Legal Tech

2019

LegalTechWeekly

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Legal Tech 2019

The Legal Tech Boom of 2019

2019 has been an amazing year for legal tech. More and more legal service providers are beginning to walk the walk rather than just talking the talk.
Furthermore, capital is finally flowing into the industry. As noted in the article Legal tech is booming: Are we heading for crash or shooting for the stars?, there is no doubt that investments in legal tech have boomed in the past two years. The exact amount is uncertain since not all numbers have been disclosed, but an article in Forbes suggests that in 2018, investments in legal tech saw a 713 % growth. In 2019, the total amount of investments in legal tech seems to have already surpassed 2018's investment in September when the numbers reached $1.2 Billion. The investments obviously come in all sizes but there has been already a few that are significant enough to be potential game-changers in the global legal industry: A company like LegalZoom has received $500 million in funding, Atrium received $65 million to replace lawyers, and earlier this summer Thomson Reuters acquired HighQ. We have even seen big tech enter the field of legal tech when Contractbook raised €3.5M from Google's AI-fund, Gradient Ventures, and byFounders.

But what is causing this paradigm shift? Why are we finally seeing this boom in legal tech investments as well as increased adoption of legal tech products?

Over the past year, Legal Tech Weekly has been conducting its own research by publishing more than 50 articles on legal tech and legal innovation. In this final text of 2019, we gather those insights to one coherent analysis of the status quo of legal tech and legal innovation globally.

In this text, we have identified three main drivers of change that have been essential to this development:

1. A change in consumer demand.
2. Increased competition from alternative legal service providers.
3. Maturation of disruptive modern technologies.

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Lawyers score very low on openness to change[...] They focus on everything that could go wrong as opposed to what could go right[...]

Larry Richard, *LawyerBrain*

As noted in one of the first articles we wrote this year, 5 obstacles for innovation in the legal profession, both the partner structure, the financial incentives, the legislative protection, the precedence culture and lawyers behavioural psychology has had a negative impact on the level of legal innovation.

As Larry Richard from LawyerBrain notes in that article:

"Lawyers score very low on openness to change... People who are highly sceptical, autonomous and sensitive to criticism naturally tend to be risk-averse. They focus on everything that could go wrong as opposed to what could go right, and they are afraid of being criticised if something does go wrong."

But instead of giving up, we have decided to focus on the positive stories, on the avantgarde of legal innovation and pioneers of legal tech. So in response to the before mentioned challenges, we have also investigated some of the most interesting initiatives and solutions that the legal industry develops to cope with change. Among them are:

1. An improved tech literacy.
2. Alternative business models.
3. Engagement in the surrounding ecosystems.

Enjoy the read!

Mikkel Boris
Editor at Legal Tech Weekly

Client-Centricity in The Age of the Consumer

One of the most important reasons why the legal tech boom is coming now has been the change in consumer demand.

In one of our best articles this year, Mark A. Cohen. CEO of the legal business consultancy Legal Mosaic as well as regular Forbes contributor, author of the excellent Essays on Legal Transformation, and international speaker and thought leader explained how the latest trends are actually shaped by legal consumers. That forces law firms to become more client-centric. But what does it mean?

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> *Lawyers have been the ones who defined what legal work is. [...] What we're beginning to see is that clients / legal buyers are beginning to exercise their might.*

"To explain client-centricity in the context of the legal industry, one should start by looking at its traditional focus which has been lawyer-centric. Lawyers have been the ones who defined what legal work is. They have created a self-regulated industry where the legal profession has systematically prevented other professionals and paraprofessionals from engaging in what lawyers define as legal work. They have also constructed rules that largely prevent other professions, or as lawyers like to say, non-lawyers, from owning law firms. Law has historically taken a very insular, inward focus. Let's pivot to today, and what client-centricity means. In the last decade, since the global financial crisis, what we are beginning to see is that clients/ legal buyers are beginning to exercise their might. (...) So client-centricity today is a focus on what does the client need and who are the appropriate resources to satisfy those needs." Cohen said in our article Who is the legal consumer of the 21st Century?

Cohen located a trinity of relevant factors that have caused this age of the consumer.

The financial crisis was one, acceleration of technology was a second and globalisation was a third: "With the financial crisis, businesses across all industries became more efficient, cost-effective, and customer-centric. This filtered into the legal industry as well because the law was never before required to be financially accountable. Lawyers could charge what they wanted. They had the leverage over clients but post-financial crisis that pendulum started to swing. Likewise, technology became a greater change agent after the financial crisis. Go back to 2007 - social media was in its infancy, a lot of the large tech companies like Facebook and Google were neophytes, Amazon was bleeding red ink, Uber barely hit the road, and Airbnb wasn't really up and running. You had all these new tech-enabled business models which were really customer-centric that came into being in the last decade. Then finally there is globalisation. Technology has accelerated globalisation and that has two facets. One is labour arbitrage and sourcing a growing list of low-value/high-volume tasks to lower-cost jurisdictions. Likewise, technology enables remote resources to work in a far more agile fashion," he explained.

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So what is it that the legal consumers of the 21st Century want? For one, they want data-driven solutions and data-driven recommendations instead of war stories. They want solutions and answers instead of legal briefs. And then they want multidisciplinary, holistic counsel. Finally: "clients are looking for value, speed in terms of response time and, ultimately, they are looking for a better customer-experience. If you look at numerous surveys, you will find that lawyers don't fare well with client communication," Cohen stated.

He is supported by our own research in What in-house counsels want from external law firms. It concluded that clear communication, specialised legal knowledge and access to technology are what gets a legal counsel going.

Alternative Legal Service Providers

However, some "alternative legal service providers" are putting pressure on the traditional legal industry to change.

Especially, The Big Four Horsemen of alternative legal services, or the law firm apocalypse - also known as Deloitte, EY, KPMG and PwC. A large Thomson Reuters study found that revenues for alternative legal service providers had an annual growth rate of 12.9% from 2015 to 2018. Furthermore, 23 % of the large law firms interviewed for the report said that they had lost a client to the Big Four. And it is not stopping there, as the report also predicts a 24 % growth per year in the coming years due to 25 % of corporations say they plan to increase their spending on alternative legal service providers in the future.

Often mentioned as a prerequisite for the Big Four's success is the global deregulation of the legal market that followed UK's liberalising Legal Services Act from 2007. But according to the Thompson Reuters report, the alternative legal service providers attract their clients by offering a "more sophisticated service" while Financial Times writes that the successful accountancy firms "are using technology to muscle in on traditional law firm
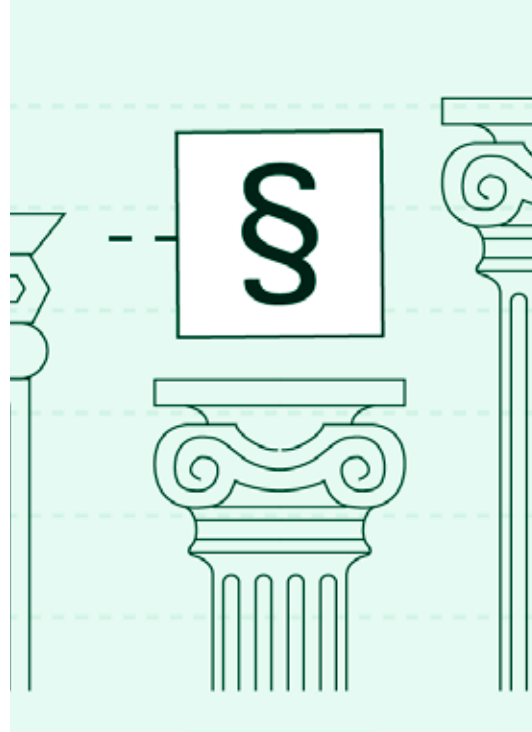
territory." But what are the Big Fours own perspectives on their triumphs in the legal industry? Legal Tech Weekly has asked them.

According to the Head of Law in EY Denmark, Susanne Scott Levinsen, EYs biggest strength is global reach as well as their ability to integrate the legal services with the other offerings in one-stop-shop concepts: "Our strength is that we collaborate with all our colleagues in EY - both nationally and globally. It means that we can manage and coordinate with all the advisors we have involved. We can develop and offer counselling which is deeply specialised and at the same time builds on a broad economic, technical and commercial insight," she said.

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In the future, law firms will not be able to focus on law alone if they are to survive in an increasingly competitive market.

A similar explanation came from Lene Sakariassen of PwC Norway: "PwC Legal can obviously provide advice in terms of the legal aspects of the deal. However, we can also help the client in other aspects of the transaction, bringing along different experts from other service lines within PwC. (...) PwC has, in other words, a holistic and integrated approach to legal services, offering clients the right mix of lawyers, consultants and financial advisers to help the client develop an efficient and commercially viable solution," she told Legal Tech Weekly.

Our very own Anders Spile has therefore proposed the idea that Law firms cannot rely on law alone. "Traditionally, law firms have rested their business model on a single pillar: Legal. But in the future, law firms will not be able to focus on law alone if they are to survive in an increasingly competitive market. In the coming years, whatever can be outsourced, will be outsourced to maintain total flexibility and agility. That means recruitment, accounting, consulting, IT, law and other support functions will be areas that most companies will consider outsourcing for various reasons," he writes.

The future belongs to those who are able to create a surplus-value. Law firms must begin overcoming the chasm to other professional services. Either by merging with other professional consultancies or by developing new pillars if they want to sustain their competitive advantage in the professional services industry of the future.
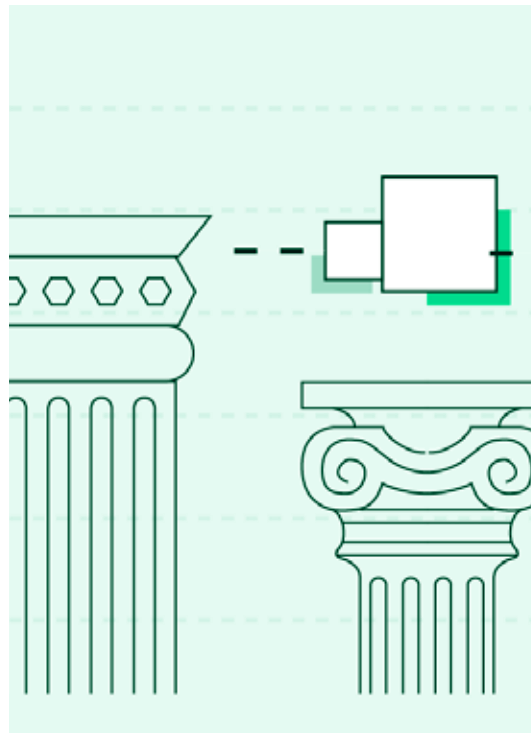
Modern Technologies: For Better or Worse

On a sunny spring day, Legal Tech Weekly visited LawGeex' headquarters in Tel Aviv to meet their Director of Marketing and Communications, Yehoshua Oz, for a chat about the role of artificial intelligence in the legal industry. LawGeex broke into the mainstream when they published a landmark study that gave tangible proof of how artificial intelligence is disrupting the legal industry: "The purpose was to test our platform against the lawyers. We wanted to show how they could perform head-to-head - in terms of their quality, accuracy and speed," said Oz in our article LawGeex: AI and Legal tech in Silicon Valley of the Middle East.

The purpose was to test our platform against the lawyers. We wanted to show how they could perform head-to-head - in terms of their quality, accuracy and speed.

The lawyers and LawGeex's algorithm were asked to spot issues in five standard non-disclosure agreements, and it is safe to conclude that the lawyers were outperformed. LawGeex's artificial intelligence achieved an average 94% accuracy rate, ahead of the lawyers who achieved an average rate of 85%. Furthermore, it took an average of 92 minutes for the lawyers to review all NDAs, while it took the artificial intelligence only 26 seconds. The highest accuracy rating on an individual test was 100 percent for the robot, while a human lawyer achieved 97 % accuracy rating on a single contract.

LawGeex repeated the result in a competition officiated by Vice News for a special report on "The Future of Work" **that was broadcast on HBO.** The broadcast refers to McKinsey's estimate that 22% of a lawyer's job and 35% of a paralegal's job can now be automated. And Co-Director of the MIT Initiative on the Digital Economy Andrew McAfee comments, "What we're seeing is that computers are better at pattern-matching than we are, even the expert human beings."

It means that modern technology will take a lot of repetitive work of low complexity off of lawyers plates. Oz insists that the technologies will rather enhance than replace the lawyers, while others believe that the legal world will be completely reshaped and lead to major job losses. In our article How AI changes the law, we investigate the concepts "technological management". Already now, technologies are able to execute the law. We will see the rule of law "applied to a regulatory environment that is technologically managed rather than rule-based," said Roger Brownsword of Dickson Poon School of Law, King's College. Imagine, for instance, programming laws into a drone so that it will not be able to fly in airport territory. What is impermissible will also be impossible. Instead of having a set of norm-based laws that everyone can violate or comply without the exercise of their free will, it will be possible to simply regulate in advance to get the desired behaviour.

However, we have also interviewed people who make the case that modern technologies are here to improve the way law works. For example, we had a chat with CEO in the American legal tech company Andrew

Arruda, who was not scared of a coming AI-apocalypse. Arruda acknowledges that some professions, like truck-drivers, might be non-existing in a few decades. However, he does not believe that the same destiny awaits the legal profession. In a Ted Talk from 2016, Arruda explains that a majority of the American population cannot afford legal services. Out of 100 million people with civil justice issues in the United States, 80 million go without legal representation. Despite the fact that you are more likely to win your case by hiring a lawyer, spending an average of 360 dollars per hour for legal representation just isn't a possibility for most Americans. That leaves a huge untapped market for the legal industry to expand into. Consequently, an increase in efficiency and productivity caused by artificial intelligence won't make lawyers redundant. On the contrary, it enables law firms to solve more cases in less time which can drive down prices, boost realisation rates, and improve access to justice while law firms can maintain or even possibly increase their current profit margins.

Whatever the result, artificial intelligence continues to be a main topic point for lawyers in the coming years. In our interview, Legal robots & the human x- factor, IT lawyer and author Niels Christian Ellegaard explains to Legal Tech Weekly: "There will be a smooth and seamless transition from now, where humans are in control of the legal industry, to a time where technological solutions will take over. But there will be no way back once we have reached that point."

A New
Tech Literacy

"It is increasingly necessary to be able to think new technologies in different ways and to be critical of them, in order to meaningfully participate in that shaping and directing. If we do not understand how complex technologies function, how systems of technologies interconnect, and how systems of systems interact, then we are powerless within them," says the British tech-writer James Bridle in his book New Dark Age. We must, therefore, acquire a basic literacy of the new technologies in order to act meaningfully, with agency and justice in the world.

This viewpoint is also becoming more and more frequent in the legal industry. Some believe that lawyers should learn to code. Others believe that future lawyers just need some basic digital legal skills.

In Sweden, Linn Alfredsson has launched Tech Academy at Lund University in order to introduce Swedish law students to the emerging technologies. In the article, Tech Academy: Improving the tech literacy of law students, she voices her belief that "Lawyers, as well as law students, should at least have a fundamental understanding of the technologies and how they work. They should be able to find the correct risks and see the benefits." We investigated this view further in The Future of Law Schools, where Jörg Heirman, associate at Ashurst in

Brussels and author of the legal tech blog At the 11th Billable Hour said: "It is important to learn the basic underlying technology, to know the differences between the technologies on the market and what they are capable of doing. And also what they are not able to do. Having a clear view on the limitations will be equally important."

But what level of tech literacy must lawyers acquire then?

One of our most popular articles in 2019 was Do lawyers need to learn to code? Here, legal writer Janine Ford researched the new class of lawyer called the "techno-legals" by some, "lawyer-coders" or "lawyer-developers" by others. In the article, Sergii Shcherbak, a lawyer and Head of Software Development at the Swedish law firm, Synch, explained that programming expertise gave him a competitive advantage: "The more our lawyers understand how the code works, the more value we can provide to our clients. And the more work we can automate, the easier the legal workflow becomes." Because of this, Synch has run workshops in Python and JavaScript for its lawyers to provide them with some insights into the inner workings of software, from a code line on the backend to the resulting process on the frontend.

However, the article mainly concludes that it is not always cost-effective for lawyers to both practise law and develop code. Rather, the coding lawyer Nicholas Ørum Keller suggests, that coding for lawyers could be what online marketing for lawyers was ten years ago: "While marketing professionals were very expert at what they did, lawyers were able to support these marketing efforts, through LinkedIn and so on. In the same vein, firms will be developing small programmes for their clients, where the frameworks and layouts are made by coders but where lawyers do the basic coding."

That is also the lesson to be learned in our most recent article, Lawyers should think like coders: "If I go to the gym today, it's pizza for dinner. Otherwise it's salad". Here, Senior Legal Counsel in Signify and Professor in Business & Financial Law at Tilburg University, Erik Vermeulen suggests that lawyers have to become part of the product development. That means lawyers must get aquatinted with the if-this-then-that logic that is applied in digital technologies: "We don't have to know the language but what we have to understand is how programs think. We have to understand problem-solving"

However, it requires that lawyers are willing and able to reinvent themselves: "We have to become digitally-savvy, understanding AI, IoT and the new world. This means we have to become the so-called t-shaped lawyer. The T-shaped lawyer has deep legal knowledge but also understands business and technology. Be creative and complex problem-solving. If you do this, you will be in a good shape. But we have to start now," Vermeulen concluded.
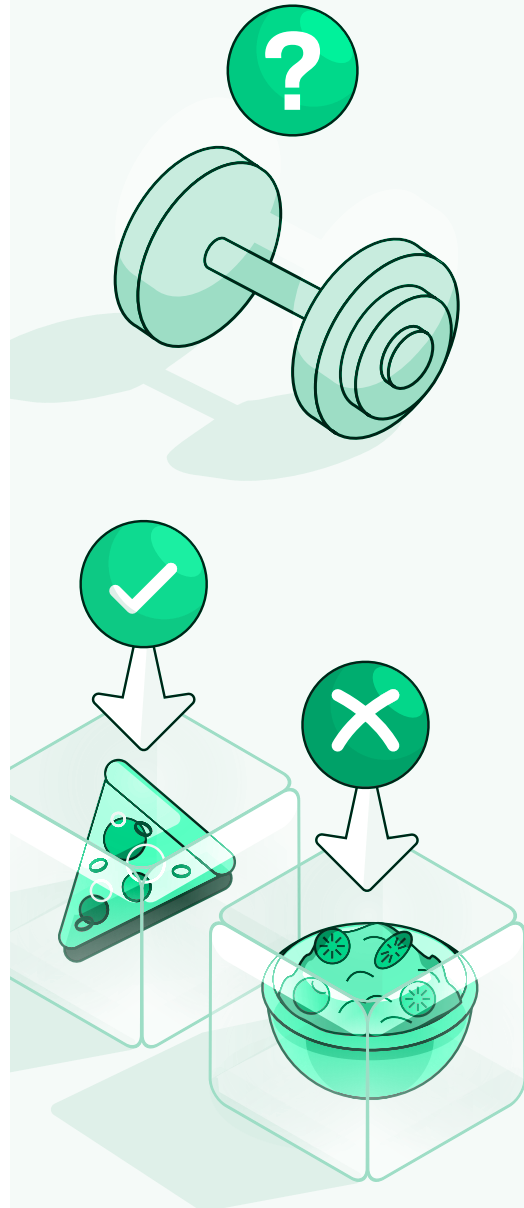
Experimenting with Business Models

To cope with the age of the consumer and the new demand for client-centrism, many legal service providers have spent 2019 experimenting with new business models and company structures. Some has created innovation as a legal profession by inserting a chief innovation officer or head of innovation to develop a culture of innovation in the law firm and navigate in the ever-growing plethora of legal tech products by testing, analysing and finally deciding which ones to implement.

Others have created captive ALSPs which is defined as in-house ALSPs "that can allow the firm to pitch a wider range of services to clients and offer oversight of the work while keeping cost low." In this way, a law firm can experiment with new processes, technologies and business models without disrupting the traditional model where there is still profit to be made.

One of the true pioneers of the captive ALSP-model is the multinational law firm Baker McKenzie and their partner, Theo Ling, who founded Whitespace Legal Collab in Toronto almost 3 years ago. Whitespace Legal Collab is a leading hub for multidisciplinary collaboration in strategy, law and technology that was founded in order to engage a broader network of professionals, take on challenges with multidisciplinary collaboration and create innovative solutions for Baker McKenzie's clients.

In our article, The collaborative approach to innovation, Ling explained some of the benefits of having a separate collab: "It has a lot to do with changing mindset. It sounds like a funny thing to say but we have observed that people behave differently when meeting in a more open and inviting space versus a conventional law firm meeting room. This is one case where more whiteboards, video conferencing, interactive props, and flexible seating configurations can actually help remove barriers to collaborative engagement. The topic of discussion may be the same but the discourse is very different and the outcomes are often unpredictable and surprising in a positive way" Ling explains.

Elsewhere, some law firms have begun to experiment with alternative pricing models. Pioneer Richard Susskind once stated that "The classic problem with hourly billing is it incentivizes inefficiency, where profitability comes from working as many hours as the client is willing to pay for". He was supported by Nick Lakhani, Financial Director at UK firm asb law concurs: "This may have suited law firms to date but it puts our interests in conflict with those of the client. The longer a legal problem exists (hours), and the more resource is thrown at it (people), the more revenue and profit is secured and the higher the cost to the client."

But the legal market is experiencing a paradigm shift in the delivery of legal services as new players and new pricing models are emerging in the market. The impact of technology has played no small part in this trend. Technological advances have meant that nowadays lawyers have more powerful ways of analysing and leveraging data to price their services, create budgets and map workflow. With detailed information on the historical cost of different kinds of matters, law firms can discover patterns to determine reasonable ranges of cost for a wide variety of legal service.

One practice embracing alternative fee structures is asb law, winner of the Financial Times' 2018 "Innovation in the Business of Law" award. A year ago, asb law decided to "kill the bill"; it would no longer offer hourly rates as a pricing option to the client. Other initiatives have been subscriptions, holdbacks, fixed fees, success fees etc.

Another interesting method to handle the current challenges in the legal industry has been the spread of legal design. Tessa Manuello explained creativity can be used to cultivate better contracts and Sarah Fox has started a fight against paper-based brick-shaped contracts, she has sworn to only create simple contracts in less than 500 words. One of the pioneers of this development is the innovative Finnish law firm Dottir and their legal design agency Dot who are trying to make legal products more accessible through design principles. Dottir and Dot. are self-proclaimed user-centric and aims to design legal products that are both useful and engaging. Instead of acting like all-knowing experts, they try to understand the specific needs of the user before they deliver the legal service. Their CEO, Antti Innanen told us more about how it actually works: "A good example could be the FAI, The Finish Arbitration Institute. They wanted a holistic view of arbitration processes so clients and lawyers could understand them. We started the project by interviewing core-users, having workshops with end-users and validating workshops with their people also. Then during the process, we did a great visualization of the current arbitration process but we also listened to the clients and found out that they wanted something more than a static visualization. They wanted something clickable, more digital, more interactive. So by actually listening to the end-customers, we built the digital tool which is now live on the website."

2019 has been a year of experimenting with both internal company structures, new delivery models and new types of legal products. We have covered smaller initiatives like playing with gig economy for lawyers to more comprehensive theories like the Future Framework for Legal Practice that Quddus Pourshafie from FutureLab.Legal presented as "a systemic change to equip the legal industry to better handle change." However, one trend seems to be the most important: opening up to the surrounding ecosystems.

Open Innovation and Ecosystem Engagement

Earlier this year, we published our vision for the future of the legal industry, the Fluid Law Firm, where we encouraged law firms to break the doom-loop and engage in ecosystems to meet the increasing demand for client-centricity. Our impression is that there is plenty of willingness to invest in legal tech companies. The problem is rather the lack of willingness to implement new solutions and actually change habits. Also, most of the technology investments go to internal innovation instead of external innovation. While that is a clear upgrade to the traditional structure, the lack of client-centricity is not caused by a flawed "internal organization structure but rather a result of the firm's lack of connection to its external environment." In short, law firms should focus more on external innovation.

Law firms must invite clients to co-create or at least participate in the innovation process. By understanding the client as an innovator: "these clients will automatically take ownership in the innovation. By taking ownership, the client will not only choose the product or service themselves, but they will also forge a stronger bond to the law firm, increasing the loyalty of the client who will share knowledge of this new product or service with others inside their industry," we wrote. For law firms to meet this new demand for client-centricity, they must value inclusion

over segregation, be less protective of their knowledge and re-arrange themselves in more radical formations. Instead of being closed entities with solidified boundaries, law firms must: "strategize for externalization, engage in collaborative ecosystems and replace their entrenched walls with flexible membranes that can absorb and extract talent and resources more seamlessly."

In The Manifesto of the Fluid Law Firm, we list a bunch of ways to become more fluid, and we go into depth with some of the examples of fluidity such as Justice Café in Atalanta, Pinsent Masons, BAHR Leap and Dahl Law. One of the greatest examples of open innovation, however, is happening in the worlds oldest law firm, Freshfields Bruckhaus Deringer LLP, where they have developed a similar vision called A connected approach to innovation. They are inviting their clients to co-develop and collaborate on their innovative initiatives which include a hub, a client experience lab and an upcoming legal service platform.

It is about serving the clients in the best way we can. We don't collaborate with the clients simply to build products for additional revenue. The purpose is to serve our clients better. Every innovative organisation outside legal that has been successful, has focused on client experience and has been committed to what the clients really want. In law, historically, we have been too ready to tell the client what we think he or she needs: Here is the matter, here is how we will fix it, this is the price we will charge you. Thank you very much and goodbye! But that is not the best way to deliver service to clients. By collaborating with the clients we get to understand them better. The closer we can get to them the better," Freshfields' Chief Legal Innovation Officer, Isabel Parker, told Legal Tech Weekly.

In a less demanding scale, we have seen Nordic law firms engage in one of this year's greatest initiatives in Scandinavia: The New Nordic Legal Tech Hub. The new initiative aims to gather tech providers, law firms, corporate counsels, and academics from Norway, Sweden, Finland, Iceland and Denmark to a platform where they can share their visions, express concerns, and form collaborations to develop new tools. "It is a platform that gathers legal-, compliance- and reg tech on a Nordic level - both online and offline - to create awareness and discussion", said their founder Nick Hawtin to Legal Tech Weekly.

Head of Legal Tech Innovation in Bech-Bruun, Torsten Torpe, embraced the concept because the initiative can bring them closer to the legal tech ecosystem as a whole: "We would like to collaborate more closely with the legal tech startups, and we believe that our collaboration with Nordic Legal Tech Hub can help us getting closer to the market and introduce us to startups and peers when we need sparring and to discuss new ideas," he told Legal Tech Weekly.

In general, there are millions of ways to open up a firm to the world: labs, hubs, agencies, seminars, networking sessions, office spaces, free consultancies - the list is long - but it all contributes to attracting talent, clients and knowledge. An expanded ecosystem is this the perfect way for a law firm to build a customer-centric culture that increases client loyalty and meet there demands.

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[Law firms] must strategize for externalization, engage in collaborative ecosystems and replace their entrenched walls with flexible membranes that can absorb and extract talent and resources more seamlessly.

Conclusion

As stated in the beginning, 2019 has been a great year for legal tech. One could even make the case that it has been a breakthrough year with a boom in investments, a great many interesting deals, mentions in the mainstream media and old law finally opening to new law.

The situation is clear: Disruptive modern technologies, high demand for client-centricity in an age of increased consumer power, and new alternative legal service providers are all challenging the status quo. If the traditional legal industry doesn't act, it will be left to die in the years to come.

However, 2019 has also seen a lot of interesting initiatives to tackle this new reality. Lawyers everywhere are improving their tech literacy to cope with the digital transformation. Law firms develop new business models and company structures with captive ALSPs, alternative billing models and new legal products based on creativity, digital technologies and design principles. Last but definitely not least, the legal industry is beginning to open up to the client, engage in the surrounding ecosystems and act with the fluidity that is required of most modern businesses.

If this trend continues, then the legal industry is in good shape to meet the future. Whether it is 2020 or 2030.

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