

Do companies need Directors and Officers Liability Insurance?

“The bottom line is that D&O Insurance supports good governance by making the risks of business decisions manageable and transparent.”

The Business Times, 15 Aug 2014



Quite often, companies are exposed to threats from both external and internal sources. These threats often result in legal suits and complainants which can be detrimental to the reputations of the companies. Some examples of such legal suits, complaints, and investigations can be from employees, creditors, shareholders, customers, suppliers, competitors, and even regulators.

Recently more companies are getting D&O Liability Insurance to protect the interests of their companies. What is this insurance for the companies and for its key appointment holders?



D&O Liability Insurance is designed to protect a company’s directors and officers from management liability claims that may arise from the decisions and actions taken within the scope of their regular duties. In other words, it is a “Managerial Negligence” cover. The insurance will provide the financial provisions for the company to engage a lawyer to defend the legal suit as well as costs of investigations to vindicate the company. The insurance will also include loss, which means the total amount that an insured or an employee incurs in respect of a claim for damages, interests, claimant’s legal costs and expenses, settlement, and defence costs.

Other than external threats, there could potentially be internal threats. An example of internal is an employee being terminated unreasonably. The employee can complain to Ministry of Manpower and legal costs will be incurred which the D&O Liability Insurance will kick in to cover. Some of the employment-related wrongful acts could be wrongful or unreasonable dismissal or termination of employment, breach of employment contract, employment-related misrepresentation, discrimination or victimization, harassment, and/or wrongful failure to employ or promote.





In the age of IT, data and information are stored in computer systems. Hackers are able to get into the systems and breach the data privacy. There have been incident breaches of data privacy and the customers' data have been compromised in some cases. Both the regulator and the customers can take legal actions against the company for the breach of data privacy. Therefore the D&O will take care of the financial aspects for the legal suits and investigations costs.

D&O Liability Insurance is an important aspect of corporate risk management. In this day and age, we have a strict governance, and transparency and disclosure of company information, financial reporting to the relevant authority and proper board practice are very important. There will be opportunities to uncover gaps in the above. Without the policy, company will have to bear the necessary financial losses. These losses would be enough to cripple the finance of the company. At the same time, the directors and officers of the company will also be exposed to such legal suits if they are found to be liable. It is important to discuss the risks of the company and to make preparations for any potential legal suits, claims and investigations against the company.



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