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## Home Insurance:

### A must-buy cover to protect your home

Saurabh and Maya were just like any other couple in their early years of saving and investing. Saurabh bought a flat a couple of years ago, and exhausted his entire savings for down payment of the home loan. Also, due to the heavy EMI outgo, he had to stopped his existing SIP investments for his children's education and own retirement goals.

#### Most of us have the same story right?

When we buy a home through a home loan, we put financing of all the other goals on hold for 2 reasons:

- ▶ Having own roof is a fundamental priority over other goals
- ▶ Home loan repayments offer a host of tax benefits that other investment avenues do not match.
- ▶ Payment towards home loan goes towards creating an asset, which appreciates over time.



Now, imagine a situation, there is a major earthquake, due to which the building collapses and the house is destroyed. In such a situation, do you think just because your house is destroyed, the home loan company will waive the outstanding portion of the loan it had given you? The answer is a clear NO. You shall still be liable to pay the outstanding loan amount to the bank in such an event, and with the house destroyed. Even if there is no outstanding loan, where will you get the money to reconstruct the home?

Friends, it is precisely in this case that every house owner must buy home insurance. Just by paying a small sum, you are transferring the risk of destruction of your property to the insurance company. Also, this ensures that while you sideline all other financial goals, to make payment of your home loan EMIs, you are at the same time preserving the value of asset from uncertainties. The reason it is not sold is that since it comes so cheap, it does not offer the agents a lucrative enough commission (or say, is not worth the effort!)

#### Which risks is covered?

A standard home insurance policy protects you from financial loss due to the following events:

- ▶ Fire
- ▶ Lightening
- ▶ Explosion
- ▶ Aircraft damage
- ▶ Riot, strike and malicious damage
- ▶ Storm, Cyclone, Typhoon etc.
- ▶ Impact Damage
- ▶ Landslide and rock slide

- ▶ Missile testing operations
- ▶ Earthquake,
- ▶ Volcanic eruption
- ▶ Bush fire
- ▶ Burglary/ theft of house contents

Also, on payment of a very small additional premium, you can take the following add-on covers to reimburse the following costs:

- ▶ Terrorism cover
- ▶ Personal accident cover (this includes death, permanent disability, ambulance charges, dead body carriage etc.)
- ▶ Architect, Surveyor and consulting engineer fees
- ▶ Cost incurred for removal of debris and payment due to local authorities
- ▶ Coverage of any addition/ alteration in structure after taking the policy
- ▶ Loss of rent (if the property was generating rental income)
- ▶ Rent for alternative accommodation taken

(Important Note: this list is only illustrative and it is advisable to read the policy term and conditions carefully to know the coverage and exclusions properly)

### What will I get in case of a loss?

Home insurance policies are based on the concept of indemnity, which means that the genuine financial loss occurring as a result of the event is paid out. This ensures that nobody stands to make profit out of buying insurance.

Thus, the sum assured (for all contents except personal effects) is the re-statement value, which is precisely the amount that will be required to help put the asset (building, home contents, etc.) in the same position as they had existed prior to occurring of the event. In case of personal effects, it shall be the market value.

### Things to watch out for while buying

- ▶ Exclusions: Do closely read the fine print of the policy document for the 2-3 products that you shortlist. Some of the exclusions I came across while going through some policy documents, were as follows:
- ▶ For every claim, a fixed amount (say the first Rs. 5,000/-) shall be borne by the policy holder- this is to desist policy-holders from making claims for small amounts
- ▶ Loss of certain special articles like manuscripts, stamps, coins, credit cards, jewellery etc. is covered only to the extent of a specified amount say Rs. 10,000. (hence, its recommended that even if you have home insurance, these articles should be put in a locker)
- ▶ Burglary is not covered if the house is unoccupied for more than 30 days or in some cases, if the domestic help is involved in the theft
- ▶ Sub limits: Architect, surveyor and consulting engineer

fees and charges for debris removal allowed only to a certain % of claim amount. If you want more coverage, you will have to buy add-on cover for that, if the policy allows it.

- ▶ Under-insurance: This is a very important concept in insurance. This means that if your property's construction value is worth Rs. 30 lacs but is insured for only Rs. 25 lacs, then you will be the insurer for the shortfall of Rs. (30-25)= Rs. 5 lacs. Hence, in case of an unfortunate incident, if there is a total loss of property, insurance company will be liable to pay only Rs. 25 lacs and not Rs. 30 lacs. Also, in case of partial loss of say Rs. 10 lacs, insurance company will pay proportionately as per the formula  $\text{Loss} * (\text{Sum Insured} / \text{Value of property})$ . In the instant case, insurance company will be liable to pay only Rs. 8.33 lacs and Rs. 1.67 lacs will be borne by you.

### How much does it cost?

You can get online quotes for home insurance, by visiting websites of insurance companies or web-aggregators like policybazaar.com and specifying the sum assured and covers required. Some companies might require a survey of the property/ location done (it's just like a pre-insurance medical examination). However, remember that coverage is more important than pricing, in buying insurance. You should opt for an insurance plan that gives you widest possible cover, instead of blindly going for the lowest quote.

### Some questions

#### My home loan company is pushing its own plan on me: should I buy it?

A home loan company has every right as part of its loan terms and conditions to require you to buy a insurance for the property (its in your interest, more than theirs)...however, note that a home loan company cannot force you to buy home insurance sold by it. However, it makes sense to review the terms and conditions of the policy offered by the lender, and compare it with the ones in the market, and then buy the one with widest possible coverage as per your needs

#### I am presently living on rent. Does home insurance have anything for me?

YES, definitely. In your case, you stand a risk of loss of contents and jewellery due to burglary or theft. In such a scenario, you can go for a contents-only cover as part of your home insurance.

### Conclusion

Home insurance is a must-have insurance cover for anybody wanting to protect his/her home from unforeseen risks like burglary, fire, earthquake etc. it comes surprisingly cheap and can be bought online as well. However, one should check out the coverage and exclusions thoroughly before taking the buy call.