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You're not alone if you don't have home insurance

CONDITIONS APPLY

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Given the frequency and fury of natural catastrophes in India, one would think that home insurance will be a product in great demand. But it is not. Though the industry reports a spike in enquiries about home insurance every time a natural disaster hits, the actual policy purchase hasn't increased considerably. Indians continue to be grossly underinsured when it comes to their houses. Sample this, according to a report by Federation of Indian Chambers of Commerce and Industry (Ficci) in 2013, during the Mumbai floods of 2005, out of a total loss of ₹17,000 crore, only ₹4,000 crore was paid out by insurers. In the case of Surat floods in 2006, out of a total loss of ₹27,000 crore about ₹3,000 crore was paid out. And in the case of the most recent floods in Chennai, the losses from which are estimated to be at least ₹20,000 crore, only about ₹3,000-4,000 crore is estimated to be the insured loss.

Home insurance is an ignored product, mainly because of lack of distributor interest. This is a low-ticket policy. For instance, a 1,200-sq. ft house with a cost of construction pegged at ₹2,000 per sq. ft and contents worth ₹10 lakh would cost about ₹2,000 per annum to insure. Commission at 10-12.5% on the premium is about ₹200-250—clearly not enough to excite agents enough to push sales.

Financiers of home loans often bundle in home insurance, but these are sold more to give comfort to the financier rather than the borrower. This means that the policy may not be the correct one for you and that once the loan is over, you may not continue it.

The supply side of home insurance is patchy given the lack of distributor interest; but even the demand is low. Have you ever read a home insurance policy brochure? If you have, you might get an insight into why this is so. Home insurance policies are complicated products layered with caveats that make it difficult to understand the benefits. Worse, the sale is often unassisted, which comes to bite later in the form of underinsurance—in the case of home insurance this means that you get penalised at the time of making a claim. In fact, in a survey conducted on 1,200 people by Bajaj Allianz General Insurance Co. Ltd last year in metros like New Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Ahmedabad, Pune and non-metros like Jaipur, Surat, Nagpur, Jalandhar and Chandigarh, it was found that the demand for home insurance was low because people found the products and clauses complicated and difficult to understand. The study showed that most of the respondents were aware of home insurance as a risk management tool but were not well informed about the coverage that different policies offered.

What is a home insurance policy? It is essentially a fire insurance policy with additional covers. A fire insurance policy covers the structure of the house and its contents against fire and allied perils. There are two ways of insuring your house, neither of which factors in the cost of land. The reinstatement cover will pay the cost for reconstructing the house, whereas the market value-based cover would pay the reinstatement cost but after subtracting depreciation from it. Obviously, premiums on the market value basis are cheaper, which you need to be mindful of. At the time of buying a policy, you need to make sure that you insure your house adequately. So, if the cost of reconstructing your house is, say, ₹2,000 per sq. ft, whereas you have bought a sum insured at ₹1,000 per sq. ft, the insurer would consider this underinsurance. It would proportionately reduce the claim payable. In this case, the insurer would only pay half the claim. In other words, you need to be careful in valuing your house and its contents.

The other problem is if you live in a flat in a multistoried complex. The cost of reconstruction means you need to reconstruct the house. So, you will also need to wait for others to reconstruct their homes as well.

Home insurance products need innovation and simplification, but most of the policies are still tailored according to the tariff wordings on fire insurance. Instead of simplifying the policy and making it more useful for policyholders, insurers bundle a standard fire insurance policy with add-on features in a packaged home insurance policy. This makes home insurance a difficult policy to understand with several sections of additional covers and caveats.

If home insurance has to take off and deliver real benefits, it needs to be simpler and more practical. For instance, some insurers now sell home insurance on an 'agreed value' basis for those who live in flats. Agreed value factors in the cost of the area as well so in the event of a loss, you get the agreed value and the ownership of your house is transferred to the insurer. You can then take the agreed value and buy a new house instead of waiting to reconstruct the older house and there is no threat of a penalty due to underinsurance. You will need to value your house to make sure you don't end up with a rough bargain. In fact, one should also be able to insure the contents in much the same way without having to worry about underinsurance or depreciation. Cashless covers should also be thought about. And, of course, there is a lot of room to simplify the wordings of home insurance policies.

Home insurance is an important policy and it needs to be tailored to offer maximum value to the customers in terms of benefits and coverage. And it needs to be simple.

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