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# Regulatory Reform and Innovation in Legal Services: Evidence from Utah and Arizona

# Executive Summary

Efforts to **rethink the regulation of legal services** are gaining momentum in the US, fueled by a **yawning justice gap** and growing evidence that **regulatory barriers** are at least partly to blame. **Utah and Arizona** have already embarked on reforms to relax restrictions on **who can practice law (UPL)** and **who can own law firms (Rule 5.4)** in order to spur new approaches.

As other states consider whether to follow their lead, we ask **two key questions** about what regulatory reforms can achieve:

1. **What types of innovation** in legal service delivery models will different approaches generate?
2. **Who will be served** by those innovations?

**Our study** of Utah and Arizona, supplemented with insights from England and Wales, sought to:

1. **Develop a conceptual framework** for thinking about **types of innovation** — i.e., what's possible; and
2. **Conduct an empirical study** of the **incidence of innovation across** the two states — i.e., what's happening in reality.

It yielded **five key insights**:

1. **Regulatory reforms are spurring substantial innovation**, which can be broken down into a taxonomy of innovation composed of five types.
2. **Lawyers are playing a central role** in the entities and the innovation within them whether as practitioners, through oversight and compliance roles, or through ownership and leadership.
3. **A majority** of entities are using **both technology and other innovations** to deliver services in new ways, mostly to consumers and small businesses.
4. **UPL reform appears to be critical to serving lower-income populations**, based on comparisons between Utah and Arizona.
5. **Reform efforts** to this point **do not appear to harm consumers**.

# The challenge of regulatory reform

## The access to justice gap

### What it is:

#### Immense volume of legal issues

55 million Americans experience 260 million legal problems per year.

#### Insufficient legal help

80% of low-income individuals cannot afford legal assistance.

#### Lack of access to real justice

At least one party is unrepresented in 75% of filed civil cases.

### Key causes:

**Lack of funding** for state justice systems

**Declining investment** in legal aid

Widening **wealth gap** and fraying **safety net**

Shrinking **"PeopleLaw"** market

**Restrictions on who / what can practice law**

## Growing consensus that restrictive regulation is a cause

### UPL: unauthorized practice of law

Constrains supply of legal help by barring nonlawyers, such as paralegals or software platforms, from legal practice.

### Rule 5.4: bans on lawyer fee-sharing

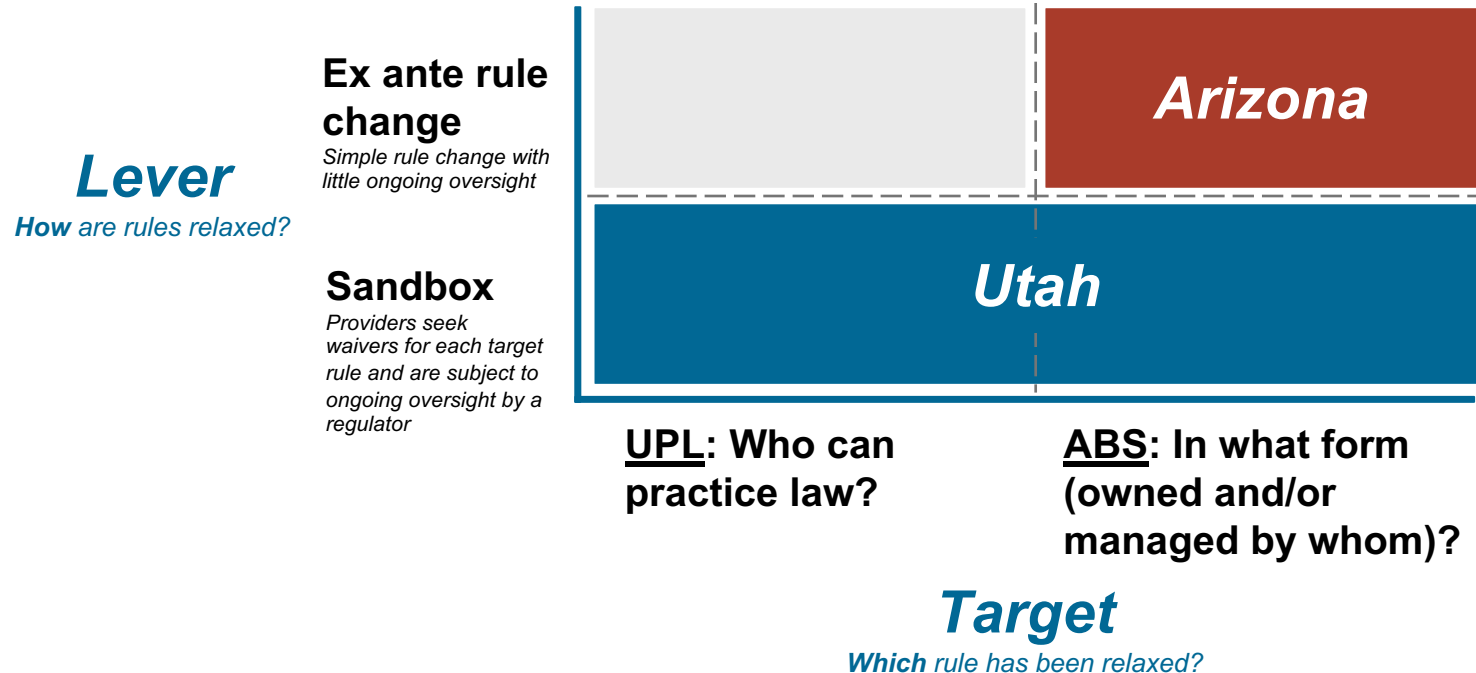
Rule of Professional Conduct 5.4 and its state-level equivalents block access to outside capital and equity-based compensation for non-lawyer experts.

*Our focus in this document and accompanying report.*

# Reform in action: Utah and Arizona

**Utah and Arizona** have already taken substantial steps to revise the way they regulate legal services, taking **approaches that vary along two dimensions: lever and target.**

- Utah created a sandbox within which entities can seek waivers of Rule 5.4, UPL, or both.
- Arizona relaxed Rule 5.4, and did so outright.



# Our study: building a conceptual framework

## Understanding what's happening

We conducted **semi-structured interviews** with 37 entities (UT, AZ, UK) to develop a **taxonomy of innovation**.

Then, we focused on AZ and UT and coded all **publicly available materials on all 57 authorized entities**.

*As of June  
30, 2022*

## Distilling down to a taxonomy of innovation

Starting with the **types of innovation that have emerged**, and incorporating **what further innovation is possible**, we've narrowed down to five flavors.

**ABS: Structural innovation that targets Rule 5.4** and enables non-lawyer investment, partnership, ownership, and expansion. We refer to Types 1-4 as **ABS reform**.

**UPL: Delivery innovation that targets UPL** and often overlaps with structural innovations; it focuses on how – and by whom – legal services are delivered. We refer to this, Type 5, as **UPL reform**.

# A taxonomy of innovation

	Reform	What they do	Illustrative case study	Report
1 Traditional law firms making changes	ABS	Take <b>non-lawyers</b> into <b>equity ownership</b> or use non-lawyer <b>investment</b> to expand	<b>LawHQ</b> : plaintiff-side firm with app	p. 25
2 Law companies practicing law	ABS	Provide legal services with <b>non-lawyer ownership</b> (e.g., LegalZoom, a public co. which IPO'd in 2021)	<b>LegalZoom</b> : basic legal info and form completion targeted at small businesses	p. 26
3 Non-law companies expanding into law	ABS	New entrants: <b>holistic</b> “one-stop-shops” (e.g., law + accounting) and <b>offshoot services</b> (e.g., travel services → visas)	<b>GovAssist</b> : visa legal services, a subsidiary of a travel services co.	p. 30
4 Intermediary platforms	ABS	Connect consumers with lawyers via (digital) <b>marketplaces</b>	<b>Off the Record</b> : connects lawyers and consumers with traffic citations	p. 33
5 Entities using non-lawyers and tech to practice law	UPL	Use <b>non-lawyers</b> , and sometimes non-humans, to <b>provide legal services</b> ; may also have non-lawyer investors or owners	<b>Rasa</b> : expungement services via AI and nonlawyer providers	p. 34

*How services are delivered; possible overlap with ABS reforms from types 1-4, which are mutually exclusive structural reforms.*

# 1 Traditional law firms making change

## What fits here?

**Law firms** that have added a nonlawyer partner, accessed new sources of capital, or introduced a new service delivery model.

### Minor tweaks:

- Solo practitioners who gave an equity interest to a paralegal
- Firms merging with capacity-enhancing companies (e.g. **Rocky Mountain Justice**, a plaintiff-side firm that merged with a radio marketing company in order to enhance its marketing capabilities)

### More substantial changes:

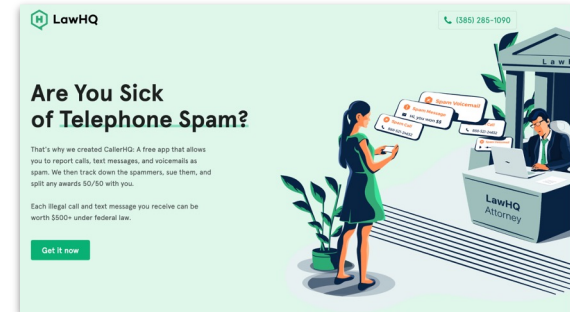
- Raising capital to build a new service delivery model, such as an app

Comprises ~35% of authorized entities in UT and AZ.

## Case study: LawHQ

A **plaintiff-side firm** that has entered the Utah sandbox in order to **raise capital to develop an app**:

- Consumers can identify themselves as having been victimized by spammers, opt in to litigation (subject to vetting and conflicts checks), and use the app to identify which calls are spam.
- LawHQ can then identify clients and collect evidence for litigation against spammers



2

# Law companies practicing law

## What fits here?

**Companies**, not law firms, **with nonlawyer ownership** who were already delivering legal services to corporate or consumer clients.

Predominantly **use lawyers to deliver legal services**, with two flavors:

- **Corporate-facing**; provide professional services (e.g. **Elevate**, an ABS in Arizona focused on corporate entity formation, e-discovery, and subpoena compliance:
- **Consumer-facing**; deal largely with document assembly for small businesses (e.g. **LegalZoom** and **RocketLawyer**) or individuals (e.g. **Hello Divorce**, a software platform for simple divorce filings that refers out to its sister law firm)

Comprises ~35% of authorized entities in UT and AZ.

## Case study: LegalZoom

**Public company** that IPO'd in 2021. It gained ABS status in Arizona in 2021 after operating as an ABS in the UK since 2015.

**Hires lawyers directly** to provide legal services rather than referring out to existing law firms. Consumers can choose which portions they want to complete via their **software platform** and the portions they want **professional legal assistance** from **licensed lawyers**.

### Why choose us

#### We do right by you

We will refund our fee within the first 60 days if you're unhappy with our services. [Learn more](#)

#### We've got you covered in all 50 states

Have peace of mind knowing our docs have been legally recognized in every state—and you'll never need to leave home to work with a lawyer.

#### Flat-rate fees

No hourly charges. No surprises. Really.





3

# Non-law companies expanding into law

## What fits here?

**New entrants** to legal markets that come in two flavors:

### One-stop-shops:

- Combine **law and non-law expertise** through partnerships between lawyers and other professionals to provide **holistic or bundled services** (e.g. **Arete Financial**, owned 50-50 by lawyer and a tax and accounting specialist).

### Non-law companies taking **baby steps into legal via legal subsidiaries:**

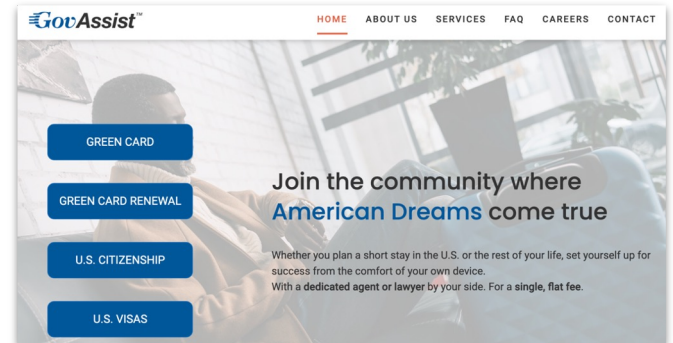
- Legal services offered as an adjunct to their primary line of business

Comprises ~18% of authorized entities in UT and AZ.

## Case study: GovAssist

Provides **visa legal services** as a **subsidiary** of a **travel services company** that entered the Utah sandbox in order to provide legal service and assistance **using Utah-licensed lawyers**.

The company seeks to bring **comprehensive immigration support** to small- and medium-sized businesses and lower- to middle-income individuals.



## 4 Intermediary platforms

### What fits here?

**Marketplace platforms** connecting lawyers and consumers.

Often provide **practice support systems** to lawyers such as case management and billing, allowing lawyers to access a suite of technological services.

Present in both **corporate- and consumer-facing sectors**, but face challenges due to fee-sharing ban.

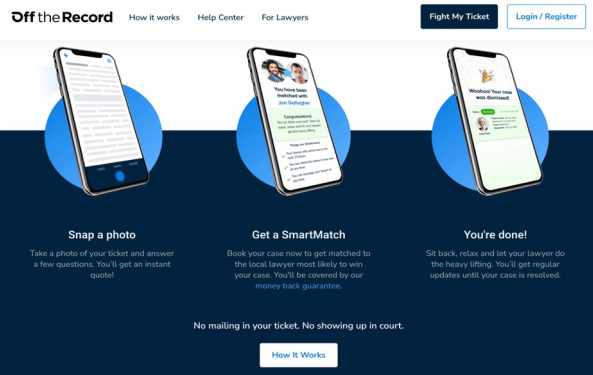
Three companies, all in the Utah sandbox.

### Case study: Off the Record

Connects **consumers with traffic citations with lawyers.**

Facilitates lawyer-client relationship and provides lawyers with **technological practice support.**

**Shares fees** directly with lawyers and facilitates client payment through the platform.



The screenshot displays the 'Off the Record' website interface. At the top, there is a navigation bar with links for 'How it works', 'Help Center', and 'For Lawyers'. On the right side of the navigation bar, there are buttons for 'Fight My Ticket' and 'Login / Register'. The main content area features three smartphone screens illustrating the process:

- Snap a photo:** A smartphone screen showing a traffic ticket. Below it, the text reads: 'Take a photo of your ticket and answer a few questions. You'll get an instant quote!'
- Get a SmartMatch:** A smartphone screen showing a match with a lawyer. Below it, the text reads: 'Book your case now to get matched to the local lawyer most likely to win your case. You'll be covered by our money back guarantee.'
- You're done!**: A smartphone screen showing a confirmation message. Below it, the text reads: 'Sit back, relax and let your lawyer do the heavy lifting. You'll get regular updates until your case is resolved.'

At the bottom of the page, there is a footer with the text: 'No mailing in your ticket. No showing up in court.' and a 'How It Works' button.

# Entities using non-lawyers and tech

## What fits here?

**New methods** to furnish legal services in ways that would **otherwise run afoul of UPL rules**.

A **non-exclusive** category: these entities often also leverage ABS reforms to seek outside investment or non-lawyer ownership.

**Only present in Utah**, as Arizona has taken an “ABS-only” approach that does not permit waiver of UPL rules.

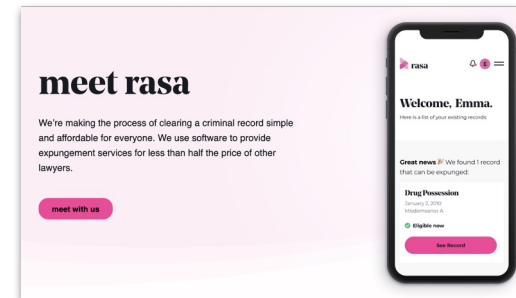
Contains the **only nonprofits** and public benefit corporations utilizing rule reforms, and the **only entities primarily serving low-income consumers**.

## Case study: Rasa Legal

B-corporation using **both AI-enabled software** and **nonlawyer providers** to help Utahns 1) determine if they are eligible to expunge their criminal records and then 2) execute the process.

**Software** helps users make initial determination of eligibility.

**Nonlawyer providers** are trained and overseen by a licensed lawyer: Rasa’s legal director.



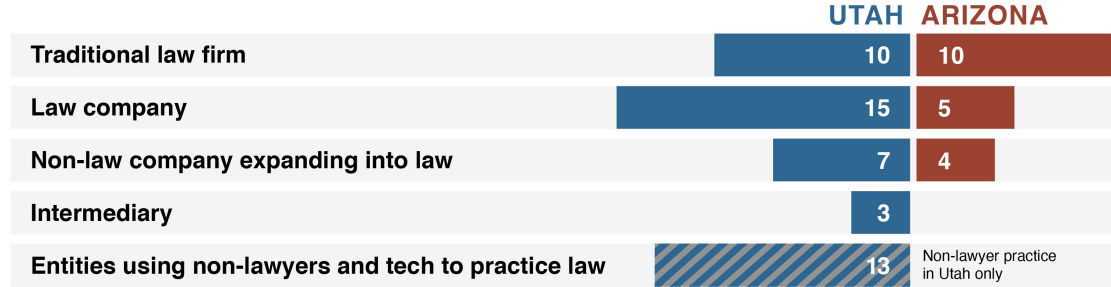
# Our study: the incidence of innovation across all 57 entities in UT and AZ yields key insights:

- 1 Reform is **spurring substantial innovation in ownership structures and service models**, with lawyers playing central roles...
- 2 ...and **technology** and other innovations playing a major role.
- 3 New and unconstrained entities mostly **serve consumers and small businesses**...
- 4 ...and sometimes **serve low-income populations**, but only in Utah.
- 5 So far, reforms **do not appear to cause substantial consumer harm**.

# Innovation has been lawyer driven

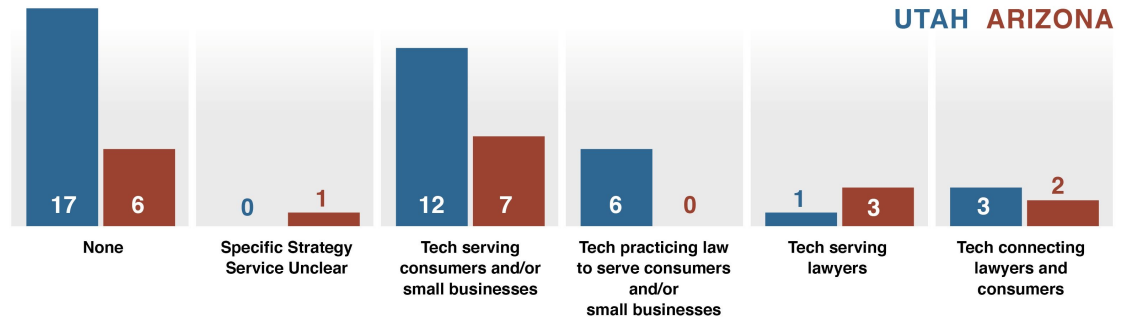
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Reforms are spurring **substantial innovation**, with **lawyers** playing a **central role** as owners, managers, and providers



2

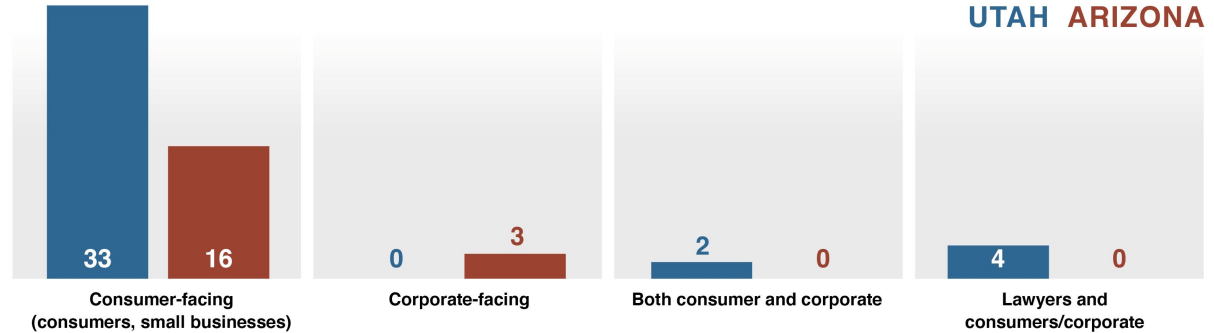
Most entities use **technological innovation** facilitated by **non-lawyer ownership or investment**



# Focus is on consumers and small businesses

3

Most entities primarily serve **consumers** and **small businesses** across a wide range of services



4

Only the Utah sandbox, which also relaxes UPL, contains **nonprofits** that primarily serve **low-income people**; Arizona's ABS-only approach does not

## Medical Debt

**Holy Cross Ministries** and **AAA Fair Credit** are non-legal community organizations that train and deploy Medical Debt Legal Advocates who provide free legal advice and assist with documents and negotiation.

## Family Law

**Timpanagos Legal Center** offers attorney clinics and non-lawyer advocates to offer legal advice on family law and domestic violence matters.

# Reform efforts to this point do not appear to harm consumers

5

There is **no evidence** that reform leads to **consumer harm**

*Arizona*

0

**No reported complaints against ABS entities**

*Utah*

11

**11 complaints, equivalent to one for every 2,123 services delivered**

6

**Of those 11 complaints, six related to a potential harm caused by the provision of legal services, the equivalent of one for every 3,892 services delivered**

**All resolved satisfactorily**

# Caveats and context

## *Timeline*

**Reforms in Utah and Arizona are relatively new** – both authorized in 2020. We don't know the long-run equilibrium.

## *Generalizability*

Findings here **may not extend to other states** – though some data suggest these *types* of legal markets may be similar.

## *Distinct approaches*

These two states' different levers (sandbox vs. rule change) and targets (ABS vs. ABS+UPL) **enable comparison but complicate takeaways**.

## *Parallel pursuit of other reforms*

Both Utah and Arizona are simultaneously **pursuing other role-based reforms**, including paraprofessional reforms.