

The benefits and process of ABS applications

Taylor & Emmet LLP – Connect2Law

7 February 2013

Sheffield

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The benefits and process of ABS applications

7 February 2013

Agenda

9.30am - Andy Poole, Legal Sector Director, Armstrong Watson

9.50am - Stuart Bushell, Managing Director, SIFA

10:10am - Questions

10.30am – Close



Andy Poole

Legal Sector Director, Armstrong Watson

Agenda

- Reasons to become an ABS
- The impact of banning referral fees
- Links between Claims Management Companies and Alternative Business Structures
- Potential structures to adopt



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Reasons to become an ABS

- External investment
- Promote non-lawyer managers
- Spouse ownership
- Joint ventures
 - Claims Management Companies
 - Estate Agents
 - Insurance Brokers
 - IFAs



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The impact of banning referral fees

- Reduced inflow of work to lawyers
- Reduced expenses
- Offset by reduced fixed recoverable portal costs
- Portal extension
- Impact on Claims Management Companies
- Can the ban be avoided?



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Links between Claims Management Companies and Alternative Business Structures

- CMCs impacted by referral fee ban
- Joint Ventures with lawyers as ABSs
- Reduced fixed recoverable portal costs
- Number of different joint ventures?
- Vertical integration



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Potential structures to adopt

- Partnership
- LLP
- Limited Company
- Corporate Partner
- Partnership of Corporates
- Hybrid
- Joint Venture



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Structure: Issues to consider

- The Legal Services Act
 - External Investment – capital growth
 - Spouse Investment
- Liability
- Image
- Financing
- Impact on partners/succession
- Conversion issues/simplicity
- Public disclosure/accounting
- Flexibility
- Tax Savings



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Trading structure options

- Partnership
- LLP
- Limited company
- Corporate Partner
- Partnership of corporates
- Hybrid
- Joint Venture



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Trading structure options

- Partnership
- **LLP**
- Limited company
- Corporate Partner
- Partnership of corporates
- Hybrid
- Joint Venture



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Trading structure options

- Partnership
- LLP
- **Limited company**
- Corporate Partner
- Partnership of corporates
- Hybrid
- Joint Venture



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Trading structure options

- Partnership
- LLP
- Limited company
- **Corporate Partner**
- Partnership of corporates
- Hybrid
- Joint Venture

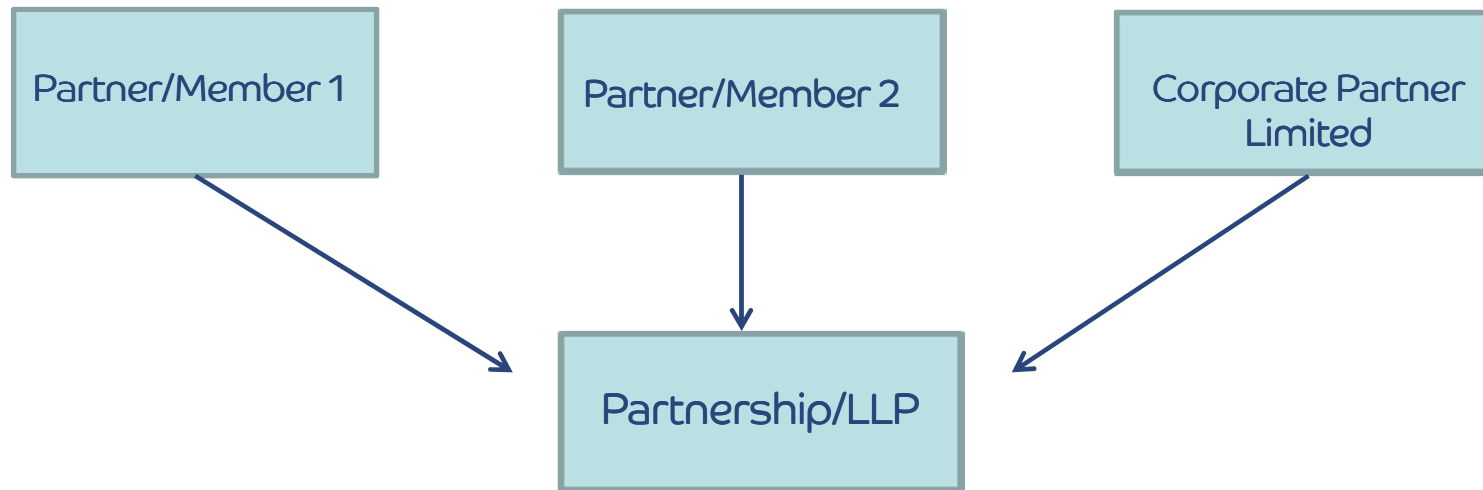


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Trading structure options



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Trading structure options

- Partnership
- LLP
- Limited company
- Corporate Partner
- **Partnership of corporates**
- Hybrid
- Joint Venture

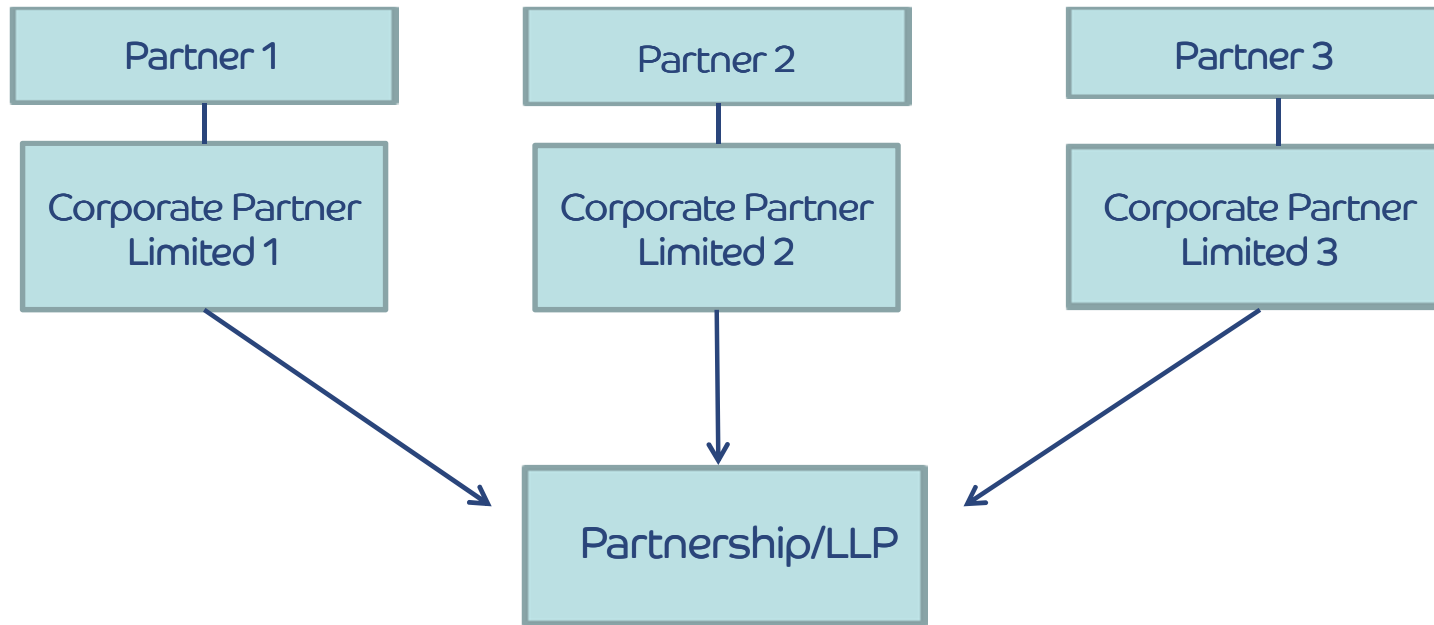


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Trading structure options



Trading structure options

- Partnership
- LLP
- Limited company
- Corporate Partner
- Partnership of corporates
- **Hybrid**
- Joint Venture

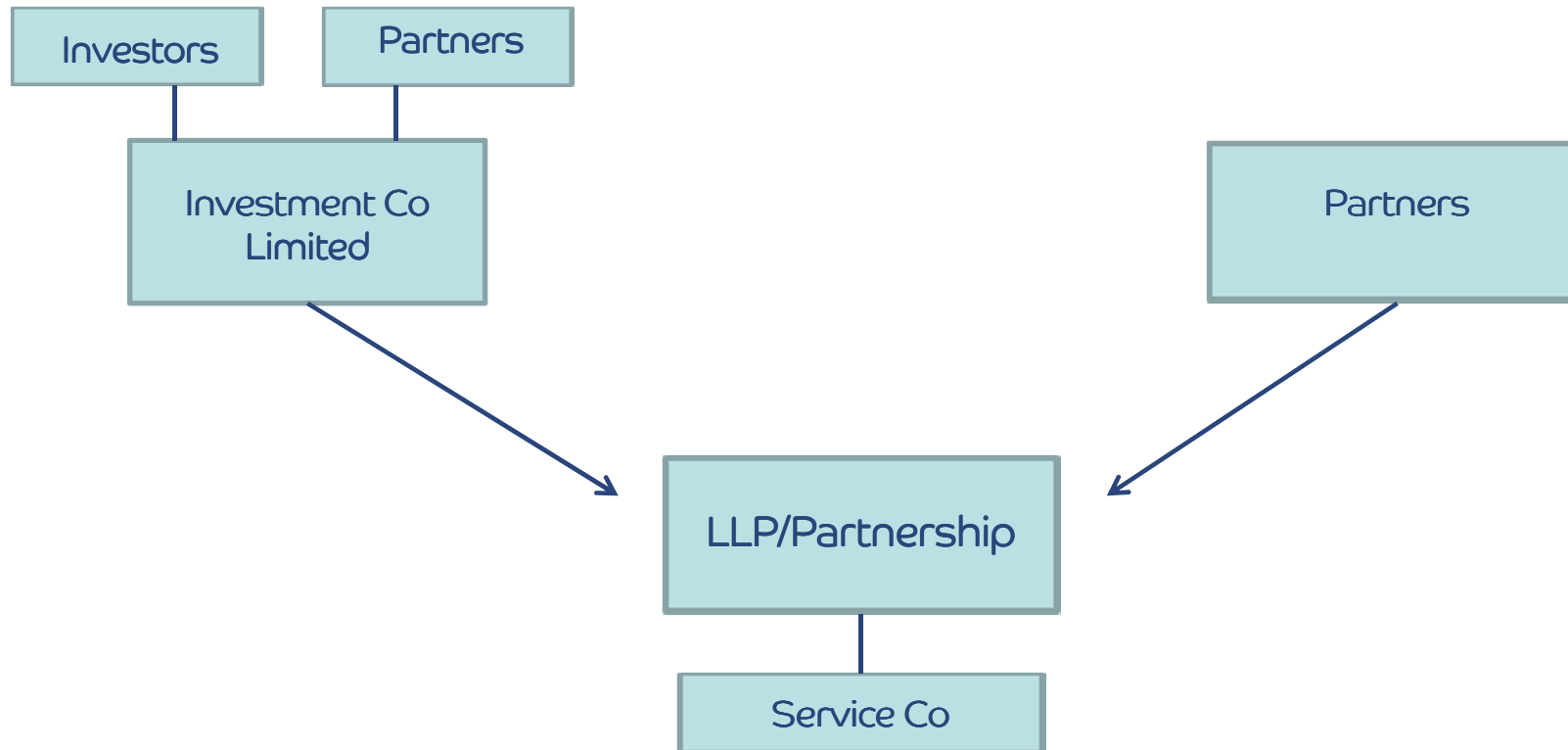


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Trading structure options



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Trading structure options

- Partnership
- LLP
- Limited company
- Corporate Partner
- Partnership of corporates
- Hybrid
- **Joint Venture**



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Trading structure options

Holding/Service
Co Limited



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Trading structure options

Holding/Service
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Solicitors

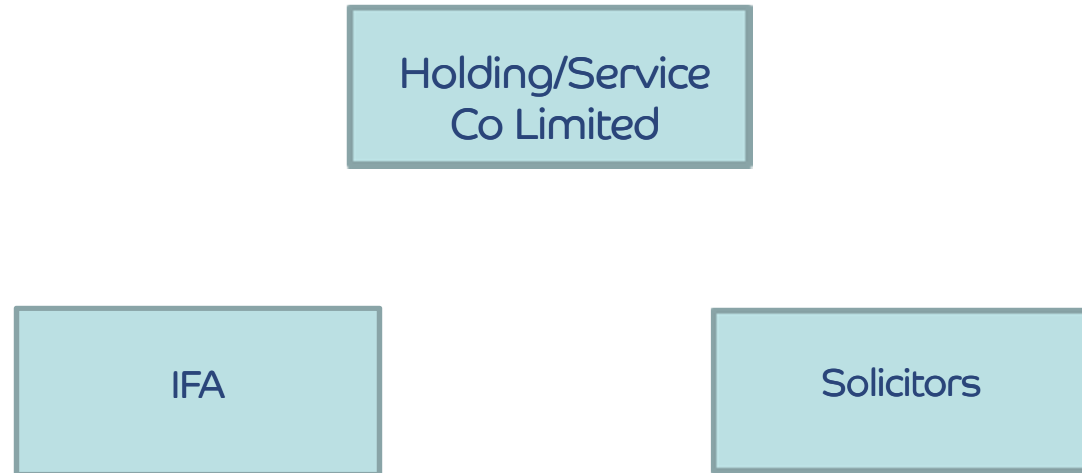


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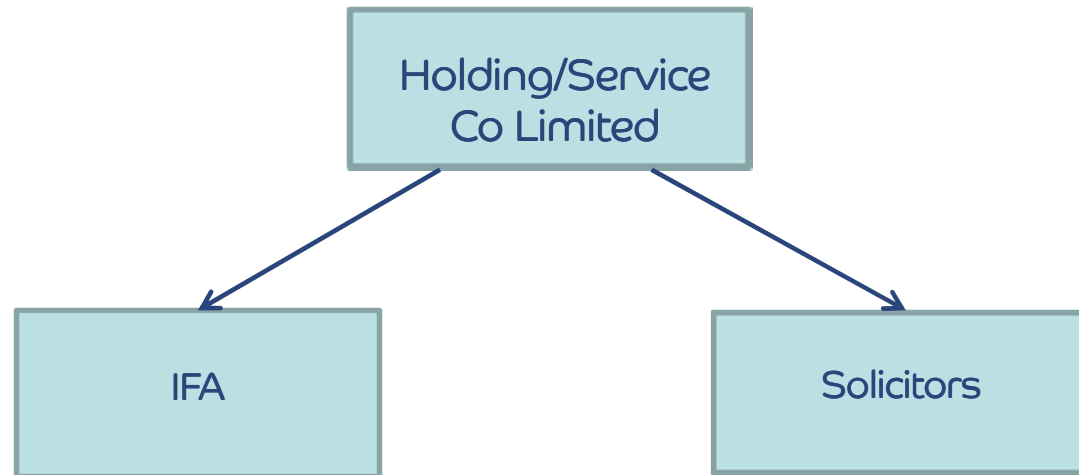
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Trading structure options



Trading structure options



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Connect2Law
Taylor & Emmet LLP – 7 February 2013
How to set up an ABS

Stuart Bushell

How to set up an ABS

Today's presentation:

1. Where are we now?
2. Possible structures
3. Getting started
4. Before you apply
5. The application process
6. The ABS log-jam.

ABS – where are we now?

- The first ABS (Premier Property Lawyers) was licensed on 6/10/11, by the Council for Licensed Conveyancers (CLC)
- CLC has only authorised 4 more ABSs since then
- SRA licensed its first ABS in March 2012. It has now licensed a total of 75.
- Another 300 plus ABSs are “in the pipeline”. High attrition rate.

ABS – possible structures

No real pattern has emerged from the ABSs licensed so far, but:

- Very few are traditional partnerships
- The majority are Limited Companies and virtually all of the rest are LLPs
- Very few are true multi-disciplinary practice
- There is some evidence of private equity funding driving ABS creation but not as much as anticipated.

ABS – getting started

Some factors to consider:

- What are you trying to achieve? Have clear aims in mind.
- Is there a deadline which you need to hit? It may already be too late due to delays at the SRA.
- Which structure suits your aims best?

ABS – getting started

- Are you going to need external funding? If so, from where and when will it be available?
- Are you going to be able to get professional indemnity insurance for the ABS? Better to look into this before the application is made.

ABS – getting started

- Look carefully at your taxation position regarding initial structure and the likely development of your business. Take advice from your accountant.
- Consider the regulatory position of newco:
 - Will it be licensed by the SRA?
 - Are any other regulators involved e.g. Accountants, given the individuals making up the ABS.

ABS – Before you apply

You must:

1. Decide newco structure and register it.
2. Decide and put in process the major elements of the new business which may be time-consuming e.g. Premises, new staff recruitment.
3. Who will be the COLP and COFA?
Are they likely to be accepted by the SRA.
4. Contact the SRA.

The ABS application process

Application is in three stages:

- Stage 1 is simple, really a registration exercise
- Stage 2 is detailed, with over 130 pages of forms for a standard application, comprising 4 sections:
 1. Individual managers, owners and shareholders application.
 2. Applicant body application
 3. COLP
 4. COFA

The ABS application process

- Stage 2 forms are only provided on successful completion of Part 1. Not available from SRA otherwise.
- Fees are payable on submission of Part 2 application
- Tough suitability process for all:
 - Criminal offences
 - Regulatory record
 - CCJs and IVAs
- Stage 3 is the Chief Executive's approval

The ABS application process

Applicants will need:

- Detailed accounts projections for the new business
- A business plan
- A compliance plan
- A risk register
- Professional Indemnity cover arranged
- Clear structure and governance for the new business

How long will it take?

- The first ABS for which SIFA undertook consultancy took 7 months from Stage 1 application to receipt of licence.
- When the SRA sends Stage 2 application forms, you have 60 days to send it back to them, otherwise you start again. You can apply for a 30-day extension to this.
- The SRA **will** ask supplementary questions.

ABS – some examples so far

Premier Property Lawyers is the first (and currently the only) ABS

- PPL is the conveyancing arm of www.myhomemove.com, which has over 400 staff and plans to double this by 2016.
- Now working on de-lawyering and greater process automation
- Currently has about 50 lawyers, including 25 solicitors; but none are managing the company

External funding

Australian law firm Slater & Gordon buys Russell, Jones & Walker.

- S&G are the world's first stock market listed law firm
- Purchase price £53.8m. Of this £36.4m in cash and £17.4m in S&G shares. ABS is set up
- S&G have up a UK subsidiary to manage operations
- RJW gets about 31% of revenue from mass-market personal injury litigation

Co-op Law

No sign yet of Tesco entering the fray, but the Co-op is not hanging around:

- Co-op Legal Services (CLS) was one of the first ABSs
- Grown from zero to £24.2m in 5 years
- Now 370 staff with 150 more expected this year
- Aim to gain 3,000 extra legal staff in the next 4 years

Co-op Law

- Now has 600 plus bank/building society branches which CLS will use
- Expertise in cross-selling
- A new family law service is under way – with solicitors recruited from leading family law firm TV Edwards
- Co-op has over 3,000 stores and more retail outlets than any other UK organisation

“LDP Plus”

Legal Disciplinary Practices (LDPs) were introduced in March 2009 as a half-way house to ABS. No more than 25% non-lawyers allowed

- In November 2011 there were 493 LDPs, with growth of 42% in the preceding 12 months
- Most are 10 partners or less and are traditional law firms with one or more non-solicitors as partners, members or directors

The ABS log-jam

- The SRA has managed to license 33 ABSs in 7 months since the first one.
- Some applications are extremely complex and the SRA does not have all of the necessary expertise in-house
- There are over 200 ABS applications in various stages of assessment
- There are at least 200 LDPs waiting to “passport” over to ABS

The ABS log-jam

- Experience so far has shown SRA ABS application staff as very helpful but subject to a high turnover
- The ban on referral fees expected in April 2013 means that many solicitors and claims managers are setting up ABSs between now and that deadline. Many of these are complex and need detailed examination from the SRA.
- The LDP “passporting” process is almost the same as a full application

ABS – the next 12 months

- Will the SRA simplify the ABS application process to ease the log-jam, as it did with COLP/COFA nomination?
- LDPs likely to be given until April 2014 to passport to ABS
- Applications are likely to increase in number, as new entrants decide upon their model

ABS – the next 12 months

- SRA CEO Antony Townsend stated that he expected over 100 ABS licences to be granted next year. Seems cautious.
- Significant difficulties for firms setting up ABSs to evade the referral fee ban. The SRA appear to think that most “evasion models” will not be allowed. Many applicants are already too late for the start of the ban in April 2013.

ABS – the future

“Wait a minute, wait a minute, you ain’t
heard nothin’ yet”

Al Jolson “The Jazz Singer”, 1927.



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the better response to the LSA

The benefits and process of ABS applications

Questions

Andy Poole, Legal Sector Director, Armstong Watson

Stuart Bushell, Managing Director, SIFA

