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Technology and Innovation in Legal Services

Final Report for the Solicitors Regulation Authority

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Introduction

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1.1

Aims and objectives of the study

This study was commissioned by the Solicitors Regulation Authority (SRA) to provide a ‘state of the market’ overview of the use of technology and innovation in the legal services sector, paying specific attention to areas where the SRA could make a difference.

One of the [SRA’s 2020–23 strategic priorities](#) is to ‘actively support the adoption of legal technology and other innovation that helps to meet the needs of the public, business community, regulated entities and the economy’, while maintaining high professional standards for solicitors and law firms. The research findings presented in this report are intended to feed into the SRA’s consideration of how to implement this strategic priority.

Technology and innovation have already changed, and will continue to change, the face of the legal services sector in the UK. The key objectives of the research, carried out during December 2020 – May 2021 by a team led by Professor Mari Sako at the University of Oxford, are:

- To provide up-to-date evidence on how legal technology and innovation are being implemented, and the resulting benefits and risks for the users of legal services, with a view to drawing implications for SRA regulation.
- To build a better understanding of unmet legal needs, including of the most vulnerable, by highlighting perspectives of providers, to help to address these needs.
- To identify the size and shape of the legal technology and innovation ecosystem in the UK, so that the SRA, through SRA Innovate and collaboration with other stakeholders, can appropriately support innovative approaches to providing legal services, including via the adoption of new technology.

When commissioning this research, the Solicitors Regulation Authority raised the following questions that the research should address.

1. What types of technology are legal service providers using or planning to use? What innovations have they made?
2. What are drivers of, and barriers to, innovating and using technology?

3. Which areas (market segments, areas of law, geographic region) of the legal market are more likely to innovate and adopt legal technology?
4. How are innovation and lawtech ventures funded? Who is investing and from where is the funding derived?
5. How are technology and innovation affecting equality, diversity and inclusion for different types of providers and consumers with unmet legal needs?
6. What are the emergent risks – including regulatory risks – and unintended consequences resulting from the use of technology, particularly those that might need immediate regulatory attention?
7. What is the nature of interaction between firms' business models and the levels of innovation and use of technology?

We provide answers to these questions in Chapter 6 of this report.

This report presents the findings of an online survey in April 2021, with responses from 891 SRA-regulated firms, 50 interviews with a variety of stakeholders, and analysis of databases by Burning Glass Technologies, Crunchbase, and Legal Technology Hub. The timing of the study has been opportune, enabling us to elicit fresh responses about the impact of COVID-19 on technology use and innovation.

Defining legal technology and innovation

We launched our study in January 2021 with a keen awareness of the need to define what is meant by legal technology and innovation. Definitions are important to clarify and agree on the subject under discussion.

But they are sometimes assumed, not explicitly stated. Notably, the Clementi Review, which led to the enactment of the 2007 Legal Services Act, had as its terms of reference, ‘to consider what regulatory framework would best promote competition, innovation and the public and consumer interest in an efficient, effective and independent legal sector.’¹ But the report failed to clarify what was meant by innovation. Other times, clear definitions are offered, but innovation and legal technology are treated separately.² The two are obviously linked, but in what ways?

With respect to legal technology, we decided to adopt the definition offered by the Law Society of England and Wales. This decision was taken after a review of prior research ([see Annex Report](#)). The [Law Society \(2019\)](#) provides a definition of lawtech³ as follows:

‘Lawtech is the term we use to describe technologies that aim to support, supplement or replace traditional methods for delivering legal services, or that improve the way the justice system operates.’

Lawtech covers a wide range of tools and processes, such as: document automation, advanced chatbots and practice management tools, predictive artificial intelligence, smart legal contracts, and knowledge management and research systems.’

For the purposes of our survey, we offered the following definition: ‘legal technologies are 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).’

With respect to innovation, we adopted the following definition after conducting a review of academic literature and sector-specific evidence ([see Annex Report](#)). We focused on three types of innovation: first, product innovation (which is about offering new services or significantly improved existing services), delivery innovation (which is about making improvements to the delivery of services), and marketing innovation (which is about making improvements to the marketing of services). Thus, in our online survey, we defined innovation as ‘significantly improving existing services or introducing new services, or making improvements to the delivery or marketing of your services.’⁴

In subsequent chapters, starting with Chapter 2, we discuss findings on innovation and legal technology adoption sequentially and together, in order to investigate the link between the two. Evidently, innovation is not all about technology. And the adoption of legal technology is a means to an end. This study provides an up-to-date picture of the extent of innovation, current and planned use of legal technology, barriers to innovating and adopting legal technology, and the size and shape of the lawtech startup ecosystem in the UK.

¹ Sir David Clementi (2004) *Review of the Regulatory Framework for Legal Services in England and Wales: Final Report*.

² Legal Services Board (2018) *Technology and Innovation in Legal Services*, November.

³ The terms ‘lawtech’ and ‘legal technology’ are used interchangeably in this study.

⁴ We excluded other types of innovation. In particular, what the LSB 2018 study calls ‘strategic innovation’ and ‘organisational innovation’ are part of changes in business models. But it is hard to elicit such ongoing changes using a one-time survey.

Market segmentation in the legal sector

In order to be able to draw evidence-based implications for policy and regulation, this study also highlights the importance of segmenting legal services markets.

We discuss two main types of segmentation in this report. The first is by type of clients that legal service providers serve, contrasting the individual consumer and small business retail sector (the PeopleLaw sector) and the large corporate client-facing sector (the BigLaw sector).⁵ Evidence exists of a sharp divergence between the two market segments with different business models and differential access to resources.⁶

Policy makers' concerns arguably also perpetuate this divide, as their objectives differ, promoting international competitiveness in corporate legal services and improving access to justice for citizens in consumer legal services. Might the gap be bridged if technology adoption lowers the cost of legal service delivery and increases access in the PeopleLaw sector? Are there policies and regulations that could promote spillover effects from one segment to another to the benefit of both segments? What role could the SRA play in affecting the convergence-divergence of these two market segments?

The second type of segmentation is by regulation. Here, market segmentation is between the regulated and unregulated sectors. In England and Wales, the legal services market is regulated by a multiplicity of frontline regulators based on the Legal Services Act 2007. However, unregulated providers of legal services and legal technology increasingly operate in the market or at the periphery of the market. They might implement more innovative approaches to legal service delivery, which may result in consumer benefits, but may at other times also cause consumer harm. A central question here is: how can regulators promote innovation across the whole legal services sector without causing detriment to consumers?

Other segmentation is explored throughout the report, including by size and age of law firms, the types of work they do, their geography and their business model. This study provides evidence of recent developments in different market segments, with a view to answering the above questions.

⁵ Bill Henderson (2018) *Legal Services Landscape Report*, presented to Board of Trustees, The State Bar of California.

⁶ See John Armour and Mari Sako (2021) *Lawtech: Levelling the Playing Field?* SSRN working paper.

Structure of this report

This Report is structured as follows:

Chapter 2 presents evidence from an online survey and interviews to shed light on innovation and the current and future uses of legal technology, and drivers and barriers – including regulatory barriers – faced by innovators and adopters of legal technology.

Chapter 3 is about market segmentation, with an analysis of major differences between the PeopleLaw and BigLaw segments, and between the SRA-regulated and the unregulated sectors. The latter involves a labour market perspective, with evidence from a large database of digital job postings by Burning Glass Technologies.

Chapter 4 presents findings on the providers' perspectives on using innovation and technology to meet unmet legal needs, and on mitigating risks arising from using legal technology.

Chapter 5 turns to the analysis of the legal technology ecosystem, identifying the characteristics of startup founders, investors, and policy-makers.

Chapter 6 concludes with drawing implications for policy and regulation.

Each chapter is written in such a way that it can be read as a standalone piece.

The Final Report is informed by prior desk research to review existing theory and evidence, and contains analysis of original evidence we collected from an online survey, a series of interviews, and databases. Details of the research methods used – desk research, online survey, interviews, and database analysis, are in the Annex Report.

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