

# Why buy **Directors & Officers Liability Insurance**



It has become apparent over recent years that society is developing into an increasingly litigious culture. There is now more emphasis on companies to provide a better working environment and they must demonstrate a duty of care at all times. Regulation is placing greater pressure on company directors and officers to perform meticulously.

If a shareholder, employee or any other 3rd party thinks a director or officer has failed to exercise 'due care' in the running of a business a claim can be made against them personally. With litigation escalating, directors liability insurance provides essential financial protection to directors and officers.

## **What is Directors & Officers Liability Insurance?**

Directors and officers liability insurance will cover any civil or criminal offences including defence costs and awards. In addition, not only is cover available for all directors and officers of the company but it also extends to include managers and key employees.

You will be aware that current Law states that if an individual of a company is sued directly then, in some circumstances, he/she is forbidden to have the defence costs or claim awards paid by the company.

**To summarise, without Directors & Officers Liability Insurance your homes and personal possessions are at risk.**

## **The Companies Act contains seven statutory duties of directors:**

*A duty to exercise reasonable care, skill and diligence.*

*A duty to promote the success of the company.*

*A duty to act within powers.*

*A duty to exercise independent judgement.*

*A duty to avoid conflicts of interest.*

*A duty not to accept benefits from third parties.*

*A duty to declare any interest in a proposed transaction or arrangement.*

**Continued...**

Contact us for more information

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## What does Directors & Officers Liability Insurance cover?

Directors & officers liability insurance is designed to cover Private Companies domiciled in the UK, Non-profit organisations in the UK and Resident's Management Companies.

The cover will include key area such as:

- Financial mismanagement
- Breaches of Company Law
- Breaches of Tax Law
- Employment issues
- Breaches of Environmental Law

## A number of reasons why any business should consider receiving a quotation:

### • Personal Liability

A common misconception is that directors of limited liability companies can hide behind the veil of incorporation. This is not the case - directors' personal liabilities are unlimited and in the course of carrying out everyday duties for a company, directors are exposing themselves personally to lawsuits, investigations and criminal prosecutions.

### • Criminal Liability

Directors could go to prison for their actions, inaction or ignorance.

### • Investigations

Even when there is no initial allegation that a director has done wrong, having the funds to obtain legal representation enables directors to gain the best possible outcome.

### • Director Disqualification

Disqualification stops directors working in any management job with orders ranging from 2 to 15 years. But the problems don't end there, even after the ban credit histories and personal reputations can be permanently damaged.

## Sample Claims

Engineering manufacturers entered into a factory agreement with the claimant, but following the company going into administration, alleged that they used the monies due to pay other creditors.

**Director Personally Sued £300,000**

Transport manager of a waste management company prosecuted by the Crown Prosecution Service following an accident involving an unroadworthy vehicle operated by the company.

**Claims reserve £15,000**

Action against directors of a manufacturing company by the Health & Safety Executive following their refusal to respond to a notice to control dust emissions. Directors responsible had failed to adhere to deadlines so action taken against both the company and the directors responsible.

**Incurred over £110,000 in defence costs, with a further £60,000 outstanding**

HSE prosecution following serious injuries suffered by a machine operator in clearing a blockage in a stamping machine. There should have been a safety cut out stopping the machine operating with the access panel open, but this had been broken or disconnected.

**Defence costs incurred of £25,700**

Director of a property owning company breached his authority in appointing a company belonging to an employee to undertake work on their behalf.

**Proceedings issued by the claimant for non-payment of fees of £42,000 following cancellation of the contract.**

Claim for unfair and constructive dismissal against the Finance Director of a distribution company by a former employee alleging sexual harassment and other inappropriate activity (sending text messages out of working hours, inviting her on nights out etc.) .

**Costs £21,000**

Shipping agents were required to hold all goods held on behalf of the claimant in a separate account, but following their liquidation, it was discovered that this was not the case and the claimants would have to recover their goods as a normal creditor.

**Directors sued for £61,000**

Contractual dispute following appointment of a website developer to design an online trading website for a giftware manufacturer.

The director concerned was not authorised to enter into the contract and the company cancelled the agreement.

**Website developers claimed against the director for their costs incurred to date of £48,000**

Director of a glazing manufacturers named personally in an unfair dismissal claim from a former employee.

**Costs incurred of £14,055 in defending the Director**

Action taken against the directors of a glass manufacturing company by Trading Standards following allegations of pre-stamping of safety glass before it had passed the necessary testing procedure.

**Cost incurred £25,718**

Directors of a clothing manufacturers facing disqualification proceedings issued by the Secretary Of State for trading whilst insolvent, together with allegations that they failed to maintain their accounts in a satisfactory manner to enable the receivers to carry out their duties leaving many creditors (including HM Customs & Excise) unpaid.

**£56,000 paid in defending the directors named in the proceedings**

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