

The elements of nature can be unforgiving to your house; so can be man-made damage. Just as you would insure your life, it is prudent to insure your abode, too

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A house is among the most valuable and expensive assets an individual possesses. But like any other investment, property, too, comes with its own risks. Take, for instance, the hundreds of people who lost their houses in the frequent floods the country has been witnessing.

Home insurance, in situations akin to the one mentioned above, protects you — whether you are the home owner or a tenant — from the financial burden of re-building a house or re-purchasing the contents of your home. You can get coverage for your belongings, including domestic appliances, jewellery and furniture.

Home insurance provides coverage against burglary (unauthorised entry or exit or threat by unexpectd or forcible means) and theft (misappropriation of content or theft with intent to deprive the insured permanently), accidental explosion or implosion.

In India, a country prone to frequent floods and other natural calamities, only a few purchase home insurance. Lack of awareness and a general feel that the policies are complicated are some of the reasons for an abysmally low penetration of home insurance.

Here, we decode home insurance policy covers and products available in the market and how one should choose it.

Home insurance basics

Home insurance acts as a backup plan if things go wrong with your property. So before you decide to buy a home insurance policy, understand the basics.

This form of insurance can be classified into three types. First is a standard fire and perils insurance, which is a basic policy that covers the structure of a house against fire, lightning, explosion, implosion, aircraft damage, riots, strikes and malicious damage, storm, cyclone and earthquake. The second is a content-only policy which covers household contents including appliances, jewellery, other valuables, mobile equipment and third-party liability, and also provides coverage against terrorism and personal accident. The third is a householder's package policy — a comprehensive cover that protects the structure and contents of the house.

The coverage amount, or sum insured (SI), of a home insurance policy depends on the location of the house, the type of policy and the value of contents. Policyholders have the option to choose from three types of SI.

In the case of structure insurance, policyholders can opt for an SI based on the reinstatement value of the building, in which the value of the building is determined by the reconstruction cost. This cost is usually arrived at based on the surface area of the building (as per the registered sale deed) and the present-day construction cost as per available government data.

Individuals can opt for an SI based on indemnity value, too, where the SI is determined by the reconstruction cost of the building, less depreciation. SI can also be determined on an agreed-value basis (mostly for flats) where it is calculated by multiplying the total square feet area of the building (as per the sale agreement) with the value per square feet, as per the guideline value or the ready reckoner issued by the respective State government). Note that land cost is excluded in the reconstruction cost.

For example, Bajaj Allianz General and SBI General provide all the three policy options. For a structure insurance policy (for an independent house), it is always prudent to consider the cost of construction per square feet as SI, since it will give you the funds required for re-building the house. For a 1,000 sq ft house, depending on your location and the market dynamics, if the current construction rate works out to ₹3,500 per sq ft, you can take an SI of ₹35 lakh. If you stay in a flat, you can select the agreed value as SI.

The contents of a house can be covered for their market value (cost minus depreciation) or their reinstatement value (the cost of replacing/reinstating the same kind of content, with or without depreciation).

Insurers also give policyholders an option of factoring in the inflation costs. That is, you can opt for an escalation clause that allows for an increase in the SI every year; but you will have

to pay an additional premium. This clause varies with each insurer. Royal Sundaram's Gruh Suraksha, for instance, offers 10 per cent increase in the base SI each year for the entire policy tenure.

Know the coverages

An individual can get a home insurance policy for a period as short as 30 days and up to 20 years. But, in general, insurers offer a policy on an annual basis. Opt for a structure, content or comprehensive home insurance cover based on your requirements. If you are a home owner not residing in the house, it makes sense for you to purchase structure insurance. But if you reside in your own house, you can go for comprehensive insurance. On the other hand, if you are in a rented accommodation or hostel, you can go for content-only insurance plans. Also, in cases where your flat association or your housing colony takes insurance for your structure, you can go for content-only insurance.

Note that some additional covers are also available with home insurance policies, which include keys-and-lock replacement cover, tem-

porary settlement cover, compensation cover for domestic staff if injured during work, and damage to work of art or paintings.

For students and frequent travellers, too, there are some low-ticket home insurance products available in the market. For instance, Digit Insurance's Home Protection plan is available for as low as ₹200 for a minimum SI of ₹2 lakh. If you are going away on holiday and want to protect only your content, Digit Insurance offers a cover for that as well. The SI and premium amount vary depending on your travel days, type of house (independent house or apartment) and the place of stay (ground floor or top floors).

Here, we look into some common home insurance policies, and explain what a house owner or a tenant can look for.

For home owners

If you are a home owner, you can insure your building with a structure insurance cover. It provides covers against fire, lightning, explosion, implosion, aircraft damage, flood, storm, cyclone, riots and missile-testing operations. Under this cover, a building would mean flats

or individual houses used for residential purposes and includes fitted sanitary ware, fittings, piping and similar integral components.

When it comes to cover against earthquake, though it is in-built in most of the structure policies, in some cases you may have to buy it as an add-on cover. Similarly, cover against terrorism is offered as an add-on cover by some insurers. For instance, the Royal Sundaram's Gruh Suraksha plan offers terrorism cover as an optional cover, while earthquake is covered by default in the policy.

Keep in mind that normally, a structure policy does not include compound walls and landscaping, but it can be insured separately by paying an additional premium. For instance, for independent houses, Gruh Suraksha provides a separate SI in addition to the building SI.

Other add-on covers for building insurance (and comprehensive covers) include rental for alternative accommodation if there is damage, hotel stay, loss of rent, expenses in shifting to alternative accommodation, dog insurance, and keys and lock replacement. Insurance

companies including HDFC ERGO General, Bajaj Allianz General and Royal Sundaram General offer such optional covers to their policyholders.

Do note that like any other insurance policy, a structure policy also comes with a set of exclusions. It does not cover any damage or defects existing at the time of commencement of the policy or for any damage caused due to lack of maintenance of the property. Damage as a consequence of wear and tear, gradual depreciation or climatic condition are also not covered. It will also not cover any losses or damage caused due to war, invasion, act of foreign enemy hostilities and revolts.

Under-construction properties are also not covered under structure policies.

Further, a property beyond a certain age (say, 30-40 years) may not be insured by home insurers. For instance, Royal Sundaram General's Gruh Suraksha excludes buildings beyond 30 years old.

For tenants

If you reside in a rented accommodation or are a student in a hostel, you can opt to buy content-only insurance. Content generally means items that are used by you and your family, and not for business purposes. These include household goods such as furniture, fixtures, fittings (includes electrical and sanitary fittings), home appliances, interior decorations and such similar items. The cover normally excludes jewellery and other valuables, currency and credit/institution cards.

You can choose to calculate the SI either on a reinstatement basis or a market value basis as discussed before. It is better to opt for an SI on a reinstatement basis as the amount received for the damaged or lost item is likely to be higher than the SI on a market-value basis. This is because the market value of a product decreases with the entry of new products over time.

Content insurance provides cover against burglary and theft, and loss and damage of household items. Additionally, you can get covers for jewellery and valuables, crockery glass, baggage, domestic appliances and electronic equipment and personal accident cover (if the insured suffers bodily injury during the policy period).

But many of these covers are in-built in the policy, as in the case of insurers such as SBI General's Simple Home Insurance Policy and Royal Sundaram's Gruh Suraksha. However, in the case of HDFC ERGO's Home Shield insurance plan, these are offered as add-on covers. Keep in mind that insurers may have sub-limits (maximum amount to be paid at the time of claim) for some contents covered under the policy. For example, under the content cover of Reliance General Insurance, in the case of burglary/theft resulting in damage to a house or a safety locker, the coverage for damage to the safe is limited to a maximum of 5 per cent of the SI. Similarly, in the Gruh Suraksha plan by Royal Sundaram, the coverage for damage to the safe is limited to a maximum of 10 per cent of SI limited to ₹8 lakh.

Content insurance, too, has exclusions, but it varies with each content and insurer. For instance, the Gruh Suraksha policy does not cover appliances such as television, washing machine, etc, for electrical and mechanical breakdown if the appliances are over 10 years old.

Some of the other exclusions in a policy are loss or damage to livestock, motor vehicles, cash, bullion and deeds. It also does not cover any damage caused due to wear and tear.

If you are home-owner residing in your own house, it is better to opt for a comprehensive cover which includes both content and structure. Additional covers available under both policies are available under a comprehensive cover, too.

Your choice

When you decide to purchase home insurance, you should look for not just the covers and the SI, but also the insurance premium and the 'excess' clause.

The premium amount on home insurance policies depend on the SI and the type of policy opted. For instance, in Bajaj Allianz General's All Risk Plan, for a structure policy of ₹50 lakh, the premium works out to ₹2,242 per year (including GST), but for a comprehensive policy, the premium works out to ₹8,462 per year (including GST). Similarly, for the same SI in the case of HDFC ERGO's Home Shield plan, the structure policy premium works out to ₹1,654 per year (including GST) and a comprehensive cover is available for ₹9,088. While Bajaj Allianz's plan is inclusive of covers such as breakdown of appliances, loss of rent and alternative accommodation, these are available as add-on covers in HDFC ERGO's plan.

The excess clause allows a policyholder to get a discount on the insurance premium. For this, the policyholder has to agree to pay a part of the claim (known as excess/deductible) to the insurer at the time of the claim.

For instance, in Bajaj Allianz's All Risk policy, policyholders can opt for an excess clause and get a discount on the basic premium for the building's structure. You can choose from an excess of ₹5,000-50,000 for a each and every claim; the discount on the base premium varies correspondingly from 5 to 34 per cent. If, for instance, you opt to pay ₹10,000 of the claim you get a 10 per cent discount on the premium, and for ₹50,000, you get a 34 per cent discount.

Similarly, for insuring the contents in your house, you can get a discount on the base premium, depending on the excess you agree to pay for each and every claim.

Further, a policyholder gets to reduce the premium outgo if he/she takes a home cover for a longer tenure (beyond 1 year). Insurance companies offer discounts of 7-50 per cent on the total premium.



HOME INSURANCE: WHAT'S ON OFFER

	Sum Insured Structure: ₹50 lakh, Content: ₹10 lakh, Structure + Content: ₹60 lakh				
Insurance Company	Bajaj Allianz General Insurance	HDFC ERGO General Insurance	Royal Sundaram General Insurance	New India Assurance	KICLI Lombard
Plan name	All Risk Plan	Home Shield	Gruh Suraksha	Grha Suvidha	Home Insurance
Premium (Structure Only)*	2,242	1,654	2,251	Not available	4,130
Premium (Content Only)*	5,900	7,434	17,871	8,468	6,136
Premium (Structure + Content)*	8,142	9,088	20,392	8,469	10,266
In-built covers for structure insurance	Storm, flood and typhoon, riots and strike, terrorism, impact damage	Storm, flood and typhoon, riots and strike, terrorism, impact damage	Storm, flood and typhoon, riots and strike, impact damage	Storm, flood and typhoon, riots and strike, impact damage	Storm, flood and typhoon, riots and strike, terrorism, impact damage
In-built covers for content insurance	Burglary, jewellery, break-down, glass (plates, crockeries), loss of rent, alternative accommodation	Burglary, jewellery, public liability, glass (plates, crockeries)	Burglary, jewellery, break-down, public liability, baggage, glass (plates, crockeries), ATM cash withdrawal, domestic workmen compensation, loss of rent, alternative accommodation	Burglary, jewellery, break-down, public liability, baggage, glass (plates, crockeries)	Burglary, jewellery
Earthquake, fire and allied perils are covered by all insurance companies					

* Per year including GST

Source: Patlabazaar.com, company websites