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Uncollected Fees, Unseen Risk: Rethinking Accounts Receivable in Law Firms

For many law firms, accounts receivable (AR) are treated as an unavoidable byproduct of practice or an administrative issue left to the accounting department and tolerated as long as work continues to come in the door. But that mindset is increasingly outdated and, in some cases, fraught with risk. Persistent, elevated, or aged AR is not simply a financial inconvenience. It is a leading indicator of operational weakness and an often-overlooked malpractice exposure. Firms that fail to actively manage their receivables are not only less profitable; they are often viewed as riskier, less stable, and less disciplined by professional liability insurers. In today's legal and professional liability environment, AR is not just a financial metric. It is a risk management issue.

AR as a Window into Firm Discipline

At its core, AR reflects how effectively a firm converts its work into revenue. When AR becomes significant, particularly when it ages beyond 90 or 120 days, it often signals breakdowns in fundamental business practices. Common contributing factors include:

- Delayed, inconsistent, or unclear billing
- Lack of clear fee arrangements at the outset
- Insufficient discipline in client screening and intake
- Reluctance to set and enforce payment expectations
- Overreliance on informal or relationship-based fee practices

Firms that struggle with AR are often struggling with business discipline more broadly. Importantly, these gaps rarely remain confined to billing. The same lack of structure and consistency that leads to high or aged AR frequently appears in other areas such as client communication, file management, and matter oversight, all of which are closely tied to legal malpractice risk.

The Connection Between AR and Malpractice Risk

From a risk management perspective, high or aged AR often plays a direct role in how claims arise. Unpaid invoices can evolve into disputes over the quality or value of legal services. In that context, a client may experience "sticker shock" over an unexpected or inflated bill; clients may question or challenge the work performed including its value; clients are acutely aware of year-end timing and may use that leverage to negotiate down outstanding balances; and firms may pursue fee collection, including litigation which, in nearly 50% of the cases result in a counterclaim for legal malpractice. The malpractice claim may not be the primary grievance but may be used as a negotiating tactic. Even if the underlying work was competent, the existence of a fee dispute can create the opportunity for allegations that might not otherwise have been raised.

Delayed Withdrawal and Prolonged Exposure

Lawyers often hesitate to withdraw from matters or terminate the representation when fees go unpaid. The reasons are understandable. There is a desire to preserve the outstanding receivables, optimism that payment will eventually be made, and concern about damaging ongoing or longstanding client relationships. However, continuing to represent a nonpaying client carries its own risks. It can lead to extended involvement in a problematic matter, withdrawal at a critical or inopportune time may create a legal malpractice claim, and increased exposure if deadlines are missed or transitions are mishandled. The longer a firm carries aging AR, the greater the likelihood that it is also carrying unresolved and potentially escalating risk.

Communication Breakdowns

No one likes to talk about the financial aspects of the representation. It can be awkward and uncomfortable. However, clients who do not pay are often those who feel disconnected from the legal process and their nonpayment frequently reflects a lack of understanding about the scope of work, surprise or confusion over fees, and insufficient communication about progress, cost, or strategy. These same issues, unmet expectations and communication failures, are among the most common drivers of malpractice allegations. In that sense, high or aged AR is often a symptom of broader communication problems within a client matter.

The Impact on Professional Judgment

Carrying significant or aged AR can also influence how lawyers make decisions in subtle but meaningful ways. For example, attorneys may continue working for a client who has stopped paying; avoid candid conversations about cost, scope, or termination; or take on additional work or risk in an effort to justify outstanding fees. Over time, this dynamic can create tension between business considerations and professional judgment. Lawyers may become reluctant to make decisions such as withdrawal, termination, or scope limitation that are in their best interest from a risk perspective. Maintaining independence and objectivity are core professional obligations and when AR begins to influence judgment, that obligation may be compromised.

Financial Stability and Risk-Taking Behavior

High or aged AR also has immediate and practical implications for a firm's financial health. When receivables accumulate, cash flow becomes less predictable, working capital is constrained, and budgeting and planning become more difficult. Firms experiencing cash flow pressure may respond in ways that increase risk, including accepting clients who present higher collection or legal malpractice risk; stretching attorney capacity across too many matters; and delaying investment in staffing, training, or technology. In this way, poor AR discipline can drive risk-taking behavior across the firm.

Cultural Signals and Long-Term Consequences

How a firm approaches AR can be a sign of the firm's business practices. When high or aged AR is tolerated, it may be a sign that the firm is not fiscally sound and has a culture where rules are not enforced, and communication is not prioritized, and may be a symptom of bigger issues for the firm. Once this mindset becomes embedded in a firm, it can be difficult to reverse. New lawyers and lateral hires often adopt the practices they observe, reinforcing the cycle. Conversely, firms that prioritize timely billing and collection tend to foster stronger communication habits, clearer client expectations, and greater overall discipline in practice management.

Resetting the Approach: Practical Risk Management Strategies

Improving AR does not require aggressive or adversarial collection practices. Instead, it involves establishing consistent, professional expectations at every stage of the client relationship.

Key strategies include:

1. Establish Clear Engagement Terms

- Use written fee agreements in all matters
- Clearly define billing practices, rates, and payment expectations
- Consider retainers or evergreen provisions where appropriate
- Consider clients' experience, or lack thereof, in legal representation

2. Bill Regularly and Predictably

- Implement consistent external billing cycles (e.g., monthly)
- If charging hourly, implement consistent internal billing requirements for all lawyers and staff (e.g. closing time and billing entries on a daily or even weekly basis)
- Avoid large, unexpected invoices that can trigger disputes
- Provide sufficient detail to support transparency and understanding
- Educate clients that any questions or concerns should be addressed within 30 days

3. Address Issues Early

- Monitor AR closely at the 30, 60, and 90-day marks
- Engage clients early and personally when payments fall behind
- Do not allow balances to age without active follow-up
- Establish a firm limit on AR that triggers withdrawal or termination of representation

4. Improve Client Communication

- Set expectations about cost and scope from the outset
- Provide regular updates on progress and fees
- Address concerns promptly before they escalate

5. Enforce Internal Accountability

- Track AR by partner and practice group
- Establish clear expectations around aging balances
- Incorporate collections performance into compensation discussions

6. Define Work Controls

- Develop policies regarding when work may be paused for nonpayment
- Ensure consistency in applying those policies across the firm
- Track timing of when to withdraw/terminate representation, if necessary

7. Lead from the Top

- Firm leadership must model billing and collection discipline
- Expectations should be communicated clearly and reinforced regularly

Conclusion: AR as Exposure, Not Revenue

High or aged accounts receivable are not simply a backlog of unpaid invoices. They are a risk management concern, a client relationship issue, a financial stability indicator, and a factor in how insurers evaluate your firm. Firms that manage AR effectively tend to demonstrate stronger communication, better matter control, and fewer disputes, all factors that contribute to both improved profitability and reduced professional liability exposure. The ultimate takeaway is simple: What gets billed but not collected is not revenue; it is exposure. Firms that recognize and act on that reality are better positioned to protect both their financial health and their professional risk profile.

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