

**Commission on Justice in Wales
Oral Evidence Session
22 February 2019**

Present:	Commission members	Secretariat team
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Question area: Benefits if Cardiff became a near-shoring centre		
<ul style="list-style-type: none"> • WH: Deloitte has built a delivery centre in Cardiff over the past eight years and we have some experience of this issue from an accounting, tax and finance perspective. We have recently gone into legal services. I am aware of what's gone on in Northern Ireland. My observation is that the benefits are clearly there. South Wales is an attractive location for a near-shoring centre because it's quite accessible to London and Heathrow Airport and to Europe as a result, time zone wise it's good working both east and west globally, it has a substantial student population, the highest ratio in relation to the working population in Europe so it's a good place to recruit and an attractive place to live. Northern Ireland sits in the same time zone, it has a good record of producing good quality students and it has had an advantage from the cost base as average salaries are slightly lower than in South Wales, and in turn salaries here are lower than in Bristol, Reading and so forth. We are only just going into legal services and completion in Deloitte is with India and Prague. We did consider Belfast but Cardiff offered the best mix. Technology is absolutely vital. We have 40 computer programmers developing code and layering processes and the ability to hire technology specialists is important. That is the case with Prague and why it was attractive as there is a lot of technology expertise there. There is a profile piece around location where it becomes well regarded a place for business. Deloitte in Cardiff is well regarded around the globe and can offer services in 55 different languages and from a legal services perspective, which Deloitte is growing in Cardiff, this will act as a magnet for talent into South Wales. We have found it much easier to attract key people as we have grown in scale. We have grown from 150 people to 1,100 and we are the second largest Deloitte office in the UK. • BD: Talent is key factor. The genesis of what happened in Belfast was back in 2003 when Citi opened a technology centre in Belfast. They saw there were other skills sets on Belfast that would work well for them and law was one of those. They now have a legal team of 120 doing their documentation for Europe and further afield. That gave credibility and comfort to other firms to come to Belfast. Herbert Smith Freehills and Allen & Overy came initially and established service centres but they have used the legal talent in Belfast. The City produces over 500 law graduates every year. Approximately 150 enter the local legal services market and many of the remainder were underemployed. There is therefore a foundation of skills in Belfast and a competitive cost base. We position ourselves as a value proposition rather than low cost, probably 40% lower than London and 20% lower than Dublin. Global recognition is important as Wayne has said because firms attract firms and centres then gain their own momentum. Also, Northern Ireland has tended to be a net exporter of talent but with a concentration of firms there are now more opportunities for that talent to return. Initially, the local legal sector in Belfast, which is substantial, saw the international firms as competition in the local market but this has not happened as the international firms are servicing a global market. What competition there is is for talent. • RS: I am happy to speak about legal education, access to justice, online courts and other areas at another time if that helps. Near-shoring is one small part of the wider landscape. In terms of how 		

the market is evolving, whether people are talking about major international companies and the dilemmas that general counsel face there or individuals, the fundamental challenge for the legal sector is that legal services cost too much. General counsel are under pressure to reduce costs and head count at a time when there is more compliance work than ever before. At the other end of the spectrum, for individual citizens and small businesses it is not feasible or affordable for them to instruct lawyers or engage in the justice system. I refer to this as the “more for less challenge”. I hear from in-house legal functions that they don’t mind paying high fees for genuine legal expertise but they do for routine, repetitive and administrative process based work. In terms of in-house legal spend in the financial services sector, I have also heard it said that more than 50% of the fees they expend is on the work of junior lawyers. The frustration for them is that this does not involve legal expertise and they find it hard to justify paying fees for expensive people in expensive office space doing repetitive and routine work. The response to the “more for less challenge” globally is about using cheaper people or technology or a combination thereof. Up until 2016 there was a feeling the legal services sector didn’t need to change much. The emphasis now to the early 2020s will be on using lower labour models, of which near-shoring is one example. From the 2020’s and looking more strategically, a lot of the tasks handed out to lower cost labour organisations will move towards technological solutions. The danger for the Commission might be to identify commercial opportunities for today rather than what they might be in 3 to 5 years time. This means that the capability you are looking to build should be a technological capability. I say this because by the time you have a lower labour cost model in place, that model will be less important than one based on emerging technologies. Two sorts of legal tasks that could be done differently and at a lower cost are: first high volume low margin routine work where technology and work-flow systems are needed; and second the routine elements of high value work. If the premise is that there are new commercial opportunities arising from the rapid changes we are seeing in the legal market place, my answer is “yes”. In terms of the answer involving human based near-shoring centres, I’d say you have almost missed the boat and the attraction would be to develop technology based services where there are no predominant market leaders currently and where Wales could create its own brand and gravitational pull.

- PL: Wavelength is the first regulated law firm of “legal engineers” in the world. We took a lot of inspiration from Professor Susskind’s early work about how the legal services sector would emerge in time. We have 30 people in Cambridge and London and I mention that because we take a lot of our skilled labour from Cambridge and there may be parallels with the initiatives happening now in Swansea. My experience of the outsourcing, offshoring and nearshoring sector when working as a fee earning lawyer was that if it was used for cost arbitrage purposes then it didn’t always land well. Successful nearshoring is more sophisticated than just finding a cheaper work force and place to do high volume low value work. This is because the commercial firms and the Big Four are looking for nuanced ways to do work and deliver work with different skills. The real opportunity for Wales is to look at repurposing existing skills, particularly technology, data science, systems process engineering and project professional skills. An example is my co-founder of Wavelength who before moving into the legal sector, worked as systems process engineer making factories more efficient. He reskilled and his skills are very effective in the legal sector. A modern near-shoring centre needs to be thinking with this mind set and not simply focusing on accessing cheaper labour.
- WH: Technology and people are not on a single line. Technology will come in in a different way and not necessarily just replace people. The interesting thing for me is that knowledge, which is traditionally what professional services is about, might not equal power any longer and you have to be at the sharp end of creative thinking. I can see that in three years time my work force and how they work might be different to what it is now and people may be accessing our services differently. We currently have office based staff in Cardiff which is cost effective compared to London where office space is £90-£100/sq.ft. compared to £20-£30 in Cardiff. People will pay for different models of delivery and that might involve AI, but the way in which people access legal services might change radically and we have an open mind. Most larger organisations in professional services are mindful that things are changing and there could be quantum leaps between people and technology and the way we operate. This leads to a conclusion that you want to be at the source

of that creativity, including in terms of university and technology networks. I am not convinced near-shoring would benefit from a separate Welsh legal system. If you want to be closely involved in professional services then you need to be close to creative thinking and not necessarily close to cheap labour resources. I can see that a separate Welsh system could hinder near-shoring as what you will have is a relatively small supply of lawyers qualified to work in the system and this could become a little isolated. We've seen issues with the incremental devolution of tax raising powers in Wales but it means you have different environments for different tax regimes and this has proved troublesome in the context of trade from Wales across the border with England. You need to be careful it doesn't disadvantage Wales. There may be parallels if the legal code similarly had a long period of incremental transition.

Question area: Issues if Cardiff became a near-shoring centre

- BD: Technology is an important point. In terms of the local legal sector, you need to make sure people are on board with the journey so as not to create friction within the market place. As a Government we financially assisted the firms to begin with. The initial investment was important. We have found that 80% of those that have come to Northern Ireland reinvest and expand. Collaboration between academia, government and business is a critical element when firms have arrived. A lot of the growth in Northern Ireland in the last 25 years has been in financial technology. Citi first came because of the technology expertise. Technology today underpins everything, no matter what area we are looking at we need to consider technology and how services will evolve in the future. Low cost is not the key driver at the global scale. It is the value proposition that matters as there will always be lower cost locations. There is a fiscal dynamic between Northern Ireland and the Republic of Ireland based on the tax regime. Profit driven organisations are attracted to the Republic whereas we delivered a strategy based around the cost of delivery centres and this produced a non-competitive dynamic in that firms were not competing for business but instead for talent. We find this encourages more collaboration between companies. The dynamic is interesting as there is a significant interaction between firms in areas where they are willing to work together. Government is involved on an ongoing basis with the sector and how it is evolving. We also worked with indigenous firms to try and find work for them outside Northern Ireland.
- RS: Whatever happens, the Welsh legal sector like centres around the world will need to re-invent itself because we are a time of great change. If we accept there will be change, the question then is whether that is change in one market or two markets. One market is the local market for Welsh businesses and people that will arise if there is a separate Welsh legal system – the legal work that will flow from that. The other market would be a centre that undertakes work on an outsourced or near-shore model. My initial reaction to a separate Welsh legal system was to wonder whether that would disqualify Wales from being able to satisfy the demands of the wider legal market but you could position the Welsh legal sector in terms of two further markets: the first a streamlined or improved version of what there is today; the second providing services in English law across the world. In terms of the role of government, I sit on a UK Government law tech delivery panel and there we discuss what intervention the UK Government should make in the legal tech world. There is an early capability at Swansea University but my biggest concern is that law schools are not properly awake to the changes afoot. Government needs to support law schools to change. We need to invest in continuing research and development and government funding could support this.
- PL: One risk could be de-skilling the local legal profession by diverting talent away to any established near-shoring hub where salaries could be better than those for serving local communities. One opportunity in Wales, especially if you see other industries shrinking, is for the Welsh Government to facilitate the reskilling of people like systems engineers - not to become lawyers, but to equip them to operate in the legal sector. Another opportunity would be to make data protection laws and data residency more straightforward post Brexit, for example by making certifications like the ISO27001 regime really straightforward with plenty of available assessors and blueprints to roll it out more easily.
- WH: That's an interesting point and South Wales has a high number of people working in cyber

security but it's difficult to access them. It's a really focussed area of expertise that could be built upon.

Simon Davies referred to the fact that near-shoring centres are doing higher levels of work than firms originally envisaged and asked if this is a way of up-skilling talent?

- PL: There are legal black spots across the UK where people can't access advice services at the right price. A three year qualified solicitor could find working for the near-shoring firm more attractive than working for the traditional high street firm. This is then potentially depriving the community of skills.
- RS: When I talk to students about careers, some talk about the area of "new law", namely developing systems that solve legal problems rather than contributing to the community in a more traditional way. I don't believe that high street law firms will be viable in 10 years. If you look at public legal funding, new technology and the nature of many of the problems people face, it's not the case that legal need is less but that it is the case that it can be addressed differently through technology rather than traditional law firms. Services may be delivered by other high street presences. For the next generation it will be second nature to solve legal issues online. You need to think about the issues not in the context of the profession as it is but as it will be. I feel the old business model of high street law firm will not be viable or attractive to consumers. The new systems will increase access to justice for individuals and will be a golden age. The challenge for professionals is to be involved in developing the systems.

Simon Davies asked about access to justice for those not digitally literate.

- RS: If users and proxy users of technology are combined, only a small percentage remains. There will always be hard to reach groups. My belief is that if we design systems properly, 97% of the population will be able to deal with their own legal problems online within 5 years. The remaining 3% should be helped by the voluntary sector and public funding of advice services.

Question area: Role of Welsh Government in facilitating the establishment of a near-shoring centre

Answered above.

Question area: Collaboration between public and private sectors and the universities to create the eco-system for near-shoring centre

- WH: Collaboration is very important particularly with the Higher Education sector particularly if that is where you see that as being where creativity will come from. There is an ecosystem and of there is near-shoring activity the type of people you have in those centres are not necessarily graduates. We have less than 30% graduates but we have people from different backgrounds that together serve the global market. The public sector is cutting numbers and we have taken advantage of people who have transferable skills with capacity to re-train. Also, there is the point about creating a brand around the creativity piece and this is important.
- PL: At a tactical level, collaboration is important around talent. At a strategic level, it is important that all of these elements are joined up to make the Welsh brand strong in the legal space. We have benefitted a lot from an association with Cambridge and the global brand that it has.
- RS: A word of warning in relation to public and private sector ventures in terms of the bureaucracy of the public sector for entrepreneurs in the private sector and academia. The public sector needs to be agile, lean and swift because otherwise it can disincentivise other willing partners.
- BD: Speed is important and capability to deliver. In terms of access to justice the interface between individual lines of knowledge and technology is interesting for us. For example, where gaming starts to cross over with law and legal services and where those interfaces work between different technology and knowledge. We have brought different university schools together, for

example at Ulster University that encourages cross fertilisation of ideas and developments. Technology moves so fast so we need to re-invent how we teach.

Question area: Attributes of a near-shoring centre and reason for the success of Northern Ireland

Answered above.

Question area: Will the creation of a separate Welsh legal system hinder or assist Wales in developing a near-shoring centre

- BD: Our system is slightly different but it is closely aligned to the England and Wales system and that is a strength. The main difference is land law. Difference is not necessarily beneficial. We are becoming more global so I'm not sure how beneficial a separate system would be.
- RS: This is a marketing question at one level. Developing the line of thinking that you may develop two different legal markets, one an upgraded conventional legal market and the other a capability to meet global legal needs, it may come down to how you present these legal brands and capabilities. Looking at north-shoring, I don't think Scotland has been as successful as some would have anticipated. Some firms have established low cost service centres but it's not taken-off as it has in Northern Ireland. Maybe the separate system makes it harder. I don't think the ability or otherwise to have a near-shoring centre would trump the establishment of a Welsh legal system.
- PL: I've seen separate jurisdictions being developed and being beneficial when seeking to stand out and be different, such as Delaware and Dubai. In Singapore and Dubai, for instance, they have attractive jurisdictions for arbitration. However, if the idea here is about making Wales a destination for work that could be done anywhere with the right mix of skills and so forth, having a separate jurisdiction could put people off from choosing Wales.
- WH: I have mixed views. I too am concerned it could be seen as a cottage industry and a separate legal system would not be helpful. But if there is an attempt to make a quantum leap to have an innovative and creative centre in Wales, backed up by a small legal system delivering what may be law copied across from England and Wales but delivered in a fast, effective and progressive way, then it would be hugely beneficial. The Welsh Government talked around the delivery of the new tax system with the Welsh Revenue Authority and the use of technology in the interface with the tax payer. If you can do this in Wales, the technology focus and legal system could complement one another and Wales could become a leading light in terms of innovation. It's not an issue so much about the law but about knowing where you want to be and staying ahead.

Question area: Importance of facilities such as the Centre for Innovation and Entrepreneurship in Law at Swansea University in establishing a near-shoring centre in Wales

- BD: It's not essential and getting the base skills right is important. But things evolve as they have with the Legal Innovation Centre in Ulster University and the collaboration between academia and firms including Allen & Overy and Baker McKenzie. Talent is the draw factor rather than a particular centre but that can grow going forward. University courses need to be designed to accommodate technology.
- WH: I think academia can help but in the end the talent will come for other reasons. Cyber experts live in South Wales because it's a great place to live and accessible to London. There's little linkage with academia in Wales in this sector. Factors important to a near-shoring centre are more around cost and accessibility. It would take some time to establish such centres. They are helpful but not vital. Clustering is important and I give the example of the IQE related cluster, a technology based cluster around Newport involved in the creation of new chip technology. Focusing on near-shoring and fast paced technological development you have to be quick to get up to speed with coders to get into that race. Relationships with academia help but are not essential.
- PL: Cambridge has developed a bio farmer cluster and AstraZeneca has moved its HQ there, in

part because of University links. That link with University is powerful. The Future Law Innovation Programme, known as “FLIP”, in Singapore is interesting and they work in collaboration to develop future models. They have a remit to work with government, business and academia to build new models for legal services.

- RS: I am a big supporter of the centre in Swansea University. It is embarrassing how few centres there are in the UK in the legal technology sphere, certainly when compared internationally. In England it’s just Manchester University. I don’t want to overstate the contribution of academia as we do not do collaboration well in law as compared with, say, medicine. Academia should ensure graduates are equipped for modern legal practice. In addition, you do need rigorous research programmes evaluating the new technology and its impacts. Strong leadership is important. A small number of individuals can and do make a difference.

Question area: The future of law

- RS: To quote Alan Kay “the best way to predict the future is to invent it”. The reality is that none of us can know but it’s important in terms of mind-set and thinking that you can create your own future rather than let it happen to you. There are a few gaps in the market. There is therefore an opportunity to shape the market and the future. A lot of the discussion has been around how can Welsh legal capability address current demand but the real opportunity is to look at future demand. Online dispute resolution will transform how we deal with legal issues. There are no stand-out global leaders in this area and Wales could create itself as an expert in this area.
- PL: We are challenging ourselves to think about legal as a “data business”, rather than as an artisan sector. With the right mindset and skills you can aggregate different data sources to analyse any problem at hand to create rich data sets from which new business and revenues can flow. It’s about looking at skill sets and repurposing people’s skills from other sectors into the legal space. Wales has the skill, size and ability to do that and be a genuine market leader.
- BD: Blockchain has the potential to change legal practice and how people consume services. The law is evolving quickly because of technology. The key will be to understand the new evolving areas of law and to create expertise to deal with them.
- WH: Wales has an opportunity to look at the way it delivers justice even if it does not have a separate legal system. Geographically Wales can be challenging but there can be some really innovative ways that Welsh Government and others could follow to see that happen. I do wonder if in the future we will be paying for legal services. A legal opinion could be available at a low cost because we have seen most situations before in some shape or form and once you analyse that with technology you can build up a system that will enable highly accurate opinions to be delivered at low cost. Those delivering legal services will need to look at what they are doing and the system itself will change.