



## 2014 Payroll Fact Sheet

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### Directors & Officers Insurance Explained

#### What is Directors and Officers Insurance?

Directors and Officers Liability Insurance provides financial protection for the directors and officers of your company in the event they are sued in conjunction with the performance of their duties as they relate to the company. Think of Directors and Officers Insurance as a management Errors and Omissions policy.

Directors and Officers Liability Insurance can usually include Employment Practices Liability and sometimes Fiduciary Liability. The former involves harassment and discrimination suits, and is where the majority of your exposure will be.

Directors and Officers Insurance is often confused with Errors & Omissions Liability. The two are not synonymous; Errors & Omissions is concerned with performance failures and negligence with respect to your products and services, not the performance and duties of management. Generally it is a good idea to carry both Directors and Officers Liability Insurance and Errors & Omissions Liability Insurance.

#### When do I need Directors and Officers Insurance?

You need Directors and Officers Liability insurance when you assemble a board of directors. They will frequently make the requirement.

Investors, especially Venture Capitalists, will also usually require that you show evidence of Directors and Officers Liability insurance as part of the conditions of funding your company.

Also, having employees opens management up to employment practices lawsuits - which usually can be covered under Directors and Officers insurance.

#### Why do I need Directors and Officers Liability Insurance?

First, you need Directors and Officers Insurance because claims from stockholders, employees, and client will be made against the company, and against the directors of the company. Since a director can be held personally responsible for acts of the company, most directors and officers will demand to be protected rather than put their personal assets at stake.

Secondly, you need Directors and Officers Insurance because: Investors and members of your board of directors will not be willing to risk their personal assets to serve as a corporate director or officer, no matter how heartfelt their belief in your company.

Lastly, employment practice suits constitute the single largest area of claim activity under Directors and Officers policies. Over 50% of Director and Officers claims are employment practice related.