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● GENERAL INSURANCE

TAPAN SINGHEL

## Home insurance scheme on lines of Ayushman Bharat, PMSBY needed to mitigate damage from Nat-Cat



ILLUSTRATION: DIVYAN KUNWAR PRASAD

**NATURE IS THE** greatest gift that mankind is bestowed with and yet can also act as an infinite destroyer. This has been seen in the recent Kerala floods, causing destruction at a scale not seen since 1924. The insurance sector globally is on the frontline of the battle against climate change as extreme weather events become more frequent and severe. Insurers are investing in analytics, satellite and drone-based surveying, flood areas imaging and other useful technologies to deal with unprecedented Nat-Cat (natural catastrophe) events.

### Low insurance penetration

During natural calamities, a drastic difference has been noted between the incurred economic losses and the insured losses. It is not surprising that general insurance penetration in India stands at barely 0.9%, even when the industry is more than a century old. It is estimated that the economic losses from property damage worldwide, occurring due to natural calamities in the last 10 years, was \$1.3 trillion—and of this, as much as 70% remained uninsured and over 80% in India.

This is seen in home insurance penetration where, despite the fact that most Indians spend their life savings to buy their home, less than 1% of homes in India are insured. Even in urban households, awareness of home insurance is less than 40%. Insurers have observed a notable spike in the number of enquiries immediately after a natural catastrophic event, but gradually they fade.

### Impact on economy

Natural disasters put a significant financial burden on governments too, especially as the devastation caused by disasters remain primarily uninsured. In recent years, severe disasters impacting government finances include Cyclone Huduud in 2014: ₹70,000 crore economic losses, of which only ₹4,000 crore was insured and Chennai floods in 2015: Over ₹15,000 crore economic losses of which only ₹5,000 crore was insured.

It is therefore critical for the government to look at an alternative financing and risk transfer mechanism as insurance would provide quick liquidity and payouts during natural disasters.

### Mass insurance schemes

The government has launched a few mass insurance schemes such as Ayushman Bharat for health insurance, PMSBY for personal accident insurance, PMFBY for crop insurance, etc. Such initiatives protecting the citizens against various eventualities go a long way. Similarly, a home insurance scheme in association with insurance companies can be implemented that would cover losses to property due to catastrophic events. An index-based policy can be announced which will compensate for the damage caused by a natural disaster where the triggers of a Nat-Cat event will be predefined. The premium of the same can be collected while taking property tax and once the claim is triggered, it can be directly transferred to beneficiary's Jan Dhan Account linked to the home insurance policy.

Recent events have been a reminder to how immense the impact of natural catastrophes can be, both socially and economically and the urgent need for bringing in a basic security net and bridging the insurance coverage gap in the country. The need is for the government, the insurance industry and the regulator to come together to provide a basic catastrophe cover, as a major natural disaster can wipe away the entire lifetime savings of an individual and make the road to financial recovery extremely difficult.

The writer is MD & CEO, Bajaj Allianz General Insurance

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