

Why Directors' and Officers' Insurance Matters

Though it's not pleasant to contemplate, church leaders can neglect their duties or even knowingly commit bad acts. This can be a big issue if your religious organization isn't sufficiently protected.

A Directors' and Officers' Liability (D&O) Insurance policy protects an organization and its agents against civil liability for "Wrongful Acts," or inappropriate actions taken by those in leadership positions and covered by the policy.

What Is a Wrongful Act?

Wrongful Acts are typically defined in the policy as errors, omissions, misstatements, misleading statements, neglect, and/or breach of duty.

Here's an example of a Wrongful Act: Let's say a church works with a volunteer treasurer who serves on the vestry board. During meetings, the treasurer makes only vague reports on the state of the church's finances, simply saying that everything is fine and there's no need to worry. But several months later, it becomes clear that the church has been in financial trouble for quite a while because a major investment has gone wrong.

Because the treasurer made misleading statements and did not alert other church leaders to the problem, he neglected his duties. This kind of Wrongful Act is typically covered by D&O Insurance.

How the Policy Works

Your religious organization may have a D&O policy that has either a Per-loss Limit or an Annual Aggregate Limit. Per-Loss Limits quote the maximum amount of coverage available for a single claim. Annual Aggregate Limits quote the maximum payout for all D&O claims presented during the policy term (also referred to as the annual cap).

D&O policies include what's called a "Self-Insured Retention." This is what the policyholder must pay before the policy pays out on a covered claim. This dollar amount may apply separately to the organization and to individual insureds, and it usually includes defense costs (which often satisfy the retention).

Exclusions

Like all insurance policies, D&O insurance does have some significant exclusions, including but not limited to liability that would be covered by a General Liability policy (including bodily injury or property damage); illegal gain or advantage by the policyholder; civil or criminal fines, penalties or taxes; and violations of certain federal statutes.

If you have questions about what D&O insurance does for you, or think you may have a claim, **contact your Church Insurance representative.**