

What You Need to Know About Business Owner's Policies

Business insurance can get complicated. Businesses need to protect themselves against damage to their property, income they may lose if they have to shut down after their property is damaged, and the risk of lawsuits.

With the risks of crime and other types of losses that separate policies cover, there can be a lot to keep track of.

But it doesn't have to be so complicated. Small businesses can meet many insurance needs with a single product called a business owner's policy, or "BOP" as it is commonly known.

BOP packages essential coverages into a single insurance policy. At its most basic, a BOP provides three broad coverages:

- **Property** Insurance on the business's buildings (if it owns any) and personal property used in the business.
- **Business interruption** Insurance on lost income resulting from a business shutdown following damage to the property or extra costs the business incurs to stay open after the damage.
- **Liability** Insurance covering amounts the business has to pay as damages to settle some lawsuits against it, as well as the cost of mounting a legal defense against those suits.

BOPs offer some flexibility to the buyer, but not the overwhelming variety of choices that individual property and liability policies offer.

Firms can choose between three coverages for property damage losses:

Basic form This covers 11 "perils" or causes of loss:

- Fire or lightning.
- Windstorm or hail.
- Riot or civil commotion.
- Aircraft (striking the property).
- Vehicles (striking the property).
- Glass breakage.
- Vandalism & malicious mischief.
- Volcanic eruption.

Broad form This covers the same 11 perils in the basic form, plus:

- Falling objects.

- Weight of ice, snow or sleet.
- Accidental discharge or overflow of water or stream from within plumbing or related systems (but not discharge or overflow of water from a sump).
- Sudden and accidental rupture of heating, air conditioning, fire protective sprinkler, or hot water heating system.
- Freezing of plumbing or related systems.
- Sudden and accidental damage from artificially generated electrical current.

Special form ББ” This does not specifically list perils and offers the widest range of protection, covering "all risks," unless specifically excluded. This is the most expensive coverage.

The business must select the amounts of insurance to purchase on the buildings and personal property.

However, it is unnecessary to select an amount of insurance for business interruption coverage. The policy simply pays for the actual loss the business sustains during a necessary shutdown caused by covered damage to the property.

BOPs typically include small amounts of coverages that would otherwise have to be purchased separately, such as:

- Loss or damage to valuable papers and records.
- Debts the business cannot collect because of loss or damage to accounts-receivable records.
- Income lost when the business must shut down due to an interruption in computer operations.
- Some types of crime losses.
- Clean-up and removal of pollutants.

The policy covers the business's legal liability for bodily injuries, property damage, advertising injury and some types of non-bodily personal injuries to others.

Most insurers offer businesses a choice of only three or four amounts of liability insurance.

BOPs may be customized to include other types of insurance, such as for the business's liability resulting from the use of autos it hires or borrows.

However, a BOP is not a substitute for an automobile insurance policy, and it does not cover workers' compensation benefits owed to employees.

How to qualify

To qualify for a BOP, a business cannot exceed a certain size, such as 100 employees or \$5 million in revenue.

For those businesses that qualify, a BOP is a sensible foundation for their insurance programs.

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