



Risk On The Rise:

How Legal Liability May Be Jeopardizing Small
Businesses Across Canada



Disclaimer



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Agenda

1. The small business landscape in Canada
2. How and when this research was completed
3. Legal liability and legal risk exposure findings
4. The impact of legal disputes on small business owners
5. Are legal risks and their impact being discussed enough?
6. Is Legal Expense Insurance (LEI) too complex for small business customers?
7. Why we collectively owe it to business owners to discuss legal risks



The Small Business Landscape in Canada

The Small Business Landscape



+1.2 million businesses with 1 to 50 employees

The Small Business Landscape

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+2.8 million businesses without employees

The Small Business Landscape



Small Business Industry Verticals

**Avg. 2020 YE
Annual Revenue***

Professional Services	\$287,200
Accommodation & Food Services	\$597,100
Retail Trade	\$742,000
Construction	\$499,700
Healthcare, Information & Education Services	\$375,000
Manufacturing	\$747,800
Agriculture, Forestry, Fishing & Hunting	\$688,600

The Small Business Landscape



The COVID Impact Continues

54% are still reporting **below-normal revenues**

62% are still carrying **unpaid debt of \$158,000** on average taken on during the pandemic



How & When Our Research Was Completed

The Research Methodology



Survey was sent to Forum's small business owner panel, representing businesses:

- With no employees
- 1 to 50 employees
- From all provinces

Online survey conducted between July 6 to 29, 2022

The Research Methodology



984 business owner responses were received:

41% with no employees

59% with 1 to 50 employees

75% with annual revenues up to \$2 million

±4.5% margin of error and is representative of Canadian small business owner views



Legal Liability & Legal Risk Exposure

How Prevalent Are Legal Disputes?

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7/10

Small business owners said they **dealt with at least one legal dispute** within the last three years

230%

Increase in legal risk exposure in only seven years!

COVID Was Not A Significant Driver

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Only 38%

Legal disputes faced by business owners in the past three years were related to the pandemic.



Reinforces legal disputes and **legal risks are ever present**, with or without a crisis

Top 3 Legal Disputes Business Owners Faced

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No1

Contract disputes and collecting money owed

@ 61%

No2

Legal disputes related to employees

@ 36%

51%

Related to employees for business owners with 1 to 50 employees

No3

Related to business property – damage, trespass or legal nuisance

@ 33%

=

No3

Related to highway traffic ticket(s) for a business vehicle(s)

@ 33%



Top 3 Things Small Business Owners Worry About

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No1

Economic uncertainty @ 42%

No2

Data security and cyber risks @ 28%

No3

**Increasing legal liability and
legal costs** @ 25%

Legal Risks Are The #3 Worry

Therefore, Who or What is Driving Legal Risk Worries?

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No1

Employees @ 36%

No2

Government regulatory or tax agencies @ 33%

No3

Customers @ 32%

No4

Suppliers @ 27%

No5

General public @ 26%



*The Impact of Legal Disputes On
Small Business Owners*



*Running a Small Business is
a
Permanent Juggling Act!*

When A Legal Dispute Happens, Business Owners Right Away Think of This...

A word cloud in red text on a white background. The words are of varying sizes, with 'stress', 'expensive', 'uncertainty', 'more work', and 'challenged' being the largest. Other words include 'frustrated', 'overwhelmed', 'fear', 'worry', 'scared', 'threatened', 'irritated', 'trepidation', 'nuisance', 'annoyed', 'hassled', 'inquisitive', and 'vulnerable'.

stress
frustrated
overwhelmed
fear
expensive
uncertainty
worry
scared
threatened
irritated
trepidation
nuisance
annoyed
hassled
inquisitive
more work
challenged
vulnerable

In the #3 Spot: The Financial Impact

53%

Business owners stated that the legal dispute(s) they faced had a **large or moderate** impact on their business.

When Handling A Legal Dispute(s)

30%

Spent between **\$10,000 to \$50,000 in legal fees**

30%

Spent between **\$5,000 to \$10,000 in legal fees**

In the #3 Spot: The Financial Impact

How Would Business Owners Cover Those Legal Expenses?

Absorb them as a cost of doing business and take the profit hit

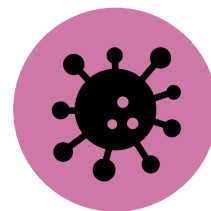
@ 41%

Not sure what they would do!

@ 37%

Access a business line of credit or take out a loan

@ 21%



54% Still reporting **below normal revenues**

62% Still carrying **~\$158K in unpaid debts** taken on during the pandemic

In the #2 Spot: The Time Impact

70%

Business owners stated that they **spent a moderate to a lot of time** dealing with a legal dispute(s)

frustrated stress
overwhelmed expensive
inquisitive uncertainty
hassled annoyed worry
nuisance trepidation irritated threatened scared
more work
vulnerable challenged

The perception that a **Legal Dispute = More Work**, puts additional strain on an already scarce resource

In the #1 Spot: The Mental Health Impact

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73%

Business owners stated that they experienced a **moderate amount to a lot of stress** dealing with a legal dispute(s)

frustrated stress overwhelmed expensive uncertainty worry hassled annoyed trepidation irritated threatened scared nuisance vulnerable challenged more work

The perception that a **Legal Dispute = Stress, Overwhelmed & Uncertainty**, can place additional strain on a person's mental health

The Other Impacts Legal Disputes Had Were...

40%

Negative productivity impact

39%

Negative impact on the business's ability to grow and expand

34%

Negative reputational impact



The Most Devastating Impact For Any Business Owner Is That ...

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3/10

Knew another business owner **who was significantly impacted by or lost their business** following a legal dispute

3x's

Higher than in 2015 when it was 1 out of 10



*Are Legal Risks & Their Impact Being Discussed
Enough?*

Legal Risks Are Ever Present

So Are They Being Discussed?

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7/10

Small business owners said they **dealt with at least one legal dispute** within the last three years

The **financial, time and mental stress impacts** of a legal dispute are prevalent

?

Do we as an industry discuss it enough?

Legal Risks Are Ever Present

The financial impact is not being discussed enough

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6/10

Small business owners said their broker or insurer has **never spoken** to them about the **financial impact**

Legal Risks Are Ever Present

The mental stress impact is not being discussed enough

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7/10

Small business owners said their broker or insurer has **never spoken** to them about the **mental stress impact**

Legal Risks Are Ever Present

As an industry are we making assumptions...

That legal risks are well understood?

The data shows we're not talking about legal risk exposures as much as we think, when we're engaging our small business customers



*Is Legal Expense Insurance Too Complex for
Small Business Customers?*

Some May Perceive LEI as...



Too complex

Too much effort to explain

Not needed within a commercial portfolio

(which kinda runs counter to the insights we just shared!)

A Small Step To Test That Theory

This was a blind survey with no mention of ARAG, brokerage or insurer brand names

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If you could have an insurance policy that covers all legal expenses related to:

- Settling an employment or contract dispute
- Collecting debts owed to your business
- Appealing a business license decision
- Defending against a tax audit
- Offering general legal assistance on any legal matter as well as free legal document review

How likely would you be to purchase such a policy if it costed your business approximately \$2,000 per year?



Based On That Brief Description...

56%

Business owners surveyed were **very likely or somewhat likely** to purchase a legal expense insurance policy based on that very brief description

That initial intent to purchase jumped to...

71%

For business owners with 1 to 50 employees



Did You Notice A Small Detail?

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75%

Of those surveyed owned businesses with annual revenues up to \$2 million per year

The Premium Was Way Over Stated!

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\$275

Is the typical average legal expense insurance premium for your clients with annual revenues up to \$2 million

7x's

Less than the \$2,000 stated in the brief product description

Considerably less...

Than the 60% of business owners that spent \$5,000 to \$50,000 in legal fees to handle a dispute



Therefore We Believe...

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*Safe to assume business owner interest
and intent to purchase a LEI policy is
there!*



What Can We Do Together?

All of Us Collectively Play a Role as...

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Risk mitigation advisors

Driven by a desire to help people!



When You Want To Help, Remember That...



Legal Risks Are Ever Present

7/10

Dealt with **at least one legal dispute** within the last 3 years and the majority were not COVID related

No 3

Worry that keeps business owners up at night

3/10

Know another business owner who was **significantly impacted or lost their business** due to a legal dispute

Start A Discussions and Ask...



What would you do if a customer / former employee / supplier sued you?

How would you pay for a legal dispute costing over \$25,000 in legal fees?

Do you have the time to handle a CRA audit or a small claims court lawsuit?

How would you feel if you come home after a long day running your business and find out your being sued?



We collectively owe it to business owners to discuss & then mitigate their legal risks!



Thank you & Now your Questions!