



# How to get paid faster and improve your firm's cashflow

By Jarrod McAvoy

Most lawyers enter the profession with the belief that most of their day will be consumed in the practice of law. However, they soon discover that a significant portion of their time is occupied by drafting costs agreements, invoices, bookkeeping and chasing up clients for overdue bills.

Due to the nature of legal work and the regulatory framework regarding costs disclosures, trust accounting and itemised invoicing, it's often the case that the final bill won't be issued until well after the matter is concluded.

While there are many areas of law where you can bill in stages or accept funds into your trust account, the more common areas such as conveyancing, family law and probate often involve people who don't have the means to pay until the matter is concluded.

Nothing is more infuriating and frustrating than dealing with a client who is unable or unwilling to pay their bill, especially since your client is enjoying the benefits of your hard work.

Often the anxiety around getting paid is the prime reason why many lawyers lose their enthusiasm for the practice of the law. The cost of legal services is a cause of client complaint and dissatisfaction with the legal profession. Bill shock is common, and your clients will experience it, even if you have provided all the relevant cost disclosures and clear, itemised invoices.

Simply put, your clients will usually perceive the services provided as being worth less than what's displayed on your bill, especially if the outcome they sought hasn't been achieved. However, these issues can be resolved with a few simple procedures together with the adoption of modern accounting programs and online billing services.

By adopting some simple low-cost solutions, not only will you increase the frequency of payments, but you will significantly improve your firm's cashflow.

## What is cashflow management? How do I ensure I have enough cash to pay the bills each month?

Simply put, cashflow management is the practice of ensuring you earn more than what it costs to run your business. Good cashflow management doesn't just focus on bringing in extra dollars into your business, it also looks at ways to reduce your overheads and improve your firm's productivity.

## Challenges

The challenge lawyers and law firms face is that most lawyers are busy working for their clients and struggle to meet their monthly accounting and regulatory responsibilities, let alone work on improving cashflow.

In practice, a law firm's cashflow can be quite tricky to manage. Certain areas of law might require significant time and effort which justifies a larger bill, however due to your clients' circumstances it might take some time for the bill to be paid. Often firms focus on matters that are less complicated and high in volume. For example, conveyancing and wills can be completed relatively quickly and will generate cash to help pay the bills. The problem with this approach is if there is a downturn in the volume of work, there isn't any alternative sources coming in to replace this income.

If no more conveyancing matters come in due to changing economic conditions, a once reliable source of income could vanish overnight.

## Solutions

The simplest way to improve the frequency of incoming payments is to use technology which can:

- ▶ Generate and send clear and precise costs agreements.
- ▶ Record billable activity when the work is being done. Don't waste time at the end of the month updating timesheets or drafting invoices.
- ▶ Accurately report work in progress (WIP) and outstanding invoices for all clients. These reports should be able to be emailed to you daily.
- ▶ Provide a list of matters that have funds in trust and outstanding invoices.
- ▶ Include multiple payment options such as BPay, EFT and credit card as well as debtor financing and direct debit agreements. Limiting payments to just cheque, cash and EFT significantly limits your ability to get paid.
- ▶ Provide invoices with a link to a payment portal on your website. Clients should be able to pay you online as soon as they receive their bill, just like they do with their gas and electricity bills.
- ▶ Generate payment receipts in your accounting system automatically and send to your clients via email.

**By implementing a system which can do all the above, your firm should be able to weather any cashflow issues.**

## How do I get clients with 60 to 90-day overdue invoices to pay?

Large numbers of overdue invoices can cripple a legal practice, especially if there are many 60 to 90-day overdue bills. This can be particularly frustrating when you are struggling to cover your own liabilities.

Law firms who have proper systems in place should be able to identify all invoices which fall into this category and know the reasons why clients can't or are not willing to pay.

For certain matters there might be legal reasons why payments can't be processed (i.e. company liquidation, client assets are frozen) however, these circumstances should be rare and if precautions are taken, they can be avoided.

**By taking the following steps you should significantly reduce the number of late or overdue invoices.**

- ▶ Regularly review your 30 to 90-day WIP and outstanding invoices report. Don't let outstanding invoices get out of hand until it's too late to recover.
- ▶ If a client regularly has trouble paying their invoices, mitigate your risks by insisting the client pays funds into trust prior to commencing any work.
- ▶ Regularly review your trust to office management report. If applicable, transfer any available funds from trust to office. Your practice management system should be able to distinguish funds held for a specific purpose (i.e. proceeds from a real estate sale to be used to purchase a new property) from your trust to office management report.
- ▶ Offer alternative payment plans. If you can't receive the full amount up front, arrange for the client to pay a specific amount each week or month.
- ▶ Enforce payment terms. Instruct clients in your costs agreement that you will add penalty interest on their invoice if it isn't paid on time and remind them when the invoice falls due.
- ▶ Stop work immediately if invoices are overdue.
- ▶ Don't be afraid to use debt collectors or litigation if your client is unable or unwilling to pay their invoice.

## When and how should my firm get paid?

In a perfect world, you should get paid upfront every time you take instructions. However, this simply isn't possible for all matter types, especially if your firm doesn't have a trust account.

**The ideal situation is to request the following payment terms, in order of preference.**

1. Immediate upfront payment into trust for the full amount due (or likely to be due). Your practice management solution should have the ability to send trust payment requests via email which can then be immediately paid online.
2. Immediate upfront payment into trust for a partial amount, with the remainder to be paid upon completion.
3. If possible, direct any funds owed to your client into your trust account. Obtain instructions to deduct your legal fees from these funds.
4. Obtain your client's commitment to making small payments each week / fortnight / month. Debtor finance or direct debit agreements can help secure payment.
5. Offer the maximum number of payment types available. Most firms lose payment opportunities by only accepting cash, cheque and EFT. You could be missing out on the opportunity to get paid today simply because your client prefers to pay bills via BPay or credit card.
6. Use an online payment system instead of older technologies such as EFTPOS. EFTPOS is great for retail businesses as goods are accepted and paid for in person. Most service businesses get paid by issuing invoices when their clients aren't in the office. By offering an online solution, your clients can pay you 24/7 either online, in person or over the phone.

## How often should you bill clients and chase up overdue payments?

One of the biggest impacts on law firms' cashflow is the belief that billing is locked into monthly cycles.

You should bill your clients as soon as you are entitled to and ensure that any funds held in trust are transferred to your office account as soon as possible.

One of the limitations of transferring trust to office on a regular basis is the fact that most invoicing and trust to office payment cycles are done at the same time as completing your end of month trust account requirements.

In the past, managing a trust account was a long and tedious process requiring law firms to check that each individual bank transaction matches their trust account record.

Several trust accounting programs can now download and automatically match your bank transactions against your trust records. This will significantly decrease the amount of time it takes to manage your trust account - time you and your staff can use to invoice and chase up outstanding debtors.

With outstanding debtors, you should contact your client just before your invoice falls due. If your client is unable or unwilling to pay, you should then discuss alternative payment arrangements such as part payments or direct debit options.

## What is credit management and cashflow smoothing?

When a law firm doesn't enforce payment of outstanding invoices, they are effectively providing a line of credit with a limited set of recovery options should the client be unable or unwilling to pay.

From your client's point of view, the primary cause of their frustration is bill shock. In most cases the amount listed on your invoice exceeds the amount they perceive your services are worth. This is especially the case for most individuals who rarely have need of a solicitor's services and are often under great stress due to their circumstances.

Businesses, on the other hand, may not value legal services unless they can see some sort of commercial advantage resulting in increased revenue or reduced costs. All other legal work is perceived as a cost which needs to be minimised.

Most law firms don't like the concept of spending time litigating bad debts and often choose to let invoices go unpaid instead of enforcing payment.

This can be problematic if the debt comes from one of your larger clients. The solution could be as simple as offering alternative payment options. This will encourage payment instead of facing a drawn out legal battle.

### **Some possible solutions include:**

- ▶ Offering favourable discounts to clients who provide repeat business or commit to regular payments.
- ▶ Offering discounts to clients who commit to paying funds into trust or who regularly pay your invoice before it falls due.
- ▶ Offering debtor financing or direct debit agreements. These agreements can allow clients to borrow the full amount invoiced which is then paid to the law firm. They then agree to pay back the loaned amount over 12 equal payments at a slightly higher rate.

Cashflow smoothing is the process of preparing for times in the year when payments slow down. Legal practices tend to experience a flood of payments over the end of financial year period while the Christmas and New Year period is typically slow.

By offering some of the above solutions, you can spread your income over the leaner months. The important thing is to discuss your client's situation and to find solutions that work for yourself and your client.

## Is your payment data secure?

Law firms who accept payments via credit card need to be mindful of their obligations under the Payment Card Industry Data Security Standards (PCIDSS). PCIDSS is a set of security standards designed to minimise the risk of mistaken or fraudulent transactions.

### **They include requirements such as:**

- ▶ Protecting cardholders' data (credit card numbers, expiry dates etc.)
- ▶ Maintaining up-to-date IT systems (antivirus software, internet firewalls etc.)
- ▶ Implementing strong access controls (card holder information should be restricted).

Because of these obligations, law firms who retain their clients' credit card details on file risk being in breach of their PCIDSS obligation.

If a law firm used their EFTPOS machine to pay an outstanding bill by using card details obtained from a previous payment, they would be in breach of the PCIDSS standard.

The consequence of this breach is the risk of this transaction being subject to a bank 'chargeback' whereby the payment can be reversed to your client's favour if they challenge the transaction with their banking institution. Banks can also impose significant fines should they discover a PCIDSS breach.

These standards apply even if you have obtained written permission to charge your client's credit card. This is because it's the banks who determine whether a chargeback request is successful and will certainly do so if there is a PCIDSS breach.

This can become a major problem for law firms who accept credit card payments into trust as most EFTPOS solutions are designed to deduct funds from the account it was paid into. If this happens, you would have most likely breached your trust account obligations and will have to take immediate steps to top up your trust account, as well as inform your trust account auditor and governing law society about the breach.

### **The best solution to this situation is to do the following:**

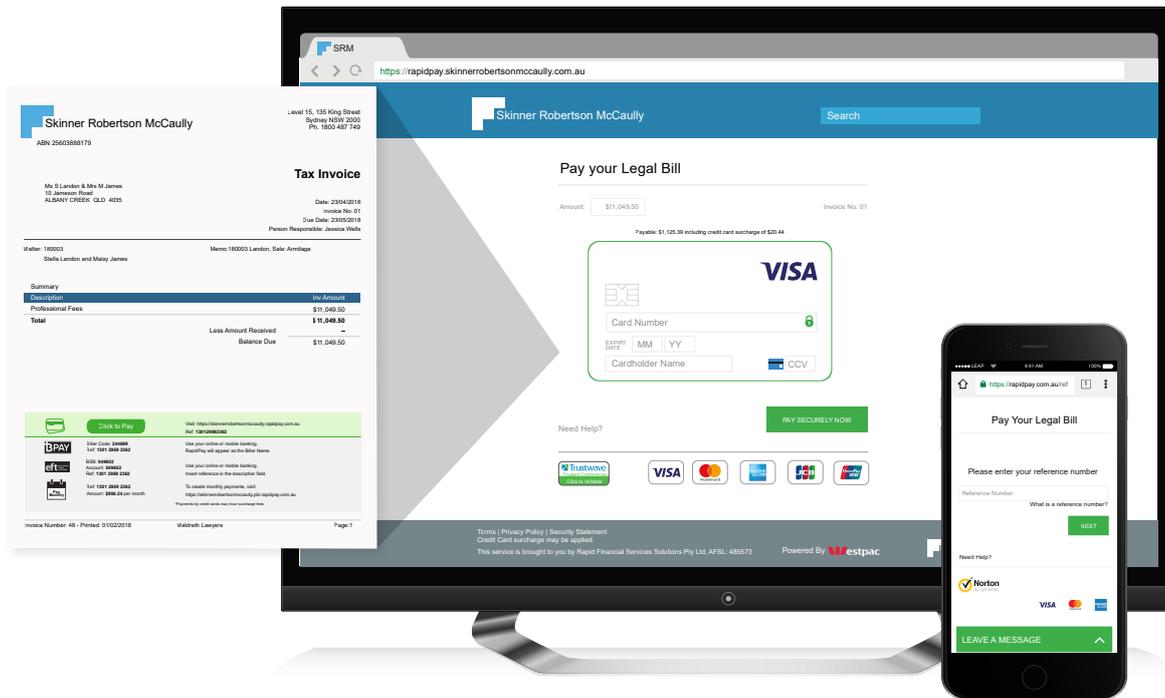
- ▶ Never retain your client's credit card details on file. Only ask for this information if accepting a payment in person or over the phone and never record details.
- ▶ Use an online payment system for credit card payments. Clients can pay you 24/7 and you effectively outsource the PCIDSS compliance risk to the payment provider.
- ▶ When processing credit card payments into trust, ensure that any chargebacks can only be deducted from your office account.

## **Conclusion**

By implementing some of the above you'll be able to enjoy practicing law and earning the income you have worked so hard for.



Jarrod McAvoy is a qualified solicitor with over 10 years' experience working in the legal profession as a practitioner and legal technology expert. He is passionate about helping law firms understand the benefits of technology to improve the business' bottom line.



## Fast and secure online payments

LEAP makes it easier for your clients to pay you by creating invoices that directly correspond to the matter at hand. Secure, online payments will be automatically received both to you and your client and all payments are recorded against the correct matter. LEAP will also automatically reconcile all transactions in your trust accounts saving you time.

- ▶ **Improve cashflow**  
Receive money upfront for matters, deposited via BPAY, credit card or EFT into your office or trust account
- ▶ **Bill clients immediately**  
Generate your tax invoice and take payments on the spot
- ▶ **Improve productivity**  
Reduce labour costs through automatic receipting and reconciliation

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