

Protecting Your Board Members

WHAT IS DIRECTORS OR OFFICERS INSURANCE?

As a director or officer, an individual could be held personally liable for financial damages that result from their actions as a board member. For example, a director could face personal liability for financial damages resulting from:

- Failing to maintain adequate financial records.
- Discriminating in membership standards.
- Exceeding the authority granted by the organization's charter or bylaws.
- Using budgeted or donated money in a manner different from originally intended.
- Failing to preserve tax-exempt status.

While this is not a complete list of a board member's exposures, they should know that their actions in that capacity could put their personal assets at risk.

DIRECTORS AND OFFICERS DEFINED

We define a director or officer as a covered leader serving as your board member, administrator, director, officer, or trustee, acting within the course and scope of the delegated leadership authority granted by your organization.

D & O ISN'T GENERAL LIABILITY

Directors and Officers (D & O) insurance provides legal defense funds and helps protect your board members' personal assets in the event of certain financial damages and lawsuits. It provides protection for covered financial damages suffered by other parties. These damages must result from the failure of your leaders to perform their duties in a proper way.

D & O insurance shouldn't be confused with general liability insurance. General liability insurance protects an organization against claims alleging bodily injury or property damage resulting from the conditions of the premises or from a sponsored activity.

A basic liability policy protects board members if they're sued individually in these kinds of injury claims.

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Claims against directors or officers for financial damages resulting from failure to perform their duties aren't covered by standard general liability insurance policies. You must purchase separate directors and officer's coverage to protect your leaders from financial damage claims.

WHY YOU NEED THIS COVERAGE

Although many states have enacted legislation providing some protection for directors and officers of nonprofit organizations, your church or related ministry should have this protection for several reasons:

- This insurance provides defense funds to refute the claim or to prove immunity under the state law. Defense costs can run many thousands of dollars, regardless of how groundless a claim for damage might be.
- If your state has legislation protecting nonprofit directors and officers from lawsuits, this doesn't mean you don't need D & O insurance. In some cases, the statutes specify activities for which immunity is intended. It's possible a covered claim may fall outside the protection intended by the statute.
- Immunity statutes typically don't protect the organization. D & O coverage includes your organization as an insured. The organization is protected in relation to covered financial damage claims.
- In the event that your state laws don't protect you and a successful suit is brought, this insurance pays for covered claims of financial damages for which directors and officers are held personally liable.



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