Hanover Management Liability

Service companies directors and officers claims scenarios

In today's litigious environment, the people entrusted to lead businesses are more susceptible to executive liability lawsuits than ever before. As leaders, directors and officers may be held personally liable for their management decisions, which means their personal assets are exposed to risk with every decision they make. The Hanover's directors and officers liability solution helps protect the personal assets of directors and officers, and the financial well-being of the organization against allegations of misconduct. These scenarios show you how.

Shareholder dispute

While minority shareholders without board representation can help companies by providing capital investment dollars, they can also be a source of litigation against directors and officers who are majority shareholders.

A small service company owned by a majority shareholder/officer who owned several other companies was sued in state court by a 5% minority shareholder. The minority shareholder alleged that the officer diverted some profits to another entity he owned at the detriment of the minority shareholder. The minority shareholder claimed the officer breached their fiduciary duties related to over-payment of salary, mismanagement and diverted profits.

INSURANCE IN ACTION

The Hanover defended the company and the officer in the lawsuit. After lengthy litigation that resulted in legal fees in the low six figures, the lawsuit was ultimately resolved in a settlement which included a buy-out of the minority shareholder.

Unfair competition

Companies that do not have strong written codes of conduct that prohibit employees from downloading or using prior employers' information or trade secrets expose themselves to increased legal risk regarding unfair competition.

A company was named in a federal lawsuit that arose out of the company hiring an employee from a competitor. The competitor alleged that the employee downloaded proprietary customer, product and planning information prior to leaving. In the lawsuit, the competitor made allegations of misappropriation of trade secrets, unfair competition, improper solicitation of workforce and wrongful interference of business relations. The company was aware that the employee had downloaded the information but denied using the information.

INSURANCE IN ACTION

While trade secrets and unfair competition are not covered for the entity under the directors and officers policy, The Hanover paid in the low six figures to defend the company throughout the entirety of the claim as part of the policy's 100% defense allocation provision. The Hanover also helped the company reach and pay for a settlement in the mid six-figures.

Breach of contract

A merger or acquisition vote can be one of the biggest decisions a board makes for its shareholders, and it can lead to litigation from shareholders and the other company involved if the deal does not go through.

A service company signed a letter of intent to work with another business on a new product and eventually merge companies. The letter of intent was vague and the terms of how the companies would work were not clearly outlined in writing. After a period of time where the partnership did not go as expected, the business sued the service company in an attempt to enforce the letter of intent. The merger eventually fell through.

INSURANCE IN ACTION

The Hanover defended the action for both the service company and its general counsel, resulting in covered defense costs in the mid six figures. While the lawsuit was very close to going to trial, The Hanover and the service company were able to reach a settlement with the business in the low six figures.

Disparagement

Companies face litigation risks when internal email communication goes external.

A company terminated a supplier according to cancellation provisions in their contract. Weeks later, an email sent from one of the company's vice presidents disparaging the supplier was accidentally forwarded to a large number of people. The email then surfaced on social media, which the supplier alleged led to the loss of other customers. The supplier sued the vice president for disparagement and interference with its business relationships.

INSURANCE IN ACTION

While personal injury like disparagement is typically covered under a general liability policy, the interference with business relationships resulted in the claim falling under the directors and officers policy, which resulted in The Hanover covering all costs related to defending against the lawsuit, including lawyer fees, court fees, investigations and more.

These hypothetical examples are provided for discussion purposes only, although some parts are based on actual claims experiences, names and facts have been changed to protect confidentiality. Insurance policy coverage depends on the facts of each case and the terms, exclusions, and limitations of the policy issued.

Let's start a conversation

Contact your Hanover representative today to ensure the right directors and officers protection is in place.

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