The SRA and law firms share the same risks

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The recently published Risk Outlook 2013 report by the Solicitors Regulation Authority (SRA) presents a balanced view of the UK legal sector's risk landscape. As I read the report, it became evidently clear that the risks to the regulatory objectives of the SRA; and those faced by law firms, are really two sides of the same coin. Also, that the legal services providers that better manage their business risks – in turn also protect the integrity of the LSA and the SRA's outcome focussed regulation.

Many of the risks highlighted in the report can unequivocally be managed through technology by law firms.

Financial management

Economic conditions are posing financial challenges to law firms. Securing finance is proving difficult and so many firms are resorting to non-traditional means such as external funding, business restructuring and complex loans. The risks of these approaches are much higher making it imperative for organisations to undertake cash flow forecasting in order to prevent a crisis. This becomes even more pertinent now in view of the HMRC's recent consultation to crack down on the use of LLPs and partnerships for tax avoidance purposes.

Technology such as business management systems provide accounting and financial management processes that cater to all types of organisational structures and accounting requirements, offering real-time visibility of the state of the business and early-warning signs of festering problems – an area that the SRA highlights as a potential risk to its regulatory objectives.

With internationalisation of business taking hold, such systems provide multi-jurisdiction, multi-currency capability for global procurement, cost accounting, control of credit and liabilities, flexible invoicing and risk and profitability management. Regional firms today have the distinct advantage of local knowledge, strong relationships and relative size that allows them to be agile and nimble at the same time. They must leverage this trend.

From a reporting perspective too, especially if private equity funding is involved, law firms need to report in a globally recognised and commercially-accepted manner. Business management systems (already widely used by businesses with private equity ownership) provide real-time reporting, insight and business intelligence to enable management to take timely and informed decisions.

Professional indemnity insurance (PII)

Per the report, in 2012-13, 16 per cent of law firms used an unrated provider for PII, up from 9 per cent the year before. This comes as no surprise. One in eight small and medium sized law firms went out of business in the last year, according to business recovery specialist Begbies Traynor's Red Flag Alert research. It is believed that for many, PII may have come too late. Those that were able to secure the insurance in time for 1 October 2013, underwent increased scrutiny as underwriters looked for assurances on their future prospects.

Evidence of use of technology systems for efficient running of the business for many PII firms is proof of an efficiency-led approach to business operation and many firms are able to even reduce their insurance premiums.

Commoditisation and price certainty

The report highlights that weak economic conditions are negatively impacting the demand for legal services and increasing competition from alternative business structures is putting intense pressure on law firms. According to a recent estimate, 2,500 law firms are at risk of financial failure in the coming year.

Commoditisation of legal services is taking place. With the unbundling of services, law firms need to offer choices to 'price-aware and savvy' customers for how they can engage with the firm. A key part of this is offering clear cut pricing for every legal sub matter while delivering the highest quality standards as outlined by the SRA's outcome focussed legislation.

Business management systems allow law firms to not only price and monitor different types of work, but also provide ways in which the charges can be accurately presented to customers. For example, invoicing of a group of sub-matters may include a combination of fixed and discounted fees for different elements of the services provided.

This ability is especially important as most law firms now follow a hybrid pricing model that combines the traditional hourly structure and new pricing schemes. Internally, these systems provide law firms with visibility of their supply chain enabling them to continuously develop creative fee arrangements, adopt innovative approaches to service delivery and optimise resources.

Commoditisation is also encouraging specialisation and consolidation in the industry. The Report mentions that merger deals grew 25 percent among top 100 UK law firms in 2012 compared to 2011. Many UK practices are also merging with international firms. It must be noted that this merger trend is not limited to the top 100 firms – size is not the only major factor in the efficient delivery of legal services. Regional firms can take advantage of their lower cost base (fixed and variable) that many larger firms cannot. This presents smaller firms with an opportunity to become highly specialised players in the delivery of commoditised legal services.

Business management systems are inherently configurable so they can truly consolidate the business processes of merging organisations, as well as easily scale to accommodate additional volumes of data within the system. They provide operational transparency, visibility of the cash flow position and highlight the organisation's risk exposure.

Anti-money laundering

All firms must comply with the Money Laundering Regulation (2007), the report however reveals the potential underestimation of risks of non-compliance by firms. Breaching the regulation brings serious sanctions, not just from the SRA, but the 'law' as well. Adopting specialised compliance solutions that are designed to help comply with numerous regulations globally can help with effectively mitigating the risk of non-compliance.

Technology facilitates sound business management

Transparency of firms' operations, protecting consumer interest, compliance with regulation and financial controls are all sound business management principles. Underpinning the business with technology puts checks and balances in place to ensure ethical business practices, high standards of service delivery and regulatory compliance.

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