

CLC's Annual Regulatory Return

Presentation of findings 2018/19

4 September 2019



IFF Research

Background

Background and methodology

All firms licensed by the CLC are legally required to complete an Annual Regulatory Return. The Return covers a range of topics pertinent to the CLC's regulatory functions.



An email invitation was sent to the key-decision maker at each of the **212 CLC-regulated firms**, with a link to complete the online Return.

Online fieldwork took place between 10th June – 19th July 2019.

Firms were asked to report on data for the last completed Professional Indemnity Insurance (PII) year (i.e. the one reported to PI insurers at the time of renewal in June), unless otherwise specified in the question text.

IFF Research have carried out the Return on the CLC's behalf since 2017.

Presentation coverage

This presentation will cover the following key findings:

- Scope, volume and sources of work
- Prices charged for services
- Changes in client purchasing behaviour
- Experiences of fraud
- Anti-money laundering practices
- First-tier complaints
- Lender panels
- Bullying and harassment policy

A note on analysis:

Comparisons will be made with the preceding years' Return where relevant.

Significant differences between firm sub-groups such as ABS status will also be highlighted.

Firmographics



Firm composition

On average firms employed 4 full-time qualified fee-earners, 6 unauthorised fee-earners and 12 administration and support staff.

Over half of firms (60%) reported that at least some of their legal work is carried out by non-authorised staff.



Multiple-entity firms

A minority of firms (13%) reported that their business structure includes more than one company

Half (50%) of these firms reported that they share staff across the companies.



Alternative Business Structure (ABS)

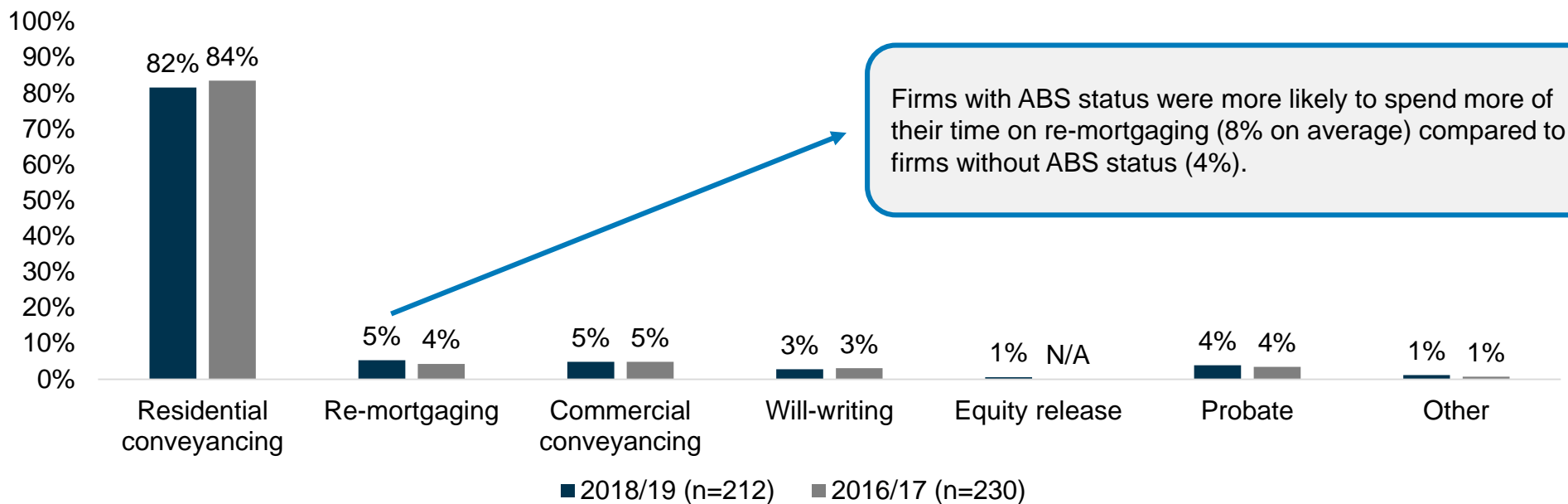
Just under one-third (30%) of firms held ABS status

Scope of work

Proportion of time dedicated to each work area

Most firms (98%) dedicated at least some of their time to residential conveyancing (sale or purchase); on average firms spent 82% of their time dedicated to this work area in 2018/19.

Average proportion of time (%) dedicated to each work area

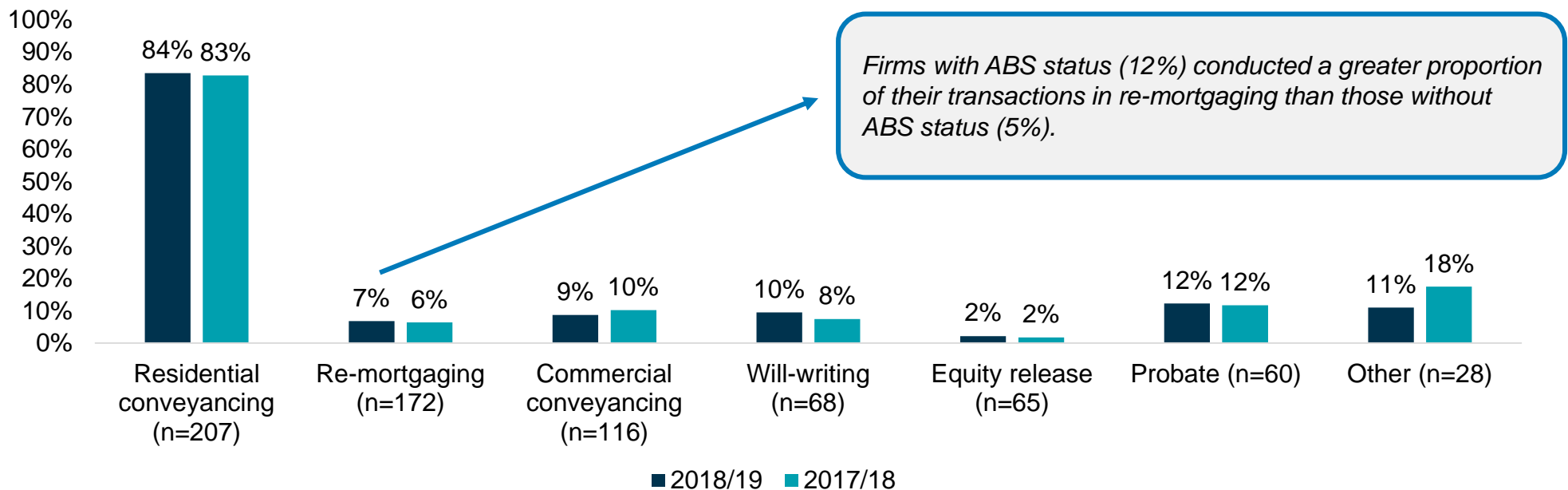


A6 What proportion of your firm's time is dedicated to the following types of work? Please enter a percentage from 0 to 100% for each type of work, with the total proportion summing to 100%.

Proportion of transactions conducted in each work area

The majority of firms who dedicated time to residential conveyancing (sale or purchase) reported that 84% of their transactions (on average) were conducted in this area of work.

Average proportion of transactions (%) conducted in each work area

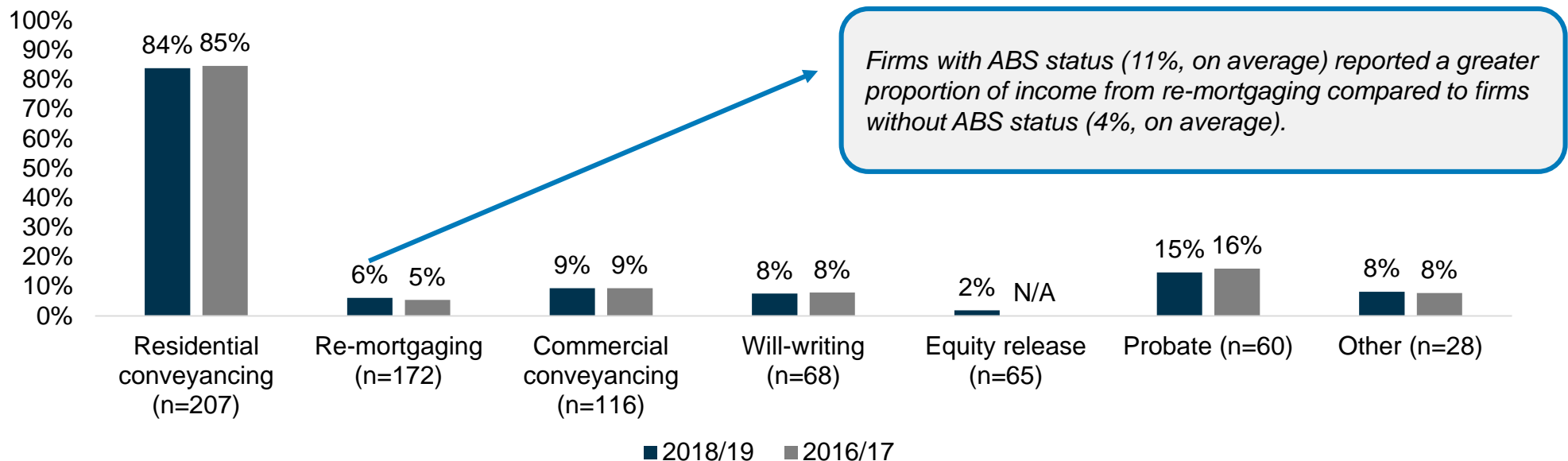


A7 What proportion of your firm's transactions are conducted in the following types of work? Please enter a percentage from 0 to 100% for each type of work, with the total proportion summing to 100%

Proportion of income gained from each business area

Residential conveyancing was the main source of income for most firms. Around half (49%) of firms that carried out residential conveyancing (sale or purchase), reported that between 91-100% of their income was gained from this work area. On average residential conveyancing made up 84% of their income.

Average proportion of income (%) gained from each work area



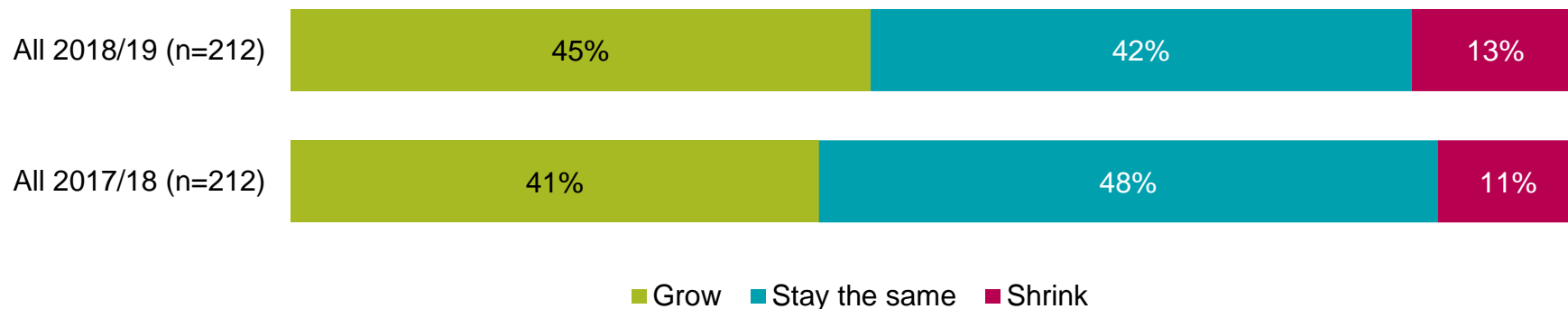
A8 What proportion of your firm's income is gained from the following types of work? Please enter a percentage from 0 to 100% for each type of work, with the total proportion summing to 100%

Volume of work

Predictions of growth over the next 12 months

Firms varied in their predictions of growth - a similar proportion each predicted that their volume of work will grow over the next 12 months as predicted it will stay the same. A minority of firms were more pessimistic and predicted their volume of work to shrink.

Expectations of volume of work over the next 12 months (%)



ABS firms were more likely to predict growth (63%) compared to firms without ABS status (38%).

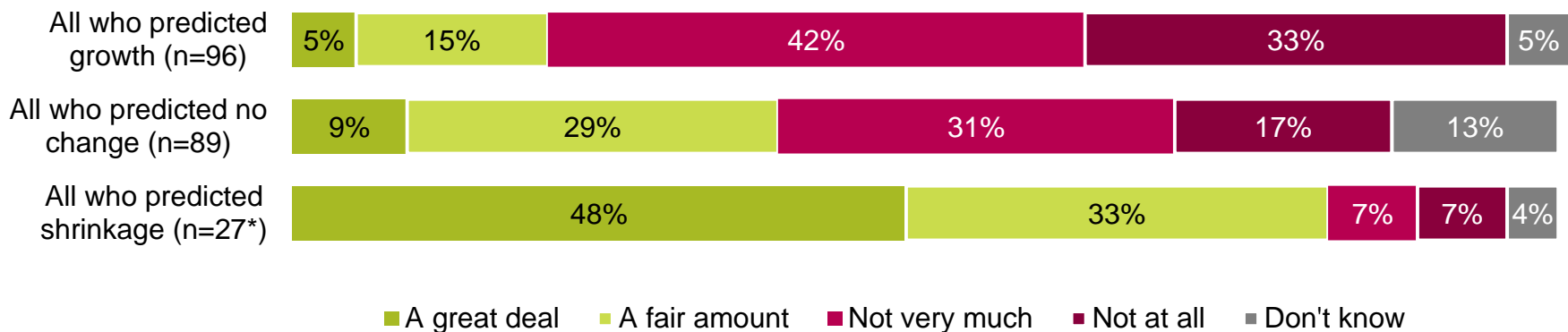
Firms who carry out probate were more likely to predict growth (55%) compared to firms who carry out commercial conveyancing (39%).

A26 Now thinking about your firm's volume of work overall in the next 12 months, do you expect that it will grow, shrink or stay the same?

Role of Brexit on growth predictions

The majority of firms who predicted a growth in the volume of their work were not affected by 'Brexit' in their response – yet those who predicted shrinkage tended to attribute this to Brexit

Expectations of volume of work over the next 12 months (%)



Brexit tended to have a negative effect on growth predictions - 65% of firms who expected their work to shrink and had a view on Brexit, said that it had a negative impact on their answer.

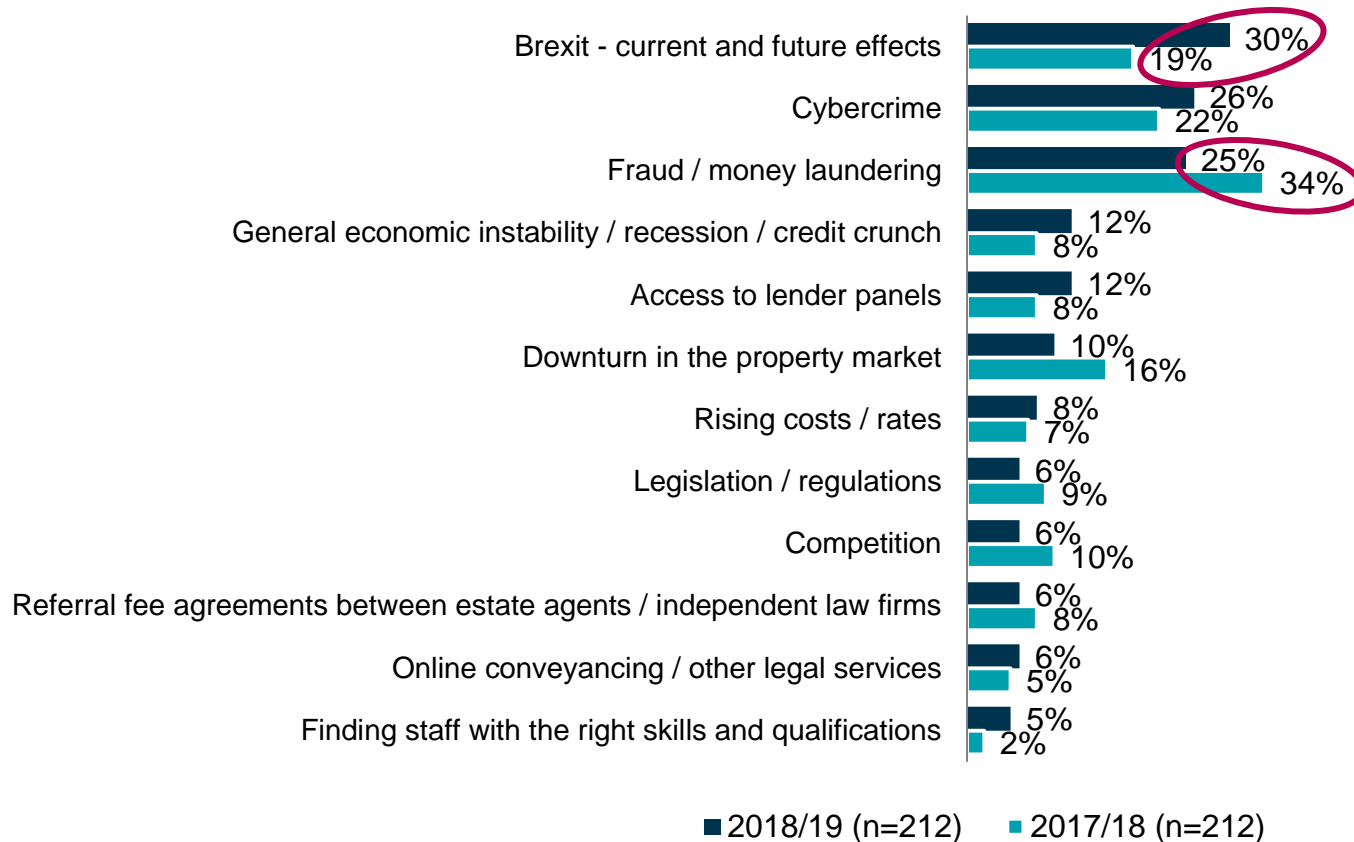
A26 Now thinking about your firm's volume of work overall in the next 12 months, do you expect that it will grow, shrink or stay the same?

*Caution: low base, findings are indicative only

Greatest risks over the next 12 months

Brexit, cybercrime and fraud / money laundering were the most commonly cited risks that firms anticipated over the next 12 months.

Business risks receiving ≥5% of mentions



More firms (30%) identified Brexit as a risk in 2018/19 compared to last year (19%)

Fewer firms identified fraud / money laundering as a risk (25%) compared to 2017/18 (34%)

A65 Thinking about your firm overall, what are the greatest risks confronting your organisation over the next 12 months?

Greatest risks – in firms' own words

“Ongoing threat of cyber crime. We have a Cyber Liability Policy in place and continue to be aware of ongoing threats. We must all continue to be vigilant. Online Firm's charging very low fees make it difficult to compete.”

“Increased compliance requirements which are a burden on small practices. The effects of Brexit. The increasingly aggressive attitude of estate agents forcing clients to use their preferred conveyancers and mortgage advisors.”

*“Brexit - The impact of Brexit as we loom nearer to October 31st. Consumer confidence may decrease, people hold off buying etc.
Fraud - Increased focus on Conveyancing firms.”*

“Staff. We are struggling to find experienced and qualified staff to cover the additional work that we have coming into the business.”

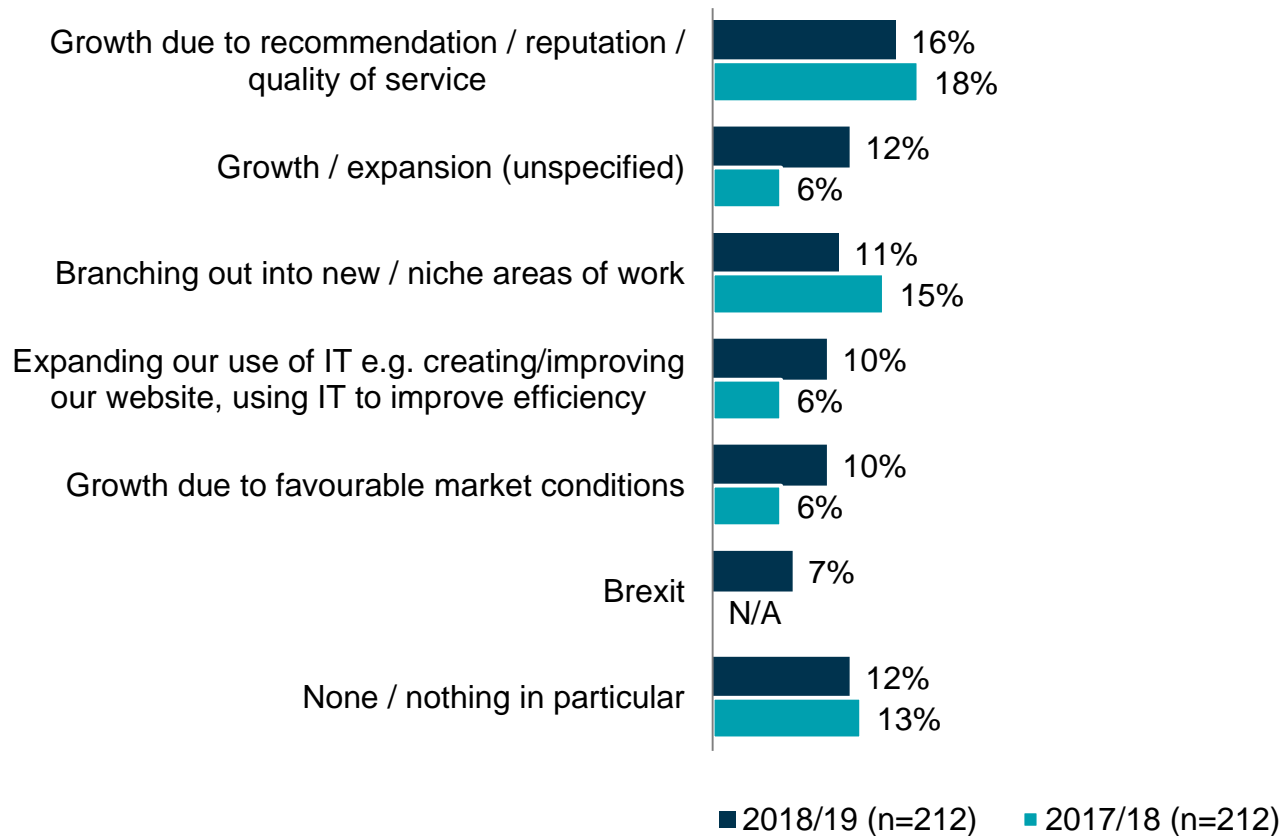
“We are constantly at risk of cyber attacks but this means that some emails do not get through. In addition, getting good staff is always hard - this is the biggest barrier to growth.”

A65 Thinking about your firm overall, what are the greatest risks confronting your organisation over the next 12 months?

Business opportunities over the next 12 months

Firms identified a range of anticipated opportunities. The most commonly mentioned was growth, due to their reputation, another source of growth or expansion, or through branching out into new or niche areas of work.

Business opportunities receiving $\geq 5\%$ of mentions



A66 And what are the greatest opportunities open to your firm over the next 12 months?

Greatest opportunities – in firms' own words

*“Brexit again - As we hopefully have more clarity, then this may improve Consumer confidence.
Organic Growth - As we are becoming established as a Premier firm in the local area, building a good reputation with Introducers and Clients.”*

“Employment of new staff enabling us to offer a better service to clients and referrers.”

“Use of technology to raise us above other old school firms.”

“Increasing number of housing built in the area leading to potentially more clients.”

“To continue to employ competent members of staff and to offer a good service and to continue to receive repeat work via existing/previous client referrals.”

“We are a modern firm who use technology to our advantage. It is our plan to win market share by marketing these benefits to clients to pick up work from those firms who cannot compete on these points.”

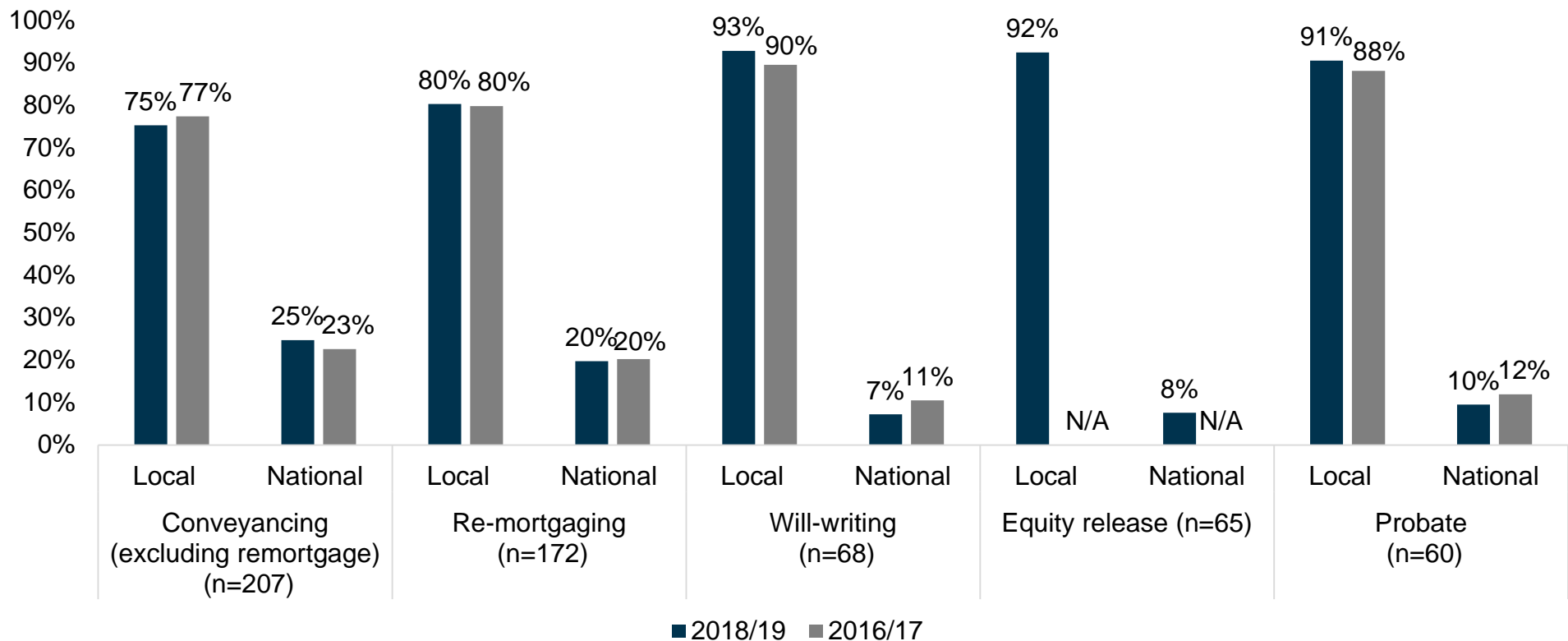
A65 Thinking about your firm overall, what are the greatest risks confronting your organisation over the next 12 months?

Sources of work

Proportion of work gained locally vs. nationally

On average, will-writing (93%), equity release (92%) and probate (91%) were most likely to be sourced from the local area.

Average proportion of work (%) gained locally vs. nationally for each work area



A9-A13 Thinking about your firm's [work area], what proportion comes from the local area compared to nationally? (The 'local area' is defined as within a 20 mile radius of your location(s) so think about what is generally the case for your whole firm at all locations).

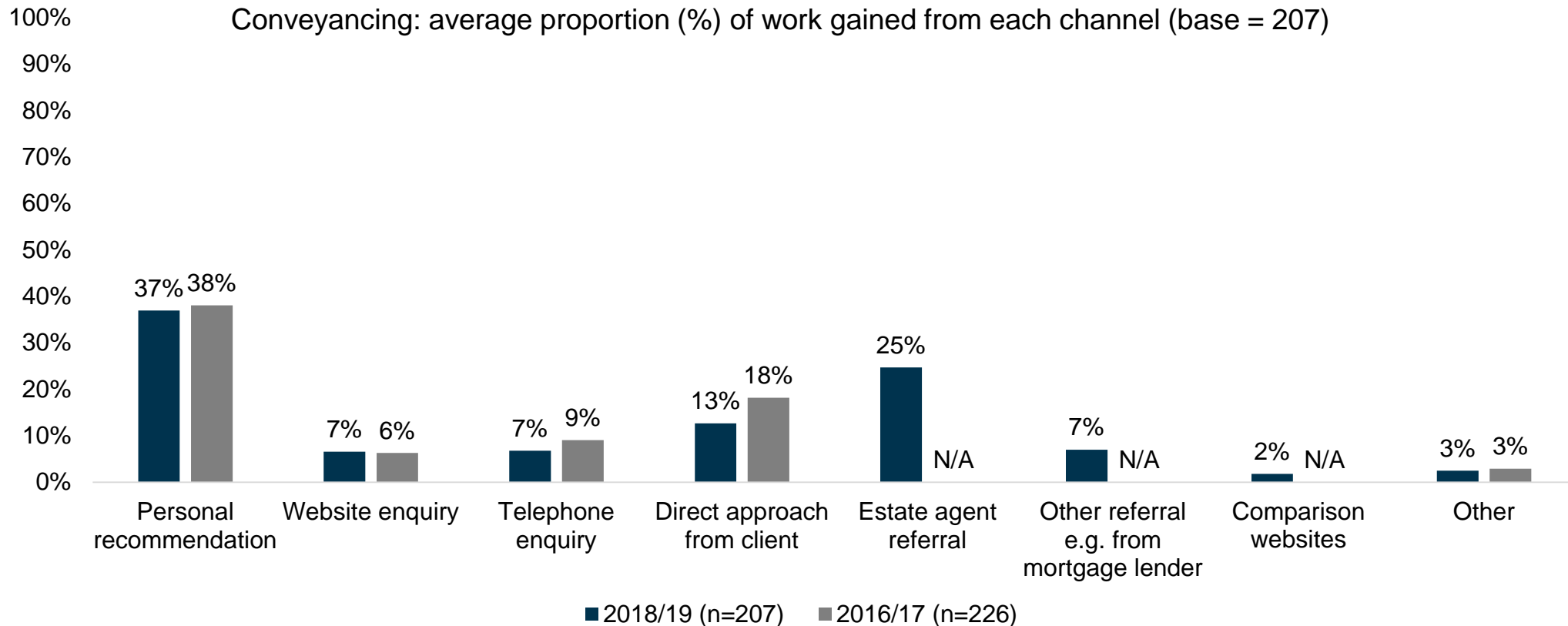
Channels for each area of work

Firms were asked to report what proportions of their work was sourced from the following channels, for each type of work carried out:

- Personal recommendation;
- Website enquiry;
- Telephone enquiry;
- Direct approach from client;
- Estate agent referral;
- Other referral (e.g. from mortgage lenders);
- Comparison websites and;
- Any other source.

Sources of work: conveyancing

Personal recommendation was the most common source of conveyancing work, followed by an estate agent referral.

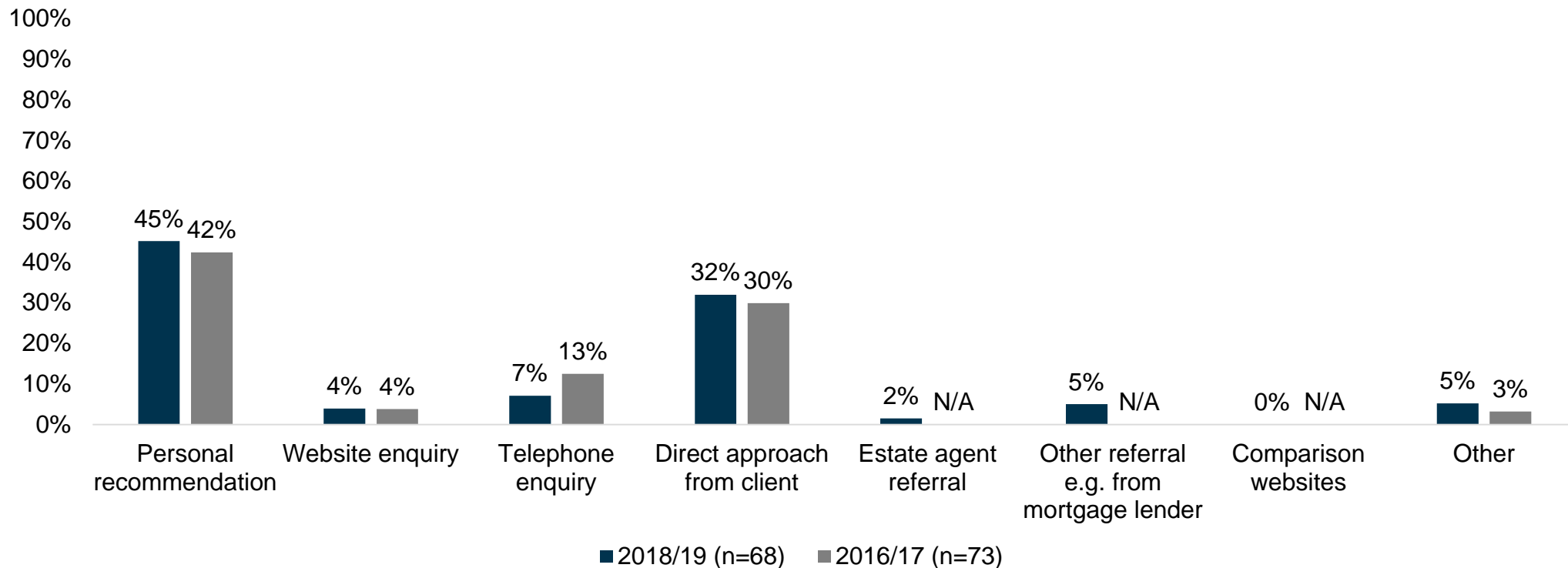


A15 Thinking about your firm's [work area], what proportion is gained through the following channels?

Sources of work: will-writing

Around half of will-writing work is sourced through personal recommendation, while one-third is sourced through direct approaches from clients

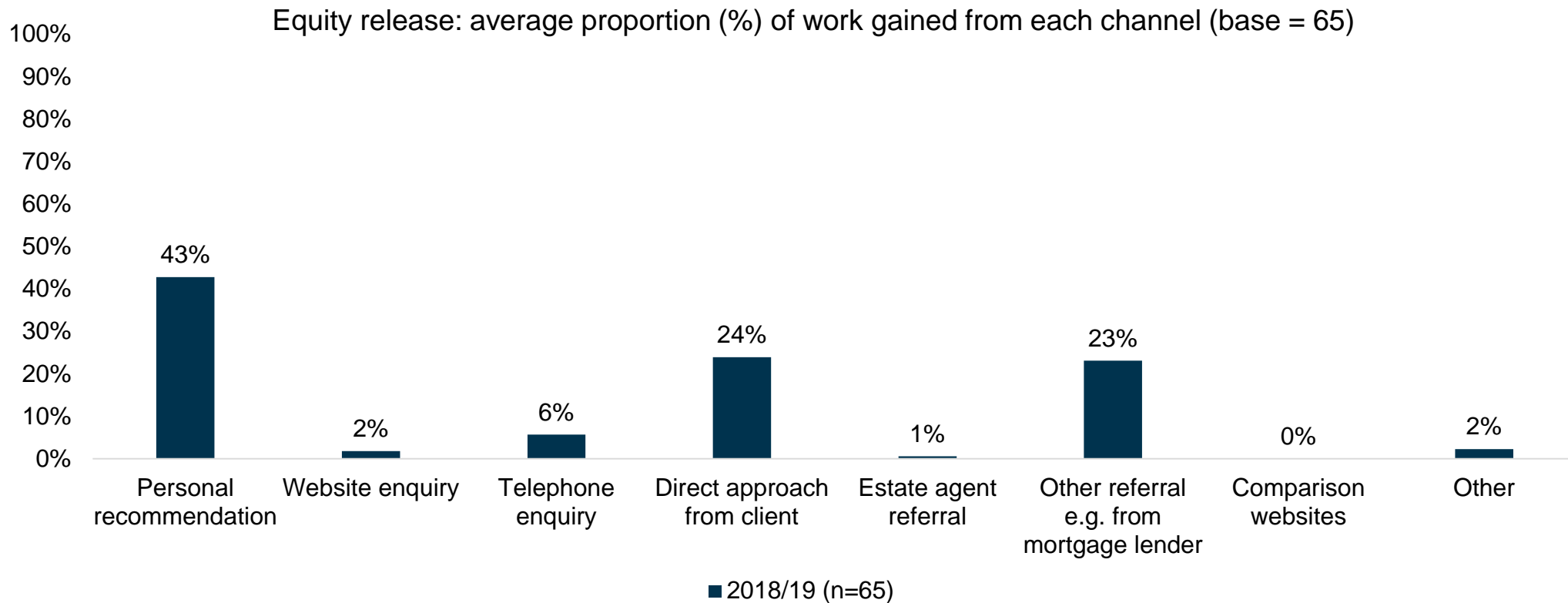
Will-writing: average proportion (%) of work gained from each channel (base = 68)



A15 Thinking about your firm's [work area], what proportion is gained through the following channels?

Sources of work: equity release

Among firms who carried out work in equity release, personal recommendation was the most common source of work, followed by direct client approaches and other referrals

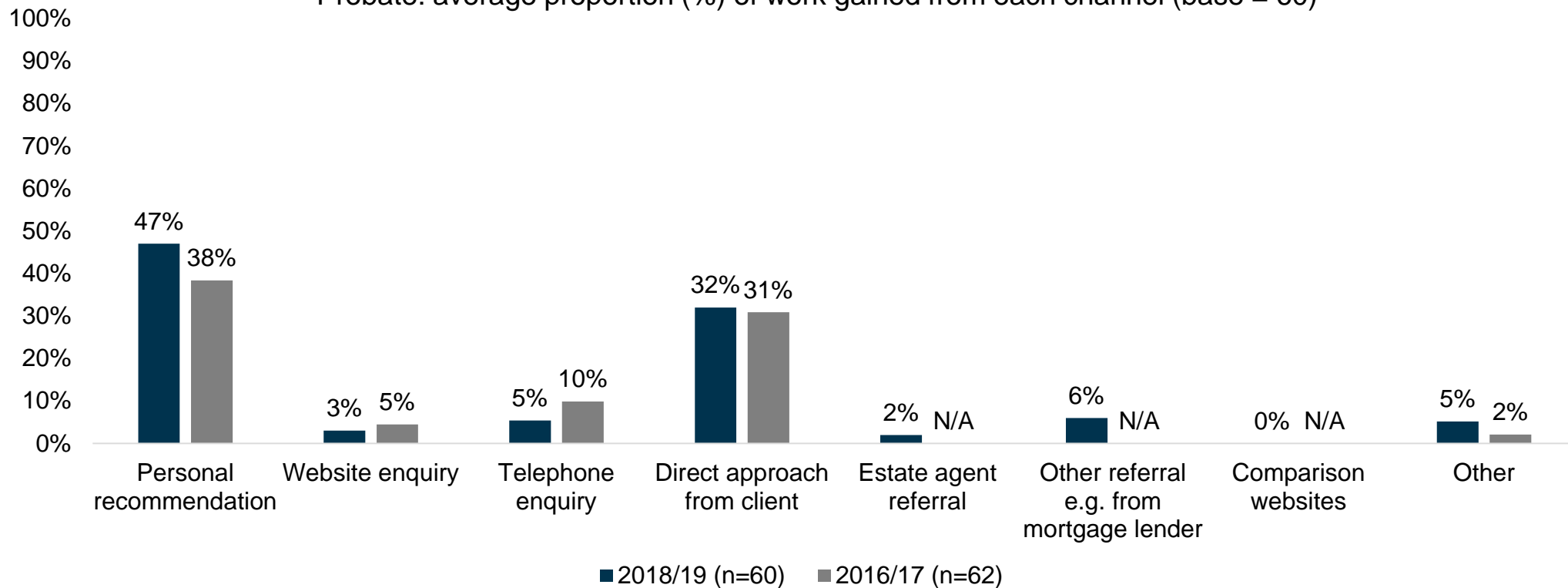


A15 Thinking about your firm's [work area], what proportion is gained through the following channels?

Sources of work: probate

Among firms who carry out probate, around half of their work is sourced through personal recommendation and around one-third on average, is sourced through direct client approach.

Probate: average proportion (%) of work gained from each channel (base = 60)



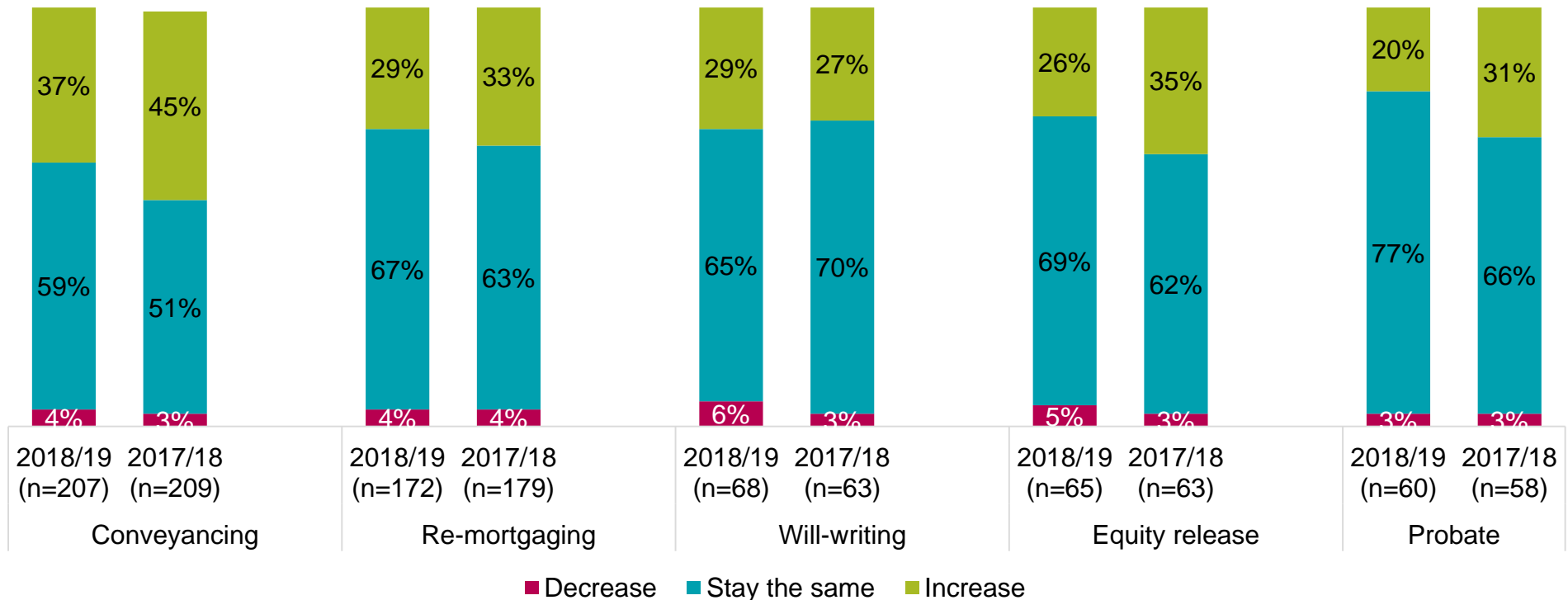
A15 Thinking about your firm's [work area], what proportion is gained through the following channels?

Prices charged for legal services

Prices charged for legal services during 2018/19

The majority of firms reported that their prices remained the same compared to the preceding year. Around two-fifths of firms that carry out conveyancing reported an increase in their prices charged in 2018/19.

Change in prices charged for legal services (%) in 2018/19

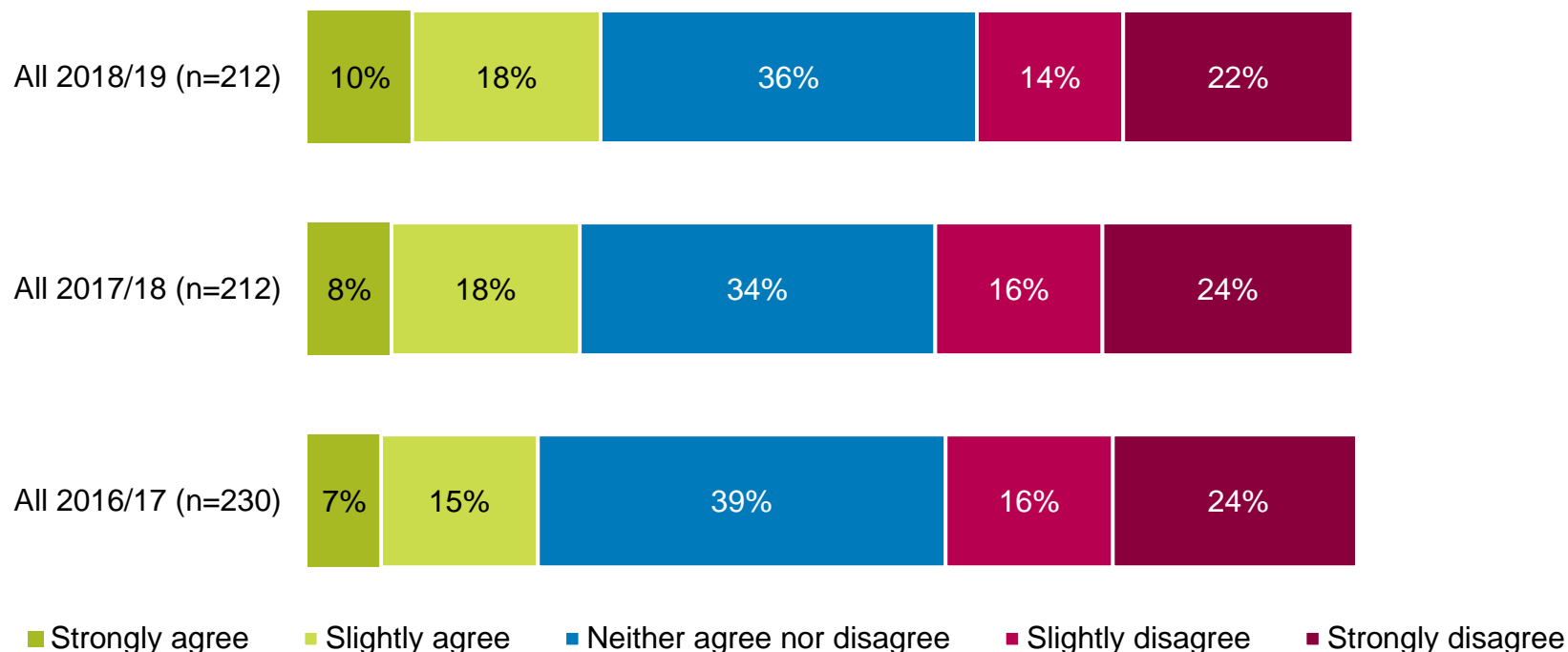


A19. Now thinking about the prices your firm charged for all its services during 2018/19, did they increase, decrease, or stay the same, compared to the preceding year?

Pressure to reduce prices charged for services

Just over a quarter of all firms felt pressure to reduce prices charged to clients for their services.

Pressure to reduce prices charged for services in year surveyed (%)

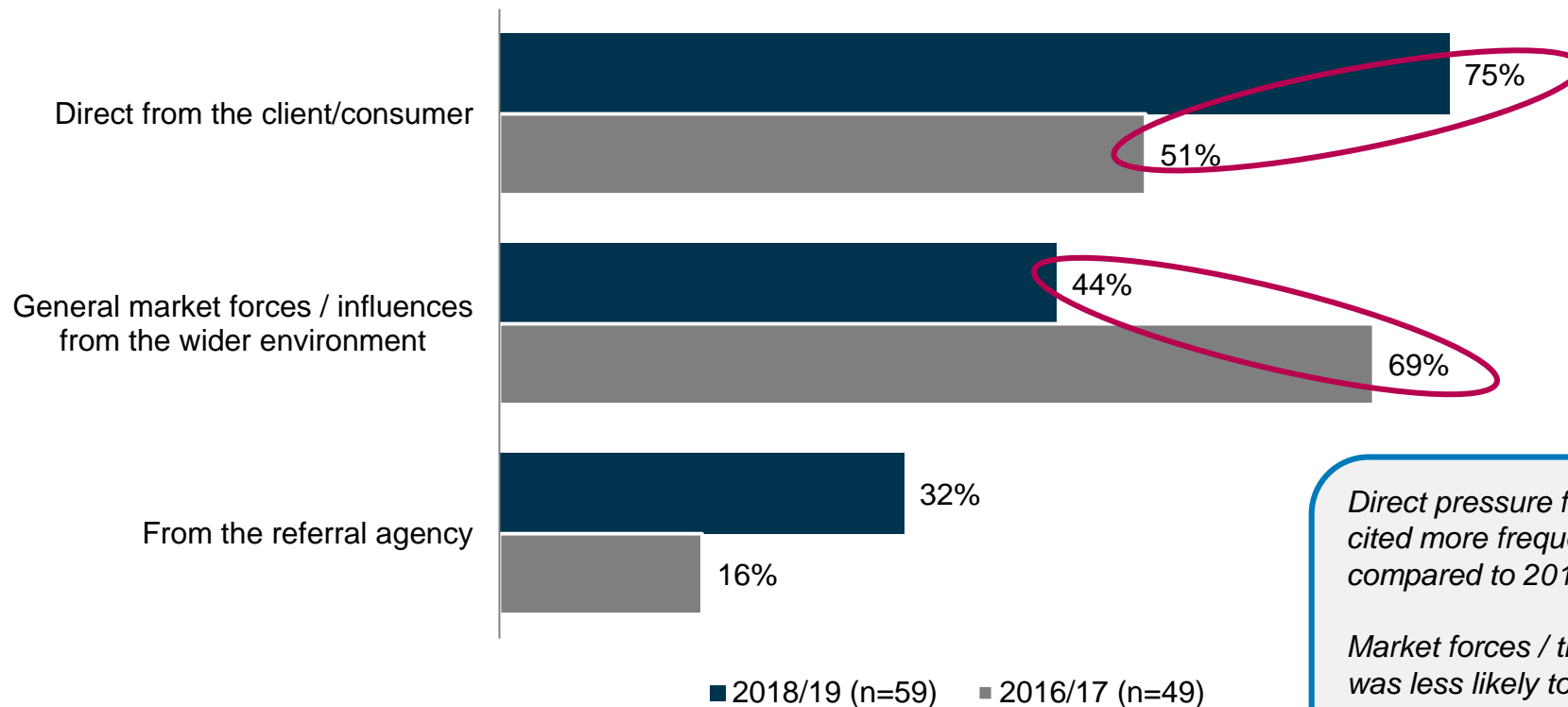


A21 To what extent do you agree or disagree with the following statement: "During 2018/19, my firm felt pressure to reduce prices charged to clients for its services".

Sources of pressure to reduce prices

Of the firms who felt pressure to reduce their prices, the majority reported that this pressure came direct from the client or consumer.

Sources of pressure to reduce prices charged to clients (%)



Direct pressure from the client was cited more frequently this year (75%) compared to 2016/17 (51%).

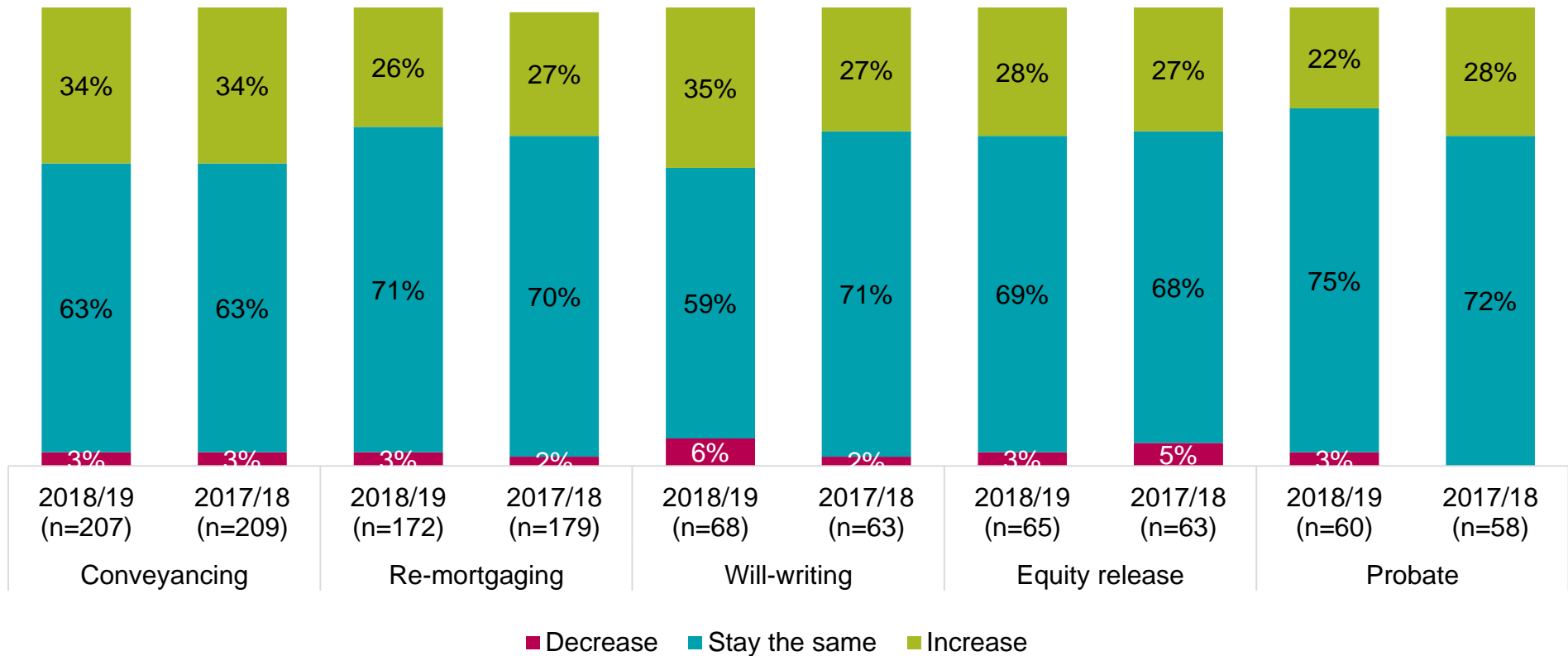
Market forces / the wider environment was less likely to be a source of pressure (44%) compared to 2016/17 (69%).

A22 You mentioned that your firm has felt pressure to reduce its prices. Where did this pressure come from?

Prices over the next 12 months

Firms who carry out will-writing and conveyancing were most likely to anticipate an increase in the prices charged for these services over the next 12 months

Change in prices (%) anticipated over the next 12 months

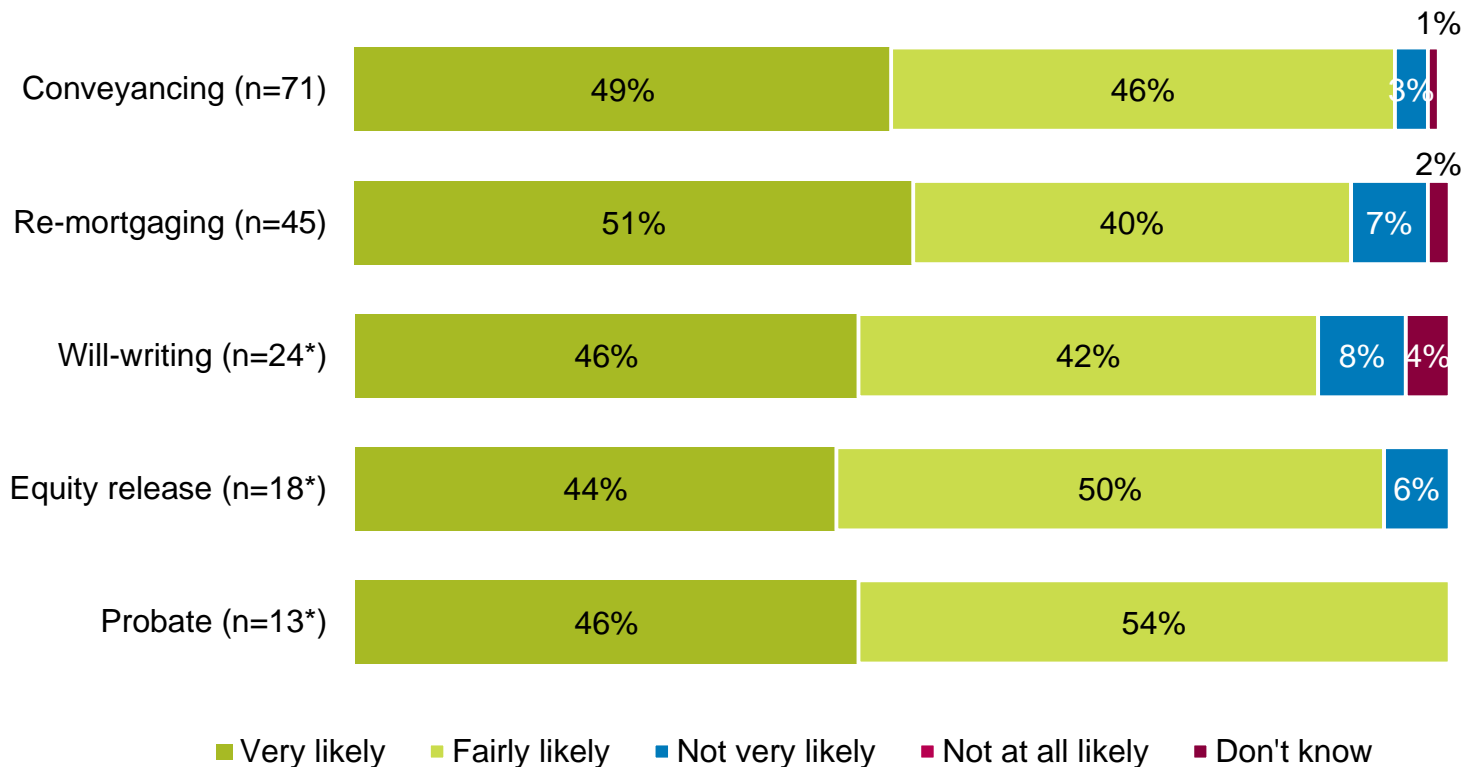


A23 Now thinking about the next 12 months, do you think that your firm will increase or decrease the prices of its services, or will they stay the same? Please specify by the type of work listed below.

Likelihood of an increase in prices

Among those firms who anticipated an increase in their prices for conveyancing and / or re-mortgaging work, most anticipated that this increase was very or fairly likely to take effect (conveyancing: 96%; re-mortgaging: 91%).

Likelihood of an increase in prices charged for each service over the next 12 months (%)



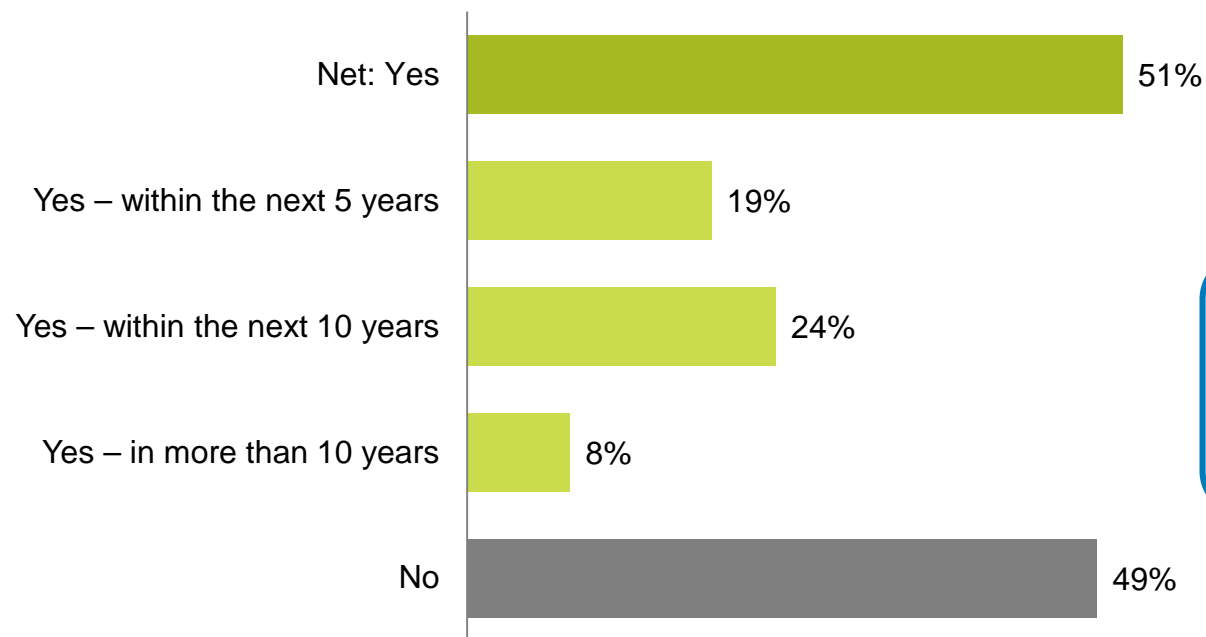
A24 You mentioned that you think your firm will increase its prices in the next 12 months. How likely do you think that your firm will increase its costs?

Changes in client purchasing behaviour

Expectation of e-Conveyancing on property sales

Half of firms (51%) who carried out residential and / or commercial conveyancing expected that e-conveyancing will at some point make up the majority of their property sales.

Do you expect e-Conveyancing to make up the majority of your property sales? (%)



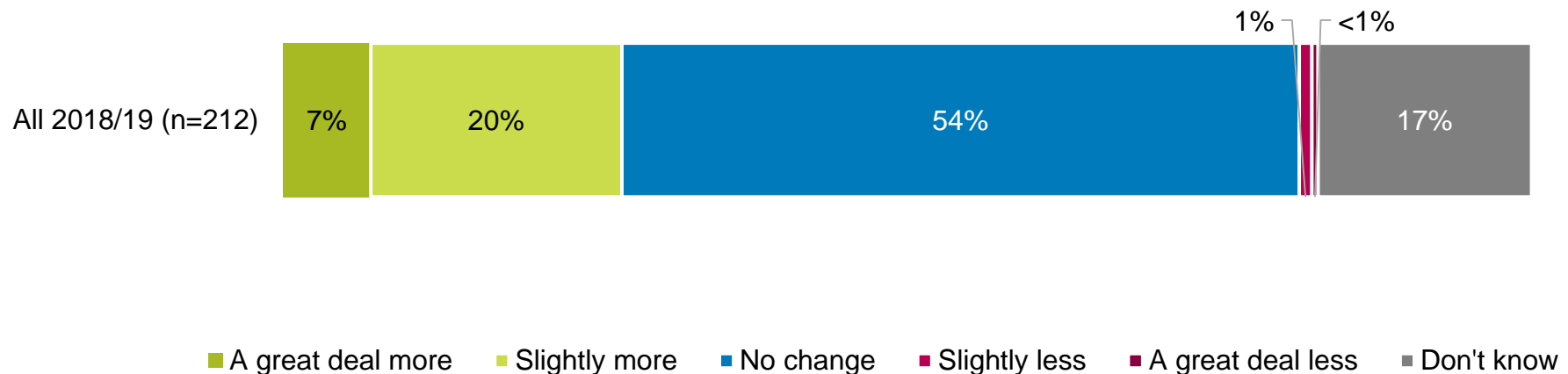
Firms with ABS status were more likely to expect e-conveyancing to make up the majority of their property sales within the next 5 years (32%) compared to firms without ABS status (14%).

A19B Thinking ahead, do you expect e-Conveyancing to make up the majority of your property sales? By e-Conveyancing we mean the purchase and sale of property conducted solely on-line. All who carry out residential and / or commercial conveyancing 2018/19 (n=207)

Impact of new transparency rules on client behaviour

Around one-quarter of firms felt that clients have shopped around more when choosing a legal services provider following the introduction of the transparency rules

Perception of client 'shopping around' behaviour since the introduction of the transparency rules (%)



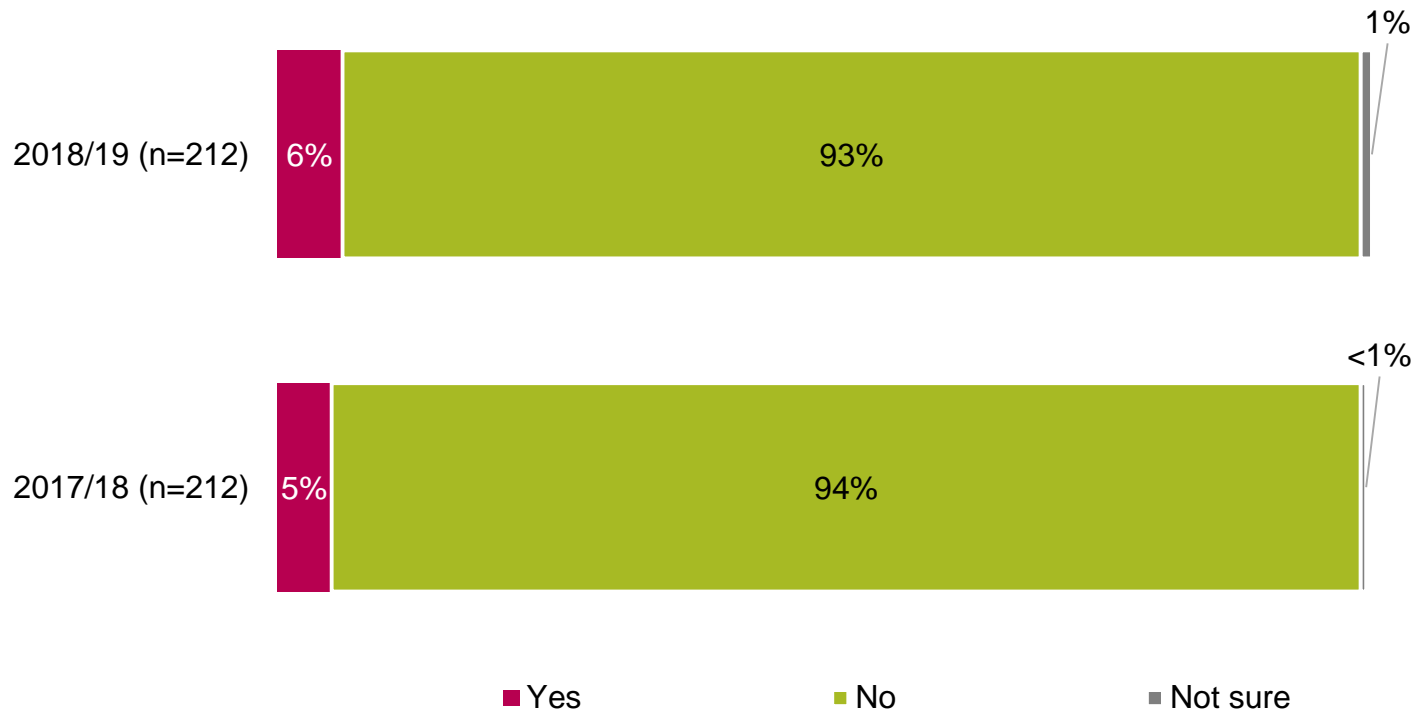
A20 In December 2018 the Council for Licensed Conveyancers (CLC) introduced new transparency rules requiring firms to display prices and service information. Since the introduction of the transparency rules, do you feel that your clients are shopping around more or less when choosing a legal services provider?

Experiences of fraud

Definite cases of fraud

A small proportion of firms reported that they had been the victim of a definite case of fraud in 2018/2019.

Victim of definite instances of fraud in year surveyed (%)



Most of the firms that experienced fraud did not incur any cost.

One firm incurred a cost of £1,200 and another incurred a cost of £15,000 as a result of fraud.

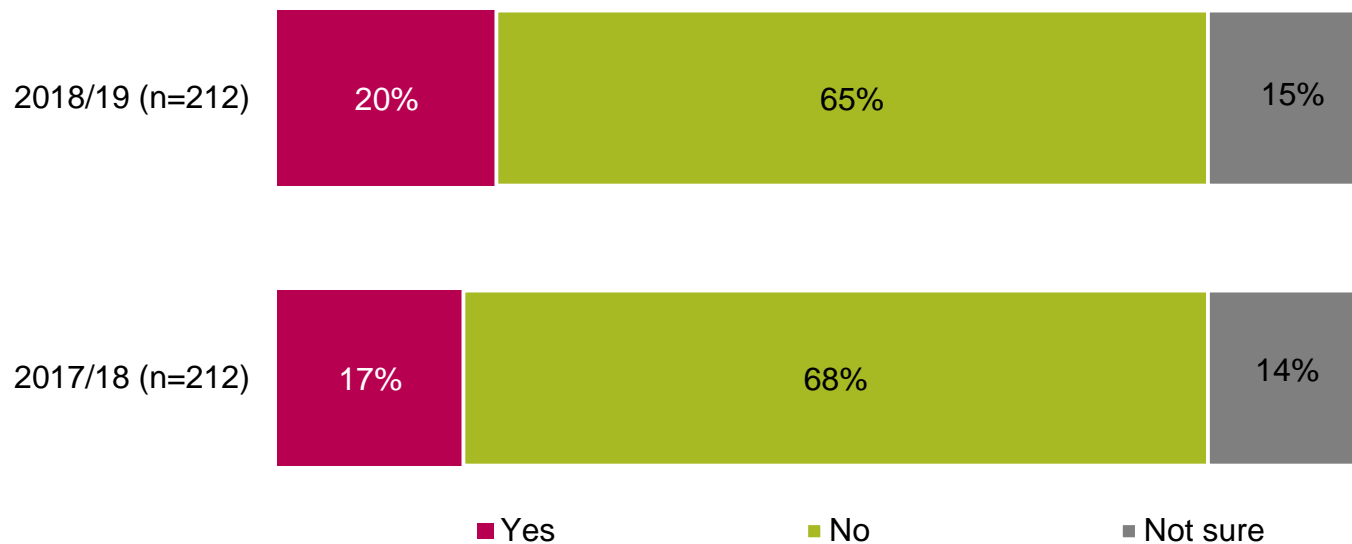
None of the firms reported that they had been the victim of a suspected case of fraud.

Base: All (212) A31 Has your firm been the victim of fraud in 2018? (Please tell us about definite cases of fraud, not suspicions).

Attempted cases of fraud

1 in 5 firms had stopped an attempted instance of fraud in 2018/19 – a small increase on the preceding year. The majority of these firms had stopped one attempted case of fraud each.

Victim of attempted instances of fraud in year surveyed (%)



Firms with ABS status were more likely to have stopped an instance of attempted fraud (33%) compared to firms without ABS status (15%).

Base: All (212) A39A Has your firm stopped any instances of attempted fraud in 2018?

Anti-money laundering practices

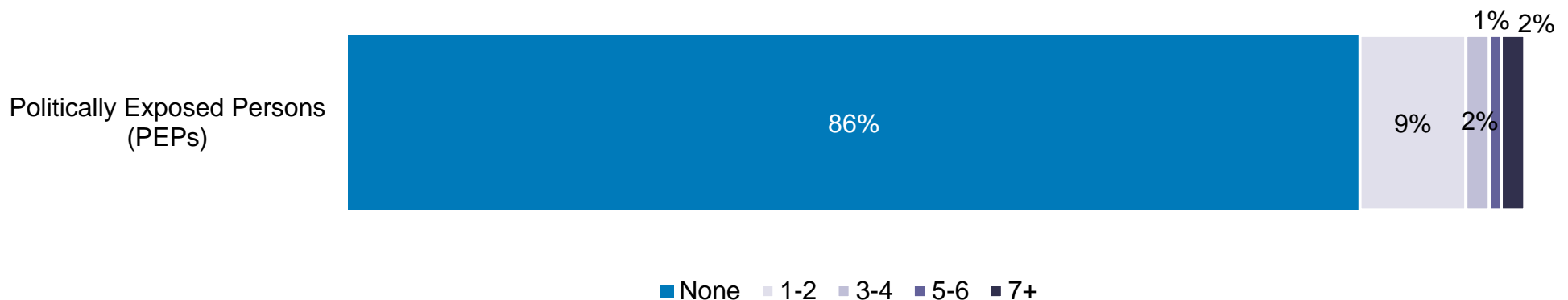


IFF Research

Politically Exposed Persons (PEPs)

A minority of firms (14%) had acted for at least one politically exposed person (PEP) within the last year. These firms reported a range from between 1 – 100 PEPs: on average firms acted for 1 PEP each.

Number of PEPs, SARs and DAML SARs made within the last year (%)



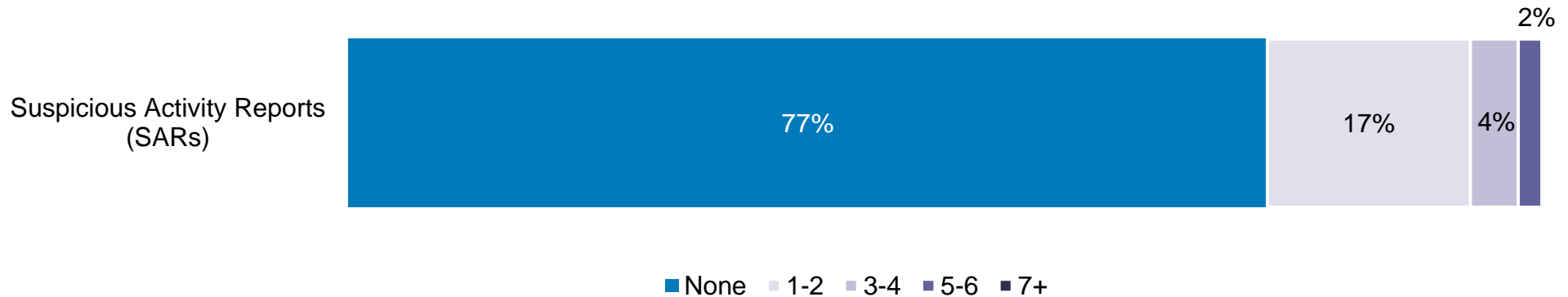
Small firms were less likely to have acted for PEPs compared to medium and large firms (small: 6%; medium: 16%; large: 22%).

A40 How many Politically Exposed Persons (PEPs) has your firm acted for in the last year? This includes domestic and international PEPs. Base: All 2018/19 (212)

Suspicious Activity Reports (SARs)

Around one-quarter of firms (23%) had made at least one general suspicious activity report (SAR) within the past year. Firms reported a range from 1 to 11 SARs; although most of these firms made 1-2 SARs each (17% of all firms).

Number of PEPs, SARs and DAML SARs made within the last year (%)

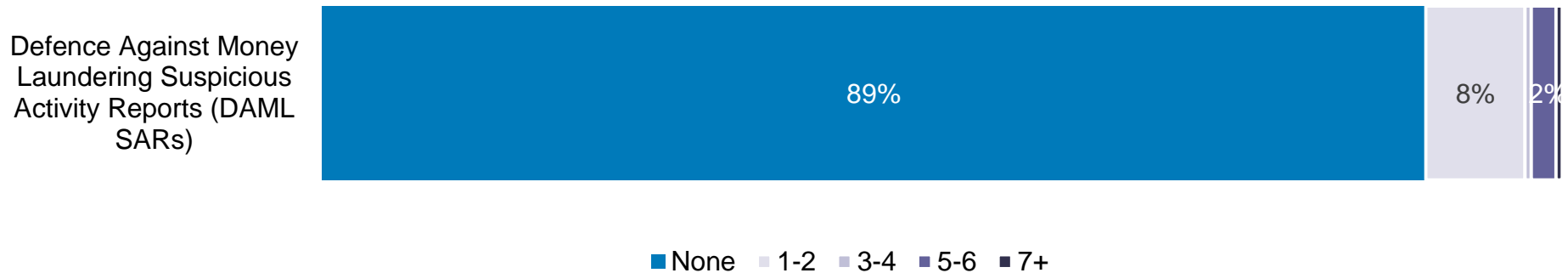


A41 1In total within the last year, how many general Suspicious Activity Reports (SARs) has your firm made? Base: All 2018/19 (212)

Defence Against Money Laundering Suspicious Activity Reports (DAML SARs)

Around 1 in 10 firms had made at least one Defence Against Money Laundering Suspicious Activity Report (DAML SAR). Firms reported a range between 1 and 23 DAML SARs, with firms most commonly making between 1-2 DAML SARs.

Number of PEPs, SARs and DAML SARs made within the last year (%)



A42 In total within the last year, how many Defence Against Money Laundering Suspicious Activity Reports (DAML SARs) has your firm made? Base: All 2018/19 (212)

Acting for clients in overseas countries

Half of firms had acted for clients in overseas countries. Australia was the most common country where clients were based, followed by France and the United States, Spain, China and the UAE.

Countries in which firms have acted for overseas clients (receiving >5% of mentions) (n=104)



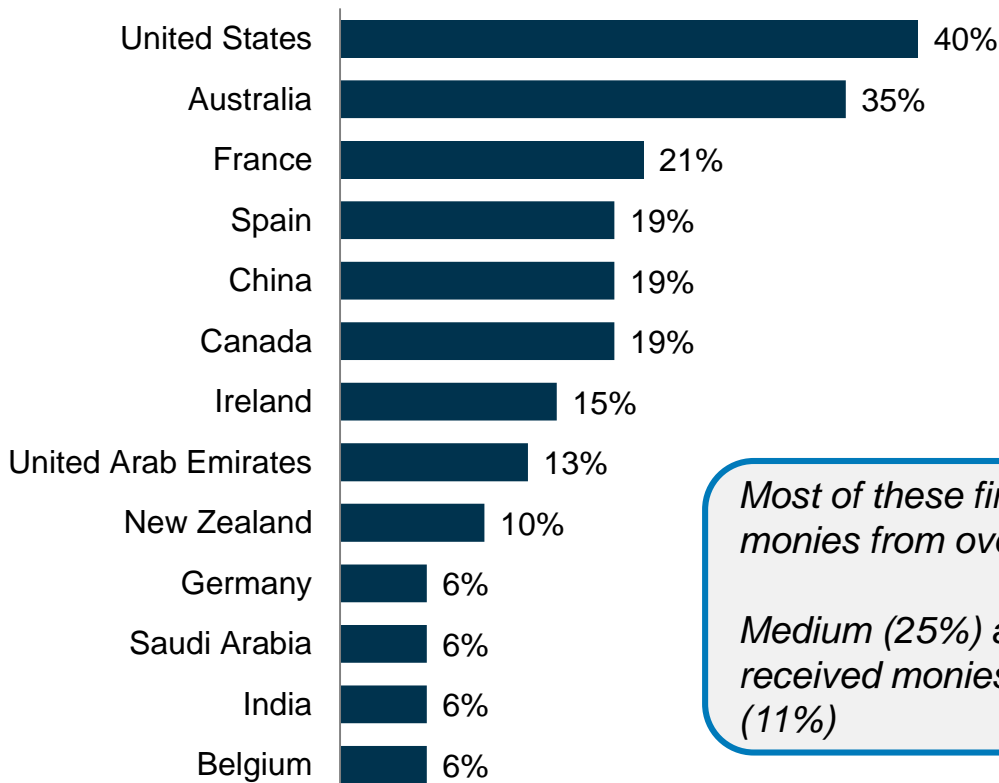
The majority of firms had acted for one or two clients in each country.

Firms who had acted for clients based in China were more likely to have acted for more than 10 clients each (15%). These firms reported a range from 20 to 700 clients based in China.

Paying into / receiving money from an overseas bank account

1 in 4 firms reported that they had either paid into or received monies from an overseas bank account. United States and Australia were the most common client locations.

Countries in which firms have paid into / received monies from an overseas bank account (receiving $\geq 5\%$ of mentions) (n=52)



Most of these firms reported that they had paid into and/or received monies from overseas clients on 1 or 2 occasions.

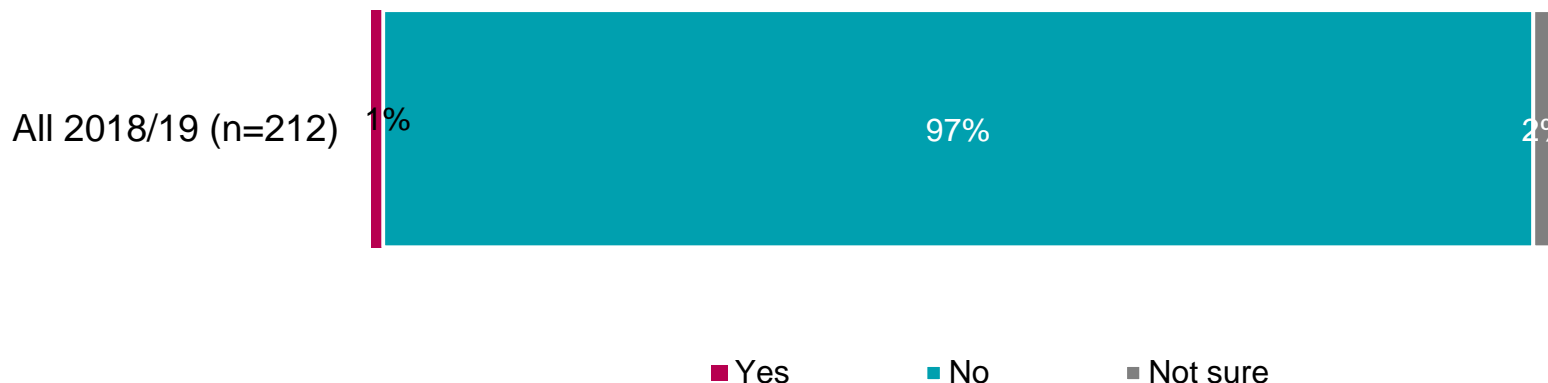
Medium (25%) and large firms (40%) were more likely to have paid into / received monies from an overseas bank account compared to small firms (11%)

A46 Within the last year, has your firm paid monies into or received monies from an overseas bank account? A47 In which overseas countries has your firm paid in or received monies from an overseas bank account?

Receipt of single cash payments of over £5,000

Most firms reported that they had not received a single cash payment of more than £5,000 into their client account within the past year

Receipt of single cash payment(s) over £5,000 within the last year (%)



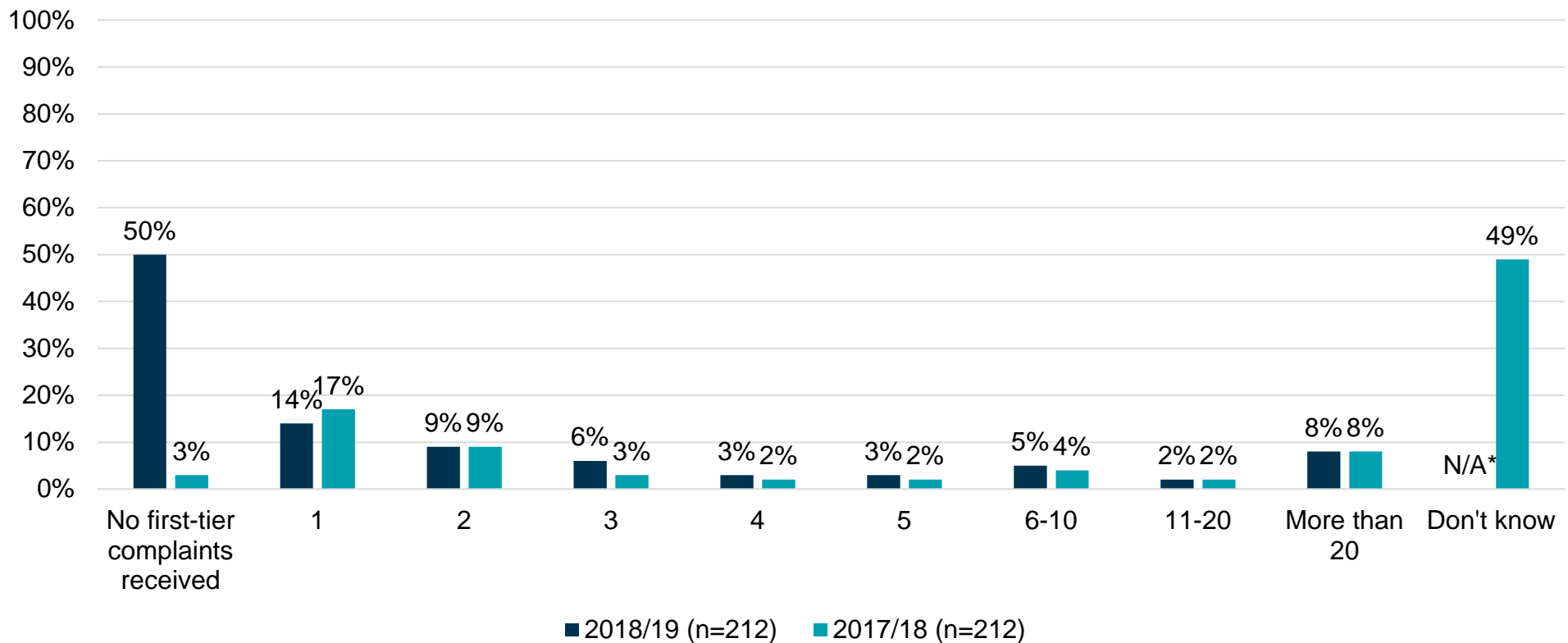
A49 Has your firm received any single payments of over £5,000 made in cash into its client account within the last year?

First-tier complaints

Receipt of first-tier complaints

Half (50%) of firms received at least one first-tier complaint. There was a wide variation in the number of complaints received, ranging from 1 to 859 complaints. Firms most commonly received between 1-5 complaints (34%).

Number of first tier complaints received directly from clients in year surveyed (%)



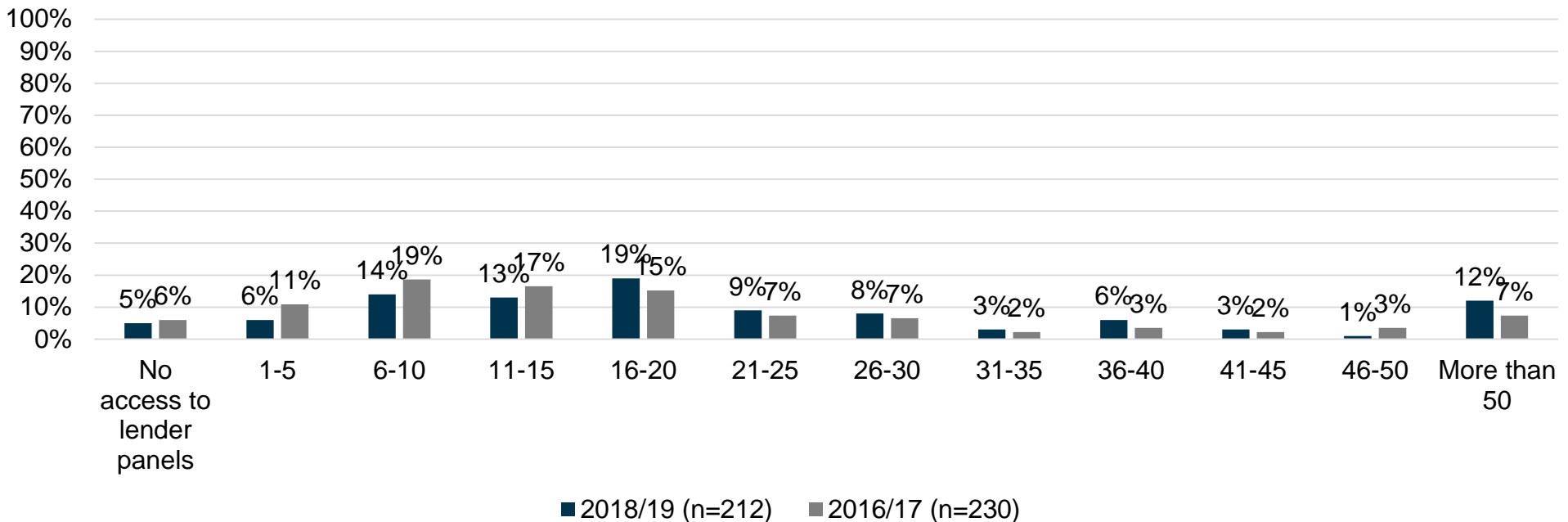
A50 How many first-tier complaints (i.e. those made directly by clients) did your firm receive in 2018?

Lenders panels

Access to lender panels

Most firms (95%) had had access to at least one lender panel. Firms reported a range of panels that they had had access to, ranging from 1 to 100 panels, however on average firms had had access to 25 lender panels.

Number of lender panels that firms have access to (%)

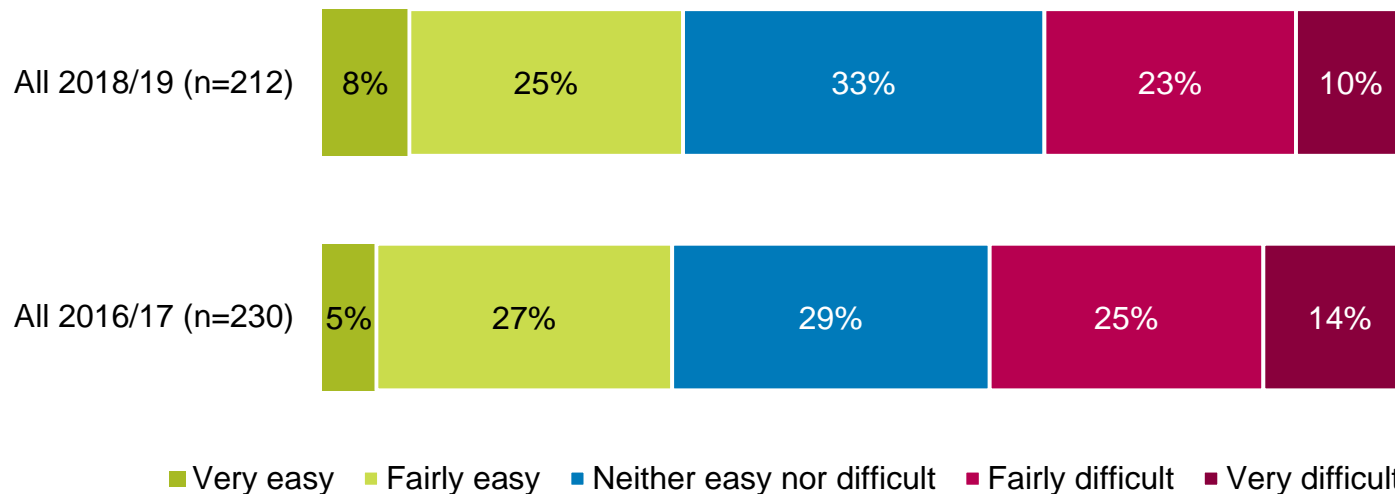


A52 How many lender panels does your firm have access to?

Ease of gaining access

Firms reported a varied experience with gaining access to lender panels – one-third (33%) said they found it very or fairly easy to gain access, while the same proportion said also said they found it fairly or very difficult.

Ease of gaining access to lender panels in year surveyed (%)



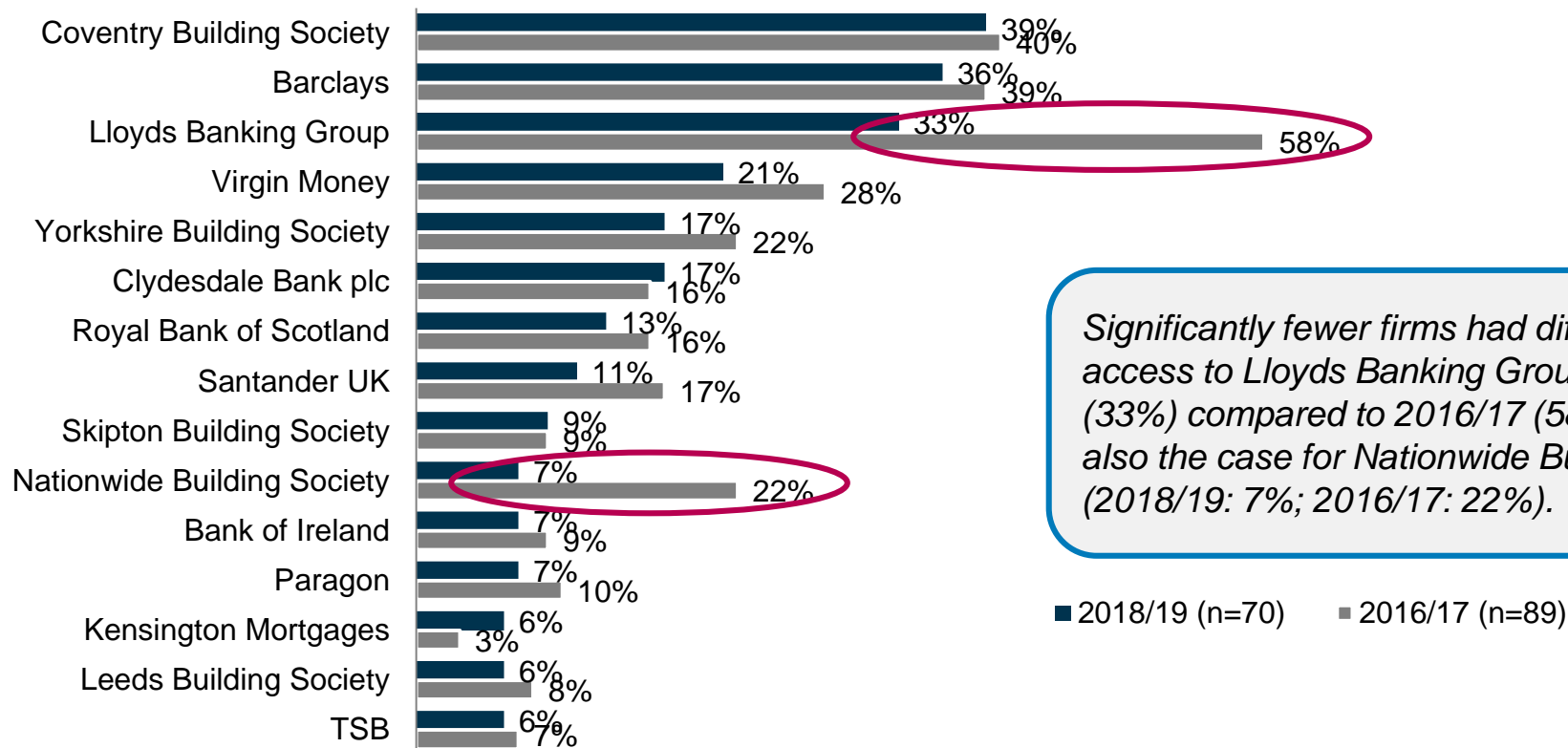
Two-thirds (67%) of firms who experienced difficulty gaining access to lender panels said that they experienced either a 'a great deal' or 'quite a lot' of difficulties

A53 How easy or difficult has it been for your firm to get access to lender panels in 2018?

Difficulty gaining access to specific lender panels

Firms were most likely to have had difficulty gaining access to Coventry Building Society, Barclays and Lloyds Banking Group.

Lender panels within which firms experienced difficulty in applying (%) $\geq 5\%$ of mentions



Significantly fewer firms had difficulties gaining access to Lloyds Banking Group in 2018/19 (33%) compared to 2016/17 (58%). This was also the case for Nationwide Building Society (2018/19: 7%; 2016/17: 22%).

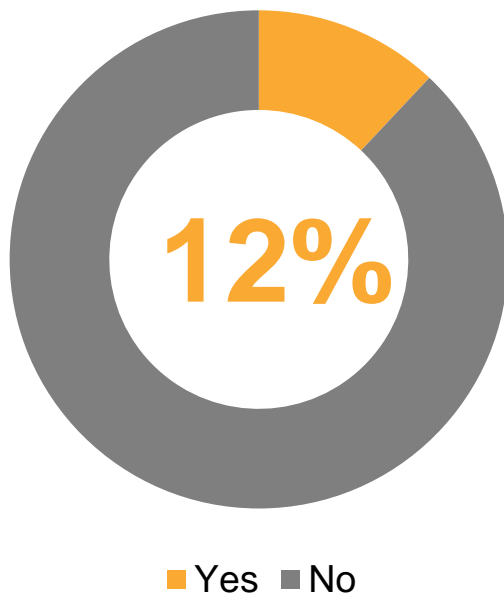
■ 2018/19 (n=70) ■ 2016/17 (n=89)

A55 You mentioned that you have experienced difficulties in gaining access to lender panels. Please select the panels that you experienced difficulties in applying for

Cancellation of access to lender panels

A minority of firms had had their access to lender panels cancelled.

Are you aware of your firm having its access to a lender panel cancelled?



Firms reported that they had their access to lender panels cancelled by a range of providers. The following received at least 3 mentions*

- Leeds Building Society – 15%
- Virgin Money – 12%
- Skipton Building Society – 12%
- TSB – 12%

A56. Are you aware of your firm having its access to a lender panel cancelled? Base: All 2018/19 (n=212)

A57. You mentioned that you have experienced difficulties in gaining access to lender panels. Please select the panels that you experienced difficulties in applying for

*Please note low base size, n=26

Bullying and harassment policy

Bullying and harassment

Most firms (85%) had at least some measures in place in relation to bullying and harassment. Only a small proportion of firms had a published formal bullying and harassment policy.

Policy on bullying and harassment (including whistleblowing) (%)



- We have published a formal bullying and harassment policy
- We have an internal written bullying and harassment policy
- We do not have an internal written policy but we have informal measures in place
- None

Firms with ABS status were more likely to have a published formal policy (16%) compared to firms without ABS status (3%), in addition they were also more likely to have an internal written policy (ABS status: 56%; without ABS status: 27%).

Small firms were more likely to not have any measures in place (25%) compared to large firms (5%).

A39C Does your firm have a policy towards bullying and harassment, including whistleblowing?

Thank you

