

First4Lawyers launch ABS law firm – Frequently Asked Questions

In response to the government's whiplash reforms First4Lawyers has announced the intention to establish an ABS law firm to deal with RTA claims after the whiplash reforms are introduced in May. The ABS law firm, which is subject to SRA approval, will trade as First4InjuryClaims and will be based at the First4Lawyers head office in Huddersfield.

The below FAQs provide further information with regards to this business update from First4Lawyers.

What type of work will your ABS be processing?

The firm is to service RTA work only. We shall continue to generate and supply non-RTA and clinical negligence enquiries to firms as we do now. All of our marketing efforts will be focused on maximising non-RTA enquiries and these shall be for the sole benefit of our member firms.

Why are you launching an ABS?

The reforms will bite the RTA sector hardest and this is solely a reaction to these legislative changes. We've never had any desire to own a law firm. That is not what we do. But we simply do not see any other solution irrespective of the finer details of the rules.

The reality is that RTA enquiries will still come our way even though we will not be actively marketing for them. We must be able to service these consumers. This is so we can protect the reputation of the First4Lawyers brand, our standing in the market and most importantly, our ability to attract the volume of those valuable non-RTA consumers for our member firms.

We all know the RTA market will change dramatically. Some of our panel law firms have told us that they may offer a limited service, assisting claimants through the portal for a small fixed fee, but without offering advice and guidance. Some of our panel firms are leaving RTA altogether. Others have still to decide.

But one thing we know for sure is that post-reform RTA work will offer limited revenue opportunities and very small margins. Those staying in the market will need extremely high volumes to achieve any kind of profit. A collective model where the claims are spread amongst several firms simply cannot work profitably.

We have looked at the alternatives and they also don't work. Even if we had a smaller panel of RTA firms, the issue remains that those enquiries are not free. We incur costs in acquiring and screening the leads. There is simply no way there will be enough revenue for a firm to give any of it away and still do the work profitably.

I will still want RTA work, why can't you continue sending this to us as you do now?

The starting point is that the RTA collective model will not work in the post-reform world. An RTA collective means that all member firms share the spread of claim types we generate and many of our member firms will not be accepting RTA claims in the future.

So why not work with one or a smaller panel of RTA firms rather than set up an ABS?

The issue is that the RTA enquiries are not free. We incur costs in acquiring and screening those leads and it is impossible to pass on these costs to firms in the hope that they will be capable of servicing the consumer and still making a profit. There is simply no way there will be enough revenue for a firm to be able to give any of that away and still do this work profitably.

We cannot make plans for our own business, expecting that a proportion of the work we send to firms will not be profitable. There will come a point, whether that is when existing RTA WIP runs out or before, where firms tell us they cannot take this work any longer and that would leave us in a difficult position.

Why not provide RTA enquiries without vetting?

There is still a transactional cost of taking the consumer through the capture and delivery process even if we do not evaluate the facts to identify whether there is a potential claim to be pursued. Even these costs, if passed on, would render the majority of RTAs unprofitable for firms.

Why do you think you can make RTA work for your ABS?

It offers the benefit of the First4Lawyers acquisition and servicing costs being retained within the same group of companies, i.e. whilst it is being paid by one business to the other, the money is still being retained within the group. There are also savings to be had this way by handling the whole process internally.

Surely RTAs will be relatively cheap though and therefore remain viable for firms?

It will be possible to make a profit from RTA claims, but not if the revenue they generate has to be shared with a third party (First4Lawyers) to cover its costs. This is also on the basis of large volumes, which a collective model does not facilitate.

So the claims are still viable but you are using this as an opportunity to keep that money for yourselves, rather than allowing your firms to reap the rewards?

This is most definitely not about First4Lawyers trying to make more money. If that were our objective, it would be far easier and more profitable to continue charging for RTAs as we do now, as part of a mix of PI enquiries, and insist that firms take and pay for them as part of a slot.

We are taking on the considerable burden of setting up a law firm because we view it as inherently unfair to expect our firms to continue to have to pay for RTAs when they have little value. Ultimately, this would lead to our model becoming unattractive.

Why are you not doing this as First4Lawyers? Why set up an ABS when you could process them as a CMC and avoid any potential conflict with your member firms?

We are very protective of our hard-won brand identity. First4Lawyers is a CMC – we put consumers in contact with law firms and we feel it is extremely important to be consistent in

terms of who we are and what we do, and what the brand stands for in the eyes of both the consumer and the industry.

Given that a large number of member firms are giving up RTA, there is obviously no conflict with them. Even for those firms who remain active in RTA, it is no different from the kind of relationship we have always enjoyed with a number of our members who also carry out their own direct marketing, essentially in competition with us. This has no material adverse impact on either us or the firm, and we see no reason why that would be any different in the future.

Will the ABS be a joint venture with an existing law firm?

No. It is a start-up and we will recruit staff for it. The ABS will have exactly the same ownership and shareholders as First4Lawyers and be part of the First4Lawyers group of companies.

Will you be keeping all RTA's or will you still send fast and multi-track matters to member firms?

Our ABS will deal with all RTAs, including the small proportion of those valued over £5,000 which will still be cost bearing. Our data tells us that the vast majority of our RTA enquiries are made within two months of the accident. The difficulty of picking out all of the higher-value cases at such an early stage makes any kind of dual allocation process virtually impossible – and would also produce costs that would have to be passed on to the firms taking those claims.

We also believe that any arrangement whereby our ABS essentially becomes another panel firm would risk suspicions that we are cherry picking the best cases for ourselves. Of course, we wouldn't do that, but we would prefer not to have any questions surrounding the relationship we enjoy with our member firms.

Do you have any plans to start processing non-RTA work in the ABS?

No. We have produced a three year plan for the law firm, and we can categorically state that we have not made any provision within that, to introduce any non-RTA work.

It may well be that beyond these initial three years we do look at other areas of the law, but given that this is going to be a digitally focused business with a reliance on automation and many self-service elements within its processes, it is impossible to envisage that this will ever be capable of evolving to handle the traditionally more complex non-RTA negligence enquiries, which we firmly believe are matters that will always be best served by our member firms.

How many claims will you be handling through the ABS?

As you will appreciate, there are certain commercial sensitivities which, as a privately owned business, we would be reluctant to share with the wider market. What we can say is that we have produced very conservative business plans based on the extensive data we have. We are extremely confident of there being sufficient volume to support the business objectives we have set.

Is our membership fee subsidising your ABS?

We shall not be spending any of the marketing contributions to target RTA claims. But there is an indirect impact. Our data shows that RTA enquiries are simply a by-product of running generic personal injury and 'no win, no fee' campaigns, which have the greatest search volumes and are vital to generate non-RTA leads. This reflects the fact that First4Lawyers is one of only three legal brands with more than 50% recognition with the public.

The ABS will have an arms-length contractual relationship with First4Lawyers, which is a regulatory requirement. This will contain commercial arrangements in respect of our acquisition and servicing costs.

How will you be funding the ABS?

The business will be privately funded by reinvesting existing shareholder funds held within the current First4Lawyers group. There will be no external funding or borrowings.

When will the ABS launch?

Our plans are still at an extremely early stage, but our priority has been to share the news with our panel firms at the very earliest opportunity.

You will all appreciate the challenge of setting up a new law firm, and you are all qualified lawyers. We do not have the benefit of that experience, so whilst we can bring the business structures to the process, we must find the legal experts and then put ourselves at the mercy of the SRA as we seek approval.

We are hoping that, if everything goes well, we could be ready at some point in May.

Will the ABS create any jobs?

Yes. The ABS will have its own workforce and recruitment has begun. We expect to start with up to 12 members of staff.

Have you created any jobs yet?

Yes. Tony Walker joined us in February 2020 on a fixed term contract as a consultant to project lead our response to the whiplash reforms. He has over 26 years legal experience working in a variety of technical and service operational positions at the likes of Walker Morris, Minster Law and Pure Legal.

Lee Hamilton joined as operations manager on 1st Feb 2021 having most recently worked at National Accident Helpline as head of operations where he was responsible for launching their ABS National Accident Law.

What if your ABS is not ready for the start of the reforms, what will happen to those RTA enquiries in the meantime?

We are currently looking at a temporary arrangement to place cases if that were to happen. This will not affect the generation and supply of non-RTA cases.

What is my relationship with First4Lawyers going to look like under the reforms?

The reality is that it is too soon to know what our slots will specifically consist of and cost once the reforms hit.

We have been very transparent in terms of the fee per enquiry model we launched in 2020 where there is a specific amount charged for each of the enquiry types and, all things being equal, we hope to continue with that pricing model.

However, how the market reacts to the reforms, the impact on search volumes and acquisition costs, is beyond our control and ability to forecast. It is not ideal, but we just have to wait and see.

But be assured that we have been here before. We faced the same challenges in 2013 with the LASPO reforms. What we can guarantee is that we will find a solution. We understand that claims have a certain value below which law firms cannot service them profitably. Regardless of the changes we feel may be necessary in respect of volumes and pricing, we only have a business if our panel firms can all continue to make money from our work. That is our starting point. We will share our plans as soon as it is possible to do so.

In the absolute worst-case scenario, this should be at least four to six weeks before the reforms come into effect.

What happens next?

As part of our next steps, we do intend to launch a non-RTA only slot from 1st April based around current enquiry types and charges and we will provide more detail to panel firms on this individually.

We will also be introducing greater flexibility to our First4Lawyers agreement with panel firms by allowing a firm to terminate if they are not happy with our non-RTA offering and have not accepted our revised offering by the date of implementation. Variation notices will be following shortly to this effect to insert that into all agreements.

Do you have any unanswered questions?

If you have any other questions in relation to this First4Lawyers business update please contact your dedicated account manager or contact Nick Delaney, head of business development, by emailing nick.delaney@first4lawyers.com