

A Litigation Funding Pitch for Law Firms: You'll Get Paid

By Roy Strom

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As it continues to market litigation funding to law firms, Bentham IMF launched a new tool on Wednesday that it promises will show managing partners how outside financing can help their bottom lines.

Litigation funding was virtually unknown just a few years ago, and the U.S. Chamber of Commerce and some other critics still find the business objectionable. But with more and more law firms beginning to experiment with outside financing, they are coming to appreciate one big potential benefit: The billable hours in a matter funded by a third party will be paid in full—and on time.

Bentham's new tool, branded the "Accelerator," is meant to demonstrate to law firms in dollars and cents how their realization rates will benefit from specific levels of funding.

The company says realization rates can raise by 3.6 percentage points for every \$10 million in funding a law firm takes on from Bentham. That



Ralph Sutton of Bentham IMF.

figure comes from a spreadsheet that Ralph Sutton, chief investment officer of Bentham, said his firm developed so that managing partners can input real figures, such as a litigation department's annual revenue, in order to "stress test" how the department's results would be affected by funding agreements.

"Vague, pie-in-the-sky ideas of increased profitability, that's over," Sutton said. "What we have now are specific, detailed models that we give them at no cost and let them plug their numbers in and test it if they want to."

Sutton said the model was developed after a managing partner at a firm with more than \$2 billion in annual revenue approached him and asked for a detailed analysis of how a large firm would incorporate litigation funding into its business.

The law firm didn't have answers to some questions that would help determine the impact of litigation funding on its business, Sutton said. For instance, how much of the firm's litigation work was devoted to plaintiffs-side matters? Or what was the firm's realization rate on alternative billing arrangements?

"What they did know was that they needed to move the needle at a very large shop, and they needed an approach to do it," Sutton said.

Lawyers and executives at litigation funding firms have spent recent years explaining their business model—and selling the upside of the risk involved in litigation funding—to managing partners of large law firms.

"Bentham's release is in line with what I think everyone in the industry is saying to law firms and what law firms are increasingly aware of when they reach out to us," said Travis Lenkner, a managing partner at Gerchen Keller, which now boasts more than \$1.4 billion in assets.

"Litigation finance is a business development tool for them. Full stop. And that obviously has all sorts of positive effects on revenue generation and realization rates, collections and ultimately the financial health and stability of the firm," Lenkner said.

William Farrell Jr., a managing director at Chicago-based litigation funder Longford Capital, said that funders necessarily have a more detailed approach to the finances behind a matter than Am Law 100 firms would otherwise apply.

Farrell also said that it was already understood by most firms that litigation funding can boost realization rates. "At Longford, we pay the law firm 100 percent of the agreed-upon amount on time, which is not true of clients at most Am Law 100 firms," he said.