Regulatory Innovation at the Crossroads: Five Years of Data on Entity-Regulation Reform in Arizona and Utah

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In 2020, Arizona and Utah departed from the usual approach to legal services regulation, launching innovative reforms that permit entities (think LegalZoom) to provide legal services in ways that would normally be prohibited under existing rules. Arizona did away with restrictions on who may own law firms and share fees with lawyers. Utah created a regulatory sandbox in which authorized entities receive what amount to waivers of both restrictions on non-lawyer ownership and unauthorized practice of law ("UPL"). Driving both states' efforts—and similar reforms around the country—is an acute and well-documented access-to-justice crisis, exacerbated by antiquated rules that stymie innovation and prop up a lawyers' monopoly over legal services.



Professor David Freeman Engstrom

In a new report, “Legal Innovation After Reform: Five Years of Data on Regulatory Change (https://law.stanford.edu/wp-content/uploads/2025/06/SLS_CLP_LegalInnovation_REPORT_v5.pdf),” Stanford Law School’s David Freeman Engstrom, Natalie Knowlton, and Lucy Ricca update a 2022 empirical study (https://clp.law.stanford.edu/wp-content/uploads/2024/07/SLS-CLP-Regulatory-Reform-REPORTExecSum-9.26.pdf) of the much-watched reform efforts in Arizona and Utah, providing fresh data and fresh perspective on the future of legal services. Here, Engstrom, Knowlton, and Ricca discuss the key findings and the broader implications for legal innovation.

What is entity regulation and what does it have to do with access to justice?

Under the rules of professional conduct in most states, only lawyers can own law firms. Entity regulation relaxes ABA Model Rule 5.4’s ban on fee-sharing and co-ownership between lawyers and non-lawyers, thus permitting entities that are not wholly lawyer-owned (often referred to as “alternative business structures” or “ABSs”) to provide legal services. We call this “entity” regulation.

Entity regulation can be distinguished from what we call “role” regulation. Role regulation focuses on the individual providers of the service—in most states, lawyers. In a growing number of jurisdictions, however, reforms that relax UPL rules are allowing for the licensure of various types of non-lawyers, sometimes called “paraprofessionals,” to provide limited legal services in certain defined legal areas where they have specialized training or expertise.

Entity regulation is a pivotal access-to-justice issue. A growing consensus among scholars—including the Rhode Center’s founder and SLS faculty member, the late-Deborah L. Rhode—holds that Rule 5.4’s restrictions wall off law firms from the technological, financial, and service innovations that have transformed almost every other part of the modern economy. While allowing ABSs to deliver legal services is not alone going to solve the access-to-justice crisis, we believe this is an important piece of the puzzle.

The report focuses on the entity-regulation experiences of Arizona and Utah. What, specifically, do these state reforms look like?



Rhode Center Executive Director Lucy Ricca

While both states enacted entity regulation, they did so in very different ways. The Arizona Supreme Court decided that the rule prohibiting fee-sharing and co-ownership with non-lawyers was actually an economic restriction—not an ethical rule. So the court repealed the rule and established a license and application process for entities to become “alternative business structures,” or ABSs for short, which the court oversees.

In Utah, by contrast, the state supreme court created a regulatory sandbox to experiment with non-lawyer ownership and also UPL reform. This regulatory sandbox approach is common in other industries–FinTech, for example–but this was the first legal services sandbox in the U.S. Entities authorized to operate in the sandbox essentially receive a waiver of Rule 5.4, UPL, or both. We refer to what Utah did as an "ABS+UPL" approach, as compared to Arizona's "ABS-only" approach. Entities that seek relaxation of both sets of rules in Utah's sandbox can both access investment from non-lawyer sources and deliver services using non-lawyers or software.

Your 2022 study and this most recent study sought to answer two primary questions, the first of which is: What types of innovation in legal services delivery models do the different approaches in Arizona and Utah generate? What did you find on this front?

We found that liberalizing rules have spurred innovation across many different organizational forms, including traditional law firms; corporate-owned "law companies," such as LegalZoom and other "legal tech" providers; "non-law companies" that have added legal services as a supplement their core non-law service offerings; and "intermediaries" that match clients with legal service providers. We also tracked, to the extent possible, technology innovations that Arizona ABS entities and Utah sandbox entities planned to deploy–finding that many of these innovations focus on serving individual consumers and small businesses. Our more recent data show a continuation of these organizational forms as the primary vehicles of innovation.

And what did the findings reveal about your second question: Who is served by these innovations?

Our 2022 inquiry found that most authorized entities in Arizona and Utah are serving individuals and small businesses. In our most recent assessment, we separated out these consumer groups to provide deeper insight on this issue. What we found is that, far and away, individual consumers, as opposed to corporate clients, are the primary beneficiaries of innovations in both states' entity-regulation reforms. The Utah sandbox, however, contains the only entities that operate as nonprofits and focus specifically on serving low-income individuals. This supports our finding that UPL reform is important for addressing the legal needs of the most vulnerable in society.

Listen To David Freeman Engstrom on the Talk Justice podcast (https://law.stanford.edu/stanford-lawyer/articles/new-data-on-arizona-and-utahs-innovations-after-5-years-of-legal-reform-with-david-freeman-engstrom/)

What are the broader implications of your research on the legal services market?

Our hope is that this research can offer new data and a new perspective to policymakers, legal professionals, entrepreneurs, academics, and others who are seeking to understand the challenges and opportunities presented by entity reform. In particular, several issues are emerging across the landscape of regulatory reform that have significant implications not only for Arizona and Utah but also for the growing set of other states that have adopted or are considering similar reforms.

The first issue is the growing ownership of ABSs by private equity investors and litigation financiers, particularly in Arizona. Some commentators have criticized this development, pointing to concerns about the effect of private equity's move into health care on service quality. A second, related issue is the increasing concentration of Arizona ABSs operating in the personal injury and mass tort practice areas. This concern moved Utah regulators to impose strict limitations on the types of clients that authorized sandbox entrants can serve. Arizona regulators, on the other hand, consider ABS firms just like other law firms, and they do not place restrictions on the legal areas ABSs can serve. A third and final issue is the continuing advancement of generative AI and the many questions about the optimal regulatory oversight role that arise when AI is used to deliver legal services. The Utah sandbox is positioned to regulate legal technology, but to date, it has not attracted the kinds of technologies that perhaps regulators had hoped for.

What's next in this *Legal Innovation* series?

Well, as we detail in the report, the experiences in Arizona and Utah have diverged considerably since our 2022 assessment. Utah regulators, citing a variety of reasons, have drastically reduced the number and types of authorized entities by limiting the eligibility criteria. This has precipitated a rapid drop from 39 sandbox entrants in 2022 to 11 as of April 30, 2025. Arizona regulators have stayed the course, despite facing challenges, and have seen a marked increase in approved ABS entities, from 19 in 2022 to 136 as of April 30, 2025. In the meantime, the reform movement is gaining momentum all around the country, and numerous states beyond Utah and Arizona either recently adopted reforms or are actively considering them. With the Utah sandbox set to expire in 2027, the landscape may look very different for our next installment. Indeed, we may be comparing Arizona to Washington, or Minnesota, or Indiana, to understand how reforms spur, or not, needed innovation in the delivery of legal services.

For more on the Rhode Center, which David Freeman Engstrom co-directs, see here (https://clp.law.stanford.edu/).

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