

D&O Myth-Busting

Click an image to learn more about common Directors and Officers insurance misconceptions



Myth #1: Privately held businesses don't need private company liability insurance.



Myth #2: The largest expense in a claim is the judgment or settlement amount.



Myth #3: Higher limits provide more protection. As such, the higher the limits, the better.



Myth #4: Reporting all lawsuits and alleged wrongdoing will result in insurance premium increases.



Myth #1:

Privately held businesses don't need private company liability insurance.

Truth:

One of the greatest myths among private business owners is that only publicly traded companies need D&O insurance. The truth is that any company, as well as its directors and officers, can be sued by employees, customers, competitors, creditors and/or others. Private company liability claims are on the rise and those claims can be expensive to defend. In addition, directors and officers of smaller companies often have a large portion of their personal assets tied to the business, which can be financially devastating in the event of a lawsuit.



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Myth #2:

The largest expense in a claim is the judgment or settlement amount.

Truth:

In actuality, the cost of defending a claim is usually the most expensive part of a lawsuit. Even if there are no grounds for liability on the policyholders' part, defence costs are still incurred. Private company liability policies typically stipulate that the insurance company will agree to defend a potentially covered claim even if it is frivolous in nature.



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Myth #3:

Higher limits provide more protection.
As such, the higher the limits, the better.

Truth:

Although it is essential to obtain adequate policy limits to protect a company's directors and officers, the breadth of coverage in the policy is also critical to consider. A policy that provides cover for a broader range of exposures can sometimes be more beneficial than a high limit policy that covers very limited exposures.



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Myth #4:

Reporting all lawsuits and alleged wrongdoing will result in insurance premium increases.

Truth:

At Liberty, notice does not necessarily mean that there will be an increase in the insurance premium. Policy holders have a duty to report all lawsuits as soon as possible. At times, late reporting and/or not following the reporting requirements set within the policy could prejudice an insurer's position, which could lead to a claim being denied. The sooner a lawsuit or wrongful allegation is reported, the sooner the insurer can work with the policyholder to determine the best course of action to take in order to minimize costs and damages.



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