

Company executives' action in the spotlight

Headlines in 2017 were dominated by mismanagement, maladministration and fraud at state-owned enterprises (SOEs) and private companies.



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"These developments have shone a spotlight on the implications of actions taken by company executives," says George Bishop, CEO of Willis Towers Watson. "This should make all executives sit up and take notice because, at the very least, those implicated stand to be sued for negligence."

The unfolding Steinhoff saga is a case in point, says Jason Grove, MD of Roxsure Insurance Brokers, a specialist provider of professional indemnity and directors and officers insurance.

"It was recently announced that South African investors would be joining a class action lawsuit brought by the Dutch Investors Association, the VEB, in which Steinhoff, its management board and its supervisory board are being held responsible for the losses."

Due to the magnitude of those losses, Grove believes company directors will be held personally liable. The potential implications for executives at KPMG, Trillain, McKinsey and numerous SOEs are similar.

"This has heightened awareness around the need for professional indemnity and directors and officers insurance, as this

cover provides financial protection to executives in instances of mismanagement such as errors, negligence or unintentional acts. Instances of fraud are not covered, though."

This, says Grove, has presented an opportunity for insurance brokers who hold the requisite expertise to carve out a niche and deliver a valuable service.

Responsible

"Few who reach the level of director realise the liability and responsibility that accompanies the title, especially in our highly regulated environment. Directors ultimately account for the actions of their company and how it's run - they're also responsible for any mistakes."

Brokers therefore fulfil a vital advisory role, especially as companies aren't required to and generally don't indemnify directors or officers, or provide financial support in the case of litigation.

"It's up to the executive in their individual capacity to ensure adequate cover is in place to protect them in the case of legal action or, if they're found to have acted negligently, to pay the associated compensation. Those held liable who lack cover stand to lose everything," says Grove.

Source: Business Day

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