

There are real gains for solicitors in delivering advice in conjunction with financial advisers, notes *Ian Muirhead* – but is that best achieved through an independent joint venture or an ABS?

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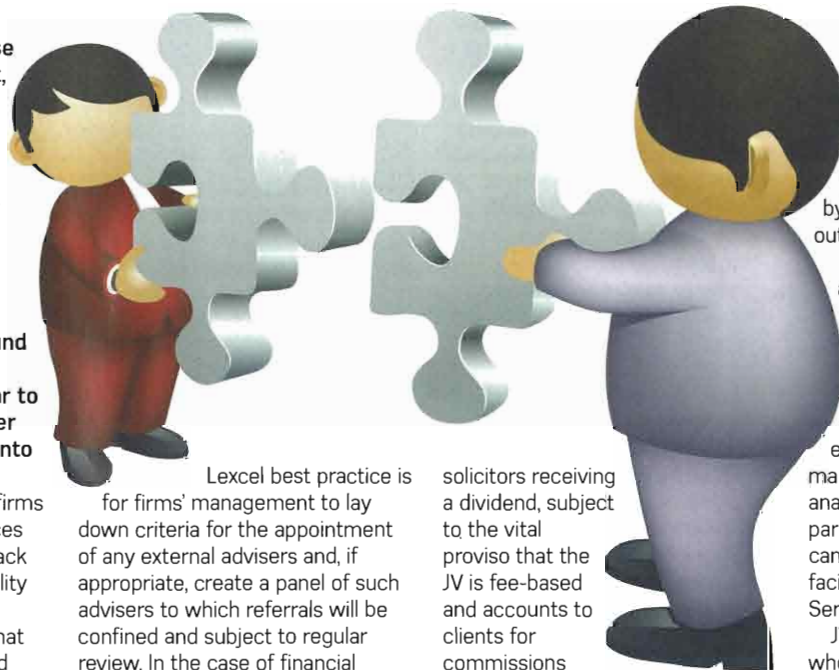
In the report that gave rise to the Legal Services Act, Sir David Clementi cited an existing example of multi-disciplinary practice (MDP): 'It should be noted that a form of MDP already exists within the current framework for legal services. A number of legal practices offer financial services as part of an all-round service to their customers. These arrangements... appear to work in a satisfactory manner and should be "passported" into the new regulatory regime.'

A significant number of law firms have dabbled in financial services and most have failed through lack of commitment and limited ability to manage non-mainstream business activities. But those that have succeeded are committed advocates. As Paul Dunn, managing partner of Gilbert Stephens in Exeter, puts it: 'The complementary nature of legal and financial work enables us to offer this as a fully integrated part of our solicitors' practice, which distinguishes us from our competitors.'

The main advantage of an effective solicitor/IFA relationship is that it enables the solicitor to provide a more complete advice package, which reduces reliance on transactional business and demands ongoing client relationships. But these factors have not convinced solicitors in the past, so why should they want to reconsider an involvement in financial services now? Quite simply, because of the Legal Services Act. Until now, there were no barbarians at the gates.

But is the in-house model the most appropriate? Much evidence suggests two alternatives are preferred: structured client referral relationships and joint ventures.

Currently, most law firms have relations with external financial advisers, but, all too often, these are based on personal connections of individual fee-earners and have not been subjected to any sort of due diligence – and, therefore, defy quality control.



Lexcel best practice is for firms' management to lay down criteria for the appointment of any external advisers and, if appropriate, create a panel of such advisers to which referrals will be confined and subject to regular review. In the case of financial services, such panels would suitably reflect the complementary nature of solicitors' and IFAs' business specialisations.

A properly organised client-referral structure would enable firms to access a range of specialisations and to maximise relations with IFA firms whose quality standards will reflect well on the solicitors and provide the basis for reciprocal business. However, referrals can no longer be financially remunerated and this is one of the factors that is prompting a growing number of firms to consider the merits of financial services joint ventures (JVs).

JVs are usually structured as LLPs or limited companies, which are jointly owned by the solicitors (individually or on trust for the partners, for the time being) and the IFAs, and which, for regulatory purposes, are registered with the Financial Services Authority as appointed representatives of the IFA firm, which is consequently responsible for FSA compliance.

The IFAs run the business as a sub-set of their own and charge a management fee calculated, typically, as 60-70% of the income, leaving 30-40% available for distribution as dividend, pro rata to equity. The SRA has no objection to

solicitors receiving a dividend, subject to the vital proviso that the JV is fee-based and accounts to clients for commissions received.

The advantage of the JV is that it enables solicitors to be involved in a complementary business activity without having to undertake responsibility for its management. Furthermore, it can be given a name that corresponds with the law firm's. Steve Bulman, managing partner of WBW Solicitors, in Devon – which has a JV with Albert Goodman Financial Planning, trading as WBW Chartered Financial Planners – explains: 'A joint venture with Albert Goodman was of particular appeal because their team includes a number of very well-qualified individuals who cover the full spectrum of financial advice. We have developed a relationship with Dave Robinson of Albert Goodman to such an extent that Dave is now seen as an integral member of the team.'

He adds: 'Previously, my firm would refer financial services issues to a selection of independent financial advisers. These relationships had been built up over time and the perception was that we were receiving reciprocal business. After careful analysis of these arrangements, it became apparent the work referred to the IFAs greatly outweighed the returned work.'

An incidental benefit of working closely with IFAs is that they have five years' experience of the FSA's principles-based regulation, which is now being introduced by the SRA in the form of outcomes-focused regulation.

What many solicitors fail to appreciate is that the starting point is the adoption of management procedures and disciplines that not only provide a compliant environment, but also improve firms' competitive efficiency. Client database management, including client analysis and segmentation, are vital parts of the business process and can be of great value to solicitors in facing up to the post-Legal Services Act competition.

JVs should only be considered when compatibility between the participants has been established through an effective referral relationship and they must be supported by formal business plans.

They may be regarded either as a halfway house to ABS or as a permanent solution. They might involve a specific department of a larger firm and they could operate as a professional financial advice centre, inviting client referrals from a range of law firms, some of which might be involved on a non-equity basis and receive dividends based on the value of the business transacted.

Most importantly, however, JVs can provide the basis for enabling the private client solicitor to regain the pivotal role of trusted adviser. As DLA Piper managing partner Sir Nigel Knowles has said elsewhere: 'The past two years have witnessed... a desire for holistic advice from advisers, as opposed to individual services in silos delivered on a transactional basis. This means law firms must reshape their relationships with their clients so they become trusted advisers.' ■

Ian Muirhead is director of SIFA, the Law Society- and FSA-recognised representative body for financial advisers who work with solicitors (www.sifa-centre.info)