

# Demand for Digital and Versatile Solutions to Drive Segmentation of Legal Market

Hungary's leading law firms seem to be happy enough. The economic upswing is keeping them busy with an increasing number of cases, while some legislative changes topped with the challenges of the workforce market and the digitalization ensures that the upcoming period will not be boring either.

BBJ ÁGNES VINKOVITS

Dynamic growth in both the number and the volume of work has been reported by most of the country's largest law firms the *Budapest Business Journal* interviewed, all of whom have at least 30 lawyers.



Péter Kesseő-Balogh

"Due to the European Union's general economic boom, which affects Hungary too, and to the country's stable governance, and the predictable and low tax environment, we do very well," Péter Kesseő-Balogh, founding office manager of ECOVIS tells the *BBJ*.

In this positive environment, the firm could even conquer new markets and started new departments in personal tax services, mediation and confidential property management. Kesseő-Balogh, added, however, that he would welcome taxes on labor showing a decreasing tendency too.

With legal cases evidently attached to the country's general economic trends, law firms experience an increase first and foremost in property cases, green and brown field investments, manufacturing and FMCG. The European Union's regulation on personal data,

the so-called GDPR, which came into effect on May 25, has also created demand for legal work, as well as a growing number of investments in solar power station projects.

Yet, there are some changes regarding the clientele. "As we see, the increased demand is often boosted not by the public but by the private sector," András Posztl, country managing partner at Horváth and Partners DLA Piper tells the *BBJ*. Many of these new clients are among the country's richest people, who wish to place their accumulated capital through acquisitions, he adds. At the same time, medium- and large-sized companies show increasing demand for legal services, while small businesses are somewhat boosted by the EU's JEREMIE funds.

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Law firms report an increasing amount of casework from foreign investors too. According to Péter Lakatos, the head of Lakatos, Köves and Partners (LKT), the new investors coming into the country have often been CEE regional companies from the likes of Poland, Czech Republic and Romania.



## New Investors

"In addition to - and to some extent replacing - international investors from the more traditional markets (e.g. Western Europe and United States) we have seen notable growth in the number of clients from Asia, notably Japan, Korea and China and also from markets such as Australia, South America and Africa," Lakatos adds. He also sees intra-regional M&A as a growing area.

Another result of economy-related legal services taking a bigger slice of the cake is that it is a general trend that law firms have to be increasingly versatile.

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András Posztl

but also like a legal and economic consultant," Zoltán Sárhegyi, the head of Győri és Sárhegyi Ügyvédi Társulás says. In ideal cases, clients do not come to lawyers for help to collect their debts, but they ask for professional advice at a very early stage of their businesses to see how it can fit the given environment, he explains.

But even in a booming economy, a law firm's success does not come for free. "Given the confidential nature of the legal services and how saturated the sector is, new markets of significant size can be gained only through notable investments in HR, marketing, organization and logistics," ECOVIS' Kesseő-Balogh points out.

"If choosing between stability and political pedigree, investors usually prefer stability," Posztl says, referring to Hungary's recent parliamentary election that resulted in a two-thirds majority for the governing parties, giving Fidesz-KDNP a four-year mandate for a record third time in a row.

"Generally, businesses appreciate the stability that the continuation of the Fidesz-KDNP government presents," LKT's Lakatos agrees. As the April election resulted in no fundamental change, LKT is seeing "business as usual" and does not anticipate major changes.



## Excitement Ahead

Still, when taking a slightly longer-term view, there may be more open questions.

"A lot of exciting legislative processes are about to come," CMS's managing partner Erika Papp says. Her company, for example, is taking part in the creation of a new bankruptcy law. "Due to our international background, we can really be inspired by good examples abroad and could suggest conceptual changes in, for example, the insolvency regulation," she says.

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ECOVIS' Kesseő-Balogh also expects a less intense but nonetheless interesting period to come regarding legislative work. "Fundamental, systemic changes are not likely to come," he says while also noting that a new administrative court is expected to be established.

Kesseő-Balogh's expectation are based on the words of Hungary's newly reappointed Minister of Justice. László Trócsányi is an open admirer of the concept of administrative jurisdiction and has recently stated that he wants to see it introduced here, having previously been thwarted by the Constitutional Court, which argued such a change required a two-thirds



Péter Lakatos

majority in Parliament. The government lacked the numbers in the last term, but has them now.

"We can find arguments both pro and con and the final quality will depend on the details," DLA Piper's Posztl says, adding that lawyers' community has a trust that no measures would be taken to derogate

juridical independence. The two-digit wage increase Hungary sees nowadays evidently affects lawyers too. "When the city is full of hiring posters saying that a public bus driver can make HUF 400,000 a month, it is not an option not to keep up with the trend or not to appreciate our colleagues' work enough," says Posztl. He adds, however, that the extent of the increases is a more complex issue. While big offices with a global background can be more generous, smaller offices, who still constitute the major part of the Hungarian legal profession, often see wage rises as a challenge. It is a fact that slowly but certainly strengthens market segmentation.

In any case, offering nice money is often not enough of a motivation



Zoltán Sárhegyi

any more, especially for younger professionals. To attract them, a very long-term potential career also has to be drawn up, topped with extra inducements such as flexible working hours and really useful training, an international work environment, trips abroad and interesting, complex cases.



### Good Atmosphere

"A good office atmosphere is a must," Papp says. In addition, Mothers' Day, Fathers' Day and several other family and team building events are organized at CMS, she says, in order to keep workforce happy and motivated.

While attracting and retaining workforce definitely costs money, most offices do not seem to suffer under the extra costs as they could increase their prices by an average of about 5%.

At the same time, more and more software is available to substitute the human workforce. Legal due diligence and litigation support are legal tasks that nowadays can be handled by AI technologies with outstanding efficiency. Also, some everyday things such as simple contracts can also be created by automated systems.

Although these technologies raise competitiveness by speeding up the work and saving money for the firms on the longer-term, in the

"We can find arguments both pro and con [the new administrative court] and the final quality will depend on the details."

beginning they definitely represent an investment. As such, it is also likely to sooner or later lead to the segmentation of the market. Smaller offices often lack the necessary digital competencies, too.

This counts as a rapidly growing disadvantage as even the new Codes of Procedure bring digital technologies into the front. Legal proceedings, for example, can be initiated only electronically since January 1 of this year. Official replies to proceedings are also given via email, meaning that if a lawyer does not have the daily habit to check their mailbox and so overlooks a letter that is officially considered to have been delivered, important and tight deadlines can be easily missed.

A good understanding of legal aspects of digital business is inevitable anyway, in order to be able give good advice "given that almost all businesses now are to a greater or lesser extent dependent on their management of data - most obviously currently in the context of GDPR but also much more widely," Lakatos points out.

Digitalization, however, appears in the legal sector in other aspects too. "It is full of new challenges and exciting



Erika Papp

opportunities," Papp says referring to some new fields like the Internet of Things (IoT), self-driving cars or FinTech, which still require further regulation and so legal assistance.

PRESENTED CONTENT

## Bringing One Stop Solutions to the Hungarian Legal Market

Hungary might have a new government, and the cabinet might already be talking about its legislative priorities (like reviewing the constitution), but from a commercial perspective it seems unlikely at this stage that there will be much to surprise the business world, says Iván Sefer, head of the EY Law office in Budapest.

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"I don't think anyone in business here was surprised by the election results, and everything we have heard feeds into the narrative so far. From a commercial perspective, I think it is business as usual," says Sefer.

Where change might come, Sefer believes it is more likely to be at the EU-level, with the implementation of community law into the local environment, such as General Data Protection Regulation, which it has been impossible to ignore for the past six months, or the ramifications of Electronic

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Identification, Authentication and Trust Services and the Payment Services Directive 2, which will significantly affect the banking market. Sefer says he has great sympathy for the legislators who must harmonize national law with these legislative instruments.

"These things are insanely complex at the EU level, and it is not always straightforward to localize and implement them. They come from different places and vastly differing economic and social environments. Lawmakers in Brussels don't think like lawmakers in Budapest: why would they? Anything that comes out of Brussels is a compromise between 28 member states to start with, and that makes it very, very difficult to implement and adapt to local specifics and harmonize with other local laws and legislative priorities."

### Short, and to the Point

While that may create pressure for local lawmakers, client demands are doing much the same for local lawyers.

"There has been a fundamental shift in what clients want," Sefer says. Not so long ago, the call was for very complete memorandums, explaining the problems and possible solutions in great depth and detail. "Now it must be very short, very to the point, very easy to understand," the

partner says. "What is the risk? And try and put a number on that."

Expectations for what can be charged are also shifting. Clients, typically, want more for less, and some firms have responded by driving prices down. "What was formerly big ticket work is not necessarily a high paying mandate anymore."

Some of the changes are also being driven by technology and automation within the legal profession, although that has been somewhat overplayed, Sefer believes.

"I don't think it is as yet as developed as people say. But you don't have to be a revolutionary to see it is coming. There is no doubt the future will belong to those who can successfully embrace its possibilities and implement them."

In that regard, Sefer and his colleagues are helped by the technical background and forward-thinking approach offered by one of the Big Four consultancy services. And in a world where clients increasingly expect lawyers to understand how business works, EY Law can offer its close cooperation with EY's multiple service lines. Recently he found himself working with his accountant colleagues at EY to ensure the best legal solution to a problem also provided the best accountancy solution, resulting in an optimized "package" result for the client.

"I would have never got involved in that if I was still at a multinational law firm. I believe I am working on exactly the same level of exciting, complex cases as I was back then, but I get to do so much more here."

He is quick to praise the quality of lawyers working in Budapest's multinational or boutique law firms, but he also believes the one stop shop model EY can offer is ultimately better suited to thriving in a constantly shifting and evolving market.



Iván Sefer