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OCTOBER 2018
ASIA EDITION



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MCI (P) 031/02/2018
ISSN 0219 - 6875
KDN PPS 1867/10/2015(025606)

■ In-house legal departments have not been exempted from the increasing complexity of operation that globalization has forced onto international corporations, and this is equally true in Hong Kong.

But this complexity may have had some positive side-effects. In Hong Kong, for example, legal departments have worked hard to develop more savvy budgeting techniques and to choose more suitable external partners.

A recent report titled 2018 State of Corporate Law Departments in Hong Kong, released by legal research firm Acritas and Thomson Reuters, finds that legal spending in the city is growing due to increasing international needs, with nearly half of respondents saying they will increase their legal budgets and only 17 percent planning to reduce them.

INDISPENSABLE EXTERNAL COUNSEL

Most local corporations spend almost 60 percent of their legal budget outside Hong Kong – most frequently in the UK, the U.S., China, Singapore, Japan, India and Australia. And a similar number expect their international legal spend to climb.

COSCO (Hong Kong) Group, a Chinese state-owned conglomerate, spends the largest portion of its legal budget on cross-border M&A.

“For cross-border M&A transactions, external lawyers are involved in legal due diligence, multi-jurisdictional anti-trust analyses and filings as well as provision of legal advice from relevant legal perspectives,” says COSCO General Counsel Michelle Hung. “External help is inevitable when overseas jurisdictions are involved or the level of complexity of a transaction is extraordinarily high.”

For private hedge fund Oasis Management, hiring the right external law firms is key.

“One does a lot of heavy lifting in-house, but you need to have an appointed external counsel for both onshore and offshore funds, and typically these firms are providing specialised legal services within their area of expertise, which is invaluable,” says Phillip Meyer, general counsel, chief

MODERN, EFFICIENT, SAVVY

In-house legal departments in Hong Kong, as in major cities around the world, are today striving to add value to the organisation, instead of being seen as a cost-centre or one that only acts reactively to the organisation’s legal needs, a new report from Thomson Reuters and Acritas has found.

BY ASIAN LEGAL BUSINESS



compliance officer and chief operating officer at Oasis.

NO LONGER ALTERNATIVE

Companies have long focused on traditional law firms when hiring external legal help, but the survey found that many are increasingly willing to use alternative legal service providers (ALSPs) such as legal process outsourcing companies, flexible resource providers, consultancy firms, and technology solutions providers. ALSPs can cut costs and improve process efficiencies. A total of 28 percent of respondents are actively using ALSPs and this number is expected to grow.

One of the attractions of ALSPs is that they have a high degree of technological competence. Investment bank BNP Paribas Hong Kong uses external help for tech-related legal issues despite allocating majority of its workload in-house.

Derek Gobel, Asia Pacific general counsel at BNP Paribas, says: “Today our external legal spend generally falls under the headings of IT-related issues including digital, cybersecurity and other technological risks.”

Oasis also employs ALSPs for cybersecurity issues.

“For certain specialized areas such as cybersecurity or specialized legal topics, we do consult with outside providers and may even have a technical expert such as a technology vendor assist with cybersecurity-related matters,” Meyer says, adding that Oasis also seeks external assistance from non-law firms when it comes to specialised documentation.

He notes that using these firms can be cost-effective as ALSPs cost less than traditional law firms. “Usually these documentation consultants charge half of what the law firms do, if not less,” Meyer says. On top of that, ALSPs may be more commercially savvy than traditional law firms.

The emergence of ALSPs has brought intense competition to the pool of external legal services. “My impression is that most law firms have to work harder to maintain relationships,” says Gobel. “There seems to be greater competition for legal work and we welcome that.”

WORK MOVING IN-HOUSE

Despite the lower cost that comes from using ALSPs, organizations are three times more likely to move more of their work in-house, according to the survey.

Oasis' Meyer says budgets are easier to control in-house.

"Typically, we do not ask an outside firm to manage a legal project because you will very likely lose control of costs," he says.

"You need someone in-house who can make decisions on what work should be kept in-house, what needs to be outsourced, and how to manage the legal costs, work, and relationships with the outside firms," he adds.

Gobel stresses that in a majority of cases, in-house talent is sufficient. "Why ask for external help when we have an internal team?" he asks. "Internally we can deal with the bulk of legal work, and only need to outsource work externally when we require some specific additional help or expertise."

"Today our external legal spend generally falls under the headings of IT-related issues including digital, cybersecurity and other technological risks."

— Derek Gobel, BNP Paribas




SUGGESTIONS

As part of the survey, Acritas and Thomson Reuters have made some recommendations based on the results.

One of them is for corporates to check the legal services market and internal capabilities on an ongoing basis to be able to find providers that optimise cost efficiency.

At the same time, given the

concerns that law firms are not commercially savvy enough, the report suggests that legal departments invest more time in the short-term to become more immersed in the businesses and have the ability to offer more commercially-savvy legal advice in the long run. Acritas found that if external lawyers are treated as business partners instead of merely a supplier, the outcome of the relationship turns out to be better.

A greater level of diversity is also recommended. A mixed-gender legal team performs significantly better than a single-gender legal team, the study found. One-third of matters should be allocated to female lead to encourage law firm diversity at the senior levels, according to the report. This is based on the alarming finding that 67 percent of senior Hong Kong in-house counsel from Acritas' interviews are male, who are found to be less likely to choose female external lawyers as leads. 



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