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How legal firms are innovating
to respond to client demands

THE LAWYER
Research Service

Executive Summary

Innovation is the current buzzword in the legal industry. Scan the management team at any top 50 UK law firm and ‘innovation’ will likely appear in at least one person’s title. Go to a legal awards event and there will almost certainly be a category dedicated to innovation. Speak to any managing partner and they will undoubtedly tell you that innovation is a key pillar of their strategy, and of course that they are outperforming their peers when it comes to innovating.

But what is innovation in the context of the legal industry? Is it more about using the latest technology, allowing lawyers to work remotely, providing non-legal services or perhaps something completely different?

This report, produced by Travelers and The Lawyer, examines how UK law firms are innovating and what the challenges and obstacles to this are. The findings are based on a survey of over 150 UK law firms, ranging from the magic circle to sole practitioners. To complement this we interviewed six managing partners, executives and risk managers to get some deeper insight into how firms are innovating.

But this isn’t just another report about legal innovation. Pushing the boundaries when it comes to deploying new technology or flexible working brings with it a new set of risks that have to be managed. So this report also analyses what firms are doing to mitigate new risks that arise from innovating.

It’s worth reflecting on why innovation is important. The first driver is external. Clients are increasingly demanding more competitive fees, greater choice when it comes to fee arrangements and of course a great service. Innovating, whether that be investing in technology, offering alternative fee arrangements or flexible working, can help address these client demands.

The second driver is internal. Younger generations increasingly want to work out of the office or at times that they choose. Innovation around working practices is therefore crucial to retain top talent.

The third driver is regulatory. Increased awareness of certain risks, including cyber-attacks, may result in increased attention by regulators. A certain amount of innovation, for example regarding management structures and internal controls, is then required to ensure compliance.

The main finding of this report is that law firms have wildly different approaches to innovation. When asked where investment in innovation has been prioritised in the last three years, 37% of surveyed law firms said technology. A further 15% mentioned adoption of flexible/remote working, 15% mentioned marketing and business development and 8% mentioned management structures.

Even the firms that prioritised investment in technology have different areas of focus. Smaller firms are typically focused on upgrading certain IT systems for financial management, client acquisition and document management. At the other end of the spectrum larger firms are investing in cutting-edge technologies such as artificial intelligence.

Regardless of how firms are innovating, new risks will appear that need to be carefully managed. A common theme is cyber security. A key consideration when any new technology is adopted is how it will improve or worsen vulnerability to a cyber-attack. Likewise firms have dedicated significant time and resources to ensuring that remote and flexible working doesn’t create chinks in cyber defences.

Many of the risks discussed in this report can be mitigated with careful planning and, where appropriate, tailored insurance.

Law firms don’t just have to think about how they innovate internally. They also need to keep abreast of the latest innovation in the industries they serve. From driverless cars and drones to disruptive fintech and the latest renewable energy developments, new technology brings with it a set of legal questions that law firms need to be able to respond to.

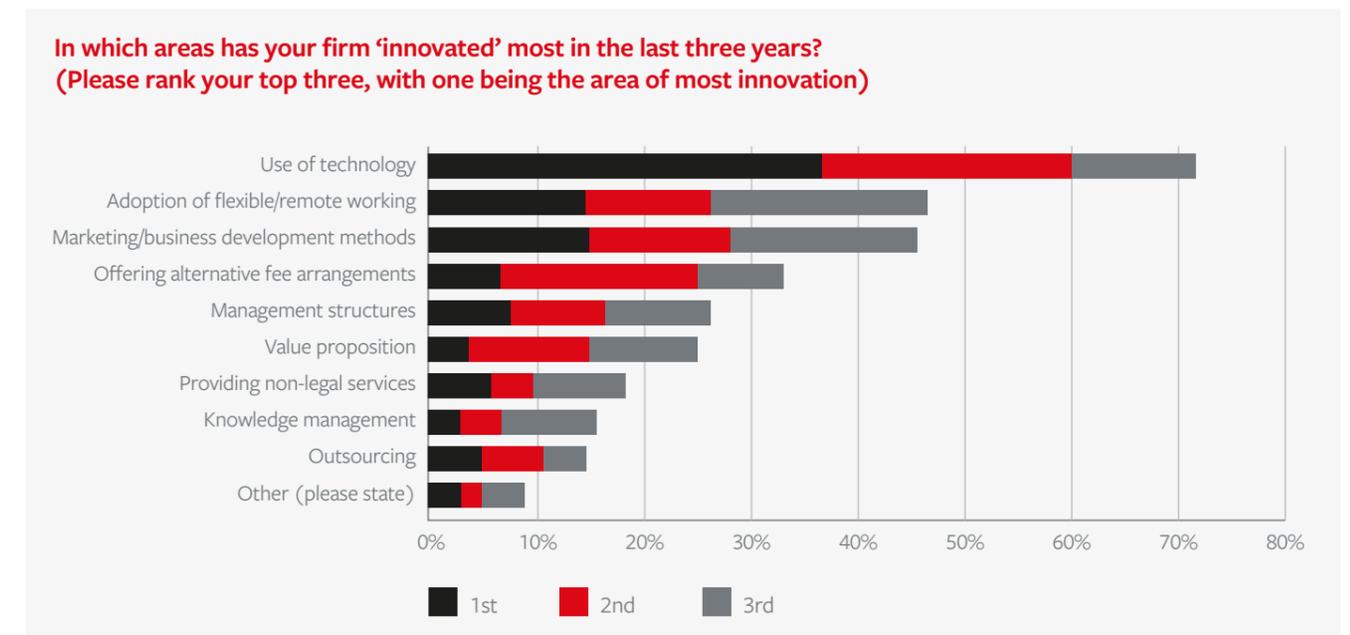
How are firms innovating?

Ask one firm how they’ve innovated in the past three years and they might tell you about their use of the latest predictive coding technology. Ask another and they might tell you about the launch of a consultancy services division. Another might explain their increased use of flexible lawyers while another might describe a mass outsourcing programme.

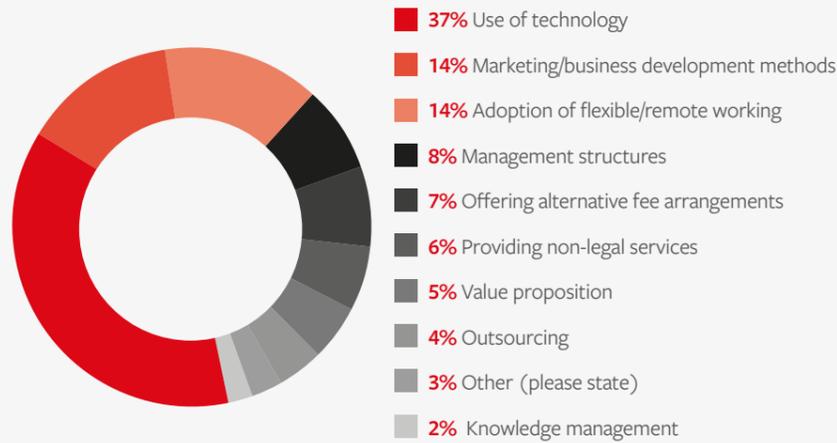
In short innovation means different things to different law firms. So, as a starting point we quizzed firms on where they believe they have innovated most in the last three years. One area consistently came back ahead of others – the use of technology.

Indeed 37% of surveyed UK law firms pinpointed ‘use of technology’ as their most innovative initiative in the last three years, more than double the number that stated any other area of innovation. Adoption of flexible/remote working and marketing/business development methods were the joint second areas where firms believe they have innovated most during the last three years, each selected by 14% of respondents.

At the other end of the spectrum under 5% of respondents identified their value proposition or knowledge management as the area of most innovation during the last three years.



In which areas has your firm ‘innovated’ most in the last three years? (Only first area shown)



The survey allowed law firms to highlight other aspects of their business where they had innovated that were outside the list of suggested options. Some 3% of firms said their main area for innovation fell into an ‘other’ category.

The responses of these firms include:

- “Process improvement”
- “Legal service delivery”
- “Shared Service Centre for legal and business services”
- “Compliance”
- “Associate career path and training programme”

Technology is at the heart of innovation

The wealth of data collected in our survey all points to the same conclusion; UK law firms are increasingly adopting new technology and this is their primary focus when it comes to innovation. Illustrating this point 83% of surveyed law firms agree with the statement that ‘law firms are increasingly adopting new technology’. As mentioned earlier, ‘use of technology’ was most frequently selected as the area where firms have innovated most in the last three years.

But it would be wrong to portray law firms as leading the way in adopting the latest technology solutions. A staggering 87% of surveyed law firms admitted that ‘law firms are generally slow to adopt new innovative technology compared with other companies’, while 97% agreed that ‘the rate at which new technology is adopted varies considerably amongst law firms’.

In short, firms are starting to adopt new innovative technology but are probably lagging behind other industries. The rate at which they are doing so also differs hugely depending on the firm.

Why are firms investing in new technology? Survey participants mentioned a huge number of reasons from improving conflicts and client management to marketing and business development. But one application stood out, that of enabling remote access. Some 82% of respondents have adopted technology to facilitate or improve remote access, significantly more than number that have adopted new technology for case management (59%) or document management (51%), the next two most commonly cited reasons for technology investment.

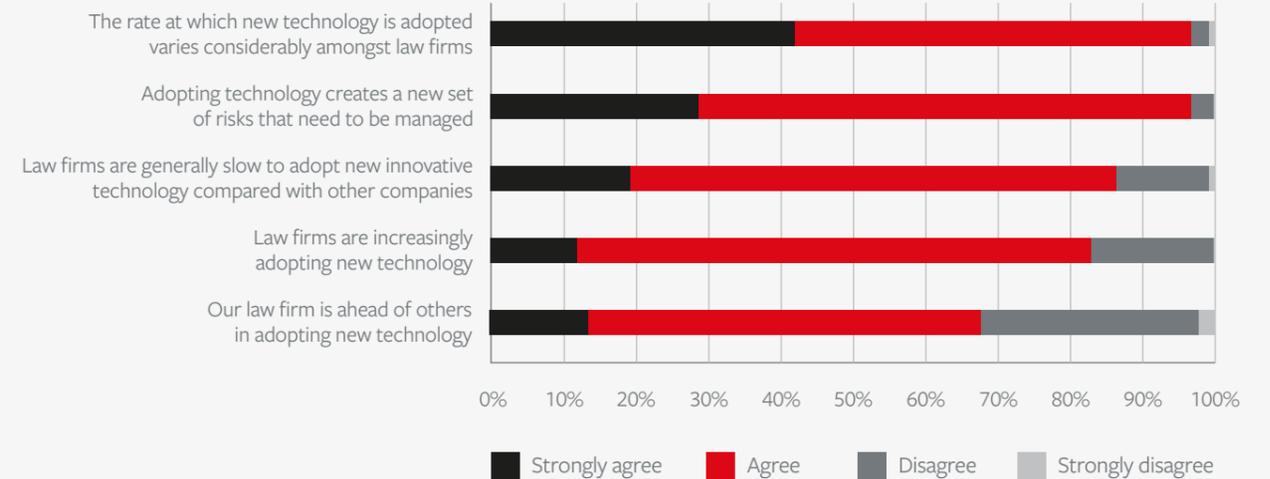
A plethora of technologies are needed to enable remote working, but at the front of the minds of those interviewed for this report were technologies capable of enabling remote working in a safe and secure way.

One way of doing this is to require two-factor authentication to remotely access a firm’s systems. “Like many law firms we have facilitated flexible working, which means you must provide remote access,” explained Adrian Bourne, Partner and COO at Stevens and Bolton. “Risk management around this is critical given the focus on cyber security. The SRA (Solicitors Regulation Authority) have named that as one of the key risks they expect us to address.

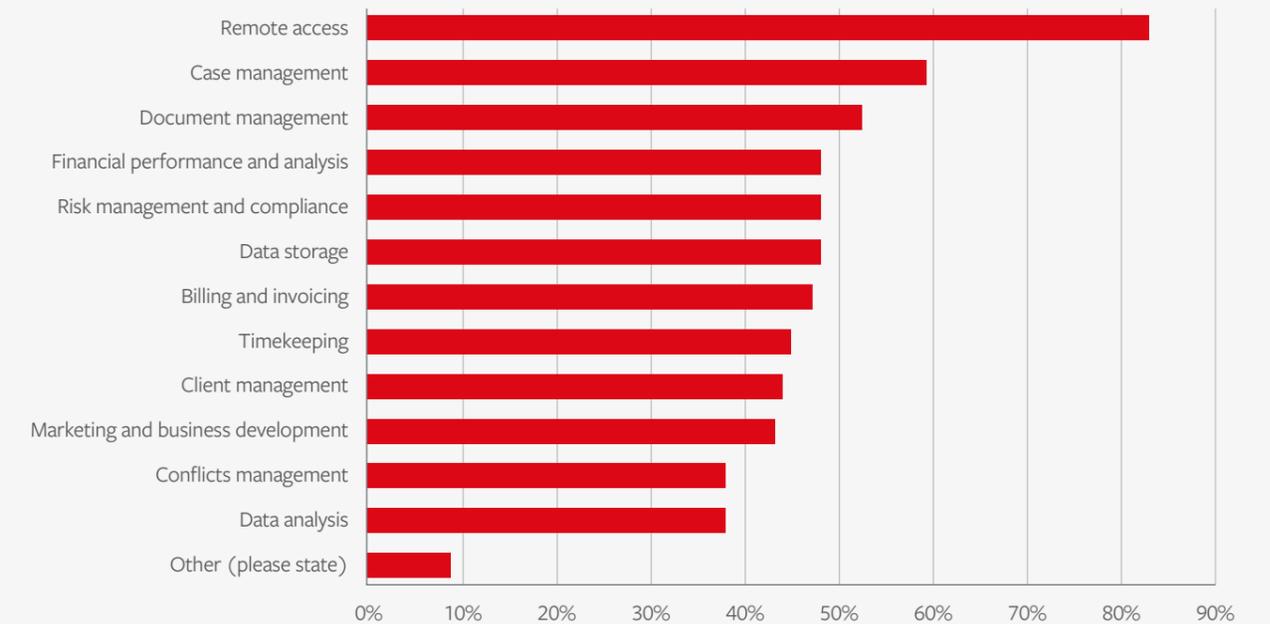
So for the last two years we’ve required two-factor authentication for remote access to the firm’s systems. In the old days all you needed was a username and password. Now everyone has an App on their phone that they have to use to get a twelve-digit ‘soft token’ password which expires in 30 seconds.”

As outlined in the graph below, UK law firms have adopted new technology for a variety of different applications. Some 48% have adopted new technology in the last three years for financial performance analysis, risk management and data storage applications. Other reasons for adopting new technology include billing and invoicing (selected by 48% of respondents), timekeeping (45%), client management (44%) and marketing and business development (43%).

To what extent do you agree with the following statements regarding the use of technology at law firms?



For what purposes has your firm adopted new technology?



*Survey respondents were able to list reasons for adopting new technology that were not in the list (see next page).



Survey respondents were able to list reasons for adopting new technology that were not in the list on page 5. Answers include the following:

- “Reducing staff overheads”
- “We will be adopting cradle to grave client and matter acceptance”
- “Delivery of legal services”
- “Human Resources, Business Process Management, Security, Information Governance”
- “To keep an eye on what staff get up to during the day”
- “HR processes”
- “Document automation”

But there is a real question mark as to whether this is particularly innovative technology. Indeed many survey respondents and interviews added that while they had adopted lots of new technology in the last three years, a lot of it was not particularly disruptive.

That’s not to say that new technology has not made a huge impact on how firms run. The general feedback from interviewees and survey respondents is that technology is only adopted when it will significantly improve client service delivery.

To gauge the extent to which firms are adopting what might be considered truly innovative technology we queried firms on their attitude towards artificial intelligence (AI), a new set of technologies that extracts and interprets relevant information from documents.

Susan Bright, Regional Managing Partner UK and Africa at Hogan Lovells, explains the benefits of AI. “AI is both a challenge and opportunity,” she said. “It can be used to do routine work much more efficiently.

It can sort through documents, bunch them up into appropriate groupings and get rid of irrelevant information, leaving lawyers to review what is really relevant. In-house teams and law firms alike can benefit from that first level review. AI technology also learns and improves – so, given user feedback, that first level review can get better.

Of course there are always risks to consider whenever you introduce new technology into a business. You also have to consider the cost as this technology is expensive. It’s key to work out where you get most for your money.”

Interestingly, only 8% of surveyed law firms are already using AI. Some 23% said they will ‘very likely’ use AI to assist in the delivery of legal services in the next ten years and a further 31% said this was ‘likely’. Of those firms that said they will use AI in the next ten years, the majority (45%) said they would do so in the next two years.

Naturally, larger firms are more likely to deploy this technology. Some 56% of the surveyed top 100 UK firms ranked by revenue are either already using AI or are ‘very likely’ to do so in the next ten years. This percentage climbs to 69% when just analysing the results of the surveyed top 25 UK firms.



Comments from survey respondents when asked about the use of AI in legal services:

“There are some instances where AI can be used but a lot of legal advice is tailored to specific cases, unless you caveat everything with ‘this may not apply in your circumstances’ it is difficult to see how many complex cases can be managed by AI. Case management is already quasi AI if set up properly”

“Competitive pressures/ cost will dictate adoption”

We also asked firms what the most innovative technology they have adopted is in the last three years and what benefits this has had. Some notable trends emerged. A large number of firms mentioned they had adopted technology or software to improve the efficiency and accuracy of case management, document management, billings management, conflicts management and risk management. Firms also mentioned they had invested in a variety of technologies to enable remote working and that they are increasingly adopting cloud-based systems.

How likely is it that artificial intelligence (AI) will be used to assist in the delivery of legal services provided by your firm in the next ten years? (All firms)



- 8% We are already using AI
- 23% Very likely
- 31% Likely
- 27% Unlikely
- 11% Very unlikely

How likely is it that artificial intelligence (AI) will be used to assist in the delivery of legal services provided by your firm in the next ten years? (Top 100 UK firms)



- 16% We are already using AI
- 41% Very likely
- 28% Likely
- 9% Unlikely
- 6% Very unlikely

When do you think you will start to use AI in the delivery of legal services?



- 45% Next two years
- 30% Three to four years from now
- 22% Five to six years from now
- 3% More than six years from now

How likely is it that artificial intelligence (AI) will be used to assist in the delivery of legal services provided by your firm in the next ten years? (Top 25 UK firms)



- 23% We are already using AI
- 46% Very likely
- 23% Unlikely
- 8% Very unlikely



Some answers to this open ended question are shown below.

“Proper workflows in case management system - pushed cases through quicker – faster turn round – more profit – happier clients.”

“Net Documents document storage system. It has produced savings in paper use and provided clarity to document versioning.”

“Business Intelligence software used for providing drill down real time data analytics to our customers.”

“Intapp Open. This product has transformed the way we take on new clients to create a more streamlined and effective system that is more compliant and has helped bring the firm up-to-date with technology.”

“Use of technology to manage file opening and deal with risk management of a matter from the outset. The benefit is seen in the reduced level of notifications.”

“Data analytics. Helps both with internal management, particularly focusing on how profitability can be improved, and client relationships, via value delivery and transparency.”

“Business analytics. Helping to focus and create growth in profitable areas.”

“A new client inception programme (still being implemented). Benefit is a single end-to-end client take-on process which encompasses client due diligence, credit checking, billing regime, terms of business through to a letter of engagement.”

“Conflicts Management (Intapp) – modernised and centralised conflict clearance.”

“Enhanced Risk Management system as an overlay to the case management system. It provides better awareness of risk across the firm.”

“Combined billing and time recording system – saves time.”

“An interactive case management, time recording, costs, disbursements and expenses system. The major benefit is quick and readily accessible data when required.”

“The last three years have seen an increasing drive to take technology to where the fee earner is, with increasing use of agile computing, remote working, mobile access to systems and data. This, combined with new systems to enhance decision making (search, aggregated financial reporting) makes the fee earners much more productive.”

“Streamlined process for case management of a new area of law we are offering. The interactive platform between clients and fee earners has enhanced the client journey and the workflow process and remote access has allowed a streamlined low cost process.”

“Cloud-enabled branch network to access same docs.”

“Use of cloud to enable remote working and collaborative work.”

“Cloud hosted systems – VOIP and all electronic communication. Enables us to operate as a low overhead, virtual firm.”

“AI for legal process management. Uniform and efficient integration of knowledge into legal delivery processes, delivering fixed fee work with greater certainty across practice streams.”

“New case management that we have helped write to our own bespoke requirements. It will innovate our conveyancing processes leading to less risk, faster transactions and better service for our clients.”

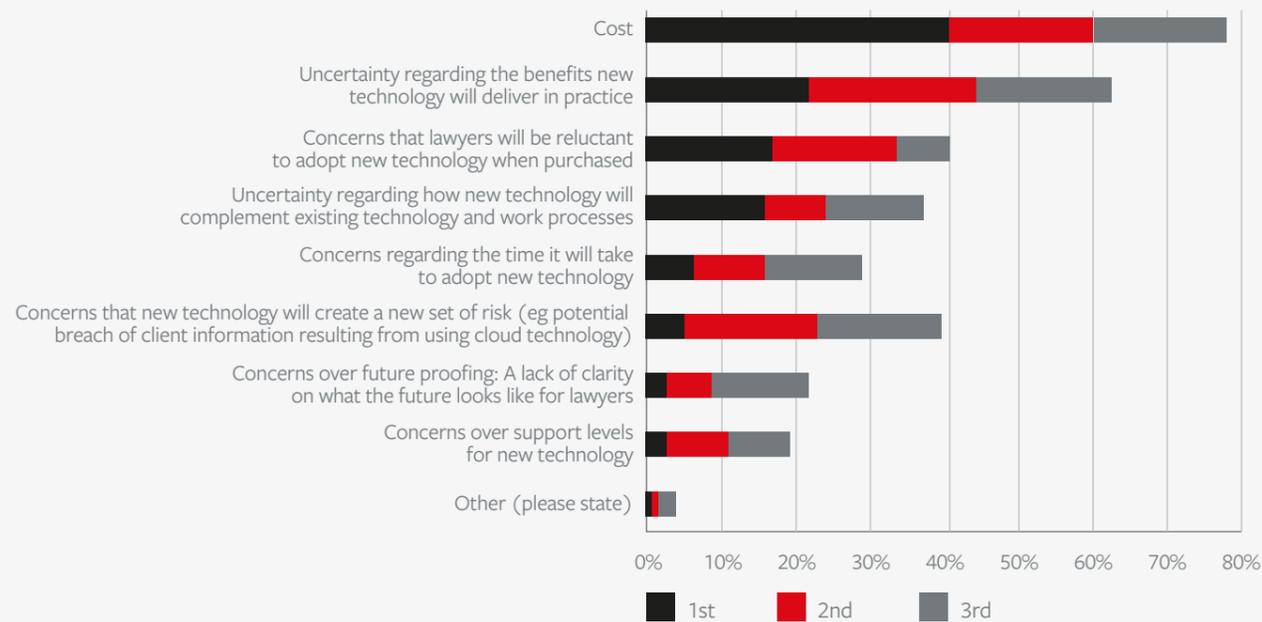
Adopting new technology is not an easy process, so we queried law firms about the most common obstacles to purchasing and then implementing new technology. Cost was the number one barrier – 37% stated the main barrier to adopting new technology is cost. This is significantly more than the number citing any other obstacle. Uncertainty regarding the benefits new technology will deliver in practice was the second most important obstacle, followed by concerns that lawyers will be reluctant to adopt new technology when purchased and uncertainty regarding how new technology will complement existing technology and work processes.



Other responses to this question include the following:

- “The time cost benefit during training are major issues, solicitors tend to be reluctant to adopt to new practices and procedures until someone has fully tested their capabilities within their own environment thus causing risks of its own due to different systems being used at the same time, i.e. new system/old systems – and the differential information contained within each system”
- “Still not a lot on the market”
- “Inability of senior management to appreciate benefits of innovation – only when other law firms have broken the ice will they go down that route”
- “Resourcing the change programme”

What are the main barriers to adopting new technology?



Flexible and remote working – thinking through the risks

A staggering 97% of surveyed law firms now offer some form of flexible or remote working option to staff. A further 70% have used flexible lawyers in the last two years.

Law firms have embraced this for many reasons. For a start, the ability to work at flexible times and out of the office is more important to some staff, particularly younger generations, than salary. Illustrating this point, 86% of surveyed firms agree with the statement that ‘a flexible workforce is key to talent retention’.

There are also hard economic reasons for allowing flexible working. Some 79% of survey respondents stated that a flexible workforce enables firms to deliver more to clients for the same or less resource while 75% agreed that a flexible workforce enables firms to unlock revenue streams.

Of course there are multiple forms of flexible and remote working and degrees to which it can be embraced. At one end of the spectrum a law firm might allow the majority of its staff to work outside of the office and regularly scale its workforce up and down, perhaps using a freelance service such as Lawyers on Demand during particularly busy periods.

At the other end of the spectrum a law firm might simply allow a small number of staff to work remotely at certain times.

However flexible working is embraced, it brings a new set of risks that have to be managed. Indeed 89% of respondents agreed with the statement that ‘a flexible workforce creates new risks that have to be managed’.

What are these risks? According to surveyed law firms, the biggest risk concerns the cyber security vulnerability that is created from the IT systems that must be deployed to enable remote and/or flexible working. Over 80% of survey respondents categorised technology,

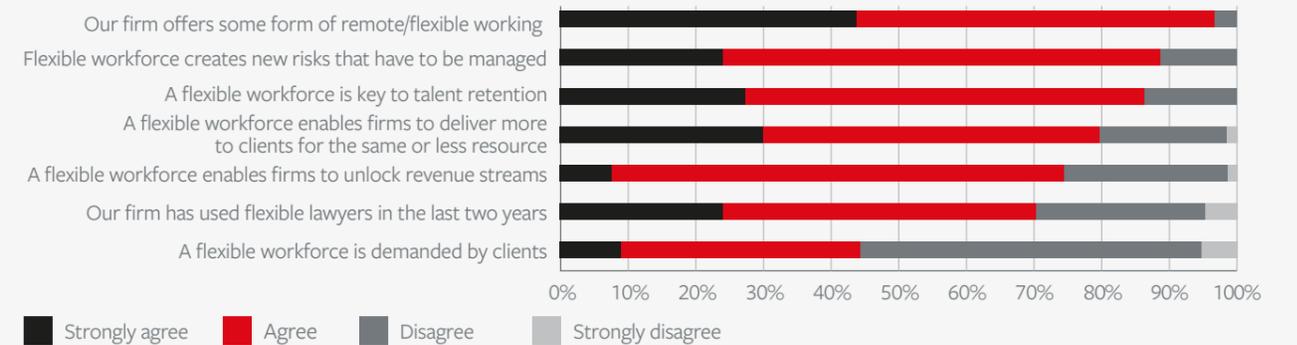
such as cloud and virtual communications solutions, which must be deployed to enable flexible working in a collaborative way, as a ‘medium’ or ‘high’ risk. Similarly, 70% of surveyed firms classed the fact that data, software or hardware might be compromised as a ‘medium’ or ‘high’ risk.

In addition, the supervisory challenges created by flexible working were deemed a ‘medium’ or ‘high’ risk by 74% of respondents.

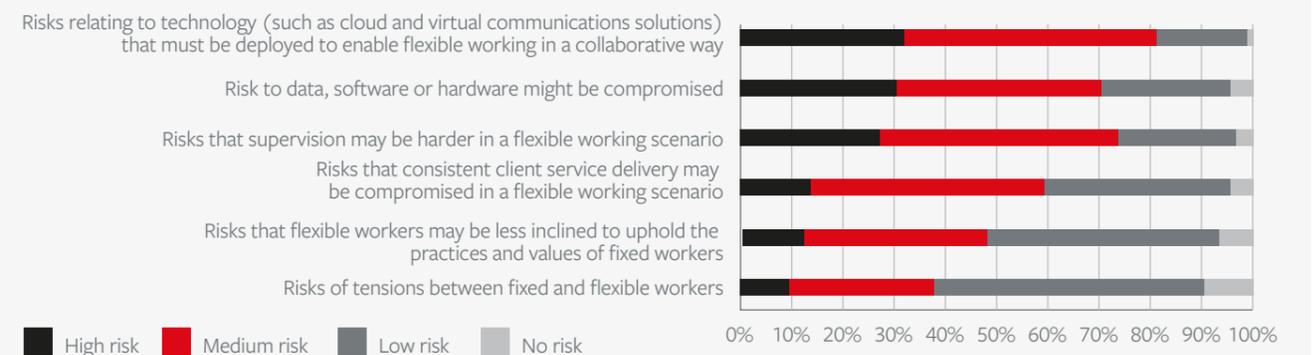
How can these risks be overcome? As mentioned earlier, one way to mitigate cyber risk is to establish strict security protocols for remote workers when accessing their firm’s systems, such as two-factor authentication.

Other firms have addressed the risks arising from remote working as part of implementing wider information security certificates. Indeed implementing the ISO27001 security standard, which many firms have completed, requires consideration of cyber vulnerabilities that result from remote working.

To what extent do you agree with the following statements regarding flexible workforces (the ability to easily scale up and down the number of lawyers and/or working)?



To what extent are the following aspects of flexible working a risk to law firms?



Adapting management structures

Some 8% of surveyed firms highlighted management structures as the greatest area for innovation during the last three years. What does this mean in practice? For some firms, innovating around management structures could mean something as simple as a review of the management structure and responsibilities.

A review might not necessarily be considered particularly innovative, but it can deliver significant benefits, particularly if a review has not been undertaken for some time or following a merger.

“A new CEO joined last year and four months later we merged,” explains Jody Evans, Risk Manager at Shakespeare Martineau. “We decided to review our management structure and governance roles to ensure that we had a foundation that addressed the fundamentals, but also allowed us to remain agile enough to grow.”

“As with many fast growing organisations, amalgamations, people changes, structure shifts and modifications meant some roles hadn’t been reviewed for several years. To address this, we looked at the marketplace and worked with external consultants to identify some benchmarking principles that would help guide what we could do.

Our process was about defining responsibility and ensuring accountability.”

For other firms, changing the management structure is part of a wider initiative to reorganise the structure of the entire firm. For example, ASB-Law changed its management structure three years ago as part of a wider team restructuring to ensure the firm was client facing.

“The first plank of our strategy is to become market driven, which means actually innovating around the needs of your target clients – working out who they are, what they need and then starting to design propositions that meet their needs,” says Andrew Clinton, Managing Partner at ASB-Law. “Structure follows strategy, so you then need an organisational structure that helps you to deliver that.

The original departmental silos with the departmental P&Ls that wrap around them constrain innovation because if you have ten heads of department you need ten people to buy into doing things differently.”

“We changed our structure in 2013 and created a sales team and a delivery team. So we have five heads of sales whose job it is to go into their particular market and learn what the buyers want and innovate around their needs. In most law firms it’s everybody’s job and therefore nobody’s job. This shift has pretty much driven all of the innovation.”

The survey also quizzed firms on the extent to which leadership responsibility has been delegated. Of course, this question could be interpreted in a number of different ways and responsibility could relate to decisions about the strategy and operation of the firm or regarding how individual matters are handled.

The majority (60%) of respondents stated they had passed responsibility ‘down the chain’ in the last five years. The majority (74%) of respondents believe this has created a risk regarding adequate and consistent client service delivery. However, as Evans explains, this risk can be managed with strict case management procedures.

“Some areas of bulk business are not managed by a partner,” she said. “The client will have a partner relationship and consistent contact, but assorted elements of the work might be managed by a team leader and they may or may not be a lawyer. This means there needs to be training and monitoring systems in place to make sure that that delegated responsibility is properly managed. A very stringent case management and reporting system is essential as certain tasks are not appropriate for a certain level of staff to be doing unsupervised. We adhere to checks and balances at every step of the process to ensure there is rigour and transparent accountability within our own reporting structures and to our clients.”

To what extent do you agree that this has created a risk regarding adequate and consistent client service delivery?



To what extent do you agree that law firms have generally passed responsibility ‘down the chain’ in the past five years?



New business models

A small proportion (6%) of respondents stated their most innovative strategy during the last three years involved the provision of non-legal services. One firm that has embraced this more than others is media, technology and IP firm Wiggin. In addition to offering non-traditional services it has also established Incopro, a technology business that develops solutions for copyright protection and online brand protection. Other non-legal solutions offered include deal consultancy and film packaging.

Wiggin is a good example of a firm that has leveraged its legal expertise in a particular sector to develop non-legal commercial revenue streams. While only 6% of surveyed firms stated that providing non-legal services was their main area of focus, 18% stated it was amongst their top three most important areas for innovation in the last three years.

The establishment of new non-legal revenue streams is a huge opportunity but it also carries a new set of risks. “Our technology business, Incopro, is very different from the law business,” explained Adrian Jones, Partner and co-head of the corporate group at Wiggin. “It has a very different business model in terms of how they charge fees and pricing and it has very different investment needs. The cash flow profiles in terms of when you are likely to see any rewards are also different from the legal practice.

There is an awful lot you need to take into account at the planning stage of embarking on a completely separate non-legal business as they give rise to a separate set of risks. For a tech business there is financial risk, reputational risk, SRA issues in relation to how it is positioned alongside the legal business and separate insurance requirements and risk profiles in terms of liability.”

“With our film packaging business or consulting business, we need to make it clear to clients that it is separate to what we are undertaking as a law firm and be vigilant with regard to conflicts. Again, these are very different business models in that they are more speculative with higher risk and potential reward, but there isn’t the investment risk to the same extent as there is in a technology play.”

Linked with providing new business models is innovation in firms’ value proposition or, a firm’s unique set of qualities that differentiates it from its competitors. Part of this differentiation might be the provision of non-legal services. Only 4% of surveyed firms stated they innovated most in their value proposition during the last three years. That said a quarter of surveyed firms highlighted their ‘value proposition’ as something that was amongst their top three areas of innovation during the last three years.

“We now offer management consultancy to heads of legal,” explained Clinton. “It’s about developing a value proposition. If you used those words in the legal market a few years ago no one would know what you were talking about and would have asked what a value proposition is. If you can charge by the hour and deliver the services you want you don’t need to talk about a value proposition. If you are trying to sell co-created solutions to address business issues you need to be able to articulate a value proposition, the benefits you can deliver.”

Outsourcing – a growing trend

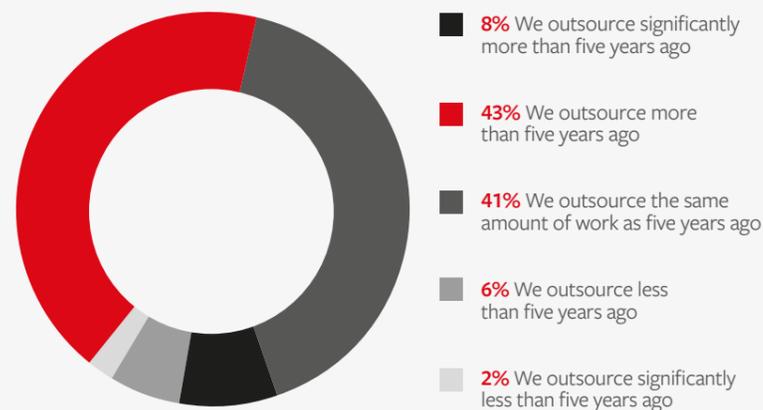
Just over half (51%) of survey respondents outsource more than they did five years ago. Of course, this could refer to the outsourcing of legal processes or business services. As Adrian Bourne explains, larger firms are more likely to outsource legal work than smaller firms due to the complexity of their work.

“We are a £24 million turnover business so the types of jobs we do typically don’t have much scope for legal process outsourcing,” he said. “The huge firms with multimillion fee jobs might break it down and outsource part of it. There might be a discovery piece for example that they might outsource.”

When it comes to business services, IT functions have been outsourced most. Of the surveyed law firms that have ramped up outsourcing in the last five years, 34% have outsourced IT most, 15% focussed on facilities management most and a further 15% focused on secretarial and document production outsourcing.

Unlike other aspects of legal innovation, law firms are generally not concerned that outsourcing has created a new set of risks. The majority (62%) disagree that ‘outsourcing has created a risk regarding adequate and consistent client service delivery’. That said not all law firms are forging ahead with outsourcing. Indeed 9% of respondents outsource less than they did five years ago.

To what extent does your firm, generally speaking, outsource more than it did five years ago?



Responding to external innovation

The survey also quizzed law firms on the impact of innovation in the industries they serve. For a start, the development of new technologies and business models creates a huge opportunity for law firms to advise on the legal issues that inevitably arise.

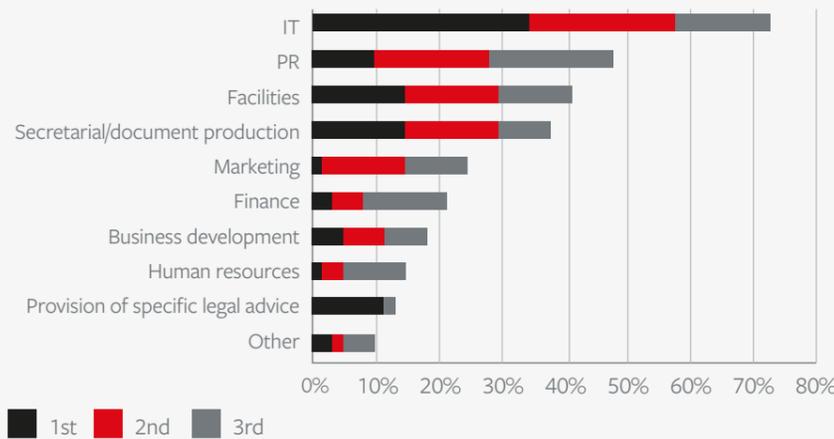
Take the example of autonomous vehicles. Nearly every car manufacturer is developing vehicles with some degree of autonomy, not to mention the likes of Google, which is developing fully driverless cars. This technology innovation brings with it a whole set of legal questions. Is the driver or the vehicle manufacturer liable for the damages caused by an accident when an automated procedure is taking place? Should insurance companies be legally forced to provide insurance to automated vehicles? On which roads should automated vehicles be permitted?

“Our clients are innovating and creating new products for their markets,” explained Susan Bright, Regional Managing Partner UK and Africa at Hogan Lovells. “Helping them to navigate regulation as it develops is something we see as a real opportunity. We have a group of lawyers that are top of their game in autonomous cars for example. We have a team in the US focused on the legal issues around drones. You can imagine all of the legal issues around their use. New products create new legal issues. Our job is to anticipate what the legal issues might be and to work with our clients to understand them and prepare for them.”

Innovation in the sectors firms’ serve also impacts how clients expect legal services to be delivered. The box out section on the next page highlights how law firms are being forced to change the way they deliver legal services.

Common themes include swifter delivery of work, lower cost and better communication. According to the anecdotal survey responses listed on the next page, firms are reducing costs through a variety of means including moving lawyers to low-cost locations, opening legal service centres in low-cost locations and using technology to automate document review.

Which functions/work have you outsourced most?



How has innovation in the largest sectors you provide legal services to impacted the way your clients demand legal services?

“Demand for flexibility and ability to respond with speed.”

“Greater demand for client portals and access to documents.”

“Client expectations (arising from their own focus on efficiency) for increasing speed of delivery and reducing cost whilst maintaining consistency and quality; requirements for a broader range of approaches and tools (e.g. from portals to Drop Box) to reflect the requirements of a more diverse client base (e.g. more start-ups in the Energy sector); moves also to share/pass on some of the increasing burden around compliance (financial sector).”

“Clients are focusing far more on efficiency and innovation in their firms, independent of whether this drives costs down for them. They want to know their strategic partners are innovative and efficient and to learn from them to improve the position of the in-house team and organisation as a whole.”

This is perhaps unsurprising given the expanded, strategic role of the GC in clients.”

“Much more online, much less ‘traditional’ communication between lawyer and client.”

“Clients want a 24/7 solution.”

“Service level agreements are more readily imposed on the firm than in the past. Clients are more demanding and expect highest standards outside of legal services delivery in relation to the operation of the business and business ethos.”

“The increased use of technology to deliver certain aspects of legal work, such as large contract automation, as well as the early stage use of Artificial Intelligence driven-systems to conduct large scale document review exercises. Clients themselves are increasingly using and trialling these approaches, meaning that they will keep more of this type of work in-house. However, there is an increasing expectation that law firms use these types of technology to innovate the way we deliver our services, to improve cost efficiency.”

“Advances in technology combined with generational changes in attitudes towards work, are leading to a greater expectation of more flexible approaches to resourcing and delivering work. They increasingly expect law firms to deliver some of the more routine work in lower-cost ways (e.g. through lawyers in lower cost locations, either on-shore, near-shore or off-shore). Many law firms have responded by opening legal service centres in lower cost locations. Clients themselves in the largest sectors are also placing lawyers in lower-cost locations, by opening their own legal service centres to do work that they might previously have outsourced to law firms or used more expensive in-house lawyers for in their head offices.”

“Cyber/Information Security in particular – client expect to see evidence that you are actually delivering in these areas.”

Risk management – rising in importance

Innovation and risk management are intrinsically linked. A constant theme of this report is that innovation creates a series of risks that have to be managed. Furthermore, sound risk management underpins better performance. Some 86% of respondents stated that sound risk management increases profitability while 88% agreed that sound risk management provides law firms with more freedom to be innovative in delivering client services.

There is no doubt that risk management has risen up the agenda in recent years. Nine out of ten surveyed law firms allocate more to risk management now compared with five years ago.

Which risks are most concerning? Unsurprisingly, cyber risk is top of the agenda – 44% of survey respondents mentioned cyber risk (including cyber fraud, hacks and extortion) as their most important risk. A further 19% of firms said claims risk was most important while 11% attached most importance to underperformance risk.

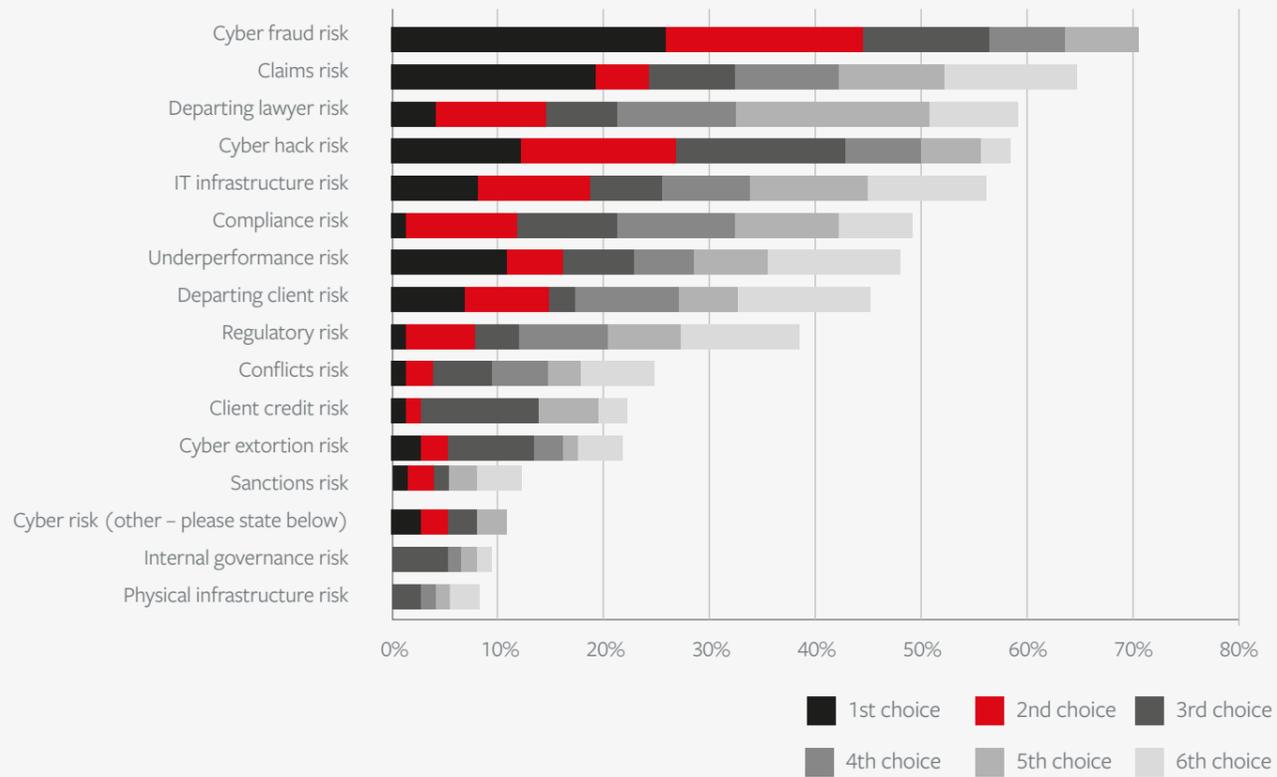
Jody Evans, Risk Manager at Shakespeare Martineau, explains what cyber risk means in practice. “Any attack on our IT infrastructure is a concern but there are varying levels of seriousness and we have, and continue to invest in systems that can deal with them,” she said. “The unknowns are more concerning. Cyber criminals are becoming increasingly more sophisticated so this is fast becoming a matter of keeping ahead of the cybercrime curve.”

In short, you are now only as good as your weakest link and this requires regular internal audit, sustained investment and external expertise being utilised.

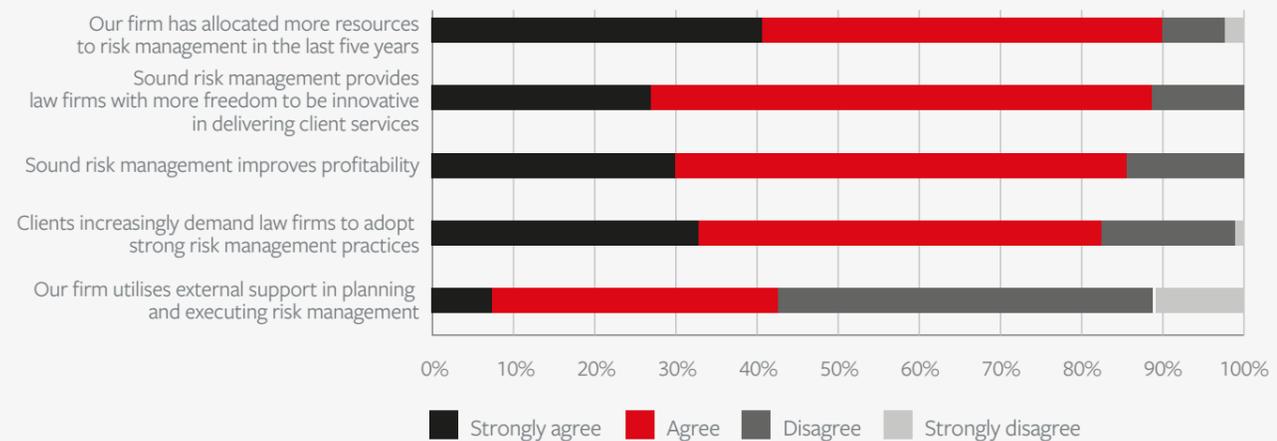
Criminals are increasingly imitating clients by hacking into their email accounts which can be very difficult to pick up on, especially when the client is expecting a certain level of service delivery. We must continue to work to try and surpass client expectations whilst mitigating against cyber risk.”

Of course, law firms each face a different set of risks. According to our survey data, the majority (64%) of firms did not rank cyber risk as their number one risk. Scottish commercial law firm MacRoberts is one of these. “The biggest risk is reputational damage,” explained John Macmillan, Managing Partner at MacRoberts. “Lots of people interface with our clients and any one of them at any one point in time can damage our reputation. Service quality is probably the biggest risk. It’s more hidden than cyber risk. Cyber-attacks are incredibly acute and need a very fast response. But if you respond and get it right they are over in a flash. We’ve had malware attacks and our systems have coped with them really well. One of our clients was also hit with an instruction to divert cash to us but it didn’t actually come from us. Fortunately their loss was tiny in the end.”

What are the main risks law firms are currently grappling with?



To what extent do you agree with the following statements regarding risk management?



Conclusion

Client demands, pressure from younger employees and new regulation are causing law firms to innovate. From agile working and new technology to new business models and alternative fee arrangements, this innovation is coming in a number of different shapes and sizes. But innovation is risky business. It’s therefore vital to think about the risks that result from various innovative projects. In some circumstances, tailored insurance is needed to mitigate these risks.

We hope you enjoyed reading this report. If you have any feedback or wish to discuss any of the themes raised in this report feel free to contact me or any of my colleagues listed at the end of this report.

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About the research

This report was written in collaboration with The Lawyer Research Service, a division of The Lawyer. The survey was undertaken in May 2016 and was completed by 165 UK law firms. To supplement the survey data, interviews were conducted with the following individuals:

- Susan Bright, Regional Managing Partner UK and Africa, Hogan Lovells
- Adrian Bourne, Partner and COO at Stevens and Bolton
- Jody Evans, Risk Manager, Shakespeare Martineau
- Andrew Clinton, Managing Partner at ASB-Law
- Adrian Jones, Partner and co-head of the corporate group at Wiggin
- John Macmillan, Managing Partner at MacRoberts

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