



## Wave of Disruption in the US Legal Industry

### Leveraging technology to lower the cost of legal advice for businesses, including M&A transactions

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A luxurious office in a major business district lined with skyscrapers, where clients pay high hourly fees and the measure of success for an excellent lawyer is making partner...

The US legal industry, dominated by this corporate culture, is facing a wave of disruption. New entrants are taking advantage of technology and deregulation to change the shape of the industry, and high-fee structures are also under review. There will be an impact on M&A and other businesses in the financial industry that rely heavily on legal services as well.

In September of last year, when Rocket Lawyer was allowed to employ attorneys, a shock went through the US legal industry. The company is not a law firm; its services focus on individuals and small/mid-

sized businesses and include legal documents for incorporation and estate services like wills, and it has grown rapidly in recent years.

### ***Changing the status quo in Utah***

In the US, each state's regulators oversee attorney licensing in that state. Regulations are based on model rules created by the American Bar Association (ABA). ABA rules prohibit non-law firms from employing attorneys, as well as the establishment of companies where lawyers and non-lawyers split the profits, because lawyers and law firms serve a wide variety of clients, and if non-lawyers are involved in management it could lead to conflicts of interest.

On the other hand, in America's highly legalized society, many Americans lack access to a lawyer's services. Amid this constraint, Utah has changed the status quo.



The state amended the ABA's model rules to create a "sandbox" program that allows non-law firms to employ attorneys and provide legal services on a trial basis. After the trial period, companies can receive official approval. Lucy Ricca, Executive Director of the Utah Supreme Court's Office of Legal Services

Innovation, explains that “we wanted to fill the gap facing individuals and small/mid-sized businesses who couldn’t hire lawyers or access legal services due to high fees.”

Rocket Lawyer is one of about 25 companies that have been approved to join the program. The company uses computer and smartphone-based apps to provide services on a subscription basis.

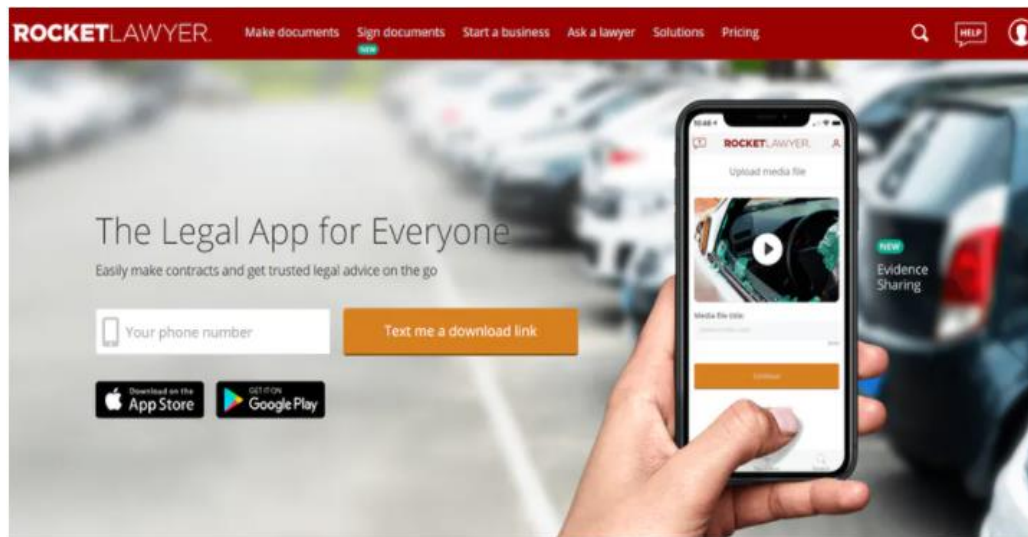
### ***The “Netflix model” for legal services***

Charley Moore, Rocket Lawyer’s founder and CEO, likens his entrepreneurial aim to video streaming. “We wanted to make legal services as accessible as Netflix.” The former Silicon Valley lawyer founded the company in 2008 to fill the serious “legal gap” he saw between large and wealthy companies and the individuals and smaller businesses who could not afford legal services at all. Industry insiders believe that one in nine Americans now makes use of Rocket Lawyer’s services.



There are more lawyers in the US than anywhere else in the world, but according to a report released by Harvard Law School, as many as 75 to 80 percent of small business owners don’t seek the legal help they need. The main reason: high attorney fees. According to research by Clio, a legal services software company, the hourly fee for a lawyer in Washington, DC averages \$380, the highest in the country. New York State is next, at \$357 an hour, then California at \$338. These are just averages; experienced lawyers

at big law firms can charge large companies and wealthy investor clients as much as \$1300—\$1400 per hour.



According to Ms. Ricca of the Utah Supreme Court, the state decided to deregulate because it believed that strict regulation of the legal industry at the state level made it impossible to create businesses that provide cheaper legal services. In addition to Rocket Lawyer, several Alternative Legal Service Providers have been licensed in the state thanks to deregulation. A subscription for Rocket Lawyer costs \$39.99 per month.

### ***The entry of businesses spurs innovation***

Deregulation has made it possible for non-lawyers to invest in or to co-own a law firm, expanding the opportunities for raising capital. Less expensive service providers that use technology to drive down costs are proliferating. Ricca expects that the entry of business into the legal industry will draw more funding and make innovation in legal services possible.

Rocket Lawyer recently received about \$200 million, the largest investment since its inception, from major private equity firm Vista Partners. It used the money to develop a new service, creating a smartphone app that allows customers to sign legal documents. In addition, it's partnered with about 1,000 companies around the US to provide Rocket Lawyer services to their employees as part of their benefits packages.

The wave of disruption extends beyond Utah. Arizona also relaxed its legal regulations in August of last year, and the changes went into effect this January. The state's newly created Alternative Business Structure (ABS) program allows regular businesses to provide legal services. Among the newly licensed businesses is Singular Law Group, which provides flat-rate legal services in Spanish and English to Hispanic individuals and to Hispanic-owned small to mid-size companies.



Justice Ann Scott Timmer, Vice Chief Justice of the Arizona Supreme Court, explains that for citizens outside of the Phoenix area it's extremely difficult to access legal services. "Mohave County, for example, is as large as some states in the Eastern US, but it only has six lawyers." She believes that technology-based services will help fill the gap. "It's not lawyers who develop technology." Changing the law has created an environment where businesses can provide legal services.

LegalZoom, one of Rocket Lawyer's competitors, has applied for a license in Arizona. The company went public at the end of June, listing for the first time on Nasdaq, and intends to expand its business. If its license receives approval in Arizona, that will make it the first publicly traded company in the US to employ lawyers.

Deregulation of legal service providers is more advanced in Europe. The UK enacted its Legal Services Act in 2007, which is why Rocket Lawyer, LegalZoom, and others have already been able to employ lawyers and go into business there.

This type of legislative change is spreading across the country, with Florida, California, North Carolina, and others following Utah and Arizona's lead. In addition to the move toward deregulation, the rise of alternative legal service providers (ALSPs), which use technologies such as AI, is also transforming the competitive map in the American legal industry.

The top ten largest traditional US law firms based on revenue rely on large corporate clients and are relatively stable, but the smaller law firms that provide services to individuals and small or mid-sized companies are facing an evolutionary threat from emerging players like Rocket Lawyer.

Yvonne Nath, a consultant at ALSP Advisor who advises small and medium-sized law firms on their management strategies, says that the key to survival when confronting the competition will be "incorporating legal technology and outsourcing some operations."

### ***Leveraging legal technology, M&A for less than half the cost of a large firm***

"We went outside of the Big Law firewall so that we were free to build a law firm using a new business model without the baggage of Big Law," says Mark Haddad, who became a founding partner at Flatiron Law Group in 2016 after working as a partner at a large law firm in New York State. He combines the experience and knowledge gained as a partner in a major law firm with the most innovative legal technology to keep costs down, while providing startups and small/medium sized businesses with legal services comparable to the high level of quality of big law firms.



Their cloud-based platform “Deal Driver,” which was developed in-house, manages deal data through each step in the transaction and associates it with critical deliverables for legal advice, for example for M&A transactions. Junior lawyers do not have to reinvent the wheel at each step of the process, allowing Flatiron to avoid the cost of the junior associates and paralegals who spend hours organizing data and filing documents at the big firms.

Flatiron outsources the documents that can be filled out mechanically to an outside paralegal services firm. The cost is about \$40 per hour, only 1/5<sup>th</sup> to 1/10<sup>th</sup> of a major law firm’s paralegal costs. In addition, the firm offers legal services to its clients for a fixed fee. As a result, they reduce the cost of their M&A advice, for example, to half or 1/3<sup>rd</sup> what it would cost at a big law firm.

Haddad says that “the paradigm shift for Flatiron happened when we introduced a fixed fee business model, because we have every incentive to be efficient.” His firm will use its new business model to take on the top “AM Law 100” firms in the US as competitors.

The collapse of the hourly fee business model is spreading among small and mid-sized law firms, Chicago-based law firm Actuate Law among them. Former partners of major law firms leveraged technology to launch Actuate in 2018. The firm has implemented a diverse and flexible range of fee structures: in addition to the conventional hourly fees, it also offers fixed fees and monthly retainers. For startups that haven’t become profitable yet, it accepts payment in stock options.



***Lawyers need business skills too***

“Lawyers need to improve their business capabilities, not just their legal skills,” says Managing Partner Dara Tarkowski. Actuate makes use of AI and other technologies to automatically create legal documents. Its technology development department was spun off as a subsidiary and has begun offering services to clients.

In the financial industry there are a wide range of players responding to different customer bases and playing to different strengths, from Goldman Sachs to regional banks to online brokerage firms such as Robinhood. The formerly staid American legal industry, which used to offer similar services and employ similar staff, is now undergoing a rapid diversification.

Wall Street leader Goldman Sachs has set up consumer-focused “Marcus” to provide financial services to the general public. Not yet struck by the wave of disruption, the large law firms are an outlier.

Ricca, of the Utah Supreme court, says she is looking forward to the day when large elite law firms, like the financial industry, begin to consider consumer service as a business opportunity.