Methods for limiting attorneys’ professional liability to the client: comparative perspective

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Abstract
At all times activity of the lawyers has been considered as an honourable profession. Accordingly, legislation, jurisprudence and legal doctrine of various countries have an inclination to impose higher standards, more strict requirements and restrictions with regard to attorneys’ activities. Nevertheless, lately the approach to the lawyers’ profession has a tendency to get more liberal, that allows attorneys to consider options to limit their professional liability towards their clients. The purpose of this study, therefore, is to analyse possible techniques to limit attorneys’(as one of the professionals’) liability in comparative perspective and to assess effectiveness of abovementioned methods of liability limitation. The research provided in this article has shown that there are two techniques that can be used in order to limit attorneys’ liability: contractual terms limiting party’s liability toward other party to the contract and appropriate forms of attorney’s legal practice, for example, by use of a limited company, limited partnership or limited liability partnership. The authors also make a conclusion that the single advantage of professional law partnership in Lithuania is the fact that the claims of the creditors are directed to a lawyer in case of insufficiency of property of professional law partnership.

Keywords: Attorney, Form of Lawyers’ Practice, Professional Liability, Limitation Clause, Principle of Freedom of Contract

1. Introduction

From ancient times exists an opinion that attorneys are members of an honourable profession. Therefore the activity of lawyers cannot be the subject to the same rules that are applied to ordinary economic entities and other persons operating in civil legal relations. For example, even current Lithuanian Law on Advocacy includes the norm stating that attorney's activities shall not be economic-commercial. Accordingly, Lithuanian lawyers are subjects to various restrictions, for instance, prohibition of advertising, prohibition (with some exceptions) to participate in operational activities, be employed or hold any other paid position, etc. Nevertheless, what was perfectly logical and understandable in the past does not seem well-suited today. That is why approach to the profession of lawyers is getting more liberal. This can be illustrated by the example of recent amendments to Lithuanian Law on Advocacy, which removed the prohibition on lawyers advertising.

Taking into consideration the fact that under the circumstances of contemporary economics it is often impossible to predict all possible risks and dangers, as well as the fact that even simple mistake or slight negligence may lead to damages and impose debtor's obligation to compensate other party's loss, it is generally recognized that in this respect limitation clauses (alongside the limitations implemented in economic activities through limited companies) are one of the important means to reduce business risk and to facilitate the obligor's burden of liability. Thus, given the fact that the attitude towards the attorneys is becoming more liberal there is a need to apply similar rules relating limitation of liability to both lawyers and other economic entities.

Nevertheless, it should be noted that some scholars state that the liability of contracting party that is a professional cannot be limited or excluded (Hopt et al., 2008; Iversen, 1999; Kamm, 1985). The term "professionals" according to certain authors means persons acting on specific, highly skilled legal relations of trust and who are subjects of requirements of greater diligence and carefulness (for example, lawyers, financial advisers, auditors, notaries, architects, etc.) – in principle those persons who need certain licences issued by relevant public authorities in order to carry out their professional activities. Namely on the basis of the abovementioned licence these persons are endowed with particular trust.

However, there are opinions that the prohibition to limit professionals' liability toward his client is not absolute (Af Sandeberg, 2004). This position is based on the fact that it is difficult to carry out certain professions successfully in all cases. Therefore, the purpose of this article is to analyse possible techniques to limit lawyers' (as one of the professionals') liability in comparative perspective and to assess effectiveness of abovementioned methods of liability limitation.

2. Limitation of liability by contract

The legislation of certain countries provides special rules concerning clause limiting attorneys' professional liability toward their client. For example, Art. 51a of German Federal Lawyers’ Act allows attorneys to limit their civil liability to the client. However, in order to be valid, such a limitation clause must meet certain
conditions. First of all, it should be noted that the abovementioned Federal Lawyers’ Act provides two ways in which a lawyer may limit his professional liability: individually negotiated agreement or a pre-formulated (standard) conditions of the contract. Depending on the version of the agreement, the amounts by which the liability can be limited differ. Thus, if the lawyer wants to limit his civil liability to the minimum insurance coverage that is indicated in the abovementioned article of the Act (currently - 250 thousand euros), he must conclude with the client individually negotiated agreement.

German authors argue that the agreement on the limitation of liability will be considered as an individually negotiated agreement only if the client had a real opportunity to influence the content of it, i.e. attorney clearly explained to the client his right to change the content of the contract and the real opportunity to modify the agreement at its discretion was actually given to the client (Vollkommer and Heinemann, 2003). It is also believed that the lawyer may negotiate the limitation of his professional liability only in a way of direct and personal communication with the client while unambiguously clarifying every possible consequence of the implication of exclusion clauses. Thus, if a lawyer assigns this task for his office staff, in this case an agreement on the limitation of lawyer's liability will not be considered as individually negotiated.

In addition, it is not necessary that an agreement on the limitation of professional’s liability would be concluded as a separate document. The corresponding liability limiting condition may be a part of the contract to provide legal aid services. It should be also noted that the moment of signing legal aid services contract does not affect the validity of the limitation clauses, i.e. such an agreement can be made both before signing the main contract on legal aid services and at the time of the signing thereof, as well as after the conclusion of the contract. However, it is important that the agreement on professional’s liability limitation would be concluded before the any damage occurred. In that case, if the damage has already been done to the client, parties may conclude agreement on full or partial exemption from the obligation to compensate for existing damage, but it will not be considered as agreement limiting liability in advance.

It should be noted that the conclusion of individually negotiated agreement allows German lawyers to limit their professional liability not only in cases where the damage was done to the client on a slight negligence, but in cases of gross negligence as well. Of course, lawyer’s liability for intentionally caused loss can be neither limited nor excluded. This would be contrary to the Article 276 paragraph 3 of German Civil Code.

Another way to limit lawyer’s liability against the client - to conclude an agreement on the basis of pre-formulated terms, such a possibility is provided by Art. 51a, Para. 1, Subpara. 2 of German Federal Lawyers’ Act. German authors note that pre-formulated terms are the provisions of the contract that were unilaterally drafted by a lawyer and that have become a part of the contract, regardless of whether or not these conditions were applied only once or they were designed for multiple application in interaction with other clients (Vollkommer and Heinemann, 2003). However, in this case, lawyer's liability may be limited only to four times greater amount than the minimum insurance coverage is, and only if lawyer’s professional liability is insured to that amount. In addition, limitation clause included in the pre-formulated terms will not be effective, if client's loss is due to lawyer's gross negligence.
Lithuanian legislation does not contain specific provisions prohibiting attorneys to limit their civil liability to the client. On the contrary, according to the Article 9.2 of the Code of Conduct for Lithuanian Lawyers attorney may determine the limits of his professional liability towards his client by contract, but only to the extent consistent with laws and other regulations.

The possibility to include limitation clause into the contract with the client has also the lawyer who is carrying out cross-border activities within the European Union and the European Economic Area. Such permission is provided by the Code of Conduct for European Lawyers (Art. 2.8.). Authors of the Commentary on the abovementioned Code of Conduct point out, that there is no principal objection to limiting attorney’s liability towards his client in cross-border practice, whether by contract or by use of corresponding form of professional activity (for example, limited company, limited partnership or limited liability partnership). However, it is also emphasized that the lawyers’ freedom to limit their liability is based on the regulation of their country of origin and the host Member State (including the national rules of lawyers’ professional conduct). This means that individual countries may have the prohibitions or restrictions of such limitation of lawyers’ liability.

Lawyers of those countries legislation of which does not provide any special regulation for clauses limiting attorneys’ liability toward their clients may apply general rules concerning limitation clauses. In this case, attention should be drawn to what limits the legislature or the case law has formulated in respect of abovementioned exclusion clauses. Thus, in order that an attorney could effectively apply limitation clause, it must be valid. Therefore limitation clause must comply with the requirements for its form and content.

2.1. Requirement for the form of exclusion clauses

Requirements for the form of exclusion clauses vary depending on the country's legal regulation. For example, Lithuanian civil law is dominated by the principle of freedom of contract form, meaning that the parties may independently decide in what form to conclude the contract, unless some specific form of contract is required according to mandatory rules of law. Thus, given the fact that Lithuanian law does not include any general rule or principle that determines the form of limitation clause, parties to the contract, in accordance with the principles of freedom of contract and party autonomy, may enter into these agreements both oral and written.

On the other hand, other countries have some special requirements for the form of limitation clauses. For instance, in Germany Article 51a of the Federal Lawyers’ Act (die Bundesrechtsanwaltsordnung) states that a lawyer may limit his liability by written agreement with the client. It should be also noted that although Federal Lawyers’ Act requires a written agreement, it does not mean that such an agreement cannot be made in electronic form, provided that it is possible to identify the parties to the contract by their electronic signatures (Vollkommer and Heinemann, 2003). In other countries special requirements for the form of limitation clauses are applied if abovementioned clause is one of the standard contract terms. For example, in Spain, exclusion clauses being part of general conditions of insurance contracts must be specially marked (highlighted) and accepted by the potential creditor in writing (Whincup, 2001). Similar rules are applied in Italy. According to the Italian Civil Code (Art. 1341) general conditions prepared by one of the parties are
binding on the other party (i.e. are incorporated into the contract) if known by the latter at the time when
the contract was concluded or if he might have known thereof by using ordinary diligence. However,
conditions limiting the liability of the party who has prepared the general conditions have no effect (i.e. are
not incorporated) unless specifically approved in writing.

2.2. Requirements for the content of exclusion clauses

The principle of freedom of contract, which led to the emergence of limitation clauses, is recognized in many
countries; therefore, these contractual provisions are in principle valid. However, the principle of freedom of
agreement’s content, allowing the parties to agree on the terms of the contract, is not absolute. Thus, in order
to ensure equal access to the principles of freedom of contract for both contracting parties, most countries
have established certain limits of the validity of exclusion clauses.

One of the most common restrictions is related to the form of fault. It has already become a classic
example in many legal systems, that limitation clause cannot be invoked if a debtor, who has breached the
contract, was acting with deliberate or gross negligence. This rule is applicable in Lithuania, Germany,
Switzerland, Austria, France, Greece, Luxembourg, Netherlands, Denmark, Italy, Spain, etc. According to
German authors the reasonableness of abovementioned restrictions is based on moral and economic grounds,
i.e. the fact that the one who intentionally causes harm to the interest of another does not deserve a mercy,
and that the creditor’s pre-surrender to potential arbitrariness of the debtor is contrary to the public policy
and it would have a negative impact on the stability of legal relations (Kähler, 2007; Löwisch, 1979). Italian
authors are of the similar opinion that the purpose of these restrictions is to protect the creditor and avoid
such situations when the debtor may decide whether or not to perform the contract without incurring
negative consequences, i.e. avoiding the obligation to pay damages to the creditor (Antoniolli and Veneziano,
2005).

However, it should be noted that in some legal systems there is no general principle specifying that the
exclusion or limitation of liability for wilful or deliberate breach of contract is void. For instance, in
AstraZeneca UK Limited v Albemarle International Corporation and other [2011] case contractor’s liability was
considered unlimited, not because he has deliberately breached the contract, but because, in the court’s view,
the limitation clause that was included into the contract did not cover the breach of the contract committed
by the debtor.

Another group of restrictions applied for the clauses limiting party’s liability is related to the object to
which the harm is caused and to the type of damage. It is very common that limitation clauses cannot be
invoked if liability concerns personal injuries. It is generally acknowledged that person’s life and health are
exceptional legal virtues that require extraordinary protection, because these personal virtues have the
priority and in the hierarchical scale of values they are definitely higher than the property interests
(Bydlinski, 1992). On the other hand, they are considered to be among the most important values, because in
case of their infringement their recreation is not always possible (for instance, health) and in some cases
even absolutely impossible (for example, life).
Worth mentioning and rare restriction of limitation clauses is related to the non-pecuniary damages. This uncommon prohibition is laid down in Art. 6.252 of the Civil Code of the Republic of Lithuania and in Art. 1474 of the Civil Code of Québec. This kind of restrictions of limitation clauses are explained by the fact that a person who has suffered non-pecuniary damage, deserve greater protection because of the primacy of the human person that is recognized by the legislator (Vézina, 1993).

One more restriction developed in the jurisprudence and legal doctrine of various countries is related to the essential obligations undertaken by the debtor. For example, limitation clause can be declared null and void if it has an effect upon the very substance of the obligation (in France) or if it relates to substantial obligation (in Germany). Common law countries also have similar rule relating to the fundamental breach of the contract (Fontaine and De Ly, 2006).

2.3. The ways of limiting liability by the contract

According to the techniques that are used to limit one's civil liability, limitation clauses can be divided into two groups: limitation clauses that affect debtor's liability indirectly, by restricting the functioning of other contract terms (also known as procedural limitation of liability (Martinius, 2005)) and limitation clauses that directly affect liability of the party to the contract. The first group of terms limiting liability includes (since there are many examples, only a few of them are mentioned in this article1):

- clauses limiting the scope of the obligation. In this case potential debtor formulates the limits of his commitment, specifies the scope and the intensity of the obligation by indicating specific actions that the contracting party undertakes to carry out. For example, lawyer may determine in the contract on legal aid services that he undertakes to review and adjust the client's agreement only in regard to the contract law, but he does not undertake to analyse the contract and advise the client on tax issues.

- time bar clauses provide for a period during which a potential creditor can file a claim (pretension) or go to court for improper performance of contractual obligations. It should be noted that the laws of certain countries include prohibitions to modify the period of prescription. For example, Art. 1.125, Para. 12 of Lithuanian Civil Code states that any agreement of the parties with an intention to modify legal regulation of prescription, i.e. to modify the time-limit and the calculation thereof, shall be prohibited. Meanwhile, France has the opposite rule: according to Art. 2254 of French Civil Code parties to the contract may agree on the modification of the period of prescription (in any case, the period of prescription cannot be shorter than 1 year and longer than 10 years), as well as of the causes of its suspension and interruption.

Unlike the time limits of prescriptions, the time periods to file the pretension usually can be determined by the contracting parties independently, but only to the extent consistent with the mandatory rules of laws.

- Clauses imposing specific formal requirements for exercise of the claim. As a real obstacle to the emergence of liability various formal requirements of the claim may be imposed. For instance, it may be

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indicated that the claim must be given in writing only, enclosing all relevant documentation (for example, issued or approved by the relevant public authorities), etc.

The second group of terms limiting liability includes clauses aiming to determine the amount of damages debtor has to compensate.

- Limitation clauses establishing maximum amount (also referred to as “ceiling”) of the compensation above which the debtor will not be held liable. The parties may agree on a precise amount of the compensation or on certain percentage of contract’s price as well as of works’ or goods’ value.

- Contractual terms establishing minimum amount (also referred to as “threshold”) of the compensation. In this case, if the loss resulting from debtors’ misconduct is below the agreed amount, the creditor is not entitled to claim damages from the other party to the contract. The purpose of these limitation clauses is to avoid unnecessary litigation for minor breach of the contract and for damages of small amounts.

- Agreements for compensation of only direct damages. Beyond creditor’s loss resulting directly from the improper performance of the obligations, debtor’s misconduct can also cause consequential damages. These damages are often difficult to foresee and may constitute large amounts, therefore many limitation clauses exempt the debtor from the obligation to pay consequential damages.

However, it should be noted that despite the different legal approaches both of abovementioned groups of limitation clauses actually have substantially the same practical effect, i. e. the same economic goal of the debtor is achieved in the end - to avoid the obligation to compensate the creditor for damages under certain circumstances.

3. Limitation of liability by using certain forms of attorneys’ legal practice

Another way to limit lawyer’s professional liability is to choose appropriate form of attorney’s legal practice, for instance, by use of a limited company, limited partnership or limited liability partnership. Thus, the choice of the form of lawyer’s activity is of great importance, since it determines the extent of professional liability. The liability of liberal professions’ members varies according to the features of profession practised.

Historically, lawyers’ professional partnership with limited liability can be derived from a limited liability partnership for the first time established in the State of Texas on 20 May, 1991. It was an indirect result of the real estate market and the energy industry crisis that has been felt by most banks and other financial institutions at the 80’s (Žalėnienė and Petroševičienė, 2009). Due to investment losses led by the banking crisis a number of legal proceedings were initiated, the defendants in which were mostly members of the board, managers and other banks’ employees having the right of decision-making. In a short time the rank of the defendants in these cases were added by financial advisor and attorneys as these individuals have been particularly closely associated with their clients (Hamilton, 1995).

As a result of the financial crisis of the 80’s in the U.S. about 150 cases were initiated what caused expenses of about 400 million dollars for the lawyers and their insurers (Rosencrantz, 1996). These numbers
were a reasonable source of concern, therefore, had the idea to create the concept of lawyers’ (partners’) limited liability arose. Thus, in early 1991 Senator John Montford introduced the first project on limited liability partnership, which, after some discussion and amendments, was included into Texas legal system. Subsequently, this form of activity was legalized in other states of U.S.A.

The idea of legalization of limited liability partnership, which is designed exclusively for professional activity, originated in Germany already in 1957, but the German Partnership Act (Partnerschaftsgesellschaftsgesetz) was adopted only in 1994 and entered into force in 1995. German authors pointed out in their works the reasons for the creation of a new legal form of professional service providers (Michalski and Romermann, 1999; Henssler, 1997; Falkenhausen, 1993; Leutheusser-Schnarrenberger, 1994). First, the authors draw attention to the fact that prior to the adoption of the Partnership Act the number of lawyers in Germany was at a fast pace, that caused lawyers’ consolidation for joint activities and the search for new forms of activity that could protect against unlimited partners’ liability. The usual activity based on lawyers’ partnership legal profession partnership could no longer meet the expectations of many lawyers. On the other hand, the European Union has opened opportunities for the lawyers to provide free services throughout the single market. Germany has attracted a number of lawyers from other European countries. Unlimited liability of the partners became legal obstacle to the development of service networks in different cities of the country and on the international level. By establishing networks the partners usually lost the possibility to exert any real influence on their colleagues’ activity and that was in sharp contrast to their concept of unlimited liability.

French lawyers also have possibilities to choose certain forms of professional activities that would enable the limited liability. If a lawyer in France wants to work individually he can establish Private practice one-man company with limited liability (Société d'exercice libéral unipersonnelle à responsabilité limitée, also known as SELURL) or Simplified joint stock one-man company for private practice with limited liability (Société d'Exercice Libéral par Actions Simplifiée Unipersonnelle, also known as SELASU). The single member of abovementioned companies meets the consequences of his misconduct on all of his assets. The liability of the single member for the losses of the company is limited to the amount of his contribution.

For the joint activities French lawyer can choose among various structures in the form of corporate body or in the form lacking rights of corporate entity. According to the French laws the status of a legal person is given to the Professional civil law company (Société civile professionnelle, also known as SCP) and the Company for private practice (Société d'exercice liberal, also known as SEL). Each member of abovementioned companies meets the consequences of his own misconduct on all of his assets. The company is solidary responsible for the actions of the member. In case of SEL the liability of the members for the losses of the company is limited to the amount of his contribution.

Another form of French lawyers’ activity is Association of Attorneys (L'association d'avocats). This form of activity does not have legal personality and is designed only for attorneys, i. e. it cannot be used by other legal professionals (notaries, bailiffs). Each member of the Association of Attorneys meets the consequences of his misconduct on all of his assets. In addition, each member remains liable for the actions on behalf of the Association in proportion to their rights of Association, but not solidary, according to Art.1872-1, Para. 2 of
French Civil Code. However, the Decree of the French Ministry of Justice of 15 May 2007 allows to include into the Articles of Association the provisions determining that the misconduct of one partner does not engage the other partners. The Association is then referred to as the "Association to individual professional liability" (L’association à responsabilité professionnelle individuelle) or "AARPI." (Castelain, 2011).

Lithuanian Law on Advocacy identifies three possible forms of lawyers’ activities - acting individually, operating partnership without establishing a legal entity, and the establishment of a legal entity referred to as professional law partnership. It should be noted that the professional law partnership is deemed to be the legal entity of limited liability only in cases it exercises the obligations that are not related to the providing of legal services (for instance, obligations on purchase of technical equipment, lease of premises, etc.). However, in its essence the vast majority of lawyers’ obligations are related to the providing of legal services where the limited liability is not applicable. This signifies that if the professional law partnership fails to fulfil the obligation related to the providing of legal services and this legal entity lacks its own property for satisfaction of creditors’ claims, the particular partner who provided the legal services would be the subject to subsidiary personal liability in the amount of all his assets. Moreover, if it is not obvious which of the partners has provided the legal services and the professional law partnership fails to fulfil the corresponding obligation, the joint subsidiary liability of all partners occurs. Such regulation may be one of the main reasons of poor applicability of professional law partnership’s institute in Lithuania. It follows that the situation of the lawyer providing legal services on behalf of professional law partnership is more favourable than of a lawyer working individually or operating partnership without establishing a legal entity only regarding one aspect - the fact that the claims of the creditors are directed to a lawyer in case of insufficiency of assets of professional law partnership.

4. Conclusions

The analysis provided in this article has shown that certain countries have special norms providing rules related to clauses limiting lawyer’s liability. Meanwhile, attorneys of those countries that do not provide any particular legislation for contractual terms limiting liability of the lawyer may use general legal norms regarding limitation clauses.

The authors also note that the legislation prohibiting to limit the liability for damages caused intentionally or through gross negligence demonstrates the legislature’s intention to protect potential creditors and to prevent situations where a potential debtor can decide whether to perform the contract or not, without having any negative consequences, i.e. avoiding the obligation to compensate damages.

It was emphasised that despite the fact that in the theory of contract law the limitation clauses are classified into contractual terms limiting liability directly and indirectly, the use of both types of clauses in practice leads to the same legal consequences - the debtor avoids the obligation to compensate all damages incurred by the creditor.
The authors make a conclusion that the sole advantage of professional law partnership in Lithuania is the fact that the claims of the creditors are directed to a lawyer in case of insufficiency of property of professional law partnership.

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