

Commercial Legal Expenses Insurance Broker Product Information

What is Legal Expenses Insurance?

Legal Expenses Insurance is a type of cover that protects the insured business and its directors/employees against the potential costs of legal action brought by or against the policyholder.

Keystone's service comprises more than just insurance. We also provide free access to legal advice by telephone. This service allows policyholders to contact an independent lawyer for advice on any Australian business legal matter at no additional charge.

How did Legal Expenses Insurance begin?

The concept originated in 1911 from a fatal crash at the famous Le Mans car race during which some spectators lost their lives and others were severely injured. When the victims or their families claimed damages from the insurers of the organisers, their claims were repudiated. They banded together to contribute to a money pool which was used to fund collective legal action against the insurers. They were successful and this gave rise to development of the first Legal Expenses Insurance policy in France.

Much more sophisticated cover is now available and provides for costs incurred across a much greater range of legal risks. Keystone's commercial policies provide cover for the main business legal risks that SMEs face including employment, contractual, property and data protection issues.

Why do my clients need Legal Expenses Insurance?

Disputes and resultant legal action are on the rise in today's increasingly competitive world. Australia is no exception and there are several factors influencing the pressure of legal budgets and litigation spending:

- Rising legal costs are preventing access to justice in Australia. Legal fees have reached a level where businesses are having to consider whether to participate in actions even where they have a strong case. SMEs have been hit especially hard by these rises and there are regular scenarios where business owners have had to make the tough decision not to enforce their legal rights, simply because the cost of enforcement has been too great.
- SMEs are losing confidence when it comes to trading with larger entities given the inability to protect their business in the event of a dispute. Often, they are forced to the back of the queue for payments, with large corporates safe in the knowledge that they hold the power. SMEs need the reassurance that if things do go wrong, they can enforce their position; this restores the balance and give them confidence to enter contracts with major customers and suppliers. It is not about encouraging them into taking legal action, but merely provides peace of mind that they can act should it be necessary.
- The SME of today is faced with a huge burden of keeping up to date with business legislation and regulatory requirements in addition to dealing with disputes. Even the most straightforward business is subject to regulatory requirements for employment, health and safety, data protection and many others that are industry specific. Compliance often must be achieved without the benefit of in-house expertise, risking penalties due to lack of knowledge, or having to pay for external advice and consultation.
- Pressure inevitably comes down on budgets which are not considered everyday essentials in keeping the business running, as world and local economies falter. It can often be unwise to remove budgets entirely, but partial or total replacement of a legal budget with a smaller Legal Expenses Insurance premium allows capital to be released, whilst maintaining access to funds should a dispute arise.
- A slowing economy forces business to protect themselves should revenue be lost due to non-payment of customer invoices or disputes with suppliers, without encouraging people to turn to litigation. Clearly spending further funds on expensive legal consultation and possible further action is not attractive when margins are already squeezed.

Providing telephone legal advice gives clients access to lawyers to help them resolve issues and avoid disputes. This also potentially saves clients from the cost of external consultants and legal services.

Am I not giving my clients Legal Expenses cover in their other policies already?

It is highly likely that you will be providing liability insurances to your clients which may well cover the cost of lawyers in certain cases. However, these legal costs are only provided when a client's liability to pay damages or compensation is being tested, say in the case of professional negligence for a professional indemnity policy.

There are some occasions where cover overlaps, but Legal Expenses Insurance is entirely different from the liability policies you currently provide. There is no alleged liability required for the policy to be activated, merely the fact a dispute exists. This means the policy responds to a much wider range of situations and does so in many instances where a liability policy would not be required to respond.

Legal Expenses Insurance is not a replacement for a liability policy, but rather a complimentary product to ensure the client's business legal risks are protected.