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## *Fear of boardroom battles sees cos seeking exotic cover*

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As corporate boardrooms find themselves facing newer complex challenges and more internecine battles, many companies are pre-emptively looking to buy exotic insurance policies to cover a variety of risks.

For instance, insurers say that traditional bare-bones Directors and Officers (D&O) insurance covers would be insufficient to cover a boardroom battle like the recent one between Ratan Tata and former Tata Group Chairman Cyrus Mistry.

While the traditional policy structure may cover the management's liabilities arising from allegations by a whistleblower or cases of alleged discrimination against em-

ployees, it doesn't cover instances of directors facing off against each other, said a senior industry executive.

Anup Dhingra, Senior VP, Marsh India Insurance Brokers Pvt Ltd, an insurance advisor and broker with over 1,600 corporate clients in the D&O space, explains this in more detail. "When boardroom battles happen or when a senior executive falls out of favour with the board, most insurance policies don't have an adequate response mechanism. Insurers have to burn the candle at both ends (to defend both parties).

"We've seen a 15-20 per cent increase in queries in just the January to March quarter from company boards on how insurance can better deal with such situations," Dhingra added.



"We're also seeing independent directors worry about the adequacy of the cover available to them."

### **Start-ups not immune**

Sasikumar Adidamu, Chief Technical Officer, Bajaj Allianz General Insurance, said that in the last two to three years, the insurer has seen increased queries from start-ups but the conversion rate is still poor.

"D&O policies aren't just for

huge, high-profile public companies. Start-ups are not exempt from legal troubles. They are likely to make novice mistakes such as: making unrealistic promises to investors, breach of fiduciary duty and HR mistakes, which can have huge legal ramifications," he said.

"(Despite this) Currently, insurance is purchased only by those start-ups that deal with overseas clients in the US or UK to comply with their contractual requirements," added Adidamu.

Professional investors in start-ups, from venture capital and private equity firms, are also making sure they cover their board nominees from risks of mismanagement by insisting on adequate D&O policies before they put their

money in. Mukesh Kumar, Executive Director, HDFC ERGO General Insurance Company, agreed that the rise in litigation and widening exposure of corporates has broadened the scope of D&O insurance policies.

"The cost of a D&O policy can be as little as \$400-500 for every \$1 million of coverage and can go up to \$10,000 for listed companies or companies that report losses," he added. "But the costs of an adverse media reporting to a company in case of a challenging situation is an untested price point. Given this, it still makes sense for corporates to transfer the risks – not just of management liability but also of cyber-crime risks, tax liabilities, fraud – from their own balance sheet to that of the insurer."