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Insurers see rising demand for directors & officers cover

The policy indemnifies personal liabilities arising from the insured's corporate role

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With the authorities tightening the screws on directors and senior corporate bosses after *L'Affaire* Vijay Mallya and the Panama Papers revelations, there has been a scramble by companies to get large Directors and Officers Liability (D&O) insurance policies.

Corporates are opting for covers as large as ₹500 crore, says Mahesh Chainani, Senior VP at Howden India Insurance brokers, which specialises in D&O policies.

It helps that premiums in the segment have crashed almost 60 per cent in the last five years due to rising compe-

tion among insurers, Chainani adds.

D&O liability policies offer cover against personal liabilities arising out of the insured's corporate role. These include legal costs in defending allegations or suits and any damages awarded to claimants against the directors and officers, including out-of-court settlements.

Policy exclusions

However, a key exclusion in the D&O policy is loss arising from dishonesty, fraudulent conduct and self-admission (of wrongdoing), but the policy will cover all innocent employees, say insurers.



Sai Venkateshwaran, Partner and Head, Accounting Advisory Services at KPMG, says the new Companies Act brings a lot of focus on the role of directors and has codified duties of directors together with penalties for non-compliance. Consequently, most insurers have seen a rising demand for these covers.

For instance, Bajaj Allianz has seen most enquiries from

corporates turning into sales. The company has seen 35 per cent year-on-year growth for D&O policies, said Sasikumar Adidamu, Chief Technical Officer (Non-motor).

Says KG Krishnamoorthy Rao, MD & CEO, Future Generali: "Initially, D&O policies were taken only by listed companies. However, in the last two years, there has been a demand for such policies by non-listed companies such as SMEs and start-ups as well."

Insurers also say that with increasing litigation and widening corporate exposure, the coverage sought has widened beyond the basic policy.

Praveen Gupta, MD and CEO at Raheja QBE, says that corporates are now seeking covers that include civil fines and penalties, tax liabilities in the

event of insolvency of the company, bail bond costs, official investigation and inquiry cost, and counselling fees.

Underwriting

Unlike other types of insurance, D&O liability is sold to a consortium of insurers in layers, with a primary insurer underwriting the first layer. So, in case of a claim, it is paid out by the consortium.

"There have been several instances of litigation. Some have resulted in payout or settlement; for some only legal costs have been incurred. Names in the public domain include Satyam, Bharti Airtel, Infosys and IGATE," says Gupta. The Satyam scam triggered one of the biggest directors' and officers' claims in India, worth \$75 million.