

How to Insure an Ageing Home

CHECK LIST:

Here are ways to right valuation and less premium

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Bengaluru: Old buildings are vulnerable to calamities, both natural like the recent Nepal earthquake or man-made like a short circuit. Insuring them is imperative. However, it's not easy to find an insurer for this.

STRICT UNDERWRITING

Like in medical insurance, older properties would also have to pass a health test. The first is the stability of the house which depends on the foundation and pillars. RCC (reinforced cement concrete) construction is a basic requirement. Maintenance, plumbing and fire and burglary safety measures are next on the check list.

Though the premium would not differ on the basis of whether the property is in a metro or non-metro, location in terms of neighbourhood matters. The underwriter will also take into consideration if you have carried out any restructuring of an old building and past record of significant damage to the property. If a property is over 50-years-old, you most likely won't be able to insure it.

ENSURE RIGHT VALUATION

Do not blindly pick the cheapest plan (see box). First, figure how the sum insured or valuation of the property has been done. There are three ways that insurers typically adopt—the agreed value, the reinstatement value and the indemnity value.

Agreed Value as the name suggests is a valuation that is accepta-

How premium will differ with which sum insured type you choose:

The calculation is for a 1,000 sq ft 30-year-old house with the price (as per the ready reckoner or the valuation report) as on date of proposal is ₹5,000/sq ft and the cost of construction in the same area is ₹2,000/sq ft.

Type of Valuation	Sum Insured	Annual Premium
Agreed Value Basis (in case given at market valuation basis)	1000*5000 = ₹50,00,000	₹2,528
Reinstatement Basis	1000*2000 = ₹20,00,000	₹1,011
Indemnity Basis	1000*2000 = ₹20,00,000 (less depreciation @ 2.5% pa) = ₹5,00,000	₹225

SOURCE: BAJAJ ALLIANZ GENERAL INSURANCE

ble to both insurer and customer. "For older ones, insurers keep the agreed valuation very low to reduce the exposure," says Iapan Singhel, MD and CEO, Bajaj Allianz General Insurance. So, unless you are getting the market value (highly unlikely), this is not a good option.

The reinstatement method calculates the sum insured on the premise of replacing the loss by calculating the construction cost of the old house at current rate. The indemnity method goes one step further and takes into account wear and tear. "The sum insured is calculated as construction cost minus depreciation at the rate of 2.5% per annum," says Singhel.

REDUCE THE PREMIUM

The home insurance policy cover is in two parts—the structure and the

contents. Do not try to cut down on the structural cover, but a little caution in making the content inventory can help you significantly bring down the premium.

Adopt a no-frills policy: You might want to give add-ons such as alternate accommodation, personal and helper accident cover a miss. Having safety measures that protect the risk (the house) such as 24 hours security would further bring down your premium. You may also opt for a bearable deductible option by agreeing to share the burden of repairs, say, 10% of the sum insured, with the insurer to cut down costs.



