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LEGAL EXPENSES INSURANCE (LEI) REPORT – EUROPEAN MARKET OVERVIEW, GERMANY, THE UK AND BULGARIA

SEPTEMBER 2013

The report aims to provide an overview of the non-life insurance market in Europe with a focus on Germany, the UK and Bulgaria, and a comprehensive analysis of the legal expenses insurance (LEI) market in these countries as well as data for the European market as a whole.

General overview on the LEI and non-life insurance market in Europe is provided in the beginning. It is followed by market analyses of the corresponding LEI markets in the UK, Germany and Bulgaria. Estimated development trends and information sources on the topic are also available in the report.

METHODOLOGY

The market research followed a methodology, based on desktop and primary industry research.

During the desktop research we looked through primary and secondary reliable sources, including insurance regulators, companies and associations.

We contacted and distributed questionnaires to the leading companies in the UK, Germany and Bulgaria together with local insurance regulators and associations, as well as European organisations and have analysed in depth the received responses, which are also included in the report.

We have gathered and analysed the most recent data concerning the non-life insurance sector and the LEI market in particular at the time the research was made in August-September 2013.

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I. OVERVIEW

1. Legal Expenses Insurance (LEI) definition

LEI is a type of insurance which the policyholders can use to cover their costs in case a legal action is brought against them by other individuals, companies or institutions. The two main LEI types are before-the-event (BTE) and after-the-event (ATE). The “event” is the situation in which legal action can be triggered. BTE is more commonly used than ATE, which in turn is the more expensive option. The LEI covers various legal liabilities, including drafting of a will or power of attorney, as well as legal advice.

LEI is offered as a standalone product and as part of insurance products that have a high market penetration such as household and motor vehicle insurance. LEI provides legal protection for individuals and families, motor accidents and commercial operations:

- ✓ Personal/Family LEI covers – personal injury, consumer disputes, employment disputes, neighbour disputes, legal advice;
- ✓ Motor legal expenses insurance (MLEI) covers legal costs which are not included in the standard motor insurance policies;
- ✓ Commercial LEI is designed to cover costs arising from legal disputes, including employment disputes, tax protection, property protection, contract and debt recovery.

The origins of LEI can be traced back to 1820 when some insurers in France started to offer the option to handle legal proceedings on behalf of their clients when both plaintiffs and defendants. However, LEI spread rapidly across Europe much later - in the 1920s when it was offered as part of car insurance, necessary as people travelling throughout Europe needed protection against the risks of accidents in a foreign country with different languages and legal systems. Nowadays LEI continues to be most often sold as an add-on on motor insurance policies.

Europe’s most developed LEI market is Germany where most of the LEI policies are sold as a separate product and more than 40% of the population holds a LEI contract. In the UK this figure is even higher as LEI is often included in other household insurance policies. In Sweden, LEI is included by default in most of the household insurance contracts and thus an estimated 90% of the Swedish households have a LEI policy.

2. EU's Regulations of LEI

LEI is a separate class of insurance, according to the EU Non-life insurance directives, more especially in Annex I to **Directive 73/239/EEC** on the coordination of laws, Regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance.

Directive 87/344/EEC sets down the conditions for conducting LEI business in the EU. According to the Directive, LEI is the undertaking, against the payment of a premium, to bear the costs of legal proceedings and to provide other services directly linked to insurance cover, in particular with a view to:

- ✓ securing compensation for the loss, damage or injury suffered by the insured person, by settlement out of court or through civil or criminal proceedings,
- ✓ defending or representing the insured person in civil, criminal, administrative or other proceedings or in respect of any claim made against him.

The Directive does not apply to:

- LEI where such insurance concerns disputes or risks arising out of, or in connection with, the use of sea-going vessels.
- the activity pursued by the insurer providing civil liability cover for the purpose of defending or representing the insured person in any inquiry or proceedings if that activity is at the same time pursued in the insurer's own interest under such cover.
- where a Member State so chooses, the activity of legal expenses insurance undertaken by an assistance.
- insurer where this activity is carried out in a Member State other than the one in which the insured person normally resides, where it forms part of a contract covering solely the assistance provided for persons who fall into difficulties while travelling, while away from home or while away from their permanent residence. In this event the contract must clearly state that the cover in question is limited to the circumstances referred to in the foregoing sentence and is ancillary to the assistance.