



# Changing business models and improving efficiency – opportunities, threats, and ways to mitigate risk

Webinar

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# What we will be covering

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This webinar is intended to help you think through the opportunities, threats and means of mitigating risks associated with different business models/efficiency opportunities.

- Employees vs consultants
- Consolidation – mergers and acquisitions
- Specialising vs diversifying
- Qualified staff, paralegals and administrative staff in the light of Mazur
- Outsourcing – in the UK and overseas
- Use of AI.

For each of these we will explore:

- What is the opportunity and what are we seeing in the marketplace?
- Threats – e.g., money laundering, client service, conflicts and independence
- Means of mitigating risk and making the most of the opportunity

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# Introductory comments

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## Regulatory requirements

### SRA Code of Conduct for Firms

2.1 You have effective governance structures, arrangements, systems and controls in place that ensure:

- a) you comply with all the SRA's regulatory arrangements, as well as with other regulatory and legislative requirements, which apply to you
  - b) your managers and employees comply with the SRA's regulatory arrangements which apply to them
  - c) your managers and interest holders and those you employ or contract with do not cause or substantially contribute to a breach of the SRA's regulatory arrangements by you or your managers or employees
  - d) your compliance officers are able to discharge their duties under paragraphs 9.1 and 9.2 below.
- 2.4 You actively monitor your financial stability and business viability. Once you are aware that you will cease to operate, you effect the orderly wind-down of your activities.
  - 2.5 You identify, monitor and manage all material risks to your business, including those which may arise from your connected practices.

# Introductory comments

## Regulatory requirements

### Money Laundering Regulations

**18.—(1)** *A relevant person must take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which its business is subject.*

Ensure that you consider the risks of any change to your business model/means of improving efficiencies as part of your periodic review of your Firm-Wide Risk Assessment(s) (FWRA(s)).

Any significant change to your firm should trigger a review of the firm's FWRA(s).

Changes to the business model, etc., may necessitate changes to your policies, controls and procedures.

# Introductory comments

## SRA Thematic Review

The SRA recently published a Thematic Review on *Growth strategies thematic review: Accumulator, Acquisition and Consultant models*

*“Firms looking to grow by acquiring other firms or adopting flexible resourcing models can be a feature of a vibrant and competitive market, benefiting the sector and the users of legal services. Most such activity is carried out successfully and without causing harm. It is important that our regulation provides a conducive environment for growth, free from unnecessary burdens for firms and barriers to normal market activity. It is also important that we understand what firms are doing in practice and the issues that can arise that may result in failures that do cause harm to consumers and the wider regulatory objectives.”*

# Introductory comments

Impacts – positive and negative – will be firm-specific

The type and level of opportunities and threats and risk mitigation strategies will be specific to your situation

- Whilst it is possible to anticipate opportunities and threats, they will very much be dependent on the features of your current firm (client base, location(s), types of legal services offered) and what you are trying to achieve
- Of course, firms often consider new business models/ways of working that involve a combination of the options we are looking at

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# Employees vs Consultants

# Employees vs Consultants

## Opportunities

- Greater flexibility for the firm
- Lawyers may prefer the sense of independence and greater control that they have as a consultant
- Consultants can oversee their own “practices” within the firm
- Firms can utilise different trading styles
- Cost advantages for consultants

## Threats

- Ability to control consultants, especially if they are remote
- The culture of the firm can change due to semi-independent consultants
- Supervision may prove challenging for remote consultants who work in their own offices
- Clients with allegiance to one consultant may depart if they leave or the consultancy contract may permit this
- Conflict issues
- Consultants practising via more than one firm may not follow internal policies

# Employees vs Consultants

## Threats

### SRA Sectoral Risk Assessment 2026

*“These firm structures can be of benefit to firms and solicitors, but their decentralised nature can carry risks. **We have noted that it is sometimes difficult for these firms to keep a central AML policy in operation, to monitor compliance, and to ensure a consistent standard across the firm. MLCOs and MLROs in these firms will need to be more vigilant and potentially more interventionist in order to make sure that the firm is not put at risk by non-compliance.** Firms should also check the level of AML knowledge of new entrants to the firm and undertake training where needed. A new consultant who previously occupied a partnership role may, for example, be unfamiliar with AML processes because these were delegated to other staff.” (my emphasis)*

# Employees vs Consultants

## Risk mitigation

Assess the level of risk to your firm and document the ways that you are mitigating risks in your risk register

- Have you thoroughly analysed the risks of having more consultants and the financial implications?
- Develop your business plan for financing the new model; your profit margins may otherwise be tight
- Ensure your consultancy contract gives you sufficient control over the consultant
- Develop an approach to conducting due diligence and onboarding consultants to ensure that they have the right qualifications, experience and ethics
- Consider centralised onboarding for clients to ensure compliance with internal policies and consistency for clients
- Restrict access to client account – do not permit consultants to access client account directly
- Do not permit consultants in remote offices to collect cash, if you accept cash

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# Consolidation

# Consolidation – mergers and acquisitions

## Opportunities

- Cost savings due to economies of scale
- Expansion – expertise, client base, physical location
- Well-regarded firms with a strong client base and goodwill may be looking for an exit strategy and/or a chance to leverage the control framework/resources of another firm
- Solution to regulatory fatigue – partners or sole traders may be looking to merge with another firm to share the regulatory burden or step down from COLP, COFA, MLRO, MLCO roles

## Threats

- Financial pressures
- Challenges of integrating firms – policies, etc
- Acquired firm/merged firm is not a good fit
- Two cultures, not one
- Taking on new practice areas which you do not have the expertise to supervise
- Hidden risks – in the client files
- Client issues
- Obtaining informed client consent to the transfer of files
- AML compliance – need to redo due diligence on transferring clients?

# Consolidation – mergers and acquisitions

## Ways to mitigate risks

### Document all the potential threats and how these are being addressed

- Each party should conduct due diligence on the other side – SRA Warning Notice 2024
- Be willing to walk away if the due diligence results are not acceptable – or impose conditions pre acquisition
- For the acquirer (or both sides in a merger) this should include understanding the quality of the legal work undertaken and the level of compliance generally
- Firms should engage at an early stage with their insurers regarding any merger/acquisition
- Financial planning is essential for the capital costs of the transaction and the subsequent costs of bringing the firms together
- Assess the quality of training received by transferring staff and the training needs following a merger/acquisition. Do not assume prior training has been adequate!

# Consolidation – mergers and acquisitions

## Ways to mitigate risks

Document all the potential threats and how these are being addressed

- Document the risks and actively track them
- Do not underestimate the time involved in an acquisition/merger and consider how this will affect caseloads, especially for Partners
- If a new firm is being created, you will have to apply to the SRA for authorisation

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# Specialising VS Diversifying

# Specialising vs diversifying

## Opportunities

### Specialising:

- a niche practice with a strong identity and specialist staff increases client loyalty
- niche practices can challenge larger firms on the basis of expertise
- can justify higher fees
- training staff in one field is easier
- targeted marketing is more possible
- can bring speaking opportunities, raising the profile of the firm

## Threats

### Specialising :

- financial risk of having “all your eggs in one basket”, particularly in volatile markets
- falling behind challenger firms in your service offering
- market competition and pricing pressure
- high profile mistakes can seriously damage the firm’s reputation and viability
- some clients prefer more traditional, broader-based law firms
- smaller, niche firms may lack capacity for larger pieces of work

# Specialising vs diversifying

## Opportunities

### Diversifying

- wider range of services/comprehensive solutions to offer existing clients and new clients, which can deepen client relationships, making them more loyal
- greater reach raises awareness of the firm
- unlocks new revenue streams
- may be more attractive to trainees because of the breadth of experience
- responding to market trends by offering expertise in emerging services like AI can aid positioning as proactive advisers

## Threats

- Specialising/diversification - lack of clarity regarding the strategic objectives of the firm

### Diversifying:

- inability to supervise new legal services
- expanding into areas in which the firm lacks expertise can increase the risk of claims
- failing to understand and assess the anti-money laundering risks caused by offering new legal services may expose the firm to a higher level of risk of being exploited
- insufficient insurance to cover new services offered by the firm

# Specialising vs diversifying

## Ways to mitigate risks

Document all the potential threats and how these are being addressed

### Specialising:

- diversify your client base (not your services), if possible
- understand the risks of specialising and actively monitor your market for risks of a downturn
- have a robust business plan – what makes you different
- exploit opportunities to raise your profile

### Diversifying:

- consider how you will supervise new areas of work; can you buy in expertise? For new areas of work, increase the level of supervision
- clearly define which matters the firm will, and will not, accept
- assess the anti-money laundering risks caused by offering new legal services
- review planned new areas of work with your insurer.

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# Post-Mazur

# Qualified staff, paralegals, etc., post Mazur

## Opportunities

- Ability to offer attractive rates/fixed fees to client
- Progression route for staff who want to gain qualifications
- Ability to leverage expertise of unqualified but highly experienced staff

## Threats

- Non-compliance with the Legal Services Act
- Unqualified staff are not properly supervised
- Unqualified fee earners have unrealistically high case loads
- Client loyalty damaged due to team approach, i.e., client does not develop a relationship with one fee earner
- Client is unaware of the level of qualification of the person with whom they are dealing
- Costs model of the firm has to be revised due to changes to the ways that legal services are offered post-Mazur

# Qualified staff, paralegals, etc., post Mazur

## Ways to mitigate

Risk mitigation should reflect the specifics of your firm

- Guidance has been issued by the Law Society – outcome of court case pending
- Define internally the difference between conducting litigation and assisting and do the same for other reserved legal activities
- Ensure your policy is clear to all staff
- Ensure file reviews check that fee earners are only doing what they are permitted to do
- Review supervision arrangements to reflect the nature of the work undertaken, the experience of staff, etc.
- Monitor caseloads as part of supervision
- Review costings for legal services – do they need to be revised?

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# Outsourcing

# Outsourcing

## Opportunities

- Opportunities are dependent on what you decide to outsource (and the same is true of threats)
- Potential cost savings which could be passed on to clients, making the firm more competitive
- Predictable expenses
- Access to specialized expertise and technology
- Flexible staffing to take account of peaks and troughs in work
- Access to skilled overseas staff at lower rates
- Management information from suppliers can be utilised by Partners

## Threats

- Breach of the Legal Services Act
- Staff employed by service provider do not have the necessary competence leading to substandard services
- Services provided do not reflect the culture of the firm, alienating clients
- Service provider is unable to provide the services due to, e.g., cyber attack, lack of capacity, financial collapse
- Data protection complexities (if data transferred overseas) or breaches
- Challenges associated with supervising supplier staff, depending on the nature of the services provided, especially if they are remote

# Outsourcing – UK and Overseas

## Ways to mitigate risk

This very much depends on what is being outsourced

- Conduct due diligence on the service provider including financial standing, references, staff training, capacity, use of technology, IT security, business continuity, etc.
- If the supplier is overseas, consider the impact of time differences
- Ensure that the contract is tailored to you (so far as possible), and covers compliance, GDPR and confidentiality, access to facilities for auditing purposes, staff training, continuity of service providers, etc.
- Agree regular reporting and dispute resolution mechanism
- Choose a supplier that values innovation and has strong connections with leading tech providers
- Carefully plan the transition – either the initial transition or the transition from one supplier to the next

# Outsourcing – UK and Overseas

## Ways to mitigate risk

This very much depends on what is being outsourced

- Dependent on the service being provided, ensure staff are trained on, and comply with, your policies, controls and procedures
- If outsourced service providers are contacting clients/handling matters, audit their work and ensure that they are properly supervised
- Consider recording all client conversations
- Have a back-up plan if the service provider fails

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# Artificial Intelligence

# Artificial intelligence

## Opportunities

- Increased efficiency - automation of routine tasks, quicker document review and drafting
- Legal research automation - reduced time spent on analysis and research (potentially)
- Fee earners able to concentrate on higher-value, client-facing activities
- Ability of smaller firms to compete with larger firms - by enabling them to handle higher volumes of cases with less manpower
- Potential new ways to interact with clients
- Potential reduction in costs

## Threats

- Reputational risk
- Phantom cases and false results - *ANPV and another v Secretary of State for the Home Department* (App No UI-2025-00373 & UI-2025-00374)
- De-skilling of staff – MIT research
- Cyber risks – data poisoning, modal inversion attacks, supply chain vulnerabilities
- AI “brain fry”
- Client confidentiality and data protection
- Accountability
- Two-tiers potentially
- Regulatory risk – to firms and individuals

# Artificial intelligence

## Ways to mitigate risk

AI is relatively new; use should be tightly controlled

- Define your needs
- Conduct due diligence on the supplier(s) – be aware of your own lack of expertise
- Risk assess the AI before you use it and document the outcome of your assessment
- If your case management system uses AI, does the supplier own the AI, or a third party to understand supply chain risks
- Have an internal policy on AI use
- Control which AI can be used
- Train staff on the use of AI
- Remodel/enhance your supervision to address AI errors?
- Consider closed source platforms

# Artificial intelligence

## Ways to mitigate risk

AI is relatively new; use should be tightly controlled

- Require that AI results/drafts are checked for errors
- Inform clients about how you use AI – how will you handle client objections?
- Avoid inputting personal data in AI. If it is, ensure it is fully secured
- Be aware of how AI can be used in money laundering

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**Ways to  
mitigate risk –  
regulatory  
risks**

# Ways to mitigate risk

## Regulatory risk

Be aware of your regulatory requirements for assessing risk, reporting to the SRA, etc.

- Ensure that you update your Firm-Wide Risk Assessment(s) to reflect changes to your business model/new ways of working
- Risk assess the use of any new technology – might it pose a threat to your compliance with the Money Laundering Regulations?
- Consider the need to inform the SRA if the change is significant
- Be aware of the need for SRA approval of changes to BOOMs, your MLRO, etc.

1. Do you have any tips or advice about effectively supervising consultants?

Clearly define roles and reporting lines and maintain proportionate oversight of their work.

2. Where staff are employed through a service company, are individuals documented secondments required?

Yes. A written secondment agreement is recommended to clarify supervision, liability and responsibilities.

3. Regarding mergers and acquisitions, is it recommended that insureds should notify their insurers about prospective changes in this way?

Yes. Insurers should be notified early, as proposed changes may materially affect cover.

4. Should insureds notify their insurers if they intend on specialising or diversifying their practice (e.g. taking on a new work type)?

Yes. Any material change in work type should be disclosed to ensure cover remains appropriate.

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# Questions

**Thank you.**



