

Industry insights

How tech is turning compliance into a competitive advantage



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The majority of law firms find compliance costs to be harmful to their business. Covid-19 has made this challenge greater. Technology, and the ability to conduct electronic Customer Due Diligence (CDD), enables firms to have full firm-wide visibility of compliance and risk, give clients a better experience and save costs.

Crispin Passmore, Consultant and former Executive Director of the Solicitors Regulation Authority (SRA), speaks to us about how electronic CDD is more than a lockdown bandaid, but an opportunity for firms to turn compliance into a competitive advantage.

Failing to comply with AML rules costs

Money laundering costs the UK more than **£190 billion** each year. The credibility and respectability of law firms make them an attractive target for criminals to launder money. In 2017 the National Risk Assessment found that there is a “high risk associated with the abuse of legal services in money laundering”.

And yet, following a review in 2019 the SRA found that **1 in 5 law firms are failing to comply with anti-money laundering (AML) rules**. This poses a huge cost and reputational risk for firms failing to comply.



£190 billion

How much money laundering costs the UK

“Even if there is no actual allegation of money laundering, law firms can face serious consequences for having weak systems and controls. **If firms get this wrong they can expect ever higher fines and reputational damage.**”



Crispin Passmore, Former Executive Director of the SRA

The SRA is getting tougher

Following Covid-19, the Legal Sector Affinity Group (LSAG), which includes the SRA, issued guidance saying that the **AML risk to law firms is now higher** as criminals look to take advantage of firms not being able to meet face-to-face to complete Customer Due Diligence (CDD).

But not being able to meet in person is no excuse. The guidance clearly states that firms must continue to comply with AML rules and **an inability to meet in person does not mean you cannot complete CDD**.

The FCA, through the Office for Professional Body Anti-Money Laundering (OPBAS), holds the SRA to account for how it implements AML legislation and sets the standards for how it regulates in this area. We can expect to increasingly see the SRA take a similar approach as the FCA. What does this mean for firms?

The SRA is getting tougher and it is **critical that firms understand their obligations and put in place strong systems and proper controls**. In other words, the outside world might have changed but law firms must show they have found alternative ways to comply with the regulation.

7,000

Number of firms which face SRA scrutiny over compliance concerns



1 in 5 law firms are failing to comply with AML rules

“The SRA is getting tougher. AML is a “priority risk” and over recent years has become a focus on a scale that we have not seen before. The SRA has ramped up both its capacity and enforcement. We’ll start to see more enforcement and heftier fines as the SRA tackles anti-money laundering (AML) risk.”



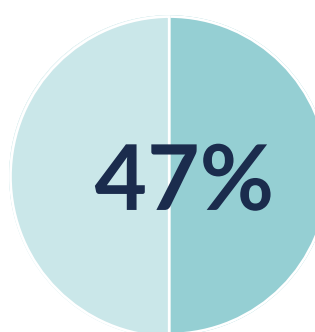
*Crispin Passmore, Former Executive
Director of the SRA*

Only treating compliance as a cost is a mistake

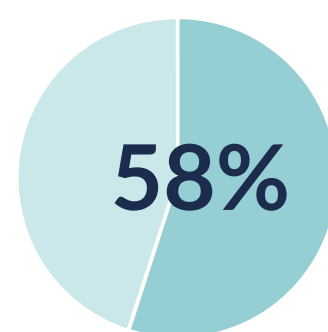
A survey conducted by the Law Society found that the majority of firms view compliance as an excessive cost, something which gets in the way of billable activity and is harmful to their business. **This is a mistake, and one firms do not have to continue to make.**

When firms look at compliance as merely an additional step which creates a burden for their staff and their clients, they miss a huge opportunity. Now, firms can use technology to design a system which integrates compliance into a smooth client onboarding journey and this presents firms with a valuable business opportunity.

Firms tend to find meeting compliance standards to be costly and complex



47% of firms found that the internal costs of compliance to be excessive



58% of firms found that compliance costs were harmful to their business

Results of the Law Society's 2013 Regulatory Performance Survey

Compliance, like customer due diligence, when done thoughtfully can be used to deliver a great client onboarding experience. The key is using the onboarding process to make clients feel like they are being looked after, and that their data is secure. When viewed through this lens of client experience, having modern and streamlined compliance processes becomes an investment in generating revenue rather than a “dead cost”.



*Crispin Passmore, Former Executive
Director of the SRA*

What the Regulators say

As firms moved to operating remotely overnight, the Regulators have been vocal in their encouragement of legal professionals using technology to comply with AML rules.

“HM Land Registry (HMLR), along with us at the CLC, the Law Society and the Chartered Institute for Legal Executives (CILEx), believe that **cryptographic and biometric checking of identity**, using microchip-enabled passports or identity cards, might present **a new, robust and convenient answer to the need to maintain social distancing** while verifying an applicant’s identity.”



Council for Licensed Conveyancers (CLC)

“As an alternative to face-to face documentary verification, **legal practices and practitioners may adopt or further utilise electronic means of ID&V** [identity and verification] where appropriate to the risks present in the client/transaction.”



Legal Services Affinity Group, includes the Solicitors Regulation Authority and the Law Societies of England and Wales and Scotland

“Evidence indicates this [cryptographic combined with biometric identity solutions] to be **a more reliable and secure identity check** than visual passport or other identity document checks.”



Mike Harlow, General Counsel, Deputy Chief Executive and Deputy Chief Land Registrar, HM Land Registry

The future of compliance in legal services

Since the Covid-19 outbreak, Crispin has seen three categories of firms emerge.

“First, there are the firms who are really struggling - their processes are not designed to operate remotely and they aren’t equipped to take on new clients or take payments, even putting AML to one side. Second, there are the firms which are better placed - those who are tech enabled, using cloud-based technology and are paperless. **Third, and finally, there are those firms which represent the future of legal services. They are the ones who have thought about the customer journey and are integrating compliance into it.**”

For Crispin, the future of legal services looks much more client-centric. “I see a cohort of firms who are tech-enabled and have a laser-focus on their customers’ experience. They are the ones redesigning their processes to be AML, SRA and GDPR compliant, as well as giving their clients a seamless onboarding experience.”

“The firms which represent the future of legal services are those who have thought about the customer journey and are integrating compliance into it.”



*Crispin Passmore, Former Executive
Director of the SRA*

About Legl

Legl gives law firms the tools to grow and succeed in a digital-first world. From digital client onboarding to better payment options, Legl's easy-to-use workflows help law firms give their clients a great experience while making operational processes more efficient.

Top-100 UK law firms use Legl to engage with thousands of clients and process millions of pounds in payments. Legl has won the **LexisNexis Award for Legal Supplier Innovation** (2020), the **Modern Law Award for Business Growth** (2019) and was chosen by the leading law firm network, **LawNet** as a **Preferred Supplier**.

