



Legal Sector Breakfast Briefing

24 February 2016

Leeds



Legal Sector Breakfast Briefing

Welcome

Simon Coatsworth
Chief Executive
Zenith Chambers



Legal Sector Breakfast Briefing

Introduction

Andy Poole
Legal Sector Partner
Armstrong Watson



Legal Sector Breakfast Briefing

24 February 2016

- 8.00am - Arrival and breakfast
- 8.30am - Welcome
- 8.35am - Briefing – Understanding the risk, value and opportunity in WIP
- 9.30am - Q & A
- 10.00am - Close





Understanding the Risk, Value & Opportunity in WIP

Zoe Holland, Founder & Managing Director

Zebra
LC[®]

RISK | VALUE | OPPORTUNITY



You can stop, if you want, with the
Z, and most people stop with the
Z,
but not me.

*“On Beyond Zebra” Dr.
Seuss*

Through The Looking Glass



Visibility – Comfort & Confidence



- WIP – risk profile
- WIP – tracking lock-up
- WIP – value
- Funding lock-up = CASHFLOW PRESSURE



“I am a ninja”

“No, you’re not”

“Did you see me do that?”

“Do what?”

“Exactly”





Example DD Scope

- Risk status and benchmarking of WIP
- A forced sale valuation of WIP assuming recovery rates of 20% & 30% based on sample RAG review
- Case management capability, technical capability, oversight and compliance
- Identify any hidden and unaccounted costs such as medical reports, search fees
- Identify within the sample and trends where interested parties have a call over cost recovery
- Assess WIP levels post and pre April 2013 as part of the sample audit to report upon consistency in quality, valuation and recovery
- Assess whether the Firm's PII cover is suitable for work undertaken

Technical Auditing & Review



- Lifeblood – quality of commodity and how is it managed (operationally & financially)?
- Specialist auditors, lawyers, costs, financial & barristers
- Sample auditing against key criteria for value & risk
- Assessment of WIP movement

WIP Profiling



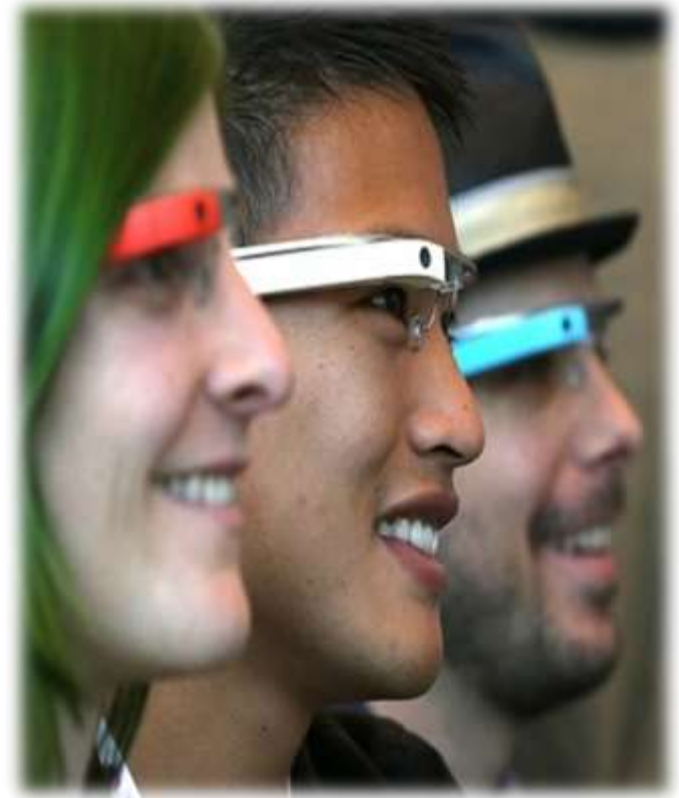
- Risk Rated
- RAG Rating
- Black Listed = Nil Value
- PLC Board Approved Methodology
- Costs & Retainer Issues
- Litigation/Completion Risk Profile
- Technical & Operational Capability



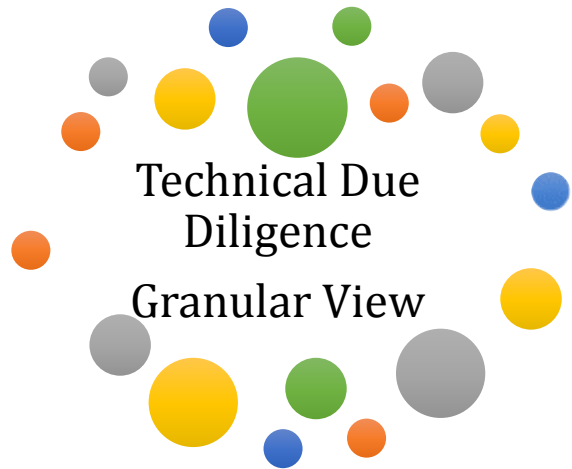
New Entrant Investors



- Weekly/monthly WIP valuation
- Risk profiling of key areas of legal service
- Governance & indemnity risk
- Visibility around technical & operational capability & performance
- Tracking WIP movement



Granular Visibility



FIELD AUDIT

REPORT



Retainers & Funding Risk

- Retainer problems
- Hourly rates & fee earner Grade 'gearing'
- Reasonableness time recorded
- Litigation: Part 36 risk
- Proportionality & complexity scaling
- Fee estimate reviews – commercial property, private client, corporate



Litigation Risk Factors

- Poor quality commodity
- Profile of admitted; denied and no decisions
- CN, NIHL & Serious fraud
- Risk of negligence: out of depth
- Indemnity & OFR risk

Trends – Undermining WIP



- Defective Retainers (not all remediable retrospectively)
- Concurrent Retainers - LSC & CFA funding
- Confusing/insufficient explanation of the new 25% success fee
- Costs letter estimates not reflecting the work & level of fees being charged on a matter
- Lack of payment on interim billing



Trends – Undermining WIP & Risk

- Poor technical skill : not maximising profit costs
- Risk of under settlements: serious injury & more complex injuries such as PTSD and chronic pain
- Optimism bias: Non Tefal WIP that just keep sticking (private client and litigation)
- Commercial property : specialist areas without a specialist eye

BRAG Rating



Firm WIP	Retainer	Risk
£88,198.00	Black	Green
£31,970.00	Black	Red
£61,551.00	White	Green
£6,561.00	White	Green
£41,860.00	Black	Black
£19,550.00	White	Green
£17,890.00	White	Green
£100,500.00	White	Green
£94,150.00	White	Red
£25,085.00	Black	Black
£141,335.00	White	Green
£1,107.00	Black	Orange
£44,175.00	White	Orange
£29,005.00	White	Orange
£102,700.00	White	Green
£49,980.00	White	Red
£6,075.00	White	Red
£4,010.00	Black	Orange
£18,955.00	White	Green
£37,450.00	White	Green
£2,880.00	Black	Orange
£1,877.00	Black	Red
£9,100.00	White	Green
£12,420.00	Black	Red
£4,010.00	White	Orange
£1,676.00	White	Red
£2,445.00	Black	Red
£34,785.00	White	Orange
£16,637.00	White	Green
£9,615.00	White	Green
£29,245.00	Black	Red

£160k black listed:
nil rated on value

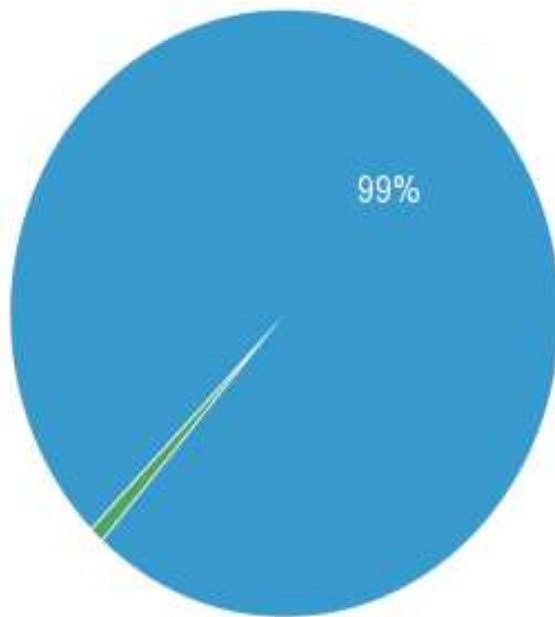
YEAR OF THE BRAG

WIP Profiling - Retainers

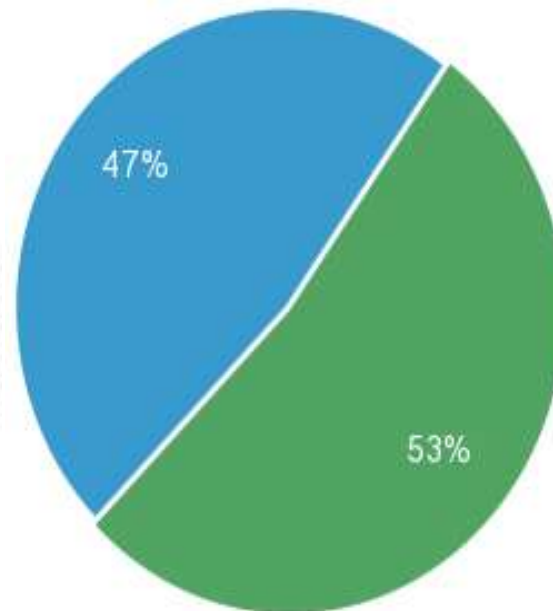


Audit Question : Any Issues with Retainer?

AUDIT 1



AUDIT 2



What's Under The Bonnet?





DATA

CAPTURE

REVIEW & ANALYSE

IDENTIFY VALUE

UNDERSTAND RISKS

SEIZE OPPORTUNITY





How Well Do You Know Your Commodity?





How Good Is The MI?

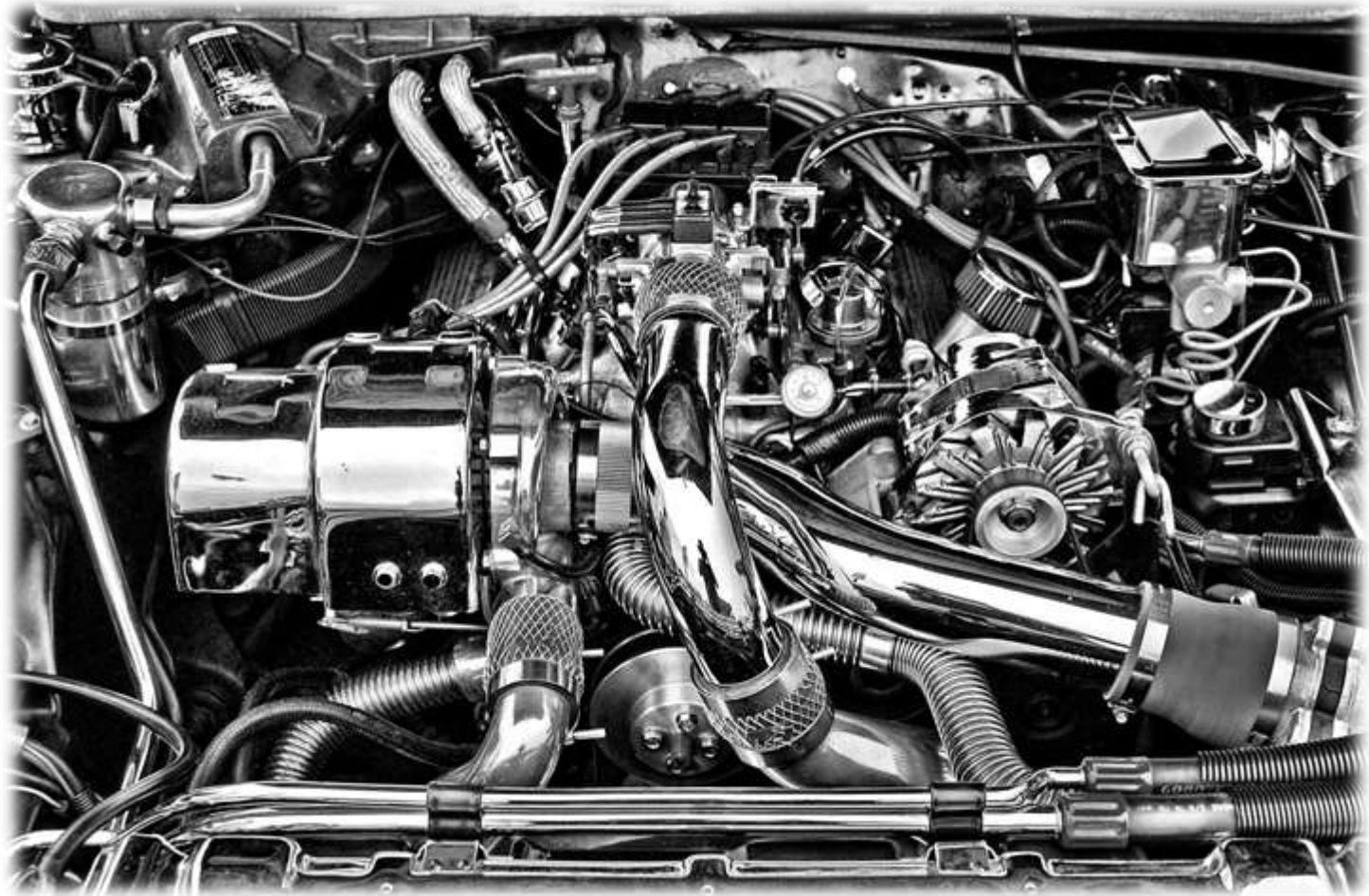
- Case type/matter type
- Breach & Causation status (CN)
- Full or Partial Admission
- Case stage reached/matter stage
- Quantum & complexity scaling
- Timescale interim & final billing
- Collection of cash

How Good Is The MI?



- Tracking lock-up
- “Sleepers”
- Aged WIP – what does it indicate?
- Toxic WIP
- Indemnity risk files
- Costs recovery statistics
- Disbursements

What's Under The Bonnet?



What We See



VALUE | RISK | OPPORTUNITY



- £2.1 million audited WIP- 20% (WIP profile £10m)
- PI & CN
- Valuation & risk profiling
- 12 month fee generation forecast



Findings

- Different risk profiles
- Clear differential between risk factors on Retainers & funding
- Technical competency & skill
- 'Gearing' of the caseload
- Senior commercial & technical skill lacking

Findings (Cont'd)



- Retainers required immediate remedy
- BTE & LAA required urgent extensions
- Protection of WIP value
- Hourly rates too high: undermined WIP value
- Client care issues (OFR)
- Professional indemnity risk



Risk RAG Valuation

- £200,000 black listed (thus 10% of sample nil value)
- Indemnity risk (pre & post April CFAs)
- Lost opportunity of pre April Success Fee
- CN: high risk profile
- PI: medium risk
- Overall RAG value below 50%

What We See





Multi-Service Law Firm (New to Bank)

- PI
- CN
- Crime
- Property
- Private Client

Project Scope



Key credit issues for the bank:

- 1 Over trading - failure to convert WIP into cash receipts - especially in the areas of injury litigation
- 2 Quality of systems for monitoring and control of WIP
- 3 Split of WIP between disciplines
- 4 Can cash collection processes be improved to aid cash-flow ?
- 5 Current Valuation of WIP - is it on a conservative basis when looking at market norms?



Shift From Legal Aid

- How far implemented?
- Assessment of WIP write off in non contentious areas
- Indemnity risk profile in property
- Crime - profitability and approach to changes
- Assessment of own WIP value
- Comfort tangible shift away from Legal Aid
- WIP write off in non contentious areas – required improvement
- Indemnity risk profile in property – good (growing area)
- Crime - profitability and approach to changes (good)
- Assessment of own WIP value (reasonable)



Result

- Benchmarked within top Zebra centile
- Low risk WIP
- Low risk professional indemnity
- Did what it said on the tin!
- Bank had comfort



Lessons

- Quality & expertise
- Technology (IT systems)
- Low operational risk
- Financial management
- Healthy asset base (profitable & valuable WIP)
- Clear strategy
- Audit & review of data



Reducing Lock-Up

- Agreeing bill ahead of time
- Interim billing
- Invoice promptly
- Consistent credit control
- Track WIP movement
- DATA



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Questions and Conclusion

Ian Appleby
Relationship Director
RBS





we're with you...