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VC's - Cover Your Assets...make sure the due diligence performed on your Portfolio Companies includes an insurance review...by a qualified **venture capital insurance specialist.**

From time to time, I like to reach out to the VC community on topics I feel are important for you to know. In my last communication I addressed the hardening of the VCAP market and the reasons behind it. In this one I would like to address a topic that is all too often overlooked - <u>insurance due diligence as it relates to your Portfolio Companies.</u>

Understand what insurance your PC's have in place:
In private equity/LBO transactions, insurance due diligence is the norm. However, when it comes to the VC world, I find it interesting (and a bit disconcerting) that insurance is rarely put on the front burner – or any burner for that matter – when it comes to making investments. I routinely meet with VC's who do not know what insurance their PC's have and/or who do not require their PC's to carry Directors & Officers Liability, even if that VC has Board representation.

Use your insurance broker to do the leg work/auditing for you:
The task of gathering and analyzing the portfolio companies' insurance information is something that can, and should, be performed by your insurance agent. The trick here is to make sure that these reviews are done first and foremost for ***<u>your</u>*** benefit, with no strings attached. Unlike that element of control that comes with LBOs, most emerging companies have more than one VC investor and your agent needs to recognize and respect that special relationships with other insurance brokers may exist. You should ask your agent if this is a value added service they can perform and if so, how they perform it and at what cost to you. If you are a CSI client our answer is simple: we have a "non-invasive" audit process for your PC's that will further protect your investment and help to reduce your VCAP premium and **we do it for free**!

An insurance audit can be a win/win:
You win as a VC because it can help reduce VCAP premiums, as you are now demonstrating that your PC's have the first line of D&O defense. Your PC's win as you are ensuring that they have proper coverage.

The bottom line:
How would a $1,000,000 E&O claim affect the balance sheet if no insurance policy were in place? What would the financial repercussions be on your firm's own VCAP policy if it had to respond first dollar to an Outside Director Liability claim?

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A $1,000,000 VCAP claim would take that already large premium you are paying through the stratosphere. ***D&O insurance should always be mandatory if one of your general partners or managing directors is sitting on that PC's board.***

Conclusion:
I cannot stress enough how important it is not to overlook the inadequacies (or sleep soundly) knowing the insurance programs of your portfolio companies have been evaluated as part of your investment decision/process.

How much detail you wish to receive and keep on file is a topic for discussion. Your agent can perform high level reviews from a summary of insurance or a thorough audit of actual policies. A comprehensive insurance audit can determine not only where a PC is underinsured, but also where they may be paying too much. The technology and life science insurance market is still very competitive, thereby keeping the market soft. If you are stressing cost containment to your PCs, don't have them overlook their insurance program.

Since I am clearly passionate on this subject, as evidenced by the novella I have just written, I welcome any questions you may have.

As always, I am here to serve.

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