



Welcome to the fourth edition of *Research RoundUp*, The Law Society's publication highlighting recent research on the legal services market published by legal sector bodies, the Ministry of Justice (MoJ), academics and others interested in the sector.

The following reports have been published over the last four months. The themes include the top 100 law firms' performance, consumers' engagement with legal services, diversity and inclusion and regulatory reform.

### Big law



[The Lawyer's UK 200](#) report highlights strong turnover growth for top 100 firms in 15/16, rising 5% in 2014/15 to £20.13 billion - the largest revenue ever achieved by the group. The total number of lawyers working in top firms grew by 4% in 2014/15 to 54,924 in 2015/16. Since 2011/12 the total revenue has grown by 19.2%, from £16.89 billion (in nominal terms).

The picture for profit, on the other hand, is less positive. According to PWC's 25<sup>th</sup> Annual Law Firms' Survey, profit margins of top 100 firms dropped slightly in 2016 relative to 2015 but are still high. Top 10 margins fell by 1.2% (to 38.7%), top 11-25 by 1.0% (to 28.2%), and top 26-50 by (1.4% to 23.1%). Overall, UK margins were substantially higher than those from other international regions (39% compared to 10% from the USA and 15% from the Middle East).

Drawing on these and other sources, NatWest's [perspectives on the legal market](#) highlights outsourcing of routine work, a lack of high-value transactional work, alongside pressure from clients to get more for less, as having put sustained pressure on firms' margins. Main challenges ahead include the uncertainty likely to affect the market following the Brexit vote and achieving more profit with less turnover. Furthermore, the report flags early signs of potential weakening of the dominance of the traditional partnership model in 15/16 as two US firms setting up as ABSs in London, Gately's listing on the stock market and the growing presence of the Big Four accountancy firms, whose global income has increased rapidly.

The latest update of the Law Society/Legal Monitor [City Legal Index](#) shows a significant increase in the number of deals between January and June 2016, but a significant fall in the total value of deals. The increase in volume was driven by activity in the fund management, energy and utilities, technology, media and telecoms industries, while the fall in average value was largely due to a decrease in the number and value of M&A deals undertaken.

# Consumers and consumer markets



## Informing consumers

The Legal Services Board (LSB) [review of the way oversight is used](#) to encourage costs transparency in the wider economy concluded that transparency is a basic expectation of government and of the public for companies, the public sector and regulators. While transparency plays a role in promoting trust both the type of information and the way it is provided is important.

Further insight to this issue is offered in [Against the Clock](#), a Citizen's Advice Bureau study exploring the impact of consumers spending extra time engaging in the markets. The findings underline the fact that providing more information does not always assist decision making. Furthermore, spending more time engaging in decision making does not appear to improve satisfaction levels. The report offers three reflections for policymakers, regulators and providers.

- Regulators should explore ways to incorporate the quality and speed of consumer journey into their assessment of whether a market is working well or not.
- Policy and interventions should be judged according to the outcomes they deliver for consumers.
- Consumer markets should be designed around how people behave in the real world, instead of how idealised models assume – noting that there is still much to learn about how to operationalise this in practice.

Research on [client care letters](#), commissioned by the legal service regulators and the Legal Services Consumer Panel (LSCP), has found that the language and methods of communications used by providers are major barriers to clients understanding and engaging with legal services. The research identified eight key principles for encouraging better engagement from clients.

1. Show a clear purpose
2. Keep it concise
3. Use plain English
4. Prioritise information
5. Personalise information
6. Make letters easy to read
7. Highlight key information
8. Consider additional opportunities to engage consumers

The Council for Licensed Conveyancers' (CLC) [Annual Regulatory Return](#) analysis for 2016 shows that 90% of its regulated practices offer services on a fixed price basis compared to 70-80% of the organisations surveyed by LSB for its pricing research (mentioned in Research Roundup issue 3) . As the basis for collecting price information differs in the two approaches, and a range of factors that determine price variation cannot be accounted for, a definitive conclusion on price differentials is not possible.

## Professional Indemnity Insurance

The SRA's analysis of [insurance claims data](#) from 2004 to 2014 shows that one in five claims resulted in an indemnity payment, with 98% settling for less than £580,000 and conveyancing claims generating the bulk of indemnity payments. Over time, TLS's annual PII surveys show that premiums have remained relatively stable.

# Diversity and inclusion



BSB research into [women's perceptions and experiences](#) of the current equality rules found examples of good practice and clear evidence of progress in some areas but causes for concern include:

- Addressing unfair treatment by way of harassment, discrimination, work allocation, flexible working and returning from maternity leave.
- The reluctance to report unfair treatment.
- Instances of non-compliance, poor implementation of policies and unsatisfactory levels of awareness of the Equality Rules.

The Law Society's most recent [Diversity Profile](#) confirms that although more women than men are entering the profession, they continue to be under-represented at partnership level, particularly in the larger firms. The 19.2% gender pay gap, based on annual median earnings and reported in the [Private Practice Earnings](#) factsheet provides further evidence of differences in progression for men and women.

# Regulation



The Solicitors Regulation Authority (SRA) has published a number of research reports on education and training, handbook and reform plans.

[A Question of Trust](#) highlights agreement between the public and profession that dishonesty and misuse of client money are the most serious offences for a solicitor but views differ on two main areas. Questions relating to risks around client confidentiality - for example through 'shoulder surfing' or losing client files - were on average viewed as more serious by the public; and issues linked to a solicitor's competence - such as a solicitor providing poor advice without fully understanding the relevant law - were also viewed as more serious by the public. The findings are being used by the SRA to inform its proposed new decision making framework for supervision and enforcement matters.

Focusing on the [ethical identify of law students](#), Moorhead et al's<sup>1</sup> survey of students in the UK and US suggest that the strongest influences on ethical identity are gender and career intentions and thus largely external to legal education. Women displayed moral identities associated with more ethical conduct and students intending to practise business law showed weaker moral identities. The authors conclude that law schools may need to look harder at how they prepare their students for ethical legal practice and firms should consider how they signal their own ethical identities.

[An international comparison of approaches to qualification](#) shows that central assessments similar to the proposed Solicitors Qualifying Examination (SQE) are widespread in the major jurisdictions around the world, including New York, California, Ontario, Germany, France and India. Nearly all jurisdictions require a degree or equivalent to qualify as a lawyer and the majority require legal work experience prior to qualification as a solicitor.

[Prequalification work experience](#) was found to add value through gaining new knowledge related to areas of law not covered in prior or parallel classroom activity, or application of existing or new knowledge to the messiness and unpredictability of the real world.

<sup>1</sup> Richard Moorhead, Catrina Denvir, Rachel Cahill-O'Callaghan, Maryam Kouchaki & Stephen Galoob (2016), The ethical identify of law students, International Journal of the Legal Profession, 23.3, 235-275, DOI: 10.1080/09695958.2016.1231462

# Research in the pipeline



## Purchasers of legal services

- **Experiences of consumers in family, children and social welfare law (SRA)** – a study of consumers and providers due early 2017.
- **Legal needs survey (MoJ)** - telephone interviews with 3,500 people over the period Nov 2014 - Mar 2015 who had experienced a legal issue.
- **Public experiences of the legal system (The Legal Education Foundation)** - research to explore people's experience of law and the legal system and improve understanding of what it means to be 'legally capable'; also to explore the patterning of legal knowledge amongst the general public, due February 2017.
- **Vulnerable consumers' experiences of legal services (LSB)** – research to understand how consumers with mental health issues experience legal services due March 30 2017

## Providers of legal services

- **Online survey of barristers into how legal services are being delivered (BSB)** – a survey to help better understand how legal services are facilitated, accessed and delivered due early 2017.

## The Market

- **Investment in the legal sector (LSB)** - The LSB is starting research looking at investment in the legal sector, and an update of its previous research on prices in the legal sector, due April 2017.
- **City Legal Index** (July-December 2016)
- **TLS Legal Monitor** (Mar 2017)