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With Times Tight, Even Lawyers Get Outsourced

By Niraj Sheth in Mumbai and Nathan Koppel in New York

As the economic crisis deepens in the U.S., some lawyers are making out well -- in India.

At the Mumbai subsidiary of outsourcer Pangea3 LLC, rows of Indian lawyers at new computers pore over contracts, covenants and other financial documents. They're working for Wall Street banks fighting lawsuits filed in the U.S. by homeowners, investors and shareholders after the subprime-mortgage crunch.

As the ailing U.S. economy prompts companies to cut costs, it also has spawned legal problems. As a result, clients are pressuring the law firms they hire to trim fees.

That means more routine work like legal research, due diligence and document review is being done in India at roughly half the cost as in the U.S., outsourcers say. Starting associates at big U.S. firms often bill more than $200 an hour. But an experienced lawyer in India bills at $75 to $100 an hour, roughly the bottom rate for some U.S. paralegals.

Legal outsourcing in India currently draws around $250 million in annual revenue, analysts estimate. That's a tiny portion of the $40 billion in revenue for India's technology-outsourcing firms. But legal outsourcing is growing quickly, while tech-outsourcing firms are struggling to grow.

Many important tasks, such as appearing in court or handling witness depositions, can't be outsourced. Still, "we have only seen the beginning," says Sanjay Kamlani, co-chief executive of Pangea3, which is based in New York. "There will be a lot more work coming." The firm has 390 employees, mostly lawyers, in India.

The nature of the work already has changed. When Ankita Mullick joined Pangea3 three years ago from a Mumbai law firm, she spent time researching U.S. laws on drug labeling. This year, she has done work for banks on auction-rate securities, which have been a factor in the crisis on Wall Street. "The sophistication is increasing," says Ms. Mullick.

It helps that Indian and American law both are grounded in the British legal system, Mr. Kamlani says.

Pangea3 says it doubled revenue in the last six months from a year earlier, though it declines to reveal specific figures. Rival Computer Patent Annuities Ltd., with offices in Noida outside New Delhi, plans to have 1,200 Indian lawyers on its payroll by September 2009 and 2,000 by the second half of 2010. CPA, based in the British dependency of Jersey, currently has 450 Indian lawyers.

Forrester Research Inc., Cambridge, Mass., estimates that 35,000 U.S. legal jobs will be moved offshore by 2010 and 79,000 will move by 2015. That's a small portion of the 1.2 million licensed lawyers in the U.S. as of June, according to the American Bar Association. But hiring is down now for junior lawyers in the U.S. as firms struggle with declining demand, says Michael Short, a law-firm consultant with Hildebrandt International Inc.

The outsourcing industry "has built up now with cheap Indian lawyers who are pretty smart doing the sort of work done here by paralegals," says Talat Ansari, a partner at Kelley Drye & Warren LLP in New York. He says Kelley Drye uses lawyers in India to review documents in litigation and to standardize contracts.

Ajay Raju, a partner with Reed Smith LLP in Philadelphia, says his clients increasingly ask about using Indian lawyers. He says Reed Smith isn't convinced legal outsourcers will meet the firm's standards or that outsourcers, which are subject to high turnover, can adequately guard against disclosing confidential client information. Nevertheless, "in light of this economic tsunami, I anticipate stronger pressure . . . to cut legal costs and find alternative ways to be more efficient, including legal outsourcing," he says. Legal outsourcers say they take measures to ensure security, like using security badges to control access and making sure computers stay put. Most also require employees to sign confidentiality agreements. Though turnover rates are higher in India than the U.S., outsourced attorneys pose no greater risk than the temporary or contract attorneys that would likely be used in the U.S., says Pangea3's Mr. Kamlani.

Mr. Ansari says that since Indian lawyers often aren't licensed in the U.S., they must be closely supervised by U.S. lawyers to comply with ethical norms. As a result, some U.S. firms may feel more comfortable using American temporary or contract attorneys. But Mr. Ansari notes that U.S. temp lawyers typically bill at twice the rate of Indian attorneys.

QuisLex Inc., based in New York, says it is gearing up for more work at its Hyderabad, India, office stemming from the U.S. government bailout of Wall Street. Already this year, the firm has helped U.S. companies facing regulatory investigations about subprime mortgages.

"Any time there is economic fallout, one thing that always comes out is new regulation," says Sirisha Gummaregula, QuisLex's chief operating officer. "That's where we can help the companies out."