Is a BOP Right for Me?

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Topic: Insurance and Risk Financing

Most nonprofit organizations struggle with their insurance program. What policies, coverages, limits and deductibles should we buy? How much will it cost? Are we protecting our assets and people adequately? With incorrect choices, you can be insurance-rich but coverage-poor; therefore, you always want the best coverage for the right premium. Everyone needs property coverage for their office contents, some need building coverage and, as we all know, nonprofits need liability insurance for their operations. How do you put this all together to get the best insurance for your organization? The first step is to work with an insurance professional who has extensive experience working with nonprofits. However, you still have a responsibility to know and understand what you are buying. One insurance option for many nonprofit organizations is a business-owners policy, commonly referred to as a BOP. For some organizations, a BOP offers the appropriate coverage at a reasonable price. However, for other nonprofits, a BOP doesn't meet all of their insurance needs and can leave some risks and exposures uninsured or insured inadequately. To decide if the BOP is right for your organization, you need to know what the policy does and doesn't cover.

The insurance industry introduced the business-owners policy in the early 1980s for small and medium-sized businesses. The policy is modeled after the home-owners policy, providing basic property and liability coverages with limited options for modification. The simplicity of the BOP enabled small business owners to purchase a group of insurance coverages for one low premium. You get what you pay for with the BOP, and the low premium is indicative of its limited coverages. For many small or even large nonprofits, a BOP will meet their needs for certain aspects of their insurance program. The decision to purchase a BOP isn't related to the size of your nonprofit but whether the policy provides adequate protection.

Most insurance companies have their own BOP with separate eligibility criteria and unique coverages. You need to evaluate each company's policy on its own merit; however, there are enough similarities to make some general statements about the policy. The BOP is available for the following classes of business: retail, office, service, apartments, wholesale distributors, contractors, and small restaurants. The eligibility criterion focuses on businesses with predominantly "on-premises" operations, where the majority of their activities occur on their premises with limitations on the amount of business that can be performed outside the insured's premises. Common guidelines are: any eligible businesses occupying an area up to 25,000 square feet, an owned building up to 100,000 square feet and less than six stories, or revenues of $3 million or less. However, meeting the eligibility criterion isn't the only consideration of whether or not to purchase a BOP. The more important question is if the coverages provided meet your insurance needs.

The policy provides property and business liability coverages with a selection of additional coverages. The standard coverages are:

Property

- Building
- Business personal property
- Business income and extra expenses

Business Liability

- Bodily injury and property damage
- Personal and advertising injury
- Fire legal liability
- Medical expenses

The property coverage is similar to the commercial property coverage form and is written with either a basic or special cause of loss form. Optional coverages available under the property section include various crime coverages, spoilage, mechanical breakdown and computer. The crime coverages are money and securities (inside and outside the premises), employee dishonesty, and forgery or alteration. The limits available are generally low, for example $250,000 for employee dishonesty or $10,000 for money and securities, and may be less protection than you need. Computer coverage can also be written on a BOP, but the form is often limited and doesn't address the exposures unique to electronic equipment. The computer form also provides very limited insurance for the loss of business income or extra expense incurred due to damage to the computers, data, or media. Nonprofits are becoming dependent upon their computer systems to meet the needs of their constituents and any delay in restoring operations quickly including having the funds needed is unacceptable, a different computer policy may be necessary. One nice provision of the BOP is the Business Income and Extra Expense coverage (for other than computers) is written without a limit, the pay is based on the actual loss sustained by the insured over a 12-month period.

The business liability coverage is similar to the commercial general liability form but often with modifications that vary by insurance company. Many insurance companies include additional exclusions that can affect a nonprofit or don't offer the additional coverages needed by nonprofits. Most BOPs don't allow volunteers or members to be added as insureds nor permit other endorsements that expand the "Who is an Insured" provisions. All business owners' policies will exclude abuse and molestation, and most will exclude professional services except for druggists and beauticians. To limit their exposure, some insurance companies attach an endorsement that limits coverage to designated premises or operations so the policy insures only *incidental* operations away from the designated premises. For a nonprofit organization, that can be a devastating endorsement that eliminates the majority of the liability protection they need. Hired and non-owned auto liability coverage is available, but you can't add employees as insureds for this coverage. The BOP also doesn't offer hired auto physical damage coverage.

Nonprofits usually qualify under the office classification, but the organizations may have significant activities that occur away from the office, such as providing client services and fund-raising events. The policy may not exclude these activities specifically, but the rating mechanism doesn't contemplate those extra exposures. Therefore, you have coverage for your services but without the proper premium charge, so the BOP is cheaper than another type of policy. The nonprofit can get away with this for a while, but, as a client once said, "Everything is covered at least once." After a loss exposes an activity, the insurance company didn't contemplate, the policy will be either cancelled, the exposure excluded or the premium increased substantially.

As illustrated, the most significant deficiency of the business owners' policy is that a nonprofit can't customize the coverage to meet its needs. Some insurance companies have designed a BOP specifically for nonprofit organizations, which provide many of the coverages required by a nonprofit. However even these special programs aren't right for all nonprofits, especially the larger organizations or ones with significant off-premises exposures. The organization can purchase a BOP and then supplement their needs with other policies, such as special events, general liability, crime, business auto, and electronic data processing. The lower premium is an attraction to nonprofits and other businesses, but the insurance protection may not be adequate for your needs. Thus, when considering a BOP, read the policy to ensure that it provides the protection you need since an unrecognized exclusion or uninsured exposure can threaten the survival of your organization.

For more information on purchasing insurance for your nonprofit, see *Covered: An Insurance Handbook for Nonprofits*. To review the table of contents, click here.