



Pandemic increases demand for legal protection

MARCH 2022

Executive Summary

Commercial insurance brokers have seen increased demand among clients for both regular legal expenses insurance (LEI) products and the more focussed employment practices liability (EPL) cover.

While the legal protection market in the UK has grown steadily since the first products were introduced in the 1970s, the pandemic appears to have accelerated demand for and of the cover.

ARAG's research shows that many brokers believe commercial awareness of potential legal issues and risks has increased significantly during the past two years.

Background

ARAG commissioned independent research into commercial brokers' experiences with and attitudes towards legal expenses insurance, to find out how they see the market and what they really want from products and providers.

We were particularly interested to find out if brokers had noticed increased awareness of and demand for commercial legal protection, in the wake of the pandemic.

On the one hand, business owners have had a lot on their plates since 2020. On the other, the rapidly changing legal and employment situation has created a huge appetite for general legal guidance, specific advice and protection from unforeseen legal costs.

We employed Research in Finance (RiF), a highly respected and experienced specialist research consultancy, to plan and execute the study to ensure a thoroughly independent and rigorous approach.

Methodology

RiF's recommended methodology for conducting the research combined a survey completed by 100 carefully selected commercial brokers, followed up by in-depth interviews conducted with a smaller set of the same brokers.

The brokers enlisted to complete the initial survey were diverse in terms of their location and size, but all currently write commercial business and generate premium income of at least £5 million.

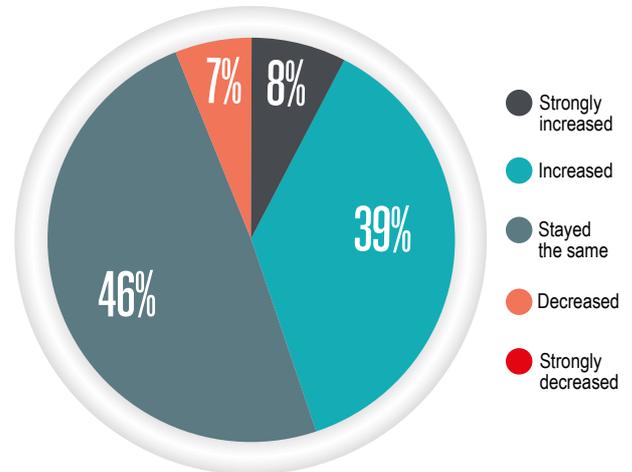
The subsequent in-depth, qualitative research comprised telephone interviews with 10 of the commercial brokers who completed the wider survey. These were all brokers who were aware of ARAG as a provider and work at firms with at least 11 employees.

How has the pandemic affected the market for commercial legal expenses insurance?

Nearly half of the brokers surveyed (47%) said they had already seen demand for legal expenses insurance increase, over the past 12 months.

INCREASING DEMAND FOR LEGAL PROTECTION

Total 'increased': 47%



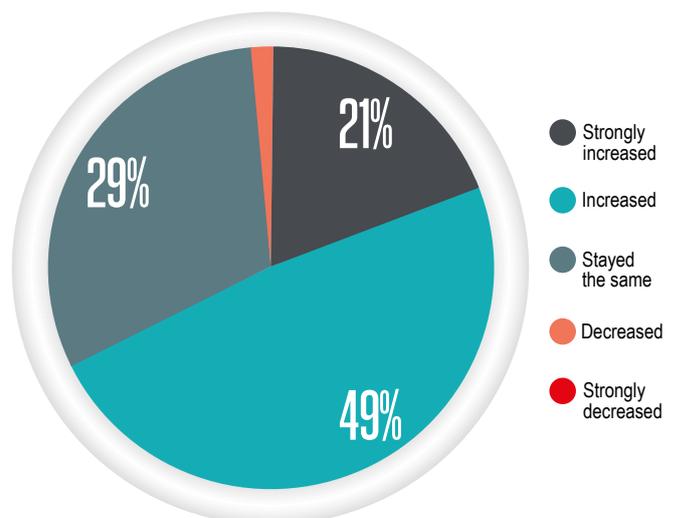
Q18. To what extent has demand for Legal Expenses Insurance (LEI) changed in the past 12 months?

Base: All respondents (100)

Interestingly, even more of the brokers that RiF surveyed had seen increasing demand for Employment Practices Liability products. In total, more than two thirds (70%) indicated that demand for EPL had increased over the same time frame.

INCREASING DEMAND FOR EPL

Total 'increased': 70%



Q21. To what extent has demand for Employment Practices Liability (EPL) insurance changed in the past 12 months?

Base: All respondents (100)

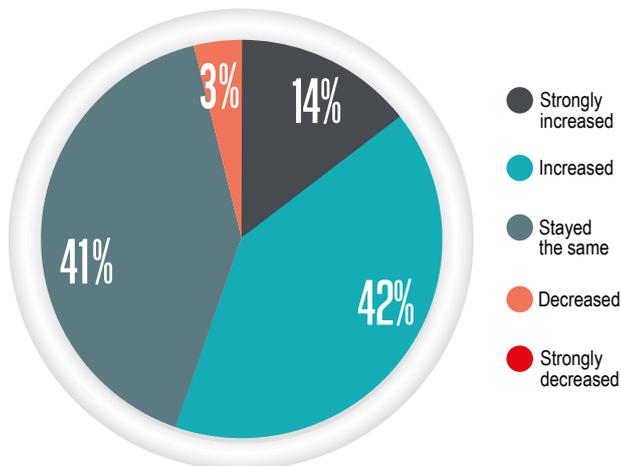
How will the market for LEI and EPL develop over the coming year?

Looking to the future and brokers expectations about whether demand for commercial LEI and EPL policies would grow further, the response was even more pronounced.

More than half (56%) said they thought that demand for commercial legal expenses insurance would increase during the year to come.

FUTURE DEMAND FOR LEGAL PROTECTION

Total 'increased': 56%



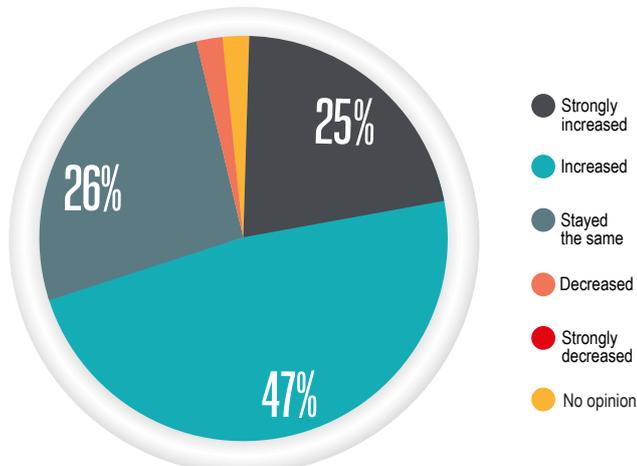
Q19. How do you expect the demand for Legal Expenses Insurance (LEI) will change in the next 12 months?

Base: All respondents (100)

When asked about EPL, the response was emphatic. Almost three quarters (72%) of all the brokers asked thought that demand for the product would continue to grow in 2022.

INCREASING DEMAND FOR EPL

Total 'increased': 72%



Q22. How do you expect the demand for Employment Practices Liability (EPL) insurance will change in the next 12 months?

Base: All respondents (100)



The difference between LEI and EPL

Commercial **legal expenses insurance (LEI)** policies cover a business against a broad range of some of the most common legal problems that a company is likely to face, from employment issues to tax investigations, property disputes and recovering debts.

Policies generally include a legal helpline, which can be used to get advice on any legal or tax problem facing the business, as well as indemnity against the legal costs of specified, common legal disputes.

Employment practices liability (EPL) policies offer even more protection against the risks associated with employing staff. Like commercial LEI, ELP can cover the business against both the legal costs of employment disputes and any compensation that is awarded. Unlike standard LEI, EPL policies do not have a 'prospects of success' clause, so costs and awards are indemnified regardless of the likelihood of the claim being successfully defended.

While there are no hard and fast rules, commercial LEI tends to be most popular with SMEs that might not have in-house legal expertise. It is often added into another commercial policy, such as a Package, Commercial Combined product or a commercial scheme.

EPL is more popular among medium to large organisations, that might have sizable HR teams, but want to protect the business against litigation from past, current, and prospective employees.

When asked to talk about why they think demand for these products will increase, the most common reason cited by brokers was that the pandemic has caused a heightened awareness of legal risks.

Specifically, brokers mentioned a likely rise in employment issues following the withdrawal of the financial support that was available over the past two years. Several also referred to an increase in contract disputes with customers and suppliers, with some mentioning Brexit as another factor leading to an increase in commercial litigation.

Several respondents also talked about a longer-term increase in litigiousness and awareness of legal risks.



What is most important to brokers when choosing LEI products to offer clients?

We also asked brokers what the most important factors are, when selecting legal expenses insurance products to offer to their clients.

Far and away the most frequently suggested aspect was the depth of cover offered by the product, with two thirds of brokers citing this as the most important factor when selecting legal expenses insurance.

Product - depth of cover



Price



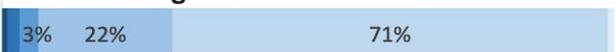
Claims service



Ease of distribution



Account management



Other



■ 1 - Most important ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 - Least important

Q17. What is the most important factor when selecting LEI for your clients?
Base: All respondents (100)

What features of LEI products do brokers think are most appealing to clients?

Perhaps surprisingly, access to the legal advice helpline was seen as the feature of commercial legal protection that is most appealing to clients.

While a similar share of respondents ranked the insured cover for legal costs as the single most appealing feature, more than 90 per cent of them ranked the legal helpline as one of the top two most appealing features.

Although clearly not as appealing as the insured cover and advice helpline, the growing popularity of online legal tools and document builders was demonstrated by the fact that more than a quarter of respondents ranked them in the top two.

24/7 Legal advice helpline



Insured cover for legal costs



Online legal document creation



Counselling helpline for employees



■ 1 - Most appealing ■ 2 ■ 3 ■ 4 ■ 5 - Least appealing

Q25. When selling commercial legal protection to clients, which features do you think clients find most appealing?
Base: All respondents (100)

ARAG's own experience over the past two years

As one of the largest and most successful legal expenses insurance providers in the UK, ARAG has a wealth of data to analyse and use to identify precisely how the pandemic has impacted businesses of all types and size over the past two years.

In the early phase of the pandemic, ARAG's legal advice helpline saw a huge influx of calls from policyholders, especially around employment law questions prompted by the introduction of furlough and other pandemic related issues.

At the same time, there was a massive increase in traffic to pandemic-related content that ARAG published online.

We anticipated that an increase in claims would follow the withdrawal of furlough, as the spike in redundancies would lead to employment issues and the emergence of disputes between businesses struggling to fulfil their contractual obligations.

While there has been some increase in claims frequencies, ARAG has not yet seen the spike that was originally expected. This may, in part, be a result of the gradual tapering of furlough payments, as well as an ongoing employee shortage.

While claims numbers may not have increased quite as significantly as we anticipated, the heavy use of other legal expenses and employment practices benefits, such as the legal and tax advice helplines and legal document services, have certainly increased awareness and appreciation of legal protection.

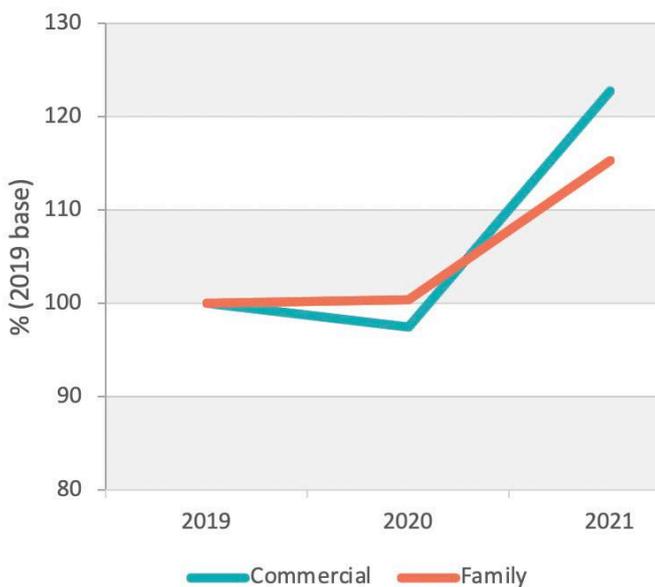
ARAG was prepared for a slight reduction in policyholder numbers, as the pandemic dragged on. Many businesses were forced to cease trading and others looked to cut any discretionary costs to help them weather the storm.

On the contrary though, ARAG's policy numbers have increased significantly since the onset of the pandemic, for both commercial and family policyholders.

This seems to corroborate what brokers have said in the research. Awareness and use of legal expenses insurance has increased during the pandemic, but so too have the number of families and businesses taking out the cover.

This is part of a much longer trend, of course, but it seems that the pandemic has accelerated the evolution of legal expenses insurance and employment practices liability from a "nice to have" cover to an essential part of protecting businesses of all sizes.

ARAG INSURED RISKS (2019-2021)



About Research in Finance

Research in Finance (RiF) is an award-winning market research, consultancy, publisher and data provider specialising in the financial services sector, covering both the UK and European markets.

RiF's wide-ranging research capabilities, proprietary data and industry knowledge help leading asset management firms, life companies, insurers and industry bodies make critical business decisions and further their product development, marketing and communication strategies. Their extensive experience surveying and speaking with thousands of consumers and industry professionals makes them a trusted partner to both their clients and research panellists.