27th Annual Fire Museum Network Seminar

Overview of Directors and Officers and Cyber Liability Insurance Coverages
Session Goals

Overview and discussion of Management Liability Insurance Coverages including Directors and Officers coverage and Cyber Liability coverage and how these coverages can play a vital role in the overall health and sustainability of your Organization
What is D&O Coverage?

Directors and Officers coverage is intended to help cover claims arising from wrongful acts and errors in management brought against the Organization and its individual Directors and Officers.
Duties of Directors and Officers

- Duty of Care
  - act with care when making decisions
- Duty of Loyalty
  - act within the best interests of the organization
- Duty of Obedience
  - act within the law and within the organization’s bylaws

Directors of non-profit organizations are often volunteers however they owe the same duties as their for-profit counterparts.
Coverage Enhancements to the D&O Policy

1) Employment Practices Liability (EPLI)

2) Fiduciary Liability

3) Workplace Violence

4) Internet Liability

5) Crime Coverage
What is EPLI (Employment Practices Liability Insurance)?

Provides coverage against Directors, Officers, and employers for a variety of employment related claims.

Majority of claims confronted by Non Profit Organizations arise from EPLI wrongful acts:

1) Discrimination
2) Sexual Harassment
3) Wrongful Termination
4) ....many more
Public Benefit Organizations Areas of Exposure

- Misappropriation of Funds
  - Can affect donations, volunteers, and the goodwill of the public

- Administrative Costs and Money spent on the Organization’s Mission
  - People who donate and the general public want to know that the money is going to be spent on the cause/organization. The amount of money spent on administrative costs and if properly used is a large exposure for Public Benefit Organizations.
D&O Claims Examples

• $65,000 Misappropriation of Funds - D&O - A grant making foundation receiving private donations was alleged to have used those funds for purposes not associated with the foundation’s underlying mission.

• $55,000 Sexual Harassment - EPL - A non-profit fundraising arm of a social service agency was sued by a job applicant for sexual harassment that occurred during a job interview.

• $75,000 Breach of Bylaws - D&O - Members of an association filed a lawsuit alleging the recent election of a new Executive Director did not follow the correct procedures outlined in the bylaws.
Reasons Why this Coverage is Important

• Helps attract qualified and prominent board members

• Helps protect the organization

• Helps protect the individual board members
What is Cyber Liability Coverage?

There are many different aspects to a cyber liability policy. In general, a cyber policy provides coverage for first and third party exposures associated with an Organization’s liability as it relates to its intranet, data breaches, and computer systems.

What is a data/privacy breach?

A data breach is a security incident in which sensitive, protected or confidential data is copied, transmitted, viewed, stolen or used by an individual unauthorized to do so. Data breaches may involve financial information such as credit card or bank details, personal health information (PHI), Personally identifiable information (PII), trade secrets of corporations or intellectual property.
Do I have This Exposure?

- Statistics shows that Small Businesses are a greater target for attacks
  - Verizon reports that 75% of breaches occur within companies with fewer than 100 employees

- Human Error is one of the leading driver of claims

- Healthcare is the worst performing industry
What creates a cyber exposure?

- Internet connectivity
- E-commerce
- Business websites and internet advertising
- Customer forums and support/message boards
- Credit card processing/online payment
- Data storage, ISP,
- Providing media content
- Paper documents
Types of Cyber Attacks

- Ransomware
- Phishing Attacks
- Malware
  - Trojan Horse Attacks
- Password Attacks
- DoS Attack
Cyber Liability Claims Examples

- **Human Error** - An employee of a private high school mistakenly distributed via e-mail the names, social security numbers, birthdates, and medical information of students and faculty creating a privacy breach. Overall, 1,250 individuals’ personal information was compromised.

- **Theft of Digital Assets** - A regional retailer contracted with a third party service provider. A burglar stole two laptops from the service provider containing the data of over 800,000 clients of the retailer. Under applicable notification laws, the retailer - not the service provider - was required to notify affected individuals. Total expenses incurred for notification and crisis management to customers was nearly $5M.

- **Privacy Breach** - An employee of a rehabilitation center improperly disposed of 4,000 client records in violation of the center’s privacy policy. The center settled the claim with the state of Massachusetts and agreed to pay fines and penalties as well as extended $890,000 in customer redress funds for credit monitoring on behalf of the victims.
Tips for Small Business Cyber Security

• Protect your internet connection with a firewall and secure your Wi-Fi Network
• Make use of antivirus software and ensure regular updates
• Employee Education – promote awareness of basic privacy and security practices
• Establish strong password and access control policies; consider multi-factor authentication
• Take inventory of all sensitive customer information, limit employee access, and ensure protected information is encrypted
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