

VENTURE CAPITAL ASSET PROTECTION POLICY

Tailored Insurance for Venture Capital and Private Equity Firms

Venture capital and private equity firms perform a wide range of business activities. These activities can include financing a portfolio company, serving on a portfolio company's board of directors, exiting a portfolio company position, and nearly everything in between. This wide array of activities creates a host of unique personal and business exposures that can seriously threaten a firm's bottom line and the financial security of the individuals who perform these functions.

HDFC ERGO Venture Capital Asset Protection (VCAP) policy offers management liability, management indemnification, outside directorship liability, professional services liability and crime insurance covers. With HDFC ERGO Venture Capital Asset Protection policy venture capital firms receive true value and one of the broadest policies in the industry.

WHAT ARE THE EXPOSURES?

The following are some of the exposures that venture capital firms face as investors and developers of emerging companies:

- **Positions on Portfolio Company Boards:** Active participation in managing your portfolio companies is a hallmark of your firm, but there are risks to be considered.
- **Indemnification:** To what extent does the indemnification power of a portfolio company protect a venture capitalist serving as an outside director, in particular, on the board of a portfolio company in the seed or early stage of development?
- **Down Round Financing:** The perception created by down rounds may be that the best interests of other parties are intentionally not being considered.
- **Conflicts of Interest:** Divergent interests may create scenarios in which not all interested parties feel they have benefitted to the fullest extent possible.
- **“Wash-outs”:** Some situations create the perception that a venture capital firm is acting unfairly and in its own best interest while breaching its fiduciary duty to a particular portfolio company, its management and its investors.
- **In-kind Distributions:** An in-kind distribution is a highly anticipated event. What happens if it doesn't go exactly as expected?
- **Bankruptcy:** Declaring bankruptcy is a reality for some emerging companies, but that reality can carry significant liabilities for the company's board of directors and business developers.
- **Confidential information:** How secure is confidential information when it is being communicated or while it sits on a partner's desk or in a filing cabinet?
- **Employment Practices:** In certain cases, new management is hired to take a portfolio company to the next level. How does old management feel about this?
- **Intellectual Property:** With thousands of new companies being started the world over every year it is becoming increasingly difficult to be certain that proprietary intellectual property has not already been 'claimed' by another.
- **Initial Public Offering:** Initial public offerings invite added scrutiny by unaffiliated third-party investors of past and present financial information, management decisions, the offering itself, etc, potentially resulting in costly and distracting litigation.

TAILORED INSURANCE PROTECTION

Standard liability insurance policies may not help protect venture capital firms against these and other exposures, leaving gaps in protection and putting the firm and its partners at risk. HDFC ERGO insurance solution addresses the specific exposures of venture capital firms. For example:

- Standard professional indemnity insurance may require a fee or written contract for services provided in order for insurance to apply. HDFC ERGO understands that the services you provide to portfolio companies are done so as part of making an investment – not for a fee and, typically, not under written contract - and our professional services liability insurance does not contain such requirements.

- Typical outside directorship liability policies aren't geared toward companies whose executives are members of a growing number of outside boards. HDFC ERGO outside directorship liability insurance helps to protect you every time you join the board of a portfolio company – so you don't have to worry about frequently updating your policy. We also recognise that your role requires participation in, sometimes difficult, employment-related decisions, exposing you to the high costs associated with employment practices litigation. Included in our outside directorship liability insurance is cover for employment practices, giving you that additional level of protection needed in today's legal environment.
- Our professional liability coverage section was developed to insure the services characteristic of Venture Capital firms such as the formation, capitalisation, operation and management of a private investment fund, as well as lender liability and the financial and strategic advice given to help developing portfolio companies are all covered. In addition, this cover also applies to 'broken' deals' on proposed investments in portfolio companies – try finding that protection in a standard liability policy.
- The venture capital market, as with all financial markets, has become decidedly global, whether your firm has operations abroad, invests internationally or supports domestic portfolio companies with international operations: you face the liability exposures intrinsic to those foreign jurisdictions.

PRODUCT HIGHLIGHTS

What is Included?

The following insurance coverages are available with every Venture Capital Asset Protection policy:

- D&O Liability
- Company Reimbursement
- Outside Directorship Liability
- Professional Services Liability
- Legal Representation Expenses
- Fund Reimbursement
- Crime Insurance

What is Protected?

HDFC ERGO Venture Capital Asset Protection policy is specifically designed to address structures used by the Venture Capital industry:

- Venture Capital Limited Liability Partnerships
- Venture Capital Management Partnerships
- Unit Trusts
- Trustee or Management Companies
- Limited Liability Companies

Who is Protected?

HDFC ERGO policy offers automatic protection for the firm's critical contributors, including past, present and future:

- Managing Members
- Directors & Officers
- Employees
- Members of Advisory Boards
- Trustees

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YOU CAN REQUEST A QUOTE TODAY

For more information about our Venture Capital Asset Protection Insurance Policy and the full range of HDFC ERGO Insurance products contact your local broker or HDFC ERGO representative.

SECTION 41 OF INSURANCE ACT 1938 (PROHIBITION OF REBATES)

No person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to take or renew or continue an insurance in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectus or tables of the insurers.

Any person making default in complying with the provision of this section shall be liable for a penalty which may extend to ₹10 Lakh.