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The end of legal protection insurance and what it means for the customer!

12.11.18 - For more than 15 million people, individual legal protection is determined by the scope of legal insurance taken out. If one of the 21 million concluded legal protection insurance contracts covers the costs for legal advice, at best without a deductible, to go to a lawyer is much easier or is even possible.

But even at this point the German inborn rationality sets in, wondering whether the legal problem is big enough to "burden" the insurance company with it. After all, termination of the policy on the part of the insurance is a realistic consequence.

For decades, this self-conception on the part of policyholders ensured that the consumer's need for legal protection was covered. A certain lethargy and acceptance developed to simply accept small legal problems - a solution is not worthwhile anyway.

Today, simple legal problems are solved online and free of charge

Slowly this attitude changes. Due to the success of Legal Tech portals like flightright, hartz4widerspruch.de or myright.de and the associated attention to consumer issues such as flight delays, hassle with public authorities or exhaust scandals, customers are also rebelling against their legal protection insurance.

Today the consumer can take up services with various Legal Techs providers, which, for instance, he pays only if his legal problem was solved successfully and he actually receives cash at the end. First suppliers even buy the claims directly and pay the customer his share via Paypal.

It should also not be forgotten that platforms such as ebay, Amazon, Booking.com or Airbnb have their own mechanisms to solve possible legal problems between users. These offers also increase the sentiment for legal protection of the people concerned.

For the customer these offers cover the same need as a legal protection insurance, only this time without monthly costs and "on demand": the offer is permanently available, it is much more comfortable and I only pay if there was a legal problem that could actually be solved. The side effect, that the contact to a lawyer is limited to a minimum, is only the icing on the cake.

Why did the legal protection insurers not work on the product?

This development, which has only positive effects for both the consumer and the economy, is made possible by technology and data. Simple legal problems, which do not generate sufficient revenues for lawyers with an average cost structure, are systematically solved and due to a mixed calculation in connection with business models such as process financing are "free of charge" for the consumer.

For years, both legal protection insurers and lawyers have not been interested in what the customer has to pay for the service. There was and is no customer-centric understanding of one's own product or service.

Legal protection insurers, who could already offer many services free of charge on the basis of their customers' data, have not yet undertaken any technological reinvention or further development. On the contrary: as a rule, all insurers do not even operate with uniform systems on their own. A vast amount of data cannot be used or is not used, although this is exactly where the spearhead of market development should take place.

Some board members may claim that a change is possible on the basis of this existing data and the customer base. A deceptive thought: in every industry, board members have failed with this idea and there are hardly any industries that have less technical know-how than the law. This realization must mature slowly in order not to fall victim to this change.

The digitization and development of technology are still being mocked today. Within the legal profession, discussions are centred on regulatory issues, which of course are not conducted from the customer's perspective but exclusively with the aim to preserve vested rights. And even insurers have not yet made any efforts to build up technical know-how within companies. Self-imposed investment programs are flimsy excuses without serious plans and just a drop in the ocean.

Does a knowledgeable market participant really believe that technology does not impact a data-based service like legal services? It's a joke. Even the leading heads of Legal Techs have sleepless nights when they look into the direction of AI research.

Ways out, consequences and why the client and customer is the biggest winner

The consumer does not care about the ignorance of the former top dogs. As soon as the flightrights or myrights not only serve individual niches but, through technology and data, also offer free or success-based, and above all convenient, legal services in all areas of consumer law, the last trigger is released. Legal protection insurance contracts are being cancelled in droves and law firms (have to) close for lack of clients. Who looks attentively, sees this already today.

There is still a small time window for large insurers who can capitalise technology companies with and benefit from it. At the same time, such investments can buy know-how that so far could not be found far and wide and without which the future cannot be mastered: a deep understanding of data and technology.

The fact is that a solution with internal know-how cannot be mapped - various unsuccessful attempts in other industries, which almost always end up in a model investing in start-ups or even larger technology companies, have shown this. The hope remains that an industry lagging behind technological development exploits the only advantage (experience from other industries).

In the end, the client and customer is the winner anyway. Whether there are big losers, however, will be decided within the next 5 years. It will be those who have shied away from the cost risk for too long at the expense of everyone.

by *Marco Klock*

about the author: Marco Klock has been dealing with Legal Tech for more than 5 years. As founders of edicted, rightmart and casecheck, his co-founders and he have founded several successful Legal Techs. In addition, Marco Klock is co-author of the Legal Tech standard work "Legal Tech - The Digitization of the Legal Market".