

Directors' & Officers' Insurance Do you need it?



insurance group





What is Directors' & Officers' Insurance?

Directors' and Officers' insurance, also known as D&O, provides financial support for key people within a business if they face allegations of wrongdoing.

As a director, officer, partner or company leader, you have responsibilities to your employees and investors, the regulators and the public.

If you're accused of breaching your duties, you may find actions brought against you personally, with potentially devastating consequences, even if you have done nothing wrong. You could face disqualification proceedings and prosecution and your assets could be at risk.

This applies across all sectors, including public and private companies, education and not-for-profit organisations, with potential claimants ranging from shareholders, employees, customers, suppliers and creditors to regulatory entities and even competitors.



What does it cover?

D&O insurance protects in respect of claims brought against you for actual or alleged breach of duty, neglect, errors or omissions and misstatements in your capacity as a director or officer.

It can help you with the cost of defending yourself against allegations, can support you against losses you might experience as a result of a third party claim; and can cover the financial cost of an investigation.

Even if the case is dropped, the official investigation could impact reputation, in which case D&O insurance can help with public relations costs.

D&O can offer protection in the event you're accused of a wrongful act, including:

- Breach of duty of care
- Breach of trust
- Negligent errors
- Defamation
- Health and safety failure
- Causing pollution
- Mismanagement of pension schemes

Cover for past, present and future

D&O insurance can cover current, future and past directors and officers, protecting individual acts performed or omitted while they held a position within the company. This ensures that even if the person is no longer on the board, for example, as long as cover is in place, they will be protected for alleged wrongdoing as a board member.





Do I need D&O?

If you hold a leadership position and carry a level of responsibility, and certainly if you make decisions about your company's protocol or investment, D&O could be very relevant if things go wrong.

For many companies, D&O insurance is seen as essential cover within their insurance portfolio, particularly in today's increasingly litigious culture, with the heightened prospect of liabilities and litigation. This is especially applicable post-Covid, when directors and officers had to make difficult decisions and face scrutiny for their actions.

Many people running SMEs don't have the resources to cover all the legalities involved, which is where D&O comes in, potentially protecting managers from a lack of governance and failure to comply with workplace laws and the potentially expensive legal action that may ensue.

Typical scenarios

D&O insurance can protect against a range of potential scenarios that carry the risk of legal action. For example:

- You let some staff members go to focus on growth in another area of your business, and one of them objects on the grounds their employment was terminated because of internal politics...
- You fail to meet investors' expectations and they take out a lawsuit to get their money back, accusing you of withholding information, lacking due diligence and not being transparent...
- A new starter is seriously injured in a workplace accident and your senior officers face personal charges that the Health and Safety at Work Act 1974 has been breached...
- An employee sues your company directors, claiming they have mismanaged the administration of their non-defined pension scheme...



FAQs:

What happens if I don't have D&O cover?

As a director, officer, partner or company leader, if you don't have insurance, you are at greater risk of not being able to defend yourself against:

- disqualification from holding the position of director
- civil proceedings, which can lead to hefty legal costs and awards for damages
- criminal prosecution, which can lead to fines and possible imprisonment

How much D&O cover do I need?

That depends on the nature and size of your business and the type of risks you face. If you are responsible for a large multi-million-pound company, a potential claim may have a higher value. In which case, you would need a higher level of indemnity. Cover can be arranged from £100,000 up to £10 million, with levels of cover tailored to suit your sector, size and risk profile.

When should I take D&O out?

As soon as a company individual is given key responsibilities, it's time to take out D&O insurance because this is the time they may face personal action.

Small businesses will benefit as individual directors will be protected against complaints, or, you may wish to arrange D&O as your company grows – if it's traded on the stock market, for example, and you are answerable to shareholders.

Sole traders don't require this cover, as there is no distinction between them and their business, but if you decide to register a limited company, you are immediately liable for personal complaints, criminal proceedings or director disqualification.

What does D&O not cover?

It's worth pointing out that D&O does not cover prior claims and investigations; deliberate or dishonest acts such as fraud; defined benefit schemes such as pensions based on years of employment and salaries; pollution clean-ups attributable to the Environmental Protection Act 1990; claims from/on behalf of your major shareholder companies; bodily injury and property damage.

TMD is one of the UK's largest independent insurance brokers, with a team of advisors highly experienced in managing risk and arranging D&O insurance. Established in 1971, we have grown consistently over the decades, with the majority of our customers renewing year on year.

As a Chartered broker, working to the highest professional standards and committed to looking after our customers, we will always assess risk before placing insurance. Our priority is to protect you, your staff and your business by providing an insurance solution that offers cover tailored to your specific needs.

We are happy to discuss the level of liability cover you require to aid in protecting your business against any potential claims and legal action. To find out more about this important liability insurance and how it can protect you, please contact us today and we will arrange a tailored quotation for you.



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To find out more about D&O Insurance and how it can protect you and your key employees, please contact us on.

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