Legal Services Outsourcing: What it is & how it could help your legal practice

State Capital Group Annual Meeting
The Peninsula, Chicago, Illinois
October 15, 2012
Agenda

- What is Legal Outsourcing (“LPO”)?
- Legal Outsourcing Trends
- What types of services can an LPO offer?
- Why is LPO Part of the Menu of Options for Corporations and Law Firms?
- Role of the Corporate Legal Department or Law Firm in an LPO partnership
- Rio Tinto – CPA Global Partnership: Model for Emulation
What is Legal Outsourcing?

• The outsourcing of legal tasks from a corporate legal department to an external provider

• Other examples of outsourcing for corporations:
  • Back-office: payroll, invoicing, IT, etc.
  • Accounting: auditing, tax returns, etc.
  • Food service
  • Mailroom
  • Copy room

• Outsourcing does not necessarily equal off-shoring work. Other options:
  • Lower cost resources on-shore or lower cost areas within the country.
  • Mixed, blended models combine on-shore and off-shore operations.
  • Off-shore operations can be combined with relationship and senior management on-shore.
LPO Trends: 2012 Global Survey

**Market Size**

- **2012 Market Size:** $1.1 billion of annual sales
- **Employment:** 9,000 people
- **Growth:** 32% avg. in each of last 3 years
- **Projected growth:** 30% + for next 3 years
- **2015 Market Size:** $2 billion in projected annual sales

1. Source: The 2012 Global LPO Study, The LPO Program
Aspects of Legal Outsourcing

Legal outsourcing creates value by taking on legal work that cannot be done in-house by the corporate legal department. In-house Counsel are then free to focus on what they do best: strategic and tactical advice to their business units within their technical and subject matter expertise.

- **Strategic Legal Advice**
- **Technical Legal Advice**
- **General Legal Work**
- **Repeatable Legal Work**
LPO can help disaggregate activities among providers based on their core competencies and business strategy

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<thead>
<tr>
<th>Characteristics</th>
<th>Examples</th>
<th>Value drivers</th>
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<tbody>
<tr>
<td>High legal complexity</td>
<td>Legal strategy &amp; analysis, Applying law to facts, Risk assessment, Opinion &amp; advice, Persuasive writing, Argument, Negotiation</td>
<td>Experience-driven judgment, Deep legal expertise, Intense focus, First-hand knowledge of courts, agencies &amp; officials, Academic research &amp; writing skills</td>
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<td>Low volume</td>
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<td>Judgment-based</td>
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<td>Priority focus on legal substance</td>
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<td>High management complexity</td>
<td>Objective coding of documents, Gathering, synthesizing facts, Objective legal research, Sifting, funneling &amp; managing information flow, Negotiation support, Drafting, editing, adapting contracts, motions, etc.</td>
<td>Scale economies, Standardization, Process engineering, Continuous improvement, Technology, Broad legal expertise, Vendor management</td>
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Typical LPO Services

ENTERPRISE DELIVERY CAPABILITIES

- Expertise
- Multi-shore delivery
- Quality and Metrics

DocReview

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<td>Drafting bespoke contracts</td>
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<td>Anti-bribery</td>
<td>Multi-jurisdictional surveys and updates</td>
<td>VDR preparation and maintenance</td>
<td>Pre-deal Due Diligence</td>
<td>Legal research</td>
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<tr>
<td>Template drafting</td>
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<td>Third Party Due Diligence</td>
<td>Case law research, and drafting of legal papers (memos, motions, etc.)</td>
<td>Document review and summarisation</td>
<td>Post-deal Due Diligence</td>
<td>IP Litigation</td>
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<tr>
<td>Contract review and analysis</td>
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<td>Counter Party Due Diligence</td>
<td>Contract review and analysis</td>
<td>Contract review and analysis</td>
<td>Divestment Planning</td>
<td>Prior Art Search</td>
</tr>
<tr>
<td>Contract comparisons</td>
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<td>Regulatory</td>
<td>Redaction</td>
<td>Redaction</td>
<td>Key Term Review</td>
<td>Docketing</td>
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<tr>
<td>Contract summarisation</td>
<td>Contract summarisation</td>
<td>Governance</td>
<td>Q&amp;A process</td>
<td>Q&amp;A process</td>
<td>BU Restructure</td>
<td>Proofreading</td>
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<tr>
<td>Contract management</td>
<td>Contract management</td>
<td>Corporate Secretary</td>
<td>Legislative tracking and analysis</td>
<td>Legislative tracking and analysis</td>
<td>Post Acquisition Integration Support Services</td>
<td>Patent Invalidity Studies</td>
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LEGAL SERVICES OUTSOURCING
LPO Trends: 2012 Global Survey: Services

Service Type

- Doc Review/E-discovery (26%)
- Contracts Management (22%)
- Litigation Support (16%)
- Legal Research (15%)
- Financial Reviews (8%)
- Managed Reviews (3%)
- Drafting/Negotiations (2%)
- Legal Content Publishing (5%)
- Compliance (3%)

1. Source: The 2012 Global LPO Study, The LPO Program
LPO Trends: 2012 Global Survey: Purchasers

Clients

- Law Firms (31%)
- General Counsel (69%)

Law Firm Turnover

- >$1B (36%)
- $500M-$1B (30%)
- $100-$500M (22%)
- <$100M (12%)

1. Source: The 2012 Global LPO Study, The LPO Program
Why is LPO Part of the Menu?

*Client is now at the center of the legal universe*

## Why is LPO Part of the Menu?

### Direct Benefits to Corporate Counsel

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<tr>
<th>Traditional Approach</th>
<th>Tasks</th>
<th>LPO</th>
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<tr>
<td>Process Varies with Each Law Firm</td>
<td>General &amp; Repeatable Work</td>
<td>Uniform, Client-Designed Process</td>
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<tr>
<td>Platform and Charges Vary by Firm; No Post-Case Data Access by Client</td>
<td>Technology Platforms</td>
<td>Single Platform; Competitive Pricing; Data Repository Owned by Client</td>
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<tr>
<td>Junior Attorneys or Non-Attorneys</td>
<td>Project Management</td>
<td>Experienced, Dedicated Attorneys</td>
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<td>Different Teams for Each Different Matter</td>
<td>Review Resources</td>
<td>Ability to Use Single, Consistent Review Team for Multiple Projects</td>
</tr>
<tr>
<td>Unpredictable, Hourly, Rates that Vary by Law Firm</td>
<td>Pricing</td>
<td>Predictable Pricing Across All Matters</td>
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Why is LPO Part of the Menu?

Pressure on Corporate Legal to Reduce Costs

• Increased pressure on Law Firms to reduce costs and increase efficiency
• Trend: Corporate Legal and Procurement now requiring Law Firms to incorporate LPO into their service delivery model.
  • Barclay’s Legal Panel Selection – Fall 2011 - $150 million annual spend
    • GC Mark Harding: Wants law firms for more than top notch legal advice, but also wants them to develop cost-effective service delivery models and value added extras, like outsourcing.
      • Source: Fronterion Forefront, November 2011
  • Royal Bank of Scotland Legal Panel Selection – Summer 2012
    • Review of entire law firm panel
    • Weaker financial position – GBP 45 Billion Government Bailout
      • “The bank is putting an emphasis on legal process outsourcing (LPO), with law firms seeking positions on the panel required to demonstrate they have sufficient capabilities in place.”
        • Source: Legal Week, 8 June 2012
  • Lloyd’s Bank Legal Panel Selection – Late Summer 2012
    • Source: Legal Week, 8 June 2012
Why is LPO Part of the Menu?

Direct Benefits to Law Firms

- Demonstrate commitment to clients’ business objectives
- Offer alternative fee arrangements
- Increase the value of $-£-€/hour
- Focus on core expertise
- Upscale and upskill Associates & Partners
- Improve attorney satisfaction
- Flexible staffing arrangements
Why is Legal Process Outsourcing Part of the Menu?

*Maturation of the Industry and Resolution of Past Issues*

**Historical concerns**
- Security
- Confidentiality
- Quality
- Ethical Implications
- Client relationships

**Industry Responses**
- Acquire certifications
- Strong processes
- Build strong SLAs
- Educate & Explain
- Adopt hybrid models
Corporate Legal/Law Firm Obligations with regard to LPOs

• Disclose and obtain consent from clients before using LPO services.

• Supervise and monitor work by LPO provider, so that it aids in client representation.

• Perform sufficient due diligence into the LPO provider:
  • Competence and capacity to perform the work at the standard required:
    • Legal system and education
    • Rigor of hiring process
    • Supervisory system
  • LPO provider can adequately protect the confidentiality of information:
    • Background checks
    • Conflicts checks
    • Physical security
    • IT infrastructure and security
    • Security in transferring electronic data to/from LPO

2. See generally:

• ABA Comm. on Ethics and Prof’l Responsibility Formal Op. 08-451 (Aug. 5, 2008) (Lawyer’s Obligations When Outsourcing Legal and Nonlegal Support Services), available at: http://www.aapipara.org/File/Main%20Page/ABA%20Outsourcing%20Opinion.pdf (discussing the ethical nature of outsourcing and the continued need for outsourcing attorneys to comply with certain ABA Model Rules of Professional Conduct, specifically Rules 1.1, 1.6, 5.1, 5.3, and 5.5. The ABA also states that outsourcing lawyers must comply with ABA Rule 1.5, which applies to law firms. Rule 1.5 requires the outsourcing lawyer to charge reasonable fees.

Data Security and Confidentiality

Security
- Physical security with Access Control, Visitor Process, etc.
- Multi-tier network security using IPS, Firewall, Anti Virus, Content Filtering, Monitoring etc.
- Dedicated Virtual LAN to segregate each client
- Robust Data Backup Process
- Encrypted & Secure data exchange
- Restricted Email & Internet Usage Policy
- Restriction on USB, portable media and printers

Confidentiality
- Comprehensive Data Classification guidelines
- Non-Disclosure Agreements (NDA) as applicable
- Clear Screen / Desk Policy
- Password Protected Screen Saver
- Strict Media Disposal policy
- Authorization & Access policy and controls for access to computers, file servers, etc.
DR, Incident Response & Compliance

Disaster Recovery
• Fully redundant technology infrastructure, including network connectivity
• Crisis & Risk Management Processes
• Quarterly DR test for technology infrastructure
• DR test for critical processes: Cold Test – Half Yearly; Hot Test – Annually

Incident Response
• Detailed Incident Response process in place with Central Incident Response Team
• Roles, Responsibilities and Communication plans well defined
• Incidents classified as per the business impact

Compliance
• Internal and 3rd Party regular tests for:
  • Penetration Testing
  • Vulnerability Assessments
  • ISO 27001
  • Client Audits (Microsoft / Nokia / HP etc)
Questions?
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Thank You