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[Home insurance is as cheap as it is necessary; find out why and how to buy it](#)



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. Here is all you need to know about home insurance.

Chennai resident S. Raman lost more than Rs.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 Rs.20 lakh is only Rs.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

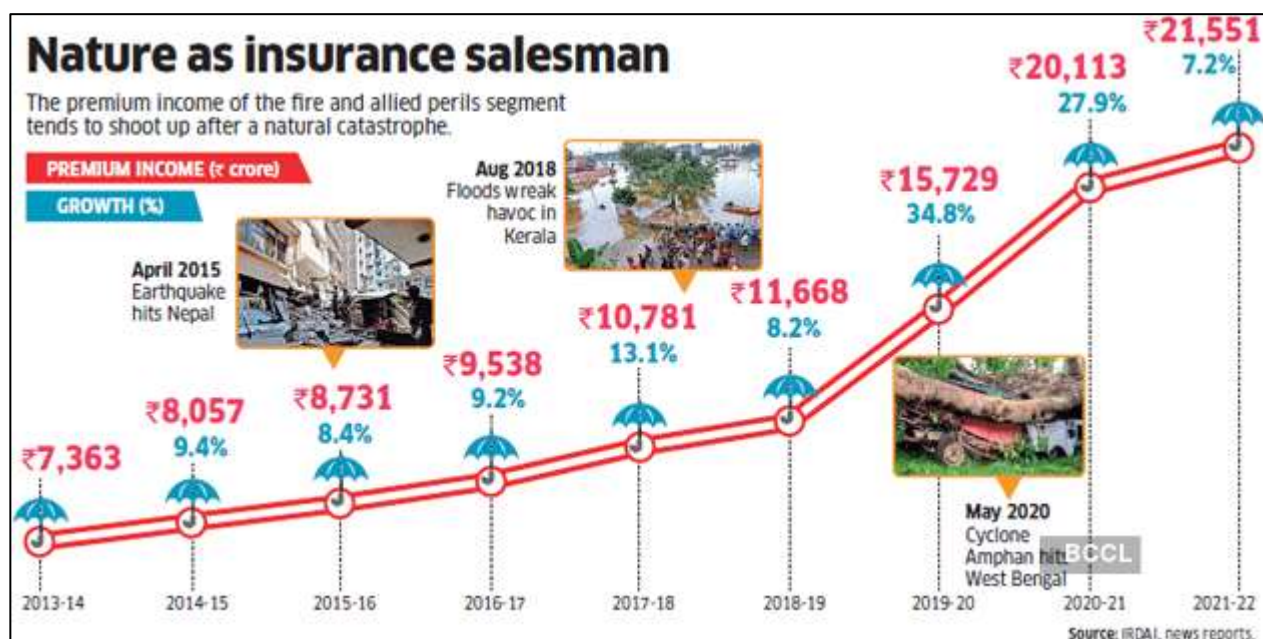
Gaurav Arora, CHIEF, UNDERWRITING & CLAIMS, PROPERTY & CASUALTY, ICICI LOMBARD GENERAL INSURANCE

"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."

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 strikes is very high," he adds.

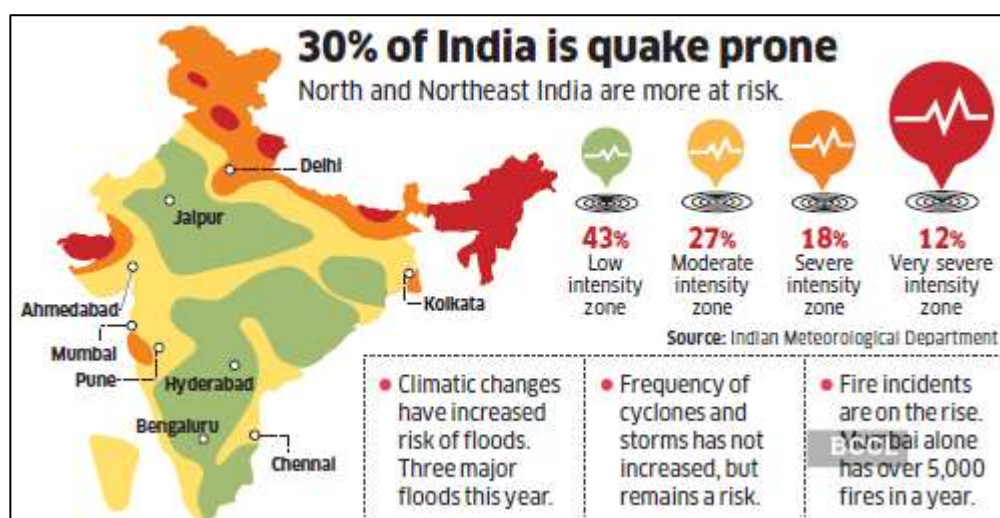
Nature as insurance salesman

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



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



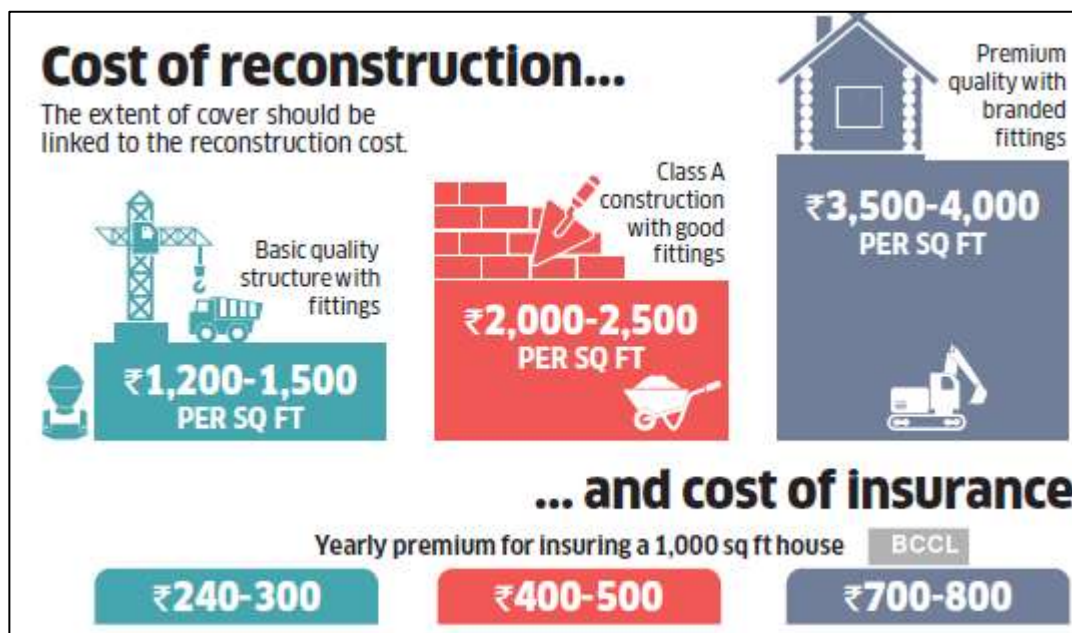
However, public memory is short, and once the memories of disaster recede, home insurance is relegated to the backseat again. "We saw a parallel in health insurance recently. When Covid struck and medical bills shot to stratospheric levels, there was a massive surge in the purchase of health insurance.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



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

“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.”

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 of 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 Rs.10 lakh or 20% of the cover, whichever is lower. A cover of Rs.10 lakh may not sufficiently cover the contents of the average middle class home. "If you have highvalue 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, 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 Rs.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 Rs.3,500-4,000 per square foot (see graphic). Buy adequate cover for your house.

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

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

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 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 Rs.50,000 two years ago will now be worth only Rs.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 Rs.1 lakh and the total value of such items does not exceed Rs.5 lakh.

VIVEK CHATURVEDI

CMO AND HEAD OF DIRECT SALES, DIGIT GENERAL INSURANCE

“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.”

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: Rs.15-30 per Rs.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: Rs.30-50 per Rs.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: Rs.125-200 per Rs.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 : Rs.200-300 per Rs.1 lakh

EMI protection

If the houseowner 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: Rs.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: Rs.2,500 for six months' rent

Loss of rent

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

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

AVOIDABLE COVERS

Personal accident

Houseowners 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: Rs.300 for Rs.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: Rs.250 for baggage worth Rs.50,000

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.