

# Legal Expenses Insurance

Legal Expenses Insurance is an emerging product in the Australian insurance industry, and Master Builders Insurance Brokers would like to help you understand how this cost effective insurance solution can protect your business.

Legal Expenses Insurance provides coverage for the costs associated with legal representation. This policy is not just limited to cover defense costs but can also be used for pursuit of a claim relating to contractual disputes, property ownership, occupation, and more. How often have you been left with a dispute at the end of a project, be it with a property owner, subcontractor or supplier? We hear too many stories of our builders being caught in contractual disputes, with little way out other than to front the costs themselves or undertake legal action.

This policy allows builders the opportunity to obtain legal representation for these issues, to recover monies owed and successfully defend against litigation. With contractual disputes and litigation increasing in recent years, especially within the building industry, further support for legal representation is essential.

Differing to your Contract Works and Liability Policies, Legal Expenses Insurance does not rely on third party property damage or injury for the cover to respond. It is also not restricted to claims that will arise out of your liabilities for costs and damages, but can cover other legal issues your business may encounter outside of these matters. For example, a Contract Works and Liability Policy can insure against the resultant damage caused by faulty workmanship or defective materials – but will exclude the defect itself. Legal Expenses Insurance could then be used to enforce the debt you may be owed by the subcontractor that performed the faulty works.

In summary, the policy protects you and your business from legal expenses (up to the sum insured value) associated with:

- Breach of contract with suppliers/ manufacturers/ subcontractors
- Payment disputes
- Unfair allegations of faulty workmanship/ not complying with the contract
- Workplace prosecutions

The policy requires a merit of success assessment and also has a co-insurance clause, meaning a percentage of the legal fees are payable by the builder. These measures assist both parties to settle disputes in a reasonable timeframe and maintain a financial incentive in finalizing the matter.

## Legal Expenses Claim Scenarios

1. A builder was engaged for a residential renovation. The usual quality standards were in place and the project was delivered on time, however the final invoice remained unpaid by the due date. Upon follow up, the owner refused to pay the final invoice claiming poor finishing. The builder offered to review, however the owner refused access to the property and ceased further communication. The only option left the insured was to undertake legal action against the owner to recover the final payment. They were successful in court for recovering damages of \$45,000 with the legal costs coming to a total of \$17,000.
2. A builder had an agreement with a supplier to bulk buy a large volume of roofing tiles for some upcoming projects, securing a significant discount. Part-way through the agreed period, the supplier terminated the contract and ceased to supply the tiles to the original specification. The builder was forced to seek a replacement supplier who charged significantly more. The insured sued the original supplier for breach of contract and sought damages of \$32,000, being the

additional cost resulting from the breach. The legal costs came to a total of \$11,000 in pursuing the original supplier and obtaining an out of court settlement.

Master Builders Insurance Brokers can source both \$100,000 and \$250,000 limits of indemnity for this cover. Should you wish to discuss this product further and the benefits it can offer for your business, please contact Glen Johnson in our Launceston office on 6334 7400 or email [gjohnson@mbib.com.au](mailto:gjohnson@mbib.com.au)