

Directors' and Officers' Insurance and Opportunism in Accounting Choice

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A B S T R A C T

In this paper, the focus is on how excessive Directors' and Officers' Liability (D&O) insurance coverage is associated with risk-taking behavior in financial reporting. In the case of over-insurance, I hypothesize that the covered executive is overly buffered with regard to securities litigation recourse, which leads to aggressive accounting practices. Aggressive accounting is measured by the need to restate earnings. The findings show that unexpected D&O coverage results in aggressive financial reporting, which is more likely to lead to a restatement of earnings. In sum, this paper contributes to the existing literature on D&O insurance, and illustrates that, despite the fact that D&O coverage levels are unobservable to investors, the amount of D&O coverage underlies managerial decision-making.

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