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## The new rules of law

By Caroline Binham

The UK's £23bn (€27bn) legal market has the potential to become one of the most innovative in the world with the introduction of the Legal Services Act (LSA) this month.

For the first time, law firms will be able to offer shares on the stock market or take capital from external investors, and will be able to extend partnership to professionals other than solicitors in what are known as alternative business structures (ABSs). Companies that are not law firms, meanwhile, will be able to offer legal services.

"ABSs may, in practice, provide a means for widening access to legal services by introducing cutting-edge customer service practices, operating longer opening hours and providing more services via modern communication methods," John Wotton, president of the Law Society, the body that represents UK solicitors, told a US audience this summer.

The LSA was conceived after the previous UK government asked Sir David Clementi, former chairman of the Prudential insurance group, to review legal regulation. Sir David reported in 2004 that liberalisation could allow new practices that would improve access to justice by lowering prices and demystifying legal processes. The point was to make access to legal advice as easy as buying a tin of beans – hence the moniker "Tesco law" that has been applied to the act.

In spite of the nickname, Tesco, the UK's largest retailer, is yet to announce it will take advantage of the LSA. But other companies have been more forthcoming, including the Co-operative Group, which has already launched a pilot scheme offering free legal advice in three of its Bristol bank branches.

The company's objective is bold: to become the UK's largest provider of legal services to consumers over the next 10 years. To that end, it has raised its legal operations from just three staff members in 2006 to 370, and said earlier this year it would consider acquiring law firms.

Another force on the high street, WH Smith, has entered into a partnership with Quality Solicitors, a group of 125 firms with common branding. The initiative started as concessions within the newsagent and book chain's stores in August, and Quality Solicitors hopes to be in 300 locations by the autumn.

Its aim is to emphasise customer service: Saturday opening hours and fixed fees (rather than the infamous billable hour) for most advice.

Large, City of London law firms have been more reticent about the LSA. Few have publicly expressed interest in either stock market listings or accepting external investment. The so-called "magic circle" of elite firms have said they will not seek outside capital.

Nevertheless, recent research suggests that what even the biggest firms say in public on the matter might be very different from what they say in private. About a third of the top 100 UK firms are

considering taking external investment or offering shares once the LSA is in effect, according to an anonymous survey conducted by Sweet & Maxwell, the legal information company.

Irwin Mitchell, which with £172m revenue is a top-20 UK firm, is refreshingly candid. In April it said it was “highly likely” to raise fresh capital for acquisitions of other law firms or for hiring specialist lawyers to strengthen its operations.

The firm wants to increase its annual turnover to more than £200m. In addition to enabling it to buy new talent, external capital would help

Irwin Mitchell increase its commoditised work in personal injury and insurance-defence claims.

Pannone, the Manchester-headquartered firm, earlier this year signalled an interest in taking external capital to invest in staff and information technology. It said its Affinity Solutions arm would advise on work such as personal injury claims, which would then be sold on by retailers and insurers to their own customers.

It is this high-volume work that observers view as the most obvious area for external capital within the legal market, because investors can see an expandable business model.

Where ABSs – both law firms and companies wanting to offer legal services – agree is the need for new technology to improve efficiency. This gives a huge opportunity to service providers such as **Epoq Legal Services**, which can help ABSs automate their work by undertaking document assembly and managing websites.

Mr Wotton of the Law Society promoted the concept of legal market liberalisation on a global road show this year in key jurisdictions such as the US and South Korea. The implication is that investors thinking about putting money into a firm with a large international presence – four of the top 10 firms in the world by revenue are headquartered in the UK – may be put off if they can only invest in the firm’s UK elements.

Aside from the UK, Australia is the only key legal market that permits external capital.

But Italy is also taking steps to modernise its legal market, with the Bersani reforms – named after Pier Luigi Bersani, leader of the opposition, centre-left party – loosening restrictions on firms’ advertising and branding. Following the reforms, Assistenza Legale was the first Italian firm to ignore convention and use a brand name instead of its lawyers’ names. It now has 30 offices across Italy.

The LSA has been compared to the “big bang” that modernised financial services in 1986, but any explosive effects of the act have been put on hold since the UK Ministry of Justice said it would not be able to grant the Solicitors Regulation Authority power to issue licences for ABSs in time for the act coming into force in October.

It will now be at least January 2012 before the SRA will be in a position to grant licences, which all firms will need if they want external investment or are considering broadening their partnerships. The regulator has called the delay “disappointing”.

Changes from the LSA may be incremental, but the legal profession – long known for its conservatism – will never be the same again.