



Third-Party Claims: When Non-Clients Sue the Firm

Why Your Law Firm Needs to Think Beyond the Attorney-Client Relationship

Most managing partners understand malpractice risk in the context of the attorney-client relationship. But the legal landscape is shifting—and law firms are increasingly being sued by **non-clients**. Whether it's an opposing party, a vendor, or an investor claiming to have relied on your firm's work, these third-party claims create exposure that traditional professional liability policies may not fully address.

This is a growing concern for modern firms, especially those involved in high-stakes transactional work, multi-party litigation, or advisory roles with broad influence.

What Are Third-Party Claims?

Third-party claims refer to lawsuits or demands brought **against your firm by individuals or entities that are not your clients**. These can include:

- **Opposing parties** alleging your firm abused the legal process or acted improperly during litigation
- **Investors or creditors** claiming they relied on legal opinions or due diligence reports
- **Beneficiaries** in estate or trust disputes alleging negligence or bias
- **Vendors or consultants** alleging breach of contract or misrepresentation
- **Former employees or partners** asserting various business torts

Unlike standard malpractice claims, these cases don't stem from a contractual attorney-client relationship—but they can still cost your firm time, money, and reputation.

Real-World Scenarios: How These Claims Arise

Case Example 1: Opinion Letter Fallout

Your firm issues an opinion letter as part of a transaction. Years later, a third-party lender sues after the deal fails—claiming they relied on your firm's representations.

Case Example 2: Trustee Trouble

An attorney at your firm acts as trustee in an estate matter. A beneficiary later sues the firm, claiming a breach of fiduciary duty—even though the firm never represented the beneficiary directly.

Case Example 3: Litigation Conduct

During heated litigation, opposing counsel accuses your firm of abuse of process or intentional interference. A judge sanctions your firm, and a civil claim follows.

In each of these cases, your firm could be left asking: *Is this covered by our professional liability policy?*

Coverage Gaps: Where Firms Get Caught Off Guard

Many professional liability (E&O) policies are written with a strict focus on the **attorney-client relationship**. This means third-party claims may fall into gray areas, or worse, **policy exclusions** such as:

- **Lack of privity:** The third party isn't a client, so the claim doesn't trigger standard malpractice coverage.
- **Intentional acts or fraud exclusions:** Claims involving alleged misconduct can be denied, even when vigorously contested.
- **Outside business activity exclusions:** If the claim involves a role outside of your legal services—like acting as a trustee or board member—it may not be covered.
- **Contractual liability exclusions:** If the firm made representations in a contract, coverage may be denied unless the contract is specifically addressed in the policy.

This is why it's critical to review your policy's definition of "professional services" and confirm who is considered an "insured" under the terms—especially for partner-level involvement in external matters.





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Best Practices for Managing Third-Party Liability

While third-party claims can be hard to predict, law firms can take meaningful steps to minimize exposure and strengthen coverage:

1. **Limit written assurances** to third parties. Avoid offering formal or informal guarantees or opinions unless specifically engaged to do so—and ensure those engagements are documented.
2. **Use disclaimers** in communications and transactional documents to clarify who the client is (and who isn't).
3. **Track all roles your attorneys take on**—including board seats, trustee roles, or advisory positions. Ensure these are disclosed to your broker and underwriter.
4. **Review and update conflict policies** to account for potential exposure to non-clients.
5. **Ensure engagement letters are crystal clear** on the scope of representation and disclaim any duty to third parties.

Final Thought for Firm Leadership

Third-party claims are a growing area of risk for modern law firms—especially those that straddle legal, financial, and advisory roles. They can arise from unexpected sources and escalate quickly. If your firm's insurance is designed solely around traditional client claims, you may be leaving serious exposures unprotected.

Do your policies account for non-client liability?

IMA provides legal industry-specific insurance solutions that account for the growing risk of third-party claims. Contact us for a comprehensive review of your coverage and to explore enhancements tailored to your practice areas.

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