COVERAGE INSIGHTS

The ABCs of D&O Insuring Agreements

KRGinsure

The coverage afforded by directors and officers (D&O) liability insurance policies can vary significantly from one policy to the next. Thankfully, most D&O policies follow a common format that allows policies to be easily read, understood and compared by policyholders and their insurance brokers.

A standard D&O policy has three insuring agreements, often referred to as sides A, B and C. These insuring agreements specify the degree of coverage provided by a D&O policy and summarize the promise by the insurer to indemnify the policyholder from losses incurred from an insurable event.

This Coverage Insights piece provides an overview of the three insuring agreements found in D&O liability policies.

Side A: D&O Liability Coverage

Side A is the first insuring agreement of a D&O policy and it insures individual directors and officers against losses that the organization is not legally or financially able to indemnify.

This coverage protects the personal assets of directors and officers in the event the company does not pay defence costs or fund indemnification and is essential to helping organizations attract qualified individuals to serve on their boards.

Side-B: Corporate Reimbursement Coverage

Side B, also known as corporate reimbursement coverage, is the second insuring agreement of a D&O policy. Side B reimburses organizations for the expenses they occur when defending their directors and officers in accordance with their indemnification obligations.

By indemnifying their executives, organizations become responsible for paying legal expenses and claim settlements on their behalf. The costs of doing this can be financially crippling for even the largest organizations. Side-B coverage, therefore, provides organizations with balance sheet protection by agreeing to reimburse the company if it advances legal fees to officers or directors or indemnifies them against losses.

Side C: Entity Coverage

Oftentimes, organizations are named in lawsuits alongside their directors and officers. Side-C coverage, sometimes referred to as entity coverage, is the third insuring agreement of a D&O policy. This coverage insures organizations for claims made directly against the organization by providing entity asset protections and coverage for defence costs.

In policies issued to public companies, Side-C coverage is often limited to securities claims, while coverage for privately held organizations often applies broadly to a wide range of claims against the company arising from wrongful acts by the organization or its directors or officers.

More Information

To learn more about D&O insurance or to find a policy that will be effective and affordable for your organization, contact KRGinsure today.

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