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D&O - We're Not Talking About A Railroad

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In our litigious workplace, management is often concerned about the potential for personal liability when lawsuits are filed. Rightfully so, since coworkers may be personally liable for financial losses as named individuals to a lawsuit. There are several types of insurance which may protect such business leaders, however. Directors and Officers (D&O) insurance, Errors and Omissions (E&O) insurance and Employment Practices Liability Insurance (EPLI). This blog will discuss D&O insurance, although it will address the other two types of insurance in future blogs.

D&O insurance is a type of liability insurance covering directors and officers for claims made against them while they are serving as an officer or as a member of a board of directors of a business. There are many potential claims to which directors and officers may be exposed if the plaintiff, the individual suing the company, names them as individual defendants, in addition to naming the company itself. For instance, officers and directors may be individually targeted as responsible for the following types of claims: shareholder suits over company or stock performance, suits over company mismanagement or dereliction of fiduciary duties, misrepresentation in a prospectus, failure to comply with laws and regulations and employment practices and human resources issues. D&O insurance generally does not include coverage for any willful wrongdoing by a director or officer, such as fraud or embezzlement.

Legal fees are usually covered by D&O policies and companies often purchase these products because they do not want to incur substantial fees in defending against a lawsuit. In today's environment, many companies are also choosing to purchase D&O insurance in order to attract strong leaders to work for them. Without such coverage, directors and officers may be reluctant to join a given business. In addition, investors will also often require D&O insurance for its added value and protection before investing in a company.

Attorney

- Stephanie D. Gironda