

BOPs Are Like Hospital Gowns - They Don't Cover You Fully

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Businessowners Policies, traditionally referred to simply as “BOPs,” were introduced in 1976 and significantly revised in 1987. The BOP evolved gradually from the 1987 revisions to include risk classification and business sizes (sales and square footage) not contemplated in the original or “first revision” editions of the form. Additionally, many insurance carriers have built upon the Insurance Services Office’s (ISO’s) version to develop proprietary BOP forms. Designed to simplify the risk management process by packaging property and liability coverages into one form while adding several coverage extensions traditionally necessitating endorsement, BOP policies have long been viewed as the easiest way to extend clients the greatest amount of coverage with the least amount of work; and to a great extent, they achieve these objectives. However, reliance on the automatic coverages provided by the BOP may have blinded many to the form’s coverage gaps. Following are examples of some BOP gaps.

BOP Business Income Limitations Business income protection provided by the Businessowners Policy is relationally broad; there is no co-insurance with which the agent or insured need be concerned and the loss of income is “fully” covered for 12 months (“actual loss sustained”). But even in its breadth three weaknesses exist: Ordinary payroll is limited to 60 days; Coverage is limited to 12 months of protection; and Extended business income is limited to 60 days.

Ordinary Payroll Limitation Ordinary payroll is not limited in the standard business income policies unless done so by endorsement. The BOP is exactly opposite; unless endorsed otherwise, coverage for ordinary payroll is limited to just 60 days. This gap can be filled.

Period of Restoration Limitation If the “period of restoration” extends beyond the 12 months of coverage provided by the BOP’s business income protection, the insured has no remedy. Business income lost after the allowable 12 month period of indemnity is paid out of the insured’s pocket.

Extended Business Income Limitation Once the business has reopened and returned to full operational capability, returning to pre-loss cash flows and income levels may take a while. The unendorsed/unaltered BOP provides only 60 days of additional protection following the period of restoration to return to pre-loss profit levels. If the insured feels this is an inadequate limit (which it probably is), the period of extended

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business income coverage can be extended by a notation on the declaration page and the payment of an additional premium. Business Personal Property – Seasonal Increase Limitation One often touted benefit of the BOP is the automatic 25 percent seasonal increase for business personal property. This is appropriate for those insureds subject to periods of foreseeable or even unforeseen increases in business personal property. However, this extension of coverage comes with a caveat; the business personal property limit must equal 100 percent of the average monthly values on hand for the 12 months (or the length the insured has been in business, whichever is less) immediately preceding the loss. This means that the value used for the current year has to include the seasonally increased values of the year prior. Many agents fail to account for this policy provision; potentially leaving their client without the proper protection should a loss occur during the time of a seasonal increase. ISO BOP policies accomplish much of their intended goal, providing a wide scope of coverage without the need of much agent/policy interaction. However, relying too heavily on the BOP without knowledge of its finer details can leave the client lacking at the time of a loss. This article has focused solely on ISO's BOP form; many carriers have developed their own forms. Non-ISO forms must also be carefully analyzed to find each one's weaknesses and gaps. A BOP is not a "once-and-done" form; it must be monitored and customized (using endorsements) like any other. This Thursday the Academy of Insurance hosts a class to discuss these BOP coverage gaps and how to fix them. The information in this class allows you to plan coverage that best fits your clients' needs.