

Understanding the BOP

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SMALL BUSINESSES are the mainstay of the United States economy. It is no wonder that the Businessowners Policy (BOP), specifically designed for small businesses, is growing in popularity. The BOP is in fact, estimated to be the most common form of insurance for small businesses (www.insurancejournal.com). Understanding the value of the Businessowners Policy, and when to best use it, is another value-added service of the professional insurance agent.

As of 2012, U.S. Census Bureau statistics indicate that there were a total of 28 million small businesses in the United States. A small business is considered one with less than 500 employees. "Nonemployer businesses" – those that have no paid employees but are subject to federal tax, such as sole proprietorships, make up the vast majority of businesses in the United States: 23 million in 2013. "Employer businesses" are those with paid employees. There were 5.73 employer businesses in 2012. 97.9% of all small businesses, including both "employer" and "nonemployer", had less than 20 employees (www.sbecouncil.org). Small businesses are estimated to account for \$58 billion in premium, approximately 20% of the total commercial property/casualty insurance market premium written (www.prnewswire.com).

An advantage of the BOP is ease of use. This program is a package policy combining property and liability coverages with one set of terms and conditions. In addition to being easier to understand than multiple policies, the BOP can often be more cost effective than purchasing separate policies.

Property coverage is available for buildings and personal property owned by the business, as well as property of others in the business's care, custody and

control. Coverage for loss of Business Income is also available. Some programs offer specialized coverage for computer equipment and other inland marine exposures, and crime coverage.

Originally designed for small main street type operations such as retail stores and offices, the eligibility and coverages have expanded to encompass higher risk exposures, such as restaurants and pizzerias. The BOP is not intended for the unique or more hazardous risks, which are more properly handled under a commercial property and liability, or commercial package policy. Eligibility for a BOP is generally limited by class of business, property values, square footage of the business, and/or revenue. Examples of eligibility criteria include revenues of less than \$5 million in sales and no more than 100 employees, or building size less than 25,000 square feet. In addition, businesses whose operations are mainly off-premises (such as contractors), are generally not insured under a BOP.

Property coverage under a BOP is usually offered on either a Named Perils or Open Perils (formerly known as "All Risk") basis. With Named Perils, only the listed perils are covered causes of loss. With Open Perils, all causes of loss are covered, other than those that are excluded. The essential difference is that with Named Perils, the burden is on the insured to prove that the loss was caused by a "named" peril. Under the Open Perils, the burden shifts to the insurer to prove that the cause of loss was not covered.

Due to the nature of the policy, the



BOP offers less flexibility than a stand-alone Commercial Property or Liability policy or Commercial Package (CPP or CMP). Insurers may offer niche BOP programs, including coverage enhancements targeted to a specific class of business, such as bed & breakfasts, breweries or self-storage operations. Many companies also offer endorsements with expanded coverage or increased limits of liability.

Coverages generally not available under the BOP include professional liability, liquor liability, Workers' Compensation, and Employee Benefits Liability. While automobile liability is not included, some BOPs offer the option for Hired and Non-owned Auto Liability.

The BOP is the ideal vehicle for main street type businesses. Similar to the Homeowners in Personal Lines, the BOP was designed to cover classes of businesses that are similar in risk and loss exposures to each other. Agents like the BOP because it is quick and easy to rate. Helping clients understand the value and best use of the Businessowners Policy is another sign of the true insurance professional.

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