LawNet Risk Management

Lessons for law firms

How the right risk culture delivers returns

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"To operate in today's legal sector, we have to accept the increasing weight of compliance and regulation. How we face up to it can make the difference between a costly burden and a commercial opportunity."

Kim Carr, managing partner of FBC Manby Bowdler, LawNet chairman

Welcome

Welcome to our latest sector insight, looking at how risk management can contribute to a cultural shift within law firms and generate a return on investment.

It includes the results of a substantial research project we undertook recently among the firms that comprise the LawNet membership, which looked at attitudes towards risk amongst staff at all levels.

We have analysed the outcomes and added knowledge gained in our day-to-day interactions with firms to put together a package of insights and constructive tips designed to help you see how your firm measures up.

Chris Marston, Chief Executive, LawNet

"Risk Management is a vital part of our underwriting process, an important piece of the jigsaw taken alongside fee-income, work-types, size of practice and claims history. Most important is whether practices engage in some form of risk management programme; whether that's the QBE risk assessment, an external standard such as Lexcel or ISO9001, or investment in advisory/ compliance type services. Important also is a demonstration of the drive to improve."

Deborah O'Riordan, QBE

Why Risk Management is a priority for the sector

The consequences of poor risk management reach into every aspect of legal practice. It is not just professional indemnity insurance that is affected by poor risk management, it's your professional reputation, staff morale and beyond.

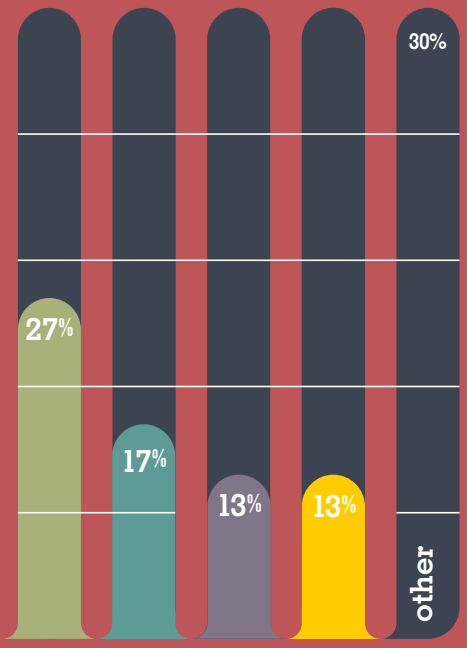
Common conveyancing claims

The four most common reasons for professional indemnity claims in residential conveyancing relate to a failure to deal properly with four key questions in the Council of Mortgage Lenders' Handbook:

1. Short period of ownership of the property
2. Whether all funds are under the control of the solicitor
3. Price changes from those stated in the mortgage offer
4. Back-to-back transactions with an intermediate buyer

Marsh, cited in SRA conference presentation 2016

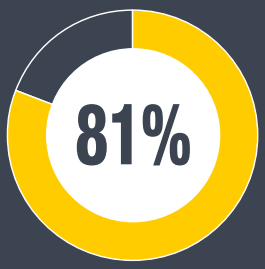
Most common data breaches



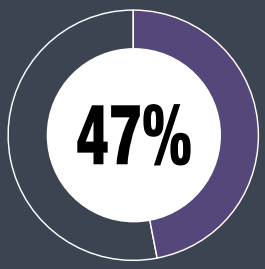
- Loss and theft of paperwork (27%)
- Data being posted or faxed to the incorrect recipient (17%)
- Loss or theft of unencrypted device (13%)
- Data sent by email to incorrect recipient (13%)

As reported to the ICO by the legal sector, 2015-16

81% of law firms said compliance is placing additional burden on fee earners



47% of law firms said cost of compliance was excessive



The Law Society, Regulatory performance survey Winter 2012-13

£7m

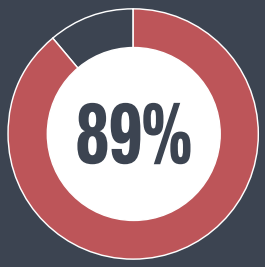
of client money lost to cybercrime in 2016.

75% of cybercrime reported to the SRA is Friday afternoon fraud.

SRA, IT security report, December 2016

Engaged staff engage customers

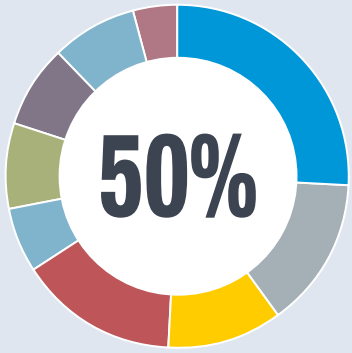
– **89%** of customers would not purchase again after a bad experience with an individual employee and **43%** of customers would actively warn others not to use them too.



The Institute of Customer Service:
"Disengaged UK workforce push customers away"
Nov 2016

Indemnity claims arise from a narrow set of legal activities

Where insurers have specified a reason for the claim - more than 50% or £770 million of value of indemnity payments result from a failure in conveyancing work.



- Residential conveyancing (26%)
- Commercial conveyancing (14%)
- Conveyancing type unspecified (11%)
- Commercial (15%)
- Litigation (6%)
- Personal and medical injury (8%)
- Landlord and Tenant/Lettings and Property (8%)
- Pensions, Tax, Trusts, Wills and Probate (8%)
- Other (4%).

SRA conference presentation 2016

Introduction

There are many gains to be made for any firm that is prepared to put a robust risk management strategy at the top of the agenda, making sure people are truly engaged and embracing the concept as part of the everyday. It makes a firm more agile and able to deal with new threats as they arise.

Effective risk management is about more than simply "ticking the box" for compliance or quality management purposes. It's about creating the right blend of culture, process and customer service, all wrapped up in a risk management strategy.

As well as reducing claims, and hence your PII premiums, such a strategy should deliver far-reaching and tangible benefits that pay out all year round, by helping you to choose clients who will keep cash flowing, filtering out inefficient suppliers, and attracting and retaining excellent employees.

There should be a direct impact on your bottom line, and strong processes will help to keep both your insurers and bankers happy, as well as tackling fraud.

And fraud, most particularly in the form of cybercrime, continues to be the hottest topic for firms. As custodians of client funds and conduits for important and sensitive transactions, solicitors are an obvious target for cyber-related fraud, whether by small timers or sophisticated, organised criminals, who are determined to overcome barriers and risk controls that might previously have been thought to be adequate.

We have seen significant changes in the past few years, with the move to Outcomes Focused Regulation and the implementation of the Legal Services Act 2007, and more will follow.

Rather than fearing these changes, we should be looking for opportunities and welcoming the shift towards greater competition in the market.

CMA Competition & Markets Authority

Recent estimates by the SRA place some 25% of legal service provision with unregulated providers. One of the frustrations for solicitors is the knock-on effect, forcing competition on an uneven playing field with those unregulated providers. In its interim report on the legal services market, the Competition and Markets Authority has suggested that regulation should be proportionate and risk-based, highlighting a number of potential changes to the existing framework.

While many regulated law firms, looking to compete with the unregulated providers, may welcome less regulation, or fewer regulators, it's worth remembering that the focus of the CMA, however, is not on reducing the burden of compliance in itself, but on its impact upon competitiveness and what is best for consumers, with transparency on price and quality being of primary importance.

LSB LEGAL SERVICES BOARD

The Legal Services Board has signposted a similar direction in its most recent business plan, saying that breaking down regulatory barriers and reducing the regulatory burden are both vital if competition, growth and innovation are to be enabled, to deliver benefits for consumers and for the wider economy.

Alongside any potential de-regulation we must also bear in mind that many in the sector prefer to have clear-cut rules to follow, which creates an inherent tension with the calls for greater freedom and less regulation, often from the same individuals.

> Joining LawNet and having to achieve the ISO9001 standard was a turning point for us, as we found it embedded the right culture and reached into every aspect of our business. We're seeing greater client engagement, better staff engagement, fewer claims, less opportunity for financial loss. We get better deals on our PII, but also with our suppliers and at the bank. It's about making risk management a part of the culture, part of the day-to-day, from induction of new starters to the end of the client matter."
>
> **Martyn Trenerry of Mullis & Peake LLP.**

How to embed risk management within the culture of a firm is something we have long been focused on at LawNet, as part of our overall practice management support to member firms, and specifically within the application of our LawNet Quality Standard (ISO9001).

Solicitors Regulation Authority

This cultural dimension has recently come under the spotlight of the SRA, which is considering how behavioural insights can be used to reduce risks within firms and to improve consumer choice, reflecting the issues raised by the CMA.

Aspiring to excellence in risk management is something that binds together the firms in our network, going to the heart of their business and supported by a spirit of openness and learning.

We see the benefits within those firms as we work with them on practice management and quality issues, and it is reflected in the responses to our research, with staff saying they are confident in their firm in areas such as their ability to manage risk.

In the following pages, we look at the major challenges faced by our firms and the ways in which they are facing up to them. We have also identified the emerging risks and drawn on experts for guidance on how the sector can rise to meet the challenge.

Hear firms talking about their experiences:

Visit our YouTube channel

"The journey to excellent risk management takes time and investment, but sound, analysis-based understanding of the key risks faced by a firm, allied to practical training and excellent communication, will help in achieving the best outcomes. The destination is one where everyone in the firm understands the risk management implications of their work and responds appropriately and instinctively to difficult issues and situations."

Charles Roberts, LawNet Quality Consultant

NETWORK-VALUE

Overall, 94% of staff in LawNet firms said they were very or fairly confident in their firm's ability to manage emerging risks.

LawNet Research 2017

BETTER CLIENT SERVICE

Better client service, reduced PII claims and reputation protection were the top three benefits experienced by LawNet firms through improved risk management.

LawNet Research 2017

Developing an holistic risk management strategy and embedding it within the culture of the firm is a journey.

Our research showed that **30%** of staff in firms who had made most progress on the journey saw risk management as a vital business tool, with improved client service and business development outcomes.

A further **50%** had achieved the point where their risk management strategy was seen to be delivering effective business management benefits.

LawNet Research 2017

TIP ONE: Create the Right Environment

The link between risk management and good business practice

Embrace the big picture

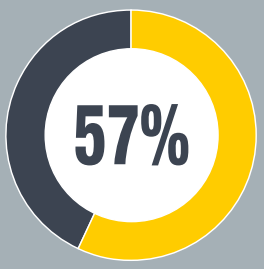
Excellent risk management should be the natural outcome when a business has highly effective management that is focused on the right issues. It is not simply regulatory compliance, nor the use of a management system, but the beating heart of a well-managed, future-focused firm. In such firms, staff understand and embrace the processes and procedures that lead to good risk management, and appreciate the learning that can come through internal and external audits.

Establishing a culture that drives improvements is essential. It's important to avoid creating a box-ticking mentality because if staff instincts are not finely tuned then risks may well be missed. At the heart of this lies the need for technical and experiential training, to equip staff with the necessary understanding to make risk mitigation an integral part of their daily work.

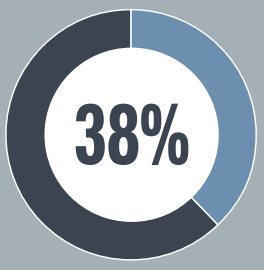
Interestingly, most of the staff taking part in our research said they could see that risk management was a vital business tool. However, our research also showed that junior and admin staff were more likely to see compliance as the most important aspect of risk management. It's an attitude that persists across the sector, with fear of the SRA and the need to satisfy regulatory requirements often dominating attitudes, with less attention paid to reputational and financial risks.

Indeed, our research found that almost 40% of law firm staff rate financial impact as the least serious result of poor risk management, but ensuring staff recognise the importance of strong financial management is a vital factor in building a robust risk management culture.

Regulatory repercussions are considered a more serious outcome of poor risk management by junior fee earners and admin staff **(57%),**



whereas senior fee earners and management **(38%)** are more focused on financial management and reputational issues.



Better client service was cited as the most important benefit experienced as a result of improved risk management.

LawNet Research 2017

> "One of the major issues is getting staff to believe they should not be fearful of regulation. We now try to make compliance happen without people noticing, focusing on what's really right for our firm. There is no one size fits all."
>
> **Ron Davison, Gamlins Law in North Wales**

AREA FOR FOCUS

- Aim for a broad risk picture incorporating regulatory, reputational and financial issues
- Work to a recognised quality standard such as ISO9001 or Lexcel
- Understand the key risks that apply specifically to your practice and your clients

> Risk management needs to be embraced as a management tool, not just a hoop to jump through. That attitude has given us much more consistency in the quality of our work and how it's delivered."
>
> **Alison Lee, Biscoes Law**

Translating risk management into fee-earner language

By **Heather McCallum**, head of risk, at LawNet member firm IBB Solicitors of West London and Buckinghamshire. She was previously a fee-earning partner with Allen & Overy, later developing their risk department.

For many lawyers, risk management and compliance can feel frustrating, admin-heavy and even restrictive. To avoid culture clash, it's worth framing a stronger understanding between fee earners and risk managers and shaping systems to achieve a balance between bureaucracy and protection. Here, I look at some of the most common frustrations I hear from fee earners.

Being too focused on regulation makes it harder to practise, without visible benefit

Risk management is at the heart of what we do because it makes good business sense, not because we are told to do it, and, if we do it well, compliance with the SRA rule book will be a natural result.

There's no need to reference the Code of Conduct in saying we want good quality clients who pay on time, without any conflicts of interest or complaints. I think senior fee earners can see how positive attitudes towards areas such as client checking can make a stronger, better firm, because they're generally closer to the potential impact. But it's important that scenario-based training helps all staff to appreciate the reasons for risk management through effective learning.

I'm good at practising law, surely that is what counts, not file management ability?

Managing a case for a client demands more than just technical skills; including good admin, negotiating and cash collection. Claims rarely relate to getting the law wrong; it's more likely a delay or administrative oversight.

Through our LawNet ISO and LEXCEL accreditations, we have bi-annual assessments and undertake regular file audits and this focus is no doubt a factor in the generally strong results recorded in our administrative processes. But where fee earners are struggling with the admin, then systems may need reviewing. Are good quality client care letters available and easily tailored for specific client or work types, and does the diary system support fee earners to help them meet key dates and deadlines?

Agile working can bring additional problems. We have a simple automatic electronic filing system for emails, but you can't file from a hand-held device, so we are looking at ways to tackle that.

I need to bring in new business to prove myself and get promotion, where's the risk in that?

For a senior solicitor, the objective may be to grow their client base and demonstrate a case for partnership, but business development can sometimes clash with risk management. Some lawyers remain unaware of rules around cold calling or may pay insufficient attention to potential conflicts of interest with clients of another department. There also need to be robust client intake processes in place before any work starts. Again, this should support business growth and go a long way towards reducing complaints, by having good quality clients, who are going to pay on time, do not fail a conflict check, and are someone the firm wants to work with.

With the right support, it should be simple to engage in business development that targets the right clients. Risk management should be an integral part of effective client development, not an obstacle.

Technology should be making my job easier, not harder

Frustration is voiced with IT for all sorts of reasons. Younger, digital-native lawyers may feel practices are Dickensian, while busy senior staff may wonder why there's no simple tech solution to their particular issue.

It may be frustrating to be stopped from using your own device without restriction, but it increases the potential for data breaches. Similarly, there are often IT solutions to issues, but if we are over-reliant on technology there's a chance we may stop thinking proactively about risk. For the firm, it's about balancing technology as an enabler with the necessary controls.
Together with other LawNet members we're putting Cyber Essentials accreditation in place. It's going to help protect our business, and should reassure clients that we are proactively protecting their information. But I will need to work with those staff who will no doubt be frustrated by some of the additional controls required.

You can't get it right for every client, every time

When someone needs a lawyer, they are often at a stressful point, even corporate clients, and sometimes that gets forgotten. We need to put ourselves in each client's shoes and use complaints as a source of feedback and learning.

Heather McCallum, head of risk at IBB Solicitors www.ibblaw.co.uk

Are you thinking about each client as an individual and making sure the approach and language is adapted to suit? Being proactive when things go awry can make a huge difference too – much better to pick up the phone than hide behind defensive emails.

Excellent client care is vital for any business today, and when lawyers embrace it, you aid risk management and support compliance. Differentiate your service to win and retain clients, and this will easily support the Code of Conduct that requires you to act in the best interests of clients.

This article was first published by Solicitors Journal magazine

TIP TWO: Build meaningful processes

Real cultural change demands a made-to-measure approach

Make it natural

Risk management should be a natural process for both individuals and the firm itself. The key lies in committing to risk management in such a way that it becomes integral to the firm's day-to-day activity, rather than something to be thought about separately.

To achieve that, the right working practices must be in place, with process development and consistency of process, but most importantly they must reflect the way people work, so as to make it a natural part of the everyday. Where risk management is built into work flows, it is provable as well as do-able.

Effective management systems should be focused on delivering results that make risk mitigation the natural outcome, and many firms have demonstrated that well-considered IT systems can support great results in risk management.

An example would be a case management system that integrates effectively with the firm's processes to ensure that any client on-boarding involves the right risk assessments, conflict checks and identity checks before work starts. The added benefit of such an approach is that the firm's case management system provides the necessary audit trail to support review and future improvements.

Regulatory compliance and fear of the SRA is high, as demonstrated in our research findings, yet a poorly-checked client has the potential to bring a firm down. The checking doesn't just relate to whether they are who they say. That is vitally important, but equally is being sure the client has the wherewithal to pay their bills, that the work type is a match for your firm and that it's a client with whom you want to do business.

If they are downright difficult, slow to pay, challenging advice or refusing to confirm instructions, experience shows they are more likely to be behind a complaint at a later stage.

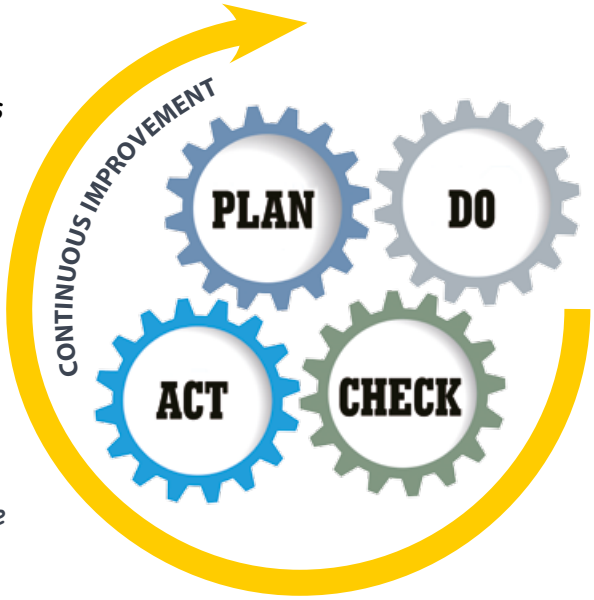
When it comes to complaints and claims, it is essential that firms are open to the benefits of sharing and learning from mistakes, as this is the route to improving processes in the future. In our research, we found relatively few firms were sharing these issues throughout the firm, at just 14%, although some 60% were sharing at departmental level and around a quarter are sharing anonymously.

Building a shift in culture through your risk management strategy is likely to involve additional resources, but you should see a corresponding return on investment and it's important that firms have systems in place to measure the value of their risk management. In our research, we found only 20% of firms are attempting to do that, or analysing the cost of risk-related training separately, despite one-third saying they have higher numbers of staff dedicated to risk management than two years ago.

> "Risk management is showing a real financial return and demonstrating that simple changes can have a far-reaching impact. For example, a robust evaluation of clients before taking matters on is leading to lower lock-up, fewer bad debts and better client retention. It drives everything we do and our procedures have been evidenced on the bottom line."
>
> **Steven Treharne, Managing Partner, Mogers Drewett**

The plan do check act cycle

Risk assess
Set objectives
Establish systems



Provide resources: people, time, IT etc
Raise awareness
Training
Use systems

Objectives met?
Review
Audit
Supervision
Feedback
Complaints

Analyse failures
Share experience
Correct systems

The cycle to create cultural shift and embed risk management should lie at the heart of all you do.

KEY RISKS

- Sources of funds, especially property transactions
- Identity checking and being sure that clients are who they say they are
- Complying with new regulations implementing the EU's 4th Anti Money Laundering Directive

TESTING

Wide-ranging testing methods of management systems, including file review, client surveys and audits

LEARNING

1. Look at how your systems can support risk management, whether existing or newly planned
2. Complaints and claims present a learning opportunity: share the lessons from when things have gone wrong to reduce future errors
3. Invest in training: go beyond generic technical learning to embrace practical, firm-specific experiential learning
4. Build an improvement cycle into your management systems, by taking action on the results of all testing and auditing.

COSTS AND ROI

File management is the most time-consuming aspect of risk management, followed by performance management of self and others and these areas have seen the biggest increases in time spent over the past two years .

LawNet Research 2017

PERCEPTIONS OF RISK

Residential conveyancing is perceived as the highest risk work, followed by commercial property.

LawNet Research 2017

SOCIAL MEDIA

Over 90% of staff were aware and understood their firm's policy regarding the use of social media.

LawNet Research 2017

TOP THREE AREAS FOR FOCUS

1. Failing to Advise:
Top of the list as this is behind some 25% of all claims. Not to be confused with providing incorrect advice, this is about the scope and limitations of the work; clarity of responsibilities when other professionals are involved; and making clear the implications of options discussed so the right choices can be made. In terms of claims defensibility, if you can't prove you said it or did it, then it didn't happen!

2. Improved Client Risk Assessment:
Too often this is just focused on compliance issues and credit risk, whereas a greater focus on character traits and the potential for relationship or reputational damage could help prevent issues further down the line.

3. Deeper Organisational Learning:
Claims, complaints, near misses, client feedback and internal reporting mechanisms all provide a rich data source to feed your risk management learning agenda. This needs to address underlying causes, capturing and embedding preventive measures at all levels, practice-wide, so they are established in the business for the long term.

QBE

AREAS FOR FOCUS

- Manage and understand the costs of your risk management so you can see where value is being added
- Share and learn from mistakes by embracing failure and developing responsive processes.

"Investment in experienced risk resources is a good thing, whether dedicated or part of a shared function, particularly where specific skills and knowledge are being added to the mix. But once an operational risk framework is in place, risk culture is the next big thing. I would challenge those practices that haven't looked at this yet to do so."

Deborah O'Riordan, QBE

Making a virtue of compliance

Kim Carr is managing partner of Midlands-based LawNet member firm FBC Manby Bowdler, and chairman of LawNet.

Kim Carr, managing partner of FBC Manby Bowdler, LawNet chairman www.fbcmb.co.uk

Any firm operating in today's legal sector has to accept the increasing weight of compliance and regulation, but how you face up to it can make the difference between a costly burden and a commercial opportunity.

It looks unlikely that we will ever see any relaxation in this area. The National Crime Agency recently reported that foreign criminals were pushing up house prices in the UK by laundering billions of pounds through the purchase of expensive properties. And more recently, the national risk assessment from the Treasury and Home Office highlights how services provided by the legal sector, such as conveyancing and client account facilities, are attractive to criminals seeking to conceal criminal funds.

Faced with the rising tide of regulation, we strived to create a positive compliance culture within our firm, but could see a conflict for fee earners, who felt under pressure to balance the compliance burden with the desire to deliver a stellar service to their clients.

We needed to find a way to create cost savings, free up time within fee earning teams and make improvements in compliance management, so that the firm could adapt quickly and efficiently to meet changing client and compliance demands. We have a concept we call intelligent delivery, which has been embedded throughout the business and we decided to apply the thinking behind the concept to the compliance function.

We instigated a process mapping exercise which followed client files, from the client's first point of contact with the firm through all the necessary compliance checks, to opening the file. We involved fee earners and members of the support team in the work, so they felt able to influence the outcome and to enable us to address any concerns they had about the impact on their relationship with the client and the handling of the work.

The result of that process was the creation of a centralised compliance unit – a five-strong team responsible for opening all new client matters, dealing with day-to-day inceptions and conflict checking. The firm also includes two compliance assistants who focus on workflow development and process mapping.

Before the introduction of the compliance team, files were opened by secretaries who carried out AML checks and fee earners took the lead on client verification. We could see through our file review and audit processes that these checks weren't consistently reaching the standards we wanted across the firm, in part because of the split responsibility.

Now, we know that all the checks are being done properly, and that we are minimising risk to the business and the fee earners in this area.

One of the other advantages of the new system is that the compliance team look beyond regulatory checks to consider wider individual and business information, including their financial standing. This objective information has enabled fee earners to discuss payment and cost issues with clients at the outset in a more productive and open manner. The financial risk to the firm of individuals or firms defaulting has been reduced, which has had a positive impact on lock-up. There has also been a real benefit to clients who have been able to make better and more realistic cash flow plans. Now, we're looking at reviewing reputational issues as well, considering whether these are clients that we want to do business with.

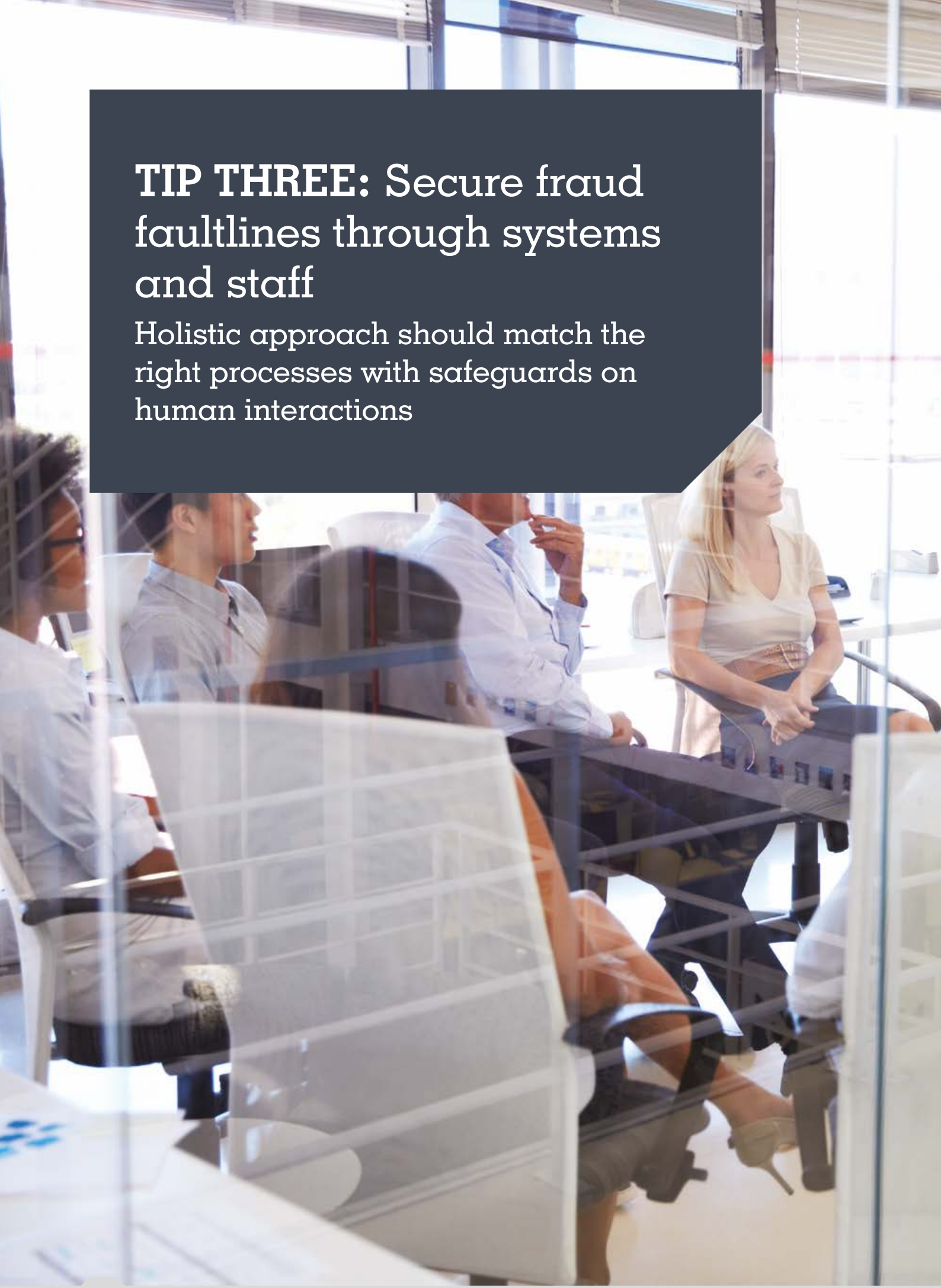
An unforeseen benefit is that whilst ensuring that new data is correct and complete, the team have also cleansed our historic customer data. Like many law firms, we had a huge database of less than quality data. The work the team has done should make any future change of practice management software much more manageable, as well as enabling us to use our database to communicate more effectively with our clients.

The gains for us have been immeasurable, with the knock-on impact ranging from containing professional indemnity premiums because of our improved risk management, through to much-improved cross-selling achieved through our clean customer database. It's also brought us broader recognition in the sector, with the team winning a LawNet Team of the Year award and being used as an exemplar for process management by the Law Society.

When we first discussed the idea of centralising compliance, it was met with a great deal of scepticism, both within the firm and externally, as there was a real belief that fee earners would be resistant to such a change. Having made the change, my only regret is that we did not do it sooner.

What we have learned is that whilst change is always difficult within organisations, fee earners are happiest doing the things that interest and excite them. Once our lawyers could see that the changes offered a chance to focus on what they do best, and would serve to strengthen their relationship with the client, rather than detract from it, combined with a move away from things that bored or scared them, they willingly accepted the change.
It is also essential that the communication around the process is handled well with openness and a willingness to listen to ideas. And, as ever, when things don't work, be prepared to take a new direction and admit you got it wrong.

This article was first published by Managing Partner magazine



TIP THREE: Secure fraud faultlines through systems and staff

Holistic approach should match the right processes with safeguards on human interactions

Facing the threat

Today, cybercrime is a firm's biggest worry, but sophisticated electronic threats are only one part of the picture. Risk management is all about how people interact with their work, process and environment, and fraud generally occurs because of human lapses.

Advances in technology may provide hope for the future, in the fight against fraudsters, but the challenge of staying one step ahead will always remain. The route to fraud prevention today lies through a two-prong approach that places equal importance on process and training.

Best practice demands across-the-board awareness, so everyone can see risk management is high on the agenda. One of the most important ways that can take place is through sharing knowledge and experiences of attempted fraud and by discussing and analysing claims. If your firm suffers a loss, learn from the experience: change processes, introduce training initiatives and bring in outside help to firm up defences for the future.

We find firms sharing experiences across the LawNet network and this is helping them to keep better informed and able to implement best practice.

In our research, cybercrime and fraud is ranked the biggest threat for 2017 by 40% of firms. The changing face of commercial business has brought many opportunities: in how we communicate, the technology that helps us in our daily work, and the way in which data is stored and used. However, these same opportunities also open the door to risk, through hackers and fraudsters.

The range of scams keeps evolving and we're getting used to a new lexicon including phishing, vishing, malware and social engineering crime. If you're unsure

about any of the terms, take a look at the glossary on the Cyber Risk Insurance Forum. Yet, research undertaken by global insurance broker Marsh, who manage our LawNet professional indemnity scheme, found that almost 70% of the companies they surveyed do not assess their suppliers and/or customers for cyber-risk.

Penetration testing by outside agencies can help test defences – of both technical systems and staff – and good process can be recognised through accreditation such as Cyber Essentials Plus. This, with its external assessment, is an excellent first stage and we have been recommending this to member firms as a way of supplementing the information security provisions in our ISO9001 LawNet Quality Standard. For bigger firms the next stage may be ISO27001 certification, a more sophisticated information management system.

With the added requirements of the Europe-wide General Data Protection Regulations (GDPR) in force from May 2018, firms also need to ensure their technical systems will meet the requirements of this new standard of data protection.

> "The attacks were unsuccessful; the whole firm is always informed of any suspicious emails and we are advised on what to do in each case."
>
> **LawNet Research 2017**

NUMBER OF CYBERCRIMES AGAINST BUSINESS (2015)

£2.3 billion was lost by global businesses from **email** fraud

43% of all cyber attacks are aimed at small **businesses**

9 security breaches featuring more than **10** million **personal** records

£1.57 million was paid by UK businesses in **ransoms**

£1 billion lost to UK business from online **crime**

Action Fraud, CRN, FBI, Symantec

REPORTS TO SRA OF CYBERCRIMES NOV 15 - JUL 16

- Friday afternoon fraud: 75%
- CEO fraud/scams: 9%
- Info theft/hacking: 9%
- Other cybercrimes: 7%

SRA, IT security report, December 2016

KEY RISKS

- Client data being stolen
- Client money taken or transferred in error, for example during property transactions
- Lack of preparation for GDPR and other upcoming legislative changes.

TESTING

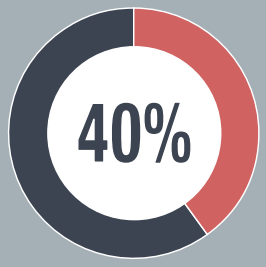
Penetration testing and audits by specialists to cover both systems and staff.

LEARNING

1. Keep up to date with the latest fraud tactics
2. Assess your supply chain and customers for cyber-risks
3. Have clear risk assessment processes so staff can easily identify and communicate risk situations to colleagues
4. Share real cyber-fraud experiences to increase awareness of specific threats
5. Use targeted learning to encourage staff to question anything that is out of the ordinary.

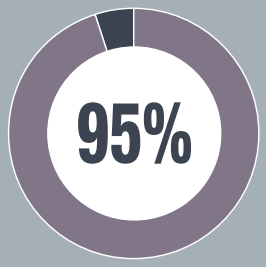
Fraud : the risk management issues

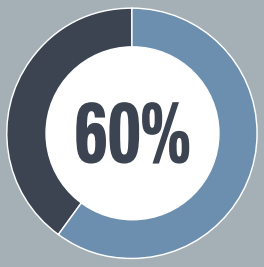
Cybercrime and fraud is ranked the biggest threat for 2017 by **40%** of firms, closely followed by client data protection and maintaining robust IT systems and information security.



Almost **50%** of respondents were aware of a fraud attack to their firm in the last 12 months, of which the majority were email phishing attacks.

Over **95%** of respondents **understood the firm's policies** in the key areas of banking and client payments and of managing files and equipment away from the office.





Over 60% of respondents are regularly using penetration testing of IT systems but just under 20% are using social penetration testing of people and processes.

Just under 30% of respondents did not know if their firm had suffered a fraud attack in the last 12 months.

Administrative and secretarial staff were most likely to respond that they did not know the firm's policy for dealing with bank accounts and client payments.

LawNet Research 2017

AREAS FOR FOCUS

- Greater use of penetration testing of people and processes, as well as technical systems
- Improve awareness among junior staff to protect bank accounts and client payment processes
- Sharing experiences of attacks can help in keeping staff up to date and focused on best practice.

> "Being seen to be doing things correctly is a selling point, with clients increasingly concerned about the impact of cybercrime on their data and funds. The cost and impact of getting it wrong could be devastating for our business. But there are much wider benefits, such as attracting and retaining high calibre staff, who want to work for firms where they can see risk is being managed properly, particularly if they're looking to take an ownership stake in due course."
>
> **Edward O'Rourke, Ashtons Legal**

Tackling attitudes towards cybercrime

by Peter Riddleston - learning and quality director with LawNet.

Firms are becoming increasingly fearful of cyber fraud, but many are failing to tackle the problem with a root and branch approach to protection.

News headlines in the professional media reveal the increasing prevalence of cybercrime attacks. Recently that's included elite international firms, some based in the UK, targeted by a Russian cyber-criminal to steal information for insider trading, through to the news from major insurer QBE saying that around £85m has been stolen across the legal market in the past 18 months.

As a result, more people are toughening up their technology protection, which is vital, but not enough, as fault-lines are just as likely through human interactions, whether between staff, clients or suppliers.

Yet research undertaken by global insurance broker Marsh, who manage our LawNet professional indemnity scheme, found that almost 70% of the companies they surveyed do not assess their suppliers and/or customers for cyber-risk. It all adds up to the need for an holistic approach.

The difficulty firms face is that the threats are a constantly moving target, with fraudsters seeking new and innovative ways to attack when an existing method becomes well known and less effective. If you want to keep abreast of the latest cyber-jargon and newest scams, together with some advice on tackling them, the Cyber Risk Insurance Forum has a useful resource.

Securing through systems

A good starting point is to use a 'friendly hacker' for penetration testing. They will identify and address any potential weaknesses, and ensure you have a detailed understanding of your information management systems as a whole.

Quality management systems for cyber security can also be extremely beneficial in ensuring the right policies, procedures and protections are in place, reviewed and kept up to date to reflect the changing threats. One example is Cyber Essentials Plus, a scheme which benefits from government backing as well as industry support through the Federation of Small Businesses and the CBI. Following our own evaluation of the standard, we've decided to roll it out to our member firms to bolt-on alongside our compulsory ISO9001 Quality Standard. Alongside, firms need to establish very clear procedures with clients regarding how, for example, changes in bank account details must be communicated.

Securing through staff

Many fraud and cybercrime attempts fail or succeed due to the way a member of staff reacts when confronted with a suspect email or telephone call.

There are concerns that the usual Spring surge in the property market may lead to more 'Friday afternoon fraud' attacks on law firms. You can see why; a busy day of completions with large amounts of money passing between different firms of solicitors, who are under pressure to get transactions completed, creates a clear opportunity for fraudsters to trap the unwary.

Whether the target is conveyancers, probate practitioners, or any other activity that relies on hefty sums in the client account, such attacks generally focus on social engineering to elicit sensitive information or force action, ranging from emails purporting to be from senior management asking finance staff to send money to different destinations, through to phishing and vishing.

Staff must be kept updated on protocols and processes as they are developed – if clients are asked to communicate changes in financial details in a particular form, staff must be able to identify when these protocols may not have been adhered to. It means ongoing training is vital, in part to respond to new threats but more importantly, to establish a culture where staff are able to identify something suspicious and react in the right way, even in the pressurised situation of a series of Friday property completions.

There are excellent on-line learning courses that discuss the key risk areas and common fraud scams. These can be a really useful starting point, but many firms will have been subject to a fraud attempt of some sort, and this is vital knowledge and experience that can be drawn on, to learn and improve the firm's defences against further attacks. As in most areas of learning, sharing a real experience helps put other learning in context and increases its value; so consider sharing experience from those who have seen or experienced cybercrime and fraud at first hand.

Securing through indemnity

Professional indemnity insurers are becoming increasingly focused on the impact of cybercrime on claims. It is vital that firms act quickly not only to protect themselves but also to demonstrate to insurers, regulators, clients and potential clients that they are taking the right steps to mitigate the risks. Although professional indemnity insurance will normally cover losses to the firm's client account, firms should consider taking out specific cover for cyber frauds which result in loss to the firm directly. These policies often include an element of 'crisis management' assistance by providing expert guidance on how to approach and manage the firm's response to the attack.

Peter Riddleston, learning and quality director with LawNet www.lawnet.co.uk

Last year, we encouraged our members to set out their cyber security policy for serious threats, and this was submitted alongside their PII proposal form. For this year, such plans will be essential across the sector and everyone should be prepared to offer details of their security policy, rather than waiting to be asked.

No one is immune, but we can all work to mitigate the potential impact of attempted scams.

This article was first published by the Legal Compliance Association portal

LawNet Risk Management support

LAWNET QUALITY STANDARD

The LawNet Quality Standard is our bespoke ISO9001 standard written specifically for law firms.

It encompasses all the requirements of ISO9001 as well as Lexcel and Outcomes Focussed Regulation. We contribute to the costs of ISO assessments for our members.

The fact that the LawNet Quality Standard provides accreditation to ISO9001 is crucial. Our members tell us that the fact that their clients know about and understand the meaning of ISO9001 accreditation gives them a competitive edge.

Once a firm has achieved accreditation to the LawNet Quality Standard, it is "Lexcel ready" and can easily proceed to dual accreditation.

Firms with dual Lexcel and LawNet Quality Standard accreditation receive a contribution from LawNet towards the cost of annual assessments.

RISK & COMPLIANCE SUPPORT

LawNet provides members with ongoing support to achieve and maintain the LawNet Quality Standard as well as a monthly compliance newsletter and quarterly anti-money laundering update.

We also have free helplines that members can call to discuss compliance queries and questions relating to the LawNet Quality Standard.

Our package of support ensures that firms remain up to date on current compliance issues and can easily access expert advice.

DEVELOPMENT AND LEADERSHIP

Our members benefit from regular risk management and compliance training, delivered either face to face or through discounted arrangements with specialist online learning providers.

We focus our training in this area on topical issues and trends such as anti-money laundering and cybercrime as well as regulatory issues and common risk management problems associated with different types of legal work.

This ensures our members receive the latest advice and guidance on the issues that concern them most and have the chance to discuss and debate with other members in a friendly, open environment.

PARTNERS

We work with sector experts to ensure our members get the best advice on compliance and risk management issues.

Online risk management and compliance training is available through our partnership with Vinciworks and our monthly compliance newsletter and helpline are provided by compliance expert Tracey Calvert, of Oakalls Consultancy.

Audits for the LawNet Quality Standard are provided by Centre for Assessment with independent advice being offered by Charles Roberts of HRC Group. Charles has extensive experience of assisting law firms in achieving and maintaining quality standards and is well known for his practical, user friendly approach.

CYBER SECURITY

Law firms remain one of the main targets for cyber attacks and it is vital that firms understand the threats and take steps to protect themselves.

Our support package for members includes access to systems testing to identify potential weaknesses and threats, training on the key risks and guidance on how to ensure that your systems and procedures are sufficiently robust to provide protection.

Our members can also access specialist advice and guidance to help them obtain cyber security quality standards, enabling them to demonstrate their proactive approach to protecting themselves and their clients in this high risk area.

Welcome, you're in good company

When you become a LawNet member firm, you're in good company. Our members are leading independent law firms across the UK, committed to excellence.

You'll be part of a national network of over 2000 quality assured solicitors, with links to 6000 lawyers in 50 different countries internationally.

Most importantly, every firm is independently audited and must deliver the highest standards in client care and professional service."

LawNet Approved Firm ISO 9001 Quality & Service Accredited

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Further, together

LawNet

Membership benefits

- Radically reduce your PII premium with the legal market's biggest group scheme
- Cut costs through exclusive discounted services geared for firms like you
- Raise your standing with internationally recognised accreditation
- Benefit from exclusive partnering and panel arrangements
- Secure business referrals from cross-profession alliances
- Improve performance through benchmarking
- Invest in your people through bespoke specialist training
- Experience big firm style strategic marketing and management
- Share knowledge and learn in a non-competing environment
- Have your voice heard in shaping future network strategy and services
- Stand out in the market and deliver measurable, high quality client service through the LawNet Mark of Excellence accreditation and support package.

Formed in 1989, LawNet is the network for leading independent law firms in the UK and Ireland. It is also a member of Eurojuris, which links lawyers in 50 different countries internationally, providing opportunities to build relationships for offshore work and cross border referrals.

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