

PROTECTING THE PROMISE

Insurance and Risk Strategy for ESOP Companies

THE MAHONEY GROUP®

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Introduction: Owning the Future Comes with Risk

Employee ownership is a bold, powerful model. When done right, it's a catalyst — for performance, for loyalty, for legacy. But ESOPs aren't just another way to structure a company. They come with a different kind of responsibility, and the risks run deeper than most people realize.

It's not just about buildings and balance sheets. It's about protecting the culture you've worked hard to build, the trust you've asked your employees to place in leadership, and the value you've promised them for the long haul. That's where insurance comes in — not as a checkbox, but as a strategic lever for resilience.

This guide breaks down why traditional insurance doesn't always cut it for ESOPs, what's at stake, and how to make sure your risk strategy is as forward-thinking as your ownership model.

The Hidden Gaps in Traditional Insurance for ESOPs

Any business can face a lawsuit. But in an ESOP, a single misstep — a valuation error, a fiduciary breach, a poorly handled employment claim — doesn't just hit the company. It hits the retirement savings of every employee-owner. It undermines confidence. It creates friction in a culture built on trust.

Founders may exit. Leadership may shift. But the promise of ownership has to hold steady. Insurance, in this context, has to be more than a patch — it has to be part of the foundation.

There's a misconception that an ESOP company can simply buy standard business insurance and call it a day. But coverage designed for conventional ownership structures often misses the nuances that matter most to an employee-owned firm.

For instance, fiduciary liability insurance — critical to protecting trustees and plan administrators — isn't a standard rider. It requires specialized underwriting that understands ERISA exposures and ESOP plan dynamics. D&O insurance must be written to account for unique governance and disclosure risks. Even general liability and employment practices policies can fall short if they're not framed with ownership structure in mind.

The same goes for cyber coverage. ESOP companies often store a higher volume of sensitive employee financial data — from account balances to personally identifiable information. That raises the bar for protection and response planning.

Insurance for ESOPs needs to be engineered, not off-the-shelf. It should be responsive to the company's stage, risk appetite, and governance structure — not just a renewal exercise once a year.



Insurance as a Strategic Tool

The most resilient ESOPs don't view insurance as an annual procurement task. They view it as part of a broader risk strategy — one that integrates with corporate governance, capital planning, and employee engagement.

That starts with regularly assessing the evolving risks of the plan: Has the ownership percentage changed? Has the company grown or entered new markets? Are succession plans clear? Have employment policies evolved? Each of these can shift your risk profile, and your insurance should follow suit.

It also means engaging with insurance advisors who understand ESOPs — not just from a coverage standpoint, but from a business one. A strong broker relationship can bring fresh eyes to your exposures, benchmark your coverage, and guide you through underwriting conversations with insurers unfamiliar with ESOPs.

Smart ESOP leaders go further. They build internal processes for claims management, invest in fiduciary training, and embed insurance strategy in their board conversations. They don't wait for something to go wrong to realize what's missing.

Risk Scenarios

(The following examples are fictional and meant only to illustrate potential risk scenarios.)

Scenario 1: The Valuation Dispute

A former employee challenges the fairness of their ESOP distribution after termination. The trustee is named in a lawsuit alleging fiduciary breach.

Without fiduciary liability insurance, the trustee is left to cover legal costs personally. With coverage in place, defense costs and settlements are handled — protecting both the individual and the plan.

Scenario 2: The Cyber Attack

Hackers access sensitive participant data through a phishing scheme, exposing names, Social Security numbers, and ESOP account balances.

With a tailored cyber policy, the company receives immediate breach response services, covers notification costs, and mitigates reputational fallout with clear communication and identity protection services.

Scenario 3: The Employment Practices Lawsuit

An employee claims they were denied a promotion due to age discrimination and ties it to how ESOP benefits are distributed.

EPLI coverage steps in to defend the claim and manage potential settlement, helping preserve not just finances, but morale across the employee-owner base.

The Key Insurance Policies Every ESOP Needs

ESOPs are complex, powerful tools for building wealth and long-term sustainability. But their strength depends on clarity, accountability, and protection — for the plan, the fiduciaries, and every employee-owner.

Insurance is a key part of that equation. Not just as a financial tool, but as a governance and cultural one. When it's structured intentionally, informed by risk, and reviewed regularly, it becomes more than a backstop. It becomes a foundation.

In the end, owning a business is about more than sharing profits. It's about sharing responsibility. The right insurance strategy ensures that everyone — from the boardroom to the shop floor — is protected for the road ahead.



Not every ESOP is the same — and neither are their insurance needs. Still, there are some common policies that consistently serve as cornerstones of a strong ESOP risk strategy.

Fiduciary Liability Insurance

This one is non-negotiable. Anyone making decisions about the plan — including trustees, board members, and even HR personnel — can be held personally liable for breaches of fiduciary duty. The risk isn't theoretical. Valuation disputes, plan mismanagement allegations, and procedural oversights all have the potential to trigger lawsuits. Fiduciary liability insurance is what stands between those individuals and personal financial exposure.

But the value goes beyond defense costs. The existence of this coverage can offer peace of mind to your leadership and fiduciaries, encouraging smart, confident decision-making without fear of personal ruin if something goes sideways.

Directors & Officers (D&O) Liability Insurance

In an ESOP, your board carries more weight — and more exposure. Disputes around business direction, executive decisions, or communication breakdowns often come back to the people in charge. D&O insurance helps protect those individuals from claims alleging mismanagement or failure to act in the company's best interest — a particularly acute concern when employees are also shareholders.

It also sends a signal: you're serious about protecting your leadership, which helps attract and retain experienced board members who know the risks.



Employment Practices Liability Insurance (EPLI)

Even companies with strong cultures aren't immune to HR risk. Claims of harassment, wrongful termination, or discrimination are emotionally and financially costly — and when they intersect with an ESOP (especially in matters of share allocation or compensation), they can get even messier.



EPLI helps companies manage those moments with structure and legal support. It's not just protection; it's a necessary backstop that allows you to address claims with integrity, speed, and sensitivity.

Errors & Omissions (E&O) Insurance

Depending on how your ESOP was structured, there may be a risk of professional liability tied to the valuation process or plan oversight. E&O policies protect against claims stemming from professional services gone wrong — whether that's internal decision-making or third-party guidance you may be held responsible for.

Cyber Insurance

ESOP companies often maintain highly sensitive financial and personal data about every employee. A breach doesn't just raise IT concerns — it undermines trust in the very plan you've built. Cyber insurance helps cover everything from forensics and legal fees to notification, credit monitoring, and public relations support.

In today's environment, cyber insurance is no longer optional. It's part of protecting the people who make up your organization.

Crime Insurance

Internal fraud or embezzlement can derail an ESOP quickly. This coverage — often overlooked — protects plan assets against acts of dishonesty from employees or third parties. If your ESOP involves complex financial flows, crime insurance adds a needed layer of accountability.

How We Support You: Our Advisory Services

Protecting the promise of employee ownership takes more than policies — it takes a strategic partner. At The Mahoney Group, we go beyond transactions to deliver insight, oversight, and advocacy tailored to the unique needs of ESOP companies.

Risk Exposure Analysis and Strategic Advising

We start with a forward-looking risk assessment — not just what's covered, but what's at stake. Our Professional Lines specialists dig into your ESOP's structure, governance, operations, and industry-specific exposures to surface risks that could jeopardize employee trust, fiduciary standing, or long-term value. From valuation disputes to cyber vulnerabilities, we help you understand where you're most exposed and how to manage those risks with strategy, not guesswork.

Current Coverage Audit and Program Optimization

Once risks are mapped, we shift focus to the insurance program itself. Our ESOP program architects will conduct a detailed audit of your current policies, limits, and exclusions. We identify gaps, duplications, and inefficiencies — then recommend adjustments that bring your insurance into alignment with your actual risk. Whether that means restructuring layers, refining policy language, or negotiating broader terms, we make sure your coverage is doing its job without wasting premium dollars.



Insurance Program Review Checklist

Use this worksheet to evaluate the adequacy and relevance of your current insurance policies for your ESOP company. It's designed to help identify coverage gaps, assess current limits, and inform future discussions with your insurance broker or internal risk team.

1. Do we currently have the following coverages in place?

- ☐ Fiduciary Liability Insurance
- ☐ Directors & Officers (D&O) Liability Insurance
- ☐ Employment Practices Liability Insurance (EPLI)
- ☐ Errors & Omissions (E&O) Insurance
- ☐ Cyber Insurance
- ☐ Crime Insurance
- ☐ General Liability
- ☐ Property Insurance
- ☐ Workers' Compensation

2. Have our policy limits been reviewed within the past 12 months?

☐ Yes ☐ No

3. Have we experienced any material changes to our business operations, employee headcount, or ESOP structure that could impact our risk profile?

☐ Yes ☐ No

4. Do we understand the exclusions in each of our current policies?

☐ Yes ☐ No

5. Are claims reporting procedures clearly documented and communicated internally?

☐ Yes ☐ No

6. Have we benchmarked our program against peers in our industry?

☐ Yes ☐ No

7. When is our next scheduled insurance program review with our broker or advisor?

☐ Yes ☐ No

Date: _____

Fiduciary Risk Assessment Guide

Use these questions as a framework for evaluating your fiduciary oversight and identifying areas for improvement or clarification. Ideal for discussion during board meetings, trustee updates, or annual plan reviews.

1. Who currently holds fiduciary responsibility for the ESOP? Is this clearly documented?

2. Have fiduciaries received training or updates on their responsibilities under ERISA in the last 12 months?

3. Are there procedures in place for selecting and monitoring service providers (e.g., plan administrators, valuation firms)?

4. How often is the ESOP plan valuation reviewed, and by whom?

5. Do fiduciaries have access to Fiduciary Liability Insurance? Are they aware of its limits and exclusions?

6. Is there a clear process for handling employee questions or disputes related to the ESOP?

7. Are meeting minutes and fiduciary decisions well-documented in case of future scrutiny?

8. Have any fiduciary-related legal challenges or complaints arisen in the past year?

9. What improvements could be made to strengthen fiduciary governance in the next 6–12 months?

10. Are there scheduled sessions for periodic fiduciary self-evaluation or external audits?

Let's Talk

As we've noted, an ESOP is more than a benefit plan. It's a declaration — that your employees are trusted partners in ownership, and that their future matters to the organization. That promise deserves more than boilerplate coverage.

This isn't about overspending or over-insuring. It's about aligning protection with purpose — making sure your insurance program does more than check boxes. It should reflect the unique structure of your ESOP, the vision of your leadership, and the values of your workforce.

Whether you're just starting your ESOP journey or re-evaluating your risk strategy, we're here to help. Our team understands the intricacies of employee ownership and the insurance solutions that support it. We don't just sell policies — we design programs that protect what matters most.



Let's build an insurance strategy as forward-thinking as your ESOP.

Contact us today to
Schedule a consultation

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Notes

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