

UNDERSTANDING THE UNRESERVED MARKET

A REPORT FOR THE SOLICITORS REGULATION AUTHORITY

JUNE 2023

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Executive summary

Background to the research

Legal services can be obtained from both regulated and unregulated providers in England and Wales. Lawyers and organisations carrying out any of the [six reserved activities](#) as set out in the Legal Services Act 2007 (LSA) must be regulated by an approved [LSA regulator](#). These providers are subject to additional oversight and rules, including codes of conduct and mandatory purchase of professional indemnity insurance, that apply both to the reserved activities they offer and other services outside of these activities.

However, there is also a broader set of unreserved legal activities which cover many common legal issues that may be encountered by businesses and individuals. These unreserved areas include most of the legal work relating to consumer issues, housing issues, family law, employment law, and wills and estate administration.

There is no restriction to who can offer unreserved legal services and no requirement that providers are regulated by an LSA regulator or have any formal training or qualifications.¹ This means that consumers potentially have a wide choice of legal services providers to meet their needs. The LSA regulators have the regulatory objective of improving access to justice, and therefore it would be helpful for the Solicitors Regulation Authority (SRA) to understand the breadth of consumers' choices so that they can target their resources where they are needed most.

Legal services include a variety of activities including (but not limited to) the provision of legal advice. Legal advice is information or solutions which are tailored to a client and their legal issue(s). This research focuses on those providers who offer tailored legal advice as part of their service offering and does not explore the market for providers who only offer general legal information which is not tailored to a client's specific needs.

There are potential benefits and detriments to consumers from unregulated provision of legal advice in the market. Past research by the Competition and Markets Authority (CMA) and Legal Services Board (LSB) explored these potential benefits and detriments. The CMA concluded that the legal services sector is not working well for consumers and suggested a review of the regulatory framework (CMA, 2016), while research commissioned by the LSB identified potential benefits from price transparency, lower prices and increased competition in the unregulated sector, but also highlighted the risk of consumers' lack of awareness of regulatory status and its implications (Economic Insight, 2016). This market for unregulated activities is expected to grow, with 43% of unregulated providers surveyed for this report expecting demand for their legal advice to increase in 2022/23. In contrast, only 4% expect demand to decrease. It is therefore important to understand the potential benefits and detriments associated with the provision of legal advice in the market and how this might change in

¹ Throughout this report unless otherwise indicated, "unregulated providers" refers to providers who are not regulated by an approved LSA regulator. They may still be subject to other regulation, such as rules imposed by financial regulators.

the future. This is key to ensuring that LSA regulators understand the impact on individuals and businesses of different regulatory approaches.

The SRA commissioned Frontier Economics, The Data City and BMG Research to obtain a better understanding of the market for unreserved legal services. The SRA regulates over [80% of the LSA-regulated market](#), regulating over [156k practising solicitors](#) as of December 2022. This research seeks to:

- Better understand the size and scope of the market for unreserved legal activities being provided by unregulated providers;
- Explore key potential future developments in the market and the potential impacts of these developments on the share of regulated and unregulated providers in the market; and
- Identify the broader implications of these market developments, in particular the potential risks and opportunities that the unregulated sector may present for consumers.

This report provides an assessment of these overarching research questions, drawing on evidence from:

- An in-depth machine-learning exercise to identify unregulated providers of legal advice, using natural language processing analysis of providers' websites;
- Interviews and workshops with experts in the market, including academics, regulators and providers, to identify potential future developments in this market in the next three to five years and the potential benefits and detriments of these changes;
- Surveys and interviews with providers of legal services, with in-depth interviews with 14 providers of unreserved advice who were not regulated by an LSA regulator and with seven providers regulated by the SRA;
- Surveys of providers of legal services, with responses from 162 non-SRA-regulated providers of unreserved activities; and
- Surveys of consumers of legal services, with responses from 510 small and medium-sized businesses (referred to in this report as "SMEs"). Business customers of legal services providers were surveyed as they tend to have repeated interactions with the market for legal services and, therefore, are likely to have a better understanding of cost and quality in the market compared to individual consumers, who may only consult the legal market very infrequently.

The scale and scope of the market for unreserved legal activities

We find that unregulated providers currently provide a minor portion of overall legal services in the market but that they may grow in significance.

We estimate there to be at least 3,800 unregulated providers currently offering unreserved legal advice in England and Wales, with the largest number in the areas of wills and estate administration. This includes 3,100 individual providers captured in our web-reading dataset (identified through websites and Companies House records) and an estimated additional 700 providers not captured in our dataset (for example, sole traders not registered with Companies House).

Providers are located in every region of England and Wales and, on average, are relatively small. We estimate unregulated providers to have a total turnover of between £2.4bn and £2.9bn, employing between 21,000 and 26,000 people across England and Wales. By comparison, the Office for National Statistics (ONS) records turnover for all legal activities of over £37bn,² and records over 200,000 people employed at solicitors' firms and barristers' chambers.³ This indicates that unregulated services remain a small proportion of the overall legal sector (6-8% by turnover), despite there being at least 3,800 unregulated providers operating in the market. These unregulated providers are often classified as providers of general professional services rather than legal services in the national statistics (Standard Industrial Classification (SIC)). In some segments, the unregulated sector is a more significant proportion of total activity, including services for businesses and the area of will writing and estate administration, and in general unregulated providers may represent a larger proportion of the individual consumer and small business-facing market.

Other evidence suggests that the unregulated market share is growing. For instance, the University of Oxford (2021) found that online job postings were growing faster in the non-SRA-regulated sector (which includes providers regulated by LSA regulators other than the SRA) compared to the regulated sector, with the SRA-regulated sector having around a third of the number of job postings every year compared to the non-SRA sector.

The current trends in the market for unreserved legal activities

We used surveys and interviews to better understand current market conditions and the potential benefits and detriments for consumers in future scenarios. There are five main findings for current and future market development.

1. Businesses do not appear to observe a difference in quality of advice between regulated and unregulated providers.

A significant proportion of businesses received advice from unregulated providers and the satisfaction with the quality of advice provided was broadly similar across both regulated and unregulated providers.

Of the SMEs surveyed that had faced a legal issue on a reserved or unreserved area of law⁴ in the past two years:

- More than 50% had not sought advice from a LSA-regulated provider, with 30% having primarily sought advice from non-LSA-regulated businesses (in particular, financial advisers and claims

² Table 16: Annual Business Survey, Section M, UK, 2020 (Office for National Statistics).

³ As this figure is based on ONS SIC classification of businesses, it may underestimate the total number of people employed in the regulated market.

⁴ It is difficult for consumers to reliably determine the difference between reserved and unreserved areas of advice (especially when some legal issues include a combination of both).

management companies) and a further 20% having primarily obtained advice from non-professionals such as family, friends and online forums⁵; and

- Over 80% of these SMEs were satisfied with the quality of advice provided by both regulated and unregulated providers, and there was no statistically significant difference in the satisfaction with advice received from LSA-regulated professionals compared to other businesses.

This may be explained by a significant proportion of unregulated providers in practice being regulated by a non-LSA regulator (such as the Financial Conduct Authority) or engaging in voluntary membership of professional bodies. Furthermore, although the survey respondents did not report lower satisfaction with the quality of advice received from unregulated providers, consumers may not have consistent expectations regarding the quality of different providers or have a clear understanding of what high-quality advice is in practice. This information asymmetry means that there may still be a risk of a lower quality of advice from certain providers, despite reports of high overall satisfaction across consumers of unreserved legal advice.

2. Quality remains a concern for certain types of unregulated providers.

While the overall perceptions of the quality of legal advice and legal services from unregulated providers did not appear to be lower compared with regulated providers, there was still a concern that some unregulated providers may provide lower-quality services.

- **Both the regulated and unregulated providers expressed concern in interviews about low-quality providers who had lower standards (“cowboys” or “rogue traders”).** Providers were concerned that this subset of unregulated businesses may give consumers bad advice and create a bad reputation for the market as a whole. In particular, there was concern about providers that are not obliged to meet any regulatory nor professional membership standards.
- **Turning to alternative providers who are not covered by LSA regulation may lead to increased risks for price-sensitive SMEs.** SMEs which primarily obtained advice from unregulated businesses were significantly more likely to report affordability as a priority (compared to those primarily obtaining advice from solicitors, barristers and licensed conveyancers). These price-sensitive consumers may be more likely to obtain advice from subsets of the unregulated market, where quality of advice may be lower, due to a perception that unregulated providers are more affordable (whether or not they are actually more affordable in practice). This is not explored as part of this report.
- **This may also be a risk for individual consumers.** The survey undertaken for this report focused on SMEs and did not capture the experiences of individual consumers. However, the experts consulted for this report highlighted that some individuals may be more likely to access services or advice from other types of unregulated providers who may offer lower-quality advice.⁶ This is consistent with research commissioned by the LSB and the Law Society which

⁵ The proportion that sought professional legal advice in the SME survey is higher when compared to past research into the legal needs of small businesses commissioned by the LSB (LSB, 2022b), which may be due to differences in the size of the businesses surveyed. Of those that sought legal advice, the proportion that obtained advice from LSA-regulated providers is broadly consistent with existing evidence from LSB surveys.

⁶ Experts consulted for this report included academics, regulators and providers

found that individuals using unregulated providers are more likely to express dissatisfaction with the service they receive (YouGov, 2020).

- **Economic conditions may increase the risk in the near future.** Over 60% of businesses surveyed expected their legal needs to increase due to a downturn in the economy.⁷ Given that more price-sensitive consumers appear more likely to seek advice from an unregulated provider, this could increase the market share of unregulated providers. On the other side, it creates a risk of more consumers seeking advice from non-professional sources (for example, from family and friends), or being unable to seek advice at all.

3. Unregulated providers report a significant planned increase in the use of legal technologies, but the risks of digital exclusion appear limited in the medium term and there may be benefits from digital innovation.

While the use of technology to provide unreserved legal services appears to be growing, we found that the significant majority of providers provide in-person services. Furthermore, much of the technology used or planned to be used in the market is efficiency-improving, complementary technology, as opposed to wholly digital services which could supplant existing in-person advice.

- 91% of providers indicated that they provide in-person services, with the majority providing services via online methods such as email and video call alongside this.
- The most common legal technologies currently used by providers were websites with interactive features (63%) and cloud storage (69%), with only a subset using smart device apps (25%) and live chat/virtual assistants (23%).⁸

This suggests that the risk of further digital exclusion in the medium term is limited. However, there are already some consumers who are digitally excluded from the market, with 6% of UK households unable to access the internet at home and a further 8% not confident in their ability to use the internet (Ofcom, 2022). Furthermore, even if providers continue to offer in-person services, they may digitally exclude some consumers if critical components of their services go online only (such as online document signing).

As a result, while the survey results do not suggest a material increase in digital exclusion due to unregulated providers, some consumers may still continue to be excluded from the market.

Furthermore, while the survey evidence does not suggest that there is likely to be a material technology-driven shift towards unregulated providers in the medium term, experts consulted for this report indicated that unregulated providers are major drivers of technological innovation in the market.⁹ These innovations can lead to significant benefits for consumers in the form of expanded

⁷ Note: The survey gathered responses over September and October 2022. The forecasted economic outlook for the UK worsened over this time period and into November/December 2022, which may mean that, as of the date of publication of this report, the forecasted legal needs of businesses may be higher.

⁸ Similar to proportions found by the University of Oxford (2021).

⁹ Experts consulted included academics, regulators, providers and key stakeholders in the legal technology market.

access to legal services and reduced costs for consumers. However, they may also lead to increasing numbers of consumers turning to unregulated providers in the longer term.

4. Most SME consumers, and some unregulated providers, view regulation as important for the market.

The SMEs surveyed reported a preference for choosing a regulated provider over an unregulated provider:

- When choosing between regulated and unregulated providers with similar fees, 87% of SMEs preferred the regulated provider, with 67% still preferring the regulated provider even if fees were higher.
- SMEs generally indicated that they viewed regulated providers as more trustworthy and professional, and subject to a higher level of accountability.

Eighty-five percent of SME consumers reported regulation as being important to the market, and 74% of consumers who had not faced legal issues were even more likely to view regulation as very important compared with 59% of those who had faced legal issues. This is consistent with the finding from the survey that consumers who obtained advice from unregulated providers were happy with the quality of advice received.

A significant proportion of unregulated providers of legal advice also viewed regulation as beneficial, with 49% of unregulated respondents indicating that it would benefit the market if all legal services providers were regulated in some way.

5. There is scope to improve consumer understanding around regulation in the market.

There is evidence that consumers may overestimate their understanding of which providers are regulated and unregulated. While 82% of SME consumers reported that they knew if their provider was regulated or unregulated, only 33% of providers indicated that they believed that their customers understand the difference between regulated and unregulated providers.

Taken together with the high reported importance of regulation to consumers, this suggests that:

- There is a risk that consumers are unable to choose their preferred provider; or
- Consumers may overestimate the protections available to them due to a lack of information about regulatory status or a lack of awareness about how to access relevant information.

This points to a potential opportunity for regulators to improve the availability and transparency of information around regulation in the market.

The potential future developments in the market for unreserved legal activities

We developed five scenarios for potential future states of the market for unreserved legal activities over the next three to five years. We considered the actions of, and impacts on, consumers, providers

of legal services (both LSA-regulated and unregulated) and regulators in relation to each scenario. The scenarios were informed by a focused literature review and interviews with over ten market experts. Each scenario was built using a combination of four key factors: the state of the macroeconomy, fiscal policy, technological adoption and regulation in the legal sector.

The five scenarios focus on the developments in the market that have significant implications for the risks and benefits to consumers in the market and the impacts of regulation on the sector. The scenarios are:

- **Scenario 1:** a slowdown in the economy and no material change in wider government fiscal policy causes demand for legal advice and services to rise, with this demand increasingly being met by unregulated providers due to affordability issues. **This leads to a gradual shift towards unregulated providers.** While overall access to legal advice may improve, there are concerns for some consumers and about the overall quality of advice in the market. Some consumers may also continue to be digitally excluded as online provision of unreserved legal services increases and some in-person services are replaced with digital solutions.
- **Scenario 2:** as in scenario 1, demand for legal advice rises due to an economic slowdown, with this demand increasingly being met by unregulated providers due to affordability issues. However, in this scenario, regulators move to increase awareness of regulation in the market in response to this increase in demand. **This leads to stronger segmentation of the market,** as providers are more clearly differentiated into regulated or unregulated providers, with separate consumer bases and consequently more differentiated service offerings.
- **Scenario 3:** in this scenario, demand for legal advice rises, but supply expands in the market through increased use of technology to complement existing in-person legal services. This reduces the cost of legal services and **leads to increased access to legal advice through technology.**
- **Scenario 4:** a more prolonged downturn in the economy causes demand for legal advice to rise significantly. This leads to a greater shift away from regulated providers and **a significant increase in legal need.** In this scenario, regulators respond by increasing the information available to consumers about regulation to mitigate potential risks.
- **Scenario 5:** the scope of regulation in the market is increased through an **expansion of reserved activities,** leading to increased standards and quality of provision but additional costs for providers, a reduced supply of legal advice on unreserved activities and reduced innovation in the market.

We used evidence from our surveys and focused interviews, previous research and wider evidence, including case studies of international evidence, to consider the market trends and risks/benefits to consumers associated with the scenarios.

The implications of the existence of and potential growth in the unregulated sector for the future of the market are not entirely clear as there are many factors and mitigations that could affect this. However, based on our understanding of the current market and interviews with market experts, some of the potential implications are set out below.

Potential implication for unreserved market: Unregulated provision may increase access to justice in the face of increased strain on consumer resources.

Overall, it appears likely that demand for legal advice will rise over the next few years as the economy undergoes a slowdown. Whether this increased demand will be met by regulated or unregulated provision or will remain partially unmet is unclear.

However, the providers of unreserved activities we surveyed reported an expectation that overall demand for legal advice would increase in the near term, with 43% expecting demand for their advice to increase next year and only 4% expecting it to decrease. Although the SMEs we surveyed expressed a preference for regulated provision overall, providers indicated that their consumers may not be capable of differentiating between regulated and unregulated providers.

Potential implication for consumers: Risks from the provision of low-quality advice appear to be low in the near term.

Overall, the potential risks of a lack of consumer protection from increased supply of unregulated advice needs to be weighed against the risk of consumers being unable to obtain any form of professional legal advice. If the anticipated increased demand for legal advice in future is increasingly met by lower-cost, unregulated providers, this could also increase the number of low-quality providers.

The SMEs we surveyed did not report a significant difference in quality of advice between regulated and unregulated providers. At face value this indicates that the overall quality of advice in the market may not decrease materially, although difficulties in defining and judging the quality of advice in this context means this is not entirely conclusive.

Potential implication for the regulators: The costs and benefits of increasing the potential providers in scope of regulation need to be considered carefully.

The list of reserved legal activities can only be changed by statute and cannot be altered by the regulators. In the hypothetical situation in which this list is amended, increasing the areas in scope of regulation will afford consumers improved protection if they receive poor-quality advice or service or if the provider acts dishonestly. However, our survey indicated that it is not obvious whether this would lead to an improvement in the overall quality of advice or service, with SME consumers reporting similar satisfaction with the quality of advice received from regulated and unregulated providers. While previous research commissioned by the LSB found that individuals using unregulated providers were more likely to express dissatisfaction with the service they receive, this research into individual consumers similarly found that overall satisfaction with quality of advice received from both regulated and unregulated providers was high (YouGov, 2020).

Increasing the areas in scope of regulation may be associated with additional costs on providers. In some cases, it was thought this could have a potentially dampening effect on innovation and lead to price increases. This in turn could lead to some providers leaving the market, reducing the overall supply of legal services. Depending on the type of increased regulation, there is a further risk that the

market will become more polarised with high-quality unregulated firms choosing to become regulated and lower-quality firms remaining unregulated.

If additional regulation is too burdensome it could lead to consumers not seeking advice at all (due to increased prices), as opposed to obtaining potentially lower-quality advice, and could increase the proportion of individuals with unmet legal needs.

Conclusions and potential next steps

The unregulated market is relatively small but may be growing, with a particularly notable concentration of unregulated providers in areas such as wills and estate administration (excluding probate) and employment. While risks from the provision of low-quality, unregulated services in the market appears limited in the medium term based on the evidence gathered for this report, concerns may still remain for parts of this market or for individuals, which have not been explored in detail.

Digital exclusion is an ongoing risk in the market, and unregulated providers do not appear likely to materially affect this in the near future. Unregulated providers also tend to be drivers of innovation and beneficial technological deployments in the market. Increased regulation may create more risks than benefits at this point in terms of access and affordability, particularly in the face of increasing demand for legal advice. However, given the evidence that consumers overestimate their understanding of what constitutes a regulated provider, increased availability and transparency of information concerning regulation would likely benefit consumers.

This report focuses on the market for unreserved legal activities at a high level and does not investigate every area of this market in detail. There are some further areas and issues which could be explored:

- **Subsets of the market for unregulated services**, particularly unregulated providers who are not subject to non-LSA regulation or members of professional bodies, to test whether there are increased risks to consumers in these areas of the market.
- **The cost of unregulated providers relative to regulated providers**. Consumers surveyed for this report perceived unregulated providers as being more affordable than regulated providers. However, we do not explore whether this perception is accurate or is a misconception on the part of consumers.
- **Barriers faced by providers who wish to become regulated**. Experts in the market and the survey evidence suggested that there may be providers who wish to become regulated but are unable to in practice.
- **Means of improving information available to consumers**. Given the potential gap in consumer understanding around what constitutes a regulated provider, regulators could explore the costs and benefits of improving the information available to consumers.

More generally and given the relative lack of knowledge of this market, it might be useful to conduct periodic studies and gather data to track key indicators of potential issues in the market such as pricing, consumer satisfaction, consumer understanding around regulation, consumer complaints,

provider performance and attitudes. Given the scope of the market, these studies and data-gathering exercises could be targeted at the parts of the unreserved market where there are particular concerns, for example where there is relatively high concentration of unregulated providers, or where there are higher risks or negative outcomes for vulnerable consumers.

Introduction

The Solicitors Regulation Authority (SRA) commissioned Frontier Economics, The Data City and BMG Research to obtain a better understanding of the market for unreserved legal services. The SRA regulates over [80% of the LSA-regulated market](#), regulating over [156k practising solicitors](#) as of December 2022. Legal advice can be obtained both from regulated and unregulated providers in England and Wales.

- **Regulated providers** are those providers regulated by an approved Legal Services Act 2007 (LSA) regulator. Lawyers and organisations carrying out any of the [six reserved activities](#) as set out in the LSA must be regulated by an approved [LSA regulator](#).
- **Unregulated providers** do not carry out reserved activities, and therefore do not need to be regulated by an LSA regulator, although they may be subject to regulation in other areas (such as financial services regulation). They are able to operate without a formal need for legal training or qualifications.

Both of these types of providers compete to offer legal advice in areas of unreserved activities. Unreserved legal advice covers common legal issues which may be encountered by businesses and individuals, including business structures and regulation advice; consumer issues; some areas of family and employment law; housing and premises issues; injury; intellectual property; tax and finance; and wills and estate administration.¹⁰

Legal services include a variety of activities, including (but not limited to) the provision of legal advice. Legal advice is information or solutions which are tailored to a client and their legal issue(s). This research focuses on those providers who offer tailored legal advice as part of their service offering, and does not explore the market for providers who only offer general legal information which is not tailored to a client's specific needs. For more information on the definition of the market considered, see Annex A.

There are potential benefits and detriments to consumers from unregulated provision of legal advice in the market. Previous Legal Services Board (LSB) research identified potential benefits from price transparency, lower prices and increased competition in the unregulated sector, but also highlighted the risk of a lack of awareness of regulatory status and its implications for consumers (Economic Insight, 2016). The prospect of increased use of unregulated provision at a time of economic instability may increase both the risks and benefits from the provision of unregulated services.

The Competition and Markets Authority (CMA) concluded that the legal services sector is not working well for consumers and suggested a review of the regulatory framework (CMA, 2016). While in a 2020 review, the CMA noted that some progress had been made around transparency of price, [it re-iterated its call for a regulatory review](#) due to signs of growth in the unregulated sector. Professor Stephen Mayson's Independent Review of Legal Services Regulation (Mayson, 2020) also identified potential

¹⁰ For the purposes of this report, we do not consider immigration advice services on the basis that any immigration advice providers not regulated by an LSA regulator are regulated by the Office of the Immigration Services Commissioner (OISC).

risks to consumers and proposed reforms to the unregulated market, including allowing for regulation of all providers of legal services.

This report seeks to provide further insight into the development of the market for unreserved legal activities, the role of unregulated providers, and the potential benefits and detriments to consumers. It is set out as follows:

- The **methodology** section briefly sets out the methodology and different types of research and analysis undertaken for this report.
- The section on the **scale and scope of the unreserved market** explores the number of unreserved providers in the market, which areas of legal advice these providers offer and their characteristics.
- The section on **current trends in the unreserved market** draws on evidence from surveys and interviews to explore benefits and detriments to consumers in the market.
- The section on potential **future developments in the unreserved market** explores future scenarios that the market for unreserved activities might take due to developments in the economy, technology and regulation.
- The final section gives **conclusions** and suggested areas for further study.

Additional detail is also contained in the Annexes at the end of this report.

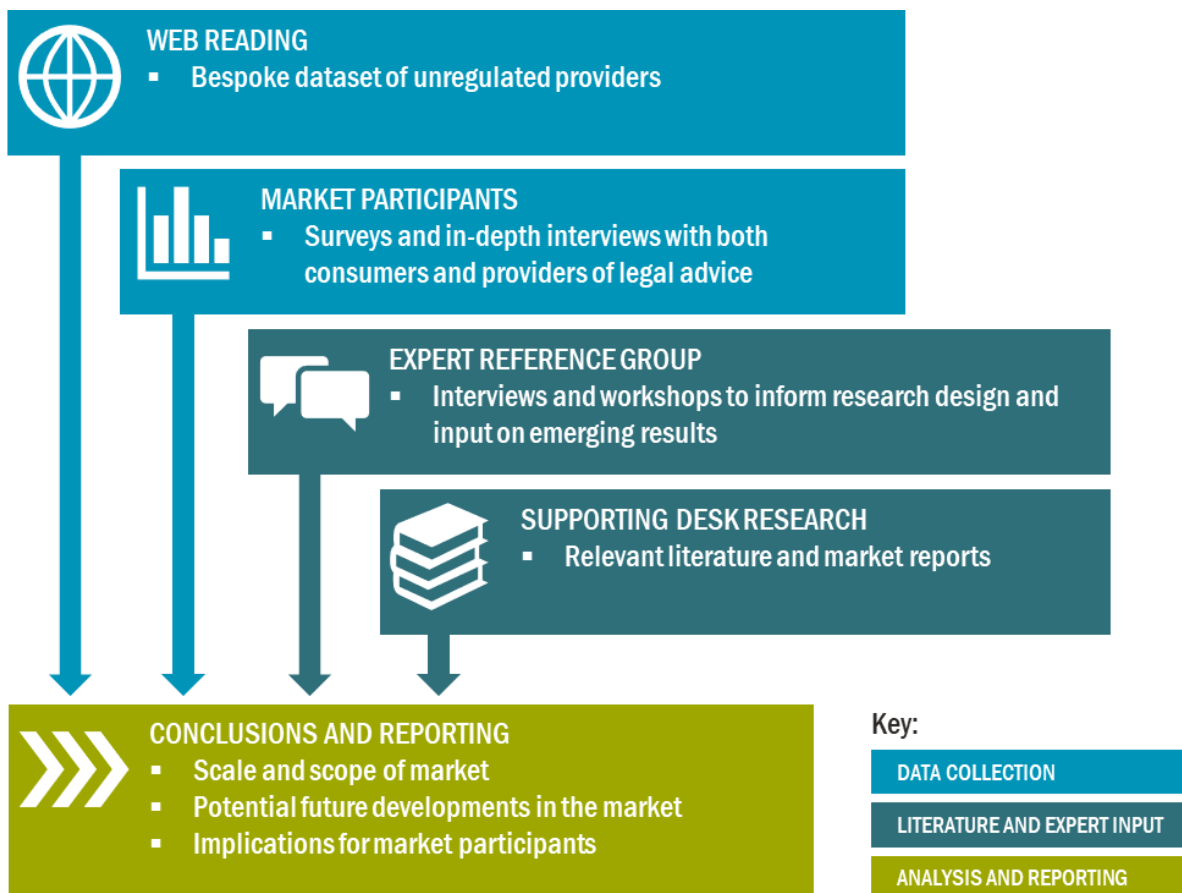
Methodology

This section briefly sets out the methodology and different types of research and analysis undertaken for this report. Overall, this report was informed by four key workstreams:

- A **web-reading** exercise, which used machine learning to identify unregulated providers of unreserved legal advice and estimate the scale and scope of the unregulated market;
- **Interviews and workshops with an expert reference group**, to inform the potential future developments in the market and the drivers of benefits and detriments to consumers and to gather input on emerging results;
- **Surveys of and in-depth interviews with market participants**, to understand the implications of market developments for consumers and providers of unreserved legal advice; and
- **Desk research**, to support the above.

A brief explanation of the methodology of each of these types of analysis is set out below, with more detail in Annex A, including a full mapping between the research questions considered in this report and the methodologies used to address them.

Figure 1 Summary of methodology



Source: Frontier Economics

Web reading

Working with our partner, The Data City, we used web-reading techniques to compile a dataset of unregulated providers of unreserved legal advice. Starting from examples of unregulated providers, we used natural language processing to find similar companies based on website keywords, and we categorised these providers into different areas of legal services. Using further checks, we limited the dataset to include only providers who are not regulated by any of the LSA regulators.¹¹

Although checks and filters were applied to increase the accuracy of the final dataset as much as possible, it should not be treated as a comprehensive list of all unregulated providers and it may contain some firms that are not legal advice providers. The purpose of the dataset is to capture an approximation of the size and characteristics of the overall market from which we can draw aggregate conclusions, but it is not intended to be used as a register of all unregulated providers in England and Wales.¹²

Interviews and workshops with an expert reference group

To support this research, we convened a reference group consisting of experts from over 20 organisations. These included representatives of unregulated providers, not-for-profits, consumer protection organisations, regulators, industry bodies and academics.

This reference group was engaged in two primary ways:

- One-on-one interviews were held with over a dozen members of the reference group. These explored benefits and detriments to consumers and providers in the current market and the potential future developments in the market.
- Two workshops were held with the wider reference group in July and October of 2022. These refined the analysis related to the future scenarios which the market might take and tested and explored intermediate findings from the surveys of market participants.

Through engagement with the expert reference group and supporting desk research, we developed a series of questions to test with the market through further surveys and interviews, as described below.

Surveys and interviews of market participants

We used online surveys of participants in the market and follow-up telephone interviews to gather evidence to explore:

¹¹ For a more detailed methodology, see Annex A.

¹² Producing such a register would require regular maintaining and updating due to entry and exit to the market, which is not currently feasible.

- How providers currently respond to regulation;
- Whether there are any benefits or detriments to consumers as a result of the current provision; and
- How the provision of unreserved activities might evolve in the future.

The survey and interview work were led by BMG Research. Overall, two different surveys were deployed to the market:

- **A consumer survey.** This survey covered small and medium-sized businesses (referred to in this report as “SMEs”). The SMEs were surveyed as these consumers were more likely to engage with providers of legal services on a repeated basis. They therefore have a better understanding of cost and quality in the market when compared with individuals who may only engage with legal providers very rarely. Previous research by the LSB also estimated that unregulated providers have a higher market share of the legal services market serving small businesses than of the market serving individuals (LSB, 2022a). Responses were received from 510 different companies covering different industries and locations across England and Wales.
- **A provider survey.** This survey covered providers identified by the web-reading exercise who were not regulated by the SRA, with a focus on wholly unregulated providers. Overall, **162** responses were received from firms operating in the market for unreserved legal advice. Of these, **140** were not regulated by an LSA regulator (with three of these providers regulated by the Financial Conduct Authority (FCA)), and the remaining **22** regulated by entities such as the Intellectual Property Regulation Board (IPREG).

This survey work was supported by in-depth interviews with regulated and unregulated providers to further explore the results emerging from the surveys. Overall, 14 telephone interviews were held with unregulated providers, and seven with providers regulated by the SRA.

Supporting desk research

To complement the analysis described above and to better understand the potential benefits, risks and developments in the market for unreserved legal advice, we undertook a review of relevant evidence pertaining to this market. This included, but was not limited to:

- A review of relevant reports and research published by regulators and public bodies, including the SRA, the LSB and the CMA;
- A review of academic publications and evidence concerning the drivers of demand and supply of legal advice and the impact of regulation; and
- A rapid review of evidence on the role and impact of regulation in other jurisdictions internationally.

Scale and scope of the unreserved market

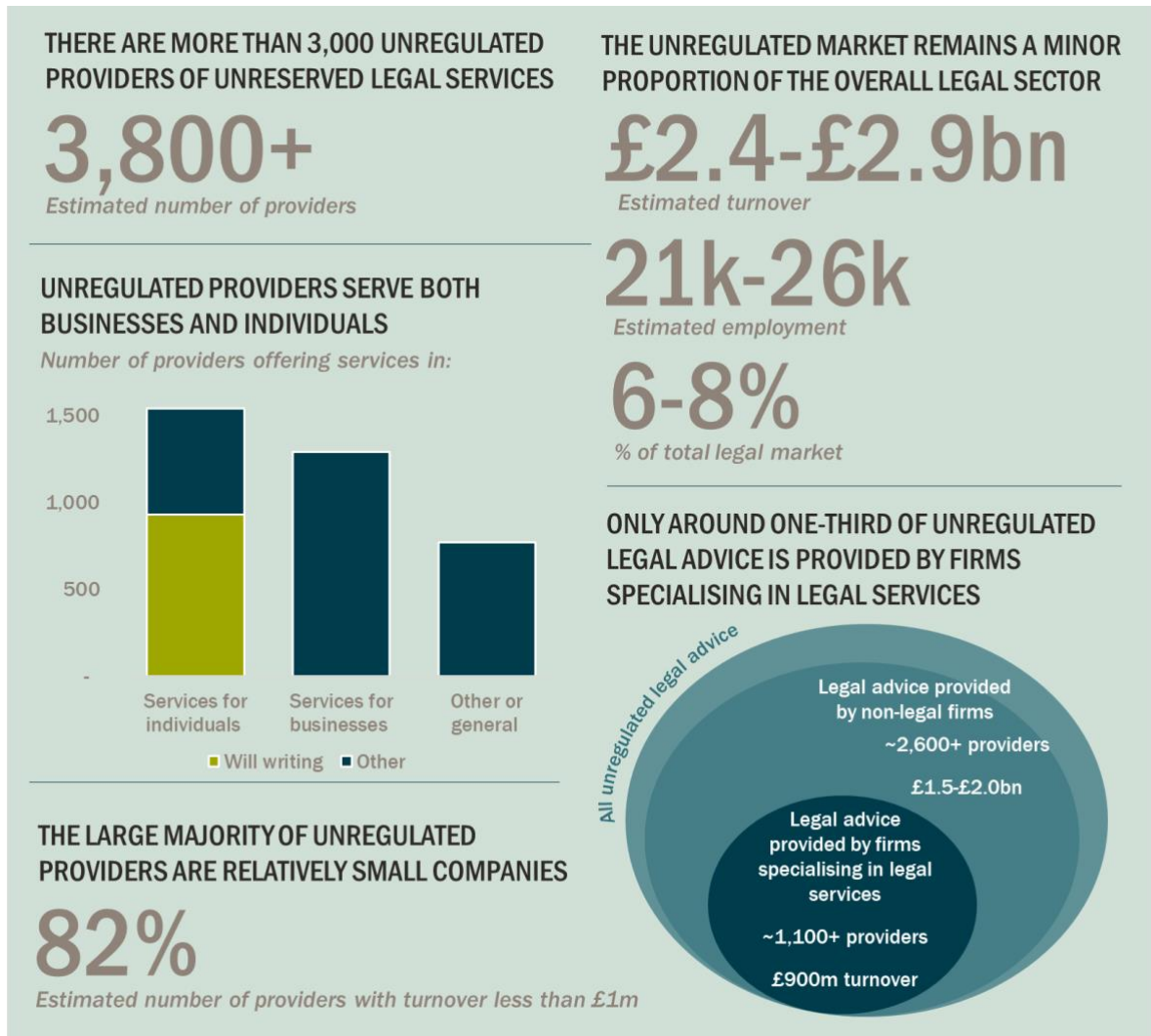
We examined the scale and scope of the market using our bespoke dataset of providers in England and Wales, identified through web reading.¹³

Summary

- We estimate there to be at least 3,800 unregulated providers in England and Wales currently offering unreserved legal advice, with the largest number in the areas of wills and estate administration.
- This includes 3,100 individual providers captured in our web-reading dataset (identified through websites and Companies House records) and an estimated additional 700 providers not captured in our dataset (for example, sole traders not registered with Companies House).
- Nearly three-quarters of unregulated providers operate mainly in non-legal sectors, e.g. providing legal advice as an ancillary service to their main business function.
- Unregulated providers operate across all regions of England and Wales and are slightly more likely than other companies to operate outside of London and the South East.
- The large majority of unregulated providers are relatively small companies, with annual turnover of less than £1m, and fewer than ten employees.
- We estimate the total size of the market for unreserved legal advice (provided by unregulated firms) at around £2.4-£2.9bn, employing 21,000-26,000 people across England and Wales.
- Unregulated providers are a minor portion of all providers of legal services but may grow in significance.

¹³ We note that the dataset is not intended to be used as a register of all unregulated providers in England and Wales but is intended to capture an approximation of the size and characteristics of the overall market (see Methodology).

Figure 2 Summary: Scale and scope of unreserved market



Source: Frontier Economics analysis of The Data City Real Time Industrial Classification (RTIC) of unregulated legal services. This bespoke dataset (RTIC) of providers of unreserved legal activities was produced by defining a unique taxonomy for the industrial classification and then stitching together multiple sources of company data to produce a picture of the aggregate sector. This is described in more detail in Annex A.

Number of unregulated providers

We estimate a total of at least 3,800 unregulated providers currently offering unreserved legal advice services in England and Wales. This includes the 3,100 providers identified through the web reading and an additional 18% to account for businesses not registered with Companies House. Our definition

of a provider is based on a unique website address (this is based on how a consumer might perceive different providers when searching for legal advice).¹⁴

Across the different categories of legal services, the largest number of providers (930) is found in the area of wills and estate administration.

In each of the other categories we find a much smaller number of providers. In some cases the total size of that sub-market is small; in others the size of the unregulated market appears to be small relative to the regulated market, i.e. with a relatively higher market share of regulated providers e.g. solicitors. Table 1 summarises the number of providers found in each category of unreserved legal services.

Table 1 Unregulated market: number of providers

Category	Estimated number of providers	As % of unregulated providers
Wills and estate administration	930	25%
Employment	410	11%
Mediation	340	9%
Family: Family court support	330	9%
Intellectual property	330	9%
Business structures and regulation advice	290	8%
Tax and finance	260	7%
Consumer or trading issues	200	5%
Housing or business premises issues	140	4%
Injury	100	3%
Unspecialised	90	2%
Family: Divorce (out of court)	80	2%
Criminal	60	2%
Family: Welfare/benefits/care needs	40	1%
<i>Not registered with Companies House</i>	<i>680</i>	<i>18%</i>
Total	3,790	100%

Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

¹⁴ We find that a single “provider” often has multiple registered companies with Companies House (the 3,100 providers we match to Companies House records account for 6,800 companies).

Note: Totals are rounded to nearest 10. Rows add to more than the overall total because some providers are identified in more than one category. Number of providers is based on number of unique web domains (see Annex A), on the basis that this is how a consumer looking for a legal service would interpret competing providers (i.e. different registered companies using the same website would not be interpreted by a consumer as being different providers).

We relied on Companies House registrations to identify providers. However, this excludes some legal advice providers who may not be registered at Companies House. In particular, this method may exclude sole traders¹⁵ and some not-for-profit providers.¹⁶ We estimate the proportion of providers operating in the market that are not captured in our dataset as approximately 18%, or around 700 providers, in addition to the 3,100 included in our web-reading dataset, bringing the total to 3,800.¹⁷

Operating sectors

As illustrated in Figure 3, nearly three-quarters of unregulated providers operate mainly in sectors other than legal services. For example, a firm specialising in accountancy may provide legal advice as an ancillary service, or an educational charity may provide legal advice on rights and duties or benefit entitlements. These providers are included in our sample but the main part of their business is not in the legal sector.¹⁸

Considering the 27% of firms that operate mainly in the legal sector, we would expect a much larger proportion of these companies' business/turnover to be related to providing legal services, compared with the other "ancillary" legal advice providers.

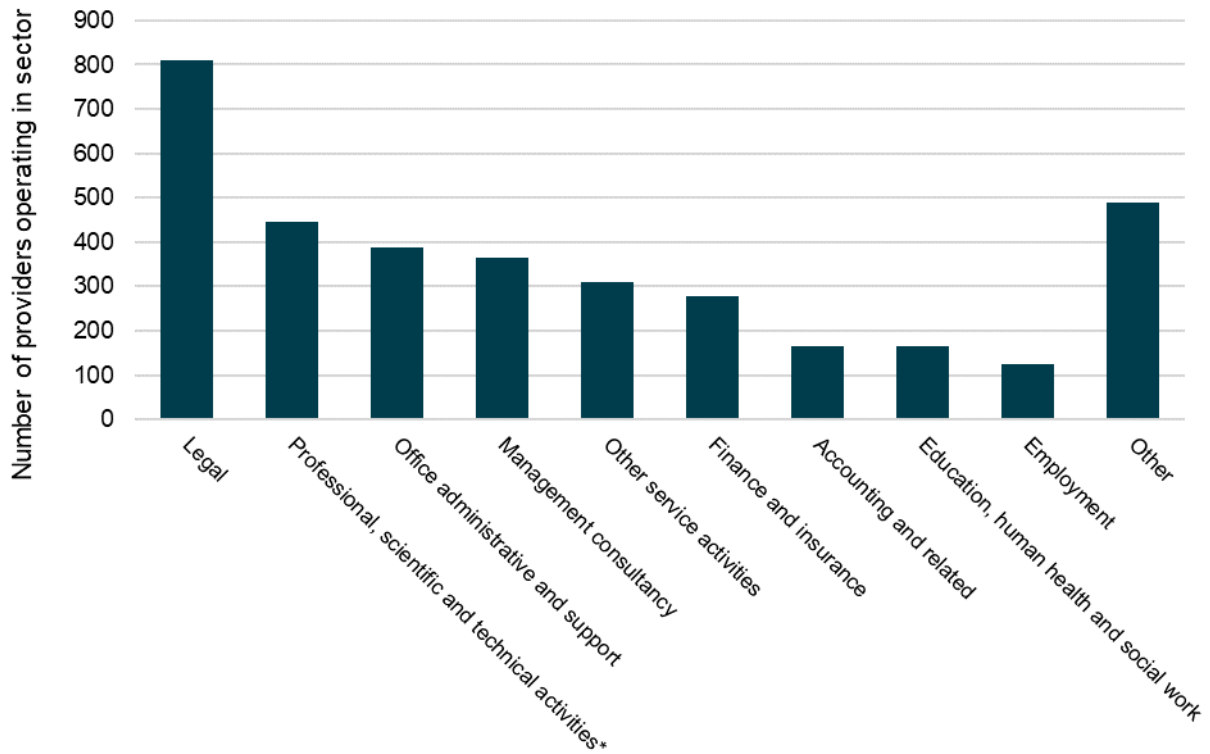
¹⁵ i.e. self-employed individuals who run their own business and are not registered as a company.

¹⁶ Not-for-profit providers are included in our market definition and some not-for-profit providers are captured in our dataset, but these providers may be more likely to not be registered as a company with Companies House.

¹⁷ For methodology, see Annex A.

¹⁸ The LSB found similar results: in its sample of unregulated providers, 25% of intellectual property firms were found to report legal advice as their main sector of operation, and the 68% of legal costs lawyers recording legal advice as their main operating area was reported to be an unusually high concentration. See <https://legalservicesboard.org.uk/research/mapping-unregulated-legal-services>

Figure 3 Operating sectors of unregulated legal advice providers



Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

Note: * excluding legal, accounting and management consultancy.

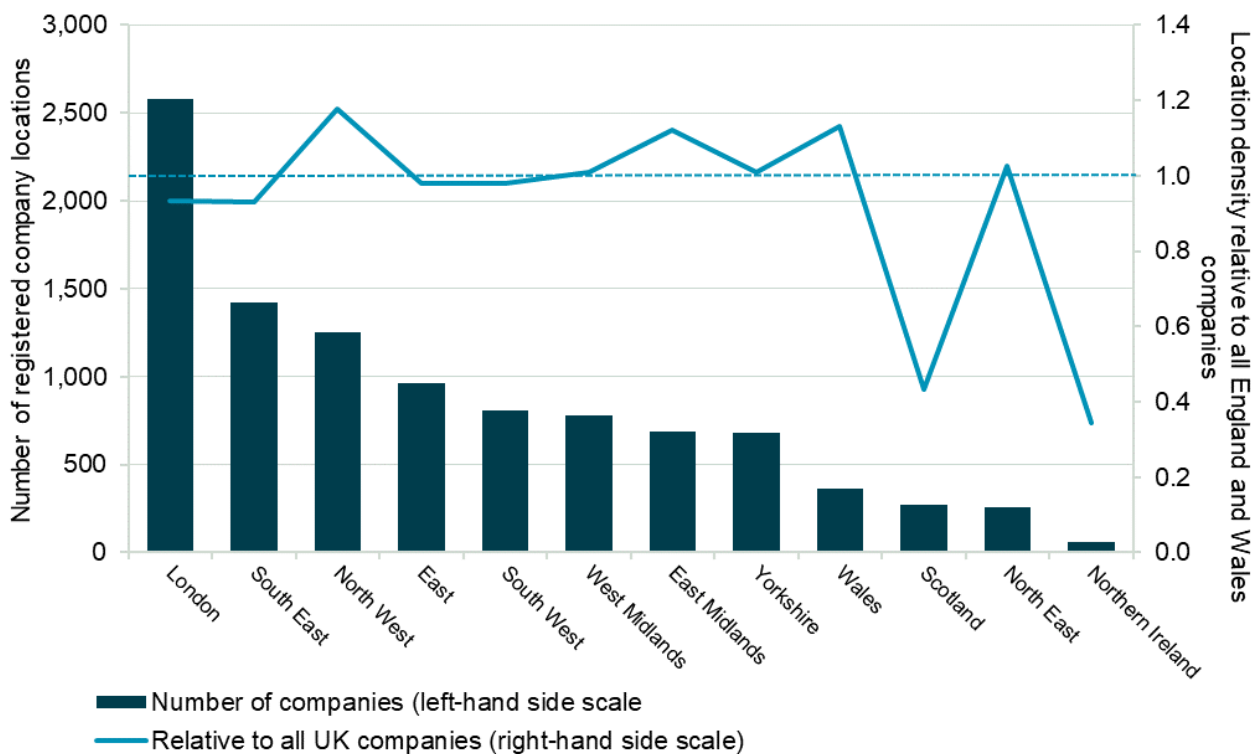
Total number of providers adds to more than 3,110, because some providers operate in more than one sector. This figure covers those providers who are registered with Companies House and does not include the estimated 700 providers who are not registered with Companies House.

Sector classifications are based on Standard Industrial Classification (SIC) codes recorded in Companies House data.

Locations

London is the most common registered location of unregulated providers (a single company or provider can have multiple registered locations). However, compared with all UK companies, unregulated providers of legal advice services are slightly less concentrated in London and the South East and are more spread out across England and Wales, as shown in Figure 4.

Figure 4 Locations: all operating addresses



Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

Note: Location analysis is based on all registered addresses of all companies associated with each provider.

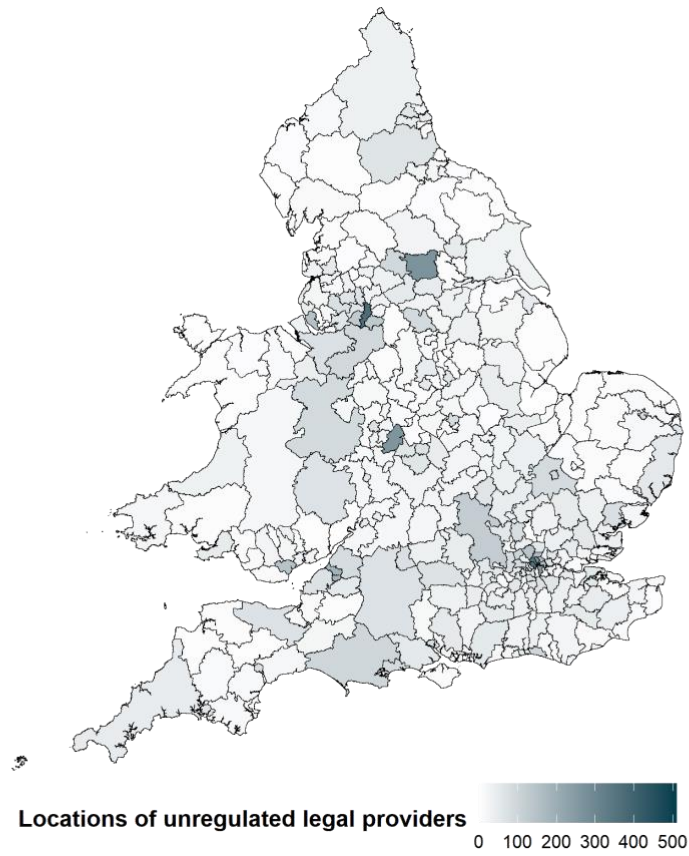
Our dataset includes only providers operating in England and Wales, but Scotland and Northern Ireland appear above due to providers with operations in Scotland and Northern Ireland as well as in England and Wales.

At a more detailed geographic level,¹⁹ we find larger numbers of unregulated providers in denser urban areas, as may be expected, particularly in large cities such as London, Manchester, Birmingham, Leeds and Cardiff (see Figure 5).

Relative to the whole legal services market, we find a more diverse picture across England and Wales, although the recorded number of providers is too small in many local areas to draw firm conclusions. As a general pattern, unregulated providers make up a smaller proportion of the total in the Greater London areas, and a higher proportion in more rural areas (which also have a smaller total number of providers) generally located outside the South East (see Figure 6).

¹⁹ Local Authority Districts (LADs).

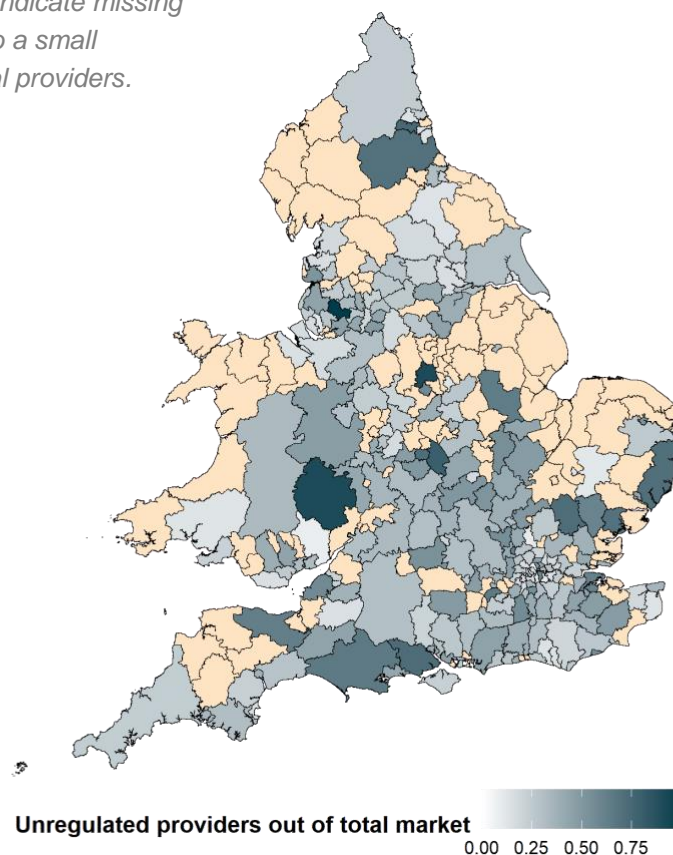
Figure 5 Locations of unregulated providers



Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

Figure 6 Estimated number of unregulated providers relative to total number of providers in legal services market

Shaded yellow regions indicate missing data, for example due to a small recorded number of total providers.



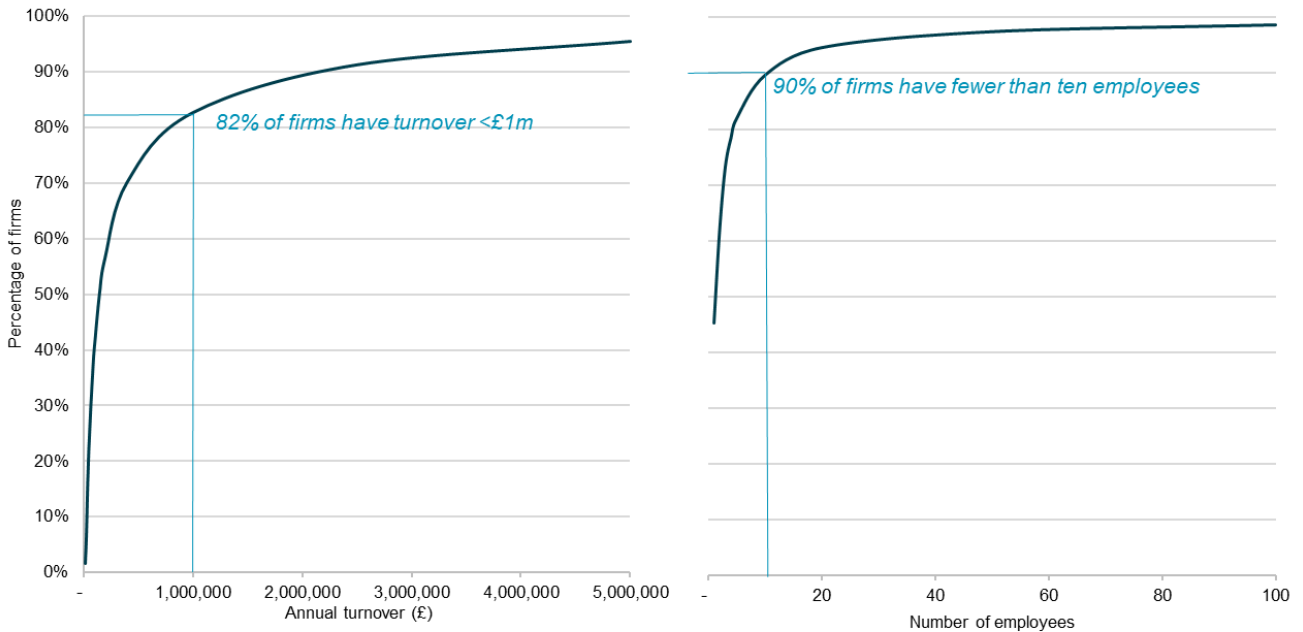
Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services; UK Business Counts data on number of enterprises by local area (via Nomis)

Turnover and employees

The large majority of unregulated providers are relatively small companies, with annual turnover of less than £1m and fewer than ten employees, as shown in Figure 7.²⁰

²⁰ The LSB's review of the unregulated market also found a large majority of firms with less than ten employees and annual turnover of less than £1m for unregulated companies with data available from Companies House (LSB, 2022a).

Figure 7 Range of annual turnover and employees



Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

Estimating the total size of the market

We estimate the total size of the market for unreserved legal services (provided by unregulated firms) to be between £2.4bn and £2.9bn, employing between 21,000 and 26,000 people across England and Wales.²¹ This is illustrated in Table 2. This is a conservative estimate which excludes any providers not registered with Companies House (for which we do not have any turnover or employment data).

By comparison, the Office for National Statistics (ONS) records turnover for all legal activities of over £37bn²² and records over 200,000 people employed at solicitors’ firms and barristers’ chambers. This indicates that unregulated services remain a small proportion of the overall legal sector (we estimate around 6-8% by turnover).

The LSB found that unregulated businesses “have between approximately 0.5% and 9% share of the overall legal services market serving individual consumers”. Our estimates are towards the upper end of this range, likely in part because we include not-for-profit providers who the LSB excluded. The Legal Services Consumer Panel tracker survey finds that around 50% of

²¹ As a benchmark comparison, this is similar to the level of employment in the television programming and broadcasting activities sector, according to ONS statistics. Source: Total employees by 5 digit industry code (2020) (Office for National Statistics).

²² Table 16: Annual Business Survey, Section M, UK, 2020 (Office for National Statistics).

respondents have received free legal services, which indicates a significant involvement of not-for-profit providers in the market for legal activities.

The market share of unregulated providers serving business consumers is estimated to be much higher (37-39%). This is backed up by findings from the survey carried out for this report: of those businesses facing legal issues, 47% reported going to a solicitor, barrister or licensed conveyancer for advice, compared with 30% seeking advice primarily from other businesses such as financial advisers, claims management companies and other professionals.

From our dataset of unregulated providers and survey results, we estimate that around two-thirds of unregulated legal advice is provided by firms whose main business function is not in legal services, i.e. ancillary providers (for example, accountancy firms providing legal advice as an ancillary service to their main area of business, as discussed above).²³

Table 2 Size of the market for unregulated, unreserved legal services

Market segment	Total turnover	Total employment
All unregulated, unreserved legal services	£2.4bn-£2.9bn	21k-26k
<ul style="list-style-type: none"> Firms whose main business function is providing legal advice 	£0.9bn	9k
<ul style="list-style-type: none"> Firms with a different main business function (ancillary providers) 	£1.5bn-£2bn	12k-17k

Source: Frontier Economics analysis of The Data City Real Time Industrial Classification of unregulated legal services

Note: See Annex A for detailed methodology.

Development of the market over time

According to ONS statistics, employment in the overall legal sector has grown since 2015, with employment at solicitors’ firms and barristers’ chambers growing faster than employment at “other” legal service providers since 2015 (see Figure 8). However the “other legal” category in the ONS industry classification²⁴ does not capture the size and scope of the unregulated market precisely:

- It includes both unregulated and regulated employees (for example, patent attorneys working at firms regulated by IPREG); and

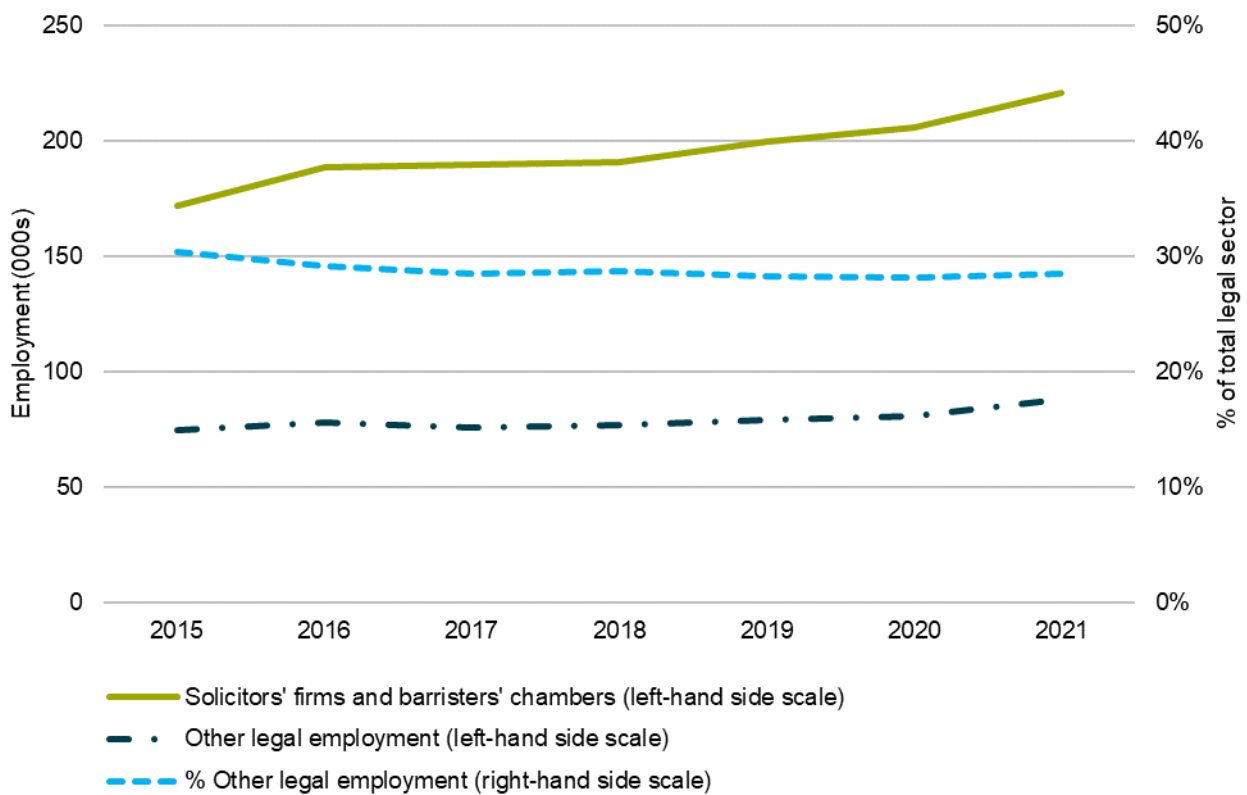
²³ Using evidence from our provider survey, we estimate that the average proportion of turnover of ancillary providers coming from legal services provision is between 32% and 44%. For a full methodology, see the Annex A.

²⁴ Standard Industry Classification “Activities of patent and copyright agents; [and] other legal activities (other than those of barristers and solicitors)”.

- It excludes employees of “ancillary” legal service providers (i.e. firms that provide some legal advice but do not record legal advice as their main business activity).

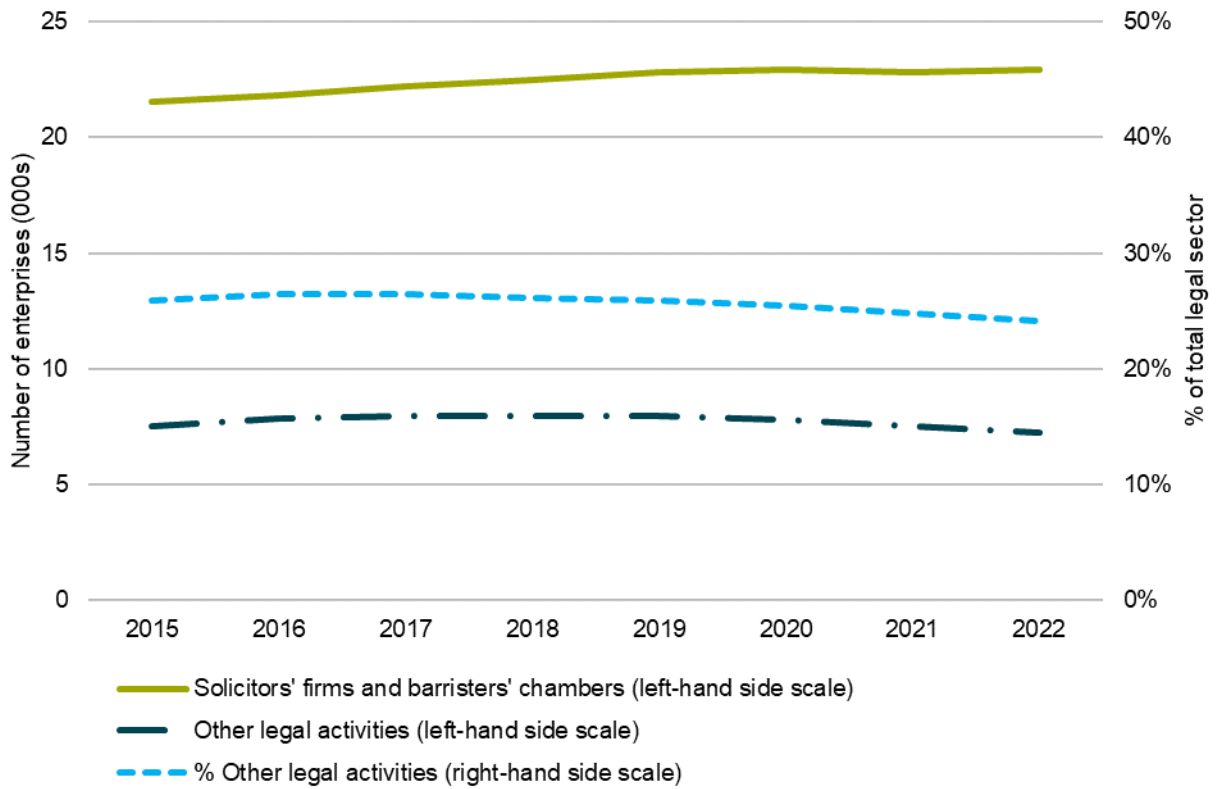
Although the level of “other legal” employment recorded by the ONS has increased only slightly since 2015, other evidence suggests that the market share of unregulated service providers has grown recently and may continue in this direction. For example, there have been some suggestions that the surge in demand for online advice during the early stages of the pandemic could lead to an increased reliance on unregulated providers (Mayson, 2020), a view also held by some members of our expert reference group. The University of Oxford (2021) found that online job postings were growing faster in the non-SRA-regulated sector compared with the regulated sector.

Figure 8 Legal employment by sector over time



Source: Business Register and Employment Survey 2015-2021, Office for National Statistics

Figure 9 Legal enterprises by sector over time



Source: UK Business Counts 2015-2021, Office for National Statistics

Current trends in the unreserved market

The current operation and structure of the market for unreserved legal advice, and how this is expected to develop in the future, has implications for both consumers and providers. Understanding this is key to informing potential benefits and detriments from different approaches to regulation.

In order to better understand current market conditions and what benefits and detriments might emerge under future scenarios, we conducted (i) a survey of SME consumers of legal advice operating in England and Wales, and (ii) a survey of providers of unreserved legal advice operating in England and Wales who are not regulated by the SRA. These surveys gathered information on:

- **Demand for legal services**, including where businesses go for advice, how satisfied they are with this advice, how demand has changed in recent years and how it is expected to change in future;
- **The role of technology**, including the methods by which legal advice is provided, planned adoption of new technology and attitudes towards this adoption; and
- **Attitudes to and understanding of regulation**, in particular consumers' understanding as to whether providers are regulated or unregulated and the perceived benefits of different approaches to regulation.

The surveys were supplemented with further in-depth interviews with regulated and unregulated providers.

Our findings are described in more detail in the sub-sections below, combined with findings from previous research and from analysis of our dataset of unregulated providers.

Summary

- Of the businesses surveyed that had faced a legal issue in the past two years, 47% reported going to a solicitor, barrister or licensed conveyancer for advice; 30% had sought advice primarily from other businesses (in particular financial advisers and claims management companies); and 20% had primarily obtained advice from non-professionals, such as family, friends and online forums.
- Overall satisfaction for SME consumers of regulated and unregulated providers was high, and in general the difference in satisfaction was not statistically significant.
- While use of technology to provide unreserved legal services appears to be growing, the significant majority of providers provided in-person services (91%). Much of the technology used or planned to be used in the market is efficiency-improving, complementary technology.
- The SMEs surveyed reported a preference for choosing a regulated provider over an unregulated provider. When choosing between regulated and unregulated providers with similar fees, 87% of SMEs preferred the regulated provider.
- Most SME consumers (85%) viewed regulation as important for the market. However, consumers appeared to overestimate their ability to distinguish between regulated and unregulated providers, creating a risk they do not make their preferred choice.
- 49% of unregulated provider respondents indicated that it would benefit the market if all legal services providers were regulated in some way. Evidence from the interviews suggests this may be due to concerns from unregulated providers who are regulated by non LSA regulators, or members of professional bodies, about less reputable providers operating at the edges of the market.

Profile of survey respondents

Consumer survey

The consumer survey captured a wide range of SMEs operating in England and Wales.²⁵ Respondents to the consumer survey were on average relatively small companies that had been in operation for long periods of time, but the results also include responses from larger and new firms.

The companies operated in a large number of industries, and the profile of respondents across different sectors was approximately comparable to the sector split across all companies in England

²⁵ Business customers of legal advice providers were surveyed as they tend to have repeated interactions with the market for legal advice and, therefore, are likely to have a better understanding of cost and quality in the market compared to individual consumers, who may only consult the legal market very infrequently.

and Wales, although some individual industries were slightly over- or under-sampled. Respondents were headquartered in various parts of England and Wales.

More detail of the profile of survey respondents is set out in Annex A.

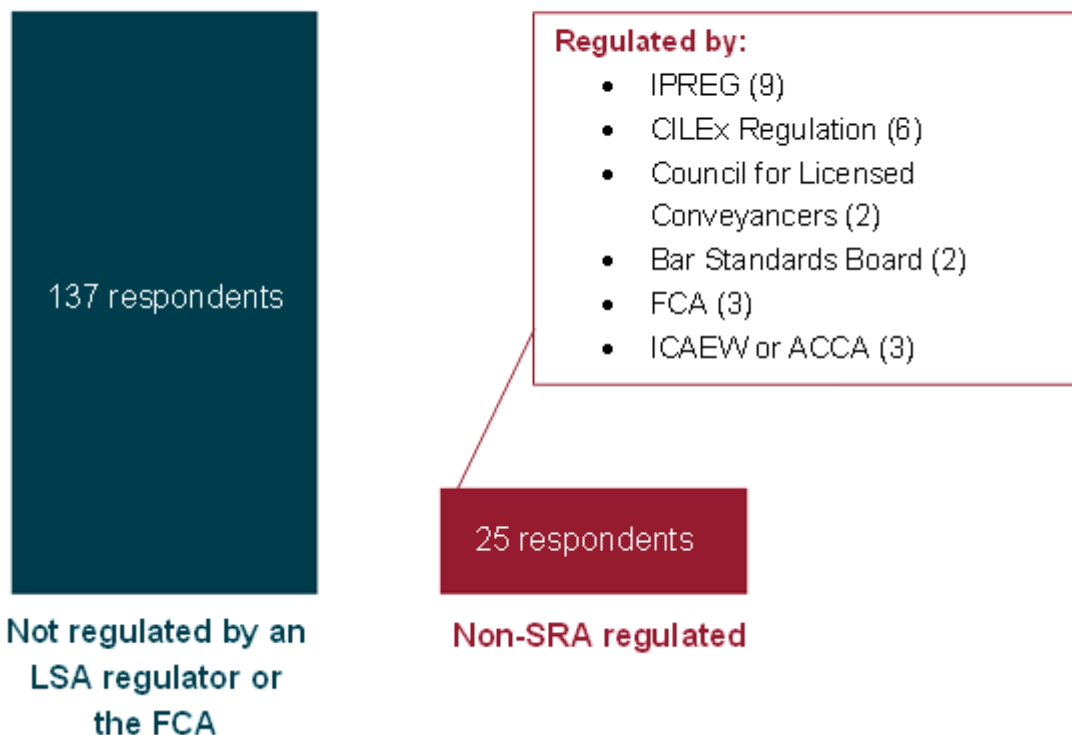
Provider survey

The providers of unreserved legal advice surveyed were relatively small in terms of number of employees and turnover and were spread across the different regions of England and Wales. While the most common main business function of respondents was legal services, approximately a third reported a non-legal main business function. This is consistent with evidence from interviews held with market experts and evidence from the wider literature that those with legal needs seek advice from a range of sources, including accountants and financial advisers, trade unions and broader experts in the market. Of those that reported their main business function as legal services, the most commonly provided area of legal advice was wills, probate, trusts and power of attorney, followed by intellectual property.

Overall, 85% of provider responses were from businesses that were not regulated by a legal services or financial regulator. The 15% of responses from regulated businesses included those regulated by the Council for Licensed Conveyancers, IPREG, Chartered Institute of Legal Executives Regulation (CILEx Regulation), the Bar Standards Board and the FCA. We purposefully excluded SRA-regulated providers from the survey to better understand the market not regulated by the SRA. We note that the regulated respondents captured in this sample are more similar on average to unregulated providers than is true of the rest of the regulated market (for example, they provide unreserved activities only, or provide digital or other services more typical of unregulated providers). This is because these providers were identified by the machine-learning algorithm trained to identify unregulated providers of unreserved legal advice (see Annex A for more detail). In the remainder of the report, we note instances where there were significant differences in responses between regulated and unregulated respondents.

More detail of the profile of survey respondents is set out in Annex A.

Figure 10 Regulated and unregulated respondents to provider survey



Source: Frontier Economics, BMG Research.

Representativeness of the surveys

The unregulated provider respondents were not representative of all of the practice areas found through web reading. In particular, providers offering legal services on wills, probate, trusts and power of attorney were over-represented. Will writers generally offered similar answers to most of the survey questions as the remainder of the sample but showed differences in responses to a small number of questions, such as those questions concerned with attitudes to regulation. This may be partially explained by a high proportion of will writers belonging to professional organisations (see later discussion).

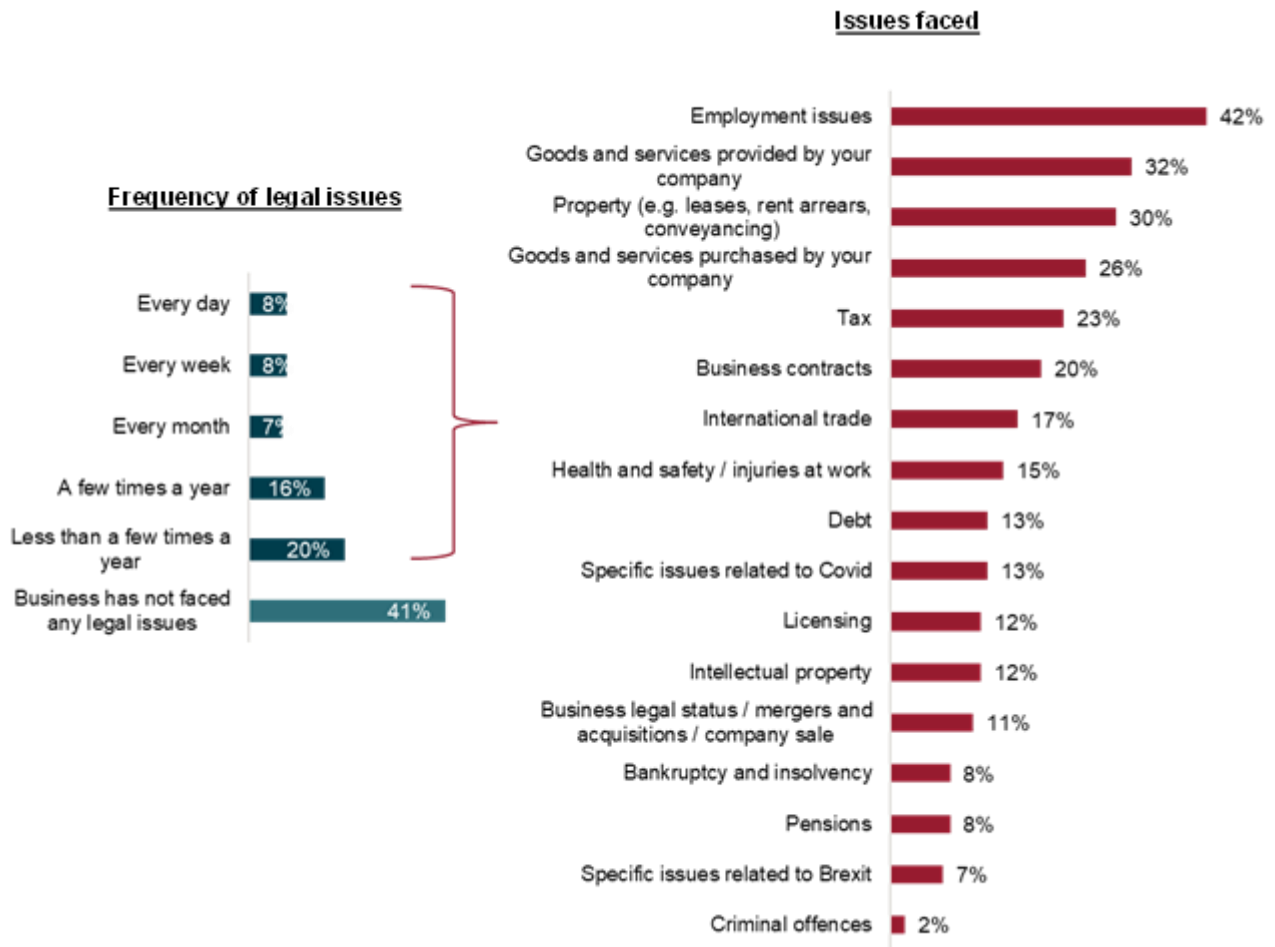
Across other measurable dimensions, for example firm size in terms of employees and turnover, the responding sample was fairly representative of the overall market. For more detail, see Annex D.

In the remainder of the report, we note any cases where differences in our respondent sample due to the higher number of responses from will writers may affect our conclusions about the overall market.

Demand for legal services

Over half of the SMEs surveyed reported having faced a legal issue in the last two years, with nearly 10% encountering legal issues every day.²⁶ As illustrated in Figure 11, these businesses faced a wide range of legal issues in areas of unreserved legal services, with the most commonly reported legal issues related to employment, goods and services provided or purchased, and property.

Figure 11 Legal issues faced by small and medium-sized businesses



Source: Consumer survey: In the last two years, how often has your business had a legal issue? And in the last two years, has your business needed help with any of the following issues?

A small proportion of respondents also reported issues specifically related to Covid-19 and Brexit. Larger firms were more likely to report facing a legal issue, with 81% of companies with 50 or more employees reporting they had faced a legal issue in the previous two years compared with 58% of all

²⁶ A legal issue is defined as an issue or situation that has legal implications and might need the help of a professional to sort out. It is a question or problem that can be answered or resolved by the law. Legal issues could include anything from creating an employment contract or a health and safety issue, through to going to court.

companies surveyed. For more information on the frequency of legal issues faced by businesses, see Annex D.

Where consumers go for advice

While only 2% of SME consumers reported not seeking any advice for their legal issues, a significant portion of businesses surveyed had obtained advice from non-LSA-regulated sources:

- Nearly a third reported primarily receiving advice from businesses that were not solicitors, barristers or licensed conveyancers.
- 20% reported primarily obtaining advice from non-professional sources such as friends and families.

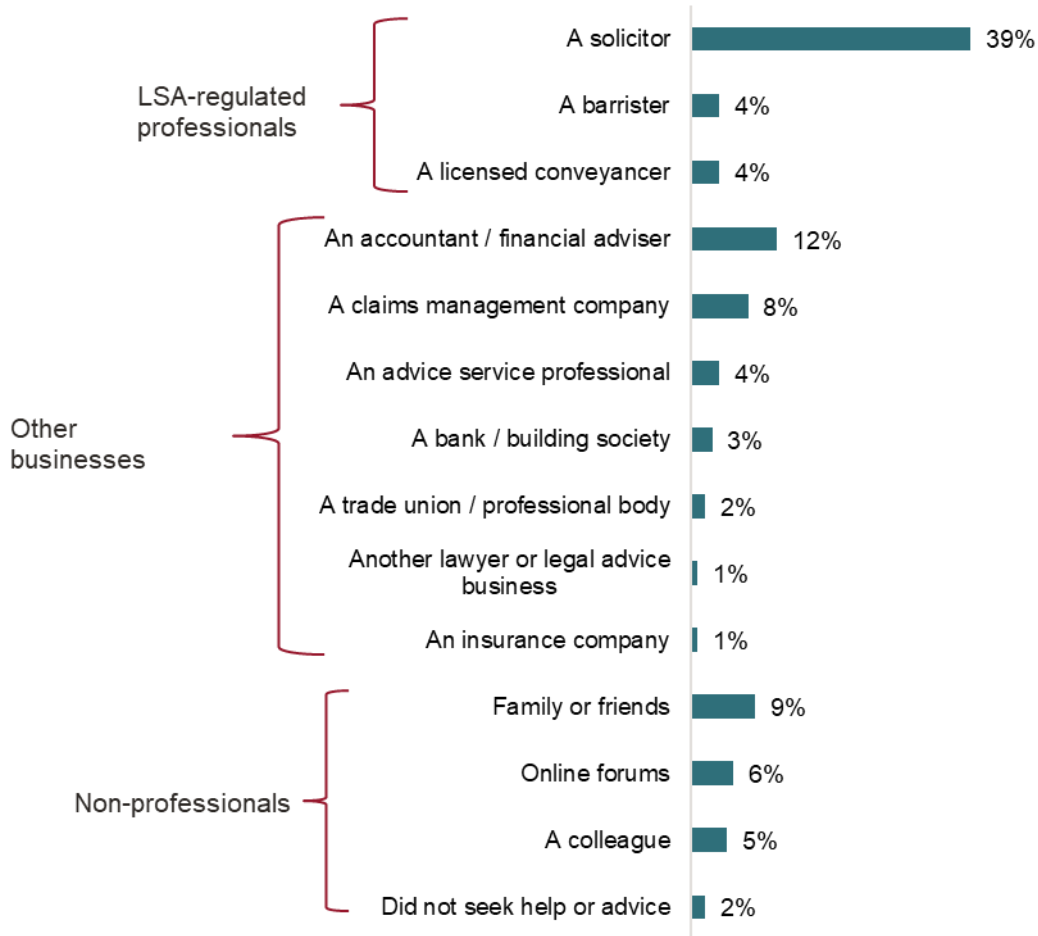
This points to unregulated providers being an important supplier of legal advice in the market.

The LSB's small business legal needs survey found businesses to be even less likely to seek professional help, with only a quarter of the small businesses with a legal issue surveyed by the LSB seeking professional help. The difference may be a result of the LSB survey sampling small businesses, as opposed to the SMEs surveyed for this report. Across both surveys, larger and older organisations were found to be more likely to seek professional advice (see Figure 13 below).

Given that the most common source of non-LSA-regulated advice is from financial advisers, banks and claims management companies regulated by the FCA, in practice, many non-LSA sources of advice will be regulated by other authorities. This helps to limit the concern about having little consumer protection or routes to redress for consumers.²⁷ However, unregulated, non-professional advice, such as friends and online forums, also represents a substantial part of the market. This potentially raises greater consumer protection risks for those with legal needs. This is set out in Figure 12 below.

²⁷ These "other businesses" may in practice include some LSA-regulated providers; for example, some accountants and financial advisors may be regulated by the Association of Chartered Certified Accountants (ACCA) or the Institute of Chartered Accountants in England and Wales (ICAEW), and some other lawyers or legal advice businesses may be regulated by CILEx. These providers are included within "other businesses" due to the limitations of customer knowledge around regulation. However, to the extent that some LSA-regulated providers are counted as "other businesses", it may actually reduce concerns around the unregulated market, as this would imply that an even smaller proportion of businesses turn to unregulated providers for legal advice.

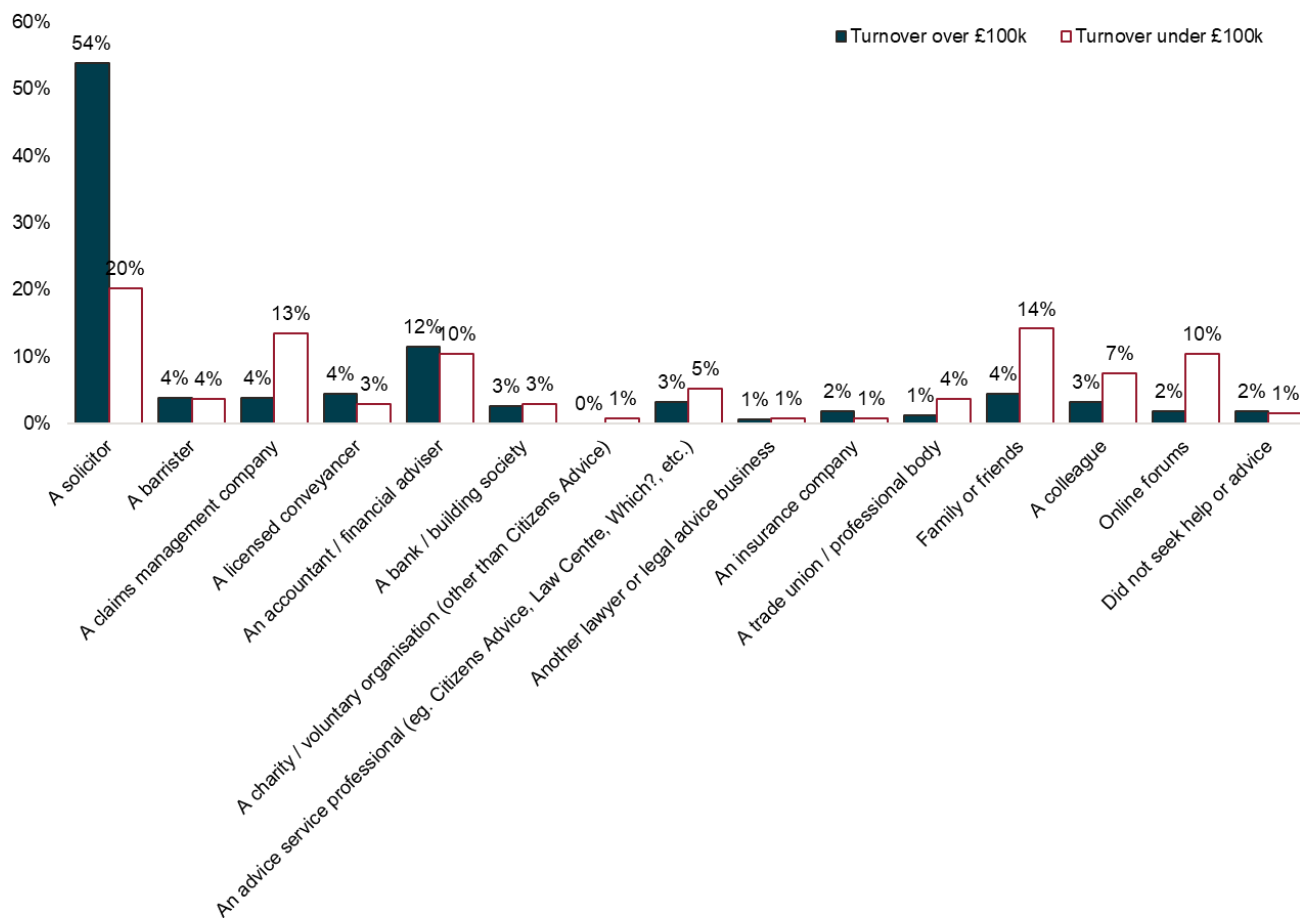
Figure 12 Where businesses went to for legal advice



Source: Consumer survey: Where was the main place you got help or advice?

Note: Due to limitations of consumer understanding of regulation, there may in practice be unregulated professionals in this group (and regulated professionals in the “other professionals” group). We mapped these to align as closely as possible with LSA- and non-LSA-regulated professionals.

Figure 13 Where businesses went to for advice, by annual turnover



Source: BMG Research

Consumer priorities

Providers and consumers both reported affordability and high-quality advice as top consumer priorities. Providers reported a greater importance of high-quality customer service compared with consumers' priorities.

The SMEs which primarily obtained advice from other businesses were significantly more likely to report affordability as a priority when compared with SMEs who primarily obtained advice from solicitors, barristers and licensed conveyancers. This suggests that more price-sensitive consumers were more likely to obtain advice from unregulated providers, even though priorities were otherwise similar across the two groups. This is set out in Figure 14.

Only a small proportion of providers reported online services as a top priority for their customers (with five times more reporting in-person services as a main priority).²⁸ SME consumers were unlikely to report convenience of location and ease of using services as a top priority.

Figure 14 Consumer priorities



Source: Provider survey: What do you think are the top three priorities for your customers? Consumer survey: When seeking legal advice, what aspects are more and less important to you?

Note: This figure sets out the proportion of providers and consumers who reported the measure in question as one of their top three priorities. "Other businesses" refers to consumers of other businesses, and "LSA-regulated provider" refers to consumers of regulated providers.

Satisfaction with regulated and unregulated providers

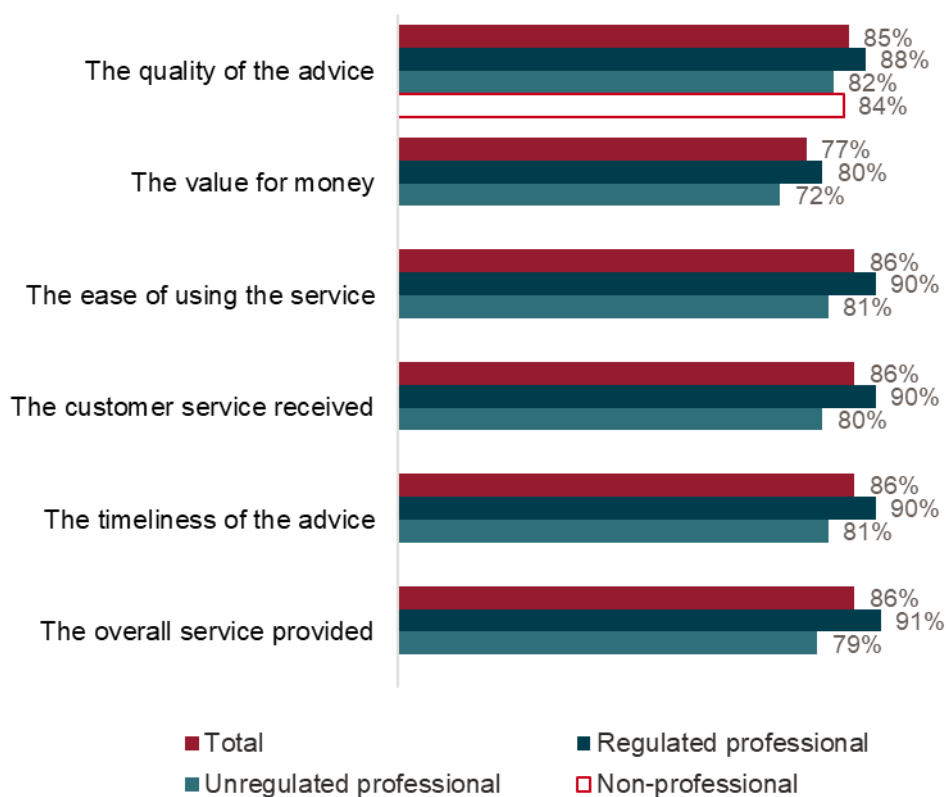
Overall, the SMEs surveyed reported a high degree of satisfaction with the legal advice and legal services they received, both for advice received from LSA-regulated professionals and from other businesses.

²⁸ We note that the proportion of providers reporting in-person services as a priority is partially skewed by the high number of responses from will-writers: 54% of will-writers reported in-person services as a top priority, compared to 19% of all other providers.

The average level of satisfaction was slightly higher across all measures for advice received from an LSA-regulated professional compared with other businesses. However, this difference was only statistically significant for the categories of “timeliness of advice” and “overall service provided”. In the other categories, the differences in satisfaction between advice provided by LSA-regulated or by non-regulated providers was not significant. This is illustrated in Figure 15.

This is consistent with the findings of the LSB’s individual legal needs survey, which found that individuals reported a high level of satisfaction overall with their legal advice provider, with slightly higher satisfaction for consumers of LSA-regulated providers such as solicitors (YouGov, 2020).

Figure 15 Consumer satisfaction by type of legal services provider



Source: Consumer survey: Thinking about the help or advice you received, how satisfied were you with each of the following?

Note: Those consumers who obtained advice from non-professional sources were only asked about their satisfaction with quality of advice. This is because non-professional providers such as friends and family do not provide formal customer service, and this advice is often provided without formal payment.

The findings of this survey do not suggest a material risk from the quality of advice provided by non-LSA-regulated businesses. This may be due to many unregulated providers being regulated by other bodies such as the FCA (the most common unregulated providers that the businesses surveyed obtained advice from were accountants and financial advisers) or being members of professional bodies which have conditions and requirements that providers must comply with. Research into the unregulated market by the LSB found that some unregulated providers were subject to statutory

regulation for the non-legal services they provide and that approximately two-thirds of unregulated providers sampled belonged to a membership body (LSB mapping, 2022a).

More detailed segmentation would be necessary to rule out any risks from poor-quality advice and services in certain parts of the market. Such segmentation would be necessary to confirm, in particular:

- That the objective quality of advice received lines up with consumers' perceptions (for example, from follow-up surveys);
- That the quality of advice is as high in the "completely" unregulated areas of the market as in the non-SRA-regulated segment as a whole; and
- That individuals' satisfaction levels are as high as those of business consumers (as discussed above, the LSB's individual legal needs survey suggests that this is the case).

Impact of the pandemic and the economic downturn on demand for unreserved legal advice

The demand for legal advice in areas of unreserved activities appears to have increased materially in recent years for regulated and unregulated providers. In the period from March 2020 to September 2022, 43% of providers reported an increase in demand for legal advice, with only 9% reporting a decrease. This increase primarily came from existing customers, and new customers who were similar to their existing customer base. However, nearly a third of respondents reported demand from new types of customers whom they had previously not provided legal advice to.

This trend is expected to continue in the near term as the UK economy continues to face difficulties. Of those surveyed, 43% reported that they expected demand for their legal advice to increase in 2022/23, 52% expected no further changes in demand and only 4% expected demand to decrease. These expectations were the same for regulated and unregulated providers.

The unregulated providers interviewed were optimistic when asked about potential business impacts in an economic downturn. Most of the unregulated providers we spoke to were will writers who noted that individuals will always need wills and that, in times of struggle, most people are keener to get their assets in order. They perceived that legal services around will writing, or the wider increased need for individuals or businesses to protect their family or employees, will keep demand for legal services stable.

- *"When things get tough, people want to protect what they've got more carefully." – Unregulated provider*

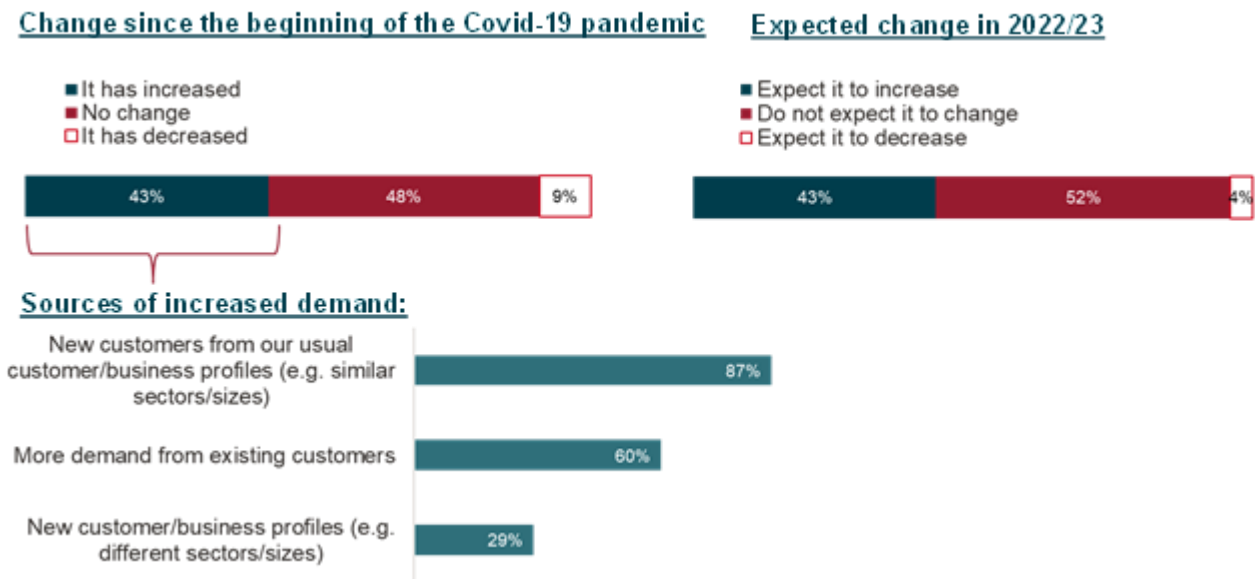
Several providers mentioned that their customer base was made up of those who were older or wealthier, and so would be less affected by economic changes and more likely to want to protect themselves and their assets. We note that the customer base of the interview sample, largely made up of will writers, may not be representative of the customer base for legal services as a whole.

Other providers did mention possible negative changes to their business. These included a need to lower prices, as customers were less willing to pay, or a possible loss of clients:

- “Clients will be more sensitive to fees and may hold back on planning and passing assets down.” – Unregulated provider
- “If the cost of living crisis continues, I expect we will see a decline in services as people would rather heat their homes.” – Regulated provider
- “Those with a squeeze on discretionary income will be less likely to spend on wills...younger people especially may be put off.” – Unregulated provider
- “I think the financial position of the UK is more likely to affect smaller firms...we deal with major firms and high net worth individuals.” – Regulated provider

Given that consumers who are more price sensitive appear more likely to seek advice from an unregulated provider, this could increase the market share of unregulated providers. It also suggests a risk to consumers’ ability to access justice or a substitution of professional for non-professional sources of advice.

Figure 16 Change in demand for legal advice for providers



Source: Provider survey: Has demand for the legal advice you offer changed since the start of the Covid-19 pandemic? Who has this increase in demand come from? What do you expect to happen to demand for the legal advice you offer in 2022/2023?

Consumers reported similar impacts from economic downturns. The majority (62%) of SMEs surveyed expected to be more likely to experience legal issues in an economic downturn, particularly due to issues with the purchase of goods and services, and employment. While only a minor portion of these business consumers (17%) indicated that they would seek advice from a different place than previously used in the event of an economic downturn, the most common reason given by these

consumers was concerns around cost (42% of these consumers reported that the cost of their previous legal advice provider would be too high in an economic downturn). A further 32% indicated that they would go elsewhere due to concerns about quality of advice.

This further supports the concern that increased price sensitivity and cost constraints brought on by an economic downturn may lead consumers to shift towards unregulated providers or seek non-professional advice.

The role of technology

Technology can improve access to legal services by making services more convenient to consumers and by complementing existing legal services in order to improve efficiency. However, it can also raise concerns about access to justice when it replaces existing methods for receiving services due to digital access difficulties for some consumers. Understanding how consumers interact with providers of unreserved legal advice and how providers use and plan to use legal technologies is therefore key to understanding the potential benefits of and risks to consumers in the market.

While the use of technology to provide unreserved legal services appears to be growing, the significant majority of providers provide in-person services, and surveyed SMEs preferred to receive advice in person as opposed to wholly online. This is explored in more detail in the sections below and appears unlikely to change in the medium term.

This suggests that the risk of further digital exclusion in the medium term is limited. However, there are already some consumers who are digitally excluded from the market, with 6% of UK households unable to access the internet at home and a further 8% not confident in their ability to use the internet (Ofcom, 2022). Furthermore, even if providers continue to offer in-person services, they may digitally exclude some consumers if critical components of their services go online only (such as online document signing).

Methods of providing and receiving legal services

The significant majority of providers appear to have the capability to provide services both in person and online, with consumers largely still engaging (and preferring to engage) with providers in person. This is illustrated in Figure 17. Nearly all the surveyed providers (91%) offered in-person services, the most common method of providing services and the most common way that SME consumers receive advice (59%). This is consistent with past research by the Law Society which found that face-to-face advice was the most popular method of delivering advice (The Law Society, 2019a). A significant number of SMEs also received advice over the phone (47%) or by email (28%).

The majority (77%) of providers now offered services via video calls, although receiving advice via video call (along with online options) was less common than other service delivery methods for SMEs, and only a third (31%) of providers offered services online via their website or another online platform. In interviews, many providers pointed to the Covid-19 pandemic as being influential in changing their business operation. Many described reducing face-to-face services and shifting a lot of business online, for example using video calling software such as Zoom. In general, this change was seen as

positive, with increased efficiency for the business and more time for consumers to look over and process information they shared. Several providers were continuing with virtual services, or a combination of this and face-to-face service, as it helped them and consumers to be flexible. This is consistent with evidence from the Legal Services Consumer Panel's Tracker Survey (Legal Services Consumer Panel, 2021), which found that online delivery was the most popular mode of legal services delivery in 2021.

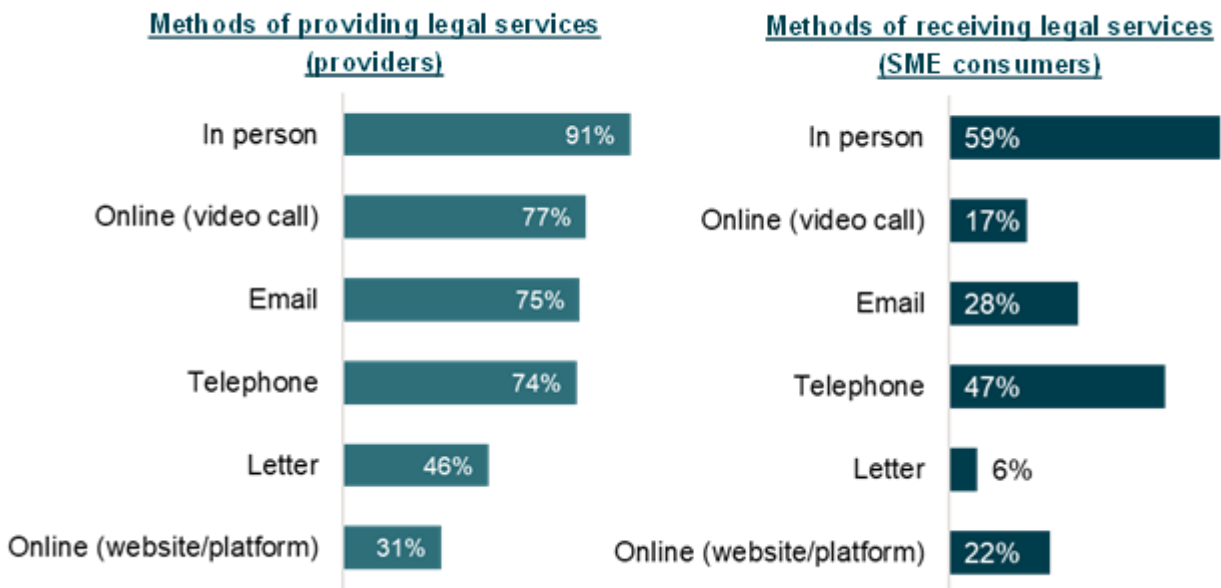
- *“Clients have had time to look over advice you’ve given. Perceptions of clients have changed – they’re happy to do a Zoom call and we realised there’s no need for a big office to try and impress them.” – Unregulated provider*
- *“Covid certainly made us understand how to utilise the online space more effectively, it’s been a massive, massive shift.” – Unregulated provider*

Looking ahead, feelings about technology were more mixed. Some providers believed that they would continue to adapt as technology does because it would benefit their business and their clients, but others favoured more traditional services and believed things would shift back to previous ways of working with everything face to face.

Sixty percent of provider respondents provided more than 75% of their services in person, whereas only 8% provided more than 75% of their services online. We note that this statistic is partially skewed by the high number of responses from will writers: 68% of will writers provided more than 75% of their services in person, compared with 43% of all other providers.

This suggests that consumers of legal advice largely have the options of receiving advice virtually via video call, through a website or other online platform, or in person with non-LSA-regulated providers. At the moment, in-person, telephone or email services remain far more common than digital services. Three-quarters of consumers reported that being able to speak to someone in person or over the phone was a significant priority. Having access to digital services was comparatively less important, with around 50% of SME consumers responding that this was very or reasonably important.

Figure 17 Methods of providing and receiving legal services



Source: Provider survey: In which of the following ways do you provide legal services to customers?
 Consumer survey: How did you receive this help or advice?

Existing and planned use of legal technologies

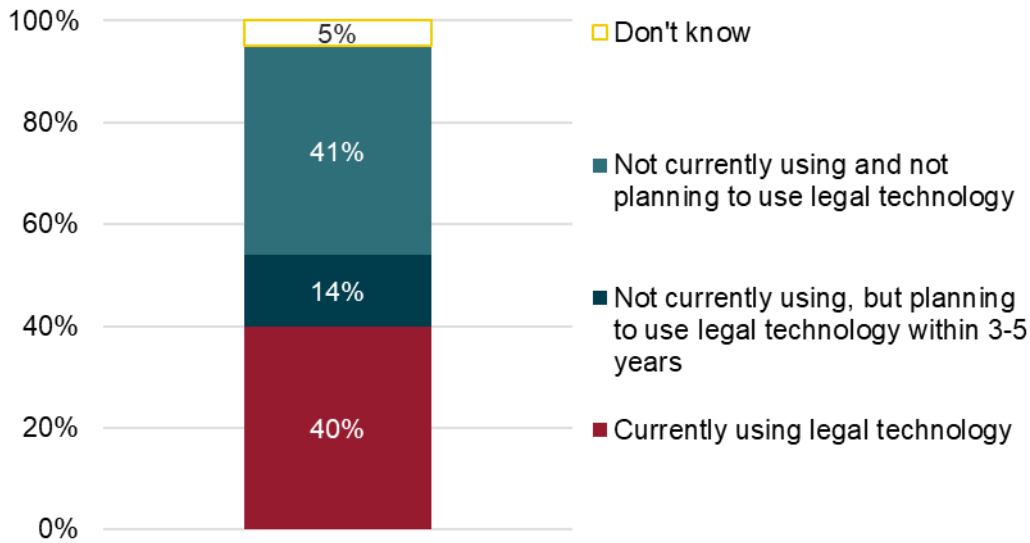
Providers are increasingly deploying legal technologies such as automated document services and website virtual assistants. While fewer than half (40%) of those providers surveyed indicated that they were currently using these technologies, 14% indicated that they were planning to use legal technologies within the next three to five years. This is set out in Figure 18.

Most of the reported types of technologies that providers were either currently using or planning to use appeared designed to complement rather than replace existing services. Given this, and the stated importance of in-person provision of advice by providers, it does not appear that there is a material risk of in-person advice being widely replaced by digital solutions in the next three to five years. However, this risk (with related threats and opportunities) may still grow in the longer term.

The most common legal technologies currently used by providers were websites with interactive features (63%) and cloud storage (69%), with only a subset using smart device apps (25%) and live chat/virtual assistants (23%). Larger organisations were also more likely to use technology overall than smaller organisations. For more information on this, see Annex D.

Of those that were not currently using legal technology but were planning to start using it, 65% were planning to implement interactive websites and cloud storage. Approximately a third were planning to implement more innovative technology such as virtual assistants and smart device applications.

Figure 18 Use of legal technologies by providers



Source: Provider survey: By “legal technology” we mean technologies that aim to support, supplement or replace traditional methods for delivering legal services, such as automating documents and artificial intelligence (e.g. website with interactive chat, custom-built smartphone applications). Based on this definition, does your organisation use or plan to use legal technology?

As shown in Figure 19, of those who were not currently using or planning to use legal technologies, the primary reason given was that it was not needed for their organisation or clients (77%). A small proportion indicated that cost barriers were preventing them from adopting legal technologies (11%), with only a small minority citing regulatory uncertainty as a barrier (6%).

Figure 19 Reasons for lack of legal technology



Source: Provider survey: Why isn't your organisation currently using or planning to use legal technology?

The level of use of technology by the unregulated providers surveyed appears to be broadly similar to that by SRA-regulated firms, based on previous research undertaken on behalf of the SRA (University of Oxford, 2021). In 2021, 37% of SRA-regulated firms surveyed indicated that they were using legal technology, with a further 24% planning to use it in the future.

Similarly, SRA-regulated firms indicated that the most prevalent types of legal technology used were efficiency-improving, complementary technologies like videoconferencing (87%) and cloud storage (66%). Only a small proportion of SRA-regulated firms were planning to deploy technologies like virtual assistants and chatbots, in line with the stated intentions of unregulated firms surveyed for this report.

One notable area of difference is the reported barriers to technology adoption. While providers of unreserved legal activities primarily cited a lack of importance for their organisation or clients as the reason for lack of technology adoption, SRA-regulated providers primarily cited a lack of financial capital for investment (58%), lack of staff expertise (50%) and regulatory uncertainties (45%). This may indicate that SRA-regulated firms are less likely than unregulated firms to have the expertise and resources to adopt new technologies. This is consistent with research which found more LawTech-related jobs being advertised in non-SRA firms than in SRA firms (University of Oxford, 2021). It also suggests that some providers perceive understanding of the regulations around technology and innovation as a significant impediment to investment in technology and innovation, an issue which unregulated providers may be less likely to face.

Attitudes to regulation

While most SMEs surveyed reported a preference for choosing a regulated provider over an unregulated provider, the survey findings suggest that consumers may overestimate their understanding of which providers are regulated and which are unregulated. This creates a risk that consumers may not be able to distinguish between regulated and unregulated providers and make an informed selection, or they may overestimate the protections available to them due to a lack of information about regulatory status. A relatively high proportion of unregulated providers also indicated that they believed there would be benefits to the market if all providers were regulated in some way.

Overall, the attitudes to regulation revealed by the consumer and provider surveys suggest that there may be benefits to the market from regulating all providers of a given service more consistently, particularly if those measures improve information to consumers about the regulated status of providers.

Consumer understanding of regulation

While over 80% of SMEs indicated that they knew whether or not their legal advice provider was regulated, only 33%²⁹ of providers indicated that their SME and/or individual consumers understood the difference between regulated and unregulated providers. This is illustrated in Figure 20. This divergence has two main explanations:

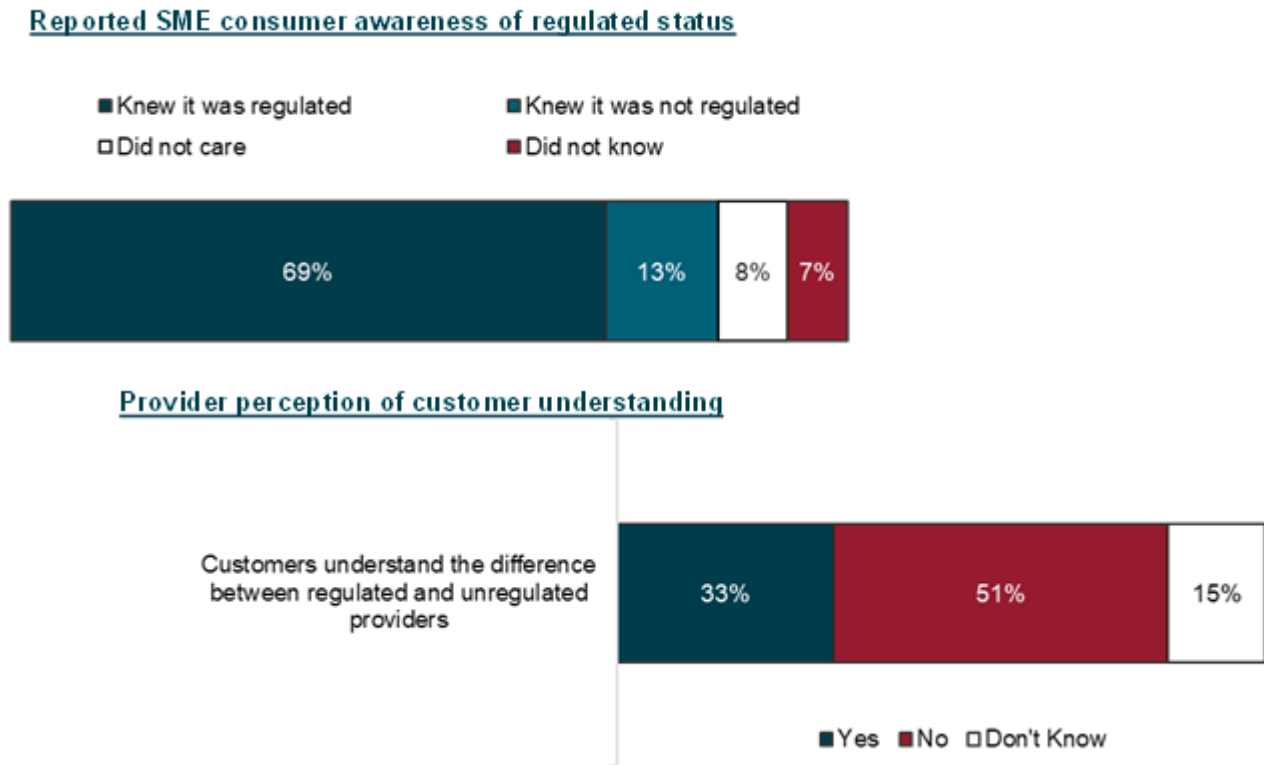
1. **Consumers may be overestimating their ability to distinguish between regulated and unregulated providers.** If this is the case, they may be misidentifying unregulated legal advisers as regulated solicitors or overestimating the protections available to them in the event of poor legal advice or service. This is supported qualitatively by insights from provider interviews – for example, one regulated provider reported that *“I think consumer confusion about types of regulation is at its worst. It’s much more complicated than it was.”*
2. **Businesses may have considerably better understanding of regulation than individual consumers.** As businesses are likely to interact with legal services providers more frequently than individuals, they may have a greater understanding of the types of providers of legal advice. Larger companies were more likely to indicate that they knew their provider was regulated or unregulated (88% of businesses with more than 50 employees, compared with 67% of businesses with less than five employees). This is consistent with understanding of regulation increasing as business size increases. Providers’ perceptions of consumer awareness may be based on individuals who are less likely than businesses to distinguish between regulated and unregulated provision.

Both of these explanations indicate that there is likely a greater lack of understanding by individual consumers (compared with businesses, especially larger businesses) of what constitutes a regulated provider, and therefore what protections are available to them. This is consistent with previous research by the SRA, the CMA and the LSB:

- The SRA found that consumers were unaware of how to tell the difference between a regulated and an unregulated provider (GfK, 2010);
- The CMA similarly highlighted in its 2016 market study that, while consumers appeared to rely to some extent on regulatory titles to navigate the market, overall they had a lack of understanding of what these titles were and what they meant (CMA, 2016); and
- Half of individuals surveyed for the LSB’s legal needs study reported that they were not confident that they knew what was meant by the term “regulated legal service”, and over a third of individuals did not know or check if their provider was regulated (YouGov, 2020).

²⁹ This figure was consistent across both regulated and unregulated providers, although it was slightly higher (40%) when excluding will writers.

Figure 20 Consumer awareness of regulated status



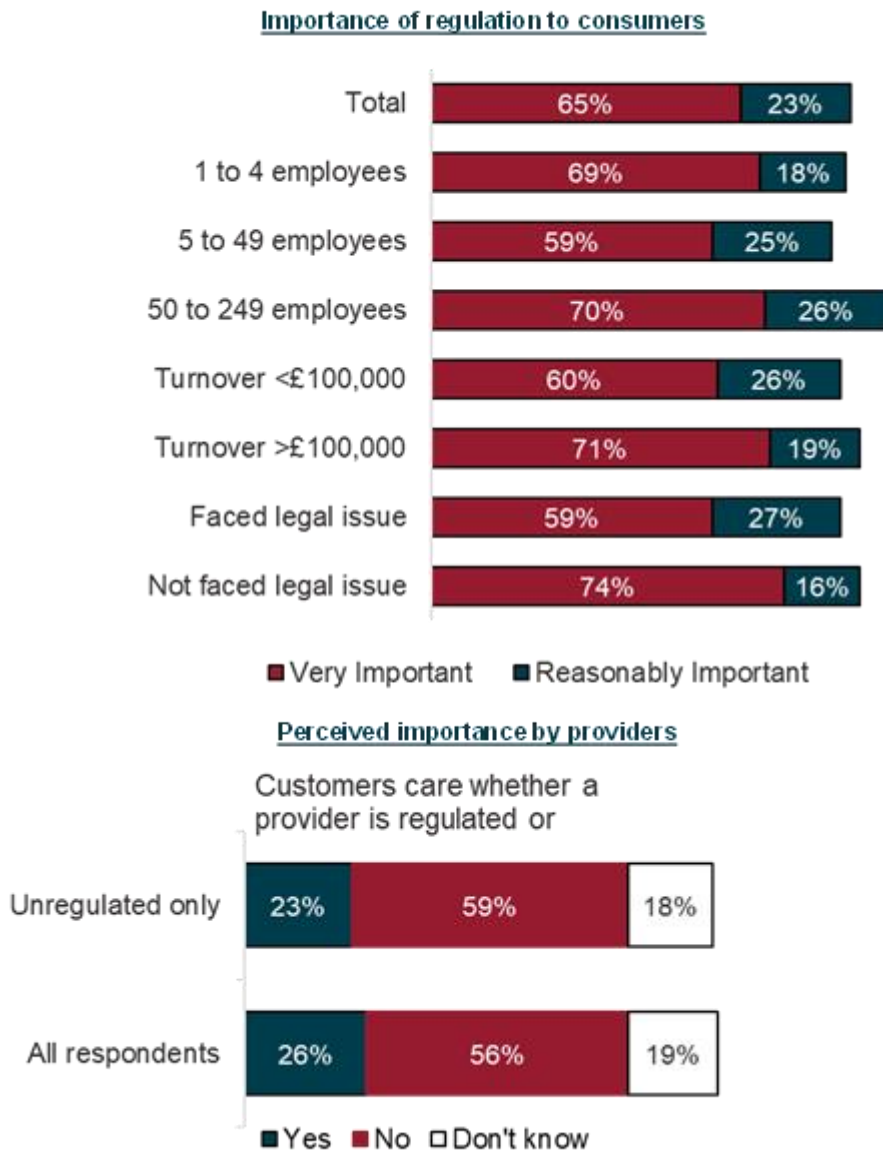
Source: Consumer survey: Before choosing the service provider, did you or your organisation know if it was regulated by a legal or financial services regulator in the UK? Provider survey: Do you think your customers understand the differences between regulated and unregulated providers?

Importance of regulation to consumers

There was a similar divergence in the reported and perceived importance of regulation to consumers. SME consumers overwhelmingly reported that regulation was important to the market, with 88% indicating that regulation was either very important or reasonably important. SMEs that had not faced a legal issue were also much more likely to view regulation as very important (74%) compared with those that had faced a legal issue (59%). This is consistent with consumers who obtained advice from unregulated providers being happy with the quality of advice received, and therefore being willing to use unregulated providers again in future. It also suggests that ensuring that clear information is available upfront when consumers are choosing legal services providers is particularly important for those who have not previously faced legal issues and are less familiar with the market. This is illustrated in Figure 21.

Providers of legal advice were much less likely to believe that their customers viewed regulation as important. Only 26% of providers reported that their customers cared whether or not a legal advice provider was regulated or unregulated, with this figure falling slightly to 23% amongst unregulated providers. This creates a risk of providers not making this information readily available to their customers due to its perceived lack of importance.

Figure 21 Reported and perceived importance of regulation

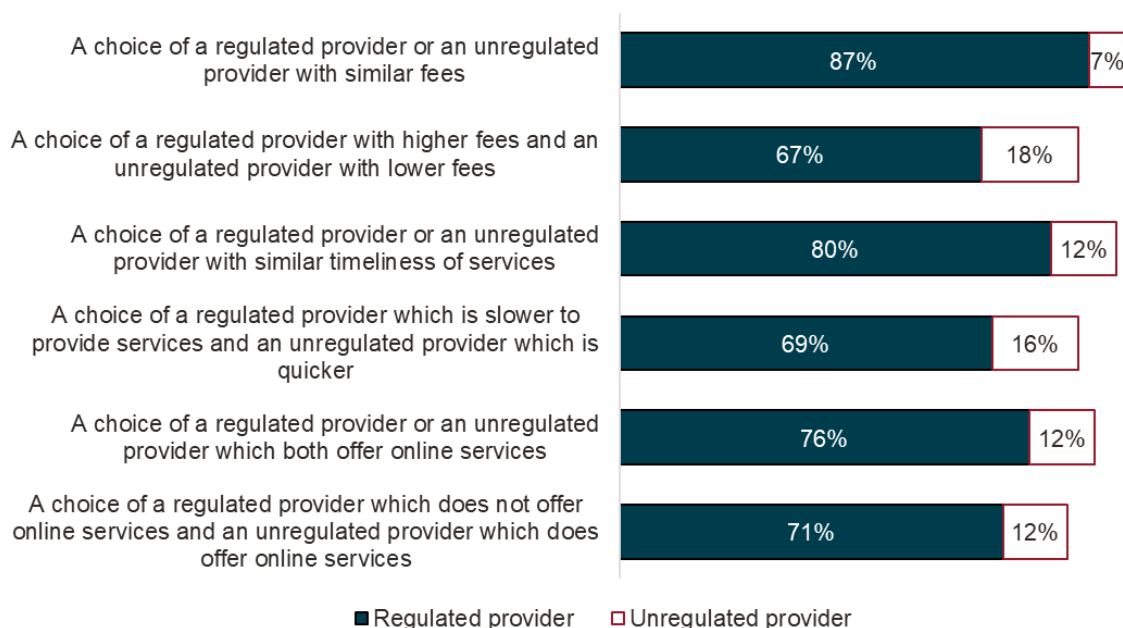


Source: Consumer survey: How important do you think it is that you obtain legal advice from somewhere or someone that is regulated? Provider survey: And do you think customers care whether an organisation is regulated or unregulated?

Overall, SME consumers overwhelmingly indicated that, when faced with the choice of a regulated or unregulated provider with similar fees, they would choose the regulated provider (87% choosing regulated versus 7% choosing the unregulated provider). The significant majority still reported preferring regulated providers even when they were more expensive (67% versus 18%). This suggests that clear information about which providers are regulated, and which are unregulated, may be of significant value to consumers to enable them to choose their preferred provider. This is illustrated in Figure 22.

This also appears unlikely to place a major burden upon providers. When asked whether disclosing their regulatory status would impact their business behaviour, the majority of unregulated providers (60%) indicated they would continue operating as normal without changing their service offering. Fourteen percent indicated they would become regulated, indicating that regulatory status may be more important for a subset of the market (although this view was higher among will writers, with 16% saying they would become regulated compared to only 9% of all other providers).

Figure 22 SME choice of regulated and unregulated providers in different scenarios



Source: Consumer survey: If providers of legal advice had to clearly state if they were regulated or unregulated, which provider would you be most likely to use in the following scenarios ...?

Providers' attitudes to regulation

Providers highlighted lower costs for consumers and more flexibility in terms of how they offered services as the top benefits of being unregulated. The proportion of those highlighting improved flexibility as a main benefit was much higher (57%) than those that highlighted flexibility and convenience as a main customer priority (36%), which suggests that the flexibility from lack of regulation may be primarily a benefit for providers.

Figure 23 Perceived benefits of being unregulated for providers

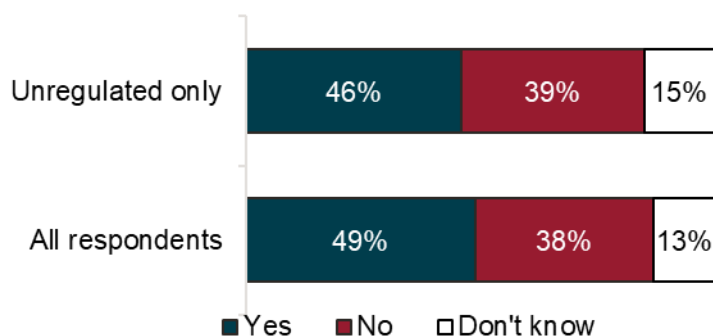
Source: Provider survey: What benefits, if any, do you associate with being unregulated?

As seen in Figure 24, a significant proportion (46%) of unregulated providers of legal advice also indicated that it would benefit the market if all legal services providers were regulated in some way, although 39% reported that this would not benefit the market. This may suggest that some unregulated providers would be interested in being regulated by an LSA regulator but either do not know how to become regulated or are unable to be. Experts in legal technology interviewed for this report indicated that some tech-driven unregulated firms had expressed interest in becoming regulated but were unable to do so due to the costs and time required or due to not qualifying to be SRA regulated more generally.

When interviewed concerning the benefits of regulation, providers highlighted client protection as a key benefit.

- *“It’s at the consumer end that I think it really starts to bite.” – Regulated provider*

Figure 24 Provider attitudes on whether it would benefit the market if all providers were regulated in some way



Source: Provider survey: Do you think it would benefit the market if all legal service providers were regulated in some way?

We note that this view differed between will writers and the remainder of the sample. Fifty-seven percent of will writers thought that it would benefit the market if all legal services providers were regulated in some way, compared with only 33% of all other providers. As will writers made up only 30% of our overall provider dataset, the view on regulation in the wider market may be less positive than recorded in our survey sample.

When thinking about SRA regulation, the unregulated providers interviewed had the impression that this would mean additional administrative tasks and rules with which to comply, but with higher standards and a sense of security. They mentioned that without it they had more flexibility while still meeting certain standards.

Many of the unregulated providers interviewed were members of professional bodies such as the Institute of Professional Will Writers (IPW) and Society of Will Writers (SWW) or a member of another organisation such as the Society of Trust and Estate Practitioners (STEP). As such, many considered themselves to be adhering to certain standards, delivering high-quality advice and services, and being subject to accountability, for example by undertaking continuous professional development as required by the IPW. In some cases firms believed that they worked to the same standards as SRA-regulated firms. These providers expressed concern about disreputable, low-quality providers who had lower standards.

Rather than regulation itself, the providers surveyed believed that consumers want expertise, understanding and convenience at a reasonable price. Many providers indicated that consumers came to them based on referrals and recommendations, and that this positive word of mouth (as opposed to a badge on their website) was key to building trust with their clients.

- *“I lost three clients in twelve years because I’m not a solicitor, and I’ve gained many more because I’m not a solicitor!” – Unregulated provider*

Providers' views on regulatory change

Views on possible regulatory changes were explored through interviews with regulated and unregulated providers. Overall, there were few definitive opinions on whether the market should be more or less regulated.

Providers acknowledged that there were certain providers, referred to as “cowboys” or “rogue traders” operating at the time who took advantage of consumers and/or delivered bad advice, and created a bad reputation for the market as a whole. Thinking about this, providers agreed that some regulation or accountability and requirements should be imposed to minimise the bad operators, but it is clear that there is no simple answer.

- *“Regulating won’t solve everything because the cowboys will find another saloon to ride into.” – Unregulated provider*
- *“There are always going to be bad regulated solicitors, and bad self-regulated will writers.” – Unregulated provider*

Most providers agreed that it would be beneficial to have more aspects of regulation in some areas, such as ensuring that training is done, that necessary qualifications are available and taken, and that providers are held accountable. Advocates for regulation typically emphasised the benefits for the consumer in terms of their protection and ensuring the best quality of service for them. However, most providers, both regulated and unregulated, caveated this advocacy with the reasoning that if there were to be more regulation it would need to be for the right reasons and tailored to certain types of business.

- *“[Less regulation is] not a good idea at all – it just needs to be better and focused at [individual providers]. It’s a really tough one.” – Unregulated provider*
- *“Proper training, keeping up with the law, insurance, complaints and accountability are all important, but there are also a lot of tick boxes.” – Unregulated provider*
- *“There should be smarter regulation – there are so many regulators and in some ways there is no consistency.” – Regulated provider*
- *“All firms should be regulated though not necessarily by the same [regulators].” – Regulated provider*

While some providers reported that regulation would improve the quality of advice in the market, in general, the providers interviewed for this report believed that increased regulatory scope would lead to negative impacts, such as:

- Increased costs, which would need to be reluctantly passed on to their customers.
- Increased administrative activities taking up a lot more time and effort, and some providers believed this could be to the extent that a lot of people in their industry (will writing) could leave the sector.
- *“A key driver of dropping out of the solicitor firm was the oppressive amount of regulation.” – Unregulated provider*

- *“If I’m paying a subscription to be regulated – fine. But what is the benefit that we’re paying for, and the client is paying for?” – Unregulated provider*

Providers also noted that the impact on them would depend on exactly what the changes to regulation would entail in terms of rules to adhere to, qualifications required and costs they would need to pay.

Given the nuances of responses in attitudes towards regulation, it is clear that providers of legal services want to be included in conversations. Many did not agree that regulatory bodies would work as effectively for all sectors and each business. They suggested that it would be vital to consult different areas of legal advice providers so that regulation was relevant and valuable to all providers and their consumers.

Providers’ presentation of unregulated status

We reviewed a sample of 50 firms’ websites, identified through web reading, to examine whether they made it clear that they were unregulated, the potential reasons for or benefits of remaining unregulated, and whether or how providers presented these potential benefits.

Overall, the majority of unregulated providers of legal advice did not appear to make their unregulated status clear on their websites. Across this sample we only found a small number who explicitly noted that they were unregulated or who explained why they chose to remain unregulated as part of their business model. The small proportion of firms that made it clear that they were unregulated broadly fell into two types of provider:

- **Providers who specifically advertise the advantages of remaining unregulated**, for example noting on their website that they could keep costs down by being unregulated because they had lower insurance costs and avoided paying a proportion of turnover to the Law Society and/or the SRA. This type of firm only represented a very small proportion of the sample.
- **Providers with both a regulated arm and an unregulated arm**, or who had a regulated parent company:
 - In many cases the unregulated part of the business appeared to have been developed by the (usually longer-standing) regulated part of the business, i.e. to have been set up purposefully to be a separate unregulated entity.
 - In many cases the website of the unregulated provider specifically advertised their connection with the regulated partner company (possibly because the larger regulated company had more name recognition or might lend the unregulated provider added legitimacy/reassurance to consumers).
 - The unregulated arm tended to have a separate name, to have separate branding to deliver different services to the regulated arm, and to have a different business or charging model (sometimes advertised as lower cost or as offering legal advice combined with strategic business advice, which is a specialism commonly advertised by unregulated legal providers, as discussed further below).

For some providers, the only evidence apparent from their website about why they might choose to be unregulated was that they provided only unreserved legal activities. These firms can appear similar to their regulated competitors, based on website positioning and branding.

However, in other cases, the characteristics of the provider did suggest reasons for remaining unregulated. Examples include:

- **Providers for whom legal services were only a small part of their overall business** (an ancillary service), suggesting that they did not see it as necessary or proportional to be regulated by an LSA regulator;
- **Providers offering “alternative” legal solutions.** This category includes providers for whom legal advice was a large part of their business, but where the legal advice might be combined with strategic or commercial advice, or other services – for example, a provider of advice and solutions on areas of employment law who also provides other outsourced HR services. These firms tended to specifically advertise themselves as offering “alternative” or “non-traditional” legal services, with their unique selling point being the blend of legal advice with the other services offered, in contrast to a traditional law firm or solicitors. These providers also tended to advertise their use of technology and innovative status, and to emphasise their lower cost compared with solicitors;
- **Providers regulated by non-LSA regulators**, for example the FCA;
- **Providers belonging to other voluntary membership bodies** which have some oversight e.g. SWW; and
- **Charities.**

Future developments in the unreserved market

Understanding future developments in the market for unreserved legal advice is a key part of informing the potential benefits and detriments to the market and the implications for regulation.

We explored future developments in two stages. First, we developed five scenarios for potential future states of the market for unreserved legal activities over the next three to five years against which the actions of consumers, providers of legal services (both LSA-regulated and unregulated) and regulators could be considered. These scenarios were informed by a focused literature review and interviews with over ten experts in the market, including regulators, academics and unregulated providers of unreserved legal advice.

Second, we used evidence from our surveys and focused interviews, previous research and wider evidence, including case studies of international evidence, to consider the implications for the market share of LSA-regulated compared with unregulated providers, the risks/benefits to consumers and the implications for regulators.

The scenarios described in this section are not exhaustive and are not intended to represent every likely state of the world in the medium term. Rather, they represent those scenarios that are most relevant for access to justice and the division of demand between regulated and unregulated providers in the market for unreserved legal advice. In particular, the focus is on those **scenarios that have implications for either (a) the market share of, or (b) the potential risks for consumers of LSA-regulated compared with unregulated providers.**

Summary

- In terms of likely outcomes from future scenarios, an economic slowdown over the next few years could both increase the demand for areas of unreserved legal services such as debt and housing and reduce the supply of affordable legal services available in England and Wales. At the same time, support in the form of legal aid, income support and tax changes may not materially increase in real terms in the near future.
- The most innovative legal technologies are largely being developed and implemented by a small share of unregulated firms. In future, significant increases in the use of technology in the market may therefore result in an increase in the market share of these unregulated firms and, therefore, a shift towards unregulated firms more generally. This increased use of technology could improve access to justice without jeopardising quality of service if the technologies adopted are complementary to traditional in-person services and consumers are well informed. However, technologies that substitute in-person services may increase the digital exclusion of some consumers.
- While increased regulation may provide additional protections to some consumers, it may also increase costs and reduce the supply of advice in the market, and limit innovation. This increases the risk of customers obtaining no advice at all. In future, regulatory action to improve information asymmetries could be considered, as it might enhance the ability of consumers to exercise choice more effectively.

Scenario development

We developed scenarios based on future developments across four key driving factors. The factors were chosen based on a review of the existing literature and in consultation with our expert reference group and are as follows:

- **Economic factors.** Changes in economic growth, inflation and employment affect demand for certain types of legal services and the ability and willingness of consumers to pay for professional advice. Economic growth also affects the supply of legal services in the market and the investment by providers in new technologies and innovation.
- **Fiscal policy and legal aid factors.** Government policy interacts with economic conditions to drive the demand and supply of legal advice, with policy levers such as taxation and legal aid funding affecting both the resources available to consumers and the supply of providers of legal services.
- **Technological factors.** Legal technology can increase the supply of legal advice by reducing cost and other barriers faced by consumers. However, it can also introduce new digital barriers to access and affect the split between regulated and unregulated providers in the market.

- **Regulatory factors.** All of the above factors have implications for regulators. Actions by regulators can also further impact the demand and supply of legal advice, for example by enforcing stricter quality standards while reducing overall supply in the market.

Economic factors

The UK economy is currently experiencing a slowdown which is expected to extend into the next few years. This could both increase the demand for areas of unreserved legal advice such as debt and housing and reduce the available supply of affordable legal services.

In general, economic downturns have been shown to lead to a significant increase in demand in key areas of unreserved legal activities, with the 2008 recession leading to increased demand for advice in areas such as debt and housing (MoJ, 2009) and Covid-19 leading to a significant increase in demand for employment advice (YouGov, 2020). Unemployment is also linked to a broad range of civil justice problems (Balmer et al., 2010), while inflation erodes the value of consumers' income and makes it more difficult to afford professional advice.

This is supported by the results of our survey and interviews with providers, who reported that they expected increased demand next year and that demand would increase overall in an economic downturn (although consumers may become more price sensitive). SMEs also reported that they expected to face more legal issues in an economic downturn, and some would consider switching legal advice provider due to cost concerns. Given that consumers who are more price sensitive appear more likely to seek advice from an unregulated provider, this could increase the market share of unregulated providers. It also suggests a risk to consumers' ability to access justice or a substitution of professional for non-professional (such as friends and family) sources of advice.

Changes in the economy can also cause shifts in the supply of legal services. Experts consulted for this report expressed concern about the impact of economic downturns on the supply of legal aid-funded and not-for-profit services, particularly as the supply of publicly funded legal services was already under significant pressure prior to the Covid-19 pandemic (Justice Committee, 2020). As demand increases and the supply of publicly funded and not-for-profit advice decreases, individuals and businesses with legal needs may increasingly turn to unregulated providers, as these providers generally charge lower fees than their regulated counterparts (LSB, 2022a), or they may otherwise seek non-professional advice. This raises concerns about the protections available to these consumers as well as the quality of advice available to them.

The impact of economic changes on the demand and supply of legal advice is explored in further detail in Annex B.

Potential economic developments considered

Overall, we consider two future trajectories for the economy:

- An **expected slowdown**, where the economy develops in line with Office of Budget Responsibility (OBR) forecasts. This increases demand for advice in areas such as debt, benefits, employment and family law, while also reducing the supply of legal services from the

not-for-profit and legal aid sector. The strain this creates on consumer incomes shifts demand towards unregulated providers, raising concerns about the protections available to consumers.

- A **prolonged downturn**, where the recovery from the current downturn proceeds more slowly than expected. This leads to a greater reduction in the affordability of legal advice compared with the expected slowdown and a more significant shift towards unregulated providers.

While the economy may also recover more quickly than expected, following discussions with the expert reference group, it was determined that this scenario is less relevant for regulators and less concerning for access to justice and the quality of legal advice. As a result, this scenario has not been explicitly considered here.

Fiscal policy and legal aid factors

Government policy can also have an impact on consumers' ability to afford professional legal advice and the supply of advice available. In particular:

- **Fiscal policy** such as changes to benefits and taxes affects the disposable income available to households and businesses, and therefore the resources available to seek legal services as well as the need for advice on issues such as housing, taxes and benefits. Reductions in taxes and increases in benefits increase the ability of consumers and businesses to afford legal services, while increases in taxes and reductions in benefits can both reduce their ability to afford services and increase legal need.
- **Legal aid budgets** affect the supply of legal aid providers and the number of individuals who meet legal aid criteria, affecting the services available to low-income individuals.

The UK government [recently announced increases to legal aid funding](#), with the annual legal aid budget increasing by £135m and increasing the income and capital thresholds for legal aid to increase the number of individuals in England and Wales who have access to civil and criminal legal aid. However, the increases to capital and income thresholds are proposed over several years and the timetable has not yet been announced. In addition, the overall supply of legal aid has decreased materially in the past decade, with a 38% decline in criminal legal aid and a 34% decline in civil legal aid in real terms between 2010 and 2020 (Justice Committee, 2021). This has contributed to the emergence of advice deserts, where no in-person legal aid-funded advice is available in some practice areas (The Law Society, 2022). This has a particularly strong impact on vulnerable clients, who are more likely to need legal aid (Byrom, 2013).

Examples from abroad – the “missing middle” in Australia

A recent report from the Law Council of Australia explored the “**missing middle**” of the market for legal advice: those who do not meet eligibility criteria for publicly funded legal services but lack the resources to afford professional help. These groups include people with disabilities, older persons, people living in rural and remote areas and part-time or temporary workers.

The Law Council provided a number of potential options for meeting the legal needs of this group, including:

- Increasing funding for legal aid;
- Supporting not-for-profit and pro-bono providers;
- Unbundling of legal services to make costs more transparent and manageable; and
- Alternative dispute resolution to reduce costs.

Overall, the concerns around eligibility for legal aid and the supply of pro-bono services are not unique to England and Wales. In the longer term, policymakers could further explore additional solutions such as supporting unbundling of legal services (as considered in Australia) in order to support those who cannot currently afford professional legal advice.

Potential policy developments considered

While policy responses are difficult to anticipate, in all scenarios we assume that there will be **no material change** in the levels of funding from government and that there will be no major policy changes in the next three to five years which will affect the demand for or supply of legal services beyond those already announced.³⁰

Technological factors

Legal technologies can be used to support, supplement or replace traditional methods for delivering legal services. These technologies are varied and include interactive features and chatbots on websites, electronic billing software and automated document checking.

There was a significant increase in the adoption of legal technology and innovation in 2020, with over half of respondents to an SRA survey of regulated providers indicating that they had improved or increased use of existing technologies and a third responding that they had introduced new technologies (University of Oxford, 2021). Other research has also highlighted a surge in demand for online advice during the early stages of the pandemic, with suggestions that this will lead to an increased reliance on unregulated providers (Mayson, 2020). More generally, the UK tech start-up and scale-up ecosystem has seen significant growth in recent years, nearly tripling in value between 2015 and 2020 (Tech Nation, 2021), suggesting that the adoption of new legal technologies in the market will continue to grow.

³⁰ Our assumption is based on the fact that, even if there were a change of government following the general election in 2024, significant impacts from policy changes are likely to take some time to appear.

Our own survey shows that 40% of providers are currently using technology (e.g. automated document services and website virtual assistants), with a further 14% indicating that they are planning to use legal technologies within the next three to five years even though they are not currently.

Legal technologies can either complement or substitute existing advice and services provided in the market. Both can bring efficiency improvements and expand the overall supply of legal advice while reducing cost and improving convenience of access (The Law Society, 2019a). Legal technology can also be an important means of addressing the issues of advice deserts by ensuring that affordable advice is available in areas where in-person services do not exist.

Examples from abroad – online separation in the Netherlands

The Netherlands has emerged as one of the most innovative countries in the world, and as a hub for emerging legal technologies (for more information, see Annex C). One of these technological solutions was **Rechtwijzer Uit Elkaar**, an online divorce resolution system that was first introduced in 2014 and currently operates as uitelkaar.nl.

Set up via a partnership between the Dutch Legal Aid Board, the Hague Institute on the Innovation of Law and Modria, this online platform allowed separating partners to have a structured dialogue about their divorce before having the agreements formalised in court. It did not fully replace in-person services (which continued to be offered) but offered a less intimidating and more accessible approach to consumers. While the Dutch Bar raised concerns about safeguards and consent, it was well received by participants, with over 70% reporting that they found the process of separating via the platform to be fair to a great or very great extent.

Online tools like this can expand access to legal advice and lower barriers to access. However, they can also raise safeguarding concerns which need to be addressed.

Our survey evidence suggests that, as yet, legal technologies are being delivered in a “complementary” way, i.e. most providers continue to offer traditional methods (such as face-to-face or telephone services) alongside alternative or online options, and traditional methods remain popular with consumers. However, issues around access may arise in the future if legal technologies are provided as substitutes to traditional methods. A number of UK households do not have reliable access to the internet and are digitally excluded (Ofcom, 2022).³¹ Therefore a shift away from in-person services towards digital services leads to a risk that these households might be unable to access legal advice.

Experts interviewed for this report also highlighted that the most innovative legal technologies are largely being developed and implemented by a subset of unregulated firms, with regulated firms instead largely deploying efficiency-improving complementary technologies, such as improved finance and document management software, which are also commonly used by unregulated firms.

³¹ As of December 2021, 6% of UK households did not have access to the internet at home. Of those that had access to the internet at home, 8% were not confident in their ability to use it.

Significant increases in the use of technology in the market may therefore result in an increase in the market share of unregulated firms.

The impact of technology on the demand and supply of legal advice is explored in further detail in Annex B.

Potential technological developments considered

We consider two future trajectories for technological development in the market for unreserved advice:

- **Deployment of complementary technologies**, where technology is deployed across the market to improve availability and reduce the cost of legal services without replacing in-person advice. In this scenario, the market share between regulated and unregulated firms is unlikely to change materially in the medium term, and access to justice is likely to increase. However, there may still be concerns for some vulnerable consumers.
- **Replacement of in-person services**, where advice is increasingly provided digitally by unregulated providers and in-person legal services are reduced. This leads to an increase in the market share of unregulated firms. While this may lead to lower costs and greater supply for consumers, it may also raise concerns for regulators due to the new methods of providing advice being deployed.³² As advice shifts towards digital platforms, consumers who face barriers to the use of technology may be increasingly excluded from the market for legal advice, even if the overall supply of advice in the market increases. Technology that entirely replaces in-person advice may also lead to concerns around quality, particularly where there is limited supervision of the advice being provided.

Regulatory factors

Regulatory decisions both influence and are influenced by developments in the market. For example, concerns around increased provision of low-quality advice by some unregulated providers may lead to pressure for increased regulation in order to protect consumers. However, changes to regulation that further limit which firms are allowed to provide legal services may reduce the overall supply of legal advice, leading to some consumers not getting any advice at all.

As a result, there has been a great deal of recent debate around legal services regulation in England and Wales, with some advocating for significant increases in regulations while others have raised concerns about the potential impact of this on the cost and availability of legal advice.³³

Our own survey results show a similarly mixed picture, with 46% of unregulated providers indicating that it would benefit the market if all legal services providers were regulated in some way. Another 39% reported that this would not benefit the market.

³² We focus on the potential risks of digital exclusion as a result of increased use of legal technology but note that this trend could involve other risks, such as built-in bias or reduced supervision. These factors have the potential to reduce the overall quality of advice, although we did not test the risks of these trends as they relate to the unregulated market specifically as part of this research.

³³ See, in particular, Mayson (2020).

Potential regulatory developments considered

Overall, in this report we consider three different directions in which regulation could evolve:

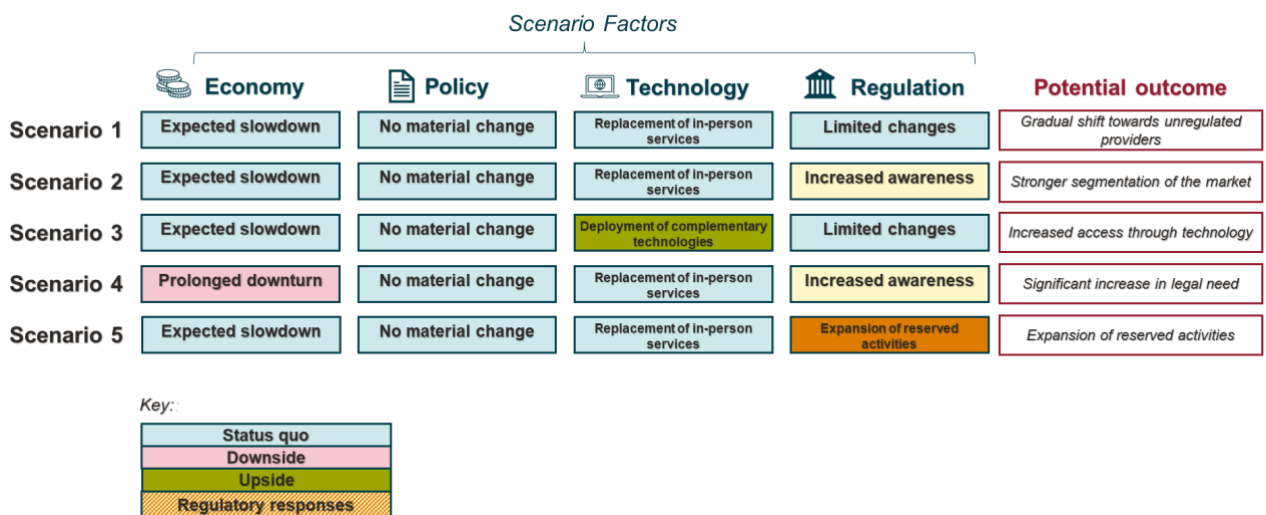
- **Limited changes**, where there are no significant changes in regulation;
- **Increased awareness**, where regulators intervene to increase the information available to consumers but no additional activities are made reserved or unreserved. This would improve consumer awareness of which providers are regulated and unregulated. However, gaps may remain in the market as consumers may not act on this information or fully understand it; and
- **Expansion of reserved activities**, where additional activities are reserved and additional providers of legal services are regulated in line with the recommendations made in the Independent Review of Legal Services Regulation (Mayson, 2020). While this would help to ensure that adequate protections are in place for consumers, it could also reduce the supply of advice in the market.

Overall future scenarios

We combine some of the possible future trajectories across each of the four driving factors discussed above to develop five possible future scenarios (see Figure 25 below). The scenarios were developed through extensive conversations with market experts and a workshop with experts to test these scenarios.

These scenarios focus on the developments in the market that have significant implications for the risks and benefits to consumers in the market and the impacts of regulation on the sector.

Figure 25 Summary of scenarios considered



Source: Frontier Economics

Implications for market players in each scenario

The key risks and benefits that emerged from each of the five scenarios were tested further through the surveys of business consumers and non-SRA-regulated providers in the market.

In the following section we explore, for each scenario:

- **Market trends:** what the combination of driving factors will mean for the market for legal advice, for example market shares of regulated versus unregulated firms, and methods of delivering advice; and
- **Risks and benefits for consumers:** the potential upsides and downsides for consumers of the scenario occurring.

S1. Gradual shift towards unregulated providers

Figure 26 Gradual shift towards unregulated providers



Summary

Demand for legal advice rises, with this demand increasingly being met by unregulated providers due to affordability issues. While overall access may improve, there are increased concerns about access for some consumers and the quality of advice in a subset of the market.

Potential market trends

The expected slowdown of the economy imposes constraints on household and business finances and increases legal needs in some areas of unreserved advice – 48% of the providers we surveyed expected demand to increase next year, with only 4% expecting a decrease. As individuals and businesses with legal needs become increasingly price constrained, demand shifts towards unregulated businesses, which are perceived to be more affordable – our survey of SMEs indicates that businesses concerned about affordability are more likely to use unregulated providers (see Figure 14).

While technology continues to be deployed to the market thereby increasing efficiency and access for some consumers, in this scenario the shift towards online provision of legal services substitutes for traditional methods of delivering advice, and this leads to digital exclusion for those who cannot access advice online and require in-person services. There are no significant changes made to regulation in the medium term, and there continues to be a gap in understanding for consumers around regulation and what protections are available to them.

Potential risks or benefits for consumers

Demand increasingly shifting towards unregulated providers may lead to reduced costs for consumers but also to increased risks if the advice being received is of lower quality. Our survey evidence suggests that on average there is no difference in perceived advice quality from consumers between regulated and unregulated providers. There are, however, concerns about a subset of unregulated providers and rogue traders. Furthermore, the survey evidence indicates that despite stating that they care about regulation, many consumers are unlikely to be able to tell regulated and unregulated providers apart, as only 33% of the providers we surveyed indicated that their customers understood the difference between regulated and unregulated providers.

The increased use of unregulated providers is a potential risk, especially for consumers interacting with the market for the first time, who are less likely to be able to spot low-quality advisers. Businesses that have faced legal issues in the past are less likely to care about their provider being regulated and better able to detect poor-quality providers.

A second potential risk is reduced access to justice for some consumers if the increased market share of unregulated providers is accompanied by a more rapid shift to online services. This could lead to consumers who cannot access digital services being excluded from the market. Overall, while technology may improve access to justice for consumers by lowering cost and increasing supply, access to justice may still fall for the subset of digitally excluded consumers. Our survey evidence does not suggest that digital exclusion is currently on track to increase. However, this could happen if online methods start to displace traditional methods, which may be the case if alternative online options are cheaper to supply and consumers become more price-sensitive. This could lead to a shift to unregulated providers as experts suggested they are likely to be more innovative in developing and using legal technology.

S2. Stronger segmentation of the market

Figure 27 Stronger segmentation of the market



Summary

Demand for legal advice rises, with this demand increasingly being met by unregulated providers due to affordability issues. In response, regulators move to increase awareness of regulation in the market, leading to increased segmentation.

Potential market trends

In this scenario, market trends develop as in S1, but the increase in demand for legal advice and the shift towards unregulated providers prompts regulators to attempt to increase consumer awareness of the differences between regulated and unregulated providers through methods such as information campaigns and product labels.

The intervention reduces the market share of unregulated providers to an extent, as those consumers who care about regulation are able to make more informed choices and, on the supply side, some unregulated providers may choose to become regulated. The significant majority of consumers we surveyed still reported preferring regulated providers even when they are more expensive (67% versus 18%), and 16% of unregulated providers said they would become regulated if disclosure of regulatory status was required. This may also lead to increased segmentation in the market as providers are more clearly differentiated between regulated or unregulated providers with separate consumer bases and consequently more differentiated service offerings.

Potential risks or benefits for consumers

Compared to S1, consumers in this scenario (who may be unaware of how to differentiate between regulated and unregulated providers, for example because they interact with the market less frequently) will benefit from being able to identify providers more easily and make an informed choice. This includes the 88% of SMEs surveyed which indicated that regulation was either very important or reasonably important.

Another possible benefit in access to justice (compared to S1) might arise if the increased market share of regulated provision leads to more traditional services being offered alongside digital offerings (based on the assumption that unregulated providers are more likely to adopt technology).

A risk is that an increased market share of regulated provision may push the average cost of advice up. Another possible risk of this scenario is that the disclosure of regulatory status or clearer upfront information imposes a high burden on unregulated providers so that they cease to operate or become regulated. This could remove a possible lower-cost option from the market for consumers. However, our survey evidence suggests that this risk is unlikely to materialise as the majority of unregulated providers (58%) indicated that they would continue operating as normal without changing their service offering if required to disclose their regulatory status. This allows the unregulated segment of the market to continue to operate and deliver services to consumers who prefer to choose an unregulated service.³⁴

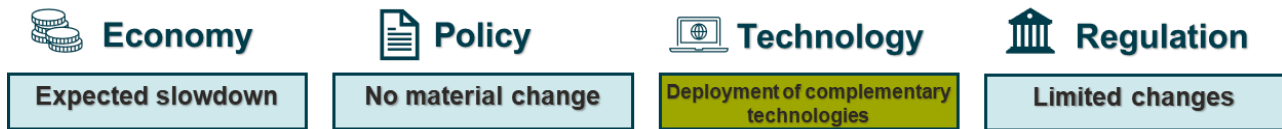
Another possible risk of deeper segmentation in the market might emerge, whereby riskier “cowboy” providers enter the now (smaller) unregulated part of the market. For consumers who still do not understand the differences between regulated and unregulated provision (either because they did not see the advertising campaign or did not understand it) or who cannot afford regulated advice, the

³⁴ 16% of unregulated providers reported that they would become regulated, 9% that they would adapt their services, and 17% responded “Other/Don’t know”.

risks might be higher because the average quality of advice in the less expensive part of the market is potentially now lower.

S3. Increased access through technology

Figure 28 Increased access through technology



Summary

The demand for legal advice rises but supply expands in the market through increased use of technology to complement existing in-person legal services. The cost of legal services reduces and more individuals are able to access justice.

Potential market trends

In this scenario:

- As legal needs increase, the continued deployment of legal technology acts to increase supply in a way that complements existing in-person legal services as opposed to replacing them. Both regulated and unregulated firms deploy technologies that reduce the cost of legal services and enable previously excluded individuals (such as those living in advice deserts) to access legal advice remotely. Eighty-seven percent of the providers we surveyed indicated that they provided in-person services, with the majority providing services via online methods such as email and video call alongside this, particularly because of the Covid-19 pandemic. On the whole, providers considered this to be efficiency enhancing, although some expected this not to last and that things would go back to the old ways of working. Positive examples of how the deployment of legal technology can increase access to justice include the Rechtwijzer Uit Elkaar, an online divorce resolution system introduced in the Netherlands in 2014 (see Annex C for more information).
- In-person legal services continues to be widely provided in the market such that digital exclusion does not increase. As access is expanding to meet increased legal needs, regulators make no significant changes.
- The market share of unregulated providers may still increase due to an expansion of the market, with previously excluded individuals now able to access legal advice through more affordable firms. However, as regulated firms also continue to deploy efficiency-improving legal technologies and advice does not move wholly online, the overall supply of services offered by regulated providers in the market remains strong.

Potential risks or benefits for consumers

The rise of complementary legal technologies improves access to legal advice and services without excluding those who are unable to access digital services. A significant shift away from in-person services towards digital services is not observed and, while the market share of unregulated firms is likely to increase, significant risks to quality of service are not expected to materialise.

Relative to S1, the rise of complementary legal technologies could lead to increased choice for consumers and cheaper services without increasing the risk of low-quality advice. On the other hand, there could be distributional impacts on providers where the market share of those less likely to use technology falls – our survey evidence suggests that smaller providers are less likely to use technology, for example, and research by the University of Oxford (2021) found that providers serving individual consumers were less likely to use technology.

S4. Significant increase in legal need

Figure 29 Significant increase in legal need



Summary

The demand for legal advice rises significantly due to a more material economic downturn. This leads to a greater shift away from regulated providers than the trend in S1. To ensure that consumers are able to make informed choices about their provider, regulators intervene to enforce greater disclosure of regulated status and improve information in the market.

Potential market trends

A more material and prolonged economic downturn leads to a more significant increase in demand for legal advice. In response to this surge in demand and the cost pressures faced by providers, advice moves increasingly online with in-person services, particularly those offered by the not-for-profit and legal aid sector, being reduced. This in turn leads to a greater shift away from regulated providers and towards the unregulated sector.

Given the existing constraints on the supply of legal services, significant regulatory changes that reserve additional activities are not made in order to avoid decreasing the supply of legal services in the face of increasing demand. Instead, regulators respond by increasing the information available to consumers about the regulatory status of providers and the protections available, in order to mitigate potential risks. This deepens the segmentation of the market as in S2.

Potential risks or benefits for consumers

This scenario presents a higher (compared to S1) risk of low-quality advice being obtained by consumers with less information – if the increase in legal needs comes from consumers who would not usually interact with the legal market or have not previously done so (e.g. housing issues, business disputes). To some extent, this risk would be mitigated by the regulatory action to increase information, although inevitably some consumers would not be reached by information campaigns and some consumers may only be able to afford unregulated services.

A possible reduction in the availability of in-person services (to drive efficiency improvements) could exacerbate digital exclusion concerns.

S5. Expansion of reserved activities

Figure 30 Expansion of reserved activities



Summary

The list of reserved legal activities can only be changed by statute and cannot be altered by the SRA. In the hypothetical situation, the scope of regulation in the market is increased, leading to additional costs for providers and reducing the supply of legal advice for currently unreserved activities.

Based on a review of the relevant literature and discussion with market experts, a significant change in regulatory scope in the medium term appears unlikely. However, we include this scenario in order to better consider the potential impacts of increased regulation that are explored further through the survey work.

Potential market trends

In this scenario, market trends are as discussed in S1 but, in response to increased demand for legal advice and a growing shift towards digital advice in the market, regulation in the market is increased by expanding the list of reserved activities which can be provided only by LSA-regulated individuals and firms. This improves the protections available to consumers but leads to additional costs for providers and reduces the supply of legal advice. It also introduces further barriers to innovation (due to the increased costs), which limits the future growth of legal technologies.

Potential risks or benefits for consumers

Increased regulation affords consumers improved protection in the event that they receive poor-quality advice or service, as clients of LSA-regulated providers can seek redress from the Legal

Ombudsman. However, it is not obvious whether this leads to an improvement in the overall quality of advice in the market – as stated before, our survey shows consumers to be equally satisfied with the quality of advice from regulated and unregulated firms, although this conclusion relies on consumers being able to tell the quality of advice received.

The increased regulatory burden may impose additional costs on providers and cause price increases and some providers potentially to leave the market, reducing the overall supply of legal advice. Some unregulated providers could become regulated. It is possible that those that choose to become regulated are of higher quality, leading to a potential polarisation of the market with the market segmented into high-cost, high-quality advice with good protection, and then low-cost, low-quality advice with lower levels of protection.

Regulation may also have a dampening impact on innovation – international evidence from the Netherlands (see Annex C) suggests a positive link between relaxed regulation and innovation. If additional regulation is too burdensome, it can also lead to consumers not seeking advice at all (due to increased prices) rather than obtaining potentially lower-quality advice, and can increase the proportion of individuals with unmet legal needs.

Conclusions

The unreserved market is an important part of the legal services sector which has not been studied extensively to date. This report drew on a range of research methods to offer new insights into the scale and composition of this market, how it is likely to evolve going forward and what implications this might have for key market actors and consumers.

Objective 1: examine scope and scale of unreserved market

We estimate that the unregulated sector comprises at least 3,800 providers employing over 20,000 people and generating annual revenue in excess of £2bn. This represents a relatively small fraction of the total legal services sector (6-8% by turnover).

In some segments, the unregulated sector is a more significant proportion of total activity, including services for businesses and the area of will writing and estate administration, where over 900 providers were identified.

The unregulated market is particularly important for small businesses, with approximately 30% of SMEs reporting that they received advice primarily from unregulated providers. With economic conditions expected to worsen over the immediate term, it is likely that demand for services provided by the unregulated market will grow further in coming years. Understanding market dynamics is therefore key for regulators and other market actors.

Objective 2: examine potential future developments of the market

We developed five scenarios for potential future states of the market for unreserved legal activities over the next three to five years, against which the actions of consumers, providers of legal advice (both LSA-regulated and unregulated) and regulators could be considered.

The scenarios were informed by a focused literature review and interviews with over ten experts in the market, including regulators, academics and unregulated providers of unreserved legal advice. They are based on four key factors: the state of the macroeconomy, fiscal policy, technological adoption and regulation.

The five scenarios focus on the developments in the market that have significant implications for the risks to and benefits for consumers in the market and the impacts of regulation on the sector.

Overall, the scenario analysis suggests that unregulated provision may increase access to justice in the face of increased strain on consumer resources, and the risks of low-quality provision increasing appear low in the near term.

Objective 3: examine risks and benefits for consumers and implications for regulators

Our work found no evidence of significant risks, such as from the provision of low-quality services, across the market as a whole. However concerns may still remain for parts of this market or for individual consumers, neither of which were explored in detail as part of this report.

Digital exclusion is an ongoing risk in the wider legal services market, as in other sectors, although unregulated providers do not appear likely to materially affect this in the near future. Further work would need to be carried out to establish whether, and what, changes to the regulatory framework would be beneficial. However, given the evidence that consumers overestimate their understanding of what constitutes a regulated provider, increased availability and transparency of information about regulation would likely benefit consumers, as explored in scenario two.

Suggested areas for further study

Some of these areas and issues would benefit from further study. Future research could explore:

- **Subsets of the market for unregulated services**, in particular unregulated providers who are not subject to non-LSA regulation or members of professional bodies, to test whether there are increased risks to consumers in these areas of the market.
- **The cost of unregulated providers relative to regulated providers**. Consumers surveyed for this report perceived unregulated providers to be more affordable than regulated providers. However, we did not explore whether this perception is accurate or is a misconception on the part of consumers.
- **Barriers faced by providers who wish to become regulated**. Experts in the market and the survey evidence suggested that there may be providers who wish to become regulated but who are unable to in practice.
- **Means of improving the information about regulation available to consumers**. Given the potential gap in consumer understanding of what constitutes a regulated provider, regulators could explore means for improving the information available to consumers without imposing significant restrictions on the market.

More generally, given the relative lack of knowledge of this market, it might be useful to conduct periodic studies and gather data to track key indicators of potential issues in the market such as pricing, consumer satisfaction, consumer complaints, provider performance and attitudes. Given the scope of the market, these studies and data-gathering exercises could be targeted at the parts of the unreserved market where there is a higher concentration of unregulated providers, or where there are higher risks or negative outcomes for vulnerable consumers (e.g. advice deserts).

The observed information asymmetry in the market, with consumers appearing not to understand which providers are regulated and what protections are available to them, could also continue to be monitored due to the risk that this issue presents to individuals and businesses.

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Annex A – Methodology

Market definition

For the purposes of this research, we define the unregulated legal activities market as **providers of legal advice³⁵ operating in England and Wales who are not regulated by a [Legal Services Act \(LSA\) regulator](#).**

We focus on unreserved legal activities, which are activities that can be carried out by bodies that are not regulated by an LSA regulator. Unreserved legal advice activities cover a number of common legal issues which may be encountered by both businesses and individuals, including business structures and regulation advice; consumer issues; some areas of family and employment law; housing and premises issues; injury; intellectual property; tax and finance; and wills and estate administration. We exclude immigration advice services on the basis that any immigration advice providers not regulated by an LSA regulator are regulated by the Office of the Immigration Services Commissioner (OISC).

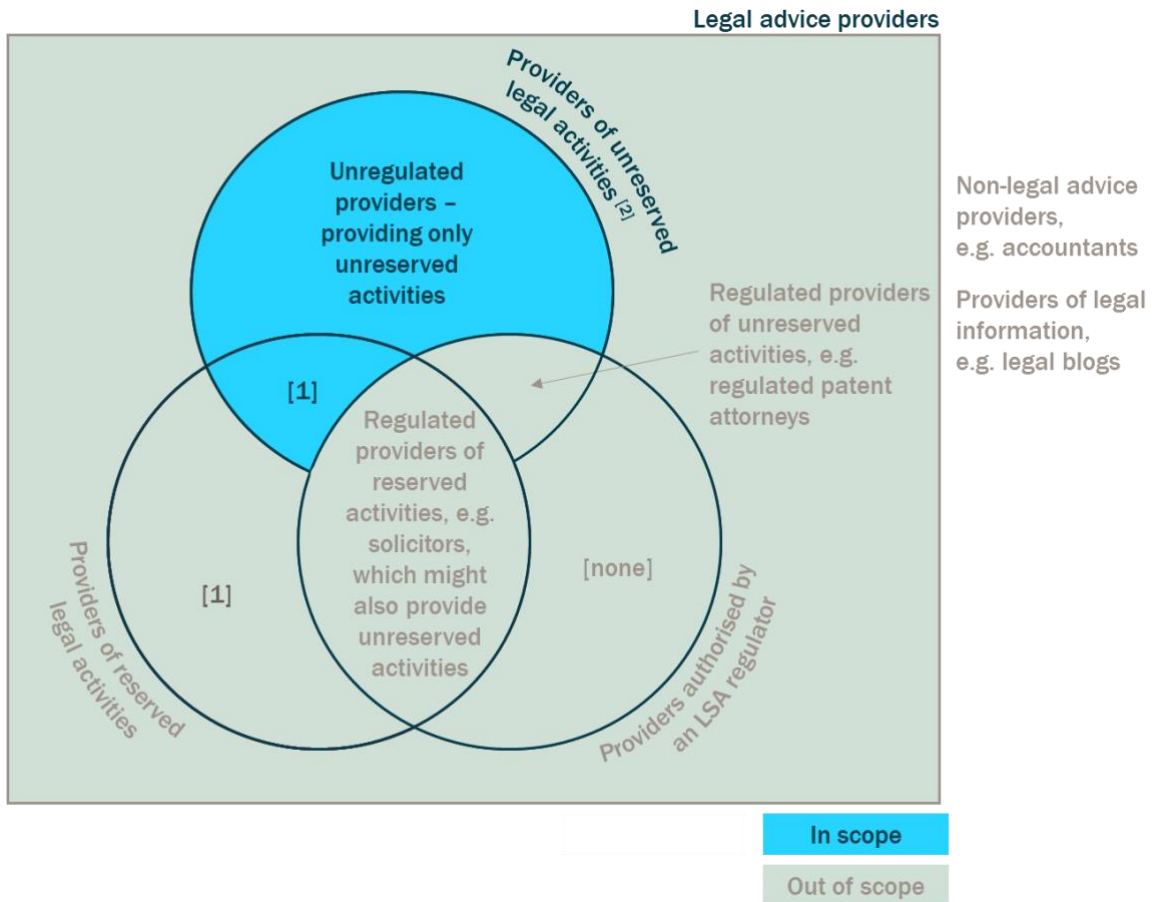
Some providers of unreserved legal activities are regulated by an LSA regulator. We focus on the providers who are unregulated, including both for-profit and not-for-profit providers. We also focus on the unregulated firms that employ unregulated individuals (for example, excluding bodies which employ only solicitors who are all regulated by the SRA on an individual basis). Some of the providers included may be regulated by other non-LSA regulators (for example, the Financial Conduct Authority (FCA)).

We exclude providers of legal information, i.e. general legal information which is not tailored to a client's specific issue. We also exclude intermediary providers, e.g. price comparison websites or "find a lawyer" websites, unless the intermediaries themselves offer their own legal advice service.³⁶

³⁵ Legal advice is defined as a service that provides information or solutions which are tailored to the client and their legal issue. This is different to general legal information which is not tailored to a client's specific issue.

³⁶ We found a small number of examples where this was the case, for example a provider offering legal services in some areas but acting as an intermediary to recommend another provider for other areas of law.

Figure 31 Market definition



Source: Frontier Economics

Note: Only non-commercial bodies can provide reserved legal services while not authorised by an LSA regulator. We include these non-commercial providers in scope if they also provide unreserved activities.

Within the scope above we focus on unregulated providers employing unregulated individuals (for example, not focussing on bodies which are unregulated but which only employ solicitors, who are persons authorised by the SRA – since November 2019, solicitors can be employed by an unregulated business and provide advice to the public).

Mapping research questions to methods

The mapping of these methods to the research questions considered is set out in Table 3 below.

Table 3 Research questions and methods

Research topic	Research question	Research method
	What is the current scope and scale of the provision of unreserved activities, and the scope and scale of unregulated providers or sectors?	

Scope and scale of unregulated market	Are some providers purposefully avoiding regulation? If so, why and how? For example, is there any evidence of outsourcing work or using technology to deliver certain services to avoid regulation?	Web-reading dataset and insights from surveys
	Might some providers change their business model and might some purposefully avoid regulation in the future? If so, why and how?	
	Is there any potential detriment to consumers from this provision?	
Potential developments going forward	What are the potential scenarios of the impacts of wider issues, or developments in the market, on the balance of regulated and unregulated providers in the market?	Insights from surveys, focused interviews and reference group workshops
	What are the potential future impacts on regulation of the sector?	
	Are there any useful international comparisons that might indicate how some developments could affect the market and impact regulation?	Rapid review of international evidence
Implications of market developments for market players	What are the potential detriments and benefits to the market, including its reputation, of the impacts of developments in the market?	Insights from surveys, focused interviews and reference group workshops
	What are the potential detriments and benefits to consumers?	
	What information about the market is imperative for the SRA to collate and regularly update to monitor potential detriments and benefits?	
	What are the potential actions the SRA, or others, can take to minimise detriment and maximise benefits to consumers?	
	What are the potential actions the SRA, or others, can take to minimise detriment and maximise benefits to consumers?	

Source: SRA, Frontier Economics

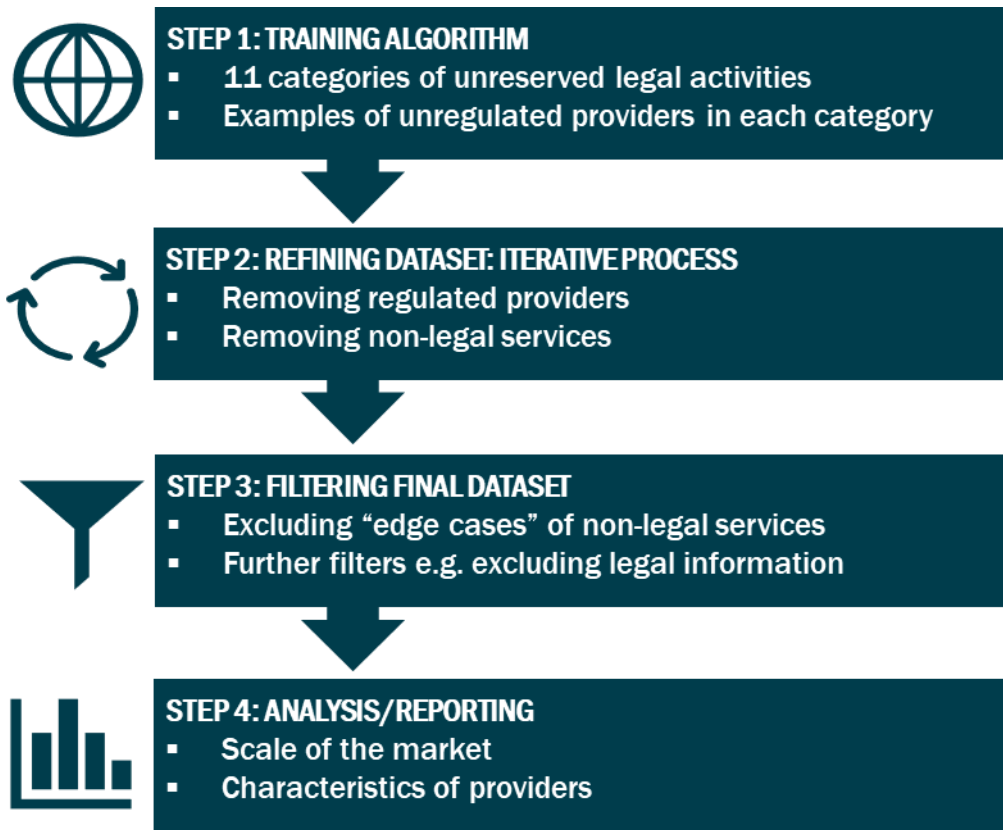
Detailed web-reading methodology

Web reading is a technique for collecting and aggregating information from the internet. Working with our partner The Data City, we compiled a dataset of unregulated providers of unreserved legal activities following our market definition as described above.

The dataset identifies individual providers according to the type of legal advice service they specialise in. Information from the company website is matched with data from Companies House on company registration, location, turnover and employees.

We conducted the web-reading process in four steps, as shown in Figure 32.

Figure 32 Web-reading process



Source: Frontier Economics

A1. Step 1: Training algorithm

We first defined 14 categories of (unreserved) legal advice specialisms, as described in Table 4.

We based our taxonomy of legal advice services on the Legal Services Board research report into mapping unregulated legal services (LSB, 2022a). In some cases, we adapted the categories used, for example sub-dividing family law into three distinct areas, including a “non-specialised” category, and subsuming the LSB’s “legal costs” category under consumer trading issues. In each of these cases, the aim was to develop categories with “similar enough” providers within each category in

terms of the typical language used on providers’ websites, so that they would be picked up accurately by the web-reading algorithm.³⁷

Other key differences between our market definition and that used by the LSB include:

- We exclude immigration advice services, on the basis that any immigration advice providers not regulated by an LSA regulator are regulated by the OISC.
- We include not-for-profit providers (such as charities, public bodies, membership bodies and trade unions).
- We exclude sole traders who are not registered as a company (because our underlying dataset is based on Companies House registrations). However, we separately account for the likely scope of this segment of the market.
- We include FCA-regulated providers who are not also regulated by an LSA regulator.

Table 4 Unreserved legal services taxonomy

Category	Description
Business structures and regulation advice	Legal advice/services provided to businesses regarding issues such as company formation, changing business structures or regulation compliance (e.g. the General Data Protection Regulation (GDPR)). Includes providers of due diligence on company acquisitions/mergers/disposals but not other intermediaries involved in these activities (e.g. finance/brokering).
Consumer trading issues	Legal advice/services regarding the rights of consumers, for example (non-exhaustive): mis-selling; data breaches; compensation for faulty goods; or travel cancellations or delays.
Criminal advice and rights of individuals	Legal advice/services relating to criminal defence or civil rights, for example (non-exhaustive): McKenzie friend court services; legal advice on being arrested or police mistreatment.
Employment	Legal advice/services provided to either employers or employees on areas of employment law, for example (non-exhaustive): workplace health and safety; employment contracts; employment complaints, disputes or tribunals; employment discrimination.
Family – divorce (out of court)	Legal advice/services provided to individuals on divorce proceedings (usually covering no-fault divorce, which does not require court proceedings).

³⁷ The definition of the taxonomy also drew on the results of previous work undertaken by the SRA to identify a dataset of unregulated providers using web-reading techniques, in particular a “clustering” analysis which identified, from a broad sample of providers, the categories that providers fell into according to website text.

Family – family court support	Legal advice/services provided to individuals on areas of family law that may involve family court or criminal proceedings, for example advice for victims of domestic abuse; advice on custody and children’s living arrangements. Includes McKenzie friend family law services.
Family – welfare, benefits and care needs	Legal advice/services provided to individuals regarding benefit entitlements; special educational needs support; advocacy in appeals. Excludes care needs assessments.
Housing and business premises issues	Legal advice/services provided to businesses or individuals relating to housing or business premises problems or disputes, such as legal advice and services provided to landlords or tenants or regarding property-related contracts; advice on boundary (party wall) disputes; support with planning applications/appeals. Excludes property surveying.
Injury	Legal advice/services provided after being involved in an accident or sustaining an injury.
Intellectual property	Legal advice/services regarding registering/challenging/defending/licensing intellectual property rights, including registering patents and trademarks and due diligence advice for companies regarding their intellectual property portfolios.
Mediation	Third-party mediation or conciliation services to resolve legal disputes, which could relate to (non-exhaustive): employment issues; property disputes; divorce/separation.
Tax and finance	Legal advice/services covering tax issues, such as compliance, investigations and appeals, and personalised debt advice including insolvency practitioners serving businesses and individuals. Excludes debt acquisition companies and non-legal financial advice providers such as payroll services.
Wills, trusts and estate administration	Legal advice/services provided for: writing or changing a will; managing trusts; making, registering or ending a lasting power of attorney; dealing with the estate of someone who has died.
Non-specialised	Providers of legal advice and services covering multiple areas of the unreserved activities listed above (without an area of specialism).

Source: Frontier Economics

Within each of these categories, we identified between 10 and 50 examples of unregulated providers operating in the market (“the positive training set”), through both internet searches and using a sample from previous work by the SRA which had been informed by the LSB’s work to identify unregulated firms.

We also identified examples of providers who were out of scope and who should not be included in the market (“the negative training set”). In particular, this included providers who might otherwise

have appeared similar to the providers in scope, for example recruitment firms within the employment law category.

The Data City algorithm then compiled a dataset of all providers in the market by searching the web and analysing the text on company websites. The outputted dataset included company websites which were similar to the providers in the positive training set and not similar to those in the negative training set.

A2. Step 2: Refining the dataset

We used a combination of techniques to review the initial dataset:

- **Manual checks:** We reviewed a sample of 50-100 results within each of the 14 categories and reclassified the “false positives” that had appeared in the dataset, i.e. providers of non-legal services (e.g. marketing firms).
- **Edge case definitions:** As a general approach, we based our definition of what was or was not a legal service on the LSB’s scorecards for each unreserved legal advice area (LSB, 2022a). Beyond this there were still a number of “edge cases” identified from the manual checks where it was debatable whether the company was a provider of a legal service (for example, a number of companies providing advice on company acquisitions, with a grey area between commercial-only and legal advice). For the list of edge cases, we came to a final determination based on input from the SRA and experts in each category area of law drawn from the reference group.
- **Comparisons with previous work:** We reviewed a dataset of providers previously put together by the SRA to investigate the unregulated market. This had been informed by the LSB’s work on the sector. While there were large differences in the data used and the approaches between the two datasets, we were able to identify a number of “false negatives”, i.e. providers of legal services that had not been picked up in Step 1 of our web-reading process because of the choice of providers we had made for the positive training set.

Based on the checks above, we refined the positive and negative training sets, i.e. adding in examples of providers who had previously been missed and including on the negative list the providers who had been previously captured but were judged to be out of scope. We then re-ran the algorithm to produce a revised provider dataset.

We repeated these steps a number of times to arrive at a revised dataset with a higher level of accuracy.

A3. Step 3: Filtering the dataset

The revised dataset included a number of regulated providers of unreserved legal activities, for example SRA-regulated solicitors firms providing employment law advice and firms of trademark and patent attorneys regulated by the Intellectual Property Regulation Board. We used two methods to exclude these firms from the dataset:

- **SRA-regulated firms:** We searched the Data City dataset for any firms with company names appearing on the SRA register of firms regulated by the SRA and removed these firms from the final dataset.
- **All LSA regulators:** We used keyword searches of company website text to identify and exclude firms regulated by LSA regulators, for example excluding all firms with the text “authorised and regulated by the SRA”,³⁸ “authorised by CILEx regulation” or “regulated by the Intellectual Property Regulation Board”.³⁹

We used additional keyword searches of website text to remove other out-of-scope providers, for example providers of legal information (not legal advice services), which included some legal journals, blogs and messaging boards.

A4. Step 4: Analysis

We analysed the characteristics and aggregate statistics of the providers captured in our final dataset. The results are presented in the “Scale and scope of unreserved market” section of the report.

A5. Definitions and caveats

We note that although checks and filters were applied to increase the accuracy of the final dataset as much as possible, it should not be treated as a comprehensive list of all unregulated providers and, in addition, may contain some firms which are not legal advice providers. The purpose of the dataset is to capture an approximation of the size and characteristics of the overall market from which we can draw aggregate conclusions, but it is not intended to be used as a register of all unregulated providers in England and Wales.

Our dataset identifies UK-registered companies by matching website information to Companies House registrations. In some cases, a single website may have multiple associated company registrations: for example, a firm may have different sub-divisions which are registered under different company numbers.

For the purposes of this research, we define the number of “providers” based on unique website domains, i.e. where a single web domain has multiple company numbers associated with it, we define this as one “provider”. This is on the basis that a consumer searching for a legal service provider is likely to view two registered companies (often with similar company names) using the same website as one single provider. Additionally some company registrations may be associated with companies which have ceased trading.

³⁸ We used keyword searches to exclude SRA-regulated firms in addition to using the SRA register because of some cases where the company name recorded on the SRA register differed from that recorded with Companies House (for example, due to the company name changing over time or because of small variations in the way a company name was expressed).

³⁹ We also included small variations to the above phrases, for example with acronyms both spelled out and not spelled out, based on reviewing examples of the regulated firms and the website text used to advertise that they were regulated.

For the purposes of calculating the size and scope of the market, we include the turnover and employees associated with all the company numbers associated with each provider. This is based on the finding that multiple company numbers can result from re-registrations over time or from allocating sub-divisions of a company's turnover to different registered companies.

In the case where a parent company has two divisions, one unregulated and one regulated, the unregulated arm is captured in our dataset as a provider only in cases where the unregulated arm has its own separate web domain and company number. From our review of the dataset during the checking process, we did not come across any examples where an unregulated division of a parent company did not have a separate website: in the examples reviewed we found that often the unregulated division also had separate branding and/or a separate trading name.

About The Data City and web-reading algorithm

A6. About The Data City

Data City Innovations Ltd (The Data City) is a UK Data Services SME which developed a SaaS platform through which it has established the new standard in industrial classification. It has built a unique platform that combines company data from Companies House with website text, company financials (provided by CreditSafe and RedFlagAlert) and jobs/skills data (provided by Lightcast). With up to 75 pages of website text per company, the platform enables emerging sectors to be found and analysed from over 1.6 million matched companies using its unique machine-learning software. It currently has over 290 proprietary industry classifications (RTICs) on its platform from NetZero to AgriTech to FinTech. The platform allows policymakers, economists, investors and analysts to understand the emerging economy and markets in real time. It works with a wide range of public bodies, including North East LEP, Dept for the Economy NI, Transport for the North, WYCA, MIDAS, London Boroughs, DCMS, BEIS Digital, HVMC and Satellite Catapults.

A7. Web-reading algorithm

The bespoke dataset (or Real Time Industrial Classification (RTIC)) of providers of unreserved legal activities was produced by defining a unique taxonomy for the industrial classification and then stitching together multiple sources of company data to produce a picture of the aggregate sector.

To define the taxonomy for each sub-category of unreserved legal services, The Data City started with a clear definition of the services in scope, from which it identified example websites and some representative keywords of each sub-category.

It then undertook website discourse analysis, diving into a few websites of companies before adapting the taxonomy. This process is crucial as academic literature or expert reports may describe processes differently to companies. From here, the platform utilises the power of machine learning as it can use terminology which may surround the pre-defined keywords without the specific keywords themselves. For example, a company which works within solar farms may mention harnessing energy from the

sun but may never use the word “solar”. Keywords help the user to find companies to be used as strong examples in the list-building process.

Detailed dataset analysis methodology

A8. Sole trader methodology

We relied on Companies House registrations to identify providers. This excluded some legal advice providers, particularly sole traders, who may not be registered at Companies House.

We used two methods to estimate the proportion of sole traders operating in the unregulated legal services market:

- First, we used a separate dataset of unregulated providers, identified through web reading, provided by the SRA from previous work investigating the unregulated market. This dataset included sole trader providers, although it contained a larger number of “out-of-scope” providers according to our market definition, i.e. “false positive” (not legal services) results, and regulated providers. We reviewed a random sample of providers from this dataset, excluding any false positives or regulated firms. From the providers found to be “in scope”, we found around 15-20% of providers to be sole trader operators.
- Second, we reviewed UK Business Counts data from the Office for National Statistics (ONS), which reports 18% of enterprises operating in a comparable industrial classification to the unregulated market to operate as sole proprietors.⁴⁰

Combining the above estimates, we consider 18% to be a reasonable midpoint estimate for the fraction of sole traders operating in the unregulated market (with 15-20% as an uncertainty range). Including sole traders would increase the estimated total number of providers to around 3,700-3,900.

A9. Size of market methodology

The dataset of providers identified through web reading includes best estimates of current employees and annual turnover derived from Companies House records. For the purposes of calculating the size and scope of the market, we included the turnover and employees associated with all the company numbers associated with each provider (see the Definitions and caveats section for more detail on the difference between the number of “providers” and the number of “companies”).

We calculated the total size of the market in three steps:

⁴⁰ We used data from the industrial classification “Activities of patent and copyright agents; [and] other legal activities (other than those of barristers and solicitors)”. This does not accurately capture the scope of the unregulated market because it includes regulated providers such as patent attorneys regulated by the Intellectual Property Regulation Board and excludes providers with their main business function in other sectors, but it can be considered a comparable proxy for the proportion of sole traders operating in the market.

- **Legal services firms:** Companies House data also includes information on companies' industrial classification according to the ONS's Standard Industrial Classification (SIC). We included in this segment all providers with the industrial classification of "legal services". We included 100% of the turnover and employees of these firms as falling within the unregulated legal advice market.
- **Firms in other sectors ("ancillary"):** The remaining firms belong to other industrial classifications (for example, other professional services, education, etc). We estimated the average percentage of these firms' turnover which is derived from legal services provision using the results of surveyed providers:
 - For the providers answering the survey who responded that legal services was not their main business function, we asked "What proportion of your organisation's workload is as a result of providing legal advice?". Respondents could select from the options 0-25%, 25-50%, 50-75% or 75-100%.
 - From this, we calculated the average proportion of ancillary businesses dedicated to legal services. The lower bound estimate is based on assuming that each response corresponds to the lower bounds of each response range (e.g. 0% for 0-25%). The upper bound is based on assuming that each response corresponds to the midpoint of each response range (e.g. 12.5% for 0-25%).
 - We calculated these estimates separately for firms with turnover of less than £100k (33-46% of workload devoted to legal services) and for firms with turnover of more than £100k (32-44%).
 - We multiplied the total turnover and employment of ancillary firms (derived from the web-reading dataset Companies House data) by the estimated proportion of turnover derived from legal services, separately for firms with turnover of less than or more than £100k, to arrive at an overall range for the legal-related turnover of ancillary firms of between £1.5bn and £2.0bn and employment of between 12,000 and 17,000.
- **Firms missing industrial classification data:** Just under 7% of firms were missing an industrial classification. We assumed that these firms are allocated proportionally between legal services and non-legal services segments and have the same average employees and turnover per company as the other firms in those segments.

Survey sampling and methodology

The two surveys aimed to capture the views and experiences of consumers (namely small and medium-size businesses) and unregulated providers of legal advice. The topics explored included changes in demand for legal services and perceptions of regulation by LSB regulators.

A10. Consumer survey

The consumer survey sample covered small and medium-sized businesses (referred to here as “SMEs”) with between one and 249 employees based in England and Wales. We chose to survey SMEs because as consumers they were more likely to engage with providers of legal advice on a repeated basis and therefore have a better understanding of cost and quality levels in the market compared to individuals who may only engage with legal providers very infrequently.

The survey was conducted online. To obtain the sample, we reached out to a panel which specialises in SME surveys and has the database required to reach the relevant sample.

Screening questions were included to ensure another level of certainty that the respondents were from the correct business size and location and to make sure they had an appropriate level of knowledge about the topic. For the latter, they were asked if they had at least some input into decisions around the services their business might use. As the SRA regulates businesses and individuals in England and Wales, location questions were asked to confirm that SMEs’ head office locations were within these areas.

The panel survey ran from 7 to 13 September. In total, 510 responses from different SMEs were received.

A11. Legal service providers survey

The provider survey sample was made up of providers, either individuals or businesses, who offered legal advice to consumers and were not regulated by the SRA. Having completed the web-reading exercise, Frontier Economics provided a database of contacts in the form of company names and email addresses or phone numbers associated with them.

To invite contacts to complete the survey, they were sent an email containing a link to the online survey. The email also gave some background to the research and explained the confidentiality and adherence to Market Research Society regulations that is involved in BMG Research’s work. Several businesses on the list were linked with multiple emails and so an email invitation was initially sent out to three email addresses to maximise reach. A note in the emails also asked that, where the recipient felt they were not the appropriate person in their business to take the survey, they share it with someone or provide the details of someone who would be better placed to do so. Furthermore, the email and survey introductory page gave an option to complete the survey over the phone with a specified number to call to do so.

The email invitation was initially sent by BMG Research to 6,398 contacts and to a further 932 two weeks later to attempt to boost responses. To boost responses, one reminder email was sent to the same contacts, and we also used telephone chasing for contacts who had been sent an initial email but had not yet completed. Finally, the reference group members involved in the project were asked to share a link to the provider survey in their newsletters to reach out to their members and encourage people to complete the survey.

The contacts shared with BMG from the web-reading exercise had been identified as providing legal advice to consumers and being non-SRA regulated. However, the survey also included screening questions to confirm that respondents were appropriate members of their business to answer the survey, were not regulated by the SRA and operated in England or Wales.

As the aim was to reach as many providers as possible, quotas were placed on businesses, using their URLs, so that only one respondent from each business was permitted to take the survey.

Fieldwork on the provider survey ran from 13 September to 28 October 2022.

In total, there were 162 completes of the provider survey. Of these, 137 were unregulated by an LSA regulator or the FCA and the remaining 25 were regulated by other entities such as the Intellectual Property Regulation Board and Institute of Chartered Accountants in England and Wales.

A12. In-depth interviews

To complement and delve deeper into the survey findings, a series of in-depth interviews were carried out with providers of legal advice. Some of these interviews were carried out with LSA-regulated providers and some with non-regulated providers. Discussion guides were agreed with the SRA and differed slightly for each type of provider. Calls lasted around 30 minutes and were undertaken on Zoom, Teams or the desktop telephone app Bria.

To recruit unregulated legal service providers we used an opt-in approach. Those who had taken the provider survey were asked towards the end if they would be willing to take part in further research and, if so, to leave their name and email address. These contacts were then sent an invitation email asking them to get in touch with us. This method also helped us to source some providers who were regulated by LSA-regulated providers other than the SRA who had been able to take the survey.

To recruit the regulated providers, Frontier Economics shared a contact database and the SRA itself reached out to contacts with an invitation email inviting them to contact BMG Research to take part. The email also gave some background to the research and explained the confidentiality and adherence to Market Research Society regulations that is involved in BMG Research's work. The SRA also approached contacts to ensure we reached some larger law firms.

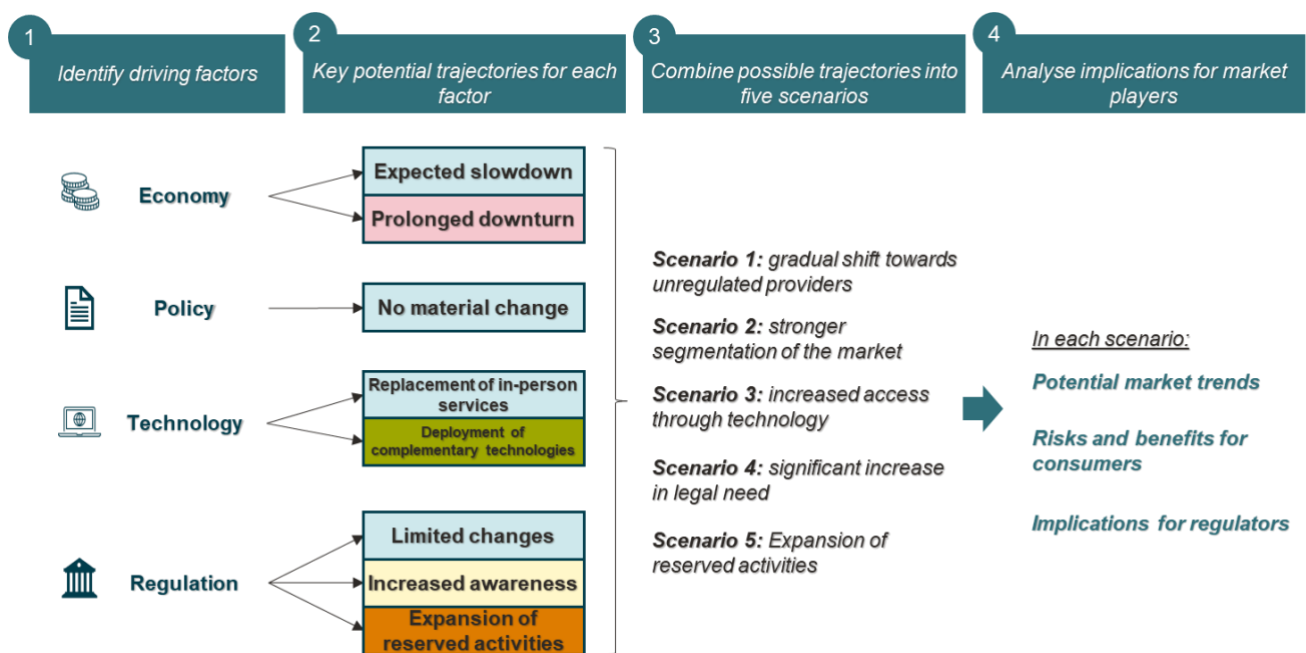
Interviews took place from 13 September to 28 October. In total, eight regulated providers and 18 unregulated providers took part in the interviews.

Annex B – Additional evidence for scenario analysis

Scenario development methodology

To construct the overall scenarios, we: (1) identified the driving economic, policy, technological and regulatory factors; (2) explored key potential trajectories for each factor through interviews and workshops with experts and supplementary desk review; (3) combined these possible trajectories into five scenarios; and (4) analysed the implications of this for market players. This is summarised in Figure 33.

Figure 33 Scenario development



Source: Frontier Economics

Economic factors

A13. The UK’s economic outlook

The UK economy is currently experiencing a slowdown which is expected to extend into the next few years. This could both increase the demand for areas of unreserved legal advice such as debt and housing and reduce the available supply of affordable legal advice.

The Office for Budget Responsibility’s (OBR) November 2022 fiscal update emphasised the negative impacts on the UK economy in the short and medium terms resulting from the ongoing recovery from the Covid-19 pandemic and the impact of the Russian invasion of Ukraine on the global economy and energy markets. While unemployment is expected to remain low, high inflation and low overall growth

are expected to lead to strains on households' finances in the medium term, with real wages expected to fall in 2023 before beginning to recover.

- Inflation was forecast to reach a 40-year high of 11.1% in the fourth quarter of 2022, eroding real incomes and consumers' access to affordable legal advice, and to remain high throughout 2023 at an average of 7.4%.
- Real gross domestic product (GDP) growth was forecast to continue to slow in the medium term, and expected to fall by 1.4% in 2023 before rising by 1.3% in 2024. The overall speed of recovery from the Covid-19 pandemic was again revised down from previous estimates.
- Unemployment was forecast to remain low overall but still increase slightly from 3.5% in 2022 to 4.9% as of the third quarter of 2024 before beginning to fall again. Underemployment is also expected to remain low, but overall labour force participation will remain significantly below pre-pandemic levels, with an expectation that around 400,000 fewer people will be in the labour force in the medium term due to the impact of the pandemic.

A14. The impact of economic downturns on demand for unreserved legal advice

Interviews with market experts conducted for this report and previous research both indicate that economic downturns can lead to meaningful increases in legal needs in areas of unreserved legal advice.

Evidence from past recessions indicates that economic downturns increase demand in key areas of unreserved legal advice. The 2008 recession led to significant increases in demand for legal advice on debt, employment, housing and benefits (MoJ, 2009). The recent recession brought on by the Covid-19 pandemic also dramatically increased demand in some areas of legal advice, with 67% more employment-related issues brought to Citizen's Advice in May 2020 compared to a year prior (LSB, 2020). Similar impacts have been observed internationally, with a recession in the early 1990s in Canada leading to material increases in demand for family law services and criminal legal aid in the following three years (Currie, 2009). Unemployment is also correlated with a broad range of civil justice problems as well as issues specifically related to debt and financial problems (Balmer et al., 2010). While experts indicated that economic difficulties can also reduce demand for certain types of legal advice, such as in consumer issues and disputes due to consumers purchasing fewer goods and services, overall there is clear evidence that a slowdown in the economy can lead to material increases in demand for key areas of unreserved legal advice.

A15. The impact of economic downturns on the supply of unreserved legal advice

Economic slowdowns can also reduce the available supply of affordable legal advice. A significant proportion of consumers seek advice from the not-for-profit sector, with the proportion seeking advice from this type of provider particularly high in areas related to employment and benefits (YouGov, 2020). Market experts indicated that, as funding for these providers can be negatively affected by recessions, economic downturns can restrict access to important sources of legal advice.

Adverse macroeconomic conditions also put pressure on legal aid funding. The UK government announced notable increases to the legal aid budget in 2022, allocating an additional £135m a year to the sector and raising the income and capital thresholds for legal aid to increase the number of eligible applicants.⁴¹ However, the value of legal aid spending declined significantly between 2010 and 2019, with criminal legal aid spending falling 38% in real terms over that period (Justice Committee, 2021), and publicly funded legal services were already under significant pressure before the Covid-19 pandemic (Justice Committee, 2020). The current inflationary pressure affecting the UK economy, as well as deterioration in household finances leading to more individuals qualifying for legal aid benefits, risks putting further pressure on the legal aid system. Experts interviewed for this report suggested that overall it is becoming significantly more difficult to obtain legal aid even where it is theoretically possible due to a shortage of solicitors who will accept legal aid. An economic downturn could further reduce this supply, as law firms need to have the resources to offer legal aid and the extended period of time it can take for legal aid bills to be repaid can make this difficult, particularly for smaller firms.

These impacts can also vary by region. There are a number of legal advice “deserts” across the UK, where there are extremely limited (or no) available providers of legal advice in key areas (The Law Society, 2021). Experts interviewed indicated that pressure on legal aid and reductions in available providers were likely to hit more deprived areas particularly hard.

Overall, economic downturns may reduce the supply of affordable advice, increasing overall prices in the market. While this may be mitigated for some consumers who have legal expenses insurance, overall, it raises concerns for access to justice for consumers.

A16. The impact of economic downturns on regulated and unregulated providers

This can lead to a shift of demand towards unregulated providers. Experts highlighted that unregulated providers charge lower prices on average, or are perceived to charge lower prices, than their regulated counterparts. They indicated that, as the supply of regulated services and legal aid has reduced, consumers have increasingly turned to unregulated sources. This is consistent with evidence from recent research undertaken by the LSB which found that unregulated providers are generally cheaper with lower upfront costs when compared to their regulated counterparts (LSB, 2022a).

Experts also indicated that the reduction in individuals’ and businesses’ ability to afford legal advice can lead to delays in seeking advice, which in turn can lead to these legal issues becoming more severe. This combination of increased (and potentially more severe) legal issues and a reduction in the availability of affordable advice can shift demand towards cheaper, unregulated providers or free unregulated sources such as online forums.

Overall, this risks widening [the justice gap](#) if there is a divergence between the quality of advice from regulated and unregulated sources and the recourse available to consumers of unregulated advice. While existing evidence suggests that overall satisfaction with legal advice from both regulated and

⁴¹ See <https://www.gov.uk/government/news/legal-aid-sector-put-on-sustainable-footing-for-years-to-come>

unregulated providers is high, dissatisfaction is slightly higher for advice received from unregulated providers (LSB, 2020b), which creates risks for consumers. Any actions taken by regulators in an economic downturn need to balance the risks of further restrictions of access to legal advice with the risk of those facing legal issues obtaining lower-quality legal advice.

A17. Potential economic developments considered

Expected slowdown

In this scenario, the economy evolves in line with current forecasts:

- GDP growth is low but positive over the next 3-5 years.
- Unemployment remains low in the medium term.
- Inflation peaks at around 11% in 2022, before falling.

The strain this creates on household incomes reduces the ability of individuals and businesses to afford legal advice and services. While this reduces demand for some income-elastic or pro-cyclical types of legal services (such as conveyancing), it increases demand in areas such as debt, benefits, employment and family law. The economic downturn also reduces the supply of some forms of legal services, particularly from the not-for-profit and legal aid-funded providers, and it reduces investment in innovation by some legal services providers.

Overall, this puts pressure on access to legal services and reduces access to justice. Demand shifts away from regulated providers of unreserved advice towards unregulated providers, which raises concerns about the protections available to consumers if they receive low-quality advice. Under this scenario, regulatory changes which restrict unregulated supply may further reduce the supply of affordable advice and lead consumers to seek no advice at all.

Prolonged downturn

In this scenario, the economy experiences a more prolonged downturn:

- The UK enters a recession, with GDP growth turning negative.
- Unemployment rises, reducing household incomes further.
- Inflation remains high and takes longer than expected to return to its long-term trend, eroding real wages.

Access to legal advice is restricted more than expected due to reduced household incomes and increased precariousness of employment. There are also further reductions in the supply of legal advice and willingness to invest in innovation by legal advice providers.

This leads to an even greater reduction in the affordability of legal advice. Compared to the expected slowdown scenario, there is a greater shift towards unregulated providers, and more individuals and businesses seek advice from informal sources such as online forums and family and friends. This

raises even greater concerns about quality of advice and protection to consumers, while imposing more significant restrictions on actions that regulators can take without reducing supply further.

Technological factors

A18. Legal technologies as tools for complementing and improving existing services

Market experts and previous research in this area have consistently identified means through which legal technologies can improve the provision of existing legal advice. Research by the Law Society highlighted that technology can reduce the cost of legal services while increasing the convenience of accessing advice for consumers (The Law Society, 2019a). For example:

- **Legal advice can be made more affordable** by efficiency-improving technologies like practice management and legal research software.
- **Legal advice can be made more accessible** by services such as videoconferencing tools, mobile apps and chat services.

Technology can also be used to improve access in geographic areas and languages in which advice would not otherwise be available:

- Technology can lead to the supply of legal services, particularly to lower-income individuals, in “advice deserts” where in-person advice is unavailable. There are regions within the UK where there are no available legal aid providers in areas of legal need such as education, welfare and housing advice (The Law Society, 2022).
- Legal advice can be provided in additional languages using digital translation tools. Legal experts in Wales noted that the deployment of new translation technologies could make a meaningful impact on the availability of advice in Welsh and could improve access for those who would not otherwise be able to obtain advice and services in their native tongue.

It may also be less intimidating for individuals with legal needs to seek advice online rather than in person, and availability of online resources can improve transparency on issues such as legal needs and cost of advice.

While there are significant barriers to technology adoption in the legal sector, such as consumer capability and digital literacy, and the skills needed to implement new technologies, overall the Law Society concluded that the benefits of technology outweigh the challenges (the Law Society, 2019a). Similarly, experts consulted for this report emphasised that, when properly implemented and regulated, technology can improve access to justice and the affordability of legal advice, leading to improved availability and quality of legal advice for those who would not otherwise be able to afford professional advice.

A19. The risk of digital exclusion from increased use of technology to provide legal services

However, market experts and the existing research into this area have also highlighted the risk that this technology may lead to increased digital exclusion and fragmentation of the market, reducing

access for some vulnerable groups. This is particularly the case where legal technologies lead to substitution of existing advice, replacing it with digital-only services.

Digital exclusion can be framed in terms of three factors:

- **Access to the internet.** As of December 2021, 6% of UK households did not have access to the internet at home (Ofcom, 2022);
- **Ability to use digital technologies.** Of those that had access to the internet in 2021, 8% reported that they were not confident in using it (Ofcom, 2022); and
- **Affordability of the internet and technology.** An estimated 2 million households had issues with affording their internet connection in October 2021 (Ofcom, 2022).

Older and lower-income individuals and households are more likely to be digitally excluded (Ofcom, 2022). Even for those with internet access, barriers to using digital legal services can be significant – for example, those in rural areas (JUSTICE, 2018) or with slower internet connections may not be able to upload or review large amounts of legal documents. Experts consulted for this report also highlighted a higher risk of digital exclusion from legal services for groups such as the neurologically divergent, who may have increased issues engaging with and communicating their legal needs to digital advice providers. While the Covid-19 pandemic shifted more people online and decreased the proportion without access to the internet, it also entrenched the divide even more for those who are still excluded as an increasing number of services shifted online (Ofcom, 2022).

Where technology is used to replace rather than enhance areas of legal advice, it can reduce the availability of professional legal advice for digitally excluded households and create concerns for access to justice. Overall, while technology can reduce the costs and thereby increase the availability of legal advice for some consumers, it can reduce the availability of legal advice for others as digital advice is not accessible for all individuals and households. Even if the deployment of legal technologies is welfare enhancing overall, these distributional impacts need to be taken into account and carefully monitored.

A20. Impact on the division of the market between regulated and unregulated providers

Increased deployment of legal technologies also has implications for the share of advice provided by LSA-regulated and unregulated providers in the market. While it will vary by area of advice and individual provider, experts in legal technology consulted for this report suggested that, on average, innovation and new technologies that replace existing methods of delivering legal advice are more likely to be deployed by a subset of the unregulated market. As a result, a greater shift towards online advice and digital tools may lead to unregulated firms providing a growing share of the market for unreserved legal activities. This already appears to have occurred to a degree as a result of the Covid-19 pandemic, with a massive surge in demand for online advice in the early stages of the pandemic and concerns raised that much of this is being provided by unregulated providers (Mayson, 2020).

Experts in legal technology interviewed for this research suggested that technologies like case management platforms and improved financing software that increase the efficiency of legal services provision are being primarily adopted by established, regulated providers. However, the more

innovative technologies which are designed to replace in-person legal advice with digital solutions are largely being developed by unregulated start-ups and scale-ups.

This is consistent with evidence from previous research. The LSB's Technology and Innovation Survey (2018) found that unregulated providers were 1.5 times as likely to have undertaken innovative activities as other providers and were more likely to have introduced services new to the market. They were also more than twice as likely to use online services when compared to solicitors and barristers. Research commissioned by the SRA also found that alternative business structures (ABSs) are more innovative and more likely to adopt legal technology than other SRA-regulated firms (University of Oxford, 2021). While ABSs are regulated providers, this still points towards increased innovation by firms that involve non-lawyers.

This creates a risk of increased segmentation in the market for unreserved legal advice. Market experts suggested that there is a strong incentive to automate advice in the segment of the market where quality is roughly equivalent across providers. This can expand access to the market, particularly if providers continue to focus on assisting clients with digital literacy. However, it can also lead to market fragmentation, with continued provision of bespoke, high-cost, in-person advice by regulated providers while the remainder of the market increasingly moves online and towards unregulated firms.

A21. Potential technological developments considered

Deployment of complementary technologies

In this scenario, technologies are largely used to complement existing services rather than replace them. Both regulated and unregulated providers adopt new technologies which allow them to provide existing services more efficiently or to new groups of consumers (such as those in advice deserts or who need services in other languages), while continuing to provide in-person services. This may lead to increased segmentation in the market, with regulated providers increasingly offering advice to those who prefer bespoke, in-person services, while regulated providers offer less personalised services to the mass market.

In this scenario, the market share between regulated and unregulated firms is unlikely to change materially in the medium term, all else being equal. While unregulated providers may continue to be (or be perceived to be) more affordable and attract more price-sensitive consumers, as the technology deployed is largely used to enhance existing services, there is no major shift in the market between regulated and unregulated providers. However, there may still be concerns for regulators if more vulnerable consumers increasingly shift towards unregulated providers, even if the overall market share captured by unregulated providers is unchanged.

Replacement of in-person services

In this scenario, technology is increasingly used to replace existing methods for providing legal advice and in-person services are reduced as digital methods expand. As innovative technologies are more likely to be deployed by unregulated providers, the market increasingly shifts away from regulated

firms towards unregulated firms. This leads to fragmentation of the market, with regulated providers offering bespoke services to less price-sensitive or higher-income consumers.

Overall, this leads to an increase in the market share of unregulated firms as digital supply expands. This may lead to lower cost and greater supply for consumers but raises concerns for regulators due to the expansion of new methods for providing advice by unregulated providers.

Policy factors

A22. Potential policy developments considered

No material change

Given the continued strains on government finances and the continued budget deficit,⁴² it is likely that the government will have limited ability to further support households and businesses beyond the already announced increases to legal aid funding and that support for those with legal needs and providers of legal aid is likely to either stay consistent or decrease in real (post-inflation) terms.

- The UK government is likely to be constrained in terms of funding for legal aid, income support and tax cuts due to inflationary pressures and the high, current budget deficit. This is consistent with recent announcements of an indefinite postponement of planned tax cuts, such as the planned reduction of the basic income tax rate from 20% to 19%.⁴³
- There will be no additional significant increases to the legal aid budget in real terms.

This means that increases in the legal need and demand for advice brought on by an economic downturn are unlikely to be fully met by corresponding financial or legal aid support from government.

Regulatory factors

A23. Potential regulatory developments considered

Limited changes

In this scenario, there are no significant changes to regulation. While some parts of legal activities could be made unreserved (for example, the right of audience in lower courts) and others made reserved, the overall list of reserved activities and scope of regulation do not change materially. There are also no significant changes in broader consumer protections or efforts to improve consumer awareness of regulation.

⁴² For more information, see the budget deficit forecasts set out by the OBR. The November 2022 forecast is available here: <https://obr.uk/efo/economic-and-fiscal-outlook-november-2022/>

⁴³ See <https://www.gov.uk/government/news/chancellor-brings-forward-further-medium-term-fiscal-plan-measures>

Overall, this is a continuation of the status quo. The limited regulatory developments in this scenario do not have a material impact on the nature of competition between regulated and unregulated firms.

Increased awareness

Regulators may intervene to increase the information available to consumers without changes to the scope of reserved activities. This could help to rectify the identified discrepancy between consumer expectations and the current reality of regulatory scope and protection (Mayson, 2020).

Awareness can be increased through methods similar to mandatory product labelling. Although SRA-regulated providers are listed on a register and often display a label on their website indicating they are regulated by the SRA, this could be extended so that all regulated and unregulated providers must display a label on their website indicating their regulatory status. Alternatively, it could also include general information campaigns intended to increase consumer understanding of what a regulated versus unregulated provider is and the protections available to them, or the creation of a public register of regulated and unregulated providers (Mayson, 2020).

Overall, this would improve consumer understanding of which providers are regulated and unregulated and would help them to make more informed decisions about where to seek advice. However, gaps may still remain in the market as providing consumers with information does not mean they act on or understand it. Providing this additional information may also impose additional compliance costs both on regulators and unregulated providers, restricting the supply of legal advice to some degree.

Expansion of reserved activities

Alternatively, additional activities could be reserved and regulatory scope extended to additional (or all) areas of legal advice. This is in line with the recommendations made in the Independent Review of Legal Services Regulation (Mayson, 2020), which found that, while advice by regulated providers is not always of higher quality than advice provided by unregulated providers, regulatory scope should apply to all advice concerning legal rights and duties arising under the law of England and Wales. This would help to ensure that appropriate actions and redress can be taken in respect of all providers.

This would also help to ensure that adequate protections are in place for consumers, even if it does not improve the overall quality of advice in the market. However, the increased regulatory burden may impose additional costs on providers and cause some to leave the market, reducing the overall supply of legal advice. Regulation may also have a dampening impact on innovation (University of Oxford, 2021), with providers citing regulatory concerns as one of the main barriers to adopting new legal technologies. This may lead to consumers not seeking advice at all, as opposed to obtaining potentially lower-quality advice, and may increase the proportion of individuals with unmet legal needs.

Overall scenarios considered

Table 5 Summary of scenarios considered

Overall scenario	Factor scenarios	Summary
Gradual shift towards unregulated providers	<p>Economy: Expected slowdown</p> <p>Policy: No material change</p> <p>Technology: Replacement of in-person services</p> <p>Regulation: Limited changes</p>	<p><i>Demand for legal advice rises, with this demand increasingly being met by unregulated providers due to affordability issues. While overall access may improve, there are increased concerns for some consumers and the overall quality of advice in the market.</i></p>
Stronger segmentation of the market	<p>Economy: Expected slowdown</p> <p>Policy: No material change</p> <p>Technology: Replacement of in-person services</p> <p>Regulation: Increased awareness</p>	<p><i>Demand for legal advice rises, with this demand increasingly being met by unregulated providers due to affordability issues. In response, regulators move to increase awareness of regulation in the market, leading to increased segmentation.</i></p>
Increased access through technology	<p>Economy: Expected slowdown</p> <p>Policy: No material change</p> <p>Technology: Deployment of complementary technologies</p> <p>Regulation: Limited changes</p>	<p><i>Demand for legal advice rises, but supply expands in the market through increased use of technology to complement existing in-person legal services. Cost of legal advice reduces and more individuals are able to access justice.</i></p>
Significant increase in legal need	<p>Economy: Prolonged downturn</p> <p>Policy: No material change</p> <p>Technology: Replacement of in-person services</p> <p>Regulation: Increased awareness</p>	<p><i>Demand for legal advice rises significantly due to a more material economic downturn. This leads to a greater shift away from regulated providers. To ensure consumers are able to make informed choices about their provider, regulators intervene to enforce greater disclosure of regulated status and improve information in the market.</i></p>
Expansion of reserved activities	<p>Economy: Expected slowdown</p> <p>Policy: No material change</p> <p>Technology: Replacement of in-person services</p> <p>Regulation: Expansion of reserved activities</p>	<p><i>Regulation in the market is increased, leading to additional costs for providers and reducing supply of legal advice on unreserved activities.</i></p>

Source: Frontier Economics

Annex C – International jurisdiction profiles

The regulatory approach, concerns around access to justice and the development of technology in other markets can help inform the potential impact of different approaches to regulation in the UK. In this section, we set out a high-level overview of two other jurisdictions: the Netherlands and New South Wales in Australia. These jurisdictions were selected for further exploration as they are relatively deregulated and have fast-growing LawTech industries.

The Netherlands

The Netherlands has one of the more deregulated legal markets in the European Union (CSES, 2012). Regulated lawyers practice under the title of “Advocaat”, with the ability to represent clients in court and use the title of Advocaat reserved to these regulated lawyers (IBA, 2019). However, while representation in court and the use of Advocaat are reserved, general domestic legal advice is not a reserved activity in the Netherlands (Terry, 2014). Conveyancing is also slightly more deregulated than in the UK, with the Netherlands partially deregulating the notarial profession in 1999 in order to promote innovation and lower fees in the market (EC, 2007). Under this, fees are negotiable and market structure and conduct regulation are viewed as less strict than in other European countries (Verstappen, 2012).

This places the Netherlands in line with the UK as being relatively deregulated in comparison to countries such as France and Germany. While multi-disciplinary partnerships (similar to the SRA-regulated alternative business structures in the UK) are allowed, there are restrictions on the types of partnerships permitted, with partnerships prohibited between members of the bar and accountants.

Recent policy changes have further deregulated the sector, and the Netherlands also has a vibrant LawTech scene, with technology increasingly being deployed to assist with the provision of legal services in some areas of legal advice.

A24. Impacts of changes to regulation

A number of recent changes to the scope of legal services regulation have been made in the past two decades in the Netherlands with the goals of improving access to justice and lowering costs in the market. Overall, the evidence on the impact of these measures is mixed, although there is some evidence that they have had positive impacts on consumers. A few of these key developments are summarised briefly below.

Changes in the financial limit for small claims courts

In 2011, the financial limit for claims handled by Canton judges, where representation by a regulated Advocaat is not required, was increased from €5k to €25k (Kramer & Ontanu, 2013).

Evidence on the impact of this change to regulation is mixed. At the time of this change, the Dutch Bar Association raised concerns related to access to justice and the quality of advice received, as it

argued that the average citizen would lack the expertise to properly assess the legal dispute.⁴⁴ A 2016 evaluation of this change by the Ministry of Justice also found that although the number of cases with a financial value of between €5k and €25k had increased, the majority of these may have migrated from other courts or constituted cases that would previously not have proceeded based on the advice of a lawyer (WODC, 2016). The changes to regulation do not appear to have substantially increased accessibility in terms of the number of cases being heard.

However, surveys of participants in the small claims proceedings indicated an increase in average perception of procedural justice, and judges and clients were generally positive about the quality of legal representation clients received under the new system.

Changes to conveyancing regulation

Evidence from the partial deregulation of the notarial sector in 1999 is broadly positive. The partial deregulation of conveyancing in the Netherlands altered the requirements for appointment to the office of notary and abolished the fixed-fee system. This appears to have increased customer service, innovation, use of technology and efficiency in the market for conveyancing, with consumers better able to shop around and compare costs across providers (EC, 2007). Between 1999 and 2007, this led to a drop of 37.5% in total fees paid by consumers, equal to an estimated annual welfare gain to consumers of nearly €350m.

Changes to multi-disciplinary partnerships

There are ongoing concerns about access to justice in the Netherlands. There are ongoing pressures on the legal aid system, with the legal profession in the Netherlands going on strike at the end of 2019 over legal aid funding and 70% of legal aid lawyers reporting they were considering quitting under the current situation.⁴⁵ There is also an identified gap in access to justice in the Netherlands for those who earn too much to qualify for legal aid but still have difficulty paying for legal advice. According to the Dutch legal aid provider SKR, however, about 25% of the Dutch population, especially young people, avoid legal assistance because they are not insured and consider the costs of a lawyer too high and unpredictable.⁴⁶

As a result, the Netherlands is exploring whether further opening up of commercial opportunities for legal services providers could be part of improving access to legal advice for this segment of the market. In 2020, the Dutch Bar Association (NOvA) announced an experiment to allow lawyers not employed by a law firm to represent clients in court. This move has been partly driven by concerns about accessibility, with firms owned by non-lawyers potentially more likely to offer legal assistance at a fixed price and thereby providing more flexible and lower-cost access to legal advice. At present in the Netherlands, litigation with the use of a lawyer is only allowed if that lawyer is employed by a

⁴⁴ See <https://www.advocatie.nl/nieuws/verhoging-competentiegrens-all-is-quiet/>

⁴⁵ See <https://conflictoflaws.net/2019/legal-aid-reform-in-the-netherlands-an-update/>

⁴⁶ See <https://conflictoflaws.net/2020/the-global-struggle-towards-affordable-access-to-justice/>

firm owned by lawyers. The experiment will last up to five years and is part of a broader study into a possible new system of regulation around permitted corporate structures for lawyers.⁴⁷

A25. Use of legal technology

The Netherlands also has a vibrant LawTech scene. It is recognised by the Global Innovation Index as the second most innovative country in the world and has specific advantages in Online Legal Services and Document Assembly, Research & Analysis, IP/Trademark services and LawTech consultancy (The Law Society, 2019b). Dutch legal tech start-ups include:⁴⁸

- **Juriblox:** which offers a SaaS platform to build legal documents piece by piece;
- **Clocktimizer:** which analyses time sheet narratives, sets fixed fees, monitors budgets and visualises client reports;
- **VraagHugo** (Ask Hugo): a step-by-step, DIY contract generator; and
- **Gregor Samsa:** a legal document-capturing tool which allows lawyers to search, index and categorise large quantities of contracts.

The Dutch government is a key supporter of LawTech in the Netherlands, which may partly explain why it is flourishing. One notable example of this support was the development of **Rechtwijzer Uit Elkaar**, an online divorce resolution platform which was developed in a partnership between the Hague Institute on the Innovation of Law, the Dutch Legal Aid Board and Modria (Kistemaker, 2021).

Rechtwijzer Uit Elkaar was offered to users by the Dutch Legal Aid Board through its website. Reception to the service was broadly positive, and the Legal Aid Board has been identified as playing an indispensable role in bringing this innovative tool to the market and supporting its deployment (Kistemaker, 2021).

- Almost 70 per cent of Rechtwijzer users stated that – to a great or very great extent – the emotional pain they had felt before using Rechtwijzer Uit Elkaar was reduced after separating on the platform, and over 70 per cent of the participants found the process fair to a great or very great extent.⁴⁹
- The platform also gained praise from the media international experts on court reform, according to Maurits Barendrecht from the Hague Institute for Innovation of Law and Tilburg University, an organisation that cooperated with the platform.⁵⁰
- There was, however, criticism from the Dutch Bar. The Dutch Bar advocated for more safeguards for security and informed consent on the online platform, and lobbied for having

⁴⁷ See <https://www.advocatenorde.nl/nieuws/advocatuur-in-beweging-met-experiment-rechtsbijstandsverzekeraars-mogen-niet-verzekerden-bijstaan>

⁴⁸ See <https://www.artificiallawyer.com/2016/10/27/a-rising-legal-tech-star-holland/>

⁴⁹ See <https://law-tech-a2j.org/odr/rechtwijzer-why-online-supported-dispute-resolution-is-hard-to-implement/>

⁵⁰ See <https://law-tech-a2j.org/odr/rechtwijzer-why-online-supported-dispute-resolution-is-hard-to-implement/>

lawyers doing the intake instead of doing this online. The platform also proved challenging to implement in practice.⁵¹

Australia (New South Wales)

Regulation of legal services providers in New South Wales in Australia is fairly strict. While anyone can provide legal information, only qualified entities are allowed to engage in legal practice, which includes practising law and providing legal services (The Law Society of New South Wales, 2018). It is illegal for non-qualified entities to give advice about the legal character and prospects of potential litigation or to advise parties to litigation in respect of matters of law and procedure. There are some exceptions made to this, particularly for conveyancing, for certain government employees, for public trustees offering advice on wills and estates, and for some industrial bodies. However, in general, the set of activities reserved for regulated lawyers in New South Wales appears stricter than in England and Wales.

As in England and Wales, alternative business structures (ABSs) are also permitted in New South Wales after being introduced in 2001 (IBA, 2015). These firms represent a significant portion of the market – in 2015, nearly half of Australia’s plaintiff-side personal injury work was done by ABS firms. Law firms are permitted to be entirely owned by non-lawyers in Australia, and ABSs are also allowed between members of the bar and accountants (CMA, 2016). This is significantly more permissive than in countries such as Scotland, Italy, Spain and Denmark, where non-lawyers are only allowed to own a minority share of law firms (CMA, 2016). Multi-disciplinary practices have also been permitted since 1990 and are analogous to those operating in England and Wales. Only a small number of ABS practices operating in Australia are multi-disciplinary partnerships (IBA, 2015).

A26. Access to justice and legal technology

The Law Council of Australia recently released a paper exploring ways of improving access to justice for the “missing middle”, i.e. individuals who do not meet eligibility criteria for publicly funded legal services yet lack the resources to afford a private lawyer (Law Council of Australia, 2021). This group of individuals includes people with disabilities, those with health issues and part-time workers. Suggestions for increasing access for this group include:

- Reducing the costs of litigation by capping the cost and length of certain hearings; and
- Increasing the use of alternative dispute resolution (ADR) mechanisms that are fixed rate and low cost.

Legal experts in Australia have also emphasised the potential for increased use of legal technology to improve access to justice:

- In 2018, a member of the Supreme Court of New South Wales commented on the potential for technology in law (in the context of ADR) to improve access to justice, concluding that

⁵¹ See <https://law-tech-a2j.org/odr/rechtwijzer-why-online-supported-dispute-resolution-is-hard-to-implement/>

collaboration between the courts, professionals and the public could enable technological solutions that improve access to justice.⁵²

- The Director of the Australian Law Society of New South Wales similarly noted that “technology holds the prospect of moving beyond information-provision and resolving routes to proving access to justice at a much more affordable cost.”⁵³

In general, Australia has a growing legal technology sector.⁵⁴ Some of its platforms, such as Anika Legal, have received direct government support. Examples include:

- **Build My Will:** which enables Australians to create their will and organise leaving legacies to selected charities;
- **LARA:** which aims to simplify the legal aid process;
- **Legal Tech Helper:** which designs and builds tech-driven solutions with a view to improving the availability and accessibility of legal information and bridging the access-to-justice gap;
- **PayCheque:** which applies technology to help workers and business owners interpret Modern Awards and calculate underpayments; and
- **Anika Legal:** a free online legal service which provides property law assistance to people in Victoria and is focused on improving access to advice for vulnerable groups. Anika Legal secured government funding of nearly \$200k in 2018.⁵⁵

⁵² See <https://disputescentre.com.au/technology-and-dispute-resolution-contemporary-developments/>

⁵³ See <https://www.lawyersalliance.com.au/opinion/online-alternative-dispute-resolution>

⁵⁴ See <https://www.landars.com.au/legal-innovation/lawtech-hub>

⁵⁵ See <https://legaltechnology.com/2019/05/20/australian-lawtech-hub-takes-off/>

Annex D – Survey and interview results

A27. Consumer survey profiles

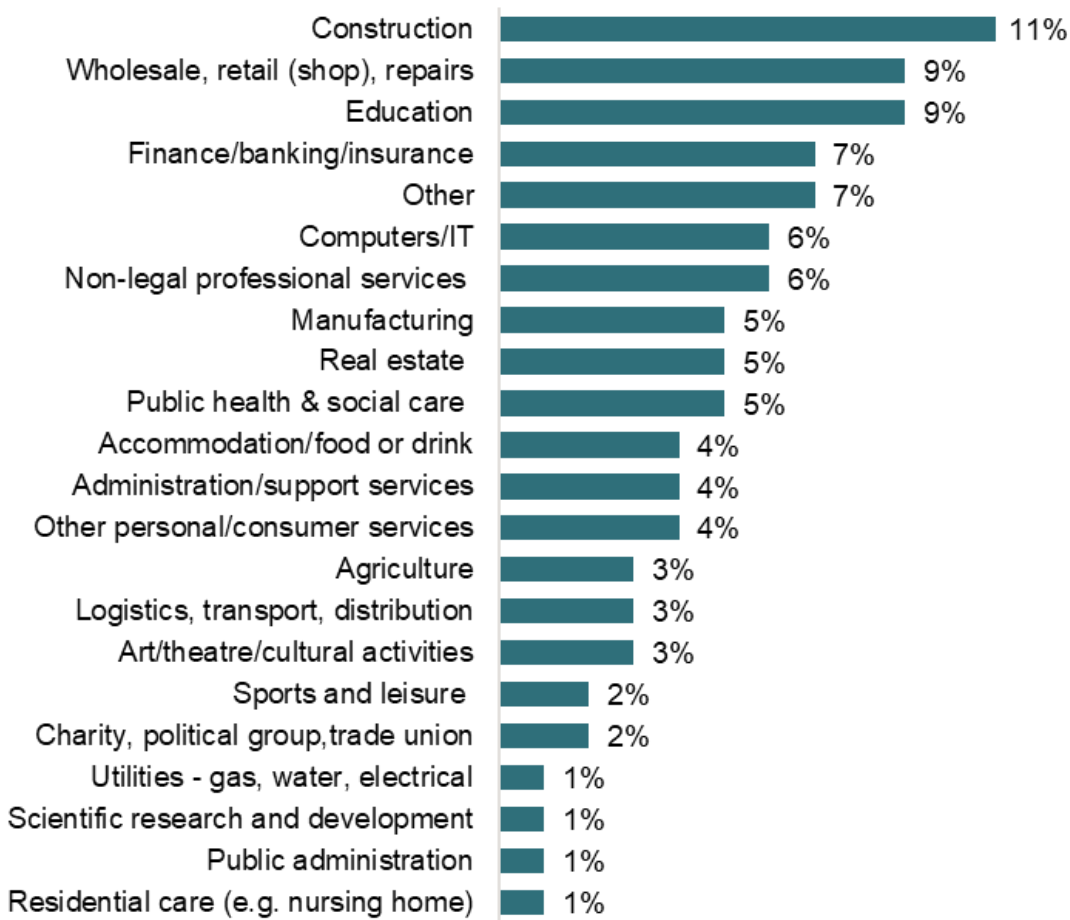
Approximately half of respondents to the consumer survey had fewer than ten employees and less than £100k in annual turnover (see Figure 36 and Figure 37). However, the survey also includes responses from some larger firms, with nearly a quarter of respondents having between 50 and 249 employees.

The significant majority of those surveyed had been in operation for a long period of time (see Figure 38). Three-quarters of those surveyed had been in operation for more than five years, with a quarter of all firms surveyed in operation for over 20 years.

The most common main business functions of respondents were construction, wholesale, retail, repairs and education, which collectively accounted for nearly 30% of those surveyed. However, respondents also included businesses operating in areas such as manufacturing, agriculture and public administration. The profiles of the respondents' operating sectors match fairly closely with those of all England and Wales companies (see Figure 34 and Figure 35,) although we received relatively more responses from businesses in the education and finance/banking/insurance industries, and relatively fewer from administrative/support service providers.

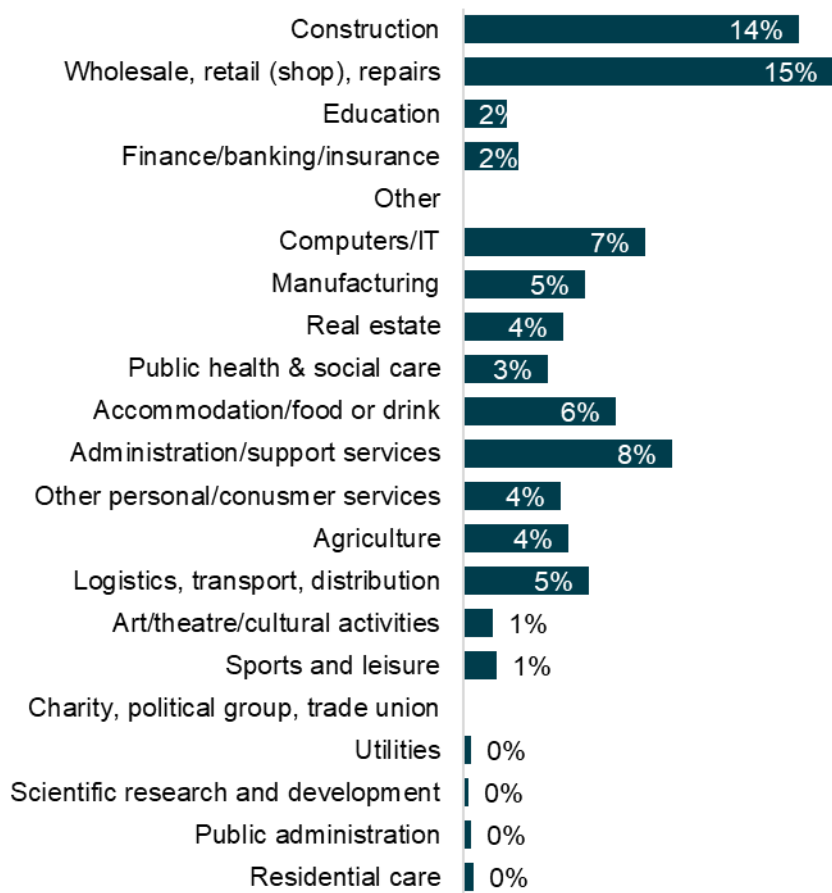
The small businesses surveyed were headquartered in various parts of England and Wales (see Figure 39). While a quarter were headquartered in London, a significant proportion of responses came from companies headquartered in other regions, with 15% of responses coming from the South East of England, 12% from the North West and 9% from the East of England. The survey results also include responses from respondents headquartered in Wales, which represented the head office location of 4% of respondents.

Figure 34 Main business function of consumer survey respondents



Source: BMG Research

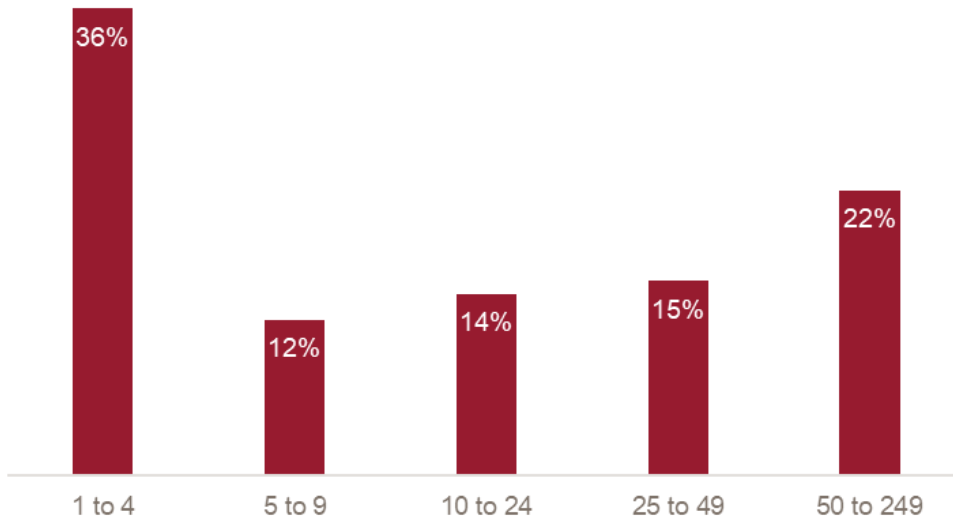
Figure 35 Main business function of all companies in England and Wales



Source: Frontier Economics analysis of UK Business Counts, England and Wales, 2022, Office for National Statistics

Note: UKBC data does not record number of charities/political groups/trade unions.

Figure 36 Number of employees of consumer survey respondents



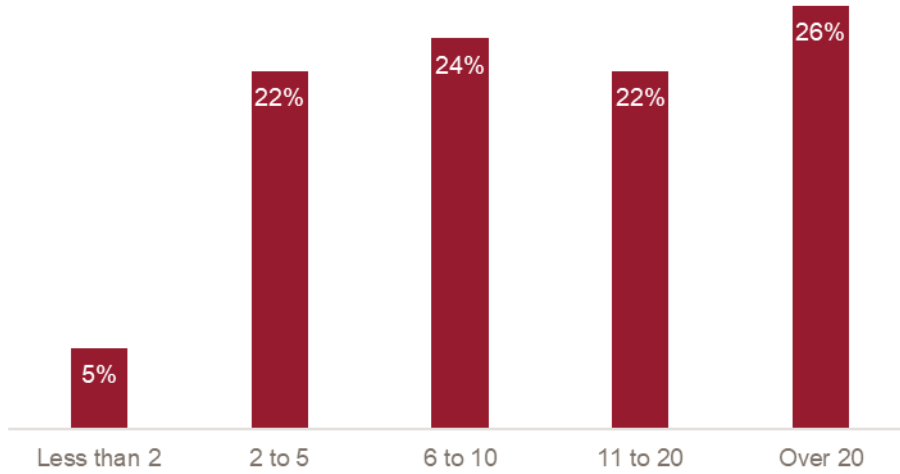
Source: BMG Research

Figure 37 Annual turnover of consumer survey respondents



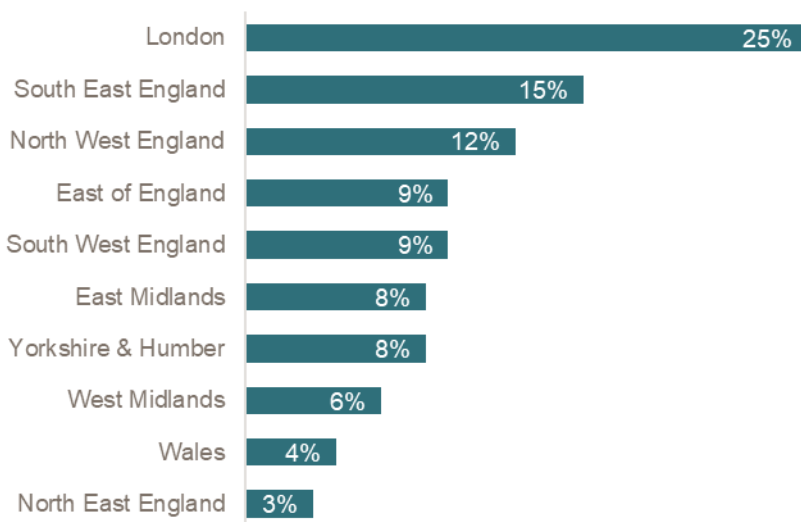
Source: BMG Research

Figure 38 Years of operation of consumer survey respondents



Source: BMG Research

Figure 39 Head office location of consumer survey respondents



Source: BMG Research

A28. Representativeness of the provider survey

Among the unregulated providers, relative to the overall sample found through web reading, we received a relatively large number of responses from certain types of providers:

- **Relatively large number of will writers:** 65% of our survey sample reported offering legal advice on wills, probate, trusts and power of attorney, compared to only 30% in the provider dataset. Will writers generally offered similar answers to the survey questions as the remainder of the sample but showed significant differences across a few dimensions. The will writers in our survey sample were on average:
 - more likely to provide services to individuals as opposed to businesses;
 - more likely to report in-person services as important to consumers;
 - more likely to provide more of their services in person;
 - more likely to think it would benefit the market if all legal service providers were regulated in some way;
 - more likely to want to become regulated if disclosure of regulatory status was required; and
 - more likely to think consumers do not understand the difference between regulated and unregulated providers.

- **Relatively large number of providers with legal services as their main business function:** Providers reporting legal services as their main business function made up 73% of our sample, compared to 27% of our provider dataset. This was an anticipated result as we expected legal-specialism providers to be more likely to respond to surveys/interview requests about their provision of legal services. This was also a consequence of the relatively large number of will writers in our sample, who were much more likely to have legal services as their main business function compared to other respondents. Controlling for the different characteristics of will writers as discussed above, the specialised legal providers included in our sample generally reported similar answers to the non-legal-focused advice providers, with some small exceptions:
 - They were less likely to provide services free of charge (consistent with advice being provided by non-legal-focused providers as an add-on service alongside their other main business function); and
 - They were less likely to have charities/non-governmental organisations (NGOs) and/or public bodies as customers.

The responding sample was fairly representative of the overall market across other measurable dimensions, for example:

- **Firm turnover:** Providers with annual turnover over £100k made up 38% of our sample, compared to 40% in our provider dataset; and

- **Firm size:** Providers with more than five employees made up 18% of our sample, compared to 24% in our provider dataset.

In the main body of the report we note any cases where differences in our respondent sample due to the higher number of responses from will writers may affect our conclusions about the overall market.

A29. Provider survey profiles

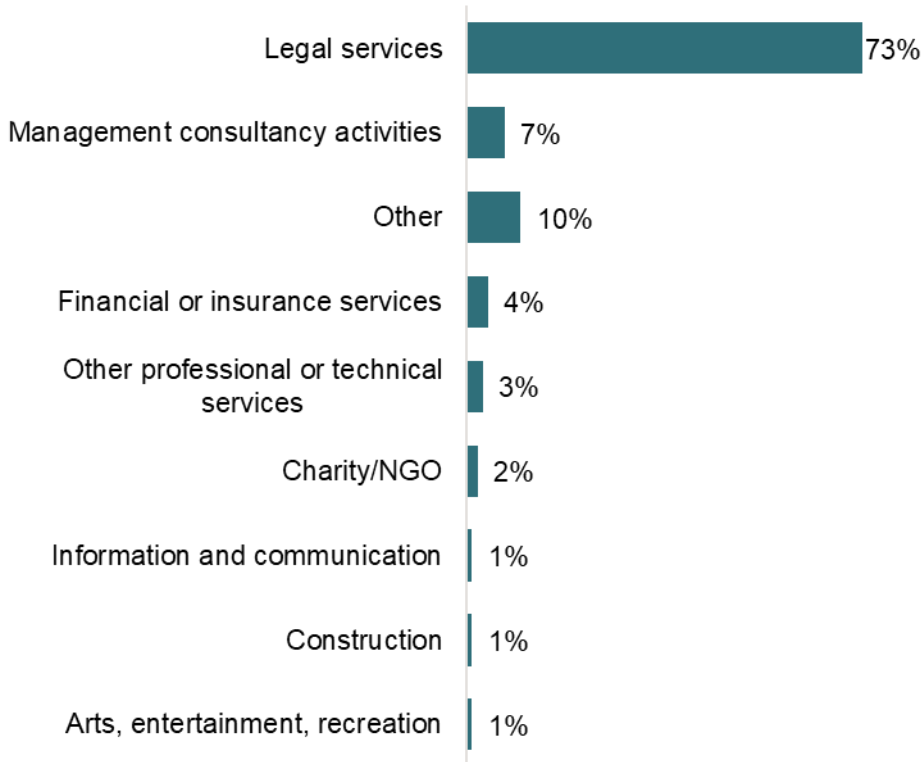
Of the providers surveyed, 73% reported legal services as their main business function (see Figure 40). The second most common main business function was management consultancy services (7%), but providers also selected areas such as financial or insurance activities (4%) as their main activity.

Approximately 75% of providers whose main area of business was legal services offered advice on wills, probate, trusts and power of attorney (see Figure 41). Smaller numbers offered advice in areas such as intellectual property advice (12%), commercial issues and business structures (10%), arbitration and alternative dispute resolution (9%), employment (7%) and family (5%).

The providers of unreserved legal advice surveyed were relatively small companies on average, with approximately three-quarters having fewer than five employees and less than £400k in annual turnover (see Figure 42 and Figure 43). However, the providers surveyed also included some larger firms, with 5% reporting annual turnover of between £1m and £10m. Fifty-six percent had been in operation for over 11 years, with only 6% of respondents having started operation in the previous two years (Figure 44).

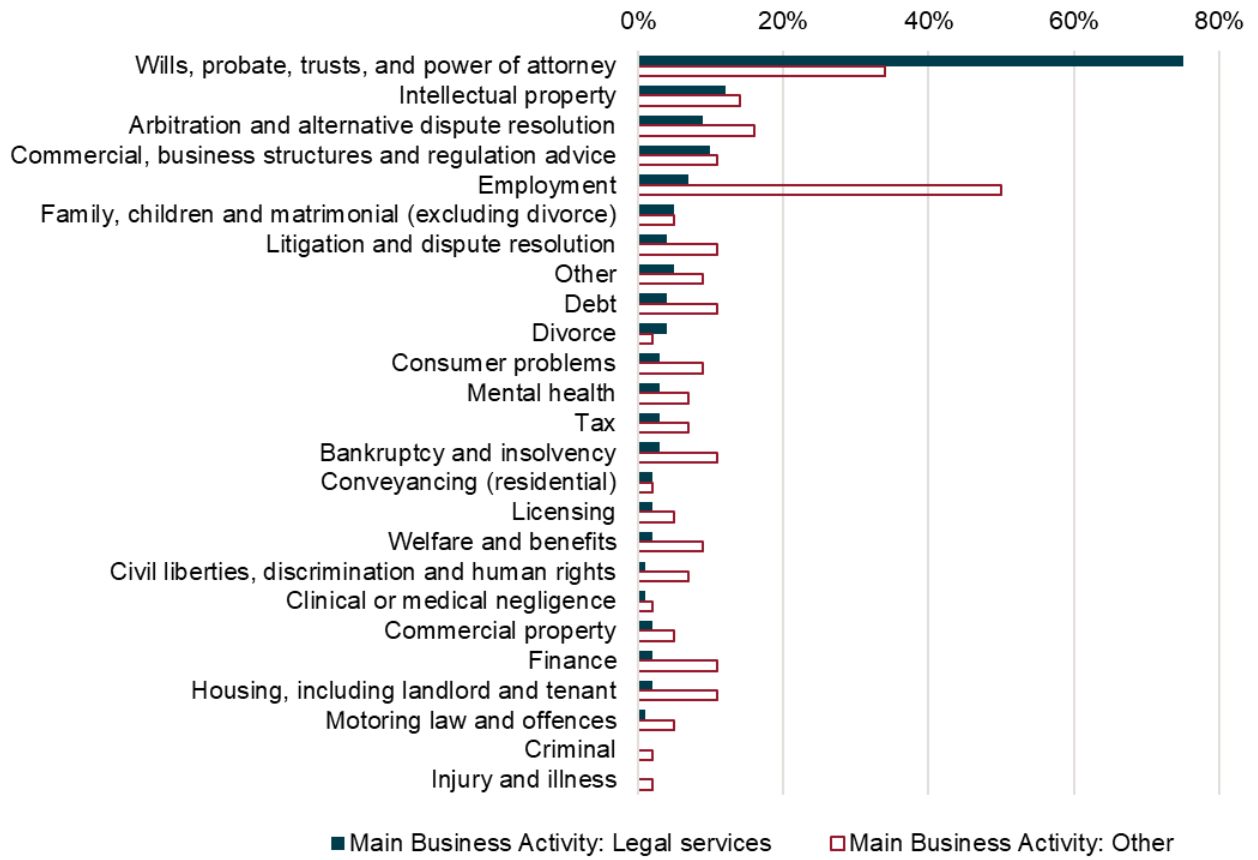
Just over a quarter were headquartered in the South East, with a significant proportion of responses from companies headquartered in other regions (see Figure 45). This includes 20% headquartered in London, 19% headquartered in the West Midlands and 9% headquartered in Wales.

Figure 40 Main business function of respondents to the provider survey



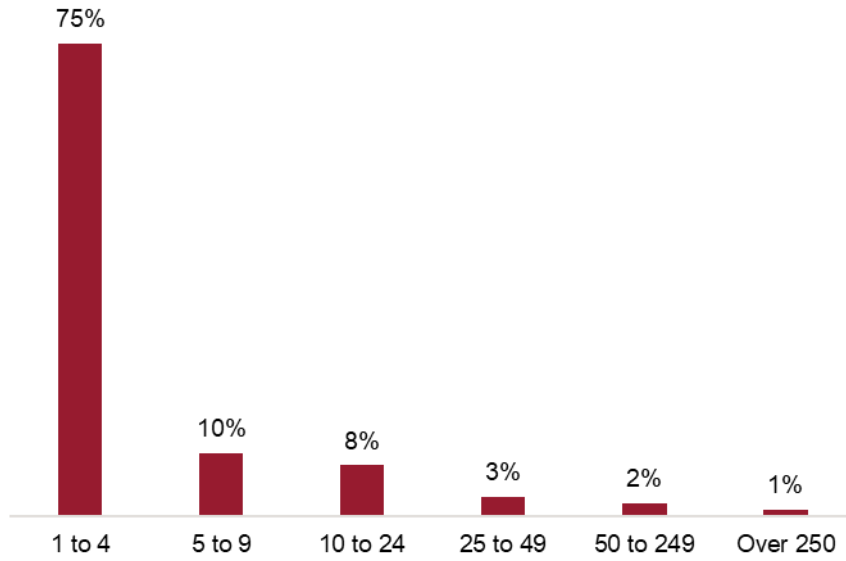
Source: BMG Research

Figure 41 Area of legal services provided



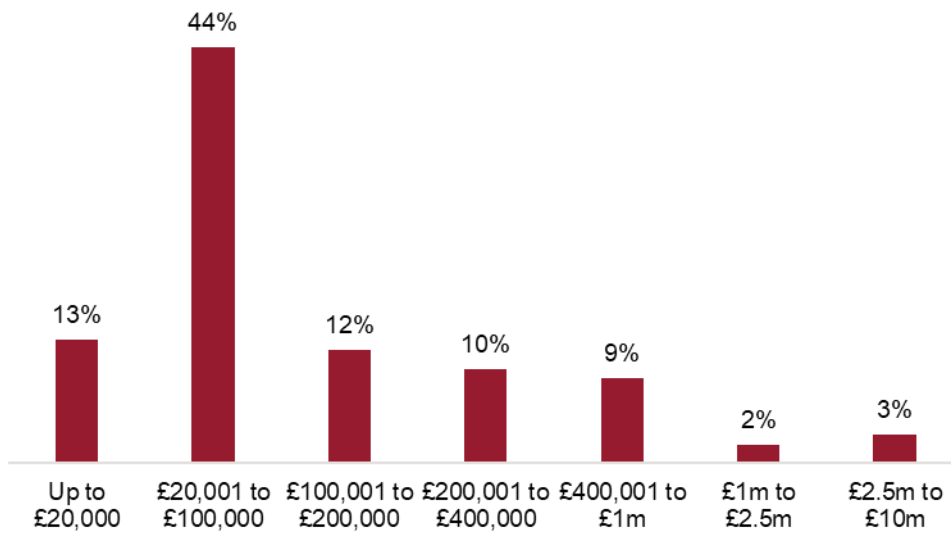
Source: BMG Research

Figure 42 Number of employees of provider survey respondents



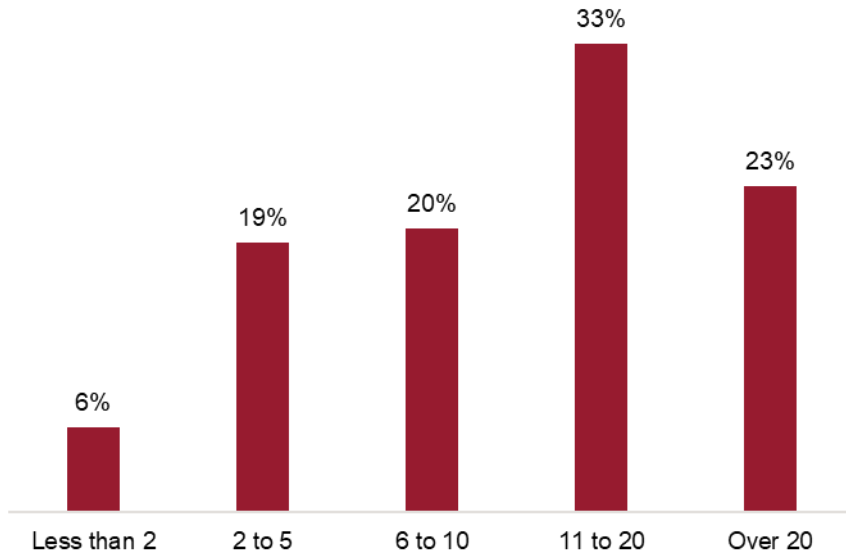
Source: BMG Research

Figure 43 Annual turnover of provider survey respondents



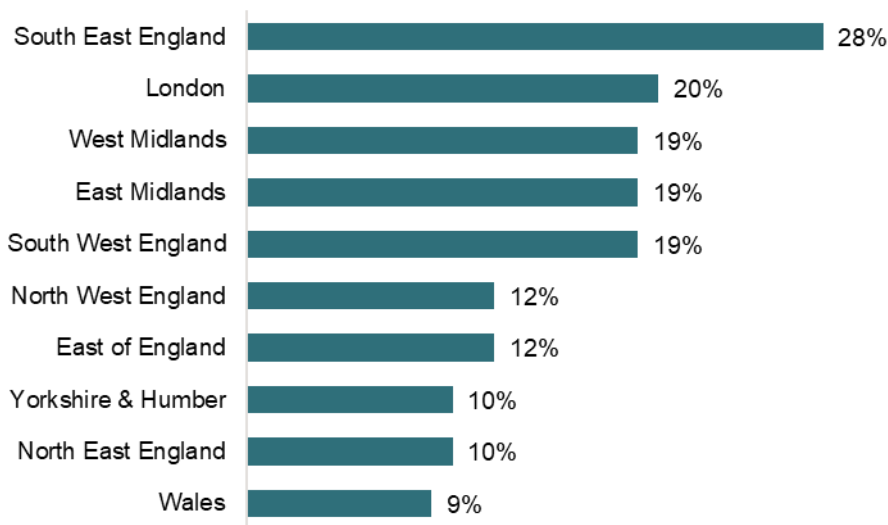
Source: BMG Research

Figure 44 Years in operation for provider survey respondents



Source: BMG Research

Figure 45 Head office location of provider survey respondents



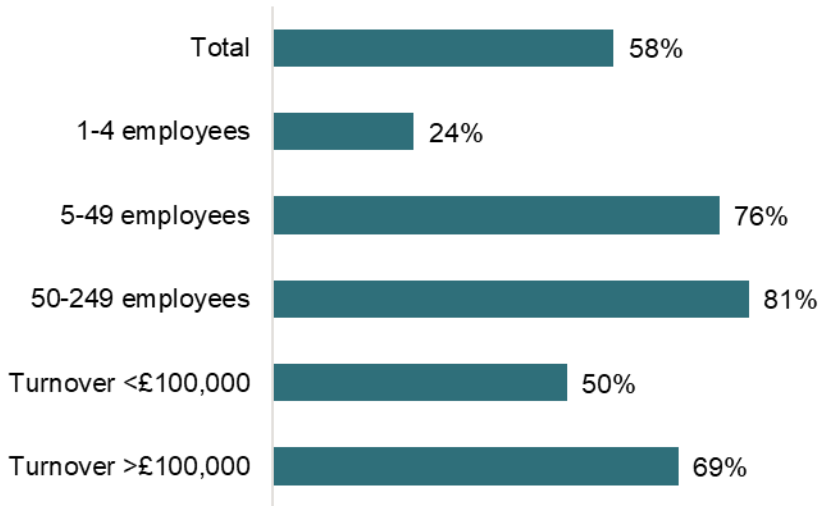
Source: BMG Research

A30. Demand for legal services

Older and larger firms were more likely to go to a solicitor for advice, while newer and smaller firms were more likely to primarily seek advice from family, friends and online forums. Those older and larger firms that did not go to a solicitor were significantly more likely to seek advice from another

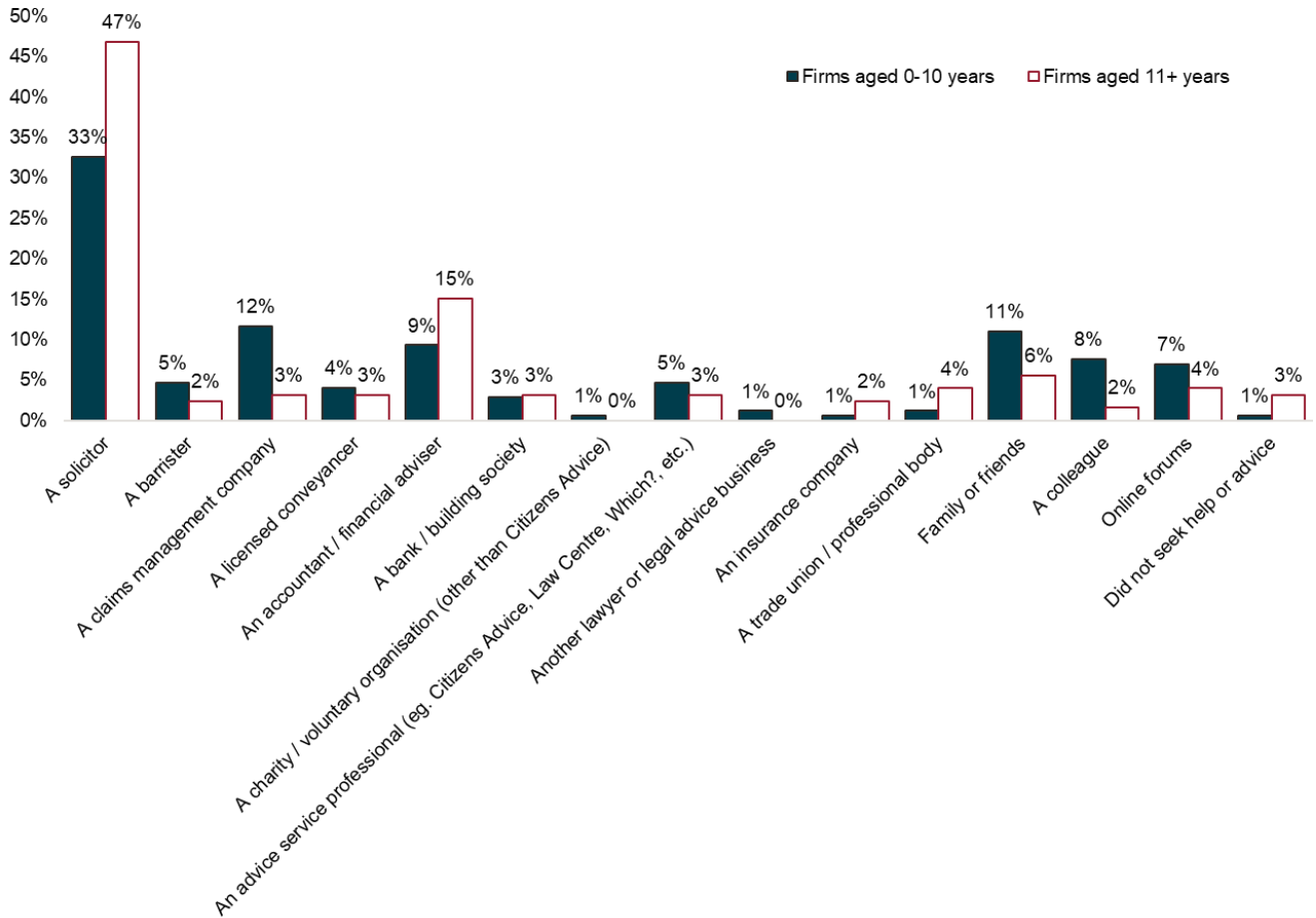
professional source such as an accountant than they were to seek advice from non-professionals or to not seek advice at all.

Figure 46 Proportion that had had legal issues, by company size



Source: BMG Research

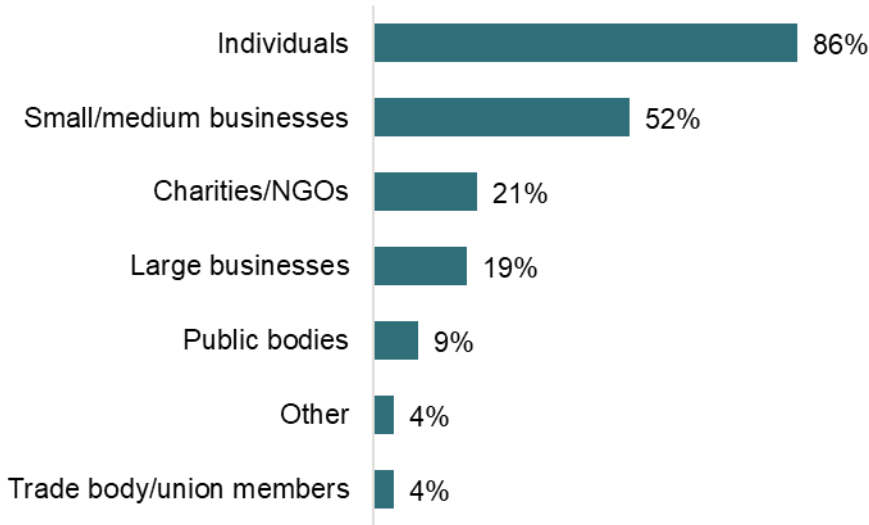
Figure 47 Where businesses went to for advice, by business age



Source: BMG Research

The providers of unreserved legal advice surveyed primarily served individuals and SMEs, with 86% reporting providing legal advice to individuals and 52% to small and medium businesses. However, they also reported serving larger business consumers as well as charities, NGOs and public bodies to a lesser degree. These customer bases were similar for both the regulated and unregulated firms surveyed.

Figure 48 Types of consumers served by providers of unreserved advice

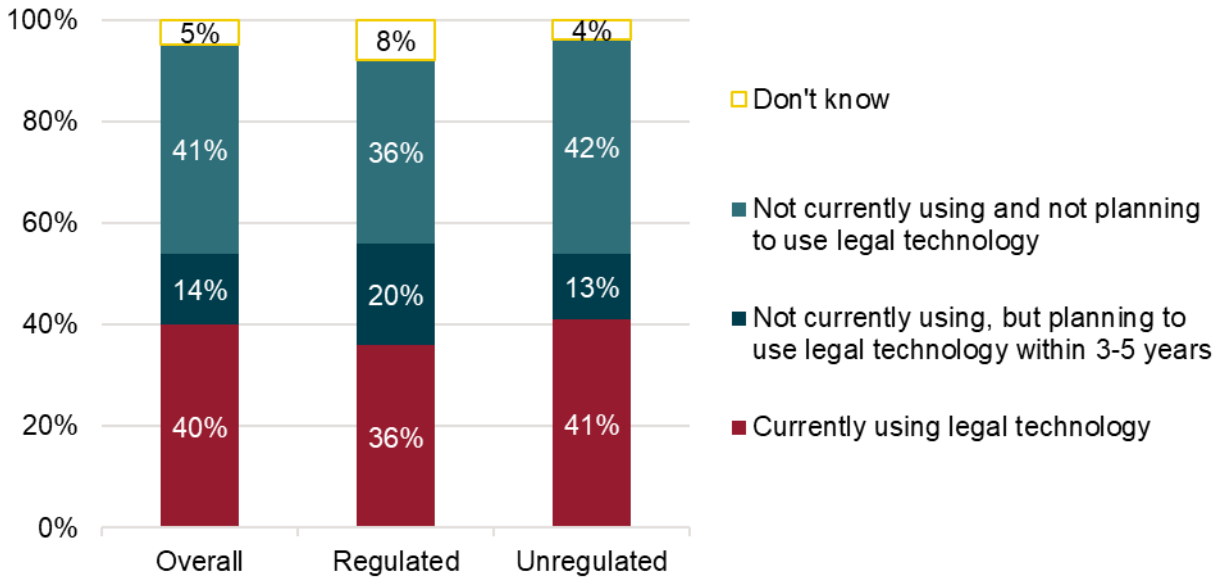


Source: BMG Research

A31. Use of technology by providers

Providers of unreserved legal advice indicated that they planned to increase their use of legal technology, with 40% currently using legal technologies and a further 14% planning to use legal technologies within the next three to five years. The most common types of technologies being deployed were interactive website features, Cloud storage and security tools such as identity checking and electronic signatures. The current use of tools such as chatbots is limited.

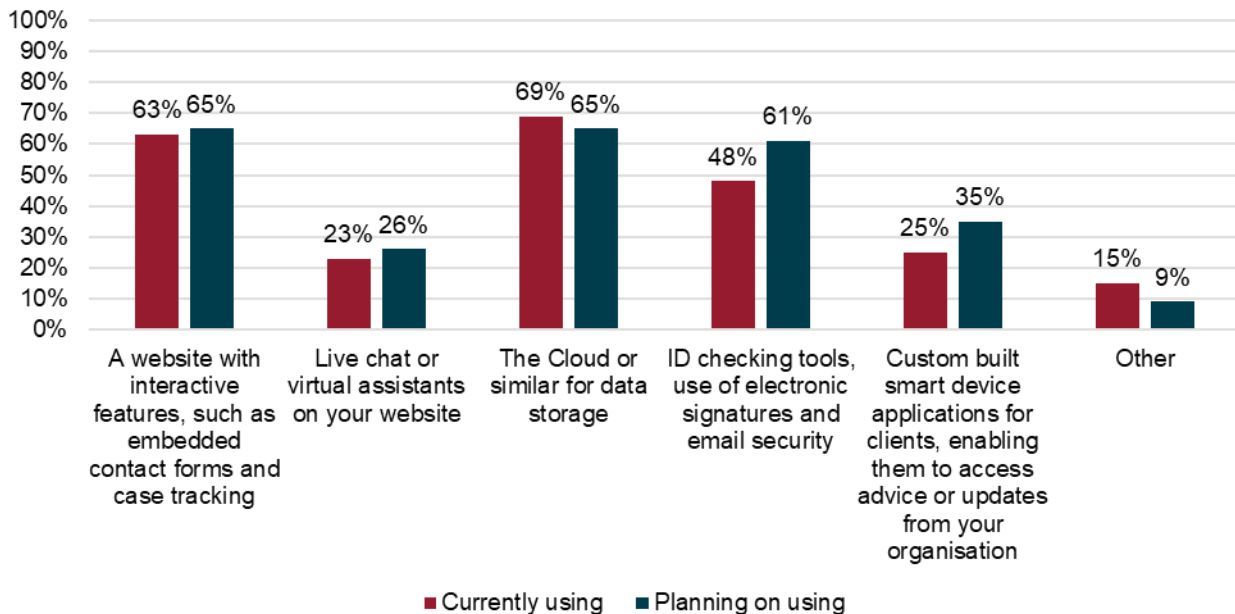
Figure 49 Use and planned use of technology by providers



Source: BMG Research

Note: Split by (i) all firms ("Overall"), (ii) regulated firms, and (iii) unregulated firms.

Figure 50 Types of technology used



Source: BMG Research

Note: Percentages shown are the proportions of providers who are currently using the technology in question and the proportion of providers who are not currently using but are planning to use the technology in question.

Annex E – Accessible tables

The tables below set out information contained in the report figures that were not described in full detail in the text, for accessibility purposes.

Table 6 Frequency of legal issues faced by small and medium-sized businesses

How often businesses faced a legal issue	Proportion of responses
Every day	8%
Every week	8%
Every month	7%
A few times a year	16%
Less than a few times a year	20%
Business has not faced any legal issues	41%

Source: Consumer survey: In the last two years, how often has your business had a legal issue?

Table 7 Legal issues faced by small and medium-sized businesses

Legal issues businesses needed help with	Proportion of responses
Employment issues	42%
Goods and services provided by your company	32%
Property (e.g. leases, rent arrears, conveyancing)	30%
Goods and services purchased by the company	26%
Tax	23%
Business contracts	20%
International trade	17%
Health and safety/injuries at work	15%
Debt	13%
Specific issues related to Covid-19	13%
Licensing	12%
Intellectual property	12%
Business legal status/mergers and acquisitions/company sale	11%
Bankruptcy and insolvency	8%
Pensions	8%

Legal issues businesses needed help with	Proportion of responses
Specific issues related to Brexit	7%
Criminal offences	2%

Source: Consumer survey: And in the last two years, has your business needed help with any of the following issues?

Table 8 Where businesses went to for legal advice

Category	Source of advice	Proportion of responses
LSA-regulated professional	A solicitor	39%
LSA-regulated professional	A barrister	4%
LSA-regulated professional	A licensed conveyancer	4%
Other businesses	An accountant/financial adviser	12%
Other businesses	A claims management company	8%
Other businesses	An advice service professional	4%
Other businesses	A bank/building society	3%
Other businesses	A trade union/professional body	2%
Other businesses	Another lawyer or legal advice business	1%
Other businesses	An insurance company	1%
Non-professionals	Family or friends	9%
Non-professionals	Online forums	6%
Non-professionals	A colleague	5%
Non-professionals	Did not seek help or advice	2%

Source: Consumer survey: Where was the main place you got help or advice?

Table 9 Where businesses went to for advice, by annual turnover

Source of advice	Proportion of businesses with under £100k in turnover	Proportion of businesses with over £100k in turnover
A solicitor	20%	54%
A barrister	4%	4%
A claims management company	13%	4%

Source of advice	Proportion of businesses with under £100k in turnover	Proportion of businesses with over £100k in turnover
A licensed conveyancer	3%	4%
An accountant financial adviser	10%	12%
A bank/building society	3%	3%
A charity/voluntary organisation (other than Citizens Advice)	1%	0%
An advice service professional (e.g. Citizens Advice, Law Centre, Which?, etc.)	5%	3%
Another lawyer or legal advice business	1%	1%
An insurance company	1%	2%
A trade union/professional body	4%	1%
Family or friends	14%	4%
A colleague	7%	3%
Online forums	10%	2%
Did not seek help or advice	1%	2%
Other	1%	1%

Source: Consumer survey: Where was the main place you got help or advice?

Table 10 Consumer priorities according to providers

Type of priority	Proportion of responses reporting it is a top three priority
Affordable legal advice	62%
High-quality customer service	56%
High-quality legal advice	48%
In-person services	42%
Fast and timely legal advice	38%
Flexibility and convenience	36%

Type of priority	Proportion of responses reporting it is a top three priority
Online services	8%

Source: Provider survey: What do you think are the top three priorities for your customers?

Table 11 Consumer priorities according to SME consumers

Type of priority	Proportion of SMEs that obtain advice from LSE-regulated providers reporting that it is a top three priority	Proportion of SMEs that obtain advice from other businesses reporting that it is a top three priority
The affordability of the service	38%	54%
The customer service received	28%	29%
The quality of the advice	61%	55%
Their expertise in my area	22%	22%
The reputation of the provider	20%	23%
The timeliness of the advice	33%	24%
The convenience of where they are located	10%	13%
The ease of using the service	18%	17%

Source: Consumer survey: When seeking legal advice, what aspects are more and less important to you?

Note: This table sets out the proportion of SMEs that reported the relevant aspect as being in their top three priorities.

Table 12 Consumer satisfaction by type of legal advice provider

Aspect of service	Total	Advice from regulated professional	Advice from unregulated professional	Advice from non-professional
The quality of the advice	85%	88%	82%	84%

Aspect of service	Total	Advice from regulated professional	Advice from unregulated professional	Advice from non-professional
The value for money	77%	80%	72%	N/A
The ease of using the service	86%	90%	81%	N/A
The customer service received	86%	90%	80%	N/A
The timeliness of the advice	86%	90%	81%	N/A
The overall service provided	86%	91%	79%	N/A

Source: Consumer survey: Thinking about the help or advice you received, how satisfied were you with each of the following?

Table 13 SME choice of regulated and unregulated providers in different scenarios

Scenario	Regulated provider	Unregulated provider
A choice of a regulated provider or an unregulated provider with similar fees	87%	7%
A choice of a regulated provider with higher fees and an unregulated provider with lower fees	67%	18%
A choice of a regulated provider or an unregulated provider with similar timeliness of services	80%	12%
A choice of a regulated provider which is slower to provide services and an unregulated provider which is quicker	69%	16%
A choice of a regulated provider or an unregulated provider which both offer online services	76%	12%
A choice of a regulated provider which does not offer online services and an unregulated provider which does offer online services	71%	12%

Source: Consumer survey: If providers of legal advice had to clearly state if they were regulated or unregulated, which provider would you be most likely to use in the following scenarios?

Table 14 Perceived benefits of being unregulated for providers

Reported benefits	Proportion of respondents
Lower costs for customers	69%
More flexibility in how we offer services	57%
Lower costs for organisation	56%
Services are faster and more convenient	46%
Fewer rules	36%
Can employ a wider range of staff	17%

Source: Provider survey: What benefits, if any, do you associate with being unregulated?

Table 15 Main business function of consumer survey respondents

Main business function	Proportion of respondents
Construction	11%
Wholesale, retail (shop), repairs	9%
Education	9%
Finance/banking/insurance	7%
Other	7%
Computers/IT	6%
Non-legal professional services	6%
Manufacturing	5%
Real estate	5%
Public health & social care	5%
Accommodation/food or drink	4%
Administration/support services	4%
Other personal/consumer services	4%
Agriculture	3%
Logistics, transport, distribution, warehousing or storage	3%
Art/theatre/cultural activities	3%

Main business function	Proportion of respondents
Sports and leisure	2%
Charity, political group, trade union, professional body	2%
Utilities – gas supply, water supply or electrical generation	1%
Scientific research and development	1%
Public administration	1%
Residential care (e.g. nursing home)	1%
Mining, quarrying or extraction of oil or gas	*%
Waste & recycling	*%

Source: Consumer survey: Which of the following best described the main business activity of your company/organisation?

Table 16 Main business function of all companies in England and Wales

Main business function	Proportion of all companies in England and Wales
Wholesale, retail (shop), repairs	15%
Construction	14%
Administration/support services	8%
Computers/IT	7%
Accommodation/food or drink	6%
Logistics, transport, distribution, warehousing	5%
Manufacturing	5%
Agriculture	4%
Real estate	4%
Other personal/consumer services	4%
Public health & social care	3%
Finance/banking/insurance	2%
Education	2%
Sports and leisure	1%
Art/theatre/cultural activities	1%
Residential care	0%
Utilities	0%

Main business function	Proportion of all companies in England and Wales
Public administration	0%
Scientific research and development	0%
Charity, political group, trade union	N/A
Other	N/A

Source: Office for National Statistics (ONS)

Table 17 Area of legal services provided by providers surveyed

Type of legal advice offered	Main business activity: Legal services	Main business activity: Other
Wills, probate, trusts, power of attorney	75%	34%
Intellectual property	12%	14%
Arbitration and alternative dispute resolution	9%	16%
Commercial, business structures and regulation advice	10%	11%
Employment	7%	50%
Family, children and matrimonial (excluding divorce)	5%	5%
Litigation and dispute resolution	4%	11%
Other	5%	9%
Debt	4%	11%
Divorce	4%	2%
Consumer problems	3%	9%
Mental health	3%	7%
Tax	3%	7%
Bankruptcy and insolvency	3%	11%
Conveyancing (residential)	2%	2%
Licensing	2%	5%
Welfare and benefits	2%	9%

Type of legal advice offered	Main business activity: Legal services	Main business activity: Other
Civil liberties, discrimination and human rights	1%	7%
Clinical or medical negligence	1%	2%
Commercial property	2%	5%
Finance	2%	11%
Housing, including landlord and tenant	2%	11%
Motoring law and offences	1%	5%
Criminal	0%	2%
Injury and illness	0%	2%

Source: Provider survey: What types of legal advice are offered by your organisation?

Table 18 Where businesses went to for advice, by business age

Source of advice	Proportion of businesses aged 0-10 years	Proportion of businesses aged 10+ years
A solicitor	33%	47%
A barrister	5%	2%
A claims management company	12%	3%
A licensed conveyancer	4%	3%
An accountant/financial adviser	9%	15%
A bank/building society	3%	3%
A charity/voluntary organisation (other than Citizens Advice)	1%	0%
An advice service professional (e.g. Citizens Advice, Law Centre, Which?, etc.)	5%	3%
Another lawyer or legal advice business	1%	0%
An insurance company	1%	2%
A trade union/professional body	1%	4%

Source of advice	Proportion of businesses aged 0-10 years	Proportion of businesses aged 10+ years
Family or friends	11%	6%
A colleague	8%	2%
Online forums	7%	4%
Did not seek help or advice	1%	3%
Other	1%	2%

Source: Consumer survey: Where was the main place you got help or advice?

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