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2024 Report on the State of the UK Legal Market

Positivity amidst volatility

Executive summary

Following a year of considerable volatility in spending plans by United Kingdom-based buyers of legal services as they faced continued economic headwinds, those clients today remain focused on commerciality and cost control, while issues around risk and environmental, social, and governance (ESG) have become key points of interest for many, with most welcoming further use of technology in driving efficiency.

Market conditions

Following a pattern set in 2022, UK-based corporate clients started 2023 on a generally positive note, with nearly half predicting an increase in spending at the end of the first six months, compared to one-quarter who were forecasting a spending dip. However, this *net spend anticipation* (NSA), as recorded in the Thomson Reuters Institute's annual study of corporate clients, fell sharply in the third quarter of 2023, before recovering to end the year on a much stronger note. Despite the Q4 recovery, however, more volatility lies ahead.

Highlights of the Q4 recovery included renewed spending on legal matter involving M&A and the financial sector; and as in previous years, London's position as a global business centre means continued demand for cross-border legal advice. Alongside these opportunities, law firms must also be aware of clients' priorities and expectations.

Commerciality remains key, with emphasis on risk mitigation

The challenges for law firms remain largely unchanged: geo-political and economic instability, weak demand in certain sectors, increased competition, and cost pressures from clients. Two-thirds of those clients tell us they have been under pressure to cut costs, with many bringing work in-house or moving it to a lower-cost provider. The consistency of feedback from clients over the years suggests that law firms are failing to adapt to clients' changing needs. Yet, the market remains sufficiently strong in the short term to hide the need for any radical change in the way law firms do business.

For in-house legal teams, macro-economic uncertainty and increased regulatory complexity have led to a greater focus on their role in risk mitigation, but as in 2022, the primary strategic requirement for general counsel (GCs) and their teams is to be a commercial partner to the business. Indeed, this has increased slightly as a priority over other issues and is a major factor in law firm favourability rankings.

“[The lawyers at the law firm] think how a business thinks, not necessarily like some lawyers, who tell you what the law is, but they don't necessarily tell you the best way forward.”

Again, this must all filter through to the way in which law firms engage with their clients. ESG, in all its variety, has also appeared among the Top 5 strategic priorities for UK-based GCs: while it's been important for their organisations as whole in recent years, this is the first time we have seen it appear as a leading priority specifically for in-house legal teams.

Artificial Intelligence – clients are already ahead of law firms

The hot technology topic in 2023 was artificial intelligence (AI) and especially generative AI (GenAI). The view toward AI is largely positive, with nearly two-thirds of UK corporate legal staff indicating that they feel positive about its impact — which was slightly more than law firms, which may risk being left behind by their clients, especially as many (more than one-third of respondents) seem to think, incorrectly, their clients would object to them using GenAI.

And while GenAI may still be at a highly developmental stage, those law firms that do not take time to understand its potential impact — as a disruptive technology and a source of new business or greater productivity — will lose out not only to more forward-thinking legal competitors but to other professional advisers as well.

C-Suite leaders report near universal intent to utilize GenAI in a wide variety of applications — and not just amongst the legal team — within their business over the next 18 months. However, they also saw many opportunities and challenges, around which they will certainly need advice and support.

This report explores the potential for growth in legal spend by UK corporations, and what in-house legal teams are prioritising for 2024.

Among other key findings:

- The growing importance of commerciality and risk management
- A significant increase in the number of GCs listing ESG as a key priority
- Satisfaction levels with outside counsel service have been dipping slightly
- Specialist knowledge increasing as a key requirement for any law firm relationship

Finally, in keeping with the accelerating interest in the topic, we take a look at how clients view the use of GenAI in the workplace.

“Another thing I like about [the firm] is that they have a positive engagement with legal technology, and right now legal technology is transforming the legal services sector.”

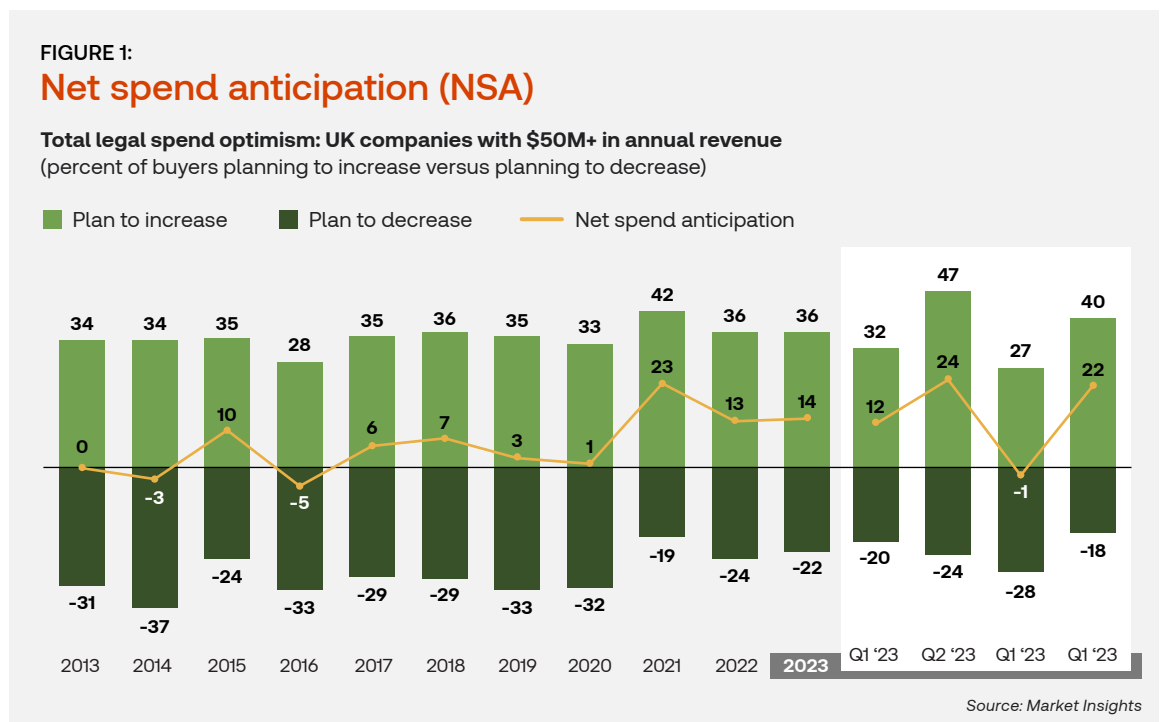
Methodology:

Data for this report was derived from a variety of proprietary research studies conducted by the Thomson Reuters Institute. Chief among these are almost 250 interviews with UK-based general counsel and other senior decision-makers within corporate law departments. We also include previously unpublished data giving the UK perspective from other recent research, including responses from corporate C-Suite executives, law firm lawyers, as well as legal and risk & compliance professionals within corporate organisations.

Market context and spending plans

Spending on external legal advice

Net Spend Anticipation (NSA) — calculated as the percentage of clients planning to increase their external legal spend, minus those planning to decrease their spend — peaked at 23 in 2021 as the world emerged from the pandemic.

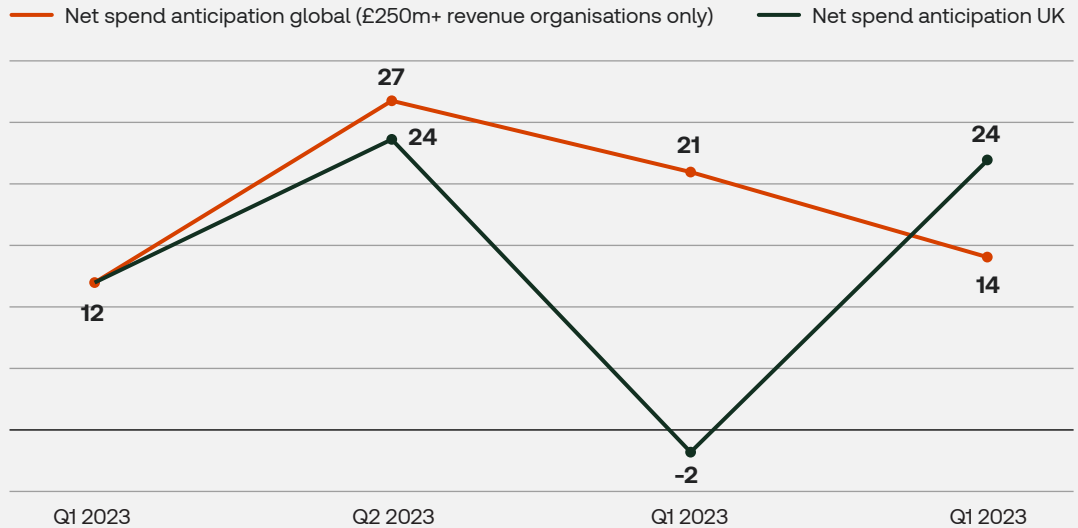


In the wake of political turmoil in the UK and Russia's invasion of Ukraine, NSA dipped to 12 for the following year and remained volatile throughout 2023, rising and then falling sharply in Q3 to -1 as the economy slipped into recession before recovering to 22 at year's end. The key question now is whether the Q4 recovery is sustainable.

Initial indications point toward the conclusion that it is not. Domestic political uncertainty looks set to continue, at least until the next election which is expected to be called late in 2024, and there is no sign of an end to conflict elsewhere in the world. However, businesses still will need legal support: continued concern over post-Brexit regulations, and well-publicised scandals about corporate behaviour are likely to have GCs seeking advice on how best to reduce exposure to such risks, with many corporate boards asking "Could it happen here?" Moreover, many listed UK companies are trading on favourable price-to-earnings ratios, which could potentially spark a further resurgence in M&A work. While these factors may help to spur additional demand for law firms' services, GCs are also looking to contain costs, and their desire to have expert professional legal advice on these issues will be tempered by the pressure to reduce spending. In such circumstances it's hard to be certain that the Q4 uptick will persist. UK law firms should be prepared for continued volatility and adapt accordingly.

Notably, NSA is less volatile globally than it is in the UK.

FIGURE 2:
NSA – global v UK



Source: Thomson Reuters 2024

Cost pressures keep coming for majority of clients

In an uncertain economic climate, any corporate expenditure is likely to come under scrutiny. Slightly more than two-thirds of our GC respondents highlighted their need to control costs.

GCs' efforts to control their costs present both opportunities and challenges for law firms. The opportunities lie in supporting greater efficiency and attracting work from other firms; the challenges arise from the increasing willingness of clients to keep work in-house or move it to lower-cost firms or alternative legal service providers (ALSPs). Automation will also play a significant role, especially to improve levels of *efficiency* — a perennial concern for in-house teams and one that often depends on greater use of technology. Indeed, efficiency itself is seen as one of the key benefits of the emerging AI-powered technologies.

“They [lower-cost law firms] are more affordable than the Magic Circle firms, but you get the same quality of advice from them.”

“[My priority is] to reduce our overall legal spend by doing more of the legal work in-house.”

The TR Institute's View:

Law firm leaders would do well to pay close attention to how clients plan to control costs and then adapt their client messaging accordingly. Firms that already enjoy a price advantage should not rely solely on lower prices to win work as another firm can always undercut rates. Instead, firms must be diligent about offering alternative fee arrangements (AFAs) whenever feasible and deliver the message that lower cost does not mean lower quality or less innovation.

Higher-priced law firms should keep in mind too that *lower-cost* doesn't mean *the cheapest available*. These larger firms must focus on highlighting to clients the additional benefits and value that come from working with a firm with greater scale. That could be pitched to clients as advantages in speed of outcome, access to greater global reach, or a wider array of technological resources and allied professionals.

The opportunities ahead

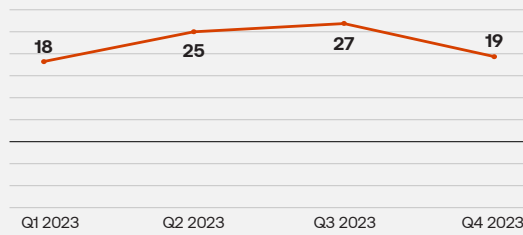
Transactional and financial work set to rise

NSA figures also provide invaluable insight into where opportunities lie for UK law firms in terms of which potential practice areas may experience growth.

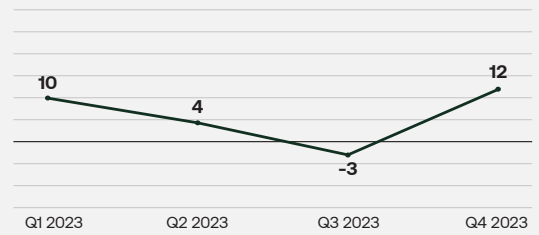
The volatility we see in the overall UK market shows how important it is for law firms to be ready to adapt as demand fluctuates from one sector to another — and to ensure that their specialist knowledge covers a sufficiently wide range of practice areas and industries to allow for peaks and troughs in legal demand over the course of the year.

FIGURE 3:
2023 quarterly NSA by practice

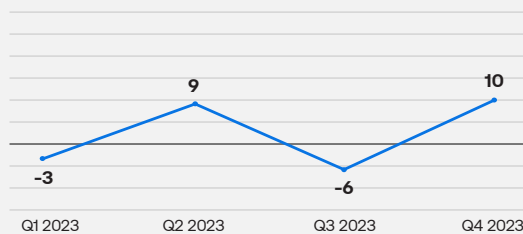
Regulatory



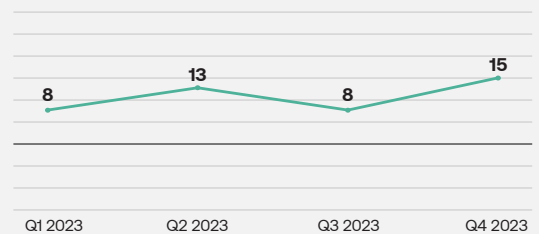
Insurance



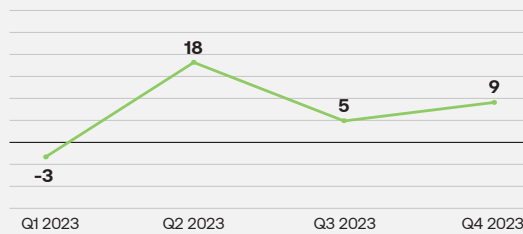
Banking & finance



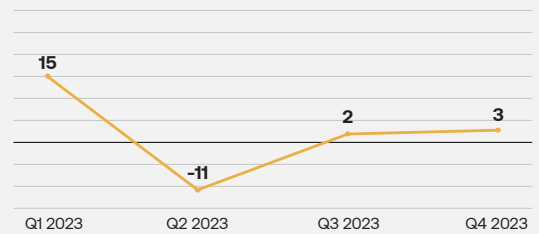
Labour & finance



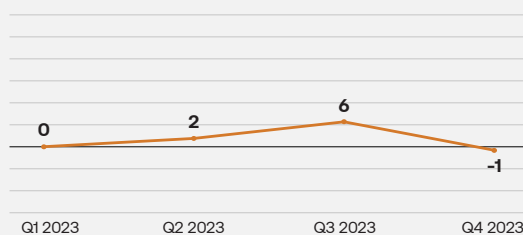
Corporate



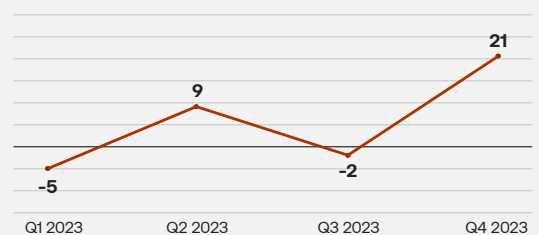
Disputes



Intellectual property



Mergers & acquisitions



Source: Thomson Reuters 2024

As the chart shows, there was significant growth in certain areas in the second half of 2023 even as the overall NSA figure plummeted and then rose again. Regulatory work was one of the rare examples that showed strength throughout 2023, continuing a long-term trend. Labour & employment followed suit, and other practice areas also saw a recovery from their low points in the previous year, notably M&A, corporate, and banking & finance. Although the disputes practice has recovered slightly, it remains one of the areas in which nearly a quarter of corporate respondents consistently said they intend to reduce their legal spend. This is reflected in a strategic priority cited by several such respondents to reduce or prevent litigation.

Cross-border activity

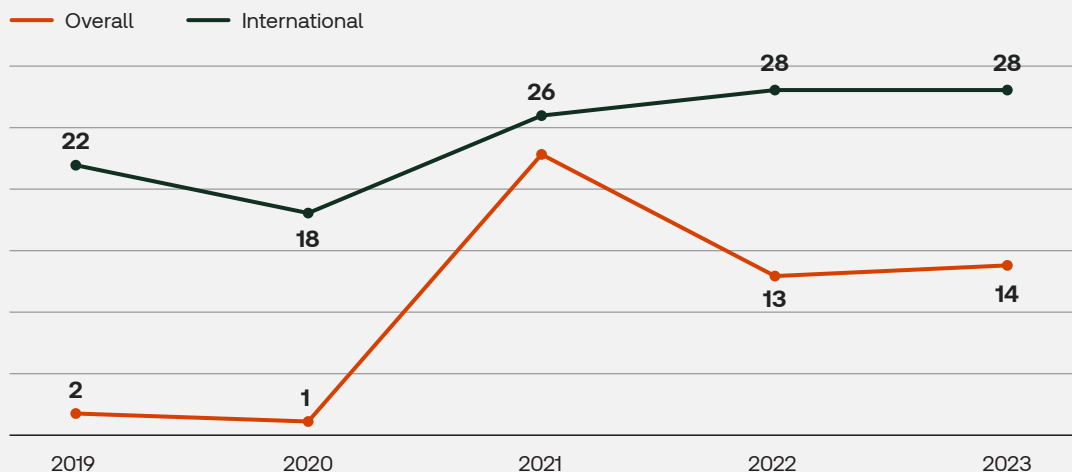
Despite a weak economy and political uncertainty, the UK continues to be a global centre for international trade and finance, and this shows up in the amount of cross-border legal work UK-based firms can expect, both from UK-based clients and those abroad. International legal spending has traditionally held up well against domestic demand, and 2023 was no exception. International NSA for UK clients stayed stable at 28, double the domestic figure.

FIGURE 4:

Cross-border opportunities

UK International NSA v overall NSA

Percent of buyers planning to increase legal spend versus those planning to decrease



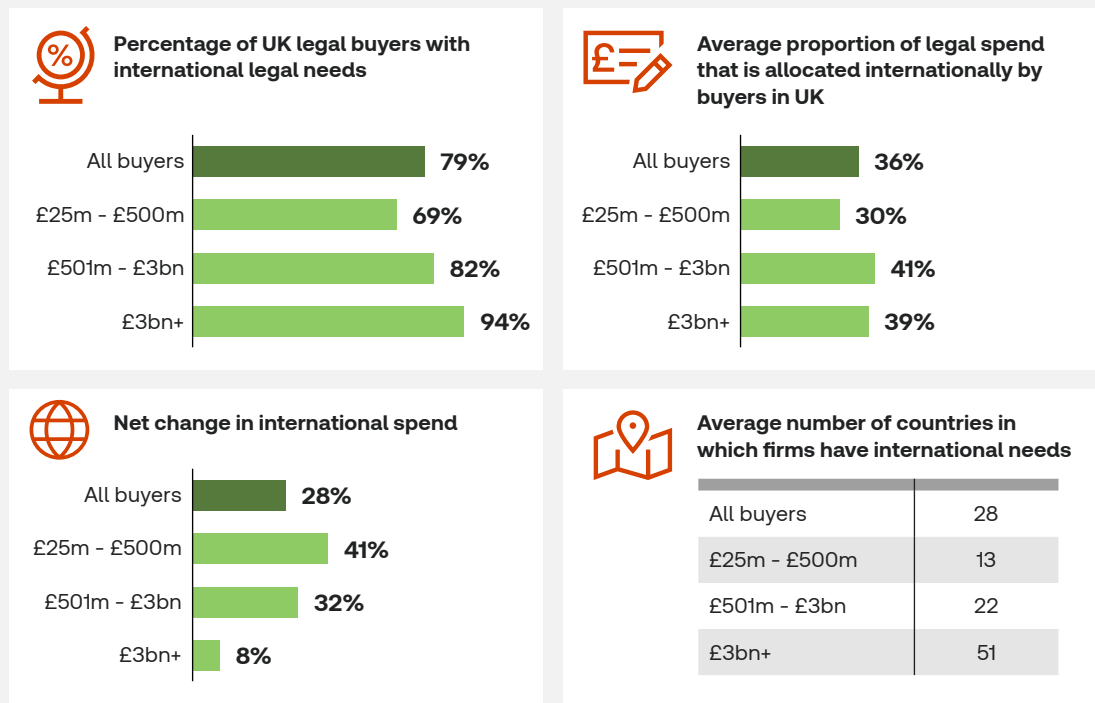
Source: Thomson Reuters 2024

“We use [the law firm] in Germany, we use them in Morocco, we use them in the Czech Republic. They have a very similar attitude, and it doesn’t matter which region you deal with, you’ll get a similar kind of attitude, the calibre of advice they provide. They’re very commercial.”

The vast majority of UK-based clients (79%) have international legal needs, allocating between 30% and 40% of their legal budget to international work. Predictably, almost all large companies (those with £3bn or more in annual revenue) have cross-border work to allocate, but their spend remains relatively static (NSA of 8) compared with an NSA of 41 for companies in the £25m - £250m annual revenue bracket. Nor is international spend confined to just one or two countries, even for smaller companies: the average number of countries in which clients require services is 13 for smaller businesses, rising to 51 for the largest clients.

FIGURE 5:
Global legal needs

Questions cover whether organizations have needs in more than one country, how many countries (total), what proportion of spend is allocated to international needs.



Source: Thomson Reuters 2024

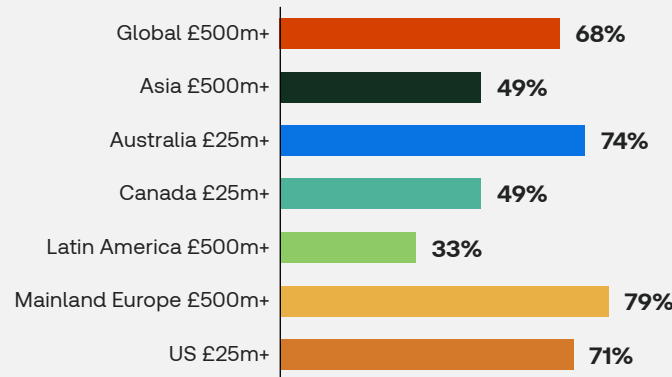
Looking overseas, we can see a high demand from international clients for UK-based legal services, with more than two-thirds of global respondents looking for support in the UK. The greatest demand, unsurprisingly, comes from Mainland Europe. This *in-bound* activity has remained largely steady over the past five years, with a few regional variations — however, nearly half of respondents said they expect to spend more in the UK in 2024. Labour & employment matters tops the list of work needed, followed by regulatory, corporate, and M&A.

FIGURE 6:

Percent of clients outside UK with inbound legal needs

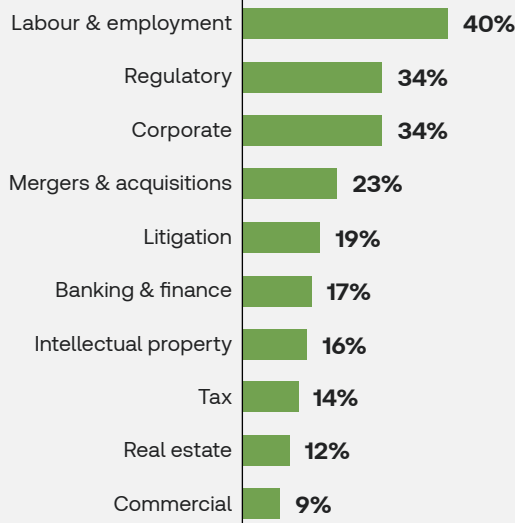
Globally, 68% of non-UK companies have inbound UK legal needs. Mainland Europe has the highest proportion of clients with UK legal needs—although these levels have remained largely steady over the last 5 years. Australia is seeing the largest upticks in organizations with UK-based legal needs. Meanwhile all other markets are seeing a downward trajectory in inbound needs into the UK

Percent of buyers outside UK with inbound legal needs

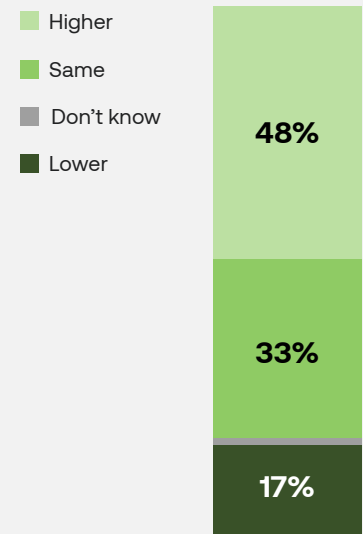


Region	5-year CAGR
Global	-0.3%
Asia	-1.6%
Australia	+3.7%
Canada	-2.9%
Latin America	-4.5%
Mainland Europe	+0.8%
United States	-2.0%

Work types needed



Expected change in spend into UK



Source: Thomson Reuters 2024

The TR Institute's View:

In addition to seeking growth in these different practice areas as demand changes, law firms must be aware of what really matters to GCs and their teams — that being, clients' strategic priorities and service expectations.

What clients want

Every year, we ask GCs for their departments' strategic priorities for the year ahead, tracking the changes over time and comparing the data across regions. It's vital that law firms understand these priorities if they are to provide valuable, strategic advice to their clients.

FIGURE 7:
General counsel priorities



Source: Thomson Reuters 2024

“[The] commerciality [of the lawyers in the law firm] is an advantage for us because they provide advice that enables us to turn a profit. Also, they offer value for money because they are competitive with the rates.”

Commerciality is key

For UK corporate law departments in 2024, the top priority continues to be to provide commercial advice to the business, thereby enabling financial growth and supporting their colleagues in achieving the organisation's goals.

FIGURE 8:

Corporate legal priorities by region

The UK is bucking trends from other regions, showing focus shift away from the regulatory space following several years of concentrated effort to bring their companies in line with wider regulatory challenges – emphasizing this movement towards ‘business-as-usual’ approach when it comes to regulatory scrutiny. Meanwhile, ESG and proactive risk management are seeing the largest growth as priorities among UK buyers.

What would you say are the current strategic priorities for your organization’s legal function/legal department? (percent of buyers)

■ 2023 ■ 2022

Region	Compliance	Commercial legal advice	ESG	Proactive risk management/litigation prevention	Improve efficiency/processes	Technology/automation	Cost control
APAC*	2023: 32%, 2022: 23%	2023: 25%, 2022: 10%	2023: 6%, 2022: 3%	2023: 20%, 2022: 25%	2023: 7%, 2022: 10%	2023: 7%, 2022: 6%	2023: 8%, 2022: 16%
Canada*	2023: 19%, 2022: 17%	2023: 21%, 2022: 18%	2023: 2%, 2022: 0%	2023: 10%, 2022: 13%	2023: 21%, 2022: 15%	2023: 9%, 2022: 5%	2023: 17%, 2022: 7%
Mainland Europe	2023: 27%, 2022: 25%	2023: 25%, 2022: 19%	2023: 13%, 2022: 5%	2023: 18%, 2022: 23%	2023: 13%, 2022: 16%	2023: 25%, 2022: 19%	2023: 16%, 2022: 9%
UK*	2023: 8%, 2022: 22%	2023: 32%, 2022: 27%	2023: 11%, 2022: 2%	2023: 16%, 2022: 5%	2023: 13%, 2022: 22%	2023: 6%, 2022: 10%	2023: 15%, 2022: 24%
US*	2023: 15%, 2022: 16%	2023: 20%, 2022: 20%	2023: 2%, 2022: 2%	2023: 16%, 2022: 17%	2023: 27%, 2022: 20%	2023: 10%, 2022: 5%	2023: 23%, 2022: 21%

*All regions include £25m+ except Mainland Europe.

Source: Thomson Reuters 2024

Nearly one-third of respondents cited this as their top priority, up from around a quarter last year and continuing a long-term trend. GCs no longer want to be confined to working on the legal minutiae of contracts and regulatory compliance but aim to sit alongside their C-Suite colleagues in finance, IT, HR, and other functions in order to help deliver sustainable revenues and profits. Anecdotally, we hear a shift in terminology, too — away from being a *business partner* serving *internal clients* with its implications of a back-office support function, toward instead being a *strategic leader* of the whole organisation.

However, according to findings from *2024 State of the Corporate Law Department* report,¹ in-house legal teams are not always appreciated for their role in enabling growth and they under-estimate their ability to add value to work with customers and staff. In short, there is a mismatch between the areas in which legal teams *think* they add value and the areas in which their C-Suite leaders *expect* them to add value.

“They always focus on finding solutions rather than focusing on the problems.”

¹ *2024 State of the Corporate Law Department*, Thomson Reuters Institute; available at: <https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2024>.

FIGURE 9:
C-Suite focus compared to legal function

Interpretation note: Bar charts show % of C-Suite and legal department respondents selecting each item in their top 5 highest priorities for legal departments. Top chart shows the sum of organizational priorities selected within each quadrant (solid grey), overlaid with sum of legal department priorities – as expected by C-Suite (grey line) and as perceived by legal department professionals (orange line). See e.g. the gap between lines for Effective, indicating C-Suite selected these options much more commonly than did professionals.



This mismatch — not uncommon for any corporate function — reinforces the point that law firms need to recognise how they can help in-house teams better position themselves internally. This is particularly important in situations in which there is strong competition for resources and GCs are under pressure to cut spending on external advice.

“The current focus for the department is ensuring the business is fit for growth... to be able to really accelerate our growth.”

The TR Institute’s View:

Law firms need to be keenly aware of the shift in responsibilities that GCs are experiencing and work to support GCs in being more strategic. This in turn will strengthen firms’ own relationships with GCs, as they can *make their clients look good* in the boardroom and also help develop more strategic, high-value work for firms themselves.

Relative to the rest of the world, the UK is something of an outlier in its focus on commerciality and being a strategic business partner. For most other regions, compliance with regulations tops the list of GC priorities, while it’s slipped down the list in the UK. This may be because after several years of hard work, compliance has started to be embedded as business as usual for UK companies rather than a strategic priority. Regardless of the reason, international law firms operating in the UK should be aware of this difference and ensure that their advice is commercial and pragmatic, not simply compliant.

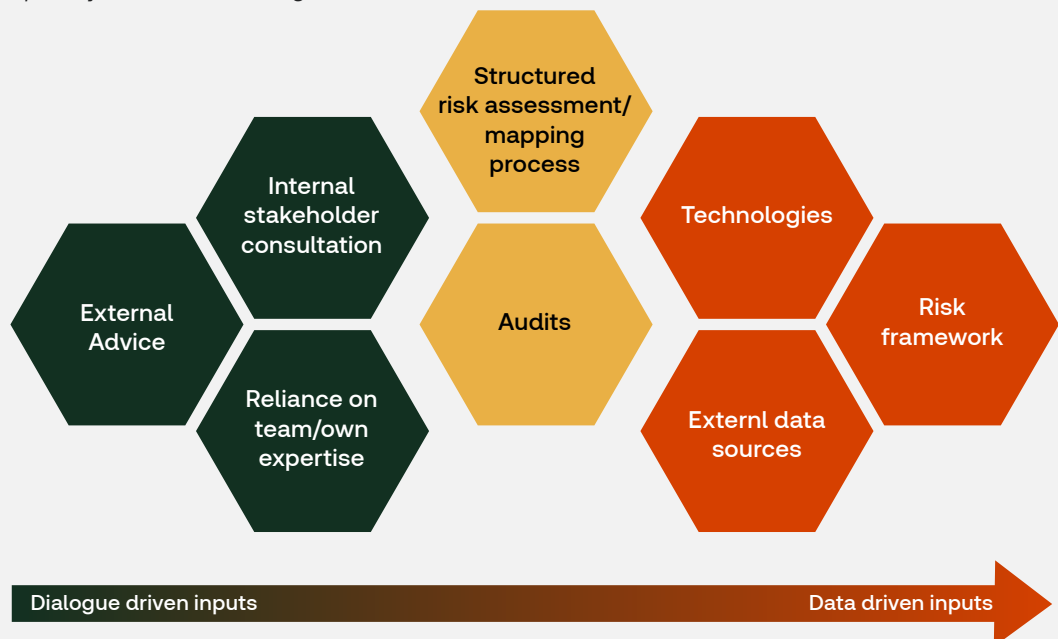
Risk management

FIGURE 10:
Risk mitigation tools

What have you found to be the most valuable tool, resource or method for assessing risks to your organisation?

“There is a team dedicated to this. We have **digital tools such as InfoLex, HighQ, some for internal development**, which help to follow risks which could impact the business, especially when it comes to legal risks.”

“We carry out **general audits** regularly, and we have **developed our own internal artificial intelligence software** for assessing risks.”



Source: Market Insights

Three-quarters of UK risk management professionals said they saw a significant shift in recent years from risk management being a “box-ticking” process to a much more strategic function. At the same time, more than half of UK corporate legal teams now include risk management experts, and there’s increasing pressure to in-source more and more of this work.

68% of corporate legal teams are in-sourcing more risk and compliance work every year

Larger businesses have dedicated and independent risk managers with sizeable teams, and others have risk managers sitting within finance or legal functions. Yet, our research shows that however companies manage their risk function, they are increasingly taking a structured approach to assessing potential risks through internal and external advice and data analysis. Not surprisingly, technology is seen as a key element in analysing and managing risk, with two-thirds of UK risk professionals saying they are seeking to automate manual processes, including through the use of AI.

As risk management overlaps with functions beyond legal, law firms need to be ready to engage with it on a broad level if they are not to lose out to other professional advisers. One area that appears to be of particular interest to UK corporate legal teams, and therefore a potential focus for law firms, is environmental, social, and governance (ESG) issues.

75% of UK companies identify ESG as a high priority for their organisation

ESG — growing in importance

ESG is of particular importance in the UK and Europe. Almost all respondents in Mainland Europe and three-quarters of those in the UK confirmed that these issues would be a high priority for their organisation as a whole.

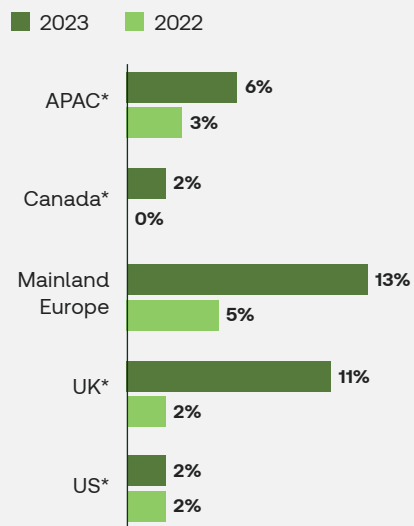
FIGURE 11:

Growth of ESG as a strategic priority

Traditionally, ESG has been a more passive concern for clients in the market, referenced as highly important when prompted but not appearing prominently top-of-mind. This has started to change this year with a surge of buyers highlighting it as a strategic priority for 2024. This growth in top-of-mind priorities suggests buyers may be more proactive in this space this year particularly among UK and Mainland European buyers.

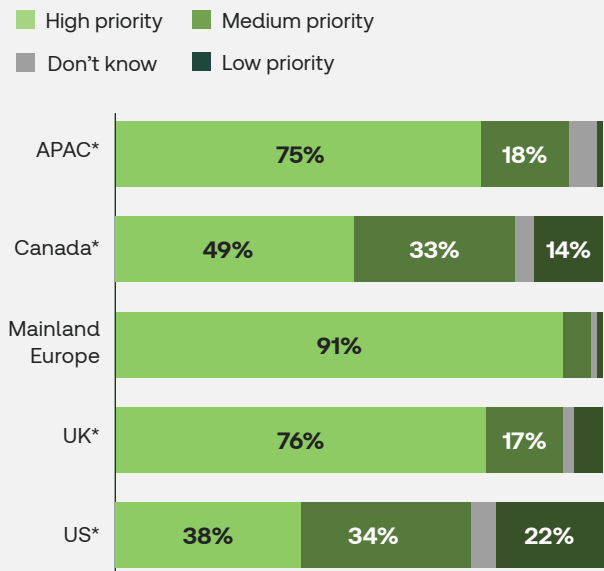
What would you say are the current strategic priorities for your organization's legal function / legal department?
(percent of buyers)

ESG as a strategic priority



Is a focus on ESG issues going to be a high, medium or low priority for your organization as a whole in the coming 12 months?

Asked in Q2 of 2023 (percent of buyers)



*All regions include £25m+ except Mainland Europe.

Source: Thomson Reuters 2024

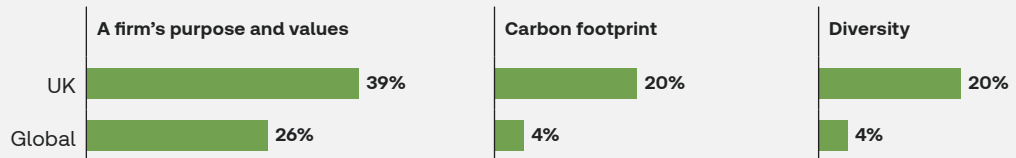
Interest in ESG issues rose significantly in 2023 compared to 2022 with five times more in-house legal professionals citing ESG as a priority last year, compared to the prior year. While governance has always been part of the GC remit, the increasing amount of environmental legislation relating to climate change and the drive for action on diversity, equity, and inclusion priorities to comply with labour & employment laws mean that all three elements of ESG fall within the legal team's remit. Despite arguments in the investment community about the value of ESG initiatives, it is clearly a key, and growing, priority and a likely source of regulation. For law firms, it offers an opportunity to discuss issues that cut across multiple practice areas and engage in board-level strategic discussions.

Interestingly, UK clients are more likely than the global average to consider some ESG-related issues when hiring outside lawyers:

FIGURE 12:

Changing considerations when hiring a law firm

Frequency of consideration when hiring law firms:



Source: Thomson Reuters 2024

“There’s the regulatory governance side, the greenwashing directive, marketing claims and reporting requirements.”

“Supply chain integrity is a key one and environmental”

“They are just really good at making people think about climate and ways that everyone can get involved and how you can influence as a lawyer in your organisation”

Service expectations of their law firms

Satisfaction levels with outside law firms have dipped slightly in this year’s survey, compared to prior years; and those clients who are feeling less satisfied cite efficiency, cost, responsiveness, and even specialist advice as areas in which their outside counsel need to improve. In some ways, UK clients can be more demanding than their international counterparts, reflecting an expectation that their law firms will act as commercial business partners rather than simply providing advice on how to comply with the law.

In 2022, 50% of UK clients said they were delighted with law firm service; in 2023, that portion fell to 44%

“I am most interested in succinct, short-and-sharp advice and not just the law behind it”

“They have a depth of knowledge which is industry-specific to our business, and they are a good partner to us.”

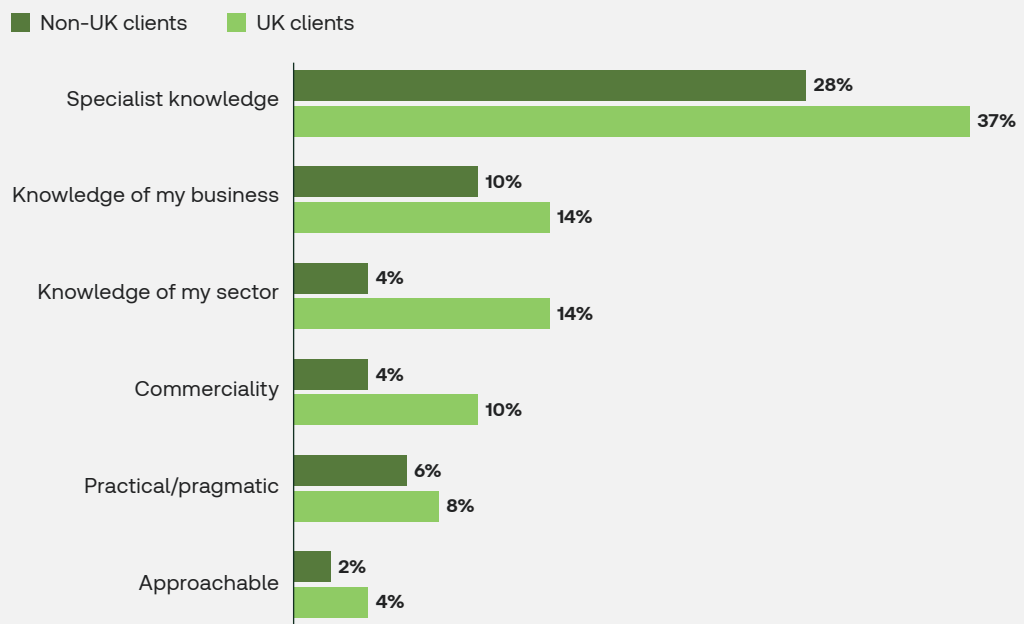
“They were able to bring these sorts of quite abstract or distant concepts down to earth, make it easy for me to understand, and then convey it internally to stakeholders.”

FIGURE 13:
Knowledge of clients' business, sector and commerciality key in UK

Lawyers spend a lot of time talking about their expertise in the market, reflected by clients as something they favor among law firms. However, for clients, and specifically for clients in the UK, it's not about the expertise alone but rather how expertise is applied to the organization's goals – the law firm's ability to become that strategic business partner rather than just a trusted legal advisor.



Sub-themes mentioned more often by UK clients



Source: Thomson Reuters 2024

There are three layers of expertise that law firms must demonstrate to clients if they are to win and retain business. *Specialist knowledge* sits at the top, and this opens the door to conversations. In the past it might have been the brand or reputation of the firm, but now it is more likely to be the reputation of a *particular lawyer or team* in a specialist area. Closely aligned to such specialist knowledge is the need for *sector knowledge* — familiarity with the players and the economic drivers in a given industry. Finally, there is the deep *client knowledge* — an understanding of the client company and its in-house team that will underpin a long-term, trusted relationship.

“The quality of advice, they are experts in their field, they are very reputable. This gives the board a lot of comfort that they are getting the best possible advice.”

The TR Institute’s View:

Particular expertise, or specialist knowledge, remains the top reason a client would hire outside counsel. However, expertise can’t be delivered in isolation — it has to be accompanied by a deep understanding of the client’s sector and business and provided in a practical and commercial way. This is all the more important when interacting with stakeholders outside the GC’s office, and especially for gaining the confidence of the board, especially in situations in which major strategic legal issues are involved.

Expertise must also be accompanied by impeccable service across the whole of the client relationship. Failings in one area will negate any particular specialist advantage in another, and this will become even more important in the future as technology develops. Indeed, three-quarters of UK corporate clients said they now take firms’ technology use into account when hiring outside counsel.

Thought leadership

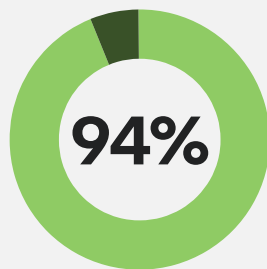
Thought leadership programmes — the volume of which has exploded in recent years — are one of the most common ways law firms can demonstrate specialist knowledge. Thought leadership improves the perception of a firm’s legal expertise and boosts consideration for new services.

FIGURE 14:

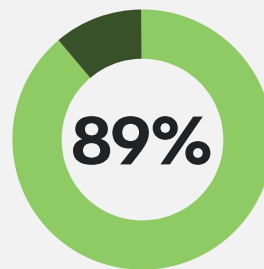
Benefits of impactful thought leadership

62% of UK general counsel report having seen impactful thought leadership.

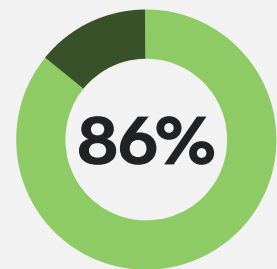
The impact they report is:



It has strengthened my perceptions of the firm or organization’s expertise



I am more likely to consider using the firm in general



I will consider the firm or organization for services I wouldn’t have previously

Source: Thomson Reuters 2024

It may be tempting to focus on producing firm-wide, generic reports on topics such as Brexit, sustainability, or AI which appeal to many clients in all sectors. These are very crowded fields, however, and such activity is unlikely to provide opportunities to show the specialist knowledge that clients seek and that can differentiate a firm from its competition.

Law firms would be better off delivering highly targeted, specialist reports to a narrow group of interested clients. Although there may be a need to be seen to be contributing to a public debate before a broader audience, a thought leadership piece aimed at just one (potentially large and impactful) client can be immensely effective.

And of course, firms are no longer confined to the printed word or in-person events for such programmes. Podcasts, webinars, and video clips are all ways for firms to demonstrate their specialist knowledge. Firm must remember, however, to make sure that awareness of such specialist knowledge is properly leveraged throughout the firm and that partners know about it and can talk about it.

FIGURE 15:

Practical checklist for building thought leadership



Insightful

“A lawyer there gives quite a few conferences on antitrust law. In addition to covering current trends, she organizes conferences with panels of speakers who are experts in their field, helping companies to understand current issues and gain insight into highly specialized subject matters such as antitrust law.”



Demonstrates firm’s expertise

“[A lawyer] deals intensively with artificial intelligence, chat GPT and things like that...The articles he writes and the webinars, I attended one of them, are always very interesting, because they will really revolutionize our industry. I think he’s at the top edge of expertise there. I always listen very interested, it is relevant, it is also listened to.”



Topical / Up-to-date

“The insights that they have and that they provide and make available to the industry at large in relation to in-house lawyers work and structuring of the delivery of legal services to an in-house department and appropriate use of technology or systems and processes, I found it massively valuable and really demonstrates the high level of sophisticated understanding of the complexity of the in-house function.”



Actionable & Strategic

“Their ability to assess the landscape and provide clear and expert advice in the areas which can be seen as very murky, so really parsing through the noise and providing sound advice.”



Tailored

“Ways to rethink privacy and digital advertising. They also did a good job at prioritizing and the must-knows or must-haves for the upcoming year and the years coming forward with the new state privacy laws, especially in Canada and the U.S.”



Horizon Scanning

“It was highly responsive to questions that I have, and it was done in a way that efficiently delivered information without a lot of filler. It was not an advertising exercise. It was providing useful, valuable content that I was able to use internally and save me time.”

Source: Market Insights

Technology – “Expertise at your fingertips”

Thirty years ago, at Comdex 1994, Bill Gates, co-founder of software giant Microsoft, talked about the burgeoning internet as “information at your fingertips.” Earlier this year, in a conversation with the editor of *The Economist*, Satya Nadella, current CEO of Microsoft, and Sam Altman, founder of OpenAI (the startup behind ChatGPT) talked about the world of GenAI as “expertise at your fingertips.”

It’s this potential for easy access to expertise that has the legal profession both excited and alarmed: Excited because AI, and GenAI in particular, offer huge opportunities for efficiencies and profitability; alarmed because of the fear that it poses a threat to existing jobs or even — according to some — a threat to the very existence of the legal profession.

Let’s take a look at the opportunity first. Many law firms (and in-house teams) are already using some form of AI to do repetitive tasks. Two-thirds of respondents to the *Future of Professionals Report*² said AI and GenAI will be highly impactful if not transformational on the way they work. As both law firms and in-house teams focus on productivity and efficiency, the ability of AI to operate at both speed and scale will enable these professionals to spend their time on more interesting, value-added work. For law firms, it’s likely to increase profitability by optimising administrative workloads and saving time on non-billable activities, while allowing lawyers to focus on higher-value advisory work; for in-house teams, it can enable them to take more work in-house.

In-house legal teams will be able to insist on new pricing structures with tasks charged on a fixed fee basis rather than on a billable hour. They also say it will also help with mitigating risk and keeping abreast of regulation and fraud detection, although they acknowledge that AI usage brings its own risks regarding fraud.

Set against the enthusiasm for the benefits are the concerns about the negative implications. Some legal professionals foresee an existential threat to their profession over the next five years due to the commoditisation of legal information and, to a degree, the commoditisation of expertise itself. On a less apocalyptic and more practical note, there is widespread concern over accuracy and a fear that there will be an over-reliance on AI systems. This, they say, will lead to an assumption that the AI is always correct, thereby losing the human element. Data security is another major concern because AI is dependent on data, and ensuring the security of proprietary data is but one of several regulatory challenges.

Reports of fictitious AI-generated cases being cited in court have fuelled concerns over the accuracy of GenAI creations. While these concerns are certainly justifiable in regard to open-source AI engines, it’s vital to distinguish between open-source AI engines and more specialist ones that have been *trained* on industry-specific data. For the legal world, there are many such engines that have been properly trained to understand legal issues and then generate accurate outputs. These have already been operating for several years and the arrival of GenAI will add significant value to their use. As the research shows, clients say

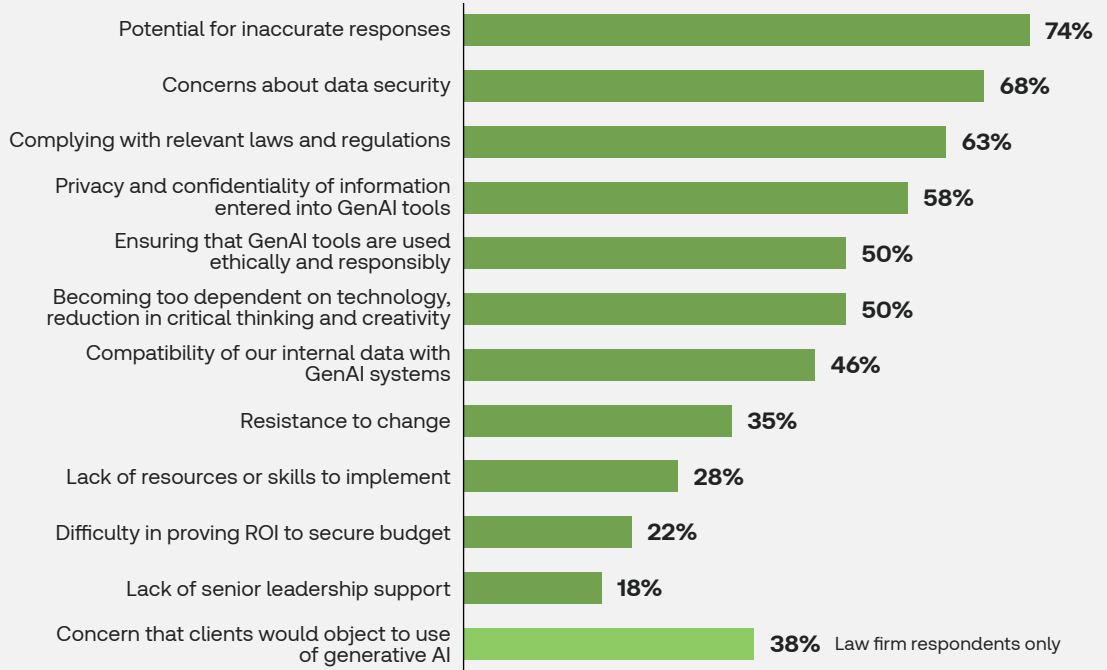
85%

of UK-based corporate legal respondents say AI will enable a greater proportion of work to be brought in-house over the next five years.

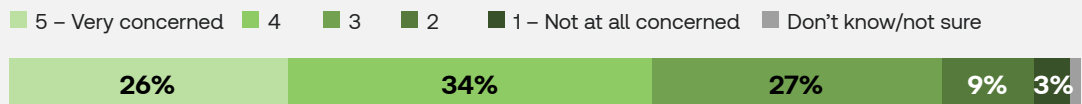
² *Future of Professionals Report*, Thomson Reuters Institute; available at: <https://www.thomsonreuters.com/en/c/future-of-professionals.html>.

they are likely to be more accepting of AI usage than law firms expect, but they will want reassurance that accuracy is checked. Moreover, they will want to see transparency over how their outside law firms are using AI.

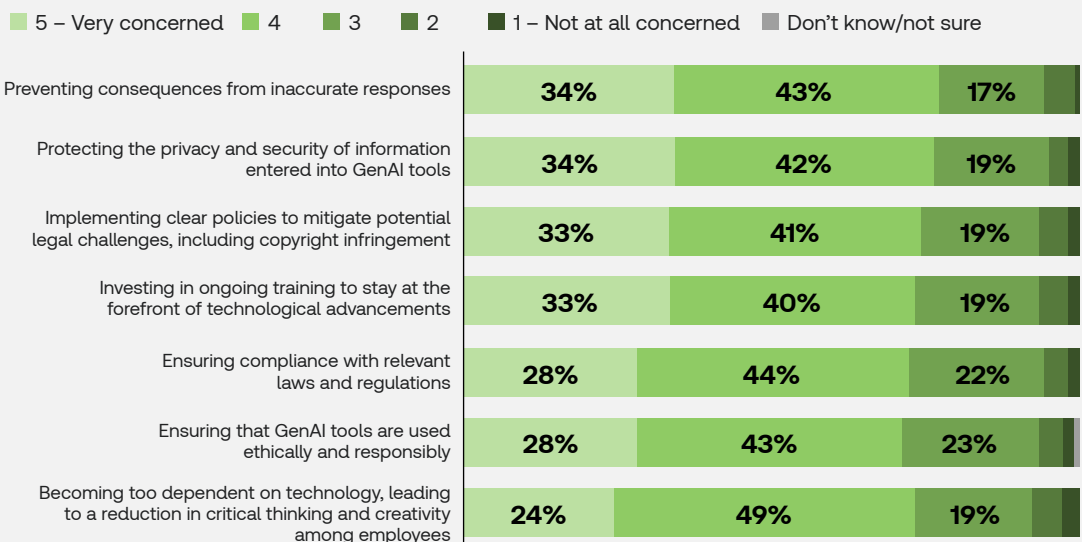
FIGURE 16:
Barriers to widely adopting GenAI



Overall concern about GenAI risks – 87% rate their concern 3-5



Specific concerns among those concerned (3-5)



Source: Thomson Reuters 2024

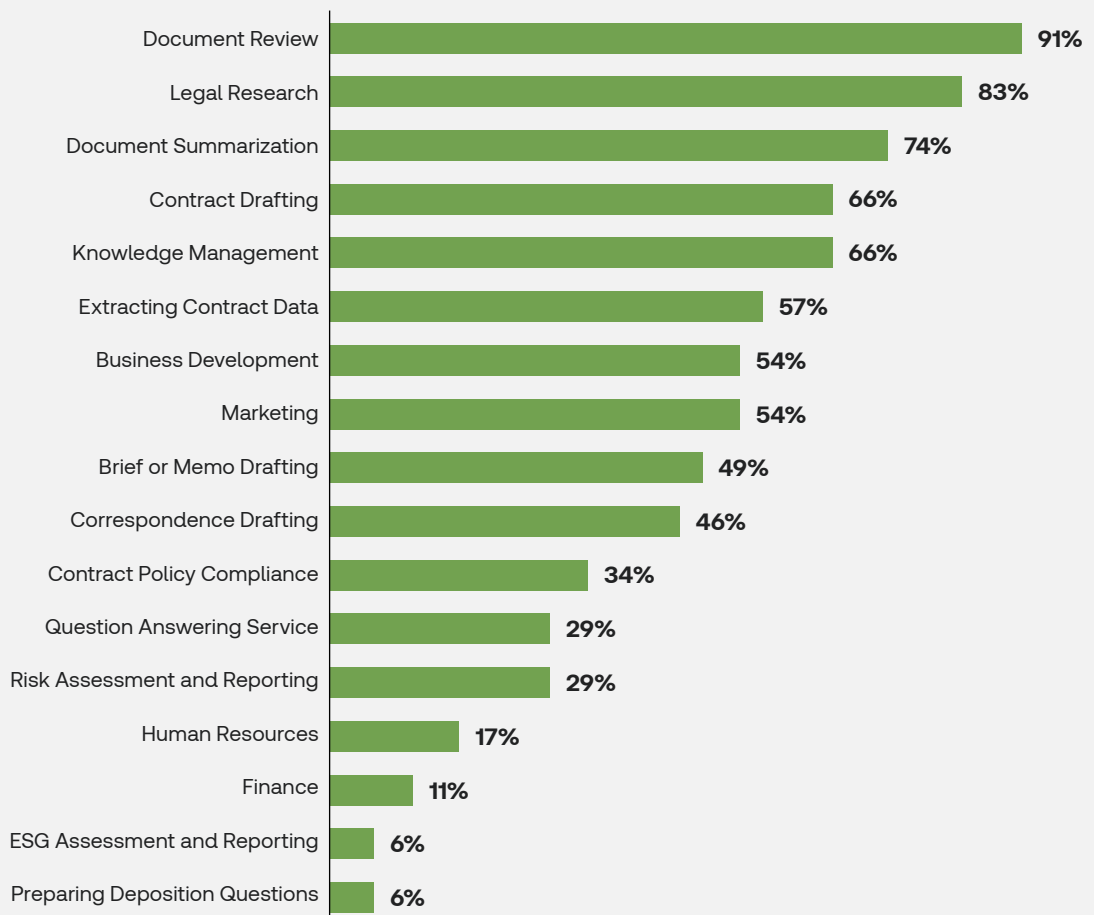
Although law firms and their clients may differ in overall sentiment toward GenAI, their current usage and their predictions for the future are similar. More than one-quarter (27%) of legal respondents in the UK are already using or planning to use GenAI tools on a wide-scale basis and many others are actively considering or researching its use.

FIGURE 17:

Use cases for GenAI

27% of UK legal professionals report their firm or department is using or already planning to use GenAI

Generative AI use cases – UK legal



Source: Thomson Reuters 2024

At the same time, more than one-third (38%) of UK law firm respondents said they fear that clients may object to them using GenAI, suggesting that this may prevent its wide adoption within the firm. However, this is in marked contrast to the client view in which no UK clients reported asking their firms not to use it. In fact, nearly half of clients consider or make mandatory, transparency in their outside firms' AI usage. In short, UK clients are saying: "Please do use AI, but tell us how you are using it."

The TR Institute's View:

Lawyers are a famously cautious breed — loathe to take on risk and slow to adopt new technologies. The rapid development of AI and its adoption by businesses of all stripes does not provide room for the usual lawyerly latency. And existential fears over GenAI seem likely to be largely overblown. *Simply put*: GenAI will not replace the lawyer, but a lawyer using GenAI will replace one that isn't.

Impact on talent, recruitment & training

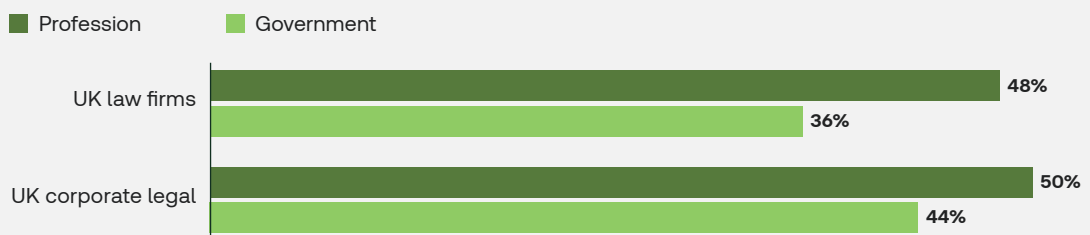
Although the fears that GenAI will eliminate the need for lawyers, in our view, are unfounded, there is widespread agreement that there will be significant impacts on the way lawyers are trained, recruited, and retained. More than half of lawyers we surveyed said they expect that GenAI will bring new roles within the next three to five years including specialist AI roles as well as more indirect roles around training, project management, compliance, and data security. It is also widely anticipated that basic training on AI use — for example *prompt engineering* skills around how to issue specific commands to generate accurate outputs — will become mandatory in the next five years at all levels. And although jobs will change and some tasks will disappear from lawyers' desks, clients will still want the same kind of personal touch from their outside counsel.

AI and regulation

With GenAI still in the developmental stage and stalked by concerns over accuracy, security, copyright, ethical use, and fraud, there is much talk of regulation. Clients will be looking to their law firms for advice and support on the regulations as they emerge: the UK sits between the United States and the European Union in wanting to encourage innovation but also to protect privacy and ensure ethical use. While around half of all UK respondents said they want to see the profession lead any regulatory programme, in-house lawyers are more likely to see a greater role for the government alongside the profession than do lawyers within law firms. Further, 40% of UK respondents favour government regulation, compared with only 26% of their North American counterparts.

FIGURE 18:

Who should regulate AI



Source: Thomson Reuters 2024

“They use AI and other advanced technologies which gives us a lot more innovation compared to our competitors.”

Conclusion

It would be easy for law firms doing business in the UK to assume from the consistency of the overall spend figures that their UK business is secure. Indeed, give or take a few ups and downs with the economic cycle or from one sector to another, UK-based clients continue to demonstrate a strong appetite for outside legal services. However, this view is too complacent. Anecdotally, many law firms tell us it is becoming harder to win or even retain client business. In addition, many clients are facing internal cost pressures and often feel they can pay lower fees by moving their work to lower-cost law firms without sacrificing quality or commerciality.

Recall the three layers of knowledge — specialist legal knowledge, sector knowledge, and client knowledge — the latter of which must include a recognition of what clients value. Understanding this is vital to competing for business in a volatile market and shifting conversations away from discussions only around rates and toward discussions around the value delivered.

Lurking behind this increased competition and pressure on costs in the UK legal market is the advent of new technology in the shape of GenAI. While an overwhelmingly positive for the profession, GenAI will improve productivity and enable practitioners — both in-house and at law firms — to spend more time on more interesting, value-added work. GenAI comes with its own risks, of course, but overall, it has the potential to simultaneously lead to lower costs for clients and greater profitability for law firms, as well as improving work/life balance by automating tedious and time-consuming tasks.

Lawyers, by the very nature of their work, are inclined to be risk averse — indeed, risk mitigation is one of their greatest priorities. But when this risk aversion spills over into how they run their own businesses, it creates new risks — not least, losing business to other professional *trusted advisors*. The legal minds that clients clearly hail as both brilliant and trusted should have faith in their own ability to manage change and embrace new ways of working.

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