



The Law Society

**2009 and the challenges ahead: leading law firms
through the global downturn**

Speech by the Rt Hon The Lord Mayor of London Alderman Ian
Luder at the Law Society legal breakfast

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supporting
solicitors

As you know, my principal work is ambassador for all UK-based financial and professional services - from banks and insurance companies to law firms. In this role I will travel overseas for some ninety days this year with a top-level business delegation, - and among them delegates from law firms. Many of these trips will involve lobbying for access for UK-based law firms, as well as legal events where we will discuss working with UK-based law firms.

I have no doubt that 2009 and 2010 will be tough years. We are entering recession, and we are seeing significant job losses here in the City, and I think it is wrong to pretend that we are not going to see more bad news in the financial services sector and the whole economy. But we must not lose sight of the fact that unprecedented amounts of fiscal and monetary stimulus have been injected over the past four months. In reality they have to be given time to work - rather like the old-fashioned remedy for a virus - go to bed and drink plenty of fluids.

I think there is a real danger that the pressures of the electoral cycle will result in over stimulus being applied - with horrid consequences for inflation down the line. I am cautiously optimistic about the future: if we do the work now¹, the City will emerge from recession as a world-leading financial centre.

I believe that in the future, global financial services will grow. They are essential to the real economy - take science and technology, for example, where the UK excels. To get a strong science and technology sector going, you need a very high level of education and a financial sector with a large investment capacity and substantial appetite for risk.

Perhaps even more crucially, financial services are becoming necessary to the developing world, helping to provide modern infrastructure, education, insurance services etc. So the overall financial services cake is growing. As a very long-standing, trusted international financial centre, the City is very well placed to benefit from this.

In one sense, I think that the events of 2008 make London an even more attractive location to do legal and financial business.

One of the experiences of the past is that at times of stress and difficulty, there is always a flight to quality and to proven establishments. At a micro level, you could

¹ international regulation, reinforcing role of FSA, putting better safeguards in place e.g. whistle blowing mechanisms etc

see it at the Lord Mayor's Show, with record crowds on the street, despite the appalling weather, as people yearned for what was stable.

The key is for the UK to take the lead on new transparency, new responsibility and new regulation. The old mantra of 'light touch' regulation isn't going to resonate with legislators and opinion formers, and I think we need to move the debate on. Let me explain why.

Whatever might be the terms of any investor protection scheme, what we have seen in Ireland, Germany and the UK, is that no democratic government, of whatever political persuasion, can afford to let Mrs Smith of 14 The Avenue Hendon, or Freidrichstrasse 17 Hannover, suffer any loss as the result of the failure of a banking institution, whether that institution is domestic, or one located elsewhere on a web based platform. That's why cross border regulative cooperation will happen.

We need to understand that the rules and the name of the game have changed. What we need to argue for is regulation which is intelligent and focussed, and that Governments should accept that regulation only creates the framework within which business operates. Regulation can neither protect Society from the impact of bad management decisions, nor can it replace the application of common sense, sound judgement, or those old fashioned but timeless values of integrity, trust, openness and fair dealing.

All of us will have client take on procedures within our Firms, which I am sure are compliant with all the regulations. However, as opposed to some of your younger colleagues, we are of an age when besides wanting to know that a gas bill has been photocopied and a passport seen and a certified copy taken, we ask the more fundamental questions such as:

- How did this client arrive?
- Who recommended them?
- Who else do they do business with and what do those people say of them?
- Do we want to do business with them?

You will never get those issues covered in a rule book.

We also need to debate the effect of 'confidence' on the system itself, and perhaps even the duty of responsibility amongst the third estate and dare I say politicians. Just take banking, the regulators might conclude that a tier 1 capital ratio of x% is what is required, and we go around chanting x% safe y% bad. However in calculating the x%, if changing views are taken of that institution's asset side, without due care -

say by Nigel Lawson's famous teenage scribblers, an adequate capital ratio can suddenly look very different and we have a new 'crisis'.

One of the by products of greater international regulatory cooperation, should be greater ease for law firms to expand their common law practise to operate successfully overseas. I sincerely hope that it will also destroy the spectre of protectionism: the financial crisis has demonstrated that our financial system works globally, and rather than seeking to batten down the hatches, we must all work together to forge global solutions.

There are a number of challenges for legal services, particularly for niche markets. Property lawyers must be seeing a downturn already.

Those firms authorised to conduct investment business will, if they handle client funds, undoubtedly face additional capital adequacy requirements, and I suspect that this will reduce still further the numbers of firms who provide investment management services on a small scale.

Clearly, if your business interacts with other businesses you can't be immune from wider financial issues. I visited Morocco at the start of this year, and I was told 'We have rigorous exchange control and limited currency convertibility - so our banks are immune from the credit crunch/ financial crisis.' I replied, 'There may be no direct impact but your economy is not isolated. Already your textile industry has suffered from demand shortages. The UK is a big market for Morocco and so the depreciation of sterling has made exports and tourism more pricey. This is bad for hoteliers who expected higher levels of occupancy. If the tourism sector starts defaulting on loans, it will raise issues for banks.'

And the same applies to law firms. I know that over the past decade you (law firms) have placed much greater emphasis on modernising billing and collection procedures, controlling, lock up and capital requirements. This becomes even more essential in today's climate- to make sure you are not exposed to credit defaults by your clients and that you control your investment in them. I always tell my staff, if I had wanted to be a banker, I would have gone to work for Barclays. The change of accounting treatment under UITF 40 and IFRS 5 have obviously been drivers in this direction - but even firms who were reluctant to change practises now need to do so.

Another way to be competitive is obviously to keep costs down. The pound's fall against the euro is already helping us there, but we must continue to work on costs: everyone in this room believes that justice should be available to all, and that is what we must offer, affordably. Mediation and alternative dispute resolution are excellent

rapid, low-cost and relationship-saving solutions which can obviate the need for litigation, and should be offered and championed as a matter of course. This may be one way in which a recession may change the way legal business is done.

For my part I will continue to support London-based law firms all around the world. We need to carry on letting the world know about the advantages of English law, - which is after all the commercial law of choice world wide, and to ensure that we do our work with integrity. I will also fight protectionism. We know that it is in the best interest of foreign countries looking to attract overseas investment and create a strong financial services sector, to liberalise and welcome overseas legal firms. In our experience opening to overseas law firms actually adds to the work for local lawyers, rather than taking work away from them. I will continue to say that a strong international legal sector is a central part of our financial services offering in the City.