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Wealth Security Policy: FAQs

By Priya Cherian Huskins, Esq., Partner¹

What is a Wealth Security Policy?

A Wealth Security Policy is a policy that is designed to be a personal umbrella policy for an independent director who sits on one or more boards of directors of

- Public companies
- Private companies; and/or
- Non-profit companies.

What type of coverage is provided?

Broad Form Side A insurance that is intended to respond in the case of the perfect storm:

- the unavailability of indemnification from the underlying company (due to insolvency); and
- the unavailability of the underlying company's insurance program due to exhaustion, rescission, or any other reason.

What is covered?

For companies scheduled on the policy:

- Wrongful Acts in his/her capacity as a director
- Wrongful Acts in his/her capacity as a ERISA Fiduciary; and
- Employment practices-type wrongful acts.

Is the underwriting process easy and efficient?

Yes. You will answer a very short application. The application requires that you disclose the total in D&O insurance limits your scheduled companies are carrying, including the break-down between regular D&O insurance and Side A-only. You do not have to disclose any other the particulars (carriers, terms, pricing, etc.) of your corporate insurance policies. The application also inquires about certain types of litigation and basic financial information.

Is this insurance expensive?

No, especially compared to public company D&O insurance. The insurance is designed to be purchased personally by individual directors, and of course the cost will vary based on the individual's risk profile. A good starting guidepost for pricing is approximately \$3000 per \$1 million of insurance for an independent director who sits on one mid-cappublic company board.

(continued on page 2)

¹Priya Cherian Huskins, Esq., is a partner at Woodruff-Sawyer & Co., a full-service commercial insurance brokerage. Priya specializes in D&O insurance and can be contacted at phuskins@wsandco.com or 415.402.6527.

How much in limits can I purchase?

Usually \$1 million, sometimes up to \$2 million. Remember that a Wealth Security Policy is intended to cover legal expenses when indemnity and other insurance is exhausted or unavailable.

What are the contractual features that make this contract unique?

The terms of any D&O insurance contract are critical. A Wealth Security policy has the following features:

- Provides personal excess limits over all scheduled companies
- Automatic coverage for new board seats for up to 90 days
- Director controls his or her own defense (“Duty to Defend” policy)
- The triggering events for coverage (i.e. the definition of “Claim”) go beyond what is found in typical corporate
- D&O insurance policies by also including:
 - Formal SEC Investigations
 - Shareholder Derivative Demand
 - A written request or demand for an interview from any governmental entity
 - Extradition
- Policy will drop down in the event Loss is not paid as corporate indemnification or advancement, or is not paid by the corporate insurance program for any reason
- Run-off coverage for up to six years can be purchased when:
 - Exiting a board;
 - Company is sold; or
 - Company goes into bankruptcy (This is a key coverage, as often times the company is unable to purchase D&O run-off coverage after the filing of bankruptcy)

Is a Wealth Security Policy Right for me?

Whether you need a wealth security policy will depend on a variety of factors, including your appetite for risk, the potential for the company on whose board you sit to become insolvent, and of course the D&O insurance program that your company already has in place. Please contact Woodruff-Sawyer if you are interested in exploring whether a Wealth Security policy is right for you.

Judy Roberts

Senior Vice President, D&O

jroberts@wsandco.com

T: 415.399.6313



Priya Cherian Huskins, Esq.

Partner & Senior Vice President

phuskins@wsandco.com

T: 415.402.6527



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