

Home insurance: Opt for reinstatement value

The cost isn't very high, and you can get a discount if the house is protected by guards and devices

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Mill tremors were experienced in the national capital region (NCR) a couple of times in recent weeks. Experts say these small seismic events are sometimes a precursor to a bigger shock. They did reignite memories of the havoc caused by major calamities, such as in Latur (1993) and in Bhuj (2001) and once again underlined the need to buy an oft-ignored cover — home insurance.

Less than 1 per cent of households in India have home insurance. Insurers say there is usually a spike in queries after a region is hit by a disaster, but thereafter interest wanes. "Whenever a major natural disaster occurs in India, the 'protection gap', which is the gap between incurred economic losses and insured losses, remains obstinately large in India — approximately 70 per cent," says TA Ramalingam, chief technical officer, Bajaj Allianz General Insurance. He emphasises that all homeowners, especially those living in calamity-prone regions, must buy home insurance.

What is covered: A comprehensive home insurance policy usually provides protection against earthquake, fire, lightning, impact damage, explosion, cyclone, riots, landslide, burglary, and so on.

Some insurers also offer a policy called 'standard fire and special perils policy', popularly referred to as a fire policy. It provides protection against fire, explosion, flood, cyclone etc., but not against an earthquake, which one may have to

buy as an additional cover.

Some of the exclusions in a home insurance policy are terrorism cover (some companies provide it as part of the main policy and others as an add-on), wear and tear, damage to an adjacent structure spilling over to the insured property, and damage inflicted by the insured himself to make a false claim.

Policies from different insurers may have different names and may cover different risks. "Sometimes, the person selling you the policy may not be completely informed about what is covered and what is not. Visit the company's website and check out the policy features and exclusions yourself," says Naval Goel, chief executive officer, PolicyX.

Choose the proper sum insured: When you have to decide the sum insured for the structure, you have two options. You can buy the 'reinstatement value' or the 'market value'. The reinstatement value is essentially what it will cost today to reconstruct your house if it gets destroyed. Market value, on the other hand, is the depreciated cost of the structure, depending on the number of years that have elapsed since it was built.

Experts recommend choosing the former as the sum insured. "At the time of buying insurance, declare the current cost of construction as the value to be insured. Do not buy insurance equivalent to the market value as it will not fully cover the expenses that will have to be incurred to repair a structure following damage," says Rakesh Jain, executive director and chief executive officer,



NOT PROHIBITIVELY EXPENSIVE

Plan	Sum insured (₹)	Premium (₹)
ICICI Home Insurance	32 lakh	13,853
Bajaj Allianz-My Home Insurance	1 crore	18,880
HDFC ERGO Home Insurance	1 crore	14,958
Royal Sundaram Home Insurance	1 crore	7,258

Source: PolicyX

Reliance General Insurance Company.

In case of assets within the house, such as furniture, fittings, electronic items and others, Jain recommends using reinstatement value to decide the sum insured. On the other hand, if you are buying insurance for your clothes, which have a limited life, he advises using the

depreciated value.

An older house can also be insured. In this case, again, only if you buy sum insured equal to the reinstatement value will you be adequately protected.

Cost isn't very high: The premium is in the range of 475-150 per lakh of sum

insured per year (see table). If there are guards manning your house, or you have a fitted it with a burglar alarm and other security devices, inform the insurer. This could fetch you a discount on the premium.

Longer-tenure policies of up to five years are also available. Experts, however, don't favour them. "It is better to go for a one- or at most two-year policy. You could get a better rate next year, or some insurer may come out with a plan offering better features," says Goel.

Claims for home insurance tend to be rare, but they also tend to be large. So, besides comparing premium, features, and claim-settlement ratio, Goel suggests opting preferably for a reputed brand so that you are not put in a position where you have to fight for your claim.

Limited cover for jewellery: Home insurance policies do cover jewellery, but often there is a sub-limit of 25 per cent of the sum insured.

Jain suggests that customers should obtain a valuation certificate for each item of jewellery from a reputed jeweller and submit it to the insurer. A home insurance policy covers jewellery both while it is in the house and is worn outside. It also covers jewellery kept in a bank locker, provided you have submitted to

your insurer details of each item kept there. Those who need coverage for a higher amount than provided by their home insurance policy should purchase a standalone jewellery cover.

When disaster strikes: Inform your insurer at the earliest in case of a calamity. This can be done by visiting the insurer's website or by calling its toll-free number printed on the policy document.

"Intimate the insurer within 24-72 hours of an eventuality," says Indraneel Chatterjee, co-founder and principal officer, RenewBuy.com. A first information report (FIR) is not required for claims related to natural disasters, such as an earthquake.

In the wake of a disaster, a surveyor visits the home to assess the extent of damage. "Do not interfere with the claim scene until the surveyor has completed his job, and provide all facts related to the loss to him," adds Chatterjee.

In case your policy document has got destroyed, you can retrieve it from your insurer by providing your KYC (know your customer) details. Finally, put together the following documents for filing your claim: a copy of the insurance policy, duly filled claim form, and a newspaper clip on the incident, if available.



"Declare the current cost of construction as the value to be insured. Do not buy insurance equivalent to the market value as it will not fully cover your repair expenses, following damage"

RAKESH JAIN,
ED and CEO, Reliance
General Insurance