

Do Private Companies Need Directors and Officers Insurance?

There's a big misconception that private companies don't need directors and officers (D&O) liability insurance because they're not publicly traded, so there's no exposure. The fact is that private companies have just as much (if not more) exposure to a management liability claim as a public company.

Because directors and officers of private companies are usually involved in the day-to-day administration and operation of the company, they're vulnerable to getting named in a lawsuit from employees, vendors, creditors and government regulators – therefore putting the owner(s)'s personal assets at risk.

So, what is directors and officers insurance, anyway?

D&O liability insurance covers directors and officers for claims made against them by employees, customers, clients, consumer groups, competitors, contractors, government or regulatory bodies, private shareholders or investors and lenders—while they're serving on a board and/or as an officer of the company.

Here are a couple more reasons why private companies should consider directors and officers insurance:

1. Emerging and New Risk

Private companies face the same emerging risk as public companies. Recently, the significant increase in cyber security breaches have placed directors and officers at risk for being sued for failing in their duty to protect the organization's information.

2. Regulatory Exposure

Just like public organizations, private companies are subject to government regulation and oversight. Paying the cost to defend against a government regulatory enforcement can be very expensive, and a D&O policy can assist with these defense costs in addition to acquiring legal expertise.

3. Bankruptcy

Directors and officers never like to think that their company may face bankruptcy, but unfortunately, companies sometimes do go bankrupt. Creditors, vendors and customers can sue the directors and officers, and a D&O policy can assist in protecting their personal assets.

4. Shareholder Lawsuits

Many private companies have shareholders or investors. If these shareholders become disgruntled due to perceived mismanagement or poor financials, they may file suit against the directors and officers. A D&O policy will pay for the defense cost of litigation.

5. Attracting New Directors

Having a D&O policy makes accepting board seats and joining a company as a C-Suite officer more attractive as it signifies that the company takes its management responsibility seriously.

6. Mergers and Acquisitions

Whenever companies acquire or merge with another, there's significant exposure should the deal not close, or fails to produce the results as intended. Directors and officers will want to make sure that they are and remain indemnified by the company against loss or bankruptcy.



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