

[Why India's home insurance spread is vital](#)

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By Tapan Singhel, MD & CEO, Bajaj Allianz GIC

The recent implementation of the Real Estate Regulation and Development Act (RERA) will change the paradigm for consumers in the real estate sector ushering in transparency and standardization in the real estate sector. RERA seeks to address and resolve major consumer related issues while acquiring property in India like delays, price, quality of construction, title and other changes. While the regulator aims to bring consumers interest in the forefront, the protection of the same property against unforeseen risk, probability of which is starkly high in our country, does not feature in the realm.

Our major cities which are densely populated are not just prone to perils such as fire but are highly prone to natural catastrophes such as earthquakes, flooding and cyclones. Allianz has placed India among the Top-10 countries worldwide on peril ranking for natural catastrophes. India is clubbed with countries such as Philippines and Japan, where the severity of natural disasters is very high. Numerous incidences in the recent past have been a testimony to this.

The floods that ravaged Chennai in November- December 2015 caused massive catastrophic losses. According to a report by Swiss Re, economic losses worth Rs 14,709 were incurred in the Chennai floods of which insured losses were just Rs 5,049 (34%). Moreover, only a small fragment of these insured losses were pertaining to home insurance. At Bajaj Allianz, of the nearly 8000 claims the company paid in the aftermath of the Chennai floods, only 1% was pertaining to insurance covers for home. This showed the dismal penetration of and exposure to home insurance in Chennai and its surrounding areas, just like other parts of the country, which is reflected every time cities experience a natural calamity.

We invest our life's savings and pay huge EMI's to realize the dream of owning a house yet majority Indians do not feel the need to protect it. In fact, if we look at industry figures of home insurance vis-à-vis the quantum that an individual invests in real estate in the country, it clearly showcase that home or property Insurance does not even figure at the fringes of an individual's financial planning.

Currently in the case of a natural disaster, the heavy pay outs from the Prime Minister Relief funds and National Disaster Management Agency's (NDMA) funds cause a massive economic drain to the exchequer. Interestingly, the NDMA had recommended making disaster insurance mandatory for all residential properties in urban areas. According to a recent United Nations Office for Disaster Risk Reduction report, India had 19 events of natural disasters, including floods, droughts and heat waves, in 2015 and an economic loss to the state exchequer of more than \$3 billion from these disasters. It is therefore critical for the government to look at alternative ways of funding these natural disasters especially to ensure that there is a basic security net for all citizens and it brings down the present undefined bill to rebuild lives after the large scale destruction of natural catastrophes.

If RERA partners with insurance companies to address and include the aspect of securing the home in its purview it could be instrumental in changing the landscape. RERA could be one mode of filling this gap, other could be property tax and index based home insurance schemes.

The centre can look at affordable home insurance scheme in association with insurance companies that would cover losses to property due to catastrophic events. It can be like an index based policy similar to the weather based crop insurance schemes, which will compensate for the damage caused by the natural catastrophe where the triggers of the Nat-Cat event will be predefined. This could be enacted state wise, with the states opting for covers that best suit their Nat-Cat exposures.

The schemes can be implemented in association with insurance providers and the premium can be collected along with the property tax. For instance, a pre-decided amount of rainfall in a flood prone area or an earthquake of a certain magnitude in the earthquake prone parts of the country, if crossed, could trigger the property damage claim making the insurance company liable to pay. Having these pre decided terms will ensure transparency and physical survey/inspection will not be required, leading to faster relief to the affected.

Incidentally, after any natural calamity we see a rise in the number of queries related to home insurance. For instance, after the Chennai floods, we witnessed a rise in the uptake of home insurance in the city and its neighbouring areas. Similarly after J&K floods too, we have seen many of those who had availed home insurance covers which were also largely under-insured, opting for enhancing their covers after receiving claim pay out.

Unlike the prevalent misconception, home insurance is not expensive especially when compared to other means that one invests in to secure their home or property. Insurers have taken cognisance of lengthy procedures as well as documentation and have brought in newer products that require minimal data and paperwork, thus making the process of purchase hassle free. The awareness around this subject is dismal in our country and insurers are continuously looking at unique avenues to educate customers. At the same time we strongly feel that the industry, RERA and government can come together to help change this sentiment.