumer empowerment policy. To ensure clients are aware of this Scheme, we have clear guidance on our website explaining the Scheme's purpose and how to make a claim. We believe the zero-claims history reflects the rarity of dishonesty in our regulated community, not a lack of awareness, but we will keep consumer communications under review to maintain accessibility.

4. ICAEW has been asked by the Legal Services Board (LSB) to submit an annual rules change application in relation to the Scheme. This application is therefore made under the Act, Part 3 of Schedule 4. ICAEW understands that the LSB will then decide as to whether to treat the application as an Exemption Direction.

5. This application is being made with the intention of continuing with the success of ICAEW's current Scheme put in place following our designation as an Approved Regulator and Licensing Authority of probate and oaths.

6. After careful consideration in terms of the need to provide consumer protection and to balance affordability alongside the long-term viability of the Scheme, this application proposes keeping the same arrangements in place in terms of compensation limits and the latest approved regulations, while **reducing the levies on firms by 95%.**

7. The proposed reduction in contributions does not reduce the protections available to consumers, alter eligibility, reduce claim limits, change governance arrangements or diminish the financial resilience of the Scheme.

8. The ongoing operation of the Scheme was last approved by the decision notice from the LSB on 17th September 2025.

9. The Scheme is funded through annual charges (levies) to accredited firms, the level of which is dependent on the number of principals in the firm and the number of offices. Payment of the levy is a requirement of annual registration.

10. Cash funds in the Scheme currently total £2.43m and by the end of 2026 are expected to meet the target of £2.5m.

11. Each year ICAEW determines the level of contributions required for the Scheme to ensure that the cash fund is maintained above a minimum level and to a £2.5m target cash reserve level, with the viability of the Scheme as a key principle.

12. The initial minimum target level of cash funding, to be achieved after 10 years of operation, was £1m. Expert advice suggested a cash balance of £2m would be considered adequate. The most recent target was considered conservative i.e., to build the cash balance to £2.5m. This target will be met by December 2026.

13. The funds are ring-fenced, kept separate from wider ICAEW reserves, in Legal Services Compensation Scheme Ltd.

14. Each year ICAEW Regulatory Board (IRB) reviews the regulatory budget, and Legal Services Committee reviews the Reserved Legal Services (RLS) budget, PCF and levies payable by firms.

15. The RLS levy is in place to fund the operation of the Scheme including the cost of managing any claims and contributing towards building the cash reserve. As there is no pipeline of claims and there has not been a successful claim, the levy funding has been allocated to build the cash reserve. ICAEW does not regard the absence of claims as evidence that consumer risk is absent. Rather, it is one indicator considered alongside supervision findings, complaints data, annual return information, conduct investigations, financial monitoring and wider market intelligence when assessing the continuing appropriateness of the Scheme.

16. Careful consideration has been given to recommend reducing the annual levy:
    There have been no successful claims on the Scheme
    There is no pipeline of claims
    There is no indication of an increased risk of claims
    The cash fund is materially above the £1m minimum
    The £2.5m cash fund target met during 2026
    Interest returns of c£75k pa on the cash balance, and the remaining levy, will adequately cover operating costs while also inflation-proofing the cash balance
    Not to reduce the levy to zero; a continued contribution from firms to the operation of the Scheme and that such a levy could be increased if required i.e., it has not been 'removed'.

17. It is recognised that a 95% reduction is a material reduction. With a remaining 5% levy, the Scheme's strong cash reserve at £2.5m, no claims pipeline, interest returns on the £2.5m inflation-proofing the position, and a commitment to review and adapt should the market or environment change, the ongoing levy is deemed sufficient.

18. While there is no need to increase the underlying cash fund beyond £2.5m, by moving Scheme funding away from an annual levy it is accepted that there could be a concern in terms of building a reliance on interest income to maintain fund value i.e., how could the cash fund be topped up in future were it required? To address this, an ongoing levy remains and we therefore maintain the ability to reintroduce contributions if claims or high inflation erode the fund.

19. Were cash funds in the Scheme utilised, this would immediately trigger a review.

20. After a recent review of the Scheme, budget and levy, the LSC approved and recommends the reduction.

21. The change (reduction) impact on the levy is shown below.

Purpose and consumer-protection function of the Scheme

22. The Scheme is a core consumer-protection and public-interest safeguard within ICAEW's reserved legal services regulatory framework. It provides a transparent, discretionary route of last resort for eligible consumers, small businesses and charities who suffer loss arising from fraud, dishonesty or failure to account, where compensation cannot appropriately be obtained through professional indemnity insurance (PII) or other means of recovery.

23. The existence of the Scheme contributes significantly to consumer confidence in regulated legal services. Consumers engaging a probate practitioner are often dealing with vulnerable circumstances, including bereavement. In these situations, confidence that an independent compensation mechanism exists if things go seriously wrong provides an important safeguard and supports trust in regulated providers.

24. The Scheme therefore advances a number of the regulatory objectives set out in the Legal Services Act 2007, including protecting and promoting the interests of consumers, improving

access to justice and supporting the public interest. It helps ensure that consumers are not left without a potential route to financial redress solely because PII is unavailable, exhausted or invalidated.

25. The public-interest benefit of the Scheme extends beyond the payment of compensation. The existence of a credible and adequately funded compensation arrangement promotes confidence in regulated legal services, encourages engagement with regulated providers and reinforces the standards expected of accredited firms. In doing so, it helps maintain trust in both the legal services market and the regulatory framework that underpins it.

26. For 2027, ICAEW proposes to maintain the Scheme's existing operation, eligibility criteria, claim limits and governance arrangements. Following a detailed review undertaken with the IRB in 2024, it was concluded that the current arrangements continue to provide an appropriate and proportionate level of consumer protection for the small and specialist legal services market regulated by ICAEW.

27. Under the Legal Services Compensation Scheme Regulations, the Legal Services Committee (LSC) has the power to make discretionary grants of up to £500,000 in respect of any one estate and up to £5 million in aggregate in a calendar year. Compensation decisions are made independently of ICAEW representative interests and in accordance with the Regulations.

28. The Scheme is supported by a ring-fenced compensation fund and underwritten by ICAEW. As commercial insurance is not available for this underwriting purpose, ICAEW's financial reserves provide assurance that funds would be available should valid claims arise. The LSC's ability to make grants remains subject to the availability of Scheme funds and grants may be reduced or refused where alternative avenues of recovery remain available to an applicant.

29. To date, no successful claim has been made against the Scheme. Nevertheless, ICAEW considers the continuing existence of the Scheme to be an important consumer-protection measure.

30. The absence of claims is not interpreted as evidence that consumer risk is absent. Rather, it reflects the generally low-risk profile of the regulated population and is considered alongside annual returns, quality assurance reviews, complaints and conduct intelligence, regulatory findings and horizon scanning. Current evidence indicates no increased risk of claims or emerging consumer detriment, and ICAEW continues to monitor these indicators to ensure that the Scheme remains appropriate, proportionate and capable of responding should consumer detriment arise.

31. ICAEW remains committed to ensuring that the Scheme remains resilient, accessible and responsive. The IRB, Regulation and Conduct senior management and, in future, the LSC will continue to review the Scheme annually and monitor funding levels through quarterly forecasting, KPI reporting and risk register oversight. If market conditions change, significant claims arise or consumer risk materially increases, ICAEW will review funding and risk arrangements, obtain appropriate expert advice and engage with the LSB as appropriate.

32. Consistent with the better regulation principles, ICAEW is committed to transparency regarding the operation and funding of the Scheme. Information about the Scheme, associated levies and the purpose of the compensation fund is provided through consultations, annual renewal communications and ICAEW's website.

33. ICAEW will continue to review the accessibility and clarity of consumer-facing information, claim guidance and firm disclosure requirements to help ensure that eligible consumers understand when and how a claim may be made and what assistance may be available.

34. The Scheme is accountable through its governance arrangements, regulatory oversight and the publication of the annual financial statements of ICAEW Legal Services Compensation Scheme Limited.

Desired Consumer Outcomes

35. ICAEW's objective is not to maximise use of the Scheme but to ensure that appropriate protection is available if it is needed. Success is therefore evidenced by:

- maintenance of a viable and adequately funded Scheme;
- continued awareness of the Scheme through consumer-facing information and firm disclosure requirements;
- the absence of barriers to making a claim;
- the ability to assess and determine claims promptly should they arise;
- ongoing monitoring of risks that could result in consumer loss; and
- public confidence that ICAEW-regulated legal services are supported by effective financial protection arrangements.

36. ICAEW will continue to review these outcomes annually through regulatory intelligence, complaints information, quality assurance activity, annual returns and horizon scanning.

37. ICAEW will report annually to the LSC on: claims received, enquiries about the Scheme, complaints or conduct matters indicating potential compensation risk, QAD findings relevant to client-money or disclosure risks, annual return indicators, firm population changes, reserve level against target/minimum thresholds, and any changes in insurance availability.

Request

38. This request concerns the continued operation of the Scheme with unchanged consumer protections, eligibility, governance and claim limits. The proposed levy level follows from the Scheme’s funded position and does not reduce the protections available to eligible consumers.

39. Change to the levy: a 95% reduction.
There is no change suggested to the regulations, operation of the Scheme or claim limits.

ICAEW requests approval from the Legal Services Board:

- That this application is treated as an Exemption Direction.
- Continue with the Scheme as described and as per the regulations (Appx 1).

Background

Compensation arrangements

40. Professional Indemnity Insurance (PII) is considered to provide adequate protection for clients in cases of fraud where there is one or more innocent principal.

41. However, with consumer protection in mind, ICAEW have also addressed the potential need to provide redress for consumers of authorised legal services in cases where PII is invalidated because the fraud has been carried out, for example, by a sole practitioner or two or more principals acting in collusion.

42. As part of our RLS regulations, a Scheme was established to address this potential need and to comply with the Act's requirements for compensation arrangements where individuals and firms engage in both probate and estate administration work. For clarity, the Scheme does not operate where firms perform estates management only.

43. The Scheme continues as a discretionary fund of last resort which will compensate clients in cases where a firm's own PII is invalidated.

44. Grants from the Scheme will be capped in any one year at £500k per claim.

45. From year one of our RLS operations, the compensation levy has been used to build a cash fund, with a target minimum contribution of £100k per year aimed at accumulating a fund of £1m over 10 years. This £1m target was met within 10 years.

46. After achieving the minimum balance, and after consultation with scheme and insurance experts, the cash fund target was more recently set at 'adequate funding for the profile and volume of registered firms' i.e., at £2.5m This target will be met in 2026.

47. Under the Legal Services Compensation Scheme Regulations, grants are made at the discretion of the LSC where an applicant has suffered loss arising from fraud, dishonesty or a failure to account by an accredited firm in connection with authorised legal services work. The Scheme does not cover losses arising solely from professional negligence, activities outside authorised legal services work, periods when a firm was not accredited, or personal or trading debts. Full eligibility criteria, exclusions and claim conditions are set out in the Regulations.

48. Also included in our regulations is a requirement that firms inform clients in writing at the beginning of the engagement of the existence of compensation scheme arrangements and the timescales for making applications. We also recommend in guidance that firms inform clients of the ways in which they can access further information about the Scheme, in particular the circumstances in which a grant may be made. We consider that this will increase consumers' understanding of their rights during the legal process, as well as ensuring that they have a better understanding of the situations in which they may or may not be covered by these arrangements.

Insurance and underwriting of the Scheme

49. At the commencement of the Scheme in 2014, claims were underwritten by the insurer, Royal & Sun Alliance (RSA). In June 2021 RSA withdrew from the market following a takeover and a change in its underwriting strategy and appetite. RSA agreed to extend the cover for the Scheme from 1 January 2022, but this expired on 30 September 2022.

50. ICAEW's brokers, Marsh Ltd, despite extensive efforts, have not been able to obtain alternative insurance. However, Marsh continues to explore the market for insurance opportunities.

51. ICAEW's Board (governing the whole of ICAEW) agreed to underwrite i.e., 'self-insure' the Scheme.

Scheme funding (held cash and self-insuring)

52. Despite funds in the Legal Services Compensation Scheme Ltd being below a £5m annual aggregate cap on grants as per Legal Services Compensation Scheme Regulation 12.2, the scheme is considered appropriately established and funded:
    - It is a scheme of last resort and, based on current risk indicators, unlikely to be utilised
    - There is no active claims pipeline
    - There has never been a successful claim.
    - Advice from insurance experts in 2022 suggest that the cash secured is adequate funding against any prospective grant or risk of a claim or series of claims.
    - A similar review is planned for 2028 including guidance from external experts. Were there a successful claim, this review would be accelerated.
    - The population of accredited RLS firms is small (c300 firms) and the work is specialist and limited.
    - The Scheme is under-written by ICAEW in the absence of insurance.

53. Risk in the scheme, without any claim history across the last 11 years, is in the most part difficult to assess. However, the risk of a significant claim arising is considered low as
    - ICAEW regulates and licenses non-contentious probate services, allowing firms to conduct straightforward probate administration without legal disputes.
    - ICAEW regulates and licenses administration of oaths
    - Firms hold ICAEW-compliant professional indemnity insurance. The policy should respond in the absence of collusion by all principals.
    - The Conduct Department has dealt with few complaints about accredited probate firms since the commencement of probate licensing in 2014 and there have been no complaints that have indicated that a claim on the Scheme could be imminent.
    - Firms' activities are reviewed on a cyclical basis by the Quality Assurance Department and all firms are subject to review within the first 24 months of accreditation.

54. ICAEW has carefully stress-tested the Scheme's viability. By way of practical stress test, the £2.5m target reserve would cover five maximum single-estate grants of £500k before ICAEW underwriting or any subsequent levy adjustment is considered. Even under an extreme scenario e.g. simultaneous multiple high-value probate claims, the £2.5m cash reserve would absorb expected payouts.

55. The discretionary per-claim cap (£500k) ensures no single claim can exhaust the fund, and the total annual cap (£5m) provides an upper limit on exposure. We are confident the Scheme remains adequately funded for all reasonable scenarios.

56. A scenario exceeding the available fund would require immediate review of underwriting, levy and LSB engagement options; ICAEW has therefore retained review triggers and the ability to increase contributions if needed.

57. Should the reserve decline towards the £2m minimum threshold e.g. due to one or more large grants, we would promptly consult our regulated community and, if appropriate, propose increased contributions via levy the following year to restore the fund to target.
    In an exceptionally urgent case, we would liaise with the LSB on an interim contribution outside the annual cycle. Firms will be kept informed, for instance via our annual communications and consultations will explicitly note if future levy rises could be needed due to claim activity.

58. ICAEW therefore intends to continue with:
    - Being transparent in the funding and cash balance of the Scheme
    - Ring-fencing the £2.5m cash fund
    - ICAEW underwriting of the Scheme
    - Regular review of the cash balance throughout the year
    - Horizon scanning for change including understanding the outcomes of quality assurance reviews, complaints investigated by The Conduct Department, firm and market risk, any pipeline of claims or potential claims.

Evaluation and review

59. ICAEW will continue to evaluate the appropriateness, effectiveness and financial resilience of the Scheme through annual review and ongoing monitoring. In doing so ICAEW will consider:
    - claims received and any credible claim pipeline;
    - complaints, conduct matters and quality assurance findings that may indicate emerging compensation risk;
    - annual return information and other regulatory intelligence;
    - reserve levels against target and minimum thresholds;
    - developments in the insurance market; and
    - wider changes affecting consumer risk within the regulated population.

60. The Scheme will be subject to further review if:
    - a successful claim is made;
    - a credible claim pipeline emerges;
    - reserve levels move materially towards the £2m minimum threshold;
    - there is a significant change in the risk profile of regulated firms; or
    - relevant market conditions change.

61. ICAEW will continue to take expert advice where appropriate and engage with the LSB regarding any material change affecting the operation, funding or consumer-protection function of the Scheme.

62. To support our application for an Exemption Direction

    No change to current Scheme arrangements is suggested.

    Would any suggested change or no change require Ministry of Justice approval, require a statutory instrument or parliamentary time or impact the justice system?
    Neutral. No changes to the regulatory arrangements are being proposed.

    Statement in respect of Regulatory objectives
    Neutral and no negative identified. The existence of the Scheme is primarily to protect consumers; providing appropriate compensation and illustrating a commitment to act in the public interest and improving access to justice while also providing confidence in regulated legal services firms to the public.

    Statement in respect of Better Regulation Principles
    ICAEW believes that it has fulfilled the better regulation principles. An annual levy consultation, a specific Scheme levy and 'what your fee pays for' information provides transparency and a clear association with the funding of a compensation Scheme.
    Ensuring information is available through consultation and on our website, with the levy targeted and shown clearly on the annual renewal invoices, we have sought to ensure continued transparency and explain the purpose of the fund.
    The structure of the levy scale mitigates disproportionate financial burdens i.e.; smaller firms pay less.
    The Scheme is accountable as shown in the annual financial statements of RLS Compensation Scheme Ltd.

    Statement in relation to Desired Outcomes (as per the Desired Consumer Outcomes section above)
    In maintaining the Scheme unchanged, we seek to continue its success.
    The Scheme is considered properly funded and maintained and, in a position, to process and meet claims without delay. The associated budget and funding are reviewed annually and funds held in a separate limited company. The Scheme and its funding are a key priority for the LSC and the Scheme is under constant review.

Statement in relation to Impact on Other Approved Regulators
There is no impact on other approved regulators; there is no change proposed to the Scheme and operation remains consistent.

Proportion of firms / people impacted
Neutral. No changes to the regulatory arrangements are being proposed. However, we recognise that the costs of regulation are carried by registered firms and passed on to their customers. Careful consideration of regulatory levy has and will continue to be considered by the LSC each year. We do not believe the levy creates a barrier to any new registrants.

ICAEW remains committed to fair and proportionate funding of the Scheme. The 95% levy reduction for 2027 means all RLS firms benefit with only a nominal contribution remaining. We believe no firm faces undue burden, and feedback from our consultation supports this.

Stakeholder engagement
We have sought to be transparent in making this application. A four-week public consultation was conducted in 2026 covering budget, fees and levies and the Scheme. Further information about the consultation process is set out below.

Diversity impact assessment
We have considered the impact of the proposed approach to the compensation scheme having regard, in particular, to the impact of the changes on the following protected characteristics:
- age
- disability
- gender reassignment
- marriage or civil partnership
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation

In many areas the data for a group is very limited or does not exist. However, as the Scheme arrangements are not changing and have been in place for a number of years, and the budget, levy and Scheme are now consulted on each year, we have not identified any new impacts on persons with protected characteristics.

We will continue to have due regard to diversity and inclusion in funding and operating the Scheme including, for example, in recruiting and selecting members of committees, and in training existing committee members on matters such as unconscious bias and cultural awareness.

If claims arise, ICAEW will further consider whether the application process, communications, evidence requirements or time limits create barriers for vulnerable consumers or consumers with protected characteristics, and will take proportionate steps to mitigate those barriers.

During the consultation we invite comments from respondents on the Scheme arrangements from an equalities and diversity perspective. No comments have been received.

Appendix 1
ICAEW Legal Services Compensation Scheme Regulations — effective from 9 April 2024
https://www.icaew.com/regulation/reserved-legal-services

Appendix 2
Excerpt from the published registration fee (PCF) and levy scale document

Legal services compensation scheme levy
This is an annual levy that covers the cost of the compensation scheme and provides funds for potential claims.

To calculate the levy

If a principal is also to be an affiliate, you should count them twice in the fee calculation – once as a principal and once as an affiliate.

Combine the number of principals (including employee authorised individuals and affiliates) and the number of offices from which probate and/or oaths work will be undertaken.

Proposed 2027 compensation scheme levy

We propose that the compensation scheme levy for 2027 should be reduced by 95% compared with 2026, reflecting that the Scheme's target cash reserve is expected to be met during 2026 while maintaining a continuing contribution from firms.

AUTHORISED FIRM

	Offices			
Principals	1	2-10	10+	
Sole	5	7	10	-95%
2 - 5	7	10	13	-95%
6 - 9	10	13	18	-95%
10 - 50	13	18	25	-95%
50+	27	36	49	-95%

LICENSED FIRM

	Offices			
Principals	1	2-10	10+	
Sole	5	7	10	-95%
2 - 5	14	29	53	-95%
6 - 9	19	40	72	-95%
10 - 50	27	54	98	-95%
50+	53	108	196	-95%

Appendix 3
Excerpt from ‘What your fee pays for’ information
https://www.icaew.com/-/media/corporate/files/regulations/probate-and-abs/what-your-fee-pays-for.ashx

COMPENSATION SCHEME LEVY
In accordance with Legal Services Compensation Scheme Regulations, an accredited probate firm must pay the levy as decided by ICAEW. The levy covers the cost of the compensation scheme and provides funds for potential claims.

Appendix 4
Excerpts from the Consultation as related to the compensation scheme.

This consultation will run for 4 weeks from 13 July to 14 August 2026.

As an approved regulator and licensing authority for probate and oaths services, our activities are guided by and support the Legal Services Board's strategic themes: fairer outcomes, stronger confidence and better services.

2027 BUDGET
The budget is targeted to break-even (self-finance).
Costs have increased largely due to inflation and salary increases, plus costs in relation to policy and governance have increased due to Legal Services Board requests.

£ including comp scheme	**2027 budget**	
Income	**668,770**	
Regulatory fees (+1%)	630,744	94.3%
Comp scheme levy (-95%)	8,026	1.2%
Regulatory penalties and ombudsman	30,000	4.5%
Expenditure	**(668,770)**	
Staff and overheads	(517,744)	77.4%
Legal Services Committee	(12,000)	1.8%
LSB and Ombudsman	(26,000)	3.9%
Comp scheme levy transfer	(8,026)	1.2%
Legal Choices c7% share	(22,000)	3.3%
Projects incl consultations, RIS, diversity	(67,500)	10.1%
Office	(1,500)	0.2%
Design, web, comms, surveys	(12,500)	1.9%
QAD review travel	(1,500)	0.2%
Breakeven target	**(0)**	

Proposed levyscale 2027 (reduced by 95% compared to 2026)

A large portion of the levy relates to building a cash fund for the compensation scheme. The cash fund target is now met so the levy can materially fall. Financial interest returns from the RLS scheme cash balance will be used to fund the basic operation of the scheme and inflation-proof the cash total.

Equality, diversity and inclusion
We do not believe the proposed changes will result in a worse outcome or quality of service for anyone due to their background or life circumstances. Please tell us if you think your firm or any of your clients will be adversely impacted by the proposals due to a protected characteristic (such as age, disability or race).

Consultation questions and responses

The consultation was regularly and extensively advertised and submissions encouraged.

The consultation was promoted on our website, in an email newsletter, via an R&C LinkedIn post to c14,000 followers, a further email to probate firm contacts, and another R&C LinkedIn post with this reposted by the ICAEW member LinkedIn account.

Eleven responses have been received.
Using the 2025 response rate as a benchmark, this is an increase of 550%.

Question 2
Do you agree with the 2027 compensation scheme levy?
11 responses. 9 yes, 1 no, 1 n/a.

Please provide any further comments that support your response below
There were no responses referencing any equality, diversity, consumer or public interest concerns.

We recognise that the consultation response is only one input. ICAEW has also considered other inputs including claims history, QAD findings, complaints intelligence, annual-return data, firm registration withdrawal reasons and consumer information availability.

The response no added *“We already pay PI”.*
No email address was supplied so we are unable to confirm directly that the scheme is one of last resort and when professional indemnity does not cover a claim in certain circumstances. However, we will respond on our website as part of the closure of the consultation.

There was suggestion *“the fee should be the minimum to cover the likely claims! Like the apprentice levy, maybe exclude small firms from having to pay at all?”*
We will consider this in future. At the present time a 95% reduction goes a long way to reducing the cost burden on all firms.