

Law firms join tide of outsourcing

Author: Lucinda Schmidt
Date: 14/10/2005
Words: 1111
Source: AFR

Publication: The Financial Review
Section: News
Page: 64

"In principle, if there's a cheaper option in India, or anywhere else, it would be considered."

Legal outsourcing is gaining momentum overseas, causing a ripple of interest here, Lucinda Schmidt writes.

When an emailed "proposal" from an Indian law firm lobbed into Maria Nadalin's inbox a few months ago, she didn't think much of it. The communications manager for national law firm Minter Ellison is deluged by spam email and the proposal - in stilted English - for Minters to outsource legal research or drafting to Talwar Advocates in Chandigarh was quickly deleted.

In Australia, legal outsourcing is still regarded sceptically and most law firms claim they would never dream of it. However, it is gaining momentum overseas and foreign legal outsourcers are now reporting that they have had inquiries from Australian firms.

A recent report in The Wall Street Journal on the growing number of United States and British companies and law firms outsourcing legal work to India has caused ripples of interest in Australia.

ALMT Synergies - which caters to British companies and law firms - says it has had inquiries from two big Australian companies.

"US and UK are the main markets right now for legal outsourcing but Australia is a target market because the benefits are equally applicable to law firms and in-house legal departments," ALMT chief executive Matthew Banks says. "We aren't currently working on any live projects for Australian companies, but we are talking to two large companies which have shown a keen interest in using our Indian lawyers."

Pangea3, a New York-based legal outsourcing firm quoted in The Wall Street Journal, claims to have received several inquiries from Australia-based legal practitioners and agents who are interested in selling its services in Australia.

And the principal of Sydney-based "offshoring" advisory firm Swamy, Sri Annaswamy, says there has been significant interest from big law and accounting firms here.

The Australian Financial Review contacted Australia's six biggest law firms to ask

about their plans.

Minter Ellison, Allens Arthur Robinson and Clayton Utz all say they do not outsource any legal or non-legal work to India or any other country and have no plans to do so.

"Quality control, confidentiality and client reaction speed dictates that paralegal work is done in-house," says Allens spokesman James Walker.

Mallesons Stephen Jaques, Blake Dawson Waldron and Freehills did not respond.

However, global law firm Baker & McKenzie, which has offices in Sydney and Melbourne, says it does outsource some work to its own facility in Manila, shared by Baker's 69 offices.

The facility, which opened five years ago and has 210 staff, focuses heavily on word processing, but Baker's Asia-Pacific regional operating officer, Paul Malliate, says other services include research, IT systems development and help desk, financial processing "and some work undertaken directly for our clients".

"Clients are very interested in our offshore operation, especially in the potential that we have to lower the overall cost of services delivery," Malliate says.

It's the lower cost - hourly rates are about 10 per cent of those charged by big US law firms - that is luring some US companies and law firms to outsource low-level legal research, contract vetting and patent searching to India, according to The Wall Street Journal.

With access to a huge pool of well-educated, English-speaking lawyers, and the same common law-based legal system as the US, Britain and Australia, the potential market for legal outsourcing from the US alone is \$US3 billion to \$US4 billion (\$4 billion to \$5.3 billion), according to its National Association of Software and Service Companies.

It's all part of a new wave of outsourcing called knowledge process outsourcing (KPO), Annaswamy says.

First came IT support, followed by outsourcing of business processes such as accounts receivable and call centres.

In the past 12 months, KPO has gained momentum. Big US investment banks are sending overseas some of the research normally done by junior analysts Other professional services firms, including accountants and management consultants, are looking at sending low-level research and analysis work to India.

Now legal services is attracting attention, and dozens of legal outsourcing companies are springing up, mostly using a marketing office in New York to sell the services of Indian lawyers.

Annaswamy says none of these specialist legal outsourcing firms has yet set up in Australia, although global KPO firm Evalueserve recently opened an office in

Sydney.

Australian companies are wary of the overseas developments, although the relentless drive to reduce legal costs means in-house counsel will consider all options.

"In principle, if there's a cheaper option in India, or anywhere else, it would be considered," says the chief executive of the Australian Corporate Lawyers Association, Peter Turner. "If it catches on and works in the US, there's every reason to think it will be copycatted here."

National Australia Bank chief general counsel David Krasnostein says he'd be happy to look at the concept, although the bank hasn't investigated any legal services outsourcing to India.

"It makes perfect sense if they've got good-quality lawyers who are billing at \$100 an hour. But I would need to know who these people are, what they are doing and what the quality is like," he says.

He notes, however, that if law firms are charging \$250 an hour for research, they have no incentive to outsource it, so any pressure would have to come from the client.

"Then the law firm would say, 'you're holding us accountable, and if they bugger it up our head is on the chopping block'."

It's these sorts of liability and quality issues that make BHP Billiton chief legal counsel John Fast question whether many companies or law firms will be comfortable outsourcing legal work to India. BHP Billiton hasn't considered it, and Fast says he's not aware of any other in-house counsel thinking about it.

"I'm not discounting the possibility, I just find it surprising. I don't see it in the short or medium term."

Fast says if the work is routine and standard - such as churning out loan documentation - there's no reason why in-house paralegals couldn't do it. He also notes that US in-house legal departments are much bigger than anywhere else in the world, sometimes with several hundred lawyers, so the potential savings are greater than in Australia.

The managing partner of patent and law firm Phillips Ormonde & Fitzpatrick, Malcolm Royal, says his firm has had no pressure from clients to send patent work off to India.

"We can do it relatively cheaply in Australia," he says. "In fact, we get a lot of work in from Singapore and Malaysia."