

# Do you know your liability serving on an outside board?

The opportunity to join a company's board of directors offers a number of positives. It brings responsibility, builds visibility in the community, even provides some status and prestige. What board members might not be aware of, though, are the legal obligations that come with the position. They should, because the consequences of not adhering to those obligations can be serious.

Board members are required to perform under a duty of care and duty of loyalty to the company they serve. Companies can be exposed to any number of issues; and by extension, a company's board members can sometimes also be held liable.

Privately owned companies as well as non-profit organization board members are exposed to litigation in a number of ways. Claims against directors and officers often come from competitors, more notably, recently in the form of allegation: "You took our people, you took our product, etc." Regulatory investigations of potential statutory violations are another area of risk. Examples of such investigations surround issues of self-dealing, kickbacks, fraud and violations of consumer protection statutes. And even if you are not the perpetrator of the bad or wrongful conduct, innocent board members may also be in the crosshairs, many of them unknowingly until the allegations are made.

The company, as well as its directors and officers, can be exposed to litigation by shareholders, customers, creditors, vendors and suppliers, or be the target of regulators if a statutory violation has occurred. Any of these legal actions could put the board member's personal assets at risk, so an insurance solution is strongly recommended.

An important step to considering a seat on any board is to make sure you are protected by understanding whether the company, or non-profit organization has directors and officers liability insurance, often referred to as "D&O Insurance." Many prospective board members – or even a number of current ones – might assume that a personal liability policy would cover these risks. It likely does not.

With so much potentially at stake, corporate officers and board members alike should take the necessary steps and contact an insurance agent to make sure adequate D&O insurance coverage is in place. To learn more, contact your local Independent insurance agent to request information on D&O Insurance.

*Contributed by Janet Rhea Haverkamp, Private Company Directors & Officers Liability Product Manager, Travelers*

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