

# PLC Law Department Quarterly

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## An Introduction to Legal Electronic Billing: A Business Solution to a Business Problem

The legal bill represents the core of the business relationship between corporate counsel and their law firms. Jeff Hodge, Senior Director of EMEA for DataCert Europe, explains what is meant by electronic invoicing and sets out the challenges involved in developing e-billing across the profession.

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Legal billing is the end result of a business arrangement between a client and their law firm whereby services are rendered for a price. The invoice details what services were rendered, by whom they were rendered, what the relation of those services are to the outcome needs of the client, the value they add to those outcomes and the amount the law firm is charging the client for the services.

The legal bill represents the core of the business relationship between corporate counsel and the law firms with which they do business. Consequently, the systems and communications tools in place to support billing are the single most important technical elements of the relationship.

### **The problem**

- (a) Law firms complain about the time delay in getting paid after the submission of the invoice.
- (b) Corporate legal departments complain about the difficulty of interpreting invoices that often contain a confusing maze of ambiguous data.
- (c) Neither the billing firm nor the corporate legal department is equipped to manage the legal invoice in an automated fashion, and in the process capture the relevant detail to either understand the true value or relative success of the services performed.

### **The challenge**

These problems point directly to the need for a change in the way the legal bill is created, communicated, evaluated and reconciled to the satisfaction of both the client and the law firm.

However there are a number of challenges which need to be overcome, including the need to create a model that:

- Conveys the bill to the client in a format that is user friendly and easily understandable and at a level of detail that sufficiently explains the work that was done with the goal of receiving prompt payment.
- Allows for inclusion of law firms in the invoice approval process without unduly burdening corporate legal.
- Assumes variable levels of the invoice and processing load and proactively drives invoice processing to conclusion.

- Develops information about the providers and their services, as well as the client and their use of legal services, both "in-process" and historically, so as to drive a more intelligent, efficient and competitive provision and consumption of legal services.

### The solution

Like all internet or electronic business (e-business) technologies, one of the primary advantages of electronic billing (e-billing) is that it takes a systems approach to solving a business problem. Like all systems, e-billing is comprised of components that must exist in order for the system itself to be viable (these are known as e-billing core components). Likewise, every system involves elements which are optional enablers (e-billing enablers). The following diagram illustrates both the core elements for an e-billing architecture as well as the options or enablers to give it true strategic management potential.

### The core components of e-billing

The core components of an e-billing architecture are similar to the core components of any legal e-business system. Looking at the diagram, the e-invoice must have:

- Data form
- Data format
- High-speed transmission
- Strong security



### Data form

Data form means that it must be definable and interpretable by the sending and receiving parties. In the legal billing realm this has usually meant adopting (LEDES), or the Legal Electronic Data Exchange Standard. While the first iteration of LEDES was an ASCII delimited file, more recently it has been defined as an XML file (LEDES2000 or 2005), making it more extensible and useful as a full-bodied and flexible data form. The only real issue with an XML file is the law firm's ability to create it which is much more difficult for most than creating an ASCII file. It is likely to take more than a few years for most firms to become capable of generating an XML file of any type and therefore LEDES98BI, the most current international, VAT-compliant file format is expected to proliferate.

### Data format

While the form the electronic invoice will take is critically important, equally important to many is the format that the data within the file will take. Key to understanding the detailed elements of an electronic invoice is the ability to standardise the content. In the case of a legal invoice, that means standardising the presentation of the work associated with a billable hour.

Again leading the way was PricewaterhouseCoopers, which, along with an industry task group and the American Bar Association (ABA), conceptualized, created and delivered the UTBMS codes. These codes, delivered first for litigation and later for other generalised work, allowed for the digitisation of time. These have since been updated and will continue to be refined by the UTBMS Initiative ([www.utbms.com](http://www.utbms.com)), now part of the LEDES Oversight Committee. This means that a lawyer's billable hour can now be defined in terms of a simple, standard four-digit identifier.

### High-speed transmission

Also core to any e-billing system is an ability to move data quickly. Therefore, high-speed connectivity between the law firm and the corporate legal department must exist - the faster the better. The industry norm is to make that connectivity via the Internet.

### Strong security

The final core component of any e-billing system is security. Strong security, while again defined by the expectations of the parties, increasingly means secure storage of data behind a corporate firewall, data encryption and the use of digital signatures to validate user authorisation. The stronger the security the better and data encryption and digital signatures are increasingly in demand for their ability to protect and identify.

### E-billing enablers

E-billing enablers bring the core components to life in a way that solves business problems. Enablers cannot exist without the core components and are only as strong as the implementation of the core. In looking at systems to purchase, companies should look first at those companies that focus on the core components. The enablers can be implemented using almost any combination of technologies such as reporting tools or workflow tools. Enablers and core functionality need not come from the same vendor, and in fact the argument can be made that if they do, either the core functionality or the enabling functionality may suffer from lack of focus.

### Data validation

Data validation is nothing more than checking the data being transmitted against the requirements of the recipient. In this case, validation means technical validation such as determining if the invoice is in the proper form (UTBMS and LEDES), that its math is correct and other basic requirements. Validation may also encompass more robust schemes which compare the content of the invoice against pre-established business rules such as outside counsel guidelines. Examples include: "Have we been charged for more than 24 hours in a day, or has the billing attorney been approved to work on a particular matter?" The role of validation is to automate as much as possible of the already established process of managing a legal invoice between the law firm and the corporation. It can be as complex or as routine as desired and is only dependent on the electronic billing vendor's ability to program the business logic. The best vendors will not only apply these validations or business rules scenarios to the invoice, but also to the process of approval and the communication during that process with the law firm.

### Data management

Data management in an electronic billing context is many things to many people, but its basic elements are:

- Offering a place to store the invoice when received and after processing; and
- Offering a place to hold information that is required in order to "process the invoice."

The most that can be said about data management is that there are many and varied approaches to managing matters, invoices, workflow and reporting. Clients should be prepared to look not for a single system that offers everything that might be available, but to look for that system that meets their essential needs; has the ability to grow and expand as need grows and can integrate to any growth path chosen. To buy everything as a single bundle

## Types of electronic billing solutions providers and security

Legal electronic billing vendors fall into two distinctly different categories. The first group of vendors deploys their electronic billing systems within a corporation's internal network – the safest and most secure means. These vendors typically have a much easier time allowing corporations to take control of their security because the systems are installed and operate within the corporate IT environment. The applications and databases from this type of vendor reside entirely within a corporation's control, thus reducing the risk of unauthorised access to confidential legal information.

The second group of vendors offers a hosted solution using an Application Service Provider (ASP) model. ASP-based vendors face challenges in security areas because of the manner in which they process and store a corporation's legal invoices - offsite and outside of a corporation's control. In addition to often storing sensitive legal information offsite in an unencrypted state, it is not uncommon for one corporation's billing data to be stored on the same server as another corporation's invoice data, thus increasing the chances of the co-mingling of billing data and security breaches.

## Conventional format impedes electronic billing

Many law firms and corporate legal departments believe that the sending of conventional legal bills in an analog format (like word processing files or images) by e-mail is electronic billing. This is simply not the case. In fact, doing so in many instances perpetuates and complicates the billing problem. The client now receives the same invoice, but is placed in the awkward position of having to download it from an online transmission without applying relevant validations and business rules to clean and verify the data. If the client's system does not have high-speed transmission capability, this ties up their work station for what can seem like an eternity. Additionally, the workflow associated with the invoice, routing and approvals is required to re-enter a manual environment without the benefits inherent in true e-business architecture. In short, it is illogical to have create a digital invoice without taking full advantage of what one has started.

Legal e-business operates digitally and drives processes to conclusion by the application of automation. Electronic billing must adhere to the same criteria or risk becoming a silo system without the ability to communicate with other e-business systems. More to the point, since the legal invoice is at the heart of the relationship between law firms and clients, the systems that support electronic billing should be the core architecture which drives every other legal e-business system. This simply cannot be accomplished without digitally connecting the pieces using automated workflow and systems integration.

routinely leads to clients who pay high prices for a plethora of functionality that rarely if ever gets used. Buy what you need now and make sure what you buy can grow with you.

### Data translation

In the absence of true, widely adopted and uncompromising standards for data form and format, data translation must exist. Quite simply, recipients of legal invoices should not expect that their law firms can deliver an electronic invoice in the form prescribed. Conversely, it is unreasonable for law firms to have to accommodate a different data form and format for every client. Data translation, as part of any electronic billing system or service, is critical to enabling a truly valuable system.

### System integration

System integration, arguably the most important e-billing enabler, is the notion of making two or more systems work together. The more seamless the integration, the more useful it is to the users. In e-billing, integration is most common with matter management systems, accounts payable systems, and bill auditing or analytic tools. Systems integration, properly designed and implemented, brings life to an electronic billing system. It creates new opportunities for system architects to continually reinvent and deliver increasing value. The long-term viability of legal systems will increasingly depend upon their ability to seamlessly communicate with main-line corporate systems.

If billing is the core component of the relationship between the law firm and corporate legal then it makes sense that corporate legal and law firms begin their evolution toward e-business through the implementation of electronic billing systems. In reality, this is what is happening. It also makes sense that the progress be linear, focusing first on the core components and relying on technologies which are modular, Internet-based and priced to service the ubiquitous legal transaction which is the legal invoice.

E-business is not an exclusive club which should restrict membership or establish barriers to entry. E-business, like e-billing which is leading us there, will naturally tend toward inclusion of the entire profession. Its progress can only be delayed by our profession's resistance to the logic of the internet and the advancing tide of intelligent transactional-based technologies upon which it continues to evolve. Our goal in developing e-billing systems, like all systems, should be to make them non-proprietary and as widely available as possible.