



Gallagher

Franchise
Solutions



Four Reasons Franchisors Need Errors and Omissions (E&O) and Directors and Officers (D&O) Insurance Coverage

Franchisors face unique operational risks and liabilities that can threaten their valuable investments, making Errors & Omissions (E&O) and Directors & Officers (D&O) insurance vital to ensuring long-term success. Below are the top four reasons franchisors need these policies.

1. Protection Against Professional Liability (E&O Coverage)

Why it's needed – Franchisors provide guidance, training and operational support to franchisees. If a franchisee claims that the franchisor's advice, services or operational manuals contained an error resulting in a financial loss or operational failure, E&O insurance can protect against these claims.

Sample scenarios – Comprehensive manuals are essential for franchisees, providing guidance on operational procedures and overall business practices. If a manual is outdated or inadequate, for instance, it can make the franchisor vulnerable to costly mistakes. E&O also assists with allegations of misrepresentation or non-disclosure, breach of contract, negligence, intellectual property infringement, vicarious liability and more.

2. Defense Against Mismanagement Claims (D&O Coverage)

Why it's needed – Franchisees, employees or other stakeholders may allege that the franchisor's directors or officers committed wrongful acts, mismanaged the business and caused financial harm.

Sample scenarios – The Franchise Disclosure Document (FDD) is an essential — and mandatory — legal document required by the Federal Trade Commission (FTC) under the Franchise Rule. If an FDD is unclear, vague or inaccurate regarding any of its 23 required disclosure items, and that results in a financial loss, the franchisor can be held legally responsible. D&O is essential to franchisors addressing issues with the FDD, as well as claims of breach of fiduciary duty, conflicts of interest or allegations of poor decision-making.

3. Mitigation of Franchisee Disputes (Both)

Why it's needed – Franchisees may file lawsuits against franchisors for a variety of issues, such as unfair business practices, failure to disclose risks or breach of contract. Both E&O and D&O policies provide value to franchisors in helping cover legal defense costs and settlements arising from these disputes.

Sample scenarios – Carrying both D&O and E&O ensures your business is protected from claims involving both service errors and management issues. If, for example, a franchisee alleges errors in your financial performance representations within the FDD – whether purposefully or unintentionally – resulting in breach of contract, both coverages work together to help eliminate costly gaps. These policies can also assist with claims involving contractual obligations or territorial rights disputes.

4. Regulatory and Compliance Protection (Both)

Why it's needed – As we've stated, franchisors must comply with federal and state franchise laws, such as the FTC Franchise Rule. Non-compliance or perceived violations can lead to lawsuits or regulatory actions.

Sample scenarios – Franchisors are accountable to federal regulatory bodies such as the FTC, National Labor Relations Board (NLRB) and state-specific entities, making them susceptible to oversight on important matters, like labor violations, vicarious liability and any errors made when providing advice, training or support to franchisees. Regulatory investigations can damage your reputation, affect financial performance and distract from your business priorities. Maintaining both insurance policies is essential to supporting your defense.

E&O and D&O insurance are critical for franchisors to safeguard their business operations, leadership and financial stability; without it, they would be forced to bear the weight of expensive litigation or regulatory actions alone. These coverages provide protection against professional liability, leadership mismanagement claims, franchisee disputes and regulatory risks, ensuring you can focus on growing your network with peace of mind.



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