The power to reshape your practice.
Do you know what’s going on in your personal injury caseload and what sits behind those WIP figures? Whether it’s for your own business needs, those of your bank or those looking to buy or sell WIP, this is information you need to have.

LQC Analytics is a risk management and financial forecasting tool that is easily integrated with case management systems in personal injury claims. It provides the solution for law firms by predictive insights into the value and risk in personal injury claims combined with real-time fee earner driven data.

The key metrics of liability, quantum and costs together with their risk analysis are monitored with our integrated and highly developed traffic light system, enabling informed decisions on the operational management and financing of personal injury cases to be made with confidence.

LQC Analytics Auditing Services delivers ongoing independent and expert reporting of a law firm’s usage of LQC Analytics. It provides objective oversight to the challenges personal injury law firms face in terms of value, risk and cash management.

Law firms are guaranteed a clear and significant advantage with assurance and demonstration of personal injury claims value. This enables management, funders, bankers, ATE and professional indemnity insurers to invest with confidence.

Patrick Allen, senior partner of London firm Hodge Jones & Allen, and former president of APIL...

“Say your WIP is £10m and the bank is concerned that it’s looking a bit high. With LQC Analytics, you can explain that £5m is green-rated, meaning that liability has been admitted; £3m is amber-rated, so there is good evidence to support the cases; and £2m is red-rated, which simply means you are still investigating. If you can provide a timeline of predictions as to when cases will finish and how they will pay, then you will have a much happier bank. You can also forecast a particular quarter when you might need a bit more lending because of a lag in cases closing.”

LQC Analytics provides 10 key performance indicators of value for personal injury law firms:

1. Tracks each claim’s lifecycle from start to finish by reference to the key metrics of settling liability, valuing quantum and managing costs correctly with reference to WIP value.
2. Delivers real-time data which profiles a caseload by risk, value, costs and complexity – through a ‘Red, Amber, Green’ rating system producing more accurate WIP analysis.
3. Enhances risk management and oversight in respect of fee-earner performance.
4. Forecasts cash flow – daily, weekly, monthly, quarterly – to demonstrate the claims settlement pipeline and likely fee income.
6. Provides the ability to act more quickly to meet shortfalls in fee income or unexpected claims outcomes.
7. Speeds up cash collection with more timely interim and final billing.
8. Improves fee-earner awareness of commerciality through visibility of their own performance.
9. Bridges the gap between the operational and financial performance overviews – providing clarity and oversight for management, bankers, funders and insurers.
10. Creates a standardised approach that is easily achievable for law firms.

Follow @LQC Analytics on Twitter where regular tips and insights will help law firms improve their operational performance and WIP analysis.

For information about our people and our services, please visit: www.citadel-law.com

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Redefining the lawyers who make a difference.
Welcome to this special edition of The Citadel Insider to mark the launch of LQC Analytics – our transformational risk management and financial forecasting tool for law firms working in personal injury, industrial disease and clinical negligence.

As the UK’s only PI consulting law firm, we’ve reviewed in excess of £400m of PI caseloads and have seen the whole spectrum of operating models. LQC Analytics – standing for Liability, Quantum and Costs – is the culmination of our experience and our desire to accelerate the sector’s ability to adapt to change, heralding the next wave of technology and operational efficiency for PI law firms. Read more on page 6.

The beauty of LQC Analytics lies in its simplicity; easy to install and cost-effective, it sits on top of any case management system providing an integrated forecasting tool that fully assesses the impact on cash associated with different work types.

A number of law firms are already using it, including SGI, Michael W. Halsall and Hodge Jones & Allen.

Hodge Jones & Allen is one of the UK’s most progressive law firms and in our interview with senior partner, Patrick Allen on page 8, you can read about the clarity it has given the firm and importantly, their bank.

Unsurprisingly, given the number of law firm failures in recent years, banks are now far more inquisitive when it comes to funding law firms. Cash management remains a critical area of focus, complicated by the Jackson reforms and the impending whiplash, small claims and extension of fixed costs proposals. NatWest’s Steve Arundale gives us his views on page 10.

In this issue is some essential reading for firms conducting due diligence on another practice during merger or acquisition. The SRA has updated its guidance note on protecting and maintaining confidentiality and it contains a significant shift in the regulator’s approach. See page 9.

I’m also delighted to share the views of the all-knowing legal eye Neil Rose, editor of Legal Futures on the current waiting game in PI (page 4).

Finally, to assist practitioners in demonstrating sound financial management and commercial awareness over their personal injury claims, we’ve encapsulated the knowledge and skills of our specialist lawyers to produce our ‘Increasing Cash Flow – Personal Injury Lawyers Guide’, an invaluable set of documents containing a selection of template letters, documents, workflows, checklists and court applications to adapt for immediate use to enable law firms to up-skill as quickly as possible. Please feel free to contact me for details.

Many of our clients have already benefited from our high-quality, tailored training programmes to assist in financial awareness, cash collection and increasing profitability, delivered in-house by our team in your offices. For further information on all our training and mentoring services, please see our website or contact me.

I hope this special issue of The Citadel Insider is a useful addition to your professional reading as our sector continues to press ahead positively notwithstanding continuing challenges.

If you would like further information on anything contained in this edition, I would be delighted to hear from you.

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And so the wait goes on.

Every PI lawyer will know about the announcement in the Autumn Statement in late November 2015 that the government is set to remove the right to general damages for minor soft tissue injuries and increase the small claims limit for personal injury claims from £1,000 to £5,000. A Ministry of Justice (MoJ) consultation was to be published “in the New Year” but has still not arrived.

Then there are the plans for fixed recoverable costs in clinical negligence, possibly for cases worth up to £250,000. This is being dealt with by the Department of Health – with the MoJ looking after consequential ATE reforms – but a consultation first expected last autumn has still not arrived. Nonetheless, there has been no indication that the planned start-date of October 2016 has changed, which indicates (a) that there will be a very short consultation window when it does finally come out, and (b) that it will be purely about the detail of the new regime, rather than the principle. Nonetheless, there have to be considerable doubts now about whether October is viable.

PI lawyers have a bit more breathing space as the PI reforms seem highly unlikely to happen until April 2017 at the earliest.

The consultation picture has been complicated by ‘purdah’, the period of lockdown that the government goes into ahead of elections and referendums to maintain the political impartiality of the Civil Service, and the need to ensure that public resources are not used for party political purposes during the campaign periods. From what civil justice minister Lord Faulks said at May’s APIL conference, the consultations can be expected shortly after the referendum – he certainly wasn’t giving any ground on the proposals.

What’s changed?

The announcement on the small claims limit came just over two years after the coalition government decided not to raise it. The then justice secretary, Chris Grayling, told Parliament in October 2013 that there were “good arguments” for increasing the limit “to raise incentives to challenge fraudulent or exaggerated insurance claims”.

However, he said he had listened to the views of MPs on the transport select committee (who opposed the move) and others that “now may not be the right time” to raise the limit “because of the risks that it may deter access to justice for the genuinely injured and encourage the growth of those disreputable claims firms which so damage the industry”.

“Do not ignore Lord Justice Jackson’s call for fixed costs across the entire fast-track and lower-end of the multi-track”
He continued: “At this stage, we have decided to defer any increase to the small claims threshold until we can determine the impact of our wider reforms on motor insurance premiums and better safeguard against the risks identified above. We believe that this is the right thing to do for all interests.”

Some saw this as kicking the issue into the long grass, but the MoJ insisted that it really was keeping a watching brief and would return to the proposal.

So it has proven, but has anything really changed in that time? Insurance premiums that had fallen in the wake of LASPO have gone back up again, as has the volume of complaints by insurance companies about fraud and the so-called compensation culture. To the chagrin of claimant lawyers, the insurers seem to have cast a spell over the Tories.

Perhaps nothing showed this better than an MoJ press release issued on the first working day after Christmas, in which it trumpeted the commitment of leading insurers to giving customers 100% of the savings made from the proposed PI reforms – but when pressed, the MoJ has admitted that this pledge will be neither monitored nor enforced. Speaking off-the-cuff at APIL, Lord Faulks said he would be “holding insurers’ feet to the fire”, but it is hard to see what he can actually do.

In any case, the figures being used – annual insurance premiums could fall by around £50, a collective saving of £1bn for all motorists – are now appearing regularly in media reports.

Then there is insurance fraud, but there has been little by way of compelling evidence to prove that it is of such a massive scale (in the overall scheme of whiplash claims) to justify capsizing the system so dramatically. The report of the Insurance Fraud Taskforce in January struggled to escape accusations that it was an insurer stitch-up given the lack of any claimant representatives on it, albeit some sat on a PI working group that fed into the taskforce.

Further, changes introduced in the Criminal Justice & Courts Act 2015 aimed to penalise fraudulent and exaggerated claims anyway, but – as has been the way in PI in recent years – have not been given time to have an impact before another wave of reform washes over the sector.

**Biggest shock**

Surely the biggest shock, though, is an end to general damages for “minor whiplash injuries”, however that is to be defined (interestingly, at the APIL conference, David Williams of AXA thought this might be “mission impossible”). This came out of the blue. Putting aside the questionable principle of making a tort non-actionable – at a time, as APIL has noted, when the government wants to ensure compensation for commuters who are delayed by 15 minutes – removing the ability to claim for pain and suffering is surely likely to discourage many people with otherwise only small special damages claims from taking action in the first place.

You would imagine that this will only embolden insurers to ramp up third-party capture at a time when the government says it wants the practice to stop. Given the choice of having to take your own case before the small claims court or accept some sort of payout there and then, it is not hard to guess what many people would do.

Will damages-based agreements or plain fixed fees be an option? Or will claims managers swoop in? Either way, an inevitable result is going to be greater use of technology and low-level staff to handle claims to make them viable; the need for scale to make this work will presumably mean even more consolidation, along with redundancies and closures at other firms. And the claims management companies that currently pester the nation to handle PPI claims on their behalf will move into the field.

This is against a background of a market rocked by the goings-on at Slater & Gordon, and other big players such as Minster Law and Co-operative Legal Services also admitting to the impact the LASPO reforms had on their turnover and profits. Fast-track PI is not the place to be, it seems. And do not ignore Lord Justice Jackson’s call for fixed costs across the entire fast-track and lower-end of the multi-track. I suspect he is speaking for a lot of judges who are simply fed up with having to deal with costs and want disputes to go away.

The smart firms have been moving away from low-value road traffic accidents anyway but it is inevitable that others will look to follow suit, even if they do not really have the ability or skills to handle other types of PI, with all the negative consequences that could have.

It seems to be an ever-downward spiral for PI lawyers, and let’s not forget that defendant firms will be hit by a reduction in the number of claims too.

But the reality is that there will still be claims and clients will need lawyers to run them. In the future though, it will surely be only those firms and practitioners that know what they’re doing, how they’re doing it and what it’s costing them that will be able to make a business from PI.
Do you know what’s going on in your personal injury caseloads and what sits behind those WIP figures? I mean, really know? Whether it’s for your own business needs, those of your bank or those who might be interested in buying your WIP, this is information you need to have.

But, in my experience, even some of the best firms do not. Where are their fee-earners on establishing liability or valuing quantum correctly? Are they spending the right number of hours on the case, given the costs regime it falls under?

Many law firms are missing out on vital tools by way of enhancements to case management and financial reporting systems. Case management systems, however good they are, do not provide the metrics that allow managers to get to grips with the 3 key metrics of Liability, Quantum and Costs. But they are at the heart of LQC Analytics which marks the next wave of technology and operational efficiency for PI law firms to ensure success.

Citadel Law has reviewed over 75 personal injury law firms and their caseloads for operational efficiencies and WIP valuation. We’ve seen the best and the worst. Now, as the UK’s only PI consulting law firm, we’re bringing our unique auditing experience together to help law firms get a proper grip of their businesses.

At a time when, as Neil Rose explained on page 4, margins are only going to become tighter, never has it been more important to get a strong grip on the value and risk of the claims your firm is handling.

This is what LQC Analytics does. Put simply, it is a risk management and financial forecasting tool that is integrated within case management systems. It provides predictive insights into the value and risk in personal injury, industrial disease and clinical negligence claims, with real-time data and analytics to monitor key metrics and allowing informed decisions on the operational management and financing of claims.

What it does

Ten ways that LQC Analytics improves your business:

1) Tracks each claim’s lifecycle from start to finish by reference to the key metrics of settling liability, valuing quantum and managing costs correctly with reference to WIP value.

2) Delivers real-time data which profiles a caseload by risk, value, costs and complexity – using a ‘Red, Amber, Green’ rating system – producing more accurate WIP analysis.

3) Enhances risk management and oversight in respect of fee-earner performance.

4) Forecasts cash flow – daily, weekly, monthly, quarterly – to demonstrate the claims settlement pipeline and likely fee income.

5) Increases certainty of business plans with real-time analysis of claims progress rather than analysing past performance.

6) Provides the ability to act more quickly to meet shortfalls in fee income or unexpected claims outcomes.

7) Speeds up cash collection with more timely interim and final billing.
8) Improves fee-earner awareness of commerciality through visibility of their own performance.

9) Bridges the gap between the operational and financial performance overviews – providing clarity and oversight for management, bankers, funders and insurers.

10) Creates a standardised approach that is easily achievable for law firms.

Given how many firms are still stumbling around in the dark, I believe LQC Analytics will give firms a competitive advantage. Whether it’s used for fixed or standard costs - personal injury, industrial disease or clinical negligence - LQC has a module to assist your firm.

**How it works**

Technically, LQC Analytics is easy to install – it sits on top of any case management system.

The initial stage requires fee-earners to input the key data points for their existing cases. We provide training on the liability, quantum and costs data that needs to be inserted. This can typically take a firm up to 28 days.

We are on hand if required as a key part of this process is working with fee-earners to make them comfortable with LQC Analytics, and to understand the benefits to them and to the firm as a whole.

For firms who have the LQC Auditing Services package we then conduct an audit to test the effectiveness of the initial implementation, and whether the data is robust, and report on all the usual KPIs for personal injury work.

Thereafter we audit the caseload every six months to provide our independent expert assurance that law firms, bankers, funders, indemnity insurers and anyone else can rely on.

**Costs**

LQC Analytics involves training by Citadel’s experts, installation by the law firm and completion of data by fee earners. There are three separate modules for personal injury, industrial disease and clinical negligence with separate modules for both fixed and standard costs.

There is a discount for buying more than one module within fixed costs and standard costs, and differential pricing depending on the size of your PI team.

‘LQC Analytics Auditing Services’ provides audits to sense check the data is correct. We recommend a 15-month programme that sees an initial audit after two months of LQC Analytics being up and running, and two more at six-month intervals, but ultimately it is a bespoke service we will agree with you.

**LQC Analytics in action**

LQC Analytics has evolved from a tool to help struggling firms to one that is just as useful for successful ones. Among the successful firms using it that I can name are Merseyside law firms SGI Legal and Michael W Halsall, and London firm Hodge Jones & Allen. The latter is profiled on page 8, but this is what the others say:

**STEPHEN MURRAY, PARTNER & HEAD OF PERSONAL INJURY, SGI LEGAL**

The skill set of our Serious Injury team has improved so much in the short time working with Lesley and her colleagues at Citadel Law. The result has been a hugely positive impact in terms of the client journey, risk profile and profitability of the department. The team has developed a much more holistic approach to its work, coupled with a real sense of commercialism to deliver results and exceed targets.

From the outset Lesley and her colleagues sought to understand our business and get under the skin of the team to be in a position to deliver on the focused objectives set by the board. Citadel became part of the SGI team, creating strong relationships with the Serious Injury team, laying the foundations for taking it to another level, and identifying the areas where they could most add value whilst at all times working to the agreed business plan.

If you, and importantly your team, are passionate and committed to developing a first-class service for your clients, whilst at the same time operating a risk averse and profit driven Serious Injury department, the decision to work with Citadel will be one of the best decisions you make.

**MICHAEL HALSALL, SENIOR PARTNER/ MANAGING DIRECTOR, MICHAEL W HALSALL SOLICITORS**

We retained Citadel Law as we wanted to ensure that our clinical negligence and industrial disease departments were performing to the highest standards. Citadel was recommended to us by the accountant Louise Busby.

The Citadel team worked with us for several months and implemented a risk management and financial forecasting tool that monitors claims prospects, settlement timescales and fee-earner performance.

I was pleased with the way in which matters were handled by Citadel Law and recommend any law firm retain them if they want to ensure they have increased oversight over their claims process, fee-earners and profitability.

**Conclusion**

So that, in a nutshell, is LQC Analytics. It’s the kind of tool that, having created it, I couldn’t quite believe had not been invented.

It clearly demonstrates our desire to accelerate the PI sector’s ability to adapt to change – bringing new services and expertise to law firms. Our aim is to improve operational performance and build healthy balance sheets for law firms that they and their bankers, funders and ATE and professional indemnity insurers can trust.

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Fighting on and the use of LQC Analytics

We speak to Patrick Allen, senior partner of London firm Hodge Jones & Allen and a former president of APIL, about life as a PI lawyer today

Hodge Jones & Allen (HJA) is one of the country's most progressive firms, and its PI practice has been at the forefront of innovation. In late 2014 it made waves by teaming up with a leading academic to create a predictive model of PI case outcomes – based on previous matters it had handled – that enables the firm to better assess the viability of new claims.

Alongside this has been Patrick Allen's very hands-on approach to financial management – a necessity, he says, given the way the reform agenda since LASPO has been focused on cutting claimant lawyers' profit margins. Fixed costs are set at uneconomic levels, costs budgeting has not worked and the result is a very tough market with many firms under great pressure.

“So how do we survive? By being extremely analytical and efficient,” he says. “You simply can’t let the ink dry on any case – you have to keep driving them forward.” HJA has adapted well to LASPO, Patrick says, and its Proclaim case management system provides the type of good management information that helps make good decisions.

But however well you feel you are doing, an external perspective is vital, he continues, which is why he called in Citadel Law to conduct an audit of the firm's significant PI and clinical negligence cases. “Generally we scored very well,” he says, “and where Lesley did identify some weaknesses, we were able to take swift corrective action.”

This led to the implementation of LQC Analytics, with Patrick saying that having cases RAG-rated and being able to predict when they would finish and what costs would be recovered, has proven of particular benefit.

“Say your WIP is £10m and the bank is concerned that it’s looking a bit high. With LQC Analytics, you can explain that £5m is green-rated, meaning that liability has been admitted; £3m is amber-rated, so there is good evidence to support the cases; and £2m is red-rated, which simply means you are still investigating. If you can provide a timeline of predictions as to when cases will finish and how they will pay, then you will have a much happier bank. You can also forecast a particular quarter when you might need a bit more lending because of a lag in cases closing.”

There are benefits across the practice, he adds. WIP getting a bit high? Then turn off marketing efforts until some of it is converted into cash by settling a few cases. Are a fee-earner's cases not progressing quickly enough? Then don't give them any new work for a couple of months so they can concentrate on their existing files.

“We were ahead of the curve anyway,” Patrick says, “but Lesley has helped us to fine-tune our systems and make them better, which the bank likes. And it gets better with experience – you can constantly improve your predictions by comparing outcomes to what had been forecast.” Indeed, so effective has the approach pioneered by Citadel been that he is going to extend it across the firm's non-PI practice areas.

The reality is that many PI firms are not as financially savvy as HJA. “Without a lot of financial management, they may go under,” Patrick says. “The banks don’t have much appetite to lend to legal businesses at present and they definitely won’t unless you are a switched-on firm well on top of your finances and cases.”
D
id you see the guidance issued by the SRA in January 2015 which said it should not be necessary for purchasers to access client files in breach of confidentiality to complete a deal?

Many solicitors and their professional advisors missed it. But it contains a significant shift in the regulator’s approach to confidentiality in law firm M&A/WIP deals, arguing that it should not be necessary to allow access to files to complete a deal.

The SRA said there were pressures on law firms, when considering a deal, to allow third parties access to confidential client information, and that formal confidentiality agreements should be put in place.

“During negotiations sufficient steps need to be taken to protect confidential client information and, where appropriate, to seek clients’ consent to any disclosure of confidential information... In our view, it cannot be argued that no merger or acquisition can be completed without disclosure of client files...”

“Due diligence or an assessment of a firm’s viability should be focused on the firm’s financial situation, financial records, accounts, financial forecasts and forward plans. Firms must take steps to minimise the risk of third parties having access to client information.”

Of course, there are additional obligations placed on a firm by the Data Protection Act 1998, set to be revamped by a new EU-wide data protection regime in 2018, relating to client data and its protection.

As a regulated law firm Citadel’s approach ensures that all work undertaken complies with SRA guidance. This protects our clients and mutual professional advisors from regulatory and data protection breaches.

Early in our operational due diligence process, significant disclosure of pertinent MI that impacts on asset value is requested but with client details redacted. Interviews we carry out are also important – once we talk to key personnel and ask them about their responses to the disclosure, we can easily ascertain how good they, their cases and their systems are.

We find that working within SRA guidelines to be a far better approach as it puts the focus on operational issues as a whole rather than individual files – which is hit and miss, costly and breaches SRA guidelines. Reading and understanding data provides superior results – but you need to be an expert.

LQC Analytics makes this process both transparent and compliant in terms of interrogating the hours on cases, stages of cases, liability admissions, limitation dates, missed dates, cash flow projections etc. And if a firm cannot provide clear and transparent data like this, why would you want to buy them in the first place?

Importantly, we work in tandem with our clients’ financial advisers, not in place of them. Our role is to provide the crucial detail of the target business’s operating model, including its risk and value. Put together with accountants, you get a multi-disciplinary professional legal services skill-set that gets under the skin of the target business.

We recently carried out a significant piece of purchaser due diligence alongside Deloitte ensuring SRA guidance was not breached protecting our client, the target law firm and all professional advisors involved in the transaction.

View from Michelle Garlick, Partner, Weightmans and Head of Compli

“With the increase in M&A activity that we are seeing, it is essential that law firms and their professional advisers comply with the SRA guidance and of course the mandatory duty to maintain client confidentiality. Both financial and regulatory due diligence are necessary before committing to an acquisition and it is only through engaging someone with the experience to know the right and probing questions to ask that you can properly assess the risks whilst remaining compliant with the code of conduct.

The General Data Protection Regulations will have a huge impact on all data controllers – more detailed fair processing notices and transparency requirements with even more emphasis on informed consent as well as the obligation to report personal data breaches to the regulator. Firms need to get to grips now with what they are doing and how to comply with the new regime.

That is, of course, unless Britain opts for Brexit!”

View from Richard Harrison, Director, Financial Advisory, Deloitte LLP

“I recently introduced and subsequently worked with Lesley on a high-profile, distressed acquisition opportunity on behalf of a top 50 law firm. Lesley quickly became a valuable member of the team and she provided clear, risk focused and timely advice to our client which formed a key part of their decision making process. As well as being easy to work with, she made herself available at all times to ensure she delivered at a high level and within very tight timeframes. She operated with integrity and maintained client confidentiality at all times.

It is clear she is an expert in her field and I would not hesitate to recommend her to my clients again in the future.”
It was around the turn of the century that, as a banker, I first encountered a law firm undertaking conditional fee agreement (CFA) work.

A local high street firm had decided to establish a clinical negligence department and was burning through cash at a rapid rate. The owner was highly mortgaged and the business was ever more dependent on the bank to fund the cost of new cases, processing existing cases which took forever to settle as well as the receipt of costs which often arrived late. Eventually the firm ran out of cash and was sold with a heavy write-down on work-in-progress value.

Fifteen years on, the challenges are not so different. Cash management remains the critical area of focus, with the added complications of the Jackson reforms and the Chancellor’s proposals in respect of whiplash and small claims.

The principal difference between then and now is the level of professional business management employed within firms and banks’ desire to interrogate and challenge their business models.

Successful CFA firms have to be well managed. The challenge of operating in this complex business environment does not allow for sloppy management, and legislative changes have driven heightened levels of management capability – which is often found wanting within generalist firms.

Management within the majority of CFA firms understand the importance of robust and timely financial information, they understand the need to employ efficient and lean processing, and they understand the need to operate against decreasing profit margins. Notwithstanding this heightened skill-set, we are seeing an increasing number of CFA firms struggling to manage cash effectively.

Some of this pressure is associated with the Jackson reforms, some is down to increasing disbursement costs, and some is down to firms moving away from lower-margin work and into areas with increased lock-up.

Keeping the bank manager happy

Steve Arundale, Head of Commercial Professional Services at NatWest Bank, explains the level of financial insight that banks want to see from PI law firms.
However, some of this pressure is also the result of poor management, associated with: a desire to take on more and more cases; an inability to preserve a trading cash buffer within agreed facilities; an unwillingness to employ integrated forecasting tools to fully assess the impact on cash associated with different work types.

Whilst CFA firms have increased their business capability, banks have also improved their understanding of CFA firms. Banks are generally far more inquisitive when it comes to working with law firms, and with fair cause given the rising number of firm failures in recent years.

Some banks still appear to be reluctant when it comes to providing debt facilities to CFA firms. However, in many respects these firms represent a more acceptable risk than your standard high street firm – if the bank can develop the right level of understanding and put in place the appropriate controls to manage its risk exposure.

When working with a bank, CFA firms should expect to be challenged around the following areas:

- Level of work in progress maintained both on and off balance sheet;
- Valuation basis associated with work in progress;
- The influence of work-in-progress adjustments on profitability and associated drawings;
- The make-up of work in progress, lock-up and the associated impact on cash;
- Ability to perform against budgets and manage cash flow;
- Management of disbursements; and
- The level and need for third-party funding and the associated recourse.

Much of this assessment is linked to business outputs, and increasingly banks want to understand firms at a deeper level. If strong financial performance is an output, competent legal capability and strong case management is an input.

In respect of these inputs, banks do not usually carry the ability or legal knowledge to undertake a full and detailed assessment so they are looking for external and indemnity-backed reviews. Depending on the nature of the request and its knowledge of the business, the bank may seek full financial due diligence in addition to an operational business review.

In recent weeks I have met a number of lawyers who are heavily involved in CFA litigation and the challenges and frustrations are clearly visible. But with challenge arrives opportunity, and I am confident that firms which deliver good service efficiently will continue to attract clients and develop profitable business models – although margin expectations may need to be a revised.
Providing the solution

To coincide with the launch of LQC Analytics we will be exhibiting at all the major personal injury law events across the country in 2016. If you want to know more about how we can help you please come and talk to us or feel free to contact us by phone or e-mail.

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<td>4 ~ 5 May 2016</td>
<td>APIL Annual Conference</td>
<td>Hilton Metropole Birmingham, The NEC Birmingham</td>
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<td>14 June 2016</td>
<td>Modern Law Conference</td>
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<td>22 September 2016</td>
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<td>28 ~ 30 September 2016</td>
<td>APIL Annual Clinical Negligence Conference</td>
<td>The Celtic Manor Resort, Newport, South Wales</td>
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Follow @LQC Analytics on Twitter where regular tips and insights will help PI law firms improve their operational performance and WIP analysis.

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