



INTEGRATED WEALTH MANAGEMENT

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Understanding Your Business Owners Policy

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If you're a business owner, you probably carry insurance for financial protection and peace of mind. You don't need to be an expert on this type of insurance, but you should have a basic understanding of your own business owners policy (BOP). A little bit of knowledge may come in handy when you have to file a claim.

Get a handle on policy declarations and conditions

The first page of your policy, known as the Declarations Page, generally includes the following information: your policy number, the name of your insurance company, the name and address of the named insured (this is probably you or your business), the period that the policy is in force, a brief description of your business, the location of the insured premises, and the name and address of your mortgage holder (if any). You'll also find the limits of insurance for your buildings, your business personal property, your liability coverages, and any optional coverages that apply.

In addition, a number of conditions apply to your policy. Most of these are standard conditions that you'll find in any BOP. Some of them specify your obligations under the policy, while others describe the insurance company's rights. For example, your company can void your policy if it discovers any fraud on your part. Also, you must get your company's consent to change the terms of your policy. Read this section of your BOP carefully to familiarize yourself with the various policy conditions (be aware that additional conditions, often not listed on the Declarations Page, may apply to other parts of your policy).

Understand your buildings and property coverage

A BOP typically provides the following two major types of coverage for your business:

Coverage A (buildings): This coverage includes the buildings and structures described in the declarations section. Among other things, this coverage also protects completed additions, indoor and outdoor fixtures, personal property furnished by you as landlord, and personal property used for service or maintenance of the buildings or premises. It may also include additions under construction and costs associated with building alterations or repairs. You don't need this coverage if you're a tenant in someone else's building.

Coverage B (business personal property): This coverage includes property owned by you and used in your business operations. Your property is generally covered if it's in or on the described buildings, or within 100 feet of your business premises while in a vehicle or out in the open. You're also covered for the property of others while it's in your care, custody, or control (up to your legal liability, plus the costs of your labor, materials, and services).

Again, the declarations section will spell out your coverage limits for each type of property covered. These limits are the most that your insurer will pay for your losses or damages when you file an insurance claim. To keep pace with inflation, most BOPs will automatically increase your building coverage limit. Under certain conditions, your business personal property limits may also increase to reflect seasonal variations. Bear in mind that you'll have to pay an out-of-pocket deductible before your coverage begins. A standard deductible is often \$250 per loss, though higher amounts may be available and will usually lower your premium.

You should also realize that BOP coverage is not all-inclusive. For example, your policy probably lists certain items as "property not covered" (e.g., automobiles). Whether you're covered will also depend on the particular cause of your loss. The standard BOP form provides named perils coverage, meaning that you're covered only for the events specifically named in the policy (e.g., fire, vandalism). If you chose the "special" BOP form, you'll receive broader all-risk coverage. This means that you're covered unless the cause of your loss is specifically excluded from coverage (e.g., power failure, earthquake).

Understand your liability coverages

Liability coverage is important, because claims against you for medical bills and other expenses can be substantial if there's an accident. The liability coverage portion of your BOP provides the following two types of protection:

Business liability coverage: This coverage is based on a broad definition of business liability. You're generally covered on a per-claim basis when you're legally liable for bodily injury, property damage, personal injury, or advertising injury. A separate coverage limit typically applies to your legal liability arising from a fire or explosion.

Medical expense coverage: This covers medical expenses for bodily injury caused by an accident on premises that you own or rent, or by an accident that results from your business operations. Medical expenses incurred within one year of the accident date are covered, and payments are made without regard to fault or negligence.

In addition, you're generally covered for legal defense costs and certain related expenses (e.g., settlement expenses, loss of earnings). However, it's important to realize that BOP liability coverages come with a long list of exclusions. For example, you're

probably not covered for:

- Bodily injury or property damage expected or intended by you
- Bodily injury to any employee that results from (or is in the course of) employment by you
- Medical expenses for bodily injury to any person if the injury is covered by workers' compensation, a disability benefits law, or similar law
- Liquor liability (this applies only if your business manufactures, distributes, sells, or serves alcoholic beverages)

These are only a few of the most common exclusions. To make sure that you understand all of the exclusions that apply, you should go over your policy's liability section carefully. It's best to do this with the help of an insurance agent or other professional, since many of the exclusions are complex and very detailed.

Additional and optional coverages under a business owners policy

In addition to the major coverages described, the standard BOP provides some coverage for extra items such as debris removal, fire department service charges, pollutant cleanup and removal, and damage caused by water or other substances (special form only). Also, both the standard and special forms let you extend your existing property coverage to apply to personal property at newly acquired premises, personal property off premises, outdoor property, and valuable papers and records.

What if you want to add coverage for specific perils or property items that aren't part of your basic BOP package? Both the standard and special forms offer a number of optional coverages that you can purchase. For example, you can add coverage for mechanical breakdown or for your outdoor signs and glass. Other optional coverages require that you add endorsements (amendments) to your existing policy. Among other things, an endorsement might be used to add earthquake protection or coverage for your accounts receivable.

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