



Apperio



Why financial services are embracing legal tech

Nine reasons for implementing modern tools to manage the growing volume of legal work in uncertain times



Co-presented by
Apperio & Morae Global Corporation



Introduction

This report examines the drivers for procuring and implementing legal technology in the financial services sector. It is presented by Apperio, a legal spend management software solution, and Morae, a global leader in digital and business transformation for legal departments, law firms and compliance functions.

In-house legal teams face a multitude of competing pressures – like reducing costs even while the pace and volume of legal work climb. These pressures are driving many legal departments to adopt legal tech to support process innovation, optimize the legal function and use data to achieve better legal outcomes.

Collectively, Apperio and Morae have worked with hundreds of legal departments across private equity, investment and retail banking to evaluate, procure and implement legal technology. In this paper, we've **teamed up** to help financial services firms evaluate the drivers of legal tech adoption in their organization.



Market uncertainty creates risk

The global pandemic, social unrest and geopolitical volatility have all created uncertainty. The recent Covid mutations are prime examples. Just when we thought we were through the worst of the pandemic, and the global economy would resume growth, the variants reintroduced doubt.

Uncertainty usually rattles the financial markets, but we are living in strange times. While there have been some stutter steps, the recent uncertainty has largely been viewed as an opportunity. The equity markets are at record highs, some of the biggest global banks **beat their last earnings**, and the pace of dealmaking in M&A, after a brief pause, is **shattering** records.

The state of the market is such that the financial services sector is growing, despite the uncertainty. Business growth naturally leads to more legal work, but because of the uncertainty and resulting risk, the types of work that legal teams are being asked to do has evolved.

“COVID has been at the front of the wave of the current crisis, but that shifted the legal focus to people working from home, which in turn was parlayed into a security risk for the company,” one GC **told us in an interview**. “It’s not just a matter of managing a crisis with respect to our business – it’s become ‘how do we manage our whole business’”.



Emerging competition

Financial services have experienced the emergence of both new market entrants and substitute products. These are both **hallmarks** of Porter's Five Forces – a framework that explains the influences that shape markets.

Well-capitalized startups in financial technology, or fintech, have blossomed in recent years and are adding novel competition to the sector. A survey of US consumers by **McKinsey & Company** found that fintech has gone mainstream. The results revealed four in ten “financial decision makers” had at least one fintech account.

Fintech companies are bringing entirely new asset classes to market such as cryptocurrency. They are also selling new and innovative products including non-bank lending, digital wallets, and embedded finance – where everyday businesses are offering white label banking services. As the venture capital firm, **a16z** put it, “Every company will be a fintech company”.

Traditional markets, which have long been dominated by incumbent vendors, are also being challenged. For example, on the retail side, fractional investing and commission-free trading platforms are providing alternative equity options to consumers. On the investment side, there are whispers of PE firms seeking to underwrite their own leveraged buyouts (LBOs).



AUM growth leads to greater legal work volume

According to EY, 75% of PE firms with \$2.5 billion or more in assets under management (AUM), said growing AUM was their top strategic priority. It's been the top goal for years and it's reflective of the broader financial services industry as well.

For example, a [report](#) by PwC published in December of 2020 forecasts that global AUM will grow 3.1% (CAGR) to \$130.8 trillion by 2025 under a worst-case scenario. That scenario factors in a "double dip recession scenario" which also speaks to the state of the market. Under a best-case scenario, the growth rate climbs to 5.6% and global AUM will reach \$147.4 trillion.

Growth in AUM brings a greater volume of legal work and volume brings cost. There are more contracts, deals, regulations and compliance considerations. In turn, the legal department needs better processes and tools to triage, prioritize and manage the volume.



Increased regulation and compliance requirements

The regulatory environment continues to grow increasingly complex. This complexity generates high volumes of data from disparate sources that are nearly impossible to manage without technology. The financial market's [shift away from the London Interbank Offered Rate](#) (LIBOR) is one example that's triggered an extensive re-papering exercise.

Another illustration is the European General Data Protection Regulation (GDPR). It's had a profound influence on data privacy and sovereignty issues across collection, transmission and storage of data. GDPR has also had a global impact, since it regulates the data of its citizens regardless of the company's location.

Violating these rules is liable to lead to hefty sanctions. For example, the Irish Data Protection Commission recently imposed a [record €225 million](#) (£193 million) fine on WhatsApp for violating European Union (EU) data protection rules.

Brexit too may have an impact on data protection and privacy. Britain recently announced plans to move away from the laws adopted by the European Union. This adds uncertainty and may present jurisdictional differences for financial services companies doing work across borders.

The US has brought similar complications to international finance too. The country lacks a unified privacy standard. That's left legal teams and risk managers struggling to navigate a myriad of privacy laws written by state governments.

The risks in financial services have grown in tandem with the need for digital transformation. These factors have forced banks to put new controls and compliance measures in place. In turn, this adds depth and breadth to legal costs.

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Internal cost pressure

According to the [2021 State of the Industry Report](#) by the Corporate Legal Operations Consortium (CLOC), companies in the financial services sector each spend, on average, more than \$100 million annually on legal. The split between internal and external spending is roughly half and half.

Despite this volume of spend, we speak to GCs every day that struggle to articulate what they spent on legal in the last 12 months. This is often due to a lack of capacity (both process and technology) to track complicated spending patterns.

For example, [a survey Apperio commissioned](#) found one in five large PE firms make no effort to actively manage legal costs. Unsurprisingly, the same number reported being “often shocked” by the size of legal invoices. More than half (55%) say higher-than-expected invoices cause them to re-forecast budgets, which leads to widespread internal friction.

At the same time, all departments in financial services are under pressure to reduce costs and legal is no exception. It’s a challenging endeavor because the legal department already spends considerably on legal services – and those costs are growing.



Operational efficiency

The law department in a global bank receives requests for legal assistance from multiple teams and stakeholders. Inquiries flow in from the business units, compliance teams and human resources, for example. Handling such volume is untenable without the assistance of technology.

Tools for managing legal operations – from instructing external law firms and legal spend management – to internal workflows for opening, collaborating on, and closing matters – bring a high-value benefit to the legal department.

Although they are often smaller and more nimble than large banks, PE firms aren't immune, given the pace of dealmaking. Research shows some of the organizational dynamics like the [trilateral relationships](#) between deal, finance and legal teams would stand to gain new efficiency from collaborative technologies.

EQT, one of the world's largest investment organizations with around €52 billion in AUM, illustrates how legal tech can improve operational efficiency. As a publicly listed company, it's required to report accrued fees monthly. This used to be a protracted exercise in chasing information down by email. Today, the legal tech tool it selected automates the process, which has eliminated email for 90% of these tasks [according](#) to the company.



The rise of the legal operations function

The legal operations function is clearly tied to improving operational efficiency. However, it merits being called out separately, as a result of bringing an influx of allied professionals to the legal department.

These professionals are tech-savvy and bring experience to re-engineer processes. Along the way, legal ops are both urging and helping the legal department to select and implement enabling technologies. They have the expertise to make the business case too – that is to articulate the value in terms the business understands.

As a measure of its investment in legal ops, the financial services community sees the value. In this sector, the **average legal operations** team employs 11 professionals, according to the CLOC report. That's significantly higher than the average of seven employees across all sectors – demonstrating a vote of confidence for the value of the legal ops function in financial services.



The environmental, social and governance imperative

Both consumers and investors want their financial institutions to be socially responsible. Environmental, social and governance (ESG) issues have effects on the business both externally (which get much of the attention), and internally too. In both cases, financial services are looking for ways technology can help keep them on the right side of such concerns.

Externally, financial organizations are being pressured to be more socially considerate in investment decisions. For example, the [Global Private Equity Responsible Investment Survey 2021](#) by PwC found 56% of respondents say they “have refused to enter general partner agreements or turned down investments on ESG grounds.”

Banks are also finding themselves in uncharted legal territory. For example, Nasdaq has received approval to place [minimum diversity requirements](#) upon the board of directors for all companies listed on the Nasdaq exchange.

Experts say the proposal could be tied up in court, but either way, ESG is shaping transactions including IPO underwriting and dealmaking. The fact remains, the social and cultural demands of financial markets are shifting.

Internally, the focus centers around diversity, equality and inclusion (DE&I). The key is building awareness, fostering collaboration, putting policies in place – and monitoring for compliance. Legal technology can help financial services companies get their own DE&I affairs in order and set minimum requirements for suppliers such as law firms.

DE&I isn't just about checking a box either. Research about diversity in PE [suggests](#) “gender-balanced teams tend to have higher returns, with 20 percent higher net internal rate of return (IRR). Such data is persuading the PE industry that an inclusive culture leads to better decision making and ultimately improves performance”.

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Digital transformation

The need for digital transformation has itself been a significant driver for new legal technology. The patchwork of legacy tools, manual processes, offline records and outdated software in financial services firms are becoming increasingly expensive and risky to maintain.

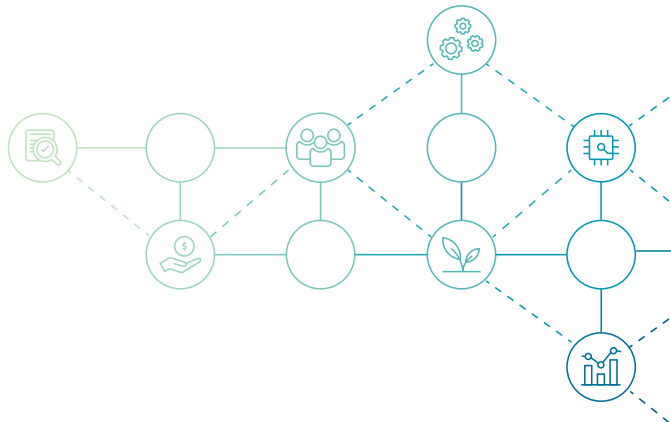
A [2020 report by McKinsey & Company](#) found that “change spending” in IT – costs usually associated with maintaining existing infrastructure – grew 40% from 2014 to 2017. The consulting firm asserts that bank CIOs “will need to improve productivity efforts considerably, aiming for structural productivity gains of 25 to 40 percent over the next five years just to keep costs flat”.

More than just cost savings, technology investments have become an opportunity cost that’s central to the traditional financial services business model. The prospect of missing out on investments has become a core argument for upgrading infrastructure in the process of converting to an all-digital environment.



Necessity and innovation

If there's a common thread running through these ten drivers it's necessity. The volume of legal work will continue to grow, get more complicated, and do so amid an uncertain environment. Legal can't stop investigations, litigation, deal flow, or contract reviews in order to implement technology. But such teams must find a way to get ahead. To build on a phrase, necessity is the mother of all innovation.



About Apperio

The Apperio legal spend management platform is specifically designed for in-house legal, investment and finance teams. With ever-increasing scrutiny over how investor and shareholder funds are spent, Apperio helps financial services firms to stay in control of their external legal spend and drive efficiencies in their legal department.

To book a demonstration or find out more, visit www.apperio.com.



About Morae Global Corporation

Morae Global Corporation is trusted worldwide by leading law firms, legal departments, and compliance executives for the delivery of digital and business transformation solutions. Founded in 2015 by pioneers in the legal operations field, our vision is to execute legal + business strategies, resulting in lasting change, value and protection. Morae's clients regularly refer us to their peers, our people stay with us, and our services keep clients ahead of what's next. Morae offers the right people and technology needed by legal professionals across the globe, from our offices across four continents.

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