

The LSB's view of the future of legal services

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Manchester Law Society Regulatory
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Overview

- Regulators' role in relation to the future
- What's our starting point?
- Where might we be going ?

Regulators' role

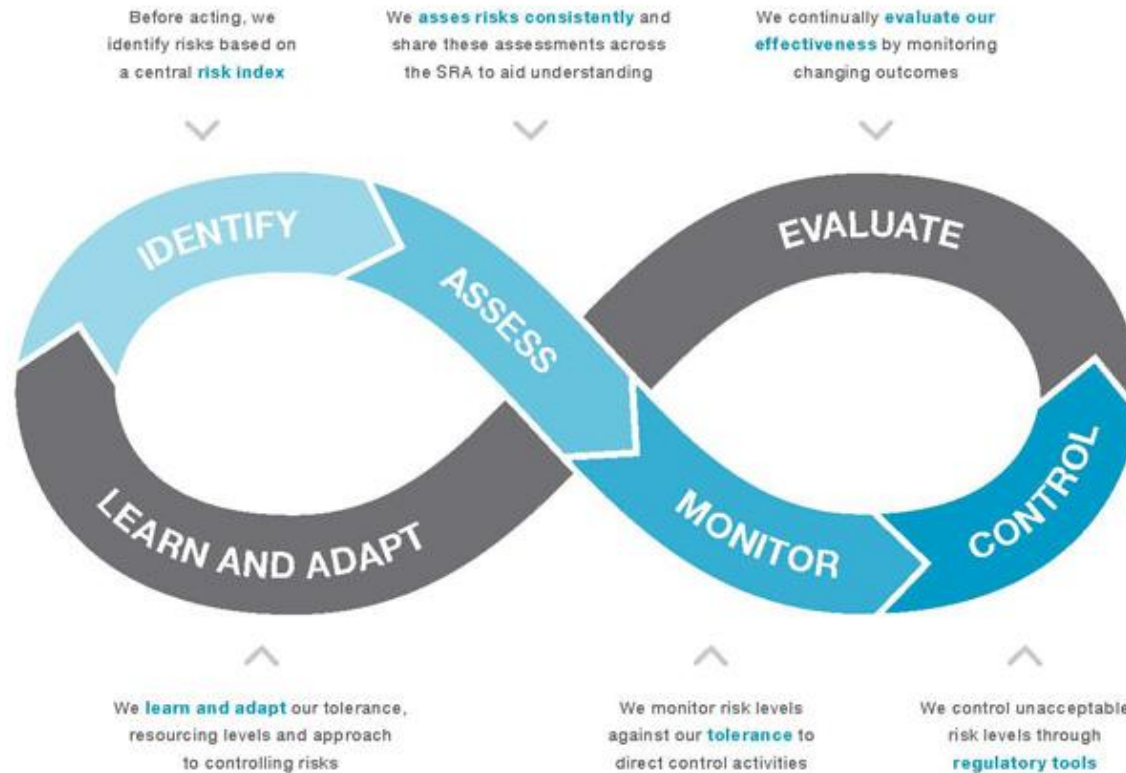
- TO ENABLE, NOT TO DEFINE, THE FUTURE
- Understanding needs, risks and trends to make better policy informed decisions ourselves and provide intelligence for the wider market
 - SRA – Role of in house solicitors (2014)
 - LSB - Legal needs of small businesses (2013)
 - LSB – Changes in Competition in different legal markets (2013)
- Removing specific burdens where not justified by risks to consumers
- Ensuring regulatory certainty without inhibiting flexibility

Regulators role

- Removing barriers to innovation
 - BSB decision to
 - expand direct access to allow barristers to take instructions from clients who may be eligible for public funding but have decided not to take up this option
 - allow barristers to conduct litigation
 - IPS intention to regulate entities and expand the reserved legal activities

Regulators role

- Spotting emerging consumer risks



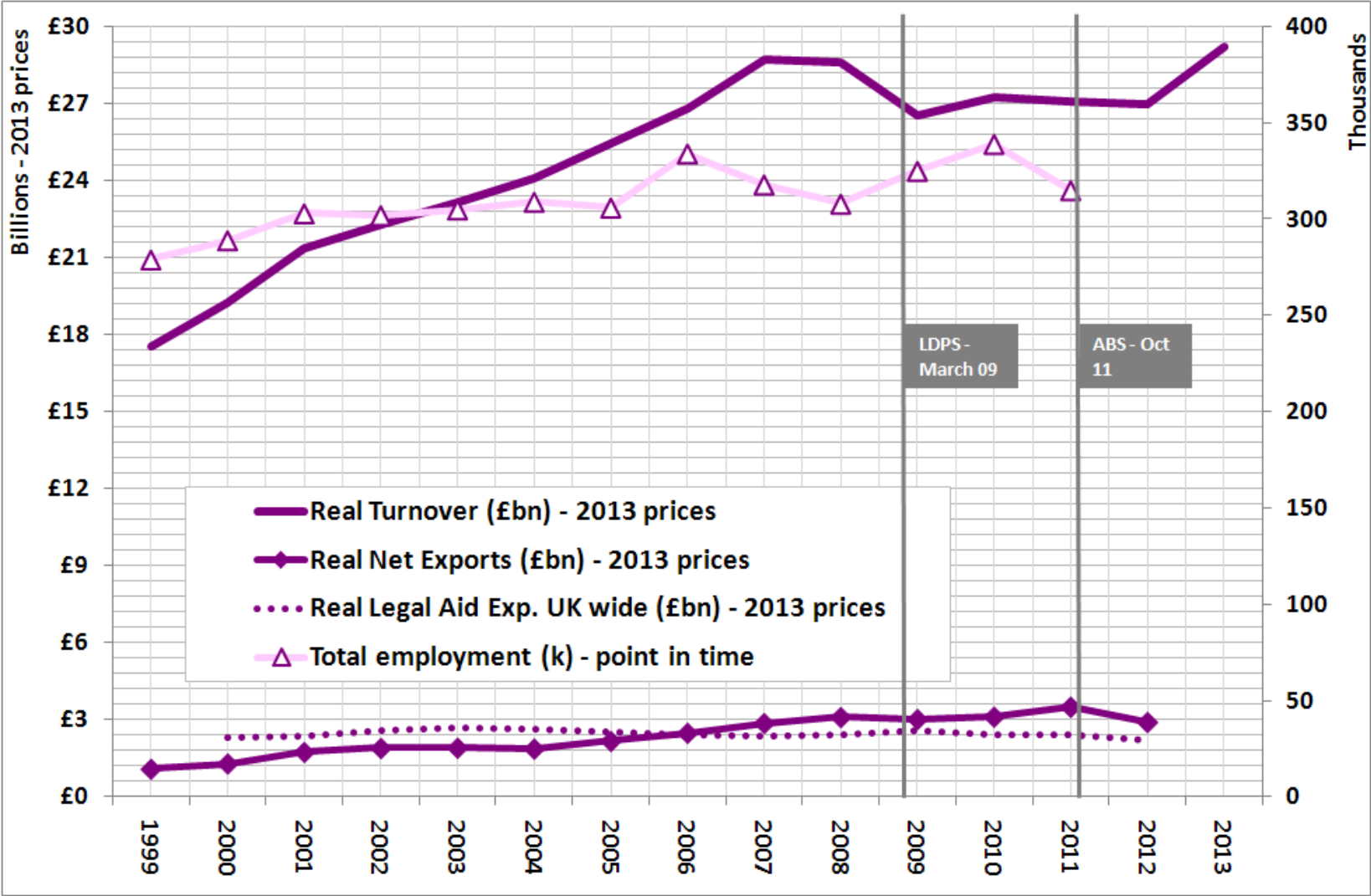
Give space for experimentation



Overview

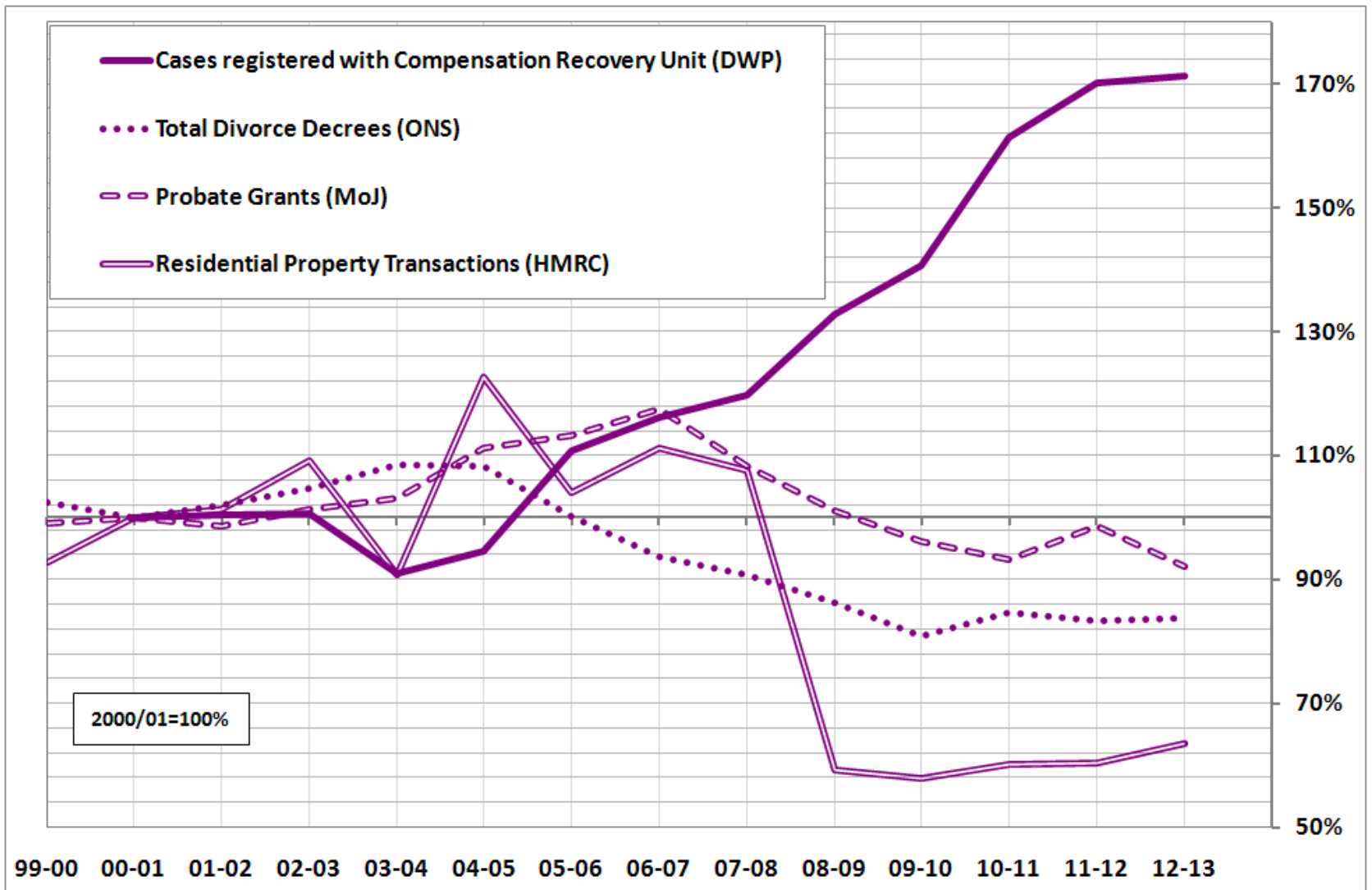
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The sector is growing

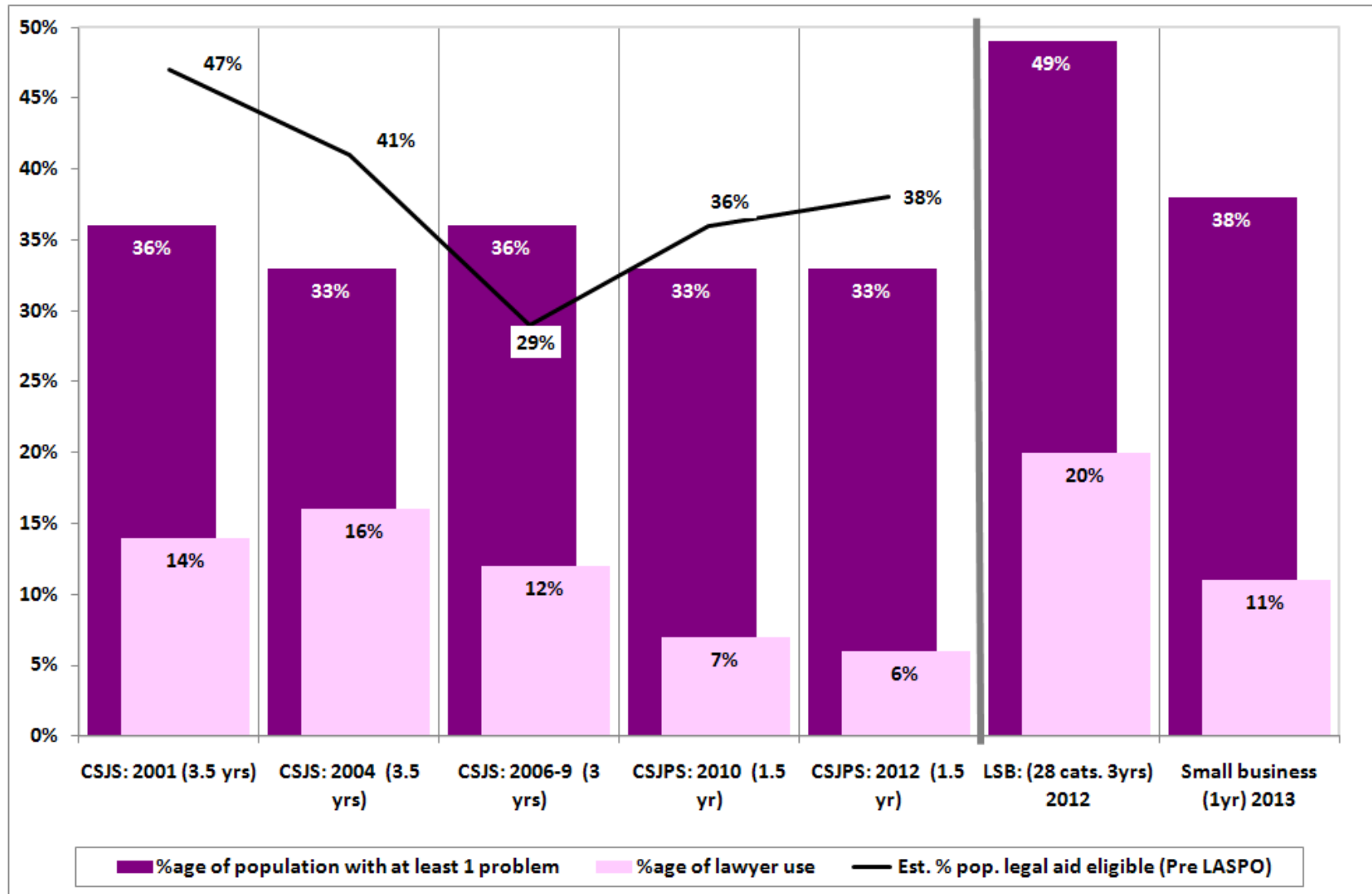


Sources: ONS, LSC, MoJ, SLAB, NILSC (est.)

Despite fluctuating demand



But individuals and small business legal needs aren't being met

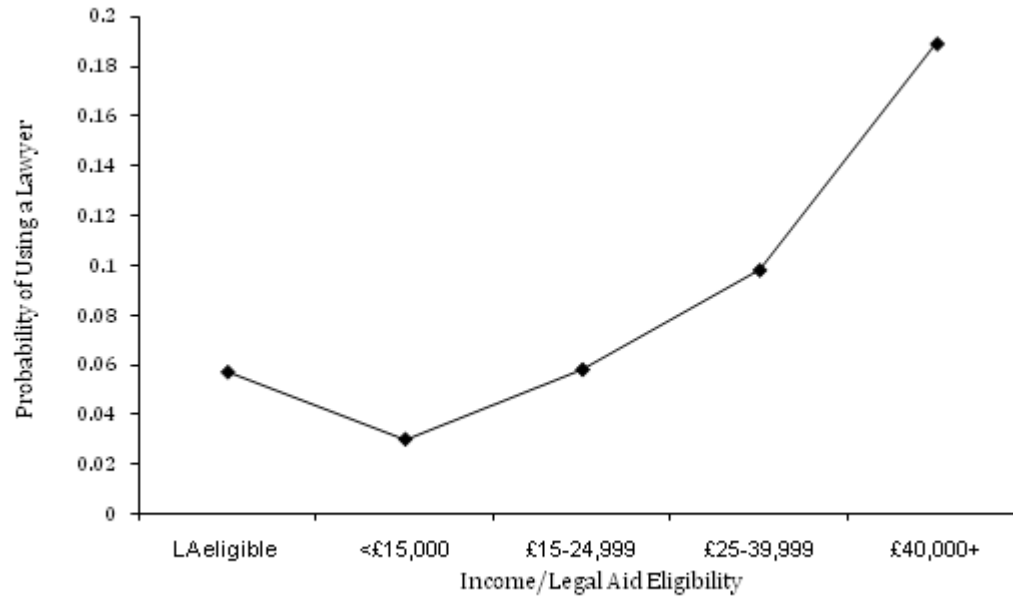


Ripe for disruption?

Significant evidence of 'unserved' consumers

- One in three consumers don't get the legal help they need
- Four out of five small businesses don't get legal advice when they have a problem
- 87% of SMEs don't think lawyers offer value for money - even though 54% of those SMEs see law as very important for doing business
- Potential value of SME unmet need in excess of £100bn

'U' shaped response?



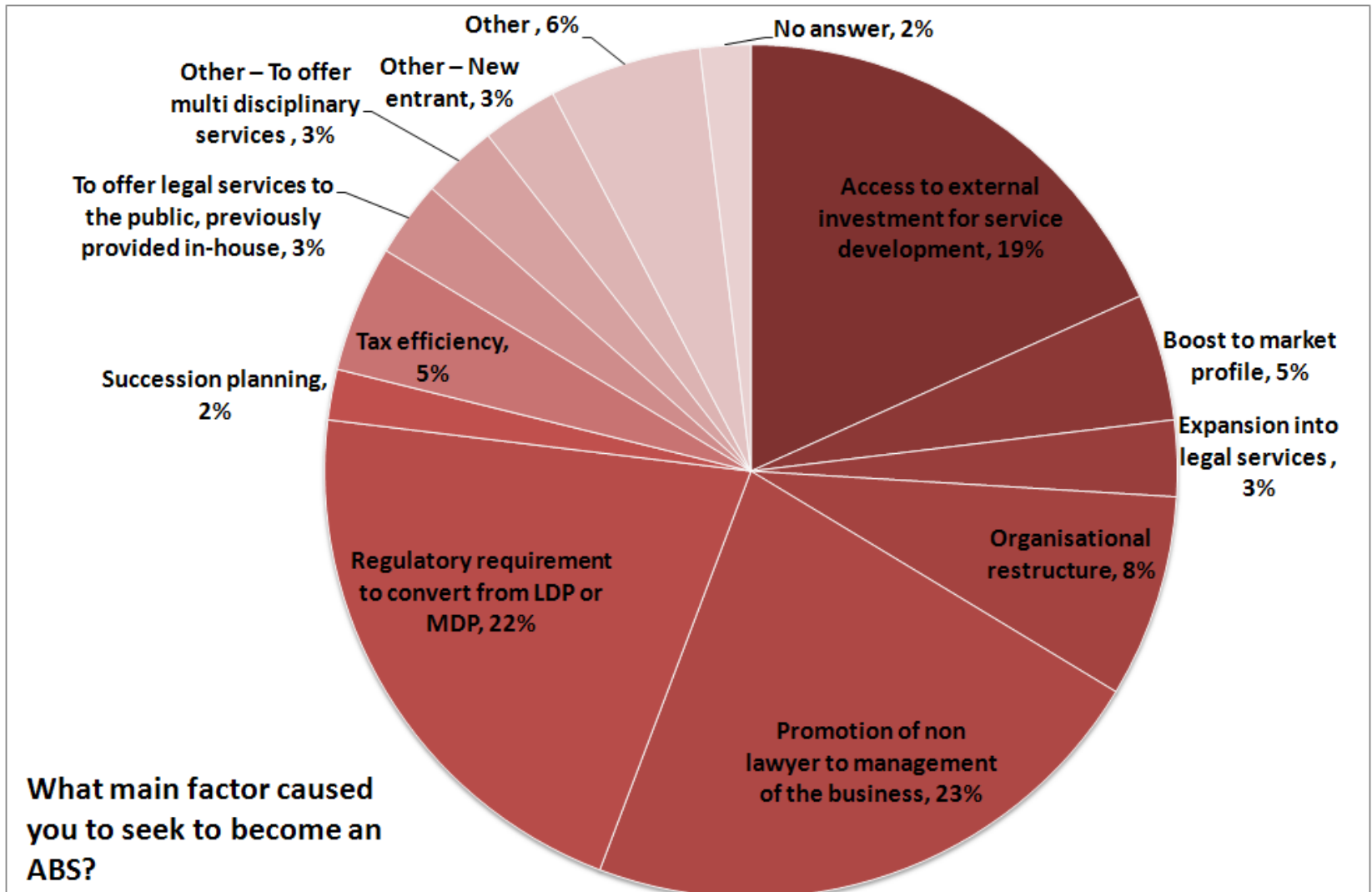
Why people don't choose lawyers



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Alternative structure, similar business



What's changed since they became an ABS?

Claim: *ABS will ditch vulnerable consumers*

Reality: The groups of consumers they provide services to – no change
91%

Claim: *ABS will cherry pick the most profitable areas of work*

Reality: Areas of law they provide services in – No change 83%

What's changed since they became an ABS?

Claim: *ABS will lead to wholesale “misselling”*

Reality: The way they market services – No change 77%

Claim: *Standards will decline because of cost-cutting*

Reality: Initial evidence suggests focus on consumers and complaints handling better in ABS firms

ABS resolve more complaints at first stage.

11 resolved by ABS for every one complaint referred to LEO vs. 4 for every one referred to LEO by non-ABS firms.

How are they different to non ABS firms?

“We are well managed and organised which results in the provision of a good service to our customers. We work hard at customer service and this makes a big difference”

“Our management structure now reflects what our clients would expect from their suppliers - which is not the traditional partnership model!”

“The customer is the whole focus of the business; the way we're set up and how we deliver our services”

Innovation coming from ABS and non ABS

– ABS firms

-  PricewaterhouseCoopers Legal LLP
pwc
-  **irwinmitchell**^{IM}
solicitors
-  **Gateley**  **Weightmans**
-  
BlackStar

– Non ABS firms responding to the new environment

-  **road traffic representation**
-  **radiant law**

Yet the market is changing

- Subscription legal services for businesses
- Online divorce, wills, automated documents
- Increased use of fixed fees
- TV advertising – brand building, rather than ambulance-chasing
- Some genuine MDPs
- Some corporate entry – often from membership-based bodies

... Changes are driven as much by consumer demand as by regulation

What can speed it up? (i)

Improving consumer power

- Less passive selection by consumers
- More information about:
 - price
 - quality or
 - others' experiences
- Less true for corporate purchasers than retail consumers – but very long-term arrangements more common than other parts of the economy.

What can speed it up? (ii)

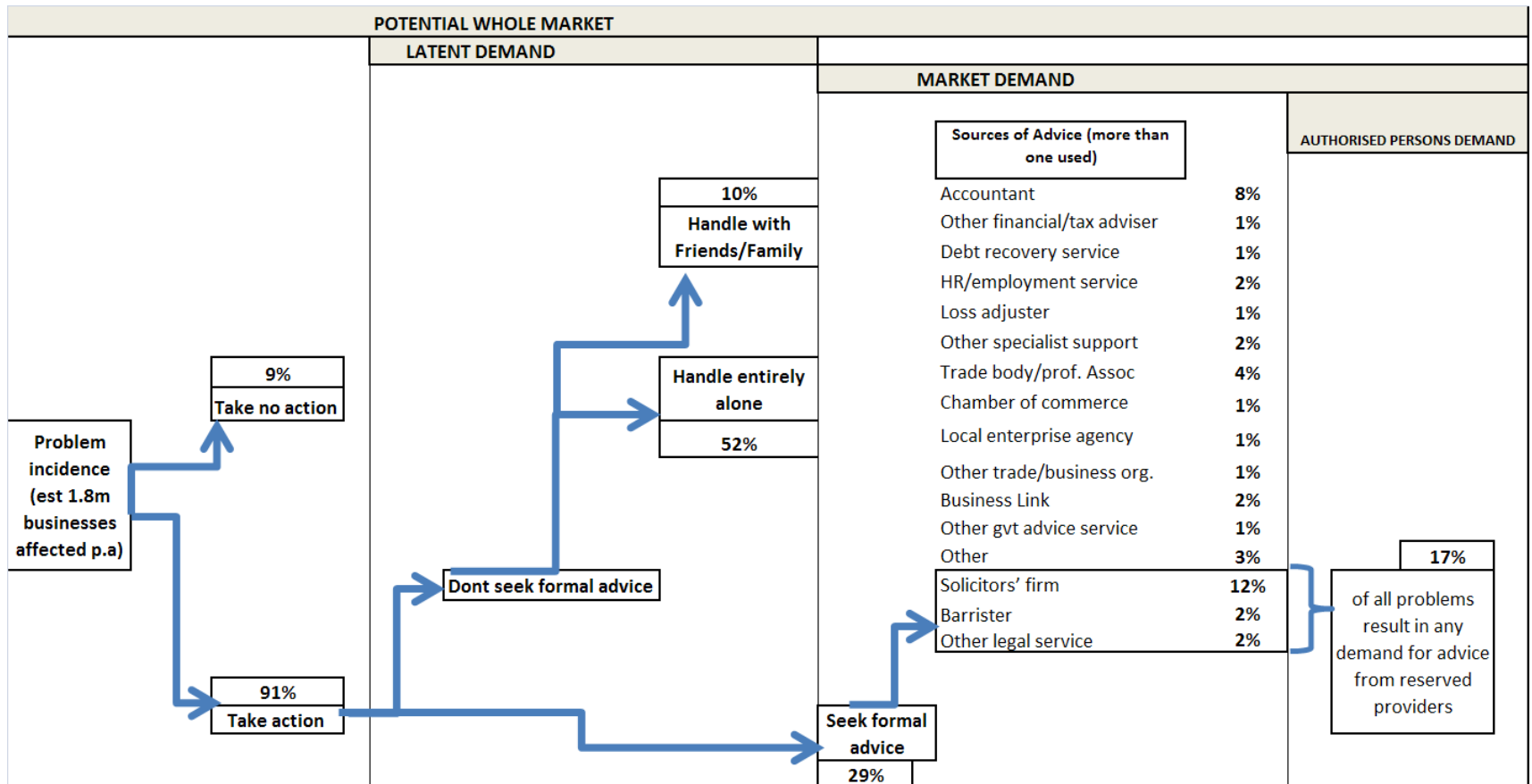
- More responsive governance and culture:
 - (Un)responsiveness of partnership model
 - Less cultural resistance to changing services
 - Management / business expertise
- Not for regulators or government to change this directly. But liberalising market allows innovative entrants and spurs competitive response
- Regulators do need to remove unnecessary regulation

What can speed it up? (iii)

(De)Regulation

- Well-intentioned consumer protection measures
- But opportunity cost: lost innovation and higher charges
- And focus on individual not entity can make systemic issues harder to tackle
- LSB “[blueprint for reforming legal services regulation](#)”:
 - Issues within regulators’ control to increase competitiveness:
 - Abolish SRA Separate Business Rule
 - Review “in-house” restrictions
 - Abolish restrictions on solicitors in non-SRA regulated firms
- Other issues:
 - Continue to shift focus of regulation to entities and to specific risk
 - Rely more on general consumer protection and compensation where possible
 - Continue to shift regulator focus to supervision not prohibition

What's the balance between certainty and flexibility?



Conclusions

- Potentially more innovation from outside the regulated sector
- Services and people
 - Greater diversity of business models and structures
 - Greater diversity of pricing models
 - Greater use of technology
 - More genuinely integrated offerings
 - De-professionalising of non-professional work
- Regulators need to deregulate
 - Getting entry into reserved activity work remains too expensive/time consuming – and too restrictive when you're there.
- All the incentives are for this innovation to occur as, if not more, ethically than for existing services

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