

Technical Specifications: Directors & Officers Side A Excess Insurance

A Sleep Easy Solution

The exposure of corporate directors and officers to personal liability has been steadily increasing for several decades. The increasing frequency of shareholder class actions and associated regulatory actions in recent years is a stark illustration of this trend.

With the addition of Side C cover to corporate D&O insurance policies, directors and officers may be sharing their policy limit to cover securities claims which are made against the company itself. This dilutes the cover available to the directors and officers and also means that if the company goes into liquidation, the liquidator may claim the policy as a corporate asset. Both scenarios can potentially leave directors and officers uninsured.

As directors and officers become more exposed to personal liability, it will become increasingly important for them to undertake a new, more vigilant approach to risk management.

Why Side A Insurance?

- ▶ D&O Side A Insurance emerged to ease some concerns of directors that they may face personal liability in the event that their corporate D&O insurance policy is exhausted or their company cannot indemnify them.
- ▶ D&O Side A Insurance provides a limit exclusively for the directors and officers of a company to protect them from claims made against them for wrongful acts they commit in the management of the company.

What is Covered?

Below is a summary of the cover provided by Liberty's D&O Side A Insurance Policy (please note this is a summary only which does not describe key exclusions or qualifications). You should refer to the policy wording for the complete terms and conditions.

- ▶ **Broad Difference-in-Conditions Cover** – this insuring clause drops down to provide cover for an insured in respect of claims which are not covered under the underlying corporate D&O insurance policy due to a term in that policy (if that term does not exist in the D&O Side A Insurance Policy) or where the underlying insurer is insolvent or where the underlying insurance has been rescinded.

- ▶ **Excess of Loss** – pays an insured if the limits of the underlying corporate D&O insurance policy have been exhausted due to payments of a covered claim.
- ▶ **Defence Costs Paid in Advance** – prior to final resolution of a valid claim.
- ▶ **Extradition Crisis Costs** – covers the costs and expenses of an insured seeking advice from an accredited trauma counsellor or tax advisor in the event that extradition proceedings are brought against that insured.
- ▶ **Former Directors & Officers** – 84 months run-off cover for certain former directors and officers in the event that an extended reporting period is not purchased following a change in control or if the policy is not renewed or replaced.
- ▶ **Management Inquiries** – covers the costs incurred by an insured in preparing for and attending official inquiries and investigations (an allegation of a wrongful act is not required).
- ▶ **Outside Directorship** – this extension (subject to certain limitations) covers the insured acting in the capacity of a director or officer of an outside entity at the written request or approval of the insured's organisation.
- ▶ **Pecuniary Penalties** – worldwide cover (excluding North America) is provided for fines and pecuniary penalties which an insured is required to pay for certain breaches of statutory civil penalty provisions, provided they are not uninsurable at law or under the relevant statute.
- ▶ **Personal Taxation Liability** – cover for unpaid taxes that an insured is liable for as a result of the insolvency, receivership or external administration of the insured's organisation (Australia and New Zealand only).
- ▶ **Defence Costs in Addition (Optional)** – in the event a statutory charge prevents the payment of defence costs out of the limit of liability (a response to the uncertainty created by the New Zealand High Court's decision in Bridgecorp).

Other Standard Extensions Include:

- ▶ Continuous Cover
- ▶ New Subsidiaries
- ▶ Extended Reporting Period

What's Excluded?

Liberty's D&O Side A Insurance Policy contains only three standard exclusions:

- ▶ **Fraud & Dishonesty** – where it is established by written admission of the insured or by a final court judgment or other official finding.
- ▶ **North America Insured v Insured** – unless the claim emanates from an independent third party and is for contribution or indemnity or brought in the name of the insured organisation by any legally authorised entity. This does not exclude allegations of employment practice breaches.
- ▶ **Prior Matters** – any claim or management inquiry or facts relating to any claim or management inquiry prior to the commencement of the policy. However the inadvertent failure to notify facts that may give rise to a claim may be covered under the Continuous Cover Extension.

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To confidently progress in the face of risk and uncertainty requires a level of security you can only achieve through working with specialists.

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We're part of the global Liberty Mutual Group, a Fortune 100 company that's been in business since 1912 with a Standard & Poor's 'A' (strong) rating.

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