



Directors and Officers insurance

Business Insurance

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While business insurance policies by definition provide coverage for the business itself, individual company officers may still be personally exposed to financial losses resulting from a lawsuit. To protect your companyâ€™s leadership, you may want to consider purchasing directors and officers (D&O) liability insurance.

What D&O covers

Directors and officers is a type of liability insurance that covers individuals for claims made against them while serving on a board of directors and/or as an officer. This type of policy can be written to cover directors and officers of for-profit businesses, privately held firms, not-for-profit organizations and educational institutions. There are several elements called "Sides" to a D&O policy, including:

- **Side A** "Protects a corporation's directors and officers when the company cannot indemnify the individuals.
- **Side B** "Reimburses the organization when it indemnifies the individuals, thus protecting the company's balance sheet
- **Side C** "Also known as "entity coverage," this eliminates disputes of coverage allocation when both the directors and officers and the insured organization are named as co-defendants in a securities lawsuit.

A wide range of claims against a business have the potential to target company leadership for responsibility and liability. Business leaders can be held responsible for a company's failure to comply with regulations and to provide a safe and secure workplace. In addition, if a company is found liable for losses because of operational failures and mismanagement, directors and officers may be exposed to liability as well. The types of claims that may target company leadership individually as well as the company itself typically include:

- Shareholder suits over company or stock performance.
- Creditor or investor suits over mismanagement or dereliction of fiduciary duties.
- Misrepresentation in a prospectus.
- Decisions exceeding the authority granted to a company officer.
- Failure to comply with regulations or laws.
- Employment practices and HR issues.
- Pollution and other regulatory claims.
- Cyber liability.

What's excluded?

Standard exclusions in a D&O policy typically include:

- Fraud.
- Personal profiting.
- Accounting of profits, and other illegal compensation exclusions.
- Pending and prior litigation.
- Prior (late) claim notice.
- Bodily injury/property damage.
- Insured versus insured claims.
- ERISA.

The added value of protecting company leaders

Aside from paying for claims against company leadership, there are several other benefits to carrying directors and officers liability insurance, including a company's ability to:

- **Retain strong leaders** "Many potential directors and officers will be reluctant to join your business if they are exposed to personal liability. D&O liability insurance helps address this issue.

- **Attract investment** – Venture capital and private equity firms often require companies to have D&O coverage before they make an investment.
- **Cover legal fees** – Even if directors and officers are exonerated of wrongdoing, your business may incur substantial legal fees in responding to a lawsuit against your leadership. If you have a D&O policy, your company's legal fees will likely be covered.

There are several types of D&O policies, defined by what liabilities, legal costs and other exposures are covered. You should select coverage based on risks and how your business is organized. Your company's bylaws or articles of incorporation may provide certain protections or indemnification for directors and officers. You should seek guidance from your insurance professional about this somewhat complex, technical type of insurance.

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