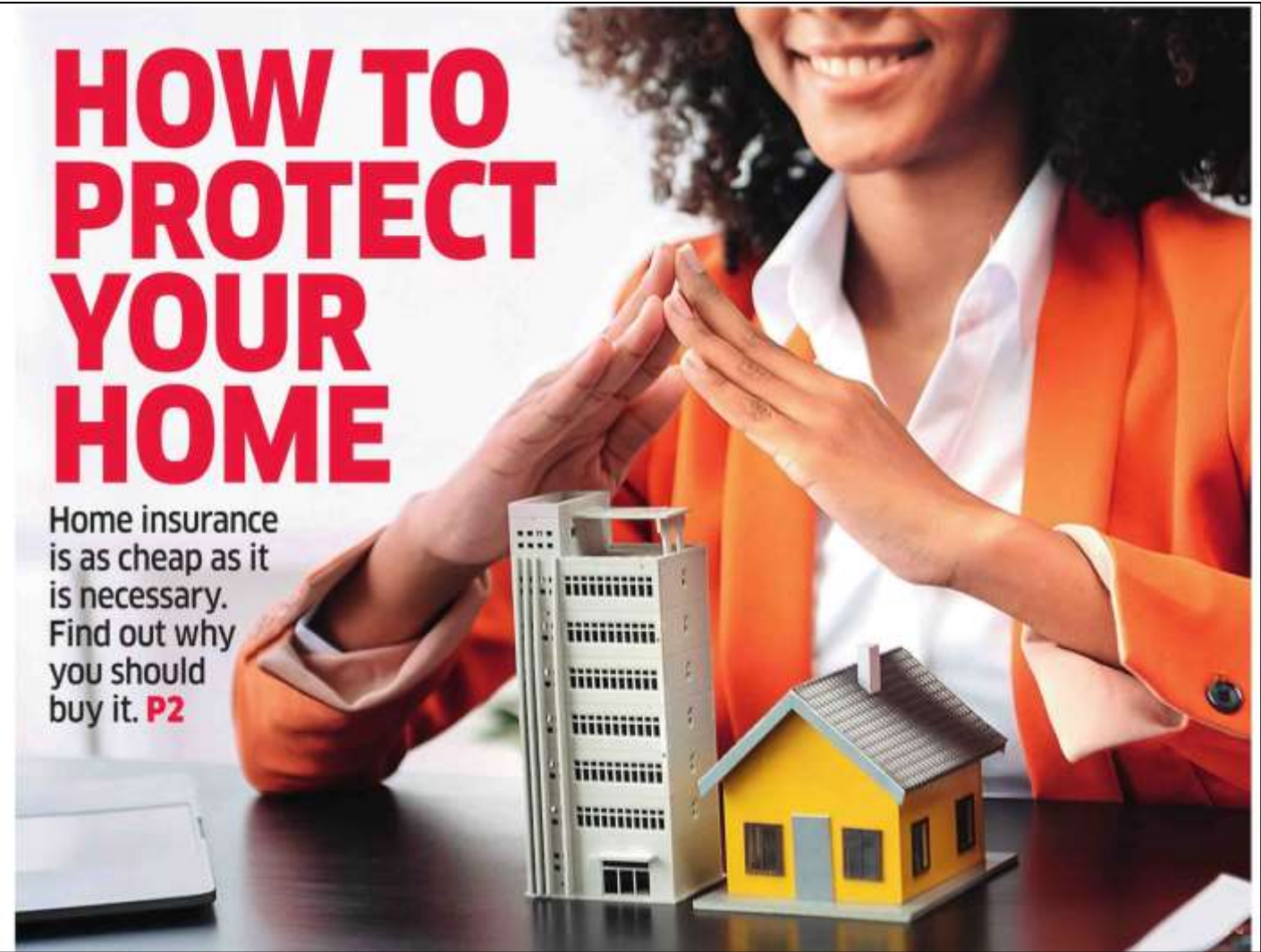


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How to protect your home

Home insurance is as cheap as it is necessary. Find out why and how to buy it.



PHOTOS: GETTY IMAGES

By Babar Zaidi

Chennai resident S. Raman lost more than ₹20 lakh on Diwali night. A misdirected sky-shot cracker landed inside his eighth floor apartment and started a blaze that destroyed the furniture, gadgets and clothing. Fortunately, Raman and his family were out, so there were no casualties, but many valuables were reduced to ashes.

Though it won't lessen the emotional distress of losing one's belongings and seeing one's house covered in soot, a basic home insurance policy can cover the financial loss. Home insurance is as cheap as it is necessary. The annual premium of covering a house and its contents for ₹20 lakh is only ₹900-1,200 (see graphic). The cost is minuscule compared to the coverage it offers. Broken down to daily cost, it is less than half of what you pay for a cup of tea at a roadside vendor.

Yet, barely one in 20 homeowners purchases this cover. For an average person, his house is the biggest financial investment. "People invest their life savings in building a house, but don't do enough to safeguard this investment," says Gaurav Arora, Chief of Underwriting & Claims, Property & Casualty, ICICI Lombard General Insurance. "We have a very optimistic outlook and believe that disasters happen only to other people," says Vivek Chaturvedi, CMO and Head of Direct Sales, Digit General Insurance. "The frequency of disasters may be low, but the severity of loss when the disaster

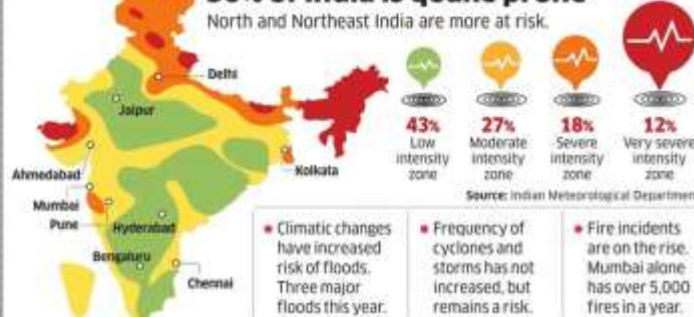
Nature as insurance salesman

The premium income of the fire and allied perils segment tends to shoot up after a natural catastrophe.



30% of India is quake prone

North and Northeast India are more at risk.



"People invest their life savings in a house, but don't do enough to protect this asset. A big chunk of the net worth is exposed to risk."

GAURAV ARORA
 CHIEF, UNDERWRITING & CLAIMS, PROPERTY & CASUALTY, ICICI LOMBARD GENERAL INSURANCE

How much does it cost?

The essential insurance that your house needs is very cheap.



ESSENTIAL COVERS

Damage to building

The basic home insurance that everybody needs. It covers the structure for damage by natural calamities, such as earthquake, lightning, storms and floods, and man-made perils, such as fire, vandalism and riots. The policy pays for repairs and reconstruction of the damaged property.

Cost of cover: ₹15-30 per ₹1 lakh

Damage to contents

Apart from the building, you can also cover the contents against these perils. The premium is slightly higher for this coverage, though some companies charge the same rate for both the building and contents.

Cost of cover: ₹30-50 per ₹1 lakh

Burglary or theft

The house contents also need to be insured against burglary or theft. The items to be covered (furniture, artefacts, clothing, appliances, gadgets) are specified and insured for an agreed value determined by the customer and insurance company.

Cost of cover: ₹125-200 per ₹1 lakh

GOOD TO HAVE COVERS

Breakdown of gadgets

Gadgets in the house can also be covered against breakdown. Here, again, the items have to be listed and insured for an agreed value determined by the customer and insurance company.

Cost of cover: ₹200-300 per ₹1 lakh

EMI protection

If the homeowner had taken a loan for the damaged property, he can buy protection against EMI payments. The insurance company pays the EMIs for a specified period when the damaged house is being repaired or reconstructed.

Cost of cover: ₹2,500 for six months' EMIs

Alternative accommodation

If the house is damaged, a tenant will have to take up alternative accommodation. If the rent for this is higher than that being paid by him for the damaged house, the insurance company will pay the difference for the period specified in the policy.

Cost of cover: ₹2,500 for six months' rent

Loss of rent

If the damage to house makes it unlivable, the owner will suffer loss of rent. Homeowners can safeguard themselves against this loss with an add-on cover that pays rent for a chosen period.

Cost of cover: ₹2,000 for a rent of ₹25,000 per month for six months

AVOIDABLE COVERS

Personal accident

Homeowners can bundle in a personal accident cover with their home insurance policy. This cover is very cheap, though the insured amount is not very high.

Cost of cover: ₹300 for ₹5 lakh

Baggage loss

Another add-on cover is for loss of baggage during travel. This cover may not be very useful. In any case, a travel policy taken by the individual will also offer baggage cover.

Cost of cover: ₹250 for baggage worth ₹50,000

Cost of reconstruction...

The extent of cover should be linked to the reconstruction cost.



... and cost of insurance

Yearly premium for insuring a 1,000 sq ft house

₹240-300

₹400-500

₹700-800

"Flat owners need not depend on home insurance taken by the housing society. They can buy an additional cover for their unit and its contents."



GURDEEP SINGH BATRA
HEAD OF PROPERTY
UNDERWRITING, BAJAJ ALLIANZ
GENERAL INSURANCE



strikes is very high," he adds.

Buyers nudged by nature

Perhaps the most effective salesperson for home insurance is nature itself. Every time there is a natural disaster, home insurance sales pick up. In August 2018, floods wreaked havoc in Kerala. The following year, the fire and allied perils segment witnessed a 34% jump in premium income as homeowners rushed to cover their houses and valuables. In May 2020, cyclone Amphan hit West Bengal and premium income shot up 27% in 2020-21 (see graphic).

However, public memory is short, and once the memories of disaster recede, home insurance is relegated to the backseat again. "We saw a parallel in health insurance recently. When Covid struck and medical bills shot to stratospheric levels, there was a massive surge in the purchase of health insurance. Now that the threat has gone away, health insurance is back to normal levels," says Chaturvedi of Digit General Insurance.

Devastating earthquakes, cyclones and floods are not the only risks that your house is exposed

to. The mushrooming of high-rise buildings and growing use of gadgets and appliances have increased the risk of fires. According to one estimate, Mumbai witnesses more than 5,000 fire incidents every year, and 70% of these are caused by electricity. Both Delhi and Bengaluru record about 2,500 fire incidents in a year. "Fire incidents are on the rise because the use of electrical and electronic gadgets has increased the load on electrical wiring, especially in high-rise buildings," says Arora of ICICI Lombard General Insurance.

In many cases, the fire may not even start, but the interiors may still get damaged. Chaturvedi points out that once a fire alarm gets activated, water pressure from the sprinkler system often damages the interiors. The electronic gadgets in the house will also get damaged due to water. Unless the contents are insured against damage, the owner will suffer a loss even if there is no fire.

Some people have this misconception that if they live in a rented house, they don't need home insurance. Any damage to the house will, of course, be the landlord's headache, but what about the contents? You also need insurance against any damage to the contents (by natural or man-made disaster), and against burglary.

Essential covers for your house

If we have convinced you to buy home insurance, here are the things you need to consider. Buy a policy that fits your needs. Three years ago, the insurance regulator made it mandatory for general insurers to offer a standard home insurance policy. The Bharat Griha Raksha (BGR) policy offered by all insurers covers damage to the house by natural calamities, fire, explosion or even external forces, such as a tree falling or a vehicle crashing into the wall. It also covers many associated costs of damage, such as removal of debris and fees of the architect or consulting engineer.

Though this policy offers comprehensive insurance, the standard BGR has its limitations. The policy covers contents up to ₹10 lakh or 20% of the cover, whichever is lower. A cover of ₹10 lakh may not sufficiently cover the contents of the average middle class home. "If you have high-value items in your house, you should consider buying an additional cover for the contents," says Gurdeep Singh Batra, Head of Property Underwriting, Risk Engg, Global Accounts and Coinsurance, Bajaj Allianz General Insurance. The BGR offers an additional cover for valuable contents on an agreed value basis, where the value is determined by mutual agreement.

"One can also buy breakdown cover for gadgets and appliances," says Tarun Mathur, CBO,

What home insurance will not cover

A home insurance policy will not pay in certain situations. Know about the exclusions of such plans.

While a home insurance policy will protect you against several risks, there are also exclusions in the contract. Some of these are quite obvious and logical, but others may be hidden in the fine print. The following will not be covered:

Deliberate damage by owner

If the damage happens due to a deliberate action of the property owner, the loss will not be covered by insurance. Likewise, any loss due to misuse of a device or appliance will not be covered. Companies go to great extents to detect any evidence of fraud or attempts to mislead.

Outside coverage area

The contents of the house are covered as long as these are inside the house. "The coverage is limited to within the insured area," says Tarun Mathur, CBO, General Insurance & Co-founder, Policybazaar. If the contents are taken out and get dam-



aged, the loss will not be covered.

Group cover for structure

Housing societies also take insurance cover for the housing complex. However, this cover is often limited to the struc-

ture. The contents of the house may not be covered. "Homeowners should take a separate cover for their unit and its contents," says Srabasti Dhali, Vice-President & National Manager, PCG & Home, TATA AIG General Insurance.

Residential or commercial

Make sure you have taken the right insurance policy. "A house leased out to a holiday rental company will be treated as a commercial property and a home insurance policy will not cover it," says Vivek Chaturvedi, CMO and Head of Direct Sales, Digit General Insurance.

Faulty construction

If a house gets damaged due to faulty construction, the home insurance policy will not pay. Likewise, if the damage is due to the use of sub-standard or inappropriate material, the loss will not be compensated.

Demolition by authorities

If the house is damaged following orders of a public authority, the loss so incurred will not be covered by home insurance. The removal of illegal or unauthorised constructions will not get compensation.

"A multi-year plan saves one the trouble of annual renewals, locks future premiums and hikes the cover by 10% every year."



SRABASTI DHALI
VICE-PRESIDENT &
NATIONAL MANAGER,
PCG & HOME, TATA AIG
GENERAL INSURANCE

General Insurance & Co-founder,
Policybazaar.com.

Don't undervalue

While buying home insurance, make sure you have sufficient cover. Yes, you need to insure only the value of the structure, not the cost of the property, but make sure you have calculated the reconstruction cost correctly. "Home insurance buyers often make the mistake of linking the cover to the loan taken for the property," says Batra of Bajaj Allianz general Insurance. The cost of reconstructing a basic quality structure is only ₹1,200-1,500 per square foot. But if your house has premium fittings and a lot of branded stuff, the cost will be much higher at ₹3,500-4,000 per square foot (see graphic). Buy adequate cover for your house.

The other common mistake is that buyers don't review coverage when the policy comes up for renewal. Inflation will push up the cost of construction every year, so you need to increase the cover accordingly. One way to do this is by taking a multi-year policy. Such

HOW TO BRING DOWN HOME INSURANCE COST

Worried by the cost of home insurance? Here are ways to reduce the premium.

- **AGREE TO PAY:** If you agree to pay a minimum amount for the repair of your house and contents, the premium is reduced. However, not all companies offer this option.
- **BE SELECTIVE:** Don't insure all items in the house. Very old items, with low depreciated values, should be kept out of the list.
- **ENHANCE COVERAGE:** Some companies offer discounts if you take 2-3 add-on covers. This may not bring down the premium, but will enhance your coverage.
- **INVEST IN SAFETY:** If you install safety measures, such as fire safety alarms and fire-fighting equipment, you can get discounts ranging from 10-15%.
- **CLAIM TAX BENEFITS:** If you are a self-employed professional or businessman, you can claim deduction for the amount spent on home insurance. This benefit is not available to salaried people.
- **BUY MULTI-YEAR PLAN:** A multi-year plan will increase the cover by 10% every year. This will not bring down the cost per se, but will enhance your cover at no extra cost.



"We tend to believe disasters happen only to other people. The frequency of disasters may be low, but the severity of loss is very high."



VIVEK CHATURVEDI
CMO AND HEAD OF
DIRECT SALES, DIGIT
GENERAL INSURANCE

policies increase the base cover by 10% every year to offset the impact of inflation. "A multi-year policy saves the buyer the trouble of renewing it every year, locks in the premium amount for the future, and even takes care of inflation by way of 10% annual increase in home building cover," says Srabasti Dhali, Vice-President & National Manager, PCG & Home, TATA AIG General Insurance.

Valuation of contents

The valuation of contents is critical. Start by making an inventory of the items you want

to cover, mentioning the item, the year of purchase, model and machine number, and its value. Keep in mind that insurance companies value appliances, gadgets and other items using the standard depreciation formula. The value of the item keeps reducing over the years. So an electronic item bought for ₹50,000 two years ago will now be worth only ₹20,000-22,000.

It's important to revisit this list every year when the policy comes up for renewal. You may have discarded some items in the list or added new ones. Make sure to notify the company for any additional item and furnish all the required details. If the overall value of the contents is within the insurance cover opted for, there won't be any change in premium. This is why it is advisable to use the services of an insurance agent so that there is no discrepancy.

If you want to insure some art or artefacts, you will need a valuation certificate from a certified agency. This requirement is waived if the item is worth less than ₹1 lakh and the total value of such items does not exceed ₹5 lakh.



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