

Litigation Disbursement Funding Gains Traction as Investors Favour Lower-Risk Legal Finance

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Litigation disbursement funding is quickly emerging as a preferred investment strategy within the wider litigation finance market, offering greater predictability and reduced risk exposure. While traditional legal funding models focus on high-stakes commercial cases

with variable outcomes, this structured credit approach is attracting interest from institutional investors seeking stable, fixed-income-style returns.

Litigation finance, once considered a niche asset class, is undergoing significant transformation. High-profile legal matters, such as the UK Post Office scandal, have brought third-party litigation funding into the public eye, increasing both scrutiny and interest from professional investors. With capital now flowing in from pension funds, asset managers, and family offices, the sector is evolving from a speculative bet on legal outcomes into a more mature, diversified component of private debt portfolios.

The conventional model of litigation funding typically revolves around financing large-scale, high-value cases, such as commercial disputes or collective actions. These arrangements are usually offered on a non-recourse basis, meaning funders are only repaid if the case succeeds. While this model offers potentially high returns, it comes with significant risks, including lengthy case durations and uncertain outcomes. It functions more like a private equity investment, with capital tied up for years and subject to substantial downside exposure.

This approach has dominated public understanding of litigation finance, but it is not the only option available, nor is it necessarily the most suitable for all investors.

Litigation disbursement funding focuses on covering the upfront costs associated with lower-value consumer legal claims, such as court fees, expert reports, and other essential disbursements. Rather than investing in the overall outcome of a case, investors in this model provide capital to fund necessary legal expenses, which are typically reimbursed by a defendant or insurer upon successful resolution.

This model transforms the nature of the investment. Instead of a binary win-or-lose structure, disbursement funding offers regular, contractual repayments with interest, resembling fixed-income products. The result is a more stable and scalable strategy, particularly appealing in a market environment where uncorrelated and predictable returns are in high demand.

Firms like Fenchurch Legal, a UK-based litigation funder, are specialising in this disbursement-focused approach. By limiting exposure to the ultimate legal outcome and focusing instead on essential litigation costs, these providers offer a structure that aligns well with institutional investors' appetite for consistent yields and limited volatility.

According to industry sources, this area of legal finance is increasingly viewed as a viable option for asset allocators aiming to diversify risk across alternative credit strategies. As the broader litigation funding market matures, this shift in focus toward lower-risk, short-duration models reflects a growing demand for prudent capital deployment in the legal finance space.

While traditional litigation funding continues to attract attention for its potential high returns, it is litigation disbursement funding that is gaining traction among investors seeking stability and reduced risk. This model, rooted in structured credit principles, represents a compelling evolution in legal finance, one that may redefine how capital is allocated across the sector in the years to come.