

Understanding Directors and Officers (D&O) Liability Insurance

The Stated Clerk's Office strongly advises presbyteries and churches to purchase and maintain DTM O Insurance;

Directors and Officers (D&O) Liability Insurance is a critical tool for organizations and individuals in leadership roles, providing a dual benefit by protecting both parties from potential financial losses stemming from lawsuits related to decisions and actions taken in their official capacities.

What is Directors and Officers (D&O) Liability Insurance?

Directors and Officers (D&O) Liability Insurance offers coverage to protect:

1. **Individuals:** Shields directors and officers from personal losses and liabilities if they are sued for decisions or actions made within the scope of their duties.
2. **Organizations:** Protects organizations from out-of-pocket expenses related to lawsuits against their leadership.

Key Features:

- **Personal Asset Protection:** Safeguards the personal assets of directors and officers.
- **Legal Expense Coverage:** Covers legal fees, including court costs and attorney fees, arising from lawsuits.
- **Organizational Coverage:** Extends protection to the organization in some cases, ensuring financial stability.

D&O insurance shares similarities with professional liability or errors and omissions (E&O) insurance for professionals like doctors, lawyers, and financial advisors. It offers peace of mind to those in decision-making positions, allowing them to focus on their roles without the constant fear of personal financial risk.

What Does Directors and Officers (D&O) Liability Insurance Cover?

While the specifics of D&O coverage depend on the policy terms, exclusions, and limits, it generally includes:

1. **Legal Fees:** Covers court costs, attorney fees, and, in some cases, derivative suits.
2. **Settlement Costs:** Pays for out-of-court settlements or court-ordered judgments.
3. **Damages:** Addresses financial liabilities resulting from wrongful decisions or actions by directors and officers.
4. **Personal Asset Protection:** Safeguards the personal assets of directors, officers, and employees against covered claims.

5. **Entity Coverage:** In some cases, protects the organization itself from liabilities related to claims against leadership.
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What Doesn't Directors and Officers (D&O) Liability Insurance Cover?

D&O insurance has specific exclusions. Common exclusions include:

- **Fraud:** Claims involving intentional fraud or dishonesty.
- **Willful Negligence:** Acts of gross negligence or willful misconduct.
- **Criminal Activity:** Illegal activities or criminal behavior.
- **Policy-Specific Exclusions:** Other exclusions explicitly outlined in the policy which may vary by insurance company.

Understanding these exclusions is crucial to ensure your organization and leadership have adequate protection.

Types of Directors and Officers (D&O) Liability Insurance

D&O policies typically include three main coverage types, often referred to as Side A, Side B, and Side C:

1. **Side A Coverage:**
 - Protects individual directors and officers if the organization cannot or is not required to indemnify them for losses, such as when the organization is insolvent.
 - Ensures personal financial security for individuals in leadership roles.
 2. **Side B Coverage:**
 - Reimburses the organization when it indemnifies directors and officers for defense costs, settlements, or judgments.
 - Helps manage the financial impact on the organization.
 3. **Side C Coverage (Entity Coverage):**
 - Covers the organization itself for claims arising from its own wrongful acts.
 - Important for lawsuits that name both the company and its directors or officers.
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Conclusion

Consult with an experienced insurance broker to design a policy that aligns with your organization's structure, risk exposure, and governance needs. Understanding the coverage details, exclusions, and types of protection ensures your organization and its leaders are adequately protected.