Small Business Insights

Understanding Management Liability Insurance

Provided by: ToughComp

Running a business entails a multitude of responsibilities and decisions. Whether they are making strategic choices or overseeing daily operations, business leaders are exposed to numerous risks.

Management liability insurance consists of a package of policies designed to cover the exposures businesses and their leaders face. It is primarily designed for privately held firms, nonprofit organizations, and small, publicly traded companies. Larger businesses generally purchase their management liability insurance on a standalone basis.

This article provides more information on coverage generally included in a management liability insurance package policy and why each is important for a business to have.

> Management liability insurance is a crucial component of an organization's insurance portfolio, as it can provide coverage for a business and its leaders.

Coverage in a Management Liability Package Policy

The coverage in a management liability package policy varies based on the insurer, but it typically includes directors and officers insurance (D&O), employment practices liability insurance (EPLI), fiduciary liability insurance and crime insurance.

- **D&O**—This insurance covers a business's directors and officers for lawsuits filed against them regarding their position-related decisions or actions. Examples of potential claims include reporting errors, misuse of funds, inaccurate disclosures, or other management errors and omissions.

Having D&O insurance can cover these claims' associated defense costs and legal expenses, which can safeguard the personal assets of an organization's directors and officers. Additionally, D&O insurance may offer coverage if an organization itself is sued. By offering this protection, a D&O policy can also serve as a recruitment tool to attract executive and board talent.

- EPLI—This coverage financially protects against employment-related lawsuits, such as those involving allegations of discrimination, harassment or wrongful termination. All organizations with employees are susceptible to these claims, no matter their size or their diligence and commitment to adhering to applicable employment laws. Having EPLI can help cover defense costs and legal expenses associated with these claims.

- Fiduciary liability insurance—This insurance offers coverage for claims that an employer breached their fiduciary duty by mismanaging an employee benefit plan. Allegations this insurance could respond to include improperly changing plan benefits, mismanaging plan assets, wrongfully denying benefits or providing inaccurate plan advice.

  Fiduciary liability coverage can help cover defense and legal expenses related to these claims. It can also provide compensation to help offset the benefit plan's financial losses caused by these errors, omissions or fiduciary duty breaches.

- Crime insurance—Even with robust security protocols and systems in place, businesses are still vulnerable to business-related crimes committed by employees. These can include theft, forgery and embezzlement. Crime insurance can help provide financial assistance if those unlawful activities occur.

Conclusion

Management liability insurance can provide organizations and their leaders with essential coverage for several exposures. Having the right policies in place is an integral part of a risk management strategy.

Contact us for more information regarding risk management and management liability insurance.