

LEGAL TECH AND KNOWLEDGE MANAGEMENT STRATEGIES IN BANKS' LEGAL DEPARTMENTS



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Legal departments in banks can reduce costs and boost efficiency with the right strategy of investing in conventional and smart technology.

The quest for efficiency in banks' legal departments has resulted in major organizational changes in the past decade. Some banks have adopted outsourcing practices, while others have tried to stay competitive by deploying efficiency-enhancing technologies. Smart technologies are now maturing and are set to disrupt the legal industry. In this paper, we look at short-, medium- and long-term prospects for legal technologies and recommend a route to a successful early adoption within banks' in-house legal departments.

SHORT-TERM SOLUTIONS: DOCUMENT MANAGEMENT SYSTEMS AND COLLABORATION PLATFORMS

Since the 2008 financial crisis, in-house legal (also known as general counsel - GC) departments have been under significant pressure to reduce costs while continuing to provide first-rate legal advice. Global banks, whose annual bills for external legal advice can amount to double-digit millions of U.S. dollars, have demanded more value for their money and better predictability of legal fees.

To create and sustain functional business models, GC departments must find new ways to increase efficiency. For an information-heavy industry such as legal, it encompasses three components:

- Supporting the administrative function or freeing staff from administrative tasks
- Facilitating collaboration
- Enabling better knowledge sharing and preventing knowledge loss

On their mission to reduce administrative burden, some GC departments have implemented the practice of outsourcing. This has come as a surprise to many outsiders due to the highly sensitive nature of legal matters. **Legal process outsourcing** (LPO) is growing at 35 percent annually and is expected to become a USD 40bn market by 2024¹. Standard LPO offerings range from relatively basic tasks, such as billing, to complex services, such as legal research. The use of modern technology allows legal services providers (LSPs) to move further along the value chain, providing services traditionally fulfilled by junior lawyers.

However, cost saving through outsourcing administrative tasks to non-lawyers in parts of the world where labor is significantly cheaper is not the only option. A GC department can realize further efficiency gains by providing the right tools to their people. That includes **document management systems** which we consider to be mandatory today for every GC department of a large bank. Email inboxes and personal files or desktops/laptops are no longer acceptable as document management hubs, but it is surprising how much time lawyers still spend on searching for documents in their emails or personal folders.

There is also a belief that connecting with topic experts is more effective than finding the right information or document. Most employees in a bank are likely to be familiar with the situation where, after spending hours or days wrestling with a problem, a topic expert comes to the rescue and provides a swift resolution. However, rather than hoping for these instances to happen, firms can use **collaboration platforms** to facilitate knowledge sharing between people directly.

MEDIUM-TERM SOLUTIONS: SPECIALIZED LEGAL SOFTWARE AND AUTOMATION

In the medium term, GC departments' technological standards will surpass document management systems and collaboration platforms. Consider the following scenario:

- A senior lawyer in the GC department of a bank reviews a document from a junior colleague. The senior lawyer is notified by a workflow function that the document is ready for review.
- She accesses the document that the junior lawyer has worked on. It makes no difference where the file is stored or if the two lawyers do not belong to the same team in the legal department.
- As she corrects the document, the junior lawyer sees that it is being edited by the senior lawyer. The software prevents the unintended creation of multiple versions of the same document that would later need to be arduously reconciled.
- An analytics software program identifies the role of the reviewing lawyer in the bank. The program also analyzes her past searches and previous documents that she has worked on. With this information, the tool automatically retrieves and suggests similar documents to compare and aid the review process.
- One of the automatically suggested documents references a discussion on the subject the senior lawyer has had with an external counsel. She contacts the counsel via a secure document sharing function (compliant with rigorous legislation such as GDPR and FedRAMP) and invites the external lawyer to provide an opinion on the matter.
- The external lawyer makes adjustments directly in the document and shares a further memorandum from their law firm on the subject. The bank's senior lawyer does not have to do anything further with the shared document as the management platform for e-discovery², archiving, record management and storage takes over the classification of the document using natural language processing. Rather than relying on keywords to gauge relevance, the platform understands the contents of the document as a human would.
- The bank's senior lawyer finalizes her review of the document (with the junior lawyer being automatically notified) and moves on to the next task - reviewing a 50-page contract. Another software program has already read the contract, identified important terms and clauses, and presented them to the lawyer via her screen.
- By comparing the clauses of the contract with those in contracts the senior lawyer has worked on in the past, the system suggests appropriate adaptations.

This might sound futuristic, but these are functionalities of **electronic file management and sharing tools, e-discovery and specialized legal software** that already exist. However, our experience and research suggest that very few banks today are taking advantage of these technologies.

Additionally, smart technology applications in **automation, analytics and artificial intelligence** continue to emerge and mature at a healthy rate.

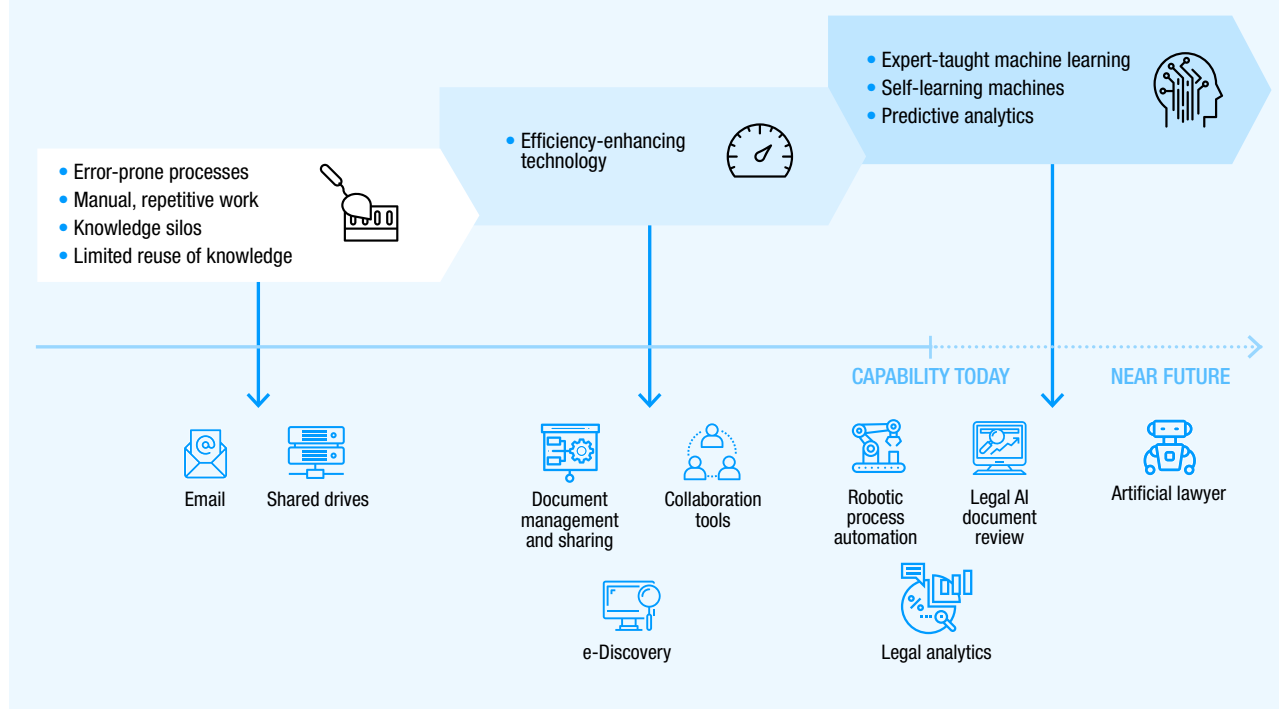
Robotic process automation (RPA) is a relatively new way of automating clerical tasks to free people from mundane, repetitive, and/or time-consuming work to focus on value generating activities. Software robots imitate human process steps using existing interfaces of legacy systems. Therefore, changes in processes or IT are not necessarily required. The key point is that the software workforce is not programmed but taught to execute their tasks using machine learning. The software will, when trained, execute the task with 100 percent precision. Furthermore, because software robots cost a fraction of a human workforce, they also provide a business case for 'insourcing' previously outsourced processes. The deployment of RPA typically saves 20 – 40 percent of legal operating costs³, which also means a short 'payback' time on the RPA project investment costs.

Artificial intelligence (AI) document review has proven that a computer is not only faster than paralegals in reviewing documents, but also better at it. Typically, an experienced lawyer would initially take an AI tool through a series of learning cycles by providing a selection of desirable outcomes. The tool then refines its own results until it reaches the necessary quality (in most cases, indistinguishable from the work of a human expert). The tool can eventually mimic the work of an expert but significantly faster.

In a recent landmark study, 20 experienced lawyers competed against an AI algorithm⁴ in the context of reviewing a contract. Quality-wise, the best performing of the 20 lawyers only equaled the result of the AI tool, with no human outperforming the machine. However, the review took the humans on average 92 minutes, whereas the software ripped through the batch of papers in just 26 seconds.



EVOLUTION OF KNOWLEDGE MANAGEMENT IN THE LEGAL INDUSTRY



FUTURE SOLUTIONS: THE ARTIFICIAL LAWYER

A type of **artificial lawyer** is likely to materialize in the near future. An early example of this - ROSS Intelligence - an expert system built on IBM Watson's cognitive computing platform - can already substitute a research lawyer in some fields of the profession. IBM has also launched Outside Counsel Insights (OCI), a tool which 'reads' the work carried out by external counsels and takes over almost the entire billing review process, significantly reducing the efforts and cutting costs for GC departments.

STRATEGIC NEXT STEPS

The challenge for GC departments is to formulate and execute a strategy to make the most of a fast-evolving technological environment. While waiting for off-the-shelf standardized solutions to become available may be tempting, it could also prove to be a risky strategy. Efficiency gains of the new technologies are substantial and those late in deploying them may find themselves having to outsource entire functions/processes to better equipped legal services providers.

GC departments wishing to successfully capitalize on legal and knowledge management technologies must consider taking the following steps:

1. If you have not done so already, appoint a **Legal COO / Director of digital transformation**. This role is crucial for a strategic approach to technology for lawyers and for executing the subsequent steps.

2. Formulate a business **strategy**, clearly connecting **organizational and technological** aspects.
3. Define the **target operating model** for the GC department and identify changes needed to reach it.
4. Assess the **tools available** (including their maturity) and decide on an **IT roadmap**. The roadmap should reflect the choice between targeted solutions for specific areas versus an entire renewal with a platform that covers a broad range of functions. Be prepared to adjust the IT roadmap as technology evolves at a rapid pace.

To conclude, we strongly recommend that banks' Legal COOs continue to monitor the market for further developments and adapt their strategy accordingly. Smart technology is developing fast and has the potential to disrupt the legal industry in the next decade. Legal COOs need to be well informed to make a timely choice between investing in smart technologies or adapting their models to collaborate with external legal service providers.

REFERENCES

- ¹ Global Market Insights, April 2017, "Legal Process Outsourcing (LPO) Market Size"
- ² Electronic discovery (e-discovery) describes any process where electronic data is sought, secured, located, explored and retrieved with intended use as evidence in a civil or criminal case.
- ³ The Law Society of England and Wales: Capturing Technological Innovation in Legal Services, January 2017.
- ⁴ <https://www.lawgeex.com/AlvsLawyer/>

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