

law firms profits up in 2018, but market share at risk

New research has revealed that law firms across the UK recorded strong profit and fee income growth in 2018. However, there are significant challenges facing the legal sector, such as economic uncertainty, Brexit, staff retention and increased competition in the legal services market.

In response to higher levels of competition and uncertainty, more law firms intend to grow their fee income and profits by expanding on their existing market and improving the services they already offer, rather than diversifying and providing new ones. In particular, the Big Four professional services firms (Deloitte, PwC, KPMG and EY) are expanding their provision of legal services in the fields of tax, finance and mergers to help increase their market share.

The research has revealed that due to higher levels of competition and economic uncertainty revenues fell in 29% of regional firms in 2018. In comparison city firms continue to outperform their regional counterparts with 90% increasing their revenue in 2018, while just 10% recorded a fall in revenue. Overall, average net profit per partner reached £440,000 in city law firms and £407,000 in regional firms in 2018, a year-on-year increase of around 110% and 106% respectively.

The research also indicates that non-lawyers are providing a threat to law firms with 44% of city firms

believing that the threat of non-lawyers entering the legal market has increased over the last 12 months, compared with just 12% of regional firms. The threat of non-lawyers impacts more on city firms as they are more likely to target lucrative deals and clients in bigger cities and, as a result, city law firms are particularly vulnerable to losing their market share.

The research also revealed that finding and retaining high-quality staff is another key challenge in the legal sector. Offering a generous remuneration package, providing clear opportunities for career progression and building on the

firm's reputation are the main methods law firms use to attract and retain employees.

However, the proportion of fees going towards wages fell in both city and regional law firms in 2018 compared with 2017, which suggests that most firms are not increasing salaries in order to improve staff retention despite strong profit growth. According to the research, limited wage growth may encourage employees to look for new opportunities with other law firms.

Read more about the research at: <http://bit.ly/2PCYFNk>



new SRA Handbook approved

The Solicitors Regulation Authority (SRA) has received approval from the Legal Services Board for proposed changes to the SRA Handbook, which sets out regulatory requirements that must be met by solicitors and law firms. The changes will make the SRA Handbook significantly shorter and less prescriptive, reflecting the SRA's decision to give solicitors more freedom to choose how they practise.

The most controversial change is a new rule that allows solicitors to provide unreserved legal services to the public from businesses that are not themselves SRA regulated. 'Unreserved' services are those that do not fall within the six reserved legal activity categories set out in the Legal Services Act 2007.

This change was strongly opposed by a number of organisations, including the Law Society. The Legal Services Board acknowledged that it will reduce the protection available to consumers but accepted the SRA's argument that allowing different models of legal service delivery would reduce high levels of unmet need for legal advice and assistance.

The new Handbook will also permit freelance solicitors to provide reserved legal services without having to establish an SRA authorised firm, provided that they have at least three years' experience and adequate professional indemnity insurance. Freelance solicitors will not be able to hold client money or employ people.

The Handbook's codes of conduct for solicitors and for regulated firms and its 'accounts rules' have all been shortened and simplified. The accounts rules include a revised definition of client money and new rules for third-party managed accounts.

Other changes include allowing law firms in Scotland and Northern Ireland to provide reserved services in England and Wales, and a requirement for SRA regulated firms to have at least one staff member with three years' experience.

The changes come into effect in April 2019.

Read more about the new SRA Handbook at: <http://bit.ly/2RXjp4m>

Solicitors embracing remote-working

More than 1,000 solicitors in the UK now work remotely as part of the gig economy, according to research published by business advisory group, Hazelwoods.

The research has revealed that 1,035 solicitors worked remotely for 'platform law firms' in 2018, an increase of 29% when compared to 2017. Platform firms, such as Keystone Law, Excello and Gunnercooke enables solicitors to work remotely but still have access to a back office and the use of other shared services such as IT, accounting and marketing. Some solicitors who work for platform firms are also self-employed.

Despite this, the number of solicitors working remotely is still a very small percentage of the 140,000 solicitors currently practising in England and Wales. Industry experts believe that flexi-working helps solicitors to avoid the long working hours associated with the legal sector and is a key factor driving more professionals to choose to work in the gig economy. Other key reasons include parents opting for more flexible ways of working and avoiding the daily commute. Remote working also allows solicitors who are self-

employed to keep a higher percentage of the fees they earn as they don't have any overheads such as marketing fees and office services to pay for.

Platform law firms claim that they are able to charge clients lower fees while still offering a high quality service as they have fewer

overheads such as rent and on-site IT staff to employ. Platform firms believe that they are also able to expand into niche markets or different regions of the UK more quickly than traditional firms and without the higher investment costs.

Read more about the survey at: <http://bit.ly/2EhHO3>



in brief...

Consumers reluctant to use cheaper online Will providers

The latest 'UK Wills, Probate & Trusts Market' report from IRN Research has revealed that online will providers charge an average of 77% less than solicitors. Overall, online providers charge £41 to prepare a single Will, while specialist Will writers charge £131 and solicitors charge £180. Nevertheless, around 60% of people still used a solicitor to make a Will and 80% went to a solicitor for probate advice in 2017. The research has also indicated that 38% of people dealt with the grants of representation without legal advice in 2017, up 8% compared with 2007. According to the research, new technology and automation is expected to make Will and probate services more profitable for solicitors in future. Read more about the research at: <http://bit.ly/2QN4TPs>

Stricter requirements for solicitor advocates in Scotland

The Scottish Government is considering proposals to improve the solicitor advocate application process and ensure qualified advocates continue to meet quality assurance standards. Under the proposals, Rule C4 of the Law Society of Scotland Practice Rules 2011 will be amended and require solicitor advocate applicants to complete mandatory courses before they can submit an application. In addition, those already qualified as solicitor advocates will be required to complete ten hours of targeted continuing professional development (CPD). The CPD requirement is not expected to come into force until the 2019/20 practice year at the earliest. Read more about the proposals at: <http://bit.ly/2EjUGn2>

New AML certificate for Scottish law firms

The Law Society of Scotland has introduced a new compulsory anti-money laundering (AML) certificate for law firms across Scotland. The new certificate, which takes the form of a questionnaire, collects information about the services provided by law firms, their clients and any work undertaken that was within the scope of the 2017 Money Laundering Regulations. The certificate was introduced to improve AML procedures and to ensure that all law firms are compliant with AML regulations. The Law Society of Scotland has published a new AML toolkit that provides information, guidance and resources to help law firms meet the new requirements. Read more about the certificate at: <http://bit.ly/2LcqBqK>

Extra funding for criminal defence advocacy fees

The Ministry of Justice (MoJ) has announced an additional £8 million of funding for criminal defence advocacy fees. The announcement comes after Law Society research revealed that the MoJ's previous funding commitments were based on misleading calculations and would only be worth £8.6 million, despite the MoJ's pledge to provide an additional £15 million. Earlier in 2018, criminal barristers warned the MoJ that they would reintroduce a 'no returns' policy and refuse to work on new cases. However, the proposals were abandoned after the MoJ announced additional funding for advocate fees. Overall, the MoJ has allocated £23 million of additional spending on criminal defence advocacy fees. Read more about the funding at: <http://bit.ly/2UFIZXe>

Law firms investing more in new technology

A new report from Jomati Consultants has revealed that a growing number of law firms are adopting innovative technology to provide new services and legal products, improve productivity and deliver efficiencies. In addition, more law firms are investing in lawtech start-ups, running their own lawtech incubators, hiring technology specialists and working with universities to develop innovative legal tech courses. According to the report, collaborating with universities and innovative lawtech start-ups allows law firms to utilise the knowledge of technology experts and overcome barriers to technological change within their organisations. Read more about the report at: <http://bit.ly/2QRA10i>

New qualifying process for solicitors in England and Wales

SRA has confirmed that the new Solicitors Qualifying Examination (SQE), which is the new process for qualifying as a solicitor in England and Wales, will be launched in autumn 2021. Under the SQE, students must have a degree-level qualification and pass three tests that cover character and suitability, the application of legal knowledge and the application of practical legal skills. Kaplan is the provider responsible for overseeing the SQE and will be carrying out a pilot in March 2019 to test the first part of the new exam. According to the SRA, the SQE candidate fee is expected to range between £3,000 and £4,500. Read more about the SQE at: <http://bit.ly/2UI5sZO>



new SRA transparency rules now in force

Under new transparency rules introduced by the SRA, regulated law firms are now required to publish information on their websites about the prices that they charge for certain commonly provided services, such as conveyancing, probate, employment tribunals, debt recovery and licensing applications.

Price information must be clear and easy to understand and must include

certain details specified by the SRA, for example any hourly rates, fixed fees and disbursements as well as an indication of the total cost.

Details must also be provided about exactly what is included in the quoted price, the typical timescales involved in providing each service, and the qualifications and experience of the individuals who will be carrying them out. Regulated law firms must also publish information about their complaints-handling procedure, and about how and when complaints can be made to the Legal Ombudsman and the SRA.

Although the new rules came into force on 6 December 2018, a related requirement for regulated firms to display the 'SRA digital badge' on their website does not come into effect until spring 2019. The badge

confirms that law firms are regulated by the SRA and summarises the protections that SRA regulation provides to clients. It is available to download from the SRA website, which also has guidance and templates to help law firms comply with the new transparency requirements.

The chief executive of the SRA, Paul Philip, said: "Publishing information on price, services and protections will not only benefit the public, but will also help law firms win new business. Research shows that people struggle to find clear information about the services firms offer and think using a solicitor is more expensive than it actually is."

Read more about the new transparency rules at: <http://bit.ly/2LeLWjv>



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AI may threaten traditional legal pricing models

The use of artificial intelligence (AI) systems to review contracts and carry out other routine legal work could replace the traditional pricing model according to a report published by Jomati Consultants.

However, the 'Law Firm Innovation and the use of LegalTech' report indicates that only a very small number of law firms have adopted AI assisted contract review systems as the majority of firms are still waiting until the benefits of adopting new technology outweigh the cost of investment. Many firms claim that it was cheaper to do the work themselves rather than investing in new technology to do it for them.

The report also reveals that law firms are adopting new technology in a variety of ways, which

contradicts previous reports that the sector has been slow to embrace it. In particular, the report indicates that many larger law firms are looking to employ staff with specialist technology skills and universities are starting to offer legal technology and innovation related courses.

The report concludes that technology will eventually have a big impact on the legal sector, especially in the way solicitors charge for work, enabling them to move to a fixed price model. Jomati principal Tony Williams said "These new ways of working will, ultimately, have a profound effect on the future success and business model of law firms and the shape of the legal market."

Read more about the report at: <http://bit.ly/2Qte4VL>