



## **Thursday 6 October is an important milestone for the modernisation of the legal services market in England and Wales**

The legal services market in England and Wales has been valued at £24.74 billion a year, forming a substantial contribution to GDP. Operating in the sector are 15,000 barristers, 157,000 solicitors, 1,000 licensed conveyancers and 11,000 individuals working in other aspects of the legal profession. UK lawyers have a global reputation, with London operating as a centre of excellence for legal services.

The sector is on the threshold of historic change designed to reinforce and enhance that reputation. In 2007, Parliament passed the Legal Services Act, a package of wide-ranging reforms to the way that providers of legal services to consumers are regulated. A major part of those reforms was to open up the legal services market to allow new entrants to deliver legal services in new ways. The first of these new forms of legal services businesses will begin trading on **Thursday this week (6 October 2011).**

### **New forms of legal businesses**

Prior to the legislation, it was predominantly only those with legal qualifications who were allowed to own businesses providing legal services. This prevented non-lawyers investing in and contributing to legal services businesses. The restrictions excluded them from taking a stake in the legal services market and contributing to its growth. This had an anti-competitive effect through creating lawyers' monopolies and preventing participation in the market. Ultimately, this meant less choice for consumers and barriers to innovation and new ways of doing business.

The reforms taking effect on Thursday will open up the market though removing those restrictions, which have become counter-productive in protecting consumers and have dampened competition. New entrants, beginning with conveyancer-led ABS, will be able to invest and operate in the legal services market. This will bring new ideas and working practices, challenging old orthodoxies and innovating to provide more tailored packages for consumers. Over time, we will see lawyers forming new partnerships with other professional services providers, creating scope for new

packages of services to become available. As competition increases over time, there will be greater pressure to provide value-for-money and more incentives for high-quality practice. This is likely to enhance growth in this part of the UK economy.

Common suggestions on likely results in the medium-term include:

- The attraction of external capital into law firms, including law firms floating on the Stock Exchange
- Consumers will be able to access legal services alongside other services such as, for example, accountancy, tax or insurance advice
- Legal franchises

The umbrella term for these new forms of legal business has been '**Alternative Business Structures**' or '**ABS**'. A major priority for the Legal Services Board (LSB) – the body overseeing the regulation of lawyers in England and Wales – has been to design the licensing framework for ABS, as well as to handle applications from bodies aiming to become Licensing Authorities for these new businesses.

### **What will happen on Thursday?**

On Thursday 6 October 2011, the first of these new forms of legal business will begin trading – opening its doors to consumers. On that day, the first Licensing Authority – a body able to award licences to ABS – will become able to begin considering applications. The first of these new ABS will be conveyancer-led, licensed by the Council for Licensed Conveyancers (CLC). The CLC has been licensing conveyancers for over 20 years and also licenses other legal services such as probate.

### **What are the next steps?**

Solicitor-led ABS will be the next tranche of new legal services businesses to emerge. These will become licensable following the designation, by the Lord Chancellor, of the Solicitors Regulation Authority (SRA) as a Licensing Authority. We expect this to happen before the end of 2011 subject to decisions by Parliament.

Other bodies can also apply to the LSB to become Licensing Authorities for ABS. We expect to receive further applications in the near future.

### **Consumer protection through regulation of these new businesses**

The licensing rules ensure that consumers can expect the same level of protection in relation to ABS as they would from a traditional law firm. In regulatory terms, there is a level playing field between the new ABS and traditional law firms.

As lawyers begin to work closely with other service providers within ABS there will be designated compliance officers held accountable by the Licensing Authorities for ensuring high standards. The requirements designed by the LSB – and enforced by the Licensing Authorities - will ensure that professional standards and ethical behaviour are placed at the centre of ABS governance.

Alongside liberalisation, we expect the regulators to take a more outcomes-focused approach to regulation. Both the CLC and the SRA will be launching a new approach to outcomes-focused, risk-based regulation on Thursday. This approach is designed to ensure legal practitioners comply with the spirit of consumer protection behind the regulation, rather than an approach based on 'ticking boxes'. As the first regulator to license ABS, the CLC will be rigorous in applying this smarter new approach.

### **ABS as a platform for further modernisation**

These measures begin to liberalise the market by reforming the rules on ownership and management of firms. This is just the beginning. Important though these reforms are, the next stage of modernisation will be to ensure that regulatory rules themselves are sufficient to protect consumers. This will involve a focus on quality, a re-examination of the scope of regulation and development of the legal services workforce.

A priority that runs through all of this is to develop new ways to empower consumers to make discerning judgments on what's right for them in a marketplace characterised by much greater plurality. Even before the reforms, consumers struggled to make informed decisions on the type of legal services they need – and how to find them. As more diverse service offers become available, consumers will need more support to navigate through the service landscape and decide what's right for them. We need to help them feel confident in judging the quality of service and back this up with clear routes to redress for when it has fallen short.

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