



KYSEN Legal Services Act Update



Welcome to the Spring 2014 edition of our Legal Services Act Update, an e-update detailing recent press coverage of how the professional services community and regulatory bodies are responding to the major changes facilitated by the Legal Services Act 2007.

This issue highlights the progress made in legal services deregulation and business innovation in the years since The Legal Services Act came into force. As ever we welcome your feedback.

Best regards,
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Press summary
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Almost 250 alternative business structures (ABSs) have been licensed since the Legal Services Act came into force and the new regulatory regime is certainly encouraging innovation across the legal services sector. More names that have joined the sector include Direct Line's launch of a legal services arm with law firm partner Parabis Law; and big four accountancy firm Price Waterhouse Coopers (PwC).

Another consequence of legal market disruption is that mergers amongst law firms are gathering pace with 28 involving Britain's 100 leading law firms in 2013, the highest annual number of such mergers ever. And shifts are happening in unexpected ways with new online legal services businesses sprouting up in the UK market. These include San Francisco based Rocket Lawyer and Los Angeles-based, LegalZoom.

Even local authorities are getting in on the act with London Borough of Lambeth applying for an ABS to provide legal services to non-profits in the borough.

And the changes continue to march beyond UK borders, now to Singapore where the city state is updating its laws to 'accommodate firms wishing to adopt alternative business structures, with changes likely to come into force next year.'

However, the Solicitor's Regulation Authority (SRA) comes under fire once more as the number of ABS failures piles up. An SRA report showed 34 applications had been pulled since the inception of the licensing process in January 2012.

Meanwhile, a new code of practice has been introduced by the Association of British Insurers (ABI) that seeks to control how ABS-owning insurers point policy holders to their own law firms.

Legal market innovation picks up speed

246 alternative business structures (ABSs) have been licensed since 2011 and the new legal services regime is certainly encouraging innovation. More names that have joined the sector include: Direct Line (with law firm partner Parabis Law) and Price Waterhouse Coopers (PwC) with a plan to bring the accounting firm's legal network of 2,000 lawyers under its direct control. PwC Legal has two licences that come into effect in April – one for the [UK business](#) and another for the Middle East. SRA policy director Crispin Passmore said: 'The authorisation of PwC Legal as an ABS is another example of the innovative changes taking place in the legal market... Nearly two years on from the first ABS licensed by the SRA, we are seeing further increased diversity in the supply of legal services, and that provides consumers with greater choice.' The ICAEW has said that 20 to 25 of its member firms had expressed an interest in applying for an ABS licence. Direct Line, meanwhile, said that DLG Legal Services would provide legal advice to the public with legal partner Parabis Law from March. Also one of the UK's largest debt management companies, Harrington Brooks, has created an ABS run by its head of legal services.

Last November, the Legal Services Board (LSB) published research suggesting ABS firms were more efficient at handling complaints than traditional law firms and more productive given their greater commerciality, investment in systems and growing anew without creaking legacies to hold them back. Some commentators say the new regime is being used as a convenient tool for foreign consolidators, like the Australian firm, Slater & Gordon; and also a vehicle for cross-selling.

Information sources: LegalWeek.com, 31 January 2014, Financial Times, 31 January 2014, LegalFutures, 18 February 2014, LegalFutures 3 February 2014 & LexisNexis, 20 January 2014

London Borough of Lambeth considers ABS licences

London Borough of Lambeth may apply for two ABS licences: one would aim to offer legal services to third-party organisations such as non-profits in the borough; another could be established as a joint venture with a law firm and offer legal services to other councils. Mark Hynes, head of legal and director of corporate affairs at Lambeth, says: 'We need to keep an eye on the market. Outsourcers are now themselves applying for ABS status. I can envisage a scenario where [they are] bidding to handle the back office and we would not be masters of our own destiny anymore.'

Information source: LawSocietyGazette, 10 February 2014

Virtual and online legal services storm the market

A number of new forms of legal services provider have entered the market. These include online legal services providers such as San Francisco-based Rocket Lawyer and Los Angeles-based, LegalZoom. Mark Edwards, UK vice president of Google Ventures-backed Rocket Lawyer which launched in the UK in 2012, says: 'We're not technically an ABS and don't need to be'. Edwards says that Rocket Lawyer 'uses tech to provide legal services and a network of lawyers' from external law firms and develops online products and tools such as DIY employment contracts. Competitor, Los Angeles-based, legal services provider, LegalZoom, which was founded by O.J. Simpson lawyer Robert Shapiro and launched in the UK in December 2013 also provides a similar offering, DIY contracts and on-call solicitors from the ABS-licensed QualitySolicitors. And BT launched ABS BT Law Limited in Spring 2013, which targets corporate clients. New entrants are even using new innovative forms of funding. Online legal service offering Law Bite, founded in 2011 recently raised £400,000 on CrowdCube in just ten days.

Information source: The Lawyer, 21 January 2014

Mergers among law firms gather pace

There were 28 mergers involving Britain's 100 leading law firms last year, the highest number of such mergers ever. Some commentators say this is an effect of disruption at the lower end of the market from the advent of ABSs, ricocheting up to the top – among other factors. The largest merger of 2013 was between SJ Berwin and Sino-Australian firm King & Wood Mallesons. CMS Cameron McKenna and Scottish firm Dundas & Wilson also tied up. In 2012, Aussie firm Slater & Gordon gobbled up six British practices including personal injury specialist, Russell Jones & Walker, for almost £54 million. Tony Williams, the principal of management consultancy Jomati said: "In 2012 we could clearly see that the long-awaited consolidation of the UK legal market had begun and it has continued throughout 2013. This market-changing process is now playing out in dynamic fashion and we do not expect it to end anytime soon."

Though the Legal Services Act allows law firms to list on stock markets and receive private equity cash injections, there are as yet no UK law firms listed on the London Stock Exchange.

Information source: The Times, 3 January 2014

ABS failures pile up

Despite the buzz of activity in ABS licensing and new online businesses taking hold, there is also the story of failures. The SRA has insisted its licensing process has improved since regulators expressed 'increasing concerns' about the high volume of ABS flops. A report from the SRA showed 34 applications had been pulled since the licensing process began in January 2012, after they had been worked on for between six and 12 months. One such example is the [legal practice set up by Devon accountants Davisons last September](#) whose ABS licence was recently revoked.

Information sources: LawSocietyGazette, 14 February 2014 & LegalFutures, 18 February 2014

ABSs go global

The spread of commercialisation in the legal sector is going global. Singapore will update its laws to 'accommodate firms wishing to adopt alternative business structures, with changes likely to come into force next year.' Non-lawyer employee ownership, however, will be limited to 25%.

Information source: Financial Post, 30 January 2014

New ABS insurance code

The Association of British Insurers (ABI) has created a code governing how far ABS-owning insurers can go (or not) in pointing policy holders towards their law firms. The code allows insurers to provide support and information to consumers but says that the customer should not have to undergo 'direct or indirect pressure' from the insurer or a third party such as from cold calls. There is though no sanction for failure to comply with the code except having to give an explanation of why there was a failure to comply.

Information source: LegalFutures, 14 February 2014

Impact of Legal Services reform - debate

Despite the headline grabbing changes, some believe that in reality the revolution in the legal services sector has still not hit the industry. Tony Pierre, Baker Tilly's head of transaction services, said: 'The Big Bang for lawyers was meant to be the Legal Services Act which opened the door to ABS applications in January 2012 but so far activity has been fairly limited and not across the whole marketplace'. However, John Pickering, Irwin Mitchell group CEO said that the impact of ABS has led to increased competition, has been 'a powerful driver for change', and the ABS at his firm has facilitated 'a major transformation'. He said: 'We have established a strong corporate structure and been able to attract high quality people from outside the legal sector to our senior management team.'

Information source: Yorkshire Post, 28 January 2014

Tips and snippets - Law Management Section roadshow, Birmingham

Colourful metaphors were in plentiful supply as a recent meeting of the Law Society's Law Management Section discussed changing legal market dynamics. Consultant Barry Wilkinson of Wilkinson Read & Partners used the analogy of the coping strategy used by the United States vice-admiral James Stockdale who survived torture and solitary confinement during the Vietnam War: 'Confront the brutal truth, but never lose faith.' He also used a number of nature analogies: the legal sector has been like the Galapagos Islands, evolving without interference from the outside world now the market is opening up there would be 'winners and losers'. 'Foxes can't eat hedgehogs because hedgehogs do one thing brilliantly – they roll up into a ball and be prickly. That's the hedgehog's niche practice. It is what it does best and everyone acknowledges that nothing else does it better. Wilkinson's advice: 'Find your niche, in case it doesn't find you first.'

Joint head of the legal team at accountancy firm Hazlewoods, Patricia Kinahan, reminded lawyers to focus on the most profitable work, and to "be new business hawks". 'Turnover is

vanity,' she says. 'What you need to focus on is fee income per fee-earner [and how that translates into profit]. You need to understand what fee-earners are doing day to day, hour to hour. Don't be busy fools. You say you are busy, but are you really?'

On mergers, Steve Arundale, NatWest's head of professional sectors and financial institutions said: 'You wouldn't buy a house without having it surveyed first, so why buy a firm without getting an expert to look under the bonnet and check all is as it should be?'

Information source: LawSocietyGazette, 17 February 2014 & LegalWeek.com, 17 February 2014

SRA fines increase agreed

A rise in the cap on fines the SRA can levy on traditional law firms has been backed by City lawyers. In its '[Proposal to increase the SRA's internal fining powers](#)', the regulator suggested new levels from £10,000 to £100,000, as opposed to the £2,000 to £10,000 limit for fines currently. The SRA is also considering the option of fines 'of a more significant amount' with firms under its regulatory settlement agreements policy.

There is still a huge discrepancy between the cap on fines for traditional firms and for ABSs (which can face penalties of up to £250m). The City of London Law Society chief executive David Hobart says: 'There is no doubt that a two tier system whereby disciplinary matters involving an ABS are handled differently from those involving traditional law firms is inequitable.'

Information source: Solicitors Journal, 14 February 2014



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