

News

Interest rates and the client account

10 April 2024

The Law Society recent [Financial Benchmarking Survey](https://www.lawsociety.org.uk/topics/research/financial-benchmarking-survey-2024) [<https://www.lawsociety.org.uk/topics/research/financial-benchmarking-survey-2024>] said that many law firms had been propped up by abnormally high interest rates.

According to respondents, 'this year saw a steep increase in interest received on money held in client accounts. Total net interest income rose over 1,000% to £27.5 million, compared to £2.6 million in 2022'.

This has been an issue that has surfaced again and again in recent months – it was the subject of a number of questions in our Virtual Compliance Conference in November during [our session on the Accounts Rules](https://youtu.be/LcUnbgYcvwQ) [<https://youtu.be/LcUnbgYcvwQ>].

Our panel was asked about the amount of interest being earned on monies held in the client account and agreements with clients. While the Bank of England have stopped raising the base rate in recent months, they continue to sit at much higher levels than we have seen for many years.

[Rule 7](https://beta.sra.org.uk/solicitors/standards-regulations/accounts-rules/#rule-7) [<https://beta.sra.org.uk/solicitors/standards-regulations/accounts-rules/#rule-7>] of our Accounts Rules says:

- You account to interest on any client money held by you on their behalf.
- You 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, but you must provide sufficient information to enable them to give informed consent.

What usually happens in practice is that money is held in the client account for such short periods of time that it's not an issue that really comes up for the vast majority of you. Cumulatively, any interest earned across all client monies might be enough to pay for the bank's account charges for holding the money in the first place - that does not exactly qualify as 'financial benefit'.

But we have heard of cases of firms doing quite well out of the monies they hold if this involves large amounts and are held for a more significant period. Similarly, we have also been told that some firms are not accounting to their clients for anything like the same rate of interest, and certainly not what could reasonably be classed as 'fair'.

We would expect you to be talking to your clients or other connected parties about interest rates and payments in the absence of any pre-agreed arrangements you might have had with them. If we have evidence that firms are failing to account fairly, we will take action.

This of course could all change quickly if the Bank of England achieves its aim of controlling inflation and brings interest rates down to previously low levels. In fact, some of you might remember that it was only four years ago that we were dealing with your queries about the potential for the Bank of England to set negative interest rates, and the possibility of law firms having to pay for holding clients' money for them.