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## WHY NON-PROFITS NEED DIRECTORS & OFFICERS LIABILITY INSURANCE

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A nonprofit organization is operated for the benefit of some group of persons. Those individuals, together with employees, creditors, customers, members, state regulators, etc, are all potential plaintiffs against directors & officers of nonprofit organizations due to mismanagement. The fundamental responsibility of directors & officers is to judiciously represent the interests of the organization's members and other constituencies in directing the business and affairs of the organization with in the law.

D&O insurance responds to protect an organization for the insured perils surrounding an allegation of a wrongful act. An important feature of a D&O insurance policy is defense costs coverage. The costs associated with defending an allegation of a wrongful act can easily and quickly exceed \$50,000.

### **EXAMPLE CLAIM EXPOSURES FOR DIRECTORS, OFFICERS, OR TRUSTEES**

#### **Allegation of Wrongful Acts**

- Conflict of interests
- Fraudulent conduct, reports, financial statements or certificates
- Breach of contract
- Torts
- Violation of statute
- Violation of provisions of articles or by-laws
- Improper self-dealing
- Acquiescence in conduct of fellow directors engaged in improper self-dealing
- Transactions with companies in which officers or directors are personally interested

#### **Allegation of Financial Mismanagement**

- Inefficient administration resulting in losses
- Sale of assets for unreasonably low prices
- Wasting of assets
- Extension of credit where not warranted
- Failure to ascertain whether extension of credit is warranted

#### **Allegation of Mistakes or Errors in Judgment**

- Disclosure of material facts
- False or misleading reports
- Dissemination of false or misleading information
- Permitting organization to make improper guarantees

#### **Allegation of Negligence**

- Continual absence from meetings
- Failure to examine reports and documents before signing
- Failure to detect and stop embezzlement of organizational funds
- Failure to file annual report
- Failure to require withholding tax
- Failure to inspect organization books and records to keep abreast of its activities
- Failure to supervise the activities of others in a proper manner
- Failure to verify facts in official documents before signing them and filing them
- Shirking responsibility

If your organization has exposure to any of the items as identified, it is strongly recommended that Directors' & Officers' insurance coverage be secured.