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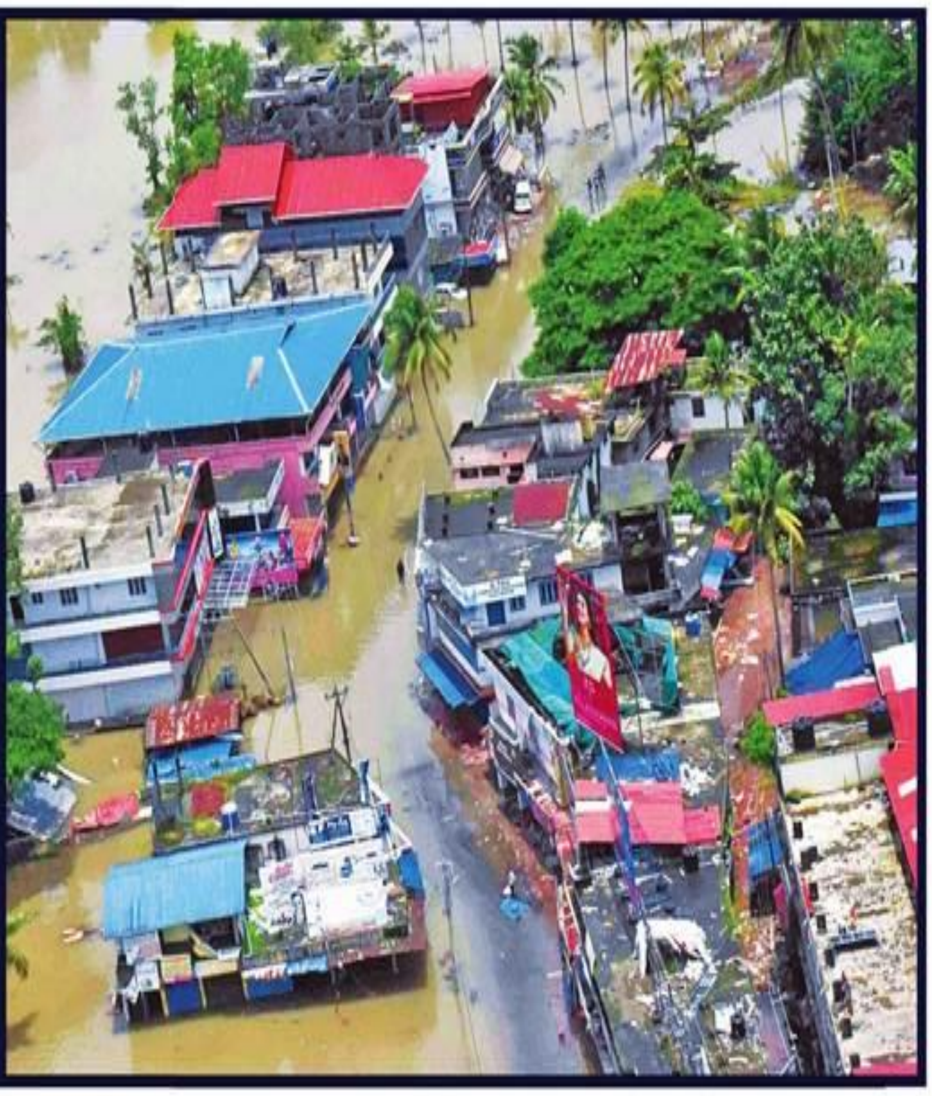
HOME COVER

Best ways to secure your house from natural and other calamities



A HOUSE is one of the biggest assets that one buys in one's lifetime. But an unpredictable natural calamity, such as the recent floods in Kerala, can destroy your prized possession in no time. The tragedy gets amplified for people who have taken home loans. Therefore, insuring your house against natural as well as man-made calamities is imperative.

HOW A HOME INSURANCE POLICY WORKS

A basic home insurance policy provides cover against calamities such as riots, fire, explosion, etc. Some include burglary and theft, while others offer these as add-ons. One can buy a cover against terrorism as well. Broadly, there are three types of covers in the market - structure only, structure plus contents, and contents only. In the 'structure only' cover, land is not covered, though Bajaj Allianz has a policy that covers land too. Under the 'structure only' policy, the cover is calculated by multiplying the area of the house with the cost of construction in that area. For instance, if the built-up area in an upmarket Mumbai flat is 1,000 sq. ft, the market value of the flat may be ₹3 crore, but taking the cost of construction of, say, ₹4,000/sq. ft., the sum insured will come to ₹40 lakh (4,000 x 1,000).

"We have a provision for escalation in sum insured whereby the sum insured is automatically increased by 10 per cent in long-term policies on completion of every 12 months from the date of commencement of the cover. This will take care of the rise in the cost of construction due to inflation," says Nikhil Apte, Chief Product Officer, Royal Sundaram General Insurance.

In a contents only policy, even a tenant can insure the belongings. "The valuation of the contents is done through a government certified valuer," says Sasikumar Adidamu, Chief Technical Officer, Bajaj Allianz General Insurance. If you are securing contents, you can also cover the jewellery kept in lockers by declaring it to the insurer. "Household articles are insured on their market value, which means depreciation will apply in the event of a loss," says Apte.

The tenure of the policies can range from one year to 20 years. Many insurance companies provide discounts if you take a longer-term policy. A basic home insurance is not very expensive and given the fact that a natural calamity can occur any time and at any places, it makes sense to purchase home insurance.

COVER OPTIONS

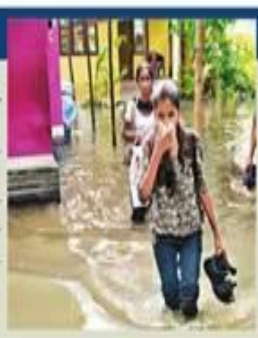
As most people these days buy a house in the early stages of their career, they usually fund it through a home loan. Therefore, it is important to insure the life of the person who is paying the equated monthly instalments (EMIs). Otherwise, if something were to happen to that person, it will be double whammy for the family - they might also lose the house if they fail to pay the EMIs. There are two life insurance options to cover the loan amount.

A regular term plan: You can go for a plain vanilla term plan equivalent to the loan amount. Term plans are the most cost-effective as they are available online too. After paying off your loan, if you still have uncovered liabilities, you can continue the policy. Moreover, if you are servicing EMIs and have no additional source of income, take critical illness and permanent disability riders too.

A reducing cover term plan: When you take a home loan, your lender may suggest buying home loan insurance, also known as the reducing cover term insurance policy. "The majority goes for a group product sold to them by their lenders. Hardly anybody buys individual home loan insurance," says Subhasis Ghosh, EVP, Kotak Life Insurance. Lenders generally try to sell home loan insurance policies along with riders such as critical illness, permanent disability and EMI payment in case of job loss as a bundled product with the loan. "These are usually offered as a group product where the lender (house loan provider) is the group policy holder or master policy holder whereas members (borrowers) are enrolled into it," says Saisrinivas Dhulipala, Appointed Actuary at Bajaj Allianz Life. So, in case of death of the insured, the insurer settles the loan directly with the bank, while in case of a term plan, the money will be given to the nominee or the legal heir, who can pay to the bank to clear the loan. For this, the bank has to take a declaration from the insured at the time of buying the policy.

WEIGH YOUR OPTIONS

	Term Plans	Home Loan Protection Plans
Sum assured	Remains constant	Keeps reducing in line with the loan amount
Premium payment options	Monthly, quarterly, half-yearly, annually, single premium	Generally is a single premium policy, other options are also available
Underwriting	Done on individual basis	Underwriting of the group is done
Claim settlement	Paid to nominee	Generally settled with lender
Tax benefit	Premium gets deduction under Sec 80C	Can claim as deduction on the home loan principal repayment done under Section 80C



PREMIUM PAY OPTIONS

"Home loan insurance plans are generally single-pay while term plans tend to involve regular payments," says Karthik Raman, CMO and Head, Products & Strategy, IDBI Federal Life Insurance.

The lender also provides for financing the insurance premium. It pays the single premium to the insurer and the amount is added to the loan amount and charged to the customer with increased EMI. So, if you have taken a home loan of ₹50 lakh and the insurance premium is ₹50,000, your loan amount will increase to ₹50.5 lakh, on which the EMI will be calculated. In this case, you will be paying interest on the one-time premium. However, these policies also have annual, half-yearly and monthly paying options.

WHEN PAYMENT DIFFERS

If interest rate rises and your loan tenure is increased while the EMI remains unchanged, you would have bigger outstanding at any point of time in comparison to the original repayment schedule. "There is no change in life cover or premium due to an increase or decrease in the interest rate. The death benefit will be the outstanding loan amount (as mentioned in the original loan schedule) on the date of death," says Dhulipala of Bajaj Allianz Life.

However, in case the outstanding loan amount goes down due to partial prepayment or lowering of the interest rate, the nominee will get the differential on claim. "If the loan outstanding is lower than the sum assured (due to partial prepayment made by the policyholder, actual interest being lower than that at the time of taking the policy, etc.) the excess amount is directly paid to the nominee or family of the policyholder," says Abhijit Gulanikar, President, Business Strategy, SBI Life Insurance. IDBI Federal Homesurance Protection Plan covers the increase in loan amount due to increase in interest rates.

Policy tenure can range from 1-20 years. Many insurers give discounts on longer term policies

In case the loan is transferred to another bank, the policy will cease to exist as the insured will no longer be a part of the lender's group. Some insurers do provide for surrender value option in the single premium option, but the quantum will differ from company to company.

"Usually, the surrender value varies from 50 per cent to 75 per cent of the unamortised premium," says Ghosh of Kotak Life Insurance.

HOME LOAN INSURANCE

Home loan insurance products are generally more expensive than term plans. There are multiple reasons for it. First, the underwriting process is quite liberal. "Hardly 2-5 per cent cases go for medicals, unlike in term policies," says Ghosh of Kotak Life Insurance. Second, term plans are available online, which brings down the cost significantly, while home loan insurance policies are mostly sold through banks, which charge a commission. However, insurance companies are of the view that home loan insurance could be cheaper in some cases as it largely depends on the group and the lender through whom the customer is buying the cover.

Everything boils down to the price you are paying. If you are sure that after you, your family members can manage all the paperwork and settle all claims, you can simply buy a term plan to cover the home loan amount. However, if you think it will be difficult for them to settle the claims and you don't mind paying extra, you could opt for home loan insurance.

"The whole logic of reducing the term cover was that it should be cheaper than the constant cover but it is generally more expensive. My view is that hardly anybody buys insurance to cover the increased liabilities due to loan. Therefore, an expensive cover is better than no cover at all, says Harsha Roongta, CEO, Apnapaisa.com.