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Technology and Innovation in Legal Services

Final Report for the Solicitors Regulation Authority

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CHAPTER 2

Innovation and Legal Technology: Use, Drivers and Barriers

INTERACTIVE CONTENT LINKS
2.1 Patterns of innovation and legal technology adoption
2.2 Drivers of and barriers to innovation and legal technology adoption
2.3 Regulatory barriers and uncertainty for innovation and technology adoption
Chapter Summary
Appendix to Chapter 2

2.1

This chapter provides up-to-date evidence on innovation and technology adoption from the online survey and interviews undertaken for this study.

Findings are presented thematically in the following order. First, we explore what changes have taken place in the last 12 months, not least to gauge the impact of the COVID-19 pandemic. We then describe the extent of innovation, and of current and planned use of legal technology, analysing how innovation and technology relate to each other. Second, we present findings on the drivers of, and barriers to, innovation and legal technology adoption. Third, we take a deep dive into one of the barriers, namely regulatory uncertainty, so as to provide concrete insights into where action could be taken by the Solicitors Regulation Authority. This last section also includes results from a survey experiment. We are interested in the overall sample-wide distribution of responses, but we also highlight significant variations by ownership type, firm size, firm age, geographic location, and client base.[1] Information concerning our methodology for the interviews and the survey is in the Appendix. For greater details, please refer to the Annex Report.

1 We report variations which are statistically significant at the 5% level, using chi-squared tests.

Patterns of innovation and legal technology adoption

2.1.1 Changes in the last 12 months

The survey asked what changes were made in the last 12 months, directing respondents' attention to changes in innovation and in the deployment of legal technology. We distinguished among three types of innovation, namely product innovation (introduction of new services), delivery innovation (changes in the way services are delivered), and marketing innovation (changes in the way services are marketed).

The three most prevalent changes in the last 12 months were 'improved or increased use of existing technology' (chosen by 56.2% of respondents), 'changes in ways to deliver services' (50.4%), followed by the 'introduction of new technology' (35.0%) (see Table 2.1). Ninety percent of the respondents with at least one of the changes said that all or most of these changes above were likely to be permanent. With respect to technology, improved or increased use of existing technology was more prevalent than the introduction of new technology. With respect to innovation, delivery innovation was more prevalent than marketing innovation, which in turn was more prevalent than product innovation.

Larger firms and firms serving large businesses as clients are found to be more likely to have 'introduced new services', 'introduced new technology' and 'improved or increased use of existing technology'.

Moreover, consistent with earlier surveys (notably Legal Services Board 2018), law firms that are authorised as alternative business structures (ABSs) (31.3%) are more than twice as likely to introduce new services than non-ABSs (12.6%); ABSs (52.5%) are also more likely to introduce new technology than non-ABSs (33.1%). With respect to firm age, younger firms (established within the last five years) are more likely to engage in all three forms of innovation (product, delivery, marketing), but are less likely to introduce new technology or improve existing technology. Lastly, none of the above changes varied significantly by geographic location of respondents.

This survey question also enables us to examine the relation between product innovation and technology adoption. In particular, two-thirds (67%) of respondents introducing new services also introduced new technology, but the other one-third did not. Similarly, 65% of respondents who implemented marketing innovation and 45% of those who implemented delivery innovation also introduced new technology. Separately, two-thirds of respondents introducing new services also 'improved or increased use of existing technology', but the rest did not. Thus, innovation (in product, delivery, or marketing) tends to be associated with new technology adoption, but there are evidently also ways to develop new services that do not necessarily require novel or new technology.[2]

Table 2.1: Changes in the last 12 months

Q10	What changes were made at your firm in the last 12 months?	
Tick all that apply (N=891)	N	Percent
Introduced one or more new service(s)	128	14.40%
Stopped providing one or more service(s)	98	11.00%
Changed the way we deliver some or all of our services	449	50.40%
Changed the way we market some or all of our services	172	19.30%
Introduced new technology	312	35.00%
Improved or increased use of our existing technology	501	56.20%
None of the above	158	17.70%

2 What constitutes 'new technology' in this question was left up to survey respondents to interpret. More likely than not, it includes technology that is new to the respondent firm, but not necessarily new to the sector or the wider economy. Moreover, it was intended to include all types of digital technology, not just legal technology.

The interaction between innovation and technology

Innovation is not just about technology. Some innovation is technology-led, others less so. Our interviews help highlight illustrative examples of innovation with varying degrees of reliance on legal technology (see Figure 2.1 below).

In product innovation, **legal project management** is a service that is not, fundamentally, based on technology; rather, it is a service mainly delivered by humans. **Bundling legal services with non-legal services** can combine online legal delivery and offline services, and is a novel service offering to consumers.

In delivery innovation, the use of **legal project management and process mapping** is an example of innovation that, in itself, does not require new technology. By contrast, a **freelance lawyer service supported by technology platform** is wired into the online platform. This service is innovative because it allows freelance lawyers to serve clients outside the traditional law firm structure. However, this offering also makes use of a technology platform to manage the delivery of this human-led legal service.

Online portals for clients to self-serve and track matters straddles product innovation and delivery innovation, and is dependent on the functionality of online portals with interactive elements. Online portals deliver services via self-service, and have a delivery mechanism that is novel because they largely replace lawyers' traditional way of interacting with clients, including in-person meetings, phone calls or emails.

In marketing innovation, **use of net promoter score** does not depend as much on digital technology, compared to participating in **online review websites** with a view to acquiring new clients. Using **sentiment analysis of client correspondence**, for example, to detect signs of unhappiness to determine an appropriate follow up, relies on artificial intelligence (AI) technology.

Figure 2.1: Interactions between technology and innovation in legal services

(Illustrative examples from our interview cohort)

The relationship between technology and innovation is nuanced, as 81% of firms say that, generally, innovation does involve using or adopting new technology, either sometimes (45%), most of the time (32%), or always (4%). Only 2.5% said 'never'. However, the last 12 months have perhaps been a little unusual, given the likely COVID-19 pandemic impact on investing in new technology.

The impact of the COVID-19 pandemic on technology use has been extensive, with 51.1% of total respondents increasing the use of technology 'to manage or process work', 48.0% 'to interact with clients', and 26.0% 'to attract new clients' (see Table 2.2). Moreover, increased use of existing technology is two to three times more prevalent than the introduction of new technology.

Table 2.2: Impact of the pandemic on technology uses

Q12	Did the pandemic lead to you introducing, or increasing your use of, any of the following types of technology since March 2020?			
	Introduced use		Increased use	
Tick all that apply (N=891)	N	Percent	N	Percent
Technology to manage or process your work	140	15.7%	455	51.1%
Technology to interact with your clients	240	26.9%	428	48.0%
Technology to attract new clients	87	9.8%	232	26.0%

2.1.2 Innovation in legal services

The survey provided an explicit definition of innovation as 'significantly improving existing services or introducing new services, or making improvements to the delivery or marketing of your services'. Survey respondents were asked about their self-perception of innovativeness after reading this definition.

Responses varied somewhat by type of innovation. A greater proportion of respondents considered themselves innovative with respect to the delivery of services (74.6%) than with respect to the marketing of services (48.8%). This gap may be due to marketing innovation being perceived to be either tougher, or else less important in contrast to innovation in delivery which is core to lawyers' roles. Two-thirds (66.3%) of respondents considered themselves innovative with respect to new or improved services (see Table 2.3). Not surprisingly, the three types of innovation were highly correlated: over 60% of these respondents who considered themselves 'extremely innovative' with respect to product innovation also thought they were also 'extremely innovative' with respect to delivery innovation and marketing innovation.

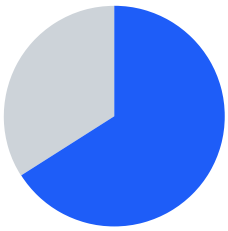
Significant variations among respondents were as expected. Larger firms and ABSs (as compared to non-ABSs) considered themselves more innovative with respect to all three types of innovation. But other variations by firm age, location, and client type were not significant.

The survey also asked about a specific kind of product innovation, involving bundling legal and non-legal services as an integrated solution for clients. A minority (6%) said they implemented such innovation. Although the numbers are small, ABSs (20%) and firms with large corporate clients (22%) are more likely to offer such bundling of services. These solutions included services in both market segments, one serving individual consumers and small businesses (PeopleLaw) and the other serving large corporate clients (BigLaw). For firms with individuals as clients, respondents offer non-legal services ranging from property letting and property management to financial advice and funeral services. For firms with large business clients, respondents' list includes business advice, audit and tax advice, and risk advisory.

Table 2.3: Self-perception of innovativeness

Based on this definition, how innovative do you think your firm is, relating to the following areas?

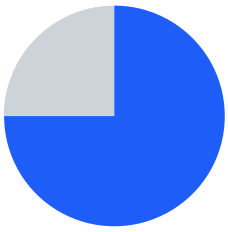
Q13	New or improved services	
	N	Percent
Not at all innovative	67	7.5%
Not particularly innovative	234	26.3%
Somewhat innovative	423	47.5%
Very innovative	130	14.6%
Extremely innovative	37	4.2%
Totals	**891**	**100.1%**



66.3%

Somewhat, very, or extremely innovative

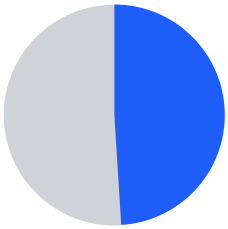
Q14	Delivery of services	
	N	Percent
Not at all innovative	35	3.9%
Not particularly innovative	191	21.4%
Somewhat innovative	447	50.2%
Very innovative	174	19.5%
Extremely innovative	44	4.9%
Totals	**891**	**99.9%**



74.6%

Somewhat, very, or extremely innovative

Q15	Marketing of services	
	N	Percent
Not at all innovative	170	19.1%
Not particularly innovative	286	32.1%
Somewhat innovative	298	33.4%
Very innovative	106	11.9%
Extremely innovative	31	3.5%
Totals	**891**	**100%**



48.8%

Somewhat, very, or extremely innovative

Note: the percentages do not necessarily add up to 100 due to rounding.

Bundling legal and other services

Our interviewees identified examples of SRA-regulated law firms, law companies, and lawtech companies that bundled legal and non-legal services together into a wider offering. The bundling could represent a clear client 'journey' over time; alternatively, the services bundled together could be offered in tandem with each other.

In PeopleLaw, an SRA-regulated law firm and an unregulated legal technology company had a similar bundling proposition along the same client journey: will-writing and probate in the legal space, and funeral services in the non-legal space. Both of these organisations had substantially automated the wills and probate elements of their business, and also use online technology to help their clients to make funeral arrangements. Much thought has gone into deciding what to automate and what not to, to preserve a personal touch.

'A lot of people still want human context, so we put in a lot of thought in terms of design to make [our service] look and feel personalised even though it's automated.' Founder, CEO, unregulated provider.

In BigLaw, bundled services offered broadly in parallel included tax and M&A advisory services. Among traditional legal practices, several offered non-legal services that were closely related to the delivery of legal services, such as legal project management. By contrast, some ABSs offered bundled services that extended further beyond their core law offering, such as risk advisory services.

2.1.3 Current and planned use of legal technology

In the survey, we offered an easily understood definition of legal technology, adapting a definition provided by the Law Society of England and Wales: 'By legal technology, we mean technologies that aim to support, supplement or replace traditional methods for delivering legal services, such as automating documents, chatbots, interactive websites, and artificial intelligence (AI).' Of the total respondents, 36.6% said they are currently using legal technology defined as such, while 23.8% said they are 'not using but planning on using' in the future (see Table 2.4). As expected, ABSs (55.6%) are more likely than non-ABSs (34.1%) to be 'currently using' legal technology. Also, larger firms and firms with big businesses as clients are significantly more likely to be currently using technology.

Probing into specific types of legal technology in use, the top five most prevalent types of legal technologies that respondent firms are currently using are 'videoconferencing with clients' (86.4%), 'storing data in the cloud' (65.9%), 'practice management software' (61.7%), 'legal research software' (50.4%), and 'e-verification/e-signature' (37.3%) - see the numbers in bold in Table 2.5.

Focusing on types of legal technology for future planned use, the top type is 'e-verification/ electronic signature' (25.4% planning to use), with its rapid diffusion most likely fuelled by remote working due to the COVID-19 lockdown and legislative changes.

Table 2.4: Use of legal technology

Q20	Based on this definition, does your firm use or plan to use legal technology?	
	N	Percent
Currently using	326	36.6%
Not using but planning on using	212	23.8%
Not using and not planning on using	292	32.8%
Don't know	61	6.8%
Totals	**891**	**100%**

Turning to the technology types for which planned use exceeds current use, 21.2% of respondents plan to use (vs. 15.4% currently using) 'online portals for matter status updates', 19.5% plan to use (vs. only 9.9% currently using) 'interactive websites to generate legal documents', and 14.0% plan to use (vs. only 6.2% currently using) 'chatbots or virtual assistants'. These are strong signs of an accelerated diffusion of more interactive uses of websites.

Table 2.5: Types of legal technology in use

Q23	Which of the following legal technologies are you currently using, or planning to use, in your firm? N=891	Currently using		Planning to use		Not planning to use	
		N	Row %	N	Row %	N	Row %
Videoconferencing with clients		**770**	**86.4%**	48	5.4%	73	8.2%
Model documents/templates on our website		217	24.4%	**149**	**16.7%**	525	58.9%
Interactive website to generate legal documents in response to client input		88	9.9%	**173**	**19.4%**	630	70.7%
Chatbots or virtual assistants		55	6.2%	**125**	**14.0%**	711	79.8%
Online portals for matter status updates		137	15.4%	**189**	**21.2%**	565	63.4%
E-verification/electronic signatures		**332**	**37.3%**	**226**	**25.4%**	333	37.3%
Storing data in the cloud		**587**	**65.9%**	102	11.5%	202	22.6%
Practice management software		**550**	**61.7%**	87	9.8%	254	28.5%
Legal research software		**449**	**50.4%**	90	10.1%	352	39.5%
Contract review software		65	7.3%	120	13.5%	706	79.2%
Blockchain/distributed ledger		16	1.8%	74	8.3%	801	89.9%
Data analytics with AI		45	5.1%	92	10.3%	754	84.6%

Technology adoption during the pandemic

Firms we interviewed had quickly switched from offices to remote working, replacing face-to-face meetings with Teams and Zoom. This was straightforward for large law firms whose enterprise systems were in the cloud. E-signatures were also rapidly adopted, to maintain business as usual, accelerating digital transformation.

The pandemic produced an uptick of work in will writing and probate, and in the conveyancing market (owing to a combination of the stamp duty holiday and people needing additional space for remote home working). Remote working has also accelerated service automation and demand for employment law advice.

'[Our] employment law solution [is] designed for the remote working world, handles collective consultations, TUPE, redundancy consultations, and includes ways of electing representatives to ask questions and manage consultations.' Alternative Legal Service Provider

'[Our tool is] in addition to our furlough navigator, redundancy navigator and back to work navigator. We built the tools on the hoof in response to government policy decisions. Having a software company enabled all of this. They all follow on from one another.' Law Firm

The pandemic saw accelerated development of online self-service systems that integrated with government portals, giving people direct access to legal services.

'We built a new system that integrates with that government system and a new back-end that drives all this work through a workflow engine and allows us to run [personal injury] claims with a much lighter touch. It takes a lot of the admin out of our hands and puts it in the hands of the customer … the system prompts them when things are happening and invites them to log in, check things, upload documents etc so that the claim can proceed without us having to stage-manage all of the elements of the claim.' Law Firm

2.1.4 Legal technology adoption by areas of law

The survey investigated the rate of legal technology adoption by area of law. Each respondent was asked to state the three areas of legal practice which generated the largest revenue shares for their firm based on whether their clients were primarily individuals and/or small businesses – ie in PeopleLaw – or else large businesses – ie. in BigLaw.

In PeopleLaw, the top five areas of law (by absolute number of responses) among tech adopters (ie. respondents who currently use or are planning to use legal technology) are: conveyancing (residential) (130), wills, probate, and trusts (101), family, including children and matrimonial (97), company/commercial, including property and planning (78), and litigation and dispute resolution (77) – see the numbers in bold in Table 2.6a.

Proportionately, the rate of current adoption ranges from just over a half (53.3% of respondents) in family law to 71.4% of respondents in residential conveyancing. Given the low number of total responses, however, it would be unwise to impute adoption rates from this survey evidence. That is, we cannot confidently assert that a majority of firms in family law, for example, are adopting legal technology.

In BigLaw, the top three areas (by absolute number of responses) with tech adopters are: litigation and dispute resolution (17), real estate/ construction/planning (12), and corporate M&A (8). Because of the relatively small number of responses in each category, we avoid mentioning rates of adoption from Table 2.6b.

Table 2.6a: Legal technology adoption by area of law in PeopleLaw

Q23 In which area of law are you currently using, or planning to adopt, legal technology in your firm?	Adopted		Planning to adopt		Not adopted nor planning to adopt	
	N	Row %	N	Row %	N	Row %
Bankruptcy and insolvency	7	41.2%	4	23.5%	6	35.3%
Civil liberties, discrimination and human rights	1	7.7%	11	84.6%	1	7.7%
Consumer problems	5	83.3%	1	16.7%	0	%
Company/commercial, including property and planning	**78**	**57.8%**	39	28.9%	18	13.3%
Conveyancing (residential)	**130**	**71.4%**	44	24.2%	8	4.4%
Criminal	27	81.8%	2	6.1%	4	12.1%
Employment	37	54.4%	22	32.4%	9	13.2%
Family, including children and matrimonial	**97**	**53.3%**	59	32.4%	26	14.3%
Finance	5	83.3%	1	16.7%	0	%
Housing, including landlord and tenant	10	47.6%	11	52.4%	0	%
Immigration and asylum	48	49.5%	37	38.1%	12	12.4%
Litigation and dispute resolution	**77**	**57.5%**	44	32.8%	13	9.7%
Tax	0	%	1	%	0	%
Welfare and benefits	0	%	0	%	0	%
Wills, probate, and trusts	**101**	**58.4%**	54	31.2%	18	10.4%
Other	12	41.4%	11	37.9%	6	20.7%

Table 2.6b: Legal technology adoption by area of law in BigLaw

Q23 In which area of law are you currently using, or planning to adopt, legal technology in your firm?	Currently using		Planning to use		Not planning to use	
	N	Row %	N	Row %	N	Row %
Administrative/public law	0	0%	0	0%	1	100.0%
Bankruptcy/insolvency	1	50.0%	1	50.0%	0	0%
Corporate M&A	**8**	72.7%	3	27.3%	0	0%
Financial services/insurance	3	100.0%	0	0%	0	0%
Employment/pensions	2	40.0%	2	40.0%	1	20.0%
Environmental, social, governance (ESG)	0	0%	0	0%	0	0%
Intellectual property	1	100.0%	0	0%	0	0%
Litigation and dispute resolution	**17**	73.9%	5	21.7%	1	4.3%
Public sector	1	100.0%	0	0%	0	0%
Real estate/construction/planning	**12**	66.7%	6	33.3%	0	0%
Technology/media/telecoms	6	85.7%	1	14.3%	0	0%
Transport	4	66.7%	0	0%	2	33.3%
Tax	0	0%	0	0%	1	100.0%
Other	3	100.0%	0	0%	0	0%

2.2

Drivers of and barriers to innovation and legal technology adoption

We now turn our attention to drivers of technology adoption and innovation, followed by barriers. Among the drivers, the survey focused on asking about the purposes of tech adoption, which are more closely linked to firm level strategy. We do not ask about other macro-level drivers such as competition in the market. This section provides a broad overview of barriers, before we take a deep dive into regulatory barriers in the next section.

2.2.1 Purpose of technology adoption

We compare the main purposes of adopting legal technology given by two groups of respondents, namely current users and future users. For the current users, the three top purposes are to 'improve service quality' (71.5%), 'improve efficiency of workflows' (70.9%), and 'allow staff to work more flexibly' (43.9%) (see Table 2.7). For future users (not using now but planning on using), the same three items came top. Thus, there is no significant difference between current and future users in their main reasons for using legal technology.

The other purposes are ordered in a slightly different way between the two groups. For current users, 'reducing the overall cost of service delivery' and 'increasing security and compliance' are more prevalent purposes than 'increasing demand for our services' or 'reducing long-term business costs'. For future users, 'increasing demand for our services' is more prevalent than 'reducing the overall cost of service delivery' or 'increasing security and compliance'.

Significant variations among respondents also exist in the relative importance of various purposes. Among the current users of legal technology, 'improving service quality' is a more important purpose of using the technology for larger firms, firms with large businesses as clients (44.8%) as compared with firms with individuals (25.8%) or with small businesses as clients (23.6%), and ABSs (36.4%) compared to non-ABSs (25.1%). Similarly, 'improving efficiency of workflows' is a more important purpose of using technology for larger firms, firms with large businesses as clients, and ABSs (38.4%) compared to non-ABSs (24.4%). But 'allowing staff to work more flexibly' was an equally important purpose of technology for small and large firms and for firms with all types of clients. Similar patterns are found among future users of legal technology.

Table 2.7a: Purpose for current legal technology users

Q21	What is the main purpose of using legal technology at your firm?	
Tick up to three. N=326 respondents who currently use legal technology (see Table 2.4)	N	Row %
Improve service quality	233	71.5%
Increase demand for our services	45	13.8%
Improve efficiency of workflows	231	70.9%
Allow staff to work more flexibly	143	43.9%
Reduce the overall cost of service delivery	106	32.5%
Improve security and/or compliance	72	22.1%
Reduce long-term business costs	42	12.9%
Recruit and retain legal talent	10	3.1%
Improve end-to-end integration with other tools or software	25	7.7%
Other	11	3.4%

Table 2.7b: Purpose for future legal technology users

Q22	What will be the main purpose of using legal technology at your firm?	
Tick up to three. N=212 respondents who do not use but are planning to use legal technology (see Table 2.4)	N	Row %
Improve service quality	157	74.1%
Increase demand for our services	64	30.2%
Improve efficiency of workflows	141	66.5%
Allow staff to work more flexibly	79	37.3%
Reduce the overall cost of service delivery	56	26.4%
Improve security and/or compliance	40	18.9%
Reduce long-term business costs	26	12.3%
Recruit and retain legal talent	9	4.2%
Improve end-to-end integration with other tools or software	12	5.7%
Other	4	1.9%

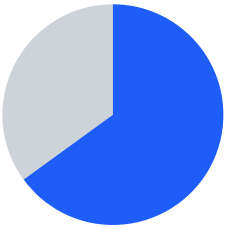
2.2.2 Sources of information for innovation and legal technology adoption

We also examined law firms' approaches to innovation and tech adoption including sources of information, expertise, and advice. The two most prevalent approaches to innovation are 'asking existing staff to work on it' (64.2%), followed by 'employing consultants to provide certain expertise' (48.2%). Other approaches, such as 'recruiting new staff' and 'buy, or merge with, a business that already offers innovation', were much less common. And the top three sources of information or intelligence for firms to find out about legal technology were 'legal tech providers' (48.6%), 'market research about what other law firms are doing' (47.0%), and 'internal staff knowledge' (44.1%).

The reliance on existing staff for both innovation and technology adoption is noteworthy. The use of consultants 'to provide certain expertise' for innovation applies to nearly half of all respondents, and for information on 'legal technology or legal operations' to a quarter of survey respondents. It is also noteworthy that internal expertise and external consultants are used jointly in a minority of cases; for example, 23.4% of those that rely on internal staff knowledge for legal technology also use external consultants.

Table 2.8: Approaches to innovation and legal technology adoption

Q19	When your firm wants to innovate, how does it approach it?	
Tick up to three (N=827)	N	Row %
Recruit new staff	125	15.1%
Ask existing staff to work on it	534	64.6%
Buy, or merge with, a business that already offers that innovation	34	4.1%
Employ consultants to provide certain expertise	397	48.1%
Other	106	12.8%



64.6%

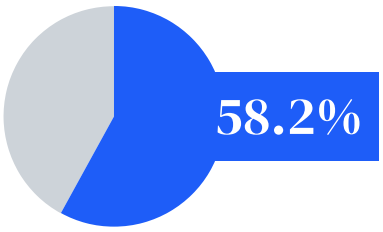
Most firms asked existing staff to work on innovation and legal technology

Q24	How did you find out about the legal technology you are using or planning to use?	
Tick up to three (N=527)	N	Row %
Discussion with or feedback from clients	94	17.8%
Market research about what other law firms are doing	244	46.3%
Internal staff knowledge	235	44.6%
Legal technology provider	258	49.0%
Consultant on legal technology or legal operations	123	23.3%
Informal discussion with other lawyers	197	37.4%
Events, including technology and innovation conferences	167	31.7%
Other	33	6.3%

2.2.3 Barriers to legal technology adoption

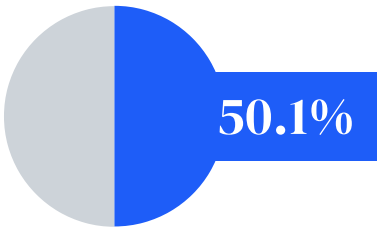
The survey enquired extensively about the nature of barriers faced by respondents when adopting legal technology. We decided to do this to build on studies to date, notably the 2018 survey by the Legal Services Board (LSB); the LSB survey also was somewhat generic by not specifying the exact nature of some of the barriers.[3] We report on barriers faced by respondents who already use or are planning to use legal technology (henceforth, 'adopters') and those faced by respondents who do not use and plan to use it (henceforth, 'non-adopters'). 'Lack of financial capital to invest in technology' was chosen as the top barrier for both adopters and non-adopters of legal technology. However, significant differences exist in the second and third most important barriers.

For those adopting or planning to adopt legal technology (the adopters), the most significant barriers to adopting (or planning to adopt) legal technology were:



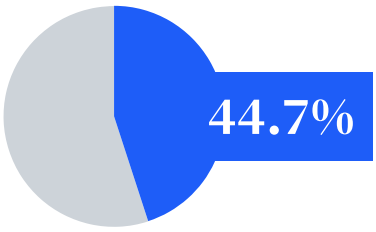
58.2%

1. 'lack of financial capital to invest in technology' (rated as somewhat significant or very significant by 58.2%)



50.1%

2. 'lack of staff expertise to assess and implement technology' (50.1%)



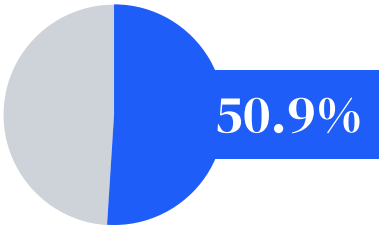
44.7%

3. 'regulatory uncertainty or barrier' (44.7%)

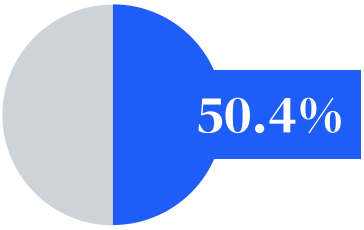
3 Legal Services Board (2018) Technology and Innovation in Legal Services – Main Report, November. In the LSB survey, 'Regulatory factors' and 'Legislative factors' (Figure 47) were captured in the list of constraints on service development. The survey also asked whether specific areas of regulation had a positive or negative effects on innovation (Figure 49), but did not ask in what ways.

Not surprisingly, among adopters, 'lack of financial capital to invest in technology' was more important among smaller firms than large firms. It was more important for firms whose clients are individuals (29.2% of respondents said 'very significant') or small businesses (12.8%) than for those with large business clients (7.1%). Thus, financial capital as a barrier is more of an issue in PeopleLaw than in BigLaw. 'Lack of staff expertise to assess and implement technology' is also a PeopleLaw issue: 33.3% of sole practitioners as compared to 5.7% of LLPs and 7.1% of partnerships, and 9.4% of respondents with individual clients and 5.9% with small business clients as compared to 2.3% of respondents with large business clients, said that lack of staff expertise is a 'very significant' barrier to tech adoption.

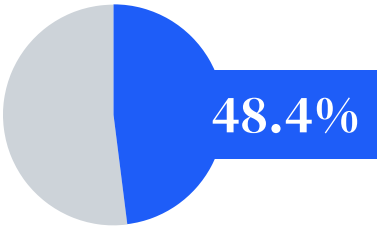
For the non-adopters (ie. those not adopting or planning to adopt legal technology), the most significant barriers to adopting (or planning to adopt) legal technology were:



1. 'lack of financial capital to invest in technology' (rated as somewhat significant or very significant by 50.9%)



2. 'lack of consumer appetite' (50.4%)



3. 'not a strategic priority' (48.4%)

Similar to the adopters, 'lack of financial capital' is more of a barrier for non-adopter respondents in PeopleLaw than in BigLaw. 'Lack of consumer appetite' is more significant a barrier for respondents with large business clients (46.2% thought 'very significant') than for those with individuals (17.6%) or small businesses (10.2%) as clients. As for legal technology adoption not being a strategic priority, more non-ABSs (21.0%) think it 'very significant' than ABSs (6.7%). Lack of strategic priority also applied more to respondents with individual or small business clients (20.0% in either case) than to those with large business clients (15.0%).

The top three risk factors that discourage respondents from using or planning to use legal technology are that 'the investment in it might not bring any business benefits' (55.6%), 'it may pose unexpected legal/regulatory risk to the business' (34.1%), and 'support from the technology provider may be inadequate' (27.8%) - see Table 2.10. Thus, 'unexpected legal or regulatory risk', faced by one-third of all respondents, is worthwhile unpacking in the next section. We also return to the theme of risks - how legal service providers are mitigating a variety of risks related to technology adoption - in Chapter 4.

Table 2.9: Barriers to adopting legal technology

Q25	For adopters: How significant are the following potential barriers to your firm when adopting, or planning to adopt legal technology?										
	Not at all significant		**Somewhat insignificant**		**Neither insignificant nor significant**		**Somewhat significant**		**Very significant**		**Responses**
	N	Row %	N	Row %	N	Row %	N	Row %	N	Row %	
Not a strategic priority	125	25.6%	74	15.2%	146	29.9%	106	21.7%	37	7.6%	488
Lack of financial capital to invest in technology	64	12.5%	50	9.8%	99	19.4%	177	**34.7%**	120	**23.5%**	510
Lack of staff expertise to assess and implement technology	77	15.4%	57	11.4%	115	23.0%	208	**41.7%**	42	**8.4%**	499
Lack of consumer appetite	74	15.4%	77	16.0%	163	34.0%	132	27.5%	34	7.1%	480
Regulatory uncertainty or barrier	67	13.8%	57	11.8%	144	29.7%	145	**29.9%**	72	**14.8%**	485

Note: top three barriers are in bold.

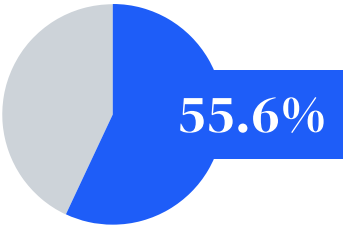
Q26	For non-adopters: How significant are the following potential reasons to your firm not adopting, or planning to adopt any legal technology?										
	Not at all significant		**Somewhat insignificant**		**Neither insignificant nor significant**		**Somewhat significant**		**Very significant**		**Responses**
	N	Row %	N	Row %	N	Row %	N	Row %	N	Row %	
Not a strategic priority	49	17.6%	13	4.7%	82	29.4%	77	**27.6%**	58	**20.8%**	279
Lack of financial capital to invest in technology	52	19.0%	25	9.2%	57	20.9%	84	**30.8%**	55	**20.1%**	273
Lack of staff expertise to assess and implement technology	55	20.3%	26	9.6%	76	28.0%	80	29.5%	34	12.5%	271
Lack of consumer appetite	33	12.3%	17	6.3%	83	31.0%	87	**32.5%**	48	**17.9%**	268
Regulatory uncertainty or barrier	54	20.9%	21	8.1%	93	36.0%	57	22.1%	33	12.8%	258

Note: top three barriers are in bold.

Table 2.10: Risks when adopting legal technology

Q29	What do you think are the main risks when adopting legal technology?	
Tick up to three (N=504)	N	Row %
We have not considered using legal technology at all	39	7.7%
It may not work as anticipated	122	24.2%
Clients may not like it	111	22.0%
Difficulty in getting buy-in from staff	73	14.5%
Support from the technology provider may be inadequate	140	**27.8%**
It may pose unexpected legal / regulatory risk to the business	172	**34.1%**
Cannot claim insurance or compensation from the technology provider if things go wrong with it	52	10.3%
The investment in it might not bring any business benefits	280	**55.6%**
Other	57	11.3%

Note: top three risks are in bold.



'The investment in it might not bring any business benefits' as the top factor that discouraged respondents from using or planning to use legal technology.

2.2.4 Barriers to innovation

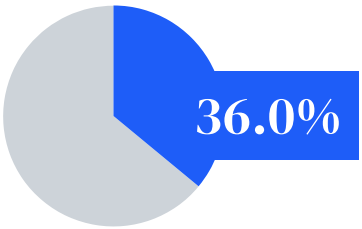
The three top reasons for firms not innovating, or not innovating more, are: 'uncertainty about the expected business benefits' (36.0%), 'not a strategic priority' (31.0%), and 'it isn't needed at my firm' (27.4%). The next three reasons are: 'lack of staff expertise' (25.4%), 'possibility of unexpected legal or regulatory risk in the future' (20.4%), and 'current regulatory uncertainty or barriers' (19.8%).

These innovation barriers are related to tech adoption barriers in a systematic manner. In particular, those who cited 'lack of staff expertise' as an innovation barrier are also more likely to face 'lack of staff expertise' as a technology adoption barrier than those that did not. With respect to regulatory barriers, 77.8% of those who cited 'possibility of unexpected legal or regulatory risk in the future' as an innovation barrier also cited 'regulatory uncertainty or barrier' to technology adoption, compared to only 36.3% of those that did not cite this innovation barrier.

Table 2.11: Barriers to innovation

Q17	Is there anything stopping your firm from innovating, or innovating more?	
Tick up to three (N=872)	N	Row %
It isn't needed at my firm	215	**27.4%**
Not a strategic priority	243	**31.0%**
Lack of staff expertise	199	25.4%
Staff reluctance or resistance	79	10.1%
Current regulatory uncertainty or barriers	155	19.8%
Possibility of unexpected legal or regulatory risk in the future	160	20.4%
Possibility of low consumer appetite	121	15.4%
Possible or actual difficulty in getting or claiming insurance	68	8.7%
Uncertainty about the expected business benefits	282	**36.0%**
Potential change remains untested	99	12.6%

Note: top three barriers are in bold.



'Uncertainty about the expected business benefits' as the top factor with respect to barriers.

2.3

Regulatory barriers and uncertainty for innovation and technology adoption

This section focuses on regulatory barriers and uncertainty facing innovation and technology adoption to help the SRA learn more about where they can support firms. To recap, 44.1% of legal tech adopters and 34.9% of legal tech non-adopters cite 'regulatory uncertainty or barrier' as somewhat significant or very significant when deciding whether to adopt new legal technology. Moreover, with respect to innovation, 20.4% cite 'possibility of unexpected legal or regulatory risk in the future', and 19.8% cite 'current regulatory uncertainty or barriers' as reasons why they do not innovate or innovate more.

2.3.1 Regulatory barriers & uncertainty

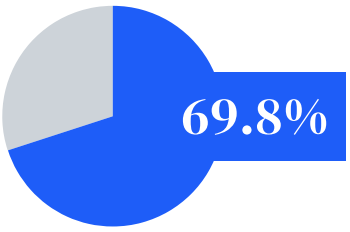
The respondents who cited 'regulatory uncertainty or barrier' to legal tech adoption were also asked about the specifics of these. The top three types of regulatory uncertainties or barriers when adopting, or planning to adopt, legal technology are: 'client confidentiality and data protection requirements' (69.8%), 'professional indemnity insurance requirements' (63.1%), and 'not knowing if wider regulations and legislation allows what we are considering' (43.6%). With respect to client confidentiality and data, one respondent elaborated: 'The SRA needs to give clear guidance on what is required under GDPR.'

Among the adopters of legal technology, 'regulatory uncertainty or barrier' varied according to firm age: 21.7% of young firms established in the last 5 years said it is 'very significant' as compared to 8.9% of those established over 20 years ago. This is also more of a barrier for sole practitioners (45.5% find it 'very significant') as compared to 13.0% for incorporated companies, LLP, and partnerships. Moreover, 47.4% of respondents with individual clients and 43.0 % of those with small business clients, as compared to 32.5% of those with large business clients, find 'regulatory uncertainty and barrier' to be 'somewhat significant' or 'very significant'. In short, regulatory uncertainty or barrier is more of an issue in PeopleLaw than in BigLaw.

Among the non-adopters, 'regulatory uncertainty or barrier' is 'somewhat significant' or 'very significant' among 40.0% of respondents with individual clients, 28.6% of those with small business clients, and 27.3% of those with large business clients. Thus, regulatory barriers are more significant for the PeopleLaw sector, for both non-adopters and adopters of legal technology.

Table 2.12: Regulatory uncertainties and barriers

Q27	What do you think are the main regulatory uncertainties or barriers when adopting, or planning to adopt, legal technology?	
Tick up to three (N=179)	N	Row %
Not knowing if wider regulations and legislation allow what we are considering	78	43.6%
Client confidentiality and data protection requirements	125	69.8%
Money laundering regulations	68	38.0%
Managing client money requirements	31	17.3%
Professional indemnity insurance requirements	113	63.1%
Other	11	6.1%



'Client confidentiality and data protection requirement' as the top regulatory uncertainty or barrier.

INTERVIEW INSIGHTS

Barriers to technology adoption and innovation

Among regulatory barriers, interviewees highlighted difficulties with the blurred lines between reserved and unreserved activities.

'We were talking about taking our consultant programme to the next level - to a form of franchising. The position was clearer before standards and regulations. The framework rules made it clear, but now the definition of employee that they [the SRA] use stifles that opportunity for innovation. More flexibility would help.' Law Firm

'Firms who are innovating are looking for a more direct line to the regulator rather than a lot of form filling. On the SRA innovation competition, unregulated entrants are getting the funds that solicitors are paying in; their value proposition is they are unregulated.' Law Firm

Among other non-regulatory barriers, limited resources, financial and human, are mentioned as barriers.

'....we don't have access to external capital and...our members aren't going to shell out. So, we develop on a shoestring. So, we have kept our model of development very light, very focused. We can't afford an hour of misspent time. So, we get a long way by having a highly disciplined approach.' ABS

'The biggest barrier is securing and retaining IT development resource. There is a limited pool of experts and keeping them is a challenge.' Law Firm

2.3.2 What the Solicitors Regulation Authority (SRA) could do

The majority of survey respondents said that SRA regulations had not stopped them from innovating. But a minority (6.3%) said 'SRA regulations stopped respondents from making changes to services or introducing new technology'. Of the 6.3%, a fifth asked the SRA or others for advice, but two-thirds did not proceed with any change. Over 400 respondents provided written details about how the SRA could support their firm to adopt or use legal technology. These were largely around the following themes:

1. Clarity in guidance and/or regulation

2. Help with regulatory compliance

3. Less or simpler regulation

4. Non-regulatory assistance or support, including financial support

5. Education/training/information/conferences/ webinars

6. Accreditation or recommendation of legal technology providers

7. Professional indemnity insurance

As indicated by the word cloud, the words 'provide' and 'guidance' were used by many respondents (see Figure 2.2). Many survey respondents are more concerned with lack of clarity in guidance received from the SRA than with wanting less (or more) regulation, though some also wanted the latter, for example by regulating providers in the unregulated sector. One asserted that 'uncertainty caused by "outcomes focused" regulation is unhelpful to cautious firms'. Another stated that the SRA should 'provide clear guidance instead of telling us that it is for us to decide what their rules mean'. Clarity is sought on a range of areas including 'regulations allowing unbundled services without liability', 'on how limitation of liability applies to technological solutions provided to clients', 'the risks of cloud-based information storage', 'what electronic client verifications are acceptable to use', and 'cloud/search engine privacy issues'.

Figure 2.2: How the SRA could help firms to use legal technology

Q34. If the SRA could do one thing to support your firm to adopt or use legal technology, what would that be?

A few respondents were explicit in asking the SRA to 'assist with information on what works, despite regulatory framework'. Others were more specific about how the SRA can help with regulatory compliance, including: 'Education on what technology is available and how to implement it in a way which is compliant with SRA regulations' and 'offer "innovation appointments" where solicitors could book online appointments with a specialist to talk through innovative ideas and the likely regulatory impact'.

Moving onto non-regulatory assistance and support, comments in this category were asking the SRA for advice on IT, financial assistance, signposts to funding/grant, and sources of information about legal technology. Other responses looked to the SRA for opportunities in legal technology education and training, and dissemination of information about best practice via conferences and webinars.

Another category of respondents' answers concerns technology providers. Survey respondents asked for the SRA to recommend or approve legal technologies or providers. As one respondent put it, the SRA could 'help to identify what is worth investing in and signpost possible funding – it is too expensive to make a mistake'.

Others were more explicit in asking the SRA to 'give quality assurance about the technology to be used' by 'providing an approved list of providers', 'recommending affordable technologies to assist small firms', or 'recommendation on the most appropriate technology having regard to the size of the practice and the types of work carried out'. Yet others want the SRA to 'attach accreditation to firms which adopt technology'. Underlying many of the comments in this category is the respondents' wish to raise confidence and trust in the functionality of specific tools, and to reduce information asymmetry about the benefit of investing in legal technology.

Last and not least are a set of comments on professional indemnity insurance (PII). Some highlighted the high premiums demanded by insurers for cover, diverting financial resources away from making investment in legal technology. One respondent asked the SRA to 'address the fact that the cost of PII, even for firms with good claims records, is becoming so prohibitive that it is impacting on ability to make the necessary financial investment in legal technology'. In short, the survey respondents are asking the SRA to ensure solicitors can be covered effectively and economically by PII. Chapter 4 contains more discussion of PII in light of evidence from our interviews.

2.3.3 Regulatory insights from a survey experiment

The online survey also asked respondents to answer three questions in a survey experiment format. Respondents were assigned randomly to one of a pair of scenarios, and three pairs were included in the survey. Survey experiment design enables us to obtain behavioural insights into likely responses to an event (such as a regulatory shift or support to enhance trust and confidence in legal technology). While hypothetical, the survey instruction asked respondents 'to imagine some scenarios that you might encounter when thinking about adopting legal technology'.

Regulatory advice vs technology advice for innovation

The first pair of scenarios concerned a government grant scheme with the offer of advice from either a regulatory expert or a technology expert. We asked:

You have been given £100,000 from a UK government grant scheme that can be used to make improvements at your firm. The government will also provide funding for an expert who can give you advice on the [regulatory aspect OR technological aspect] of offering a new service.

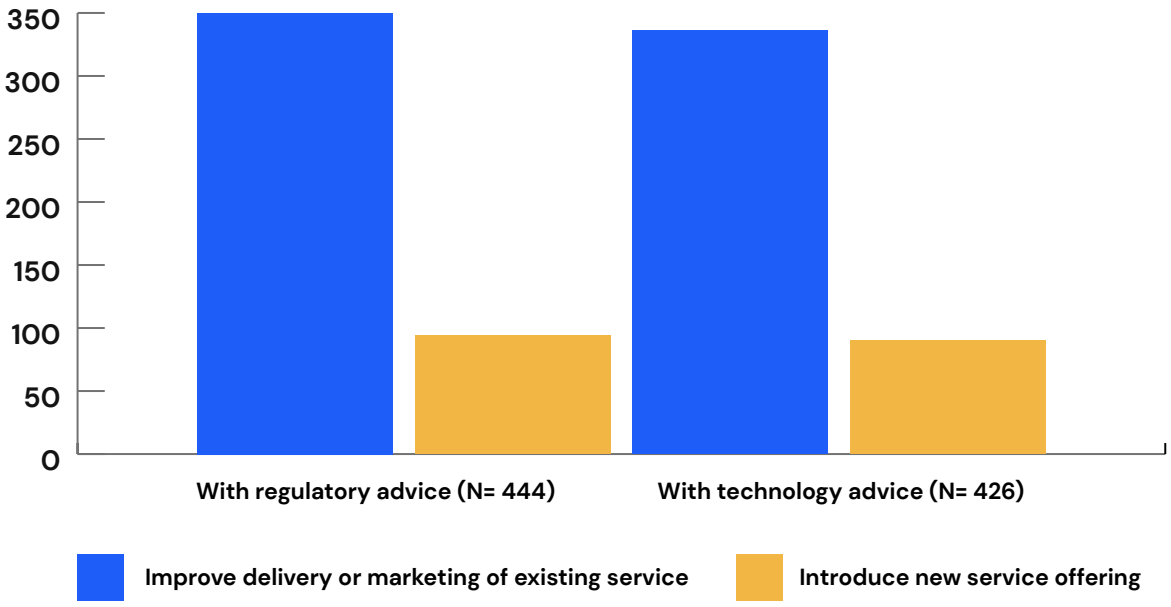
How would you spend the government grant? Which one of the following is your priority? Please choose one:

☐ Make improvements in delivering or marketing existing service offerings

☐ Decide to introduce a new service offering, after market testing to identify potential client base

Respondents were randomly assigned to see either a version of this question with regulatory advice or a version with technology advice. Because product innovation (ie. introducing a new service offering) requires greater risk-taking than delivery or market innovation, we had expected that regulatory advice would be more important when considering product innovation. However, an overwhelming majority (nearly 80% in each category) chose the less-risky option of delivery or market innovation ('make improvements in delivery or marketing existing service offerings') regardless of whether the advice was about regulation or about technology. As shown in Figure 2.3, 21.3% in the group with regulatory advice chose 'introduce new service offerings', as compared to 21.5% in the group with technological expert input. The differences are statistically insignificant.

Figure 2.3: Comparing regulatory advice vs technology advice



Willingness to pay for a technology tool with technology expertise vs government accreditation

The second pair of scenarios concerned the willingness to pay for a legal technology tool technology expert. We asked:

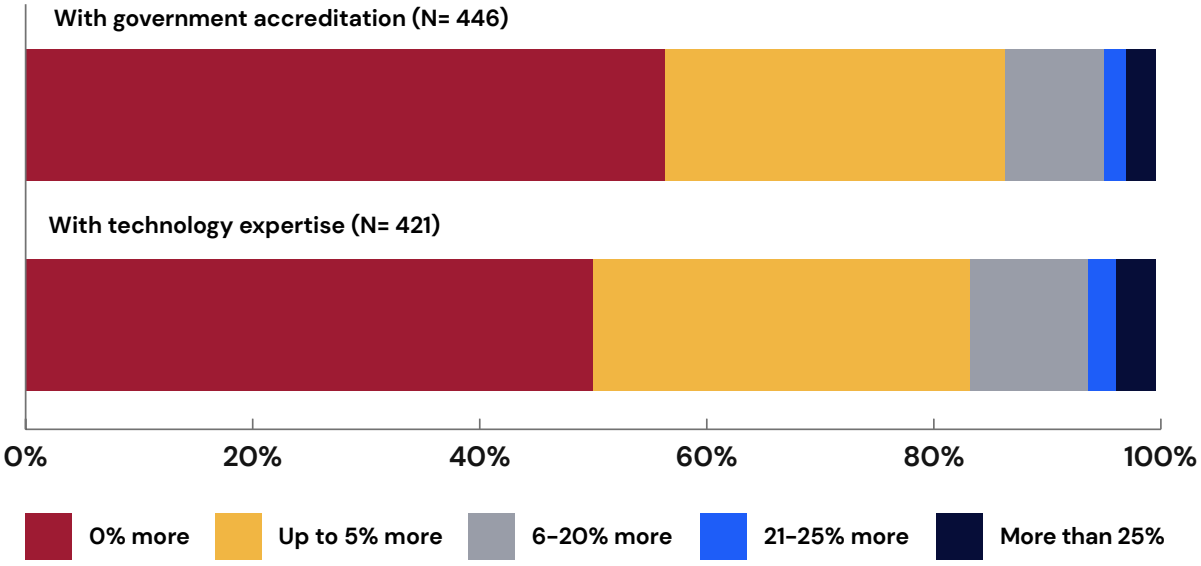
Your firm is considering adopting a legal technology tool, a chatbot (software that conducts online conversation via text or speech with clients), that will cost about 3% of your total revenue per annum. Another tool with the same functionality has been [suggested to you by a legal technology expert whose competence you trust OR accredited by a government standards body]. How much more are you willing to pay for this accredited tool?

- 0% more (ie, the same as the one you found)
- Up to 5% more
- 6 - 20% more
- 21 - 25% more
- More than 25% more

The willingness to pay for a chatbot (as an example of legal technology) is higher if it has been suggested by 'a legal tech expert whose competence one trusts', than if it is accredited by a government standards body. Figure 2.4 shows that half (49.6%) of the respondents receiving technology expert advice would pay a premium price (ie. above 0%) compared to 43.4% of respondents with government accreditation of the tool.

A possible reason why respondents are willing to pay more when a tool is recommended by a legal technology expert than when it is accredited by a government body is the likely advice a technology expert might give not only about the tool's functionality but also on its implementation. An earlier finding was that hiring technology consultants was a common approach to implement innovation (for 48.3% of survey respondents), and to adopt legal technology (for 23% of respondents) (see section 2.2.2).

Figure 2.4: Willingness to pay for a technology tool with technological expertise vs with government accreditation



Willingness to adopt a technology tool used by competitors vs requested by clients

The third pair of scenarios concern the likelihood of adopting an online web portal if competitors are adopting it, or if clients are asking for it. We asked:

Your firm is considering adopting an online web portal, so that your clients can monitor their matter status. You have noticed that [your main competitors have adopted OR your clients are showing a keen interest in] a particular software tool that seems suitable for this purpose. How likely are you to adopt that tool?

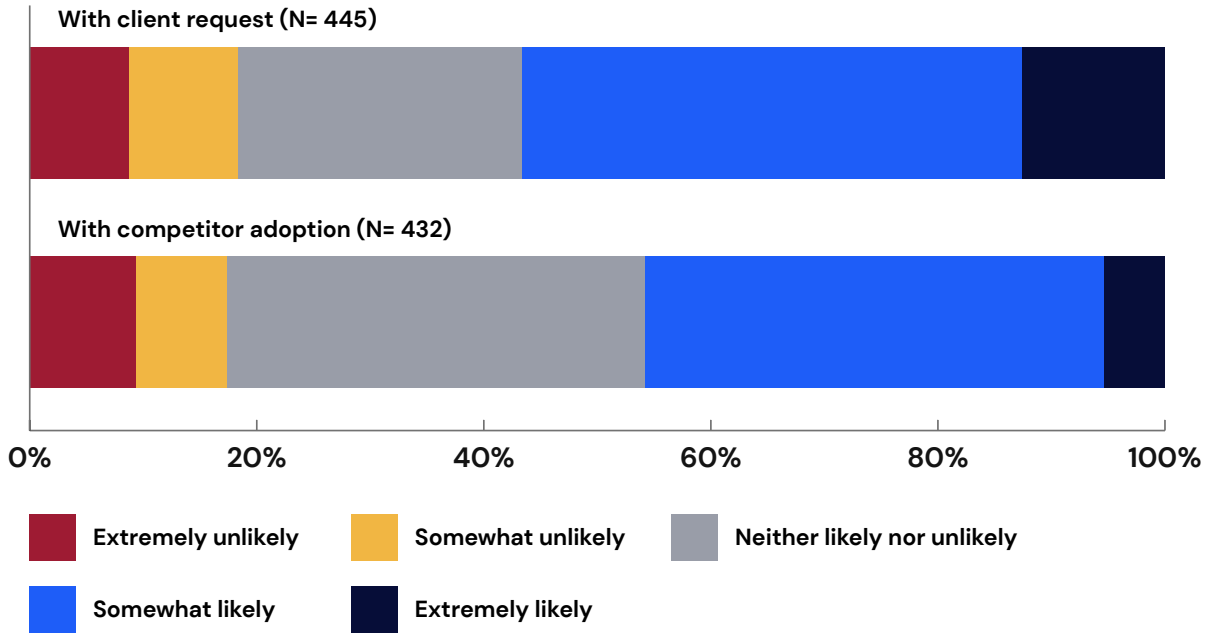
- Extremely unlikely
- Somewhat unlikely
- Neither likely nor unlikely
- Somewhat likely
- Extremely likely

Respondents' willingness to adopt the online web portal tool is somewhat greater if clients request its adoption than if competitors are adopting it. Figure 2.5 shows that 56.4% of respondents with client requests say that the adoption of the web portal is either 'somewhat likely' or 'extremely likely', as compared to 45.6% of those with competitor adoption. Customer voice is evidently stronger than competitive pressure in the market. This result is consistent with the survey evidence cited earlier, that 'lack of consumer appetite' (cited by 50.4% of non-adopters of legal technology) is the second most important barrier after 'lack of financial capital to invest in technology' (57.9%), (see Table 2.9).

These survey experiment results shed light into the likely behaviour of legal practices. In short, client request is unsurprisingly more effective than competitor adoption in inducing technology adoption. Easing access to technology consultants or advisors is likely to induce greater legal technology adoption than government accreditation of technology tools. And regardless of access to regulatory advice or technological advice, legal practices are more likely to consider delivery or marketing innovation (for existing products) than product innovation (offering new services).

Figure 2.5: Adoption of a technology tool used by competitors vs requested by clients

(Percent distribution of total)



Chapter Summary

The interviews and the online survey reveal an up-to-date picture of innovation and technology adoption in legal services, with a clear fresh impact of the COVID-19 pandemic. The last 12 months (up to mid-April 2021) saw over half (55.1%) of survey respondents improving or increasing the use of existing technology, just under half (48.4%) making changes in ways to deliver services, and a third (35.3%) introducing new technology. Over half of the survey respondents said that the COVID-19 pandemic led them to increased technology use 'to manage or process work' (76.0%), 'to attract new clients' (71.1%), and 'to interact with clients' (63.8%).

Nevertheless, innovation and technology adoption may not be for everyone. Around a third of the respondents that did not innovate thought that innovation was not needed at their firm or that it was not their strategic priority. Legal technology adoption also faced significant barriers. First, 'lack of financial capital to invest in technology' was chosen as the top barrier for both adopters and non-adopters of legal technology. And lack of staff expertise and regulatory uncertainty/barriers are the second and third most important barriers among adopters, while lack of consumer appetite and absence of strategic priority are the second and third ranked barriers among non-adopters.

The online survey respondents offered a variety of concrete measures that the SRA could adopt to reduce regulatory barriers and uncertainty when innovating or adopting legal technology. These included enhancing clarity in regulatory guidance and compliance, non-regulatory assistance and support, education and training on legal technology, and measures to enhance the confidence and trust in technology tools and providers. We will revisit some of these regulatory issues in Chapter 6.

This chapter provided an overview of the SRA-regulated legal practices in England and Wales. The next chapter adopts a wider angled lens, to examine market segmentation including the sector not regulated by the SRA.

Appendix to Chapter 2

Interview methodology

We identified organisations to be interviewed, by classifying them into legal service providers with individual and small business clients in areas such as conveyancing, personal injury, family, employment, immigration, and consumer matters, and those that advise large businesses, supporting commercial transactions and disputes. We also ensured variety in terms of ownership structures to include law firm partnerships, law companies, alternative business structures (ABSs) and other alternative legal services providers (ASLPs).

We contacted potential interviewees by email, or if we did not have their direct contact details, via LinkedIn. Each interview, conducted via Zoom, lasted one hour on average. All interviewees in each category were asked the same questions, which were developed by the Oxford University team and signed off by the SRA. To ensure the authenticity of interview-based insights, a written assurance of anonymity was set out in the participant information sheet, emailed to all interview participants ahead of their interviews. The interviewee quotes included in this report are therefore provided on an unattributable basis. And, while the SRA was made aware of the broad demographics of the interviews undertaken, it was not informed about specific legal practices or persons to be interviewed. All interviews were recorded and professionally transcribed, and detailed notes were taken during the interviews. The recordings and transcriptions were used to identify key themes and to provide examples to include in the report.

Please refer to the Annex Report for further details about the characteristics of the interviewees.

Survey methodology

A questionnaire survey was developed with the SRA taking a lead in ensuring that the questions would be consistent with their current and future strategic priorities. The SRA used an online survey platform called Alchemer. The SRA sent emails on 23 March 2021 to the population of 10,644 authorised signatories across all regulated entities and to 299 freelancers, asking them to fill in the online survey. Reminders were sent on 6 and 14 April 2021, and the survey closed on 16 April 2021.

Survey sample characteristics

1221 responded, of which 891 completed the whole survey. The distribution of survey responses is compared to the population distribution along three factors, namely size (measured by turnover), location, and firm age. The survey sample distribution reflects the population distribution well in terms of turnover and regional location, but under-represents younger firms (see the Tables on the next page).

Annex Tables: Sample and Population Characteristics Compared

Turnover	Population	Survey Responses	Population % Distribution	Survey Sample % Distribution
Up to £20,000	303	58	3.37	6.6
£20,000 - £100,000	1659	178	18.43	20.2
£100,000 - £200,000	1300	109	14.44	12.4
£200,000 - £400,000	1571	116	17.46	13.2
£400,000 - £1m	1898	161	21.09	18.3
£1m - £2.5m	1198	110	13.31	12.5
£2.5m - £10m	746	96	8.29	10.9
£10m - £50m	222	30	2.47	3.4
£50m+	103	23	1.14	2.6
Total	**9000**	**881**	**100%**	**100%**

Region	Population	Survey Responses	Population % Distribution	Survey Sample % Distribution
East Midlands	384	46	4.31	5.2
East of England	619	37	6.95	4.2
London	2979	297	33.43	33.4
North East	236	28	2.65	3.1
North West	1239	92	13.9	10.3
South East	1101	145	12.36	16.3
South West	594	70	6.67	7.9
Wales	378	33	4.24	3.7
West Midlands	722	65	8.1	7.3
Yorkshire and The Humber	659	54	7.4	6.1
Nationwide	0	22	0	2.5
Total	**8911**	**889**	**100%**	**100%**

Age	Population	Survey Responses	Population % Distribution	Survey Sample % Distribution
Up to 2 years	1143	85	12.7	9.6
2 - 5 years	1727	128	19.19	14.5
6 - 10 years	2497	107	27.74	12.1
11 - 20 years	2224	235	24.71	26.7
21+ years	1409	326	15.66	37.0
Total	**9000**	**881**	**100%**	**100%**

Note: Totals differ across these tables owing to missing values in the survey and SRA data. data. The SRA does not use the region category 'Nationwide'; instead it uses the postal code of the firm's headquarter location.