



# PROPERTY INSURANCE IN NEW AND EXISTING HOUSING

2019



भारतीय बीमा संस्थान  
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# Study On Property Insurance In New And Existing Housing

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## Study on Property Insurance in New and Existing Housing: Executive Summary

**Introduction and Scope:** National Housing Bank (NHB), as part of its knowledge initiatives for the Indian Housing industry and its customers, commissioned the services of Insurance Institute of India (III) to undertake a research study to evaluate the role and potential of the insurance mechanism in promoting the Indian Housing industry as also to get insights that would help the industry and the regulator in policy framing, regulation and supervision.

The study examines the insurance requirements of the housing sector of the country and the design and utility value of the existing property insurance policies available in India to meet the specific needs of the housing sector and how new bespoke policies can be introduced or a combination of existing policies can be used to address the protection gap.

The extent to which insurance can act as an enabler for promoting housing in India, the market completeness in terms of the appropriateness, adequacy and availability of existing insurance solutions in addressing the specific risks faced by the Housing industry (and its customers) as well as access to such solutions are examined. The pricing process of the insurance industry, risk assessment, risk classification, impact of adverse selection and moral hazard, transaction costs, market forces and the intrinsic worth of the products are also touched upon. The service/ relationships experience and the causes for low penetration are looked into. Improvements/ alternatives for developing risk neutral<sup>#</sup> and sustainable property insurances, for better customer acceptance and higher penetration of the Indian housing market are suggested. The study presents a conceptual framework for understanding the intended role and functions of the insurance mechanism in supporting the housing sector in India.

**Approach of the Study:** The strength of the research emanates from a review of insurance policies, court verdicts and published literature relevant to the Housing industry. The perspectives of lending institutions, insurers and customers relating to insurance are considered in the study. The robustness of the study stems from the Estimate-Talk-Estimate (ETE) approach adopted for the research. Also known as 'Mini-Delphi', this approach involves interviewing people having expertise on the subject studied. 'Experts' interviewed for this research include senior practitioners of

the Housing industry and the Insurance industry. The thoughts and experiences shared by such 'Experts' through interviews and questionnaires, as well as the views of some customers of the Housing industry have enhanced the practical relevance of the findings of the study.

### Structure of the Study:

**Chapter One** discusses the ecosystem of the Indian Housing Industry. The industry's importance, its potential for growth, the support extended by the government through various schemes, enablement extended to the industry through legislative/ regulatory measures, challenges in financing the sector, various experiments by way of coping mechanisms and the importance of insurance solutions as they evolved over the years are examined.

**The Second Chapter** examines the risks faced by the Housing Industry at both macro and micro levels from the point of view of mitigating them through the insurance mechanism. It also discusses the insurance practices that are generally accepted in different countries. The approach of this chapter is intended to facilitate policy level thinking and strategic decision making.

At the macro level, the importance of mitigating risks in housing and housing finance are examined from Corporate and personal levels. Factors that have impeded the usage of insurance resulting in the gap between Economic and Insured losses, including the lack of insurance awareness are also touched upon. The chapter points out the conceptual relevance of insurance and discusses how different countries have managed their natural catastrophe risks as well as how Home Insurance evolved over the years to protect the growing needs of the Housing Sector. Experiences in this regard in various countries like Australia, Belgium, Brunei, Czech Republic, Germany, Hong Kong, Hungary, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Philippines, Portugal, Singapore, South Africa, Switzerland, Thailand, Turkey, the United Kingdom and the United States of America are mentioned

**Chapter Three** discusses the specific concerns of the Housing Industry, Primary Lending Institutions and their Customers, and examines the extent to which these are being addressed by the Indian insurance market.

<sup>#</sup> 'Risk Neutral' refers to preferences which are neither risk averse nor risk seeking.

The various insurance solutions available in India for the Home Insurance market such as the Standard Fire and Allied Perils Insurance, Long-term Home Insurance, Home Package Insurance, Contractor's All Risk Policy, Employees' Compensation Insurance, Public Liability Insurance, Professional Negligence Insurance, Fidelity Guarantee Insurance, Public Offerings of Securities Insurance, Terrorism Protection and Key Person Insurance and solutions thereof are discussed in detail. The micro level risks of the Indian Housing Industry such as death, personal accident, sickness of the home owner, medical treatment of the family, natural catastrophe and the macro level problems affecting the builders/ contractors and the financiers along with insurance solutions are also discussed in detail.

The chapter discusses some need gaps of the sector and solutions like 'Title Insurance' and 'Decennial Liability insurance' (or 'Inherent Defect Insurance') which are used in other countries but are still in the evolving stages in India. Similarly, solutions like issuing insurance policies on 'all-risks' basis and creating bespoke solutions for large projects which are getting increasingly popular in this sector are also discussed in this chapter.

**The Fourth Chapter** discusses the ground level realities and practical considerations in providing insurance protection to the housing industry from the points of view of both the housing industry and the insurance industry. The conduciveness of the governmental/ regulatory environment for providing insurance solutions to the housing insurance industry is also discussed.

Various concerns of the owners/ loanees of residential property, the availability of insurance products to address their needs, access to such products, the ease of doing business with insurers, availability of systems to redress grievances and the common customer's ability to access the judicial system for justice are touched upon taking into consideration the changing trends in the industry.

From the insurance industry's point of view also, there are multiple concerns in providing insurance solutions to the housing industry. Some of them are lack of insurance awareness, lack of guidance in selecting appropriate insurance plans, adverse selection, moral hazard and fraud. There are also multiple technical challenges that insurers face in classifying risk, compiling and analyzing information, challenges in effective underwriting in general as also for specific lines of business, fixing risk commensurate and

actuarially validated prices, difficulties in creating sustainable insurance by covering large enough numbers for spreading the risk, using simple and standard wordings and evolving standard practices for the Indian housing insurance industry, which are also discussed in detail.

**In the Fifth Chapter**, the insights, suggestions and recommendations which emanated from the study are presented, which would indicate the way forward for the housing, housing finance and insurance industry. The study has flagged 15 aspects of significance in respect of the property insurance of new and existing housing and presented 25 specific recommendations which are presented in this chapter.

Recommendations relate to topics like (i) creating insurance awareness in the market to clear common man's doubts and confusions about insurance schemes, (ii) building internal capacity by way of training employees of the housing industry in insurance and (iii) developing better coordination between the housing and insurance industries. The need to develop schemes to protect the housing industry and its various subsets from myriad uncertainties such as (iv) effects of natural catastrophes and (v) terrorist activity, (vi) liabilities relating to public offering of securities, (vii) financial infidelity of key employees and (viii) disputes regarding title of properties are also discussed. (ix) Protection against liabilities due to neglecting employee interests and (x) non-compliance of various insurance related mandates like Public Liability Act, (xi) Motor Vehicles Act, (xii) Employees' Compensation Act etc. which can attract heavy liabilities on the industry as well as (xiii) the industry's prudential liability to insure are also discussed. At a micro level, concerns like protection from risks like (xiv) death, disability, diseases, loss of employment etc. and consequent situations of loan default, (xv) individual exposures to fire and other natural/ man-made perils, (xvi) general gaps in knowledge that can render insurance policies meaningless and (xvii) optimizing the efficacy of the enabling mechanisms created by the Government are discussed. The importance of extending Income Tax benefits for incentivizing home owners to purchase insurance protection, especially in the context of making benevolent schemes like Pradhan Mantri Awas Yojana (PMAY) and the Credit Linked Subsidy Scheme (CLSS) sustainable and continual are also deliberated upon. The need to make effective use technology to achieve better results in all these areas are envisioned as well.

From the supply side of insurance, (xviii) insurers need to augment their efforts (and those of their Regulator) in designing simpler policies, so that it becomes easier

for house-owners to do business with them, (xix) minimize documentation, (xx) simplify claims settlement systems and procedures, (xxi) address customer concerns in simple words, (xxii) make insurance services available and accessible to those beyond the mainstream, (xxiii) make insurance pricing more transparent, (xxiv) design customer friendly package products and (xxv) devise sector specific grievance redressal systems.

Some broader perspectives like creating forums where regulatory bodies and other stakeholders could interact and jointly evolve solutions for supporting the insurance of new and existing houses are also discussed.

During the interviews conducted, a few stand-alone suggestions came up from some experts in the domains of housing and insurance who took the opportunity to express their views, merely out of their commitment to the industry. Though these are not directly emanating from the study and have not been validated or corroborated as part of the study, the researchers felt that a few specific suggestions were worth presenting as part of this report as additional observations for

stakeholder evaluation. Suggestions relate to risk profiling for insurance purposes, sensitizing financiers on dual/ multiple financing on the same collateral, mandating insurance as a prerequisite for certain governmental matters, mandating certain insurances for builders and penalizing them for non-compliance.

**'Annexures'** which forms the Sixth part of the study, presents ancillary details like (i) the findings of a dipstick survey of the housing industry gathered from a few micro-samples, (ii) data relating to Insurance Penetration and Density and (iii) data of major disasters in India. An initiative (iii) by multiple regulators of Massachusetts for creating customer awareness and building trust, (iv) a checklist for retail customers of the Insurance industry specifying mandatory disclosures, (v) sample policies providing home protection and the coverage, (vi) providing credit protection for groups were also discussed. Snapshots of the Research Methodology, Questionnaires used and experts interviewed for this Research Study are also annexed along with the background of the Research Team.

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## 1. General Trends of the Indian Housing Industry

**[Chapter Structure:** This chapter discusses the ecosystem of the Indian Housing Industry. The industry's importance, its potential for growth, the support extended by the government through various schemes, enablement extended to the industry through legislative/regulatory measures, challenges in financing the sector, various experiments by way of coping mechanisms and the importance of insurance solutions as they evolved over the years are examined.]

### 1.1. High Growth

As per market predictions, the Real estate sector in India is expected to reach a market size of US\$ 1 trillion (INR 70 trillion approx.) by 2030<sup>1</sup> from US\$ 120 billion in 2017. The sector is expected to contribute 13% of the country's GDP by 2025. New housing launches across top seven cities in India are expected to increase 32% year-on-year by 2018 end to 193,600 units.

The housing credit outstanding market in India has grown to INR 17.8 trillion<sup>2</sup> [INR 17,80,000 crore] as on 30<sup>th</sup> September, 2018 at an annualized growth of 17%. The Reserve Bank of India<sup>3</sup> states that "Housing loans account for nearly a half of the credit off-take by the personal loans sector" and that the sector has remained the main driver of growth of personal loans. The outstanding credit deployment to Housing (including Priority Sector Housing) of Banks stood at INR 10.966 trillion [INR 10,96,600 crore] by November 2018. NHB made cumulative refinance disbursements of INR 2.11527 trillion<sup>4</sup> [INR 2,11,527 crores] as on June 30, 2018 to various categories of PLIs, in respect of their individual housing loans.

Factors like the increase in the small ticket affordable housing segment and increased demand from tier II and tier III

cities have been cited as contributors to the growth. Banks connected with customers by offering finer rates, increased retail focus and balance transfers of existing home loans, to grow at this pace. The home loan portfolios of housing finance companies grew at 20%, while the home loan books of banks grew at 16% YOY<sup>5</sup> for the period ending 30<sup>th</sup> September 2018. (This was healthier than the YOY growth of 13% of the previous year). The entry of new players into the market and the governmental focus on affordable housing finance are seen as contributing factors for this growth.

Under the Pradhan Mantri Awas Yojana (PMAY) around 15.3 million<sup>6</sup> (1.53 crores) houses have been constructed between 2014 and 2019 (as on 28/02/2019). With a financial allocation of Rs 26,405 crore (for 2019), at present there are close to 100 affordable housing projects in various stages of completion.<sup>7</sup> The PMAY scheme has received an allocation of Rs 25,853 crore in the Budget for FY2020 and industry experts expect that around 150 more affordable housing projects would be rolled out over by March 2020. The Ministry of Housing & Urban Affairs has approved the construction of another 5,60,695 affordable houses for the benefit of urban poor under Pradhan Mantri Awas Yojana (Urban). The approval was given in the 43<sup>rd</sup> meeting of the Central Sanctioning and Monitoring Committee<sup>8</sup> held on 25<sup>th</sup> February 2019. The cumulative number of Urban Houses sanctioned under PMAY(U) stands at 79,04,674. Under the Pradhan Mantri Awas Yojana (Grameen) the Ministry of Rural Development has completed 1.37 crore Rural Houses between April 2014 and January 2019.

However, while the outstanding amount of housing finance<sup>9</sup> from all sources accounts for around 80% of the GDP in the US,

<sup>1</sup> Real Estate Industry in India – Sectoral Report, October 2016, India Brand Equity Foundation (India Brand Equity Foundation (IBEF) is a Trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India). <http://www.ibef.org/industry/real-estate-india.aspx>

<sup>2</sup> <https://www.icraresearch.in/Research/ViewResearchReport/2266>

<sup>3</sup> Reserve Bank of India Bulletin on Sectoral Deployment of Bank Credit in India 'Credit Deployment to Select Sectors - Housing (Including Priority Sector Housing)' dated 13<sup>th</sup> February 2019, 'III. Bank Credit to Key Sectors' - [https://m.rbi.org.in/Scripts/BS\\_ViewBulletin.aspx?Id=18056](https://m.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=18056)

<sup>4</sup> NHB Annual Report 2017-18, [https://nhb.org.in/wp-content/uploads/2019/02/Annual-Report-\(2017-18\)English.pdf](https://nhb.org.in/wp-content/uploads/2019/02/Annual-Report-(2017-18)English.pdf)

<sup>5</sup> <https://www.icraresearch.in/Research/ViewResearchReport/2266>

<sup>6</sup> Figures are periodically updated on Transforming India Website - Performance Dashboard - (The above figures are as available on the website on 28.02.2019. <https://transformingindia.mygov.in/performance-dashboard/>

<sup>7</sup> 'Interim Budget 2019: Tax rebate for affordable housing excites developers', 2<sup>nd</sup> February 2019, [https://www.business-standard.com/article/interim-budget-2019/interim-budget-2019-tax-rebate-for-affordable-housing-excites-developers-119020101520\\_1.html](https://www.business-standard.com/article/interim-budget-2019/interim-budget-2019-tax-rebate-for-affordable-housing-excites-developers-119020101520_1.html).

<sup>8</sup> Ministry of Housing & Urban Affairs, Press Information Bureau, GOI, 25<sup>th</sup> February 2019. "5,60,695 Houses Sanctioned Under Pradhan Mantri Awas Yojana(Urban)", <http://pib.nic.in/PressReleaseDetail.aspx?PRID=1566271>

<sup>9</sup> Housing Market in India - Charon Singh (RBI Chair Professor, IIM, Bangalore), Alit Kumar, (G.M, NHB), H.A.C. Prasad, (Sr. Eco. Adviser, Move, Gol.)

46% in Spain, 29% in Malaysia, 12% in China, it stood at 10%<sup>10</sup> of the Indian GDP, which indicates the size and potential of the untapped Indian market. As per the 2011 census, only 53% of the Indian population live in houses which can be classified as 'good'. Further, 68% of urban households stay in such 'good' houses vis-à-vis 46% of rural households. It was observed that the increased demand for urban housing in recent years was consequent to the financial sector reforms since 1991 resulting in higher growth rates and income levels, increasing levels of income and savings, urbanization, emergence of younger earning age group and nuclear families, thereby decreasing the average size of the Indian household.

The Union Budget 2019 gave a significant impetus to affordable housing as the projects registered up to 2020 would receive a tax exemption<sup>11</sup>. It is expected that this exemption would benefit new projects. Additionally, the new provision granting the benefit of exemption on capital gains up to Rs 2 crore for investments in two houses would promote reinvestment in property.

Trends in the Housing industry over the past few years were not uniform across the country. Policy level initiatives like the Real Estate (Regulation & Development) Act, 2016 (RERA), Goods and Services Tax Bill (GST), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs) and the initiatives of the Government to provide affordable housing under PMAY (Urban) and PMAY (Grameen) as well as GST concessions announced in the 2019-20 Union Budget are expected<sup>12</sup> to augment the growth of the real estate sector slowly and steadily, in the years to come. Infrastructure initiatives like the Information Technology Investment Region (ITIR), Smart City projects, Housing for All by 2022, Development Plan 2034 (for Mumbai) are also seen as significant economic drivers for India's real estate sector.

Even from a theoretical perspective, the low interest rate environment is expected to create a greater demand for housing<sup>13</sup> and add to the longer-term trend of demographic changes in emerging markets.

## 1.2. Low Gross Non-Performing Assets (GNPA)

As per the Reserve Bank of India,<sup>14</sup> the Gross NPAs (GNPAs) or total bad loans in the banking system reached Rs 10,390 billion (Rs.10,39,000 crore) in March 2018. The GNPA ratio of total bank credit rose from 9.6% in March 2017 to 11.5% in March 2018. GNPAs on HFCs also increased from 1.11% in March 2017 to 1.31% in March 2018<sup>15</sup>. However RBI notes that the asset quality of banks showed an improvement with the Gross Non-Performing Assets (GNPA) ratio of Scheduled Commercial Banks (SCBs) declining from 11.5% in March 2018 to 10.8% in September 2018.

### Inter-sector Assets and Liabilities - September 2018

Financial Entity	(INR billion)	
	Receivables	Payables
Public Sector Banks	7579.0	3149.8
Private Sector Banks	3469.6	8795.1
Foreign Banks	955.4	1186.1
Schedules Urban Co-Operative Banks	137.3	56.0
All-India Financial Institutions	2595.1	2717.2
Asset Management Companies – Mutual Funds	8345.5	500.4
Insurance Companies	5098.4	201.6
Non-banking Financial Companies	560.2	7457.8
Pension Funds	658.2	58.2
Housing Finance Companies	412.0	5688.6

Source: Reserve Bank of India - Financial Stability Report - December 2018 <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/OFSRDECEMBER2018DAFEDD89C01C432786925639A4864F96.PDF> (modified)

In terms of inter-sectoral exposures, HFCs were the third largest borrowers of funds (next to Private Sector Banks at Rs. 8,795 billion and NBFCs at Rs. 7458 billion) from the financial system with gross payables of around Rs. 5,689 billion (Rs. 5,68,900 crores) at end-September 2018. In comparison, the gross receivables of HFCs stood at Rs. 412 billion (Rs. 41,200 crores) at end-September 2018 as against Rs. 3,470

<sup>10</sup> Home loan growth may rise to 17-19% in FY19: Report, PTI Jun 13, 2018, [http://economictimes.indiatimes.com/articleshow/64577049.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://economictimes.indiatimes.com/articleshow/64577049.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

<sup>11</sup> Budget 2019: These 4 sectors are likely to benefit the most, 2<sup>nd</sup> February 2019. <https://www.moneycontrol.com/news/business/markets/budget-2019-these-4-sectors-are-likely-to-benefit-the-most-3474441.html>

<sup>12</sup> Ease of doing business in realty sector: 'Implementation of key reforms will make sector attractive' Anshuman Magazine, December 17, 2016 <http://indianexpress.com/article/business/business-others/ease-of-doing-business-in-realty-sector-implementation-of-key-reforms-will-make-sector-attractive-4431180/>

<sup>13</sup> Emerging markets: the silver lining amid a challenging outlook, Swiss Re Sigma, No: 1/2019 [https://www.swissre.com/dam/jcr:a362f430-9d2b-467a-912d-d7e600827438/sigma1\\_2019\\_en.pdf](https://www.swissre.com/dam/jcr:a362f430-9d2b-467a-912d-d7e600827438/sigma1_2019_en.pdf)

<sup>14</sup> Reserve Bank of India, 18<sup>th</sup> Financial Stability Report, December 2018, <https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=911>

<sup>15</sup> Reserve Bank of India, Report on Trend and Progress of Banking in India 2017-18 (Table IV.12)

billion of Private Sector Banks and Rs. 560 billion of NBFCs. According to ICRA<sup>16</sup> data the credit collection ratio (CCR) for traditional housing loan over a period of time hovers in the range of 98 to 100%, whereas in the affordable segment, it found to be 94% to 96%. The fact that lenders do not as yet see the moderate rise in NPAs as a serious cause of concern, can be gauged from the fact that loans in the sub-Rs. 10 lakh category saw an increase in the number of beneficiaries from 9.29 lakh in 2016-17 to 13.32 lakh in 2017-18.

### 1.3. Indian Regulatory Vision: Insurance an Integral Part

Though the Country's regulation of credit risk standardized approach is judged as compliant with the Basel standards, the inclusion of life insurance policies as eligible collateral<sup>17</sup> with 0% haircut (though they do not fall under any of the categories defined in the Basel Standards<sup>18</sup>) was identified as a deviation. Indian authorities have taken the stand that life insurance policies issued<sup>19</sup> by an insurance provider regulated by the IRDAI, are eligible collateral in view of their high liquidity and almost negligible uncertainty regarding payment as compared with equities (allowed in Basel II but not by the RBI). Though the Assessment Team<sup>20</sup> of the Reserve Bank of India appreciated the rationale behind the treatment provided in the RBI's Basel III Capital Regulations, life insurance policies are not accepted as eligible collateral under the Standardized Approach.

### 1.4. Regulatory Support - Indices

House Price Indices of India are still in the nascent stage. However, three different approaches for building up house price indices are in vogue in India. These are RESIDEX of the National Housing Bank, House Price Index (HPI) of Reserve Bank of India based on house registration data and Residential Property Price Index (RPPI) based on housing loan transaction data.

RESIDEX is India's first official housing price index launched by National Housing Bank (NHB) of India in July, 2007. The index was formulated under the guidance of stakeholders from the housing market and is being updated from time to time taking 2007 as the base year. Built to ensure ease and

clarity in decision making in the sectors of real estate and real estate finance, NHB RESIDEX was created to bring more transparency into India's real estate markets by providing more structure, science and discipline to property valuation.

Covering 26 cities, it was designed as an effective tool to monitor the health and behavior of housing markets in India. RESIDEX is of use to banks, HFCs and developers. It enables home-buyers to check and compare prices before purchasing property. Policymakers can track inflation/ deflation in housing prices and credit evaluation processes.

Initially, NHB RESIDEX was computed using market data, which 2010 onwards, was shifted to valuation data received from Banks and Housing Finance Companies (HFCs). Thereafter, data was sourced from Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) from 2013 to 2015. The current data sources are valuation data of Banks/HFCs for HPI at Assessment Prices and primary and secondary market data for Housing Price Index (HPI) at Market Prices for under-construction properties.

The scope has been widened under NHB RESIDEX, to include Housing Price Indices (HPI). Under Housing Price Indices (HPI), the Bank is covering Housing Price Index at the Assessment Prices and Housing Price Index at Market Prices for Under Construction Properties for 50 cities each. HPIs track the movement in prices of residential properties on a quarterly basis. NHB, in due course, plans to introduce land price indices (LPI), building materials price indices (BMPI) and housing rental index (HRI).

### 1.5. Indian Regulatory Vision: Major Governmental Initiatives in Recent Times

Housing has always been a priority area for India, as evidenced by several legislative, administrative and developmental initiatives of the Government from time to time. Ranging from the creation of the National Housing Bank, designing various benevolent schemes at Central and State levels, implementing slum rehabilitation schemes, providing for low budget housing etc., the country has seen various ambitious endeavors down the years under various Governments.

<sup>16</sup> Reality Myths - NPAs in affordable housing: An analysis, 28<sup>th</sup> February 2018 - <https://www.realtymyths.com/npas-affordable-housing-analysis/>

<sup>17</sup> Life insurance policies, with a declared surrender value, of an insurance company which is regulated by an insurance sector regulator. [Master Circular - Paragraph 7.3.5 (v)]. However, this collateral is not considered eligible under Paragraph 145 of the Basel framework.

<sup>18</sup> The RBI's Basel III Capital Regulations consider the surrender value of insurance policies as eligible for a 0% haircut. However, under the Basel framework those instruments are not eligible for a 0% haircut.

<sup>19</sup> Basel Committee on Banking Supervision Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III risk-based capital regulations – India. June 2015.

<sup>20</sup> Assessment Team for the Reserve Bank of India - The Basel Committee on Banking Supervision (Basel Committee) established the Regulatory Consistency Assessment Program (RCAP) to monitor, assess, and evaluate its members' implementation of the Basel framework.

However, the success rates of many of the well-conceived schemes have not been uniform.

While analyzing past schemes is beyond the scope of this study, an attempt is made to highlight the active governmental support for pan-India housing as demonstrated through the Pradhan Mantri Awas Yojana which subsumes the erstwhile Indira Awas Yojana and the Housing for All by 2022 Mission launched in June 2015 and practically overarch other benevolent schemes<sup>21</sup> due to certain ground level realities.

**1.5.1. Pradhan Mantri Awas Yojana (PMAY):** The Pradhan Mantri Awas Yojana/ 'Housing for All by 2022' Mission/ National Mission for Urban Housing scheme was launched in June 25 for creation of affordable housing along with the Smart Cities Scheme (covering around 100 cities) and Atal Mission for Rejuvenation and Urban Transformation (AMRUT). PMAY subsumes<sup>22</sup> several erstwhile housing schemes and may possibly work with or introduce some new ones, while AMRUT would focus on upgrading infrastructure in around 500 cities.

PMAY is aimed for urban areas<sup>23</sup> and allows the following components/ options to States, Union Territories and cities:

- a) Slum rehabilitation of Slum Dwellers with participation of private developers using land as a resource;
- b) Promotion of affordable housing through credit linked subsidy;
- c) Affordable housing in partnership with Public & Private sectors and
- d) Subsidy for beneficiary-led individual house construction or enhancement.

Affordable Housing through Credit Linked Subsidy is the second vertical of the Pradhan Mantri Awas Yojana (PMAY) Housing for All (Urban) Scheme Guidelines, issued by the Government of India, Ministry of Housing and Urban Affairs (MoHUA). National Housing Bank (NHB) has been identified as a Central Nodal Agency (CNA) by MoHUA for implementing the Credit Linked Subsidy Scheme (CLSS) through eligible Primary Lending Institutions (PLIs).

CLSS is broadly divided into two categories, (i) CLSS for Economically Weaker Section (EWS) & Lower Income Group (LIG), and (ii) CLSS for Middle Income Group (MIG-I and MIG-II).

CLSS for Economically Weaker Section (EWS) & Lower Income Group (LIG): EWS household is defined as household having an annual income up to INR 300,000 and LIG household is defined as household having an annual income between INR 300,001 and up to INR 600,000. The credit linked subsidy is available only for loan amounts up to INR 6 lakh and additional loans beyond INR 6 lakh, if any, will be at nonsubsidized rate. The interest subsidy will be credited upfront to the loan account of beneficiaries and the Net Present Value (NPV) of the interest subsidy to be calculated using discount rate of 9%.

CLSS for Middle Income Group (MIG-I and MIG-II): MIG-I households are defined as households having annual income between INR 6,00,001 and up to INR 12,00,000 and MIG-II households are defined as households having an annual income between INR 12,00,001 and up to INR 18,00,000. The credit linked subsidy is available only for loan amounts up to INR 9 lakh and INR 12 lakh, for MIG-I and MIG-II respectively and additional loans above these limits will be at nonsubsidized rate. The interest subsidy will be credited upfront to the loan account of beneficiaries and the Net Present Value (NPV) of the interest subsidy to be calculated using discount rate of 9%.

The National Housing Bank is the Central Nodal Agency CNA for implementation of Credit Linked Subsidy through the Primary Lending Institutions (PLIs), viz. Scheduled Commercial Banks, Housing Finance Companies, Regional Rural Banks, State Cooperative Banks, Urban Cooperative Banks, Other institutions as may be identified by the Ministry of Housing and Urban Poverty Alleviation (MHUPA). NHB also monitors the progress of CLSS, provide periodic monitoring inputs to the MHUPA through regular monthly and quarterly reports and put-in place appropriate mechanisms for the purpose. The Union Cabinet has recently approved creation of National Urban Housing Fund (NUHF)<sup>24</sup> for INR 60,000 crores. This fund will be with Building Materials and Technology Promotion Council (BMTPC), an autonomous body registered under the Societies Registration Act, 1860 under the Ministry

<sup>21</sup> *Housing and Land Rights in India: Status Report for Habitat III, Housing and Land Rights Network, New Delhi, 2016*

<sup>22</sup> 'Housing for All' initiative set for June 25 launch - Express News Service, June 21, 2015. <http://indianexpress.com/article/india/india-others/housing-for-all-set-for-june-25-launch/>

<sup>23</sup> 'Housing for All by 2022' Mission – National Mission for Urban Housing, PM India website, dated 17<sup>th</sup> June 2015 [http://www.pmindia.gov.in/en/news\\_updates/housing-for-all-by-2022-mission-national-mission-for-urban-housing/](http://www.pmindia.gov.in/en/news_updates/housing-for-all-by-2022-mission-national-mission-for-urban-housing/)

<sup>24</sup> Cabinet approves creation of National Urban Housing Fund, 20 February 2018, [http://www.pmindia.gov.in/en/news\\_updates/cabinet-approves-creation-of-national-urban-housing-fund/](http://www.pmindia.gov.in/en/news_updates/cabinet-approves-creation-of-national-urban-housing-fund/)

of Housing and Urban Affairs. Under the Pradhan Mantri Awas Yojana, the Ministry has completed construction of 1,53,00,000 houses<sup>25</sup> as on 28/02/ 2019. Under Credit Linked Subsidy Scheme (CLSS), wherein housing is being sanctioned by the Banks/ HFCs to the eligible beneficiaries under the PMAY (Urban), the target is to cater to the demand of housing shortage of nearly 1.2 crore and make available housing to all by 2022, when the Country celebrates its 75<sup>th</sup> Anniversary of Independence.

NUHF will facilitate the flow of Central Assistance under different verticals i.e. Beneficiary Linked Construction (BLC), Affordable Housing in Partnership (AHP), In-Situ Slum Redevelopment (ISSR) and Credit Linked Subsidy Scheme (CLSS).

### 1.5.2. Real Estate (Regulation and Development) Act, 2016:

The Government has enacted a specific legislation, viz. Real Estate (Regulation and Development) Act<sup>26</sup> (RERA) in 2016 after protracted discussions, developing and streamlining of this vital sector. Under Section 16 of RERA the obligations of promoters regarding insurance of Real Estate Projects have been specifically incorporated, excerpted below:

- (1) “The promoter shall obtain all such insurances as may be notified by the appropriate Government, including but not limited to insurance in respect of
  - (i) Title of the land and building as a part of the real estate project; and
  - (ii) Construction of the real estate project.
- (2) The promoter shall be liable to pay the premium and charges in respect of the insurance specified in sub-section (1) and shall pay the same before transferring the insurance to the association of the allottees.
- (3) The insurance as specified under sub-section (1) shall stand transferred to the benefit of the allottee or the association of allottees, as the case may be, at the time of promoter entering into an agreement for sale with the allottee.
- (4) On formation of the association of the allottees, all documents relating to the insurance specified under

sub-section (1) shall be handed over to the association of the allottees.”

The FAQ Section<sup>27</sup> clarifies that this provision shall come into effect only after, and in the manner as may be notified by the appropriate Government.

The importance of RERA is in the context of India being seen as one of the few jurisdictions where objections on land titles are raised even after the registration, conversion of land use and mutation of the property has been completed. Legal experts have pointed out<sup>28</sup> that “the complexities involved in property devolution, lack of proper legal framework and the poor track record of real estate developers, insurance companies have been skeptical about their long-term business returns in what has proven to be a volatile industry.” The need for a centralized repository for land records and modern methods for documentation of land title have been crying needs of the real estate sector and “real estate projects are plagued by issues relating to land title which often tantamount to delays and even cancellation of projects” due to disputes and litigation.

### 1.6. Roles of NHB

The NHB is a multi-functional Development Finance Institution for the housing sector. Its functions include regulation & supervision of housing finance companies, financing, and promotion & development of housing finance in India. The NHB aims to promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.

**1.6.1. Regulation and Supervision:** NHB as the regulator of HFCs, guides, monitors and inspects the activities of HFCs, to ensure that they are conducting their business activities in a manner that is not detrimental to the interests of depositors, customers and public at large. In terms of the regulatory powers vested in it under the National Housing Bank Act, 1987, the NHB determines the policy and gives directions to the housing finance companies. As of 30<sup>th</sup> June 2018, there were 96 HFCs registered with the NHB.

<sup>25</sup> Figures are periodically updated on Transforming India Website - Performance Dashboard (The above figures are as available on the website on 28.02.2019. <https://transformingindia.mygov.in/performance-dashboard/>

<sup>26</sup> Real Estate (Regulation and Development) Act, 2016, Ministry of Housing & Urban Poverty Alleviation, GOI - <http://www.indiacode.nic.in/acts-in-pdf/2016/201616.pdf>

<sup>27</sup> Frequently Asked Questions - <http://mhupa.gov.in/writereaddata/1564.pdf>

<sup>28</sup> Title insurance in India: An opportunity awaits... Alok Tewari & Yudhist Narain Singh, Senior Partner and Principal Associate, Kochhar & Co. (a law firm) <http://www.moneycontrol.com/news/business/real-estate/title-insurance-in-india-an-opportunity-awaits-2394019.html>

**1.6.2. Refinancing:** NHB<sup>29</sup> supports the housing finance sector by extending refinance to Primary Lending Institutions (PLIs) in respect of housing loans extended by them to individual borrowers for purchase/construction of houses and repair/up gradation of existing houses. Beneficiary institutions include Housing Finance Companies, Scheduled Commercial Banks, Scheduled Urban Cooperative Banks, Regional Rural Banks, State Level Apex Co-operative Housing Finance Companies and Agriculture and Rural Development Banks. During the year 2017-18, aggregate refinance disbursements<sup>30</sup> of INR 24,921 crore were made with almost 53% disbursements being made to HFCs and 46% to Scheduled Commercial Banks (SCBs). Outstanding refinance<sup>31</sup> of NHB was INR 58,725 crore as on June 30, 2018. Of this, HFCs and SCBs share was about 65% (INR 38,146 crore) and 33% (INR 19,524 crore) respectively.

**1.6.3. Project Financing:** The Project Finance (direct lending) activities of the Bank are being undertaken in terms of Section 14 (ba) of the Act. The aim of the Bank's Project Finance Policy is to facilitate increase in the overall housing stock in the country through supply side intervention with special emphasis on the housing needs of the economically weaker sections of society. Through direct finance window, the Bank endeavors to extend financial support to the housing programmes favoring the un-served and the underserved segments of the population.

Under the Project Finance window, the Bank extends financial assistance to public agencies like State Housing Boards, State Slum Clearance Boards, Development Authorities, other public agencies set up by state/central governments to meet the housing needs of different segments of people. Besides, the Bank also provides financial assistance for affordable housing projects under Public Private Partnership models in line with State Housing Policies wherein Public Agencies have been appointed as a nodal agency for construction/ implementing large scale construction of Affordable Housing (with focus on EWS & LIG housing) by involving Private developers. Project Finance assistance is also extended to SPVs set up by public housing agencies / public financial institutions, solely or

jointly with private sector either for specific project or on a continuing basis.

Till June 30, 2018, NHB has financed 449 projects<sup>32</sup> with project cost of INR 10,228 crore. The cumulative project finance disbursements stood at INR 2,406 crore.

**1.6.4. Securitization:** Securitization provides a viable and sustainable market-oriented sourcing mechanism with the potential of integrating housing market with the domestic as well as the international capital markets and brings in a range of specializations as well, resulting in efficient and cost effective structures and practices. Reserve Bank of India (RBI) has established a systemic framework for specialized mortgage finance in the country through supportive fiscal measures leading to steady growth of the sector. NHB has helped in developing Mortgage Backed Securitization and a Secondary Mortgage Market in the country. Against loans provided by them to the purchasers of houses, Primary Lenders create mortgages,<sup>33</sup> which are held as assets and generate cash flows by way of repayments of the loans. The Secondary Mortgage Market involves the conversion of mortgages into tradable financial instruments and the sale of these instruments to prospective investors through Special Purpose Vehicles (SPV).

**1.6.5. Mortgage Guarantee:** Mortgage Guarantee (MG) is actively used by lenders in developed markets as a tool to manage credit risks on home loan contracts. It enables a lender to take protection on a home loan or a pool of home loans from a Mortgage Guarantee Company (MGC) to protect itself against credit risks in the event of non-repayment by the borrower<sup>34</sup>. The lender has the ability to invoke the MG as soon as the contract becomes a Non Performing Asset (NPA) as per the RBI norms. Conceptual differences and similarities between such MG and Insurance are discussed below.

As per traditional British Law, insurance is a promise to provide financial compensation in the instance of an event resulting in harm or loss, and a guarantee<sup>35</sup> is a promise of performance to a beneficiary in the event that the person who would normally provide a service or good fails to do so.

<sup>29</sup> National Housing Bank website – [www.nhb.org.in](http://www.nhb.org.in)

<sup>30</sup> National Housing Bank – Report: Trend and Progress of Housing in India 2018 Table 1.1: Institution-wise Refinance Disbursements for the last three years - <https://nhb.org.in/wp-content/uploads/2019/03/NHB-T&P-2018-Eng.pdf>

<sup>31</sup> *ibid*

<sup>32</sup> *ibid*

<sup>33</sup> This is referred to as the 'primary residential mortgage market'.

<sup>34</sup> India Mortgage Guarantee Corporation (IMGC) <http://www.imgc.com/lenders/introduction-of-mortgage-guarantee>

<sup>35</sup> Difference between Insurance and Guarantee – Sapling (part of Leaf Group, an American content company) - <https://www.sapling.com/8775489/difference-between-insurance-guarantee>.

A guarantee inserts a third party into a legal agreement to provide an extra layer of protection for the beneficiary. There are major differences<sup>36</sup> between insurance and guarantees as per many published judgments.<sup>37</sup> One difference is that insurance is a direct agreement between the insurance provider and the policyholder, while a guarantee involves an indirect agreement between a beneficiary and a third party, along with the primary agreement between the principal and beneficiary. Another difference is that calculations that go into insurance policy calculations are based on underwriting and possible loss, while a guarantee is focused strictly on performance or non-performance. In addition, insurance providers or policyholders can cancel policies with notice, while guarantees often cannot be cancelled. Though guarantee and insurance are different, Courts recognize<sup>38</sup> that “A document, though called a guarantee, may really be in the nature of a policy of insurance against the happening of certain events.”

In the housing finance industry, tendencies of lenders to safeguard themselves by lending less than what they can and charging higher rates of interest can make both lenders and borrower worse off, a situation which can adversely impact the economy in the form of higher costs and lower demand for housing.<sup>39</sup> Regulators understand the ground reality that unless Lenders who deal with high-risk borrowers are provided with adequate protection, they will avoid lending to these groups. The situation is true for India as housing shortage is huge and most of it falls under the affordable housing category. Mortgage guarantees protect lenders from borrower defaults by compensating them in return for a fee. Many countries mandate such guarantees to promote home buying among their economically weaker sections of their society<sup>40</sup>.

To support the low income housing sector, Ministry of Housing and Urban Affairs (MoHUA) set up<sup>41</sup> the Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLH) in May 2012 which guaranteed up to INR 500 thousand [5 lakhs] (increased to INR 800 thousand [8 lakhs] with effect

## SNAP-SHOT

### India Mortgage Guarantee Corporation Pvt. Ltd. (IMGC)

“IMGC commenced its operations in March 2014 underwriting a securitization pool originated by Dewan Housing Finance, and subsequently in FY 2015 completed underwriting transactions of contracts originated by Reliance Home Finance Limited and Home First Finance Company. In 2015-16, IMGC also completed underwriting transactions of contracts originated by ICICI Bank. As on March 31, 2016 IMGC has cumulatively guaranteed loans amounting to Rs. 628 crore against which the Guarantee in Force was Rs. 84.4 crore. For the year ended March 31, 2016, IMGC reported a net loss of Rs. 13.7 crore over an asset base of Rs. 168.4 crore as compared with a net loss of Rs. 8.5 over an asset base of Rs.161.3 crore for 2014-15. As on March 31, 2016 the company had a net worth of Rs. 152.4 crore.”

“ICRA has reaffirmed the issuer rating of IrAA to India Mortgage Guarantee Corporation Private Limited (IMGC). This is the high-credit-quality rating assigned by ICRA. The rated entity carries low credit risk. The rating is only an opinion on the general credit-worthiness of the rated entity and not specific to any particular debt instrument. The outlook of the rating is ‘Stable.’”

“The rating factors in the strong profile of the company’s shareholders . . . and the commitment from IMGC’s shareholders to keep it well capitalized following an annual capitalization assessment process as per which, based on portfolio performance, estimated future stress losses and projected growth, IMGC will budget for any additional capital in advance.”

“The rating is however constrained by the nascent stage of mortgage guarantee business in India as indicated by the moderate ramp-up in the business volumes - relative to the projections - of the company (with cumulative loans guaranteed amounting to Rs. 628 crore as on March 31, 2016) and consequently its lower profitability. As the company scales up its operations it would need to continue to efficiently manage portfolio risks and also ensure that the premium charged are in-line with the underlying risk. Additionally, it is vital that the company avoids adverse selection of loans against which mortgage guarantees are issued. Maintaining and actively addressing these factors will be important from a ratings standpoint.”

**Excerpted from ICRA:** <http://www.icra.in/Files/Reports/Rationale/India%20Mortgage%20%20-R-18072016.pdf>

**ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited)**

**Reference: 1 crore = 10 million// 100 crore = 1 billion**

**Reference: Re/ Rs = INR (Indian Rupee)**

<sup>36</sup> *ibid.*

<sup>37</sup> *Ref. Seaton v. Heath, Seaton v. Burnand, 1 QB 782, 792, C.A. (1899); Re Denton’s Estate Licenses Insurance Corporation and Guarantee Fund Ltd. v. Denton, 2 Ch. 188 (1899); see Dane v. Mortgage Insurance Corporation]*

<sup>38</sup> *Shaw v. Royce, Ltd., [1911] 1 Ch. 138, per Wareington, J., at p.147. texts - The laws of England, being a complete statement of the whole law of England by Halsbury, Hardinge Stanley Giffard, Earl of, 1823-1921 - <https://archive.org/details/lawsOfenglandbei15hals>*

<sup>39</sup> *India Takes First Steps Towards Mortgage Insurance, Policy Mantra - 24<sup>th</sup> April 2013 - <https://www.policymantra.com/blog/india-takes-first-steps-towards-mortgage-insurance/>*

<sup>40</sup> *‘I bet you haven’t heard of IMGC’, Venky Panchapagesan, Associate Professor of Finance and Lead, IIMB-Century Real Estate Research Initiative, Indian Institute of Management, Bangalore. <http://www.livemint.com/Money/BbsTxN0Groef2pVB9ZJ6BP/l-bet-you-havent-heard-of-IMGC.html>*

<sup>41</sup> *Report on Trend and Progress of Housing in India, NHB, 2014*

## SNAP-SHOT

### Mortgage Insurance

Mortgage Insurance [also known as 'home-loan insurance' and 'mortgage indemnity guarantee' (MIG) in the UK] is growing in importance worldwide as "an insurance policy which compensates lenders or investors for losses due to the default of a mortgage loan"<sup>1</sup>. "Mortgage<sup>2</sup> default insurance has played a crucial role in the development of modern mortgage finance systems" and given rise to a boom in housing construction and home ownership in the U.S. and Canada paving the way for long-term, self-amortizing mortgages, and the increased affordability of the insured loans. Mortgage insurance is now available in many OECD countries and other territories, through both government-sponsored companies and large international mortgage insurers. "MI is now in operation or under active development in several emerging and transition economies"<sup>3</sup>. Mortgage insurance can be public or private depending upon the insurer.

<sup>1</sup> [https://en.wikipedia.org/wiki/Mortgage\\_insurance](https://en.wikipedia.org/wiki/Mortgage_insurance)

<sup>2</sup> 'Establishing Mortgage Guarantee Insurance in Transition and Emerging Markets: A Case Study of Kazakhstan' by Sally Merrill and Douglas Whitely The Urban Institute, Washington DC, Housing Finance International - Sept. 2003.

<sup>3</sup> *ibid.*

from 1<sup>st</sup> October 2014<sup>42</sup>) sanctioned and disbursed by the PLIs without any collateral security and/or third party guarantee to the new borrowers in the Economically Weaker Sections/ Low Income Group Categories in urban areas. The trust is managed by NHB.

By way of a development effort to expand access to housing in India, the National Housing Bank (NHB), along with Genworth Financial Mauritius Holding Limited (Genworth), Asian Development Bank (ADB) and the International Finance Corporation (IFC) have set up<sup>43</sup> a joint venture - India Mortgage Guarantee Corporation Pvt. Ltd. (IMGC)<sup>44</sup> in 2013 to offer mortgage guarantees to the lenders (banks and other PLIs) against borrower defaults on housing loans. Though actively used by lenders in developed markets as a tool to help promote and advance home ownership, Mortgage guarantee is a relatively new product in India. "This Mortgage Guarantee<sup>45</sup> acts as an insurance against defaults on loans

by the homebuyer, thereby reducing the loan exposure and credit risks for the lender. The intention of Mortgage Guarantee backed Home Loans is to mitigate the risk that is taken by the lenders. The lenders, in turn, are able to provide better terms for housing schemes to the home buyers."

Mortgage Guarantee Companies seek to help the homebuyer to secure higher loan amounts through various product structures making it a win-win situation for both lenders and home buyers. The Guarantor's primary customers are Housing Finance Companies (HFCs) and banks responsible for mortgage lending, to whom it provides credit guarantees on behalf of the borrowers. On availing of a guarantee cover from a mortgage guarantee company, the lending institutions can benefit from capital relief against such guaranteed loans through lower risk weightings. As the guarantee scheme enables lenders to provide higher loan amounts to home buyers, the lender stands to benefit as the mortgage guarantee provides additional protection, whereby the element of risk<sup>46</sup> would be significantly reduced. Based on one's age, income and other eligibility criteria there is a difference in the amount one needs to borrow and the amount sanctioned by the bank. Being unable to get enough loans from the PLI, the home buyers opt for alternate additional sources of funds at more expensive rates, which increase their financial burden and make them more vulnerable.

On the ground, it works as follows. If a 48-year-old borrower earning INR 80,000 per month needs a home loan of INR 4.5 million [45 lakhs], the bank may sanction only INR 4.00 million [40 lakhs]. The borrower would take a costly personal loan or gold loan to meet the shortfall of INR 0.5 million [5 lakhs]. The Mortgage Guarantor would extend his tenure by, say, another 5 years making the borrower avail of a higher loan of INR 4.5 million, typically allowing consumers to increase borrowing by 5-20% and the tenure by a few years, usually from 60 to 67 years. However, for availing this extra INR 0.5 million, the customer would have to pay a fee of about 1% to 2% of the total loan depending on the loan amount, income and profile of the borrower. The fee<sup>47</sup> is the insurance premium for the extra loan amount, which is provided by the Mortgage Guarantor.

<sup>42</sup> NHB website - [https://test.nhb.org.in/Whats\\_new/Clarification-letter.pdf](https://test.nhb.org.in/Whats_new/Clarification-letter.pdf)

<sup>43</sup> Registered with the Reserve Bank of India, as a Mortgage Guarantee Company

<sup>44</sup> India Mortgage Guarantee Corporation Pvt. Ltd. (IMGC) - <http://www.imgc.com/Home/AboutUs?MenuID=20>

<sup>45</sup> *Ibid.*

<sup>46</sup> <http://www.thehindubusinessline.com/money-and-banking/all-processes-at-nhb-have-been-fully-automated-md/article8887623.ece>

<sup>47</sup> 'ICICI Bank launches mortgage guarantee-backed home loan', Business Standard, 27<sup>th</sup> August 2015 - [http://www.business-standard.com/article/finance/icici-bank-launches-mortgage-guarantee-backed-home-loan-115082700018\\_1.html](http://www.business-standard.com/article/finance/icici-bank-launches-mortgage-guarantee-backed-home-loan-115082700018_1.html)

The guarantee system also has its set of problems. If all the lending institutions/ banks are not mandated to seek guarantees in India and left to themselves to decide; they would want only the loans that are likely to go bad to be guaranteed, while the guarantor company would like it the other way. Again, the guarantor may have to charge a high fee (to compensate for the guarantee), which may force banks to further limit the guarantee to the really high risk loans, which will further force the guarantor to increase its fee. [Though an evaluation of the cost implications of two mechanisms is beyond the scope of this study, it was gathered that such guarantees are often perceived as costlier and riskier than insurance.]

Also, as loans are guaranteed, there is less incentive for lenders to actively monitor and manage risk (a costly exercise involving home visits), or even maintain the rigor of pre-loan due diligence checks; again leaving the guarantor to raise their fee. As this vicious cycle<sup>48</sup> could make mortgage guarantees ineffective, some foreign countries, mandate mortgage guarantee for all loans with a high loan-to-value ratio, allowing no choice for the lenders or borrowers of such loans. Critics hold that in a guarantee mechanism “Banks<sup>49</sup> can show lower non-performing assets/write-offs and can continue to lend recklessly now that guarantees can protect them” and also that irrespective of whether the lenders or the borrowers pay the fees, it would ultimately have to be borne by the borrowers.

Basel norms allow banks to set aside lower risk capital for loans with a mortgage guarantee as opposed to loans without mortgage guarantees. While the impact of shifting the risk to the Guarantee Company may be positive from a banking systemic risk point of view, experts argue that the risk is not actually mitigated but transferred to another entity, which does not have an alternate risk management mechanism. Arguably, the fact that the Indian Banking Regulator wants the IMGCC to keep a high capital adequacy ratio appears to validate this argument.

Regulators, in many parts of the world are increasingly realizing the potential of the insurance mechanism to manage risk in the post sub-prime crisis era. ‘The Canada Mortgage

and Housing Corporation’ (CMHC) has been described<sup>50</sup> as Canada’s “secret weapon” in the crisis. CMHC, a fully government owned corporation is hailed to have played a key role in regulating and structuring the housing sector and housing finance system in Canada through its mortgage insurance and securitization activities. In Canada nearly 50% of the mortgages were insured in contrast to 15% in the USA before the crisis (and 30% post crisis).

In the US Market, Private Mortgage Insurance<sup>51</sup> (PMI) enables lenders, loan purchasers, and investors to mitigate default risk on low-down-payment residential mortgages by transferring a portion of this risk to insurers, which specialize in managing this risk over the long term. Technically, PMI works in four basic forms in the USA. (i) Flow insurance is purchased at the time a loan is originated and provides coverage on an individual loan basis. That is, if a borrower applies for a mortgage loan beyond a threshold level, in a high loan-to-value mortgage, the lender may require that the loan be covered by PMI. While the lender generally selects the mortgage insurance carrier, it passes the cost of coverage on to the borrower. The lender receives the insurance benefit if the borrower defaults. (ii) Bulk insurance works when the insurer agrees to provide coverage on each loan in a larger group of loans (bulk transactions) that may have already originated. In case these loans already have flow insurance, this provides a second layer of protection. (iii) Pool Insurance involves the insurance of multiple mortgages and mortgage securitizations, aggregated for calculating coverage and claims, where the insurer generally covers all losses in the pool up to an aggregate limit. (iv) Reinsurance Mortgage allows the primary insurer to pass a portion of the risk to a third-party insurer affiliated with the lenders.

To conclude, as regards housing and housing finance risks, every market has its own specialties and evolves ways of managing them through formal regulations or market practices. Even when these risks are managed through insurance, though the underlying fundamentals and mechanisms remain the same, some market specific variances come into play based on local needs and local laws; as well as sector specific regulations. This study focuses on the needs of the Housing Industry and solutions offered (and can be offered) by the Insurance industry in an India specific context.

<sup>48</sup> The typical ‘Market for Lemons’ situation stated by economist George Akerlof (‘Lemons’ denote defective used cars) refers to the problem for both consumer, business and investment products “related to the disparity in the perceived value of an investment between buyers and sellers.” Investopedia <http://www.investopedia.com/terms/l/lemons-problem.asp>

<sup>49</sup> I bet you haven’t heard of IMGCC, Venky Panchapagesan, Associate Professor of Finance and Lead, IIMB-Century Real Estate Research Initiative, Indian Institute of Management, Bangalore. <http://www.livemint.com/Money/BbsTxN0Groef2pVB9ZJ6BP/I-bet-you-havent-heard-of-IMGCC.html>

<sup>50</sup> Securities and Housing Finance in Canada and the Global Financial Crisis –Aniket Bhushan, The North-South Institute, May 2010

<sup>51</sup> The Role of Private Mortgage Insurance in the U.S. Housing Finance System - 2011 Promontory Financial Group, LLC



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## 2. Risk Exposures of the Housing Industry and efforts to find Solutions

**[Chapter Structure:** The second chapter examines the risks faced by the Housing Industry at both macro and micro levels from the point of view of mitigating them through the insurance mechanism. It also discusses the insurance practices that are generally accepted in different countries. The approach of this chapter is intended to facilitate policy level thinking and strategic decision making.

At the macro level, the importance of mitigating risks in housing and housing finance are examined from Corporate and personal levels. Factors that have impeded the usage of insurance resulting in the gap between Economic and Insured losses, including the lack of insurance awareness are also touched upon. The chapter points out the conceptual relevance of insurance and discusses how different countries have managed their natural catastrophe risks as well as how Home Insurance evolved over the years to protect the growing needs of the Housing Sector. Experiences in this regard in various countries like Australia, Belgium, Brunei, Czech Republic, Germany, Hong Kong, Hungary, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Philippines, Portugal, Singapore, South Africa, Switzerland, Thailand, Turkey, the United Kingdom and the United States of America are mentioned.]

Some of the prime concerns of the housing industry need to be examined at a conceptual level and the extent to which these can be addressed by the insurance mechanism need to be assessed. From a management perspective and requirement of bringing about changes at policy levels and strategic levels, this study, groups the Housing industry's exposure to various risks into two broad buckets – macro or institutional/corporate level and micro or individual level. The macro level concerns are examined from a risk point of view and existing/possible solutions that are already available in the Indian/international markets are discussed. The solutions discussed are mostly generic insurance policies, some of which are being customized by multiple general insurers to take care of specific concerns of customers.

### 2.1. Securing Advances for Project Financing

The Housing Finance industry faces a set of concerns relating to securing the funds advanced for project financing. Despite best assessments and evaluations, projects are susceptible to failure.

Reasons for failures can be various. Prominent among them are bankruptcy of the builder/ developer or their contractors, failure of the builder/ developer/ contractor or their agents to fulfill statutory compliances, fraud by the builder/ developer/ contractor or their agents, death/ disability/ disease of the major stakeholders, loss of assets due to natural or man-made catastrophe, failure of business due to changing market conditions, loss of right on property due to flaws in the title of the property, adverse court decisions on disputable title, unexpected legal liabilities to employees/ third parties/ the general public, demurrage due to delay, liability due to project overrun, unexpected changes in public policy or laws of the land, sudden property market fluctuations, terrorism etc.

Reasons for non-repayment of project finance can be diverse. In *M/s. Sathya Foundations Private Vs. Indbank Housing Limited<sup>52</sup>* and Others, the builder failed to repay the loan amount “since the Tamil Nadu Slum Clearance Board sought to acquire the lands immediately abutting the land which was being developed by them, the proposed purchasers panicked and stopped making the payment towards the purchase of flats and hence the project came to a standstill.”

Such risks can be reduced to some extent by the financing entity by efficient project finance analysis. However, despite taking due care, most of these concerns appear suddenly and unexpectedly and render the stakeholders in disarray.

Many of these challenges can be addressed through specific insurance policies available with most general insurance companies in the country. Indian insurers are providing fire insurance, project insurance, employers' liability/workmen compensation insurance, public liability insurance, professional negligence insurance, fidelity guarantee insurance, contractor's liability insurance providing protection for most of the concerns cited; as well as covering risks like terrorism and natural catastrophe as add-on covers. Life insurers provide key person insurance.

It is significant that the protection offered by many General Insurance policies is not utilized by customers of the housing industry. A major reason for the gap between economic losses and insured losses is the low penetration of general insurance and underinsurance due to various reasons. In the event of natural catastrophe like *Hudhud* Cyclone or Chennai

<sup>52</sup> *M/s. Sathya Foundations Private Vs. Indbank Housing Limited and Others, Writ Petition No.10594 of 2008, in the High Court of Judicature at Madras – Judgment Date - 1.10.2010.*

floods many were uninsured or heavily underinsured. *Sigma* of Swiss Re<sup>53</sup> reports that in the Chennai flood which affected the cities of Chennai, Cuddalore and Kancheepuram and neighboring districts, “the total losses were estimated to be at least USD 2 billion” and added that “Insured losses were USD 0.8 billion, making the floods the second costliest insurance event in India on sigma records.”

## 2.2. Exposure of the Housing Sector to Natural Catastrophe

One of the most credible sources of disaster related data is the Centre for Research on the Epidemiology of Disasters<sup>54</sup> (CRED), which promotes research, training and technical expertise on humanitarian emergencies, particularly in public health and epidemiology for over 40 years in the fields of international disaster and conflict health studies. CRED’s Emergency Events Database (EM-DAT) was developed in 1988 to improve disaster preparedness, assist rational decision making and providing an objective base for vulnerability assessment. EM-DAT<sup>55</sup> contains essential core data on more than 18,000 mass disasters all over the world from 1900.

CRED has been kind enough to share some India specific data for research purposes. Some natural disaster related information from 2000 to 2016 which may be relevant for this study is presented below while further details are provided at **Annexure D**.

**2.2.1: Gap between Economic and Insured Losses:** The main point to be noticed in the table is the huge gap of 93.5% between economic losses incurred and those insured. Of the total damage to property due to earthquakes amounting

to USD 4.84 billion [484.08 crores] only 2.2% were covered by insurance. Again, out of the USD 43.16 billion [4,316.43 crores] economic losses due to floods, only 6.7% was insured. Of the USD 10.7 billion [107.1 crores] cost of storm and cyclonic losses, only 7.8% was insured and no part of the landslide losses were covered.

India is vulnerable to a large number of disasters. As per the data compiled by the National Disaster Management Authority (NDMA), more than 58.6% of the Indian landmass is prone to earthquakes; over 12% (40 million hectares) of its land is prone to floods and river erosion; nearly 76% of the country’s 7,516 km long coastline is prone to cyclones and tsunamis; 68% of its cultivable area is vulnerable to droughts; and the hilly areas are generally at risk from landslides and avalanches. Increased vulnerabilities arising from unplanned urbanization, development activity in high-risk zones, environmental degradation, climate change and geological hazards seriously threaten India’s economy, its population and sustainable development. Information regarding the components of the economic losses is generally unavailable.

**2.2.2: Tsunami Hazard:** After the Tsunami of 26<sup>th</sup> Dec., 2004, in an effort to create an efficient early-warning mechanism, the Indian Tide Gauge network was modernized with 36 state-of-the-art digital tide gauges co-located with dual frequency GPS receivers at strategic locations along the Indian coastline and islands. Of the 7,516 km long coastline close to 5,700 km is highly prone to tsunamis and cyclones. The locations of the Tide Gauge Network along the Indian coastline are presented for information. Tidal and GPS data are being transmitted

Summary of Major Natural Disasters in India from 2000 to 2016

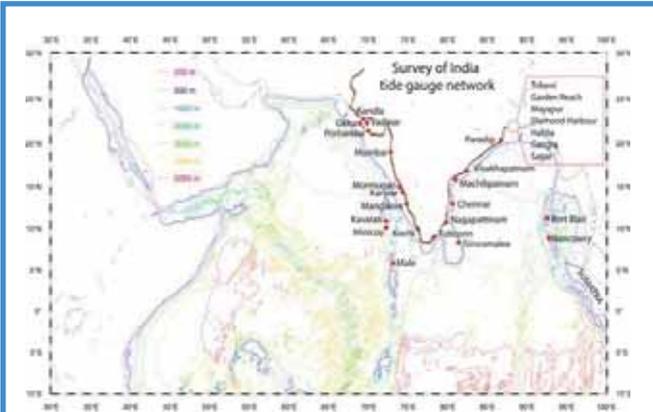
Disaster Type	Disaster Details	Total affected	Total deaths	Total damage ('000 US\$)	Insured Losses ('000 US\$)	% of Insured Losses
Earthquakes	Ground Movement, Tsunami, Landslide, Mudslide	7,779,074	37,926	4,840,800	105,000	2.2
Floods	Riverine, Flash, broken Dams, Broken Banks, Mudslide	296,247,438	23,789	43,164,347	2,907,000	6.7
Landslide	Landslide, Avalanche	21,263	855	50,000	-	-
Storm	Tropical Cyclone, Convective Storm with Rain/Surge	21,055,387	1,998	10,709,512	836,000	7.8
<b>Total</b>		<b>325,103,162</b>	<b>64,568</b>	<b>58,764,659</b>	<b>3,848,000</b>	<b>6.5</b>

Source: EM-DAT: The Emergency Events database - Universite catholique de Louvain (UCL) - CRED, D, Guha-Sapir - [www.emdat.be](http://www.emdat.be), Brussels, Belgium

<sup>53</sup> ‘Natural catastrophes and man-made disasters in 2015: Asia suffers substantial losses’, Swiss Re Sigma - Report No: 1/2016

<sup>54</sup> Centre for Research on the Epidemiology of Disasters - <http://www.cred.be/>

<sup>55</sup> Emergency Events Database - <http://emdat.be/database>



**Figure 1:** Tide gauge network of India.

**Source:** NDMA Website: <http://www.ndma.gov.in/en/vulnerability-profile.html>

in real time to a central hub installed at National Tidal Data Centre at Geodetic & Research Branch, Survey of India, Dehradun.

**2.2.3: Flood Hazard:** NDMA has reported<sup>56</sup> about the Kosi Floods that hit North Bihar in 2008, when 3.3 million persons were affected, 527 people lost their lives, 19,323 livestock were left dead and 223,000 houses were damaged. Similarly, in the Cyclone that hit Andhra Pradesh in 1996, 1000 people died and 5,80,000 houses were destroyed, contributing to INR 20.86 billion [208.6 crores] of losses.

Outflow of excess water from the Krishna and Bhima Basins from Koyna Reservoir of Maharashtra have caused floods in Karnataka. These have affected 1.2 million [12 lakhs] people and damaged 20,000 houses in 2005-06.

During the floods which ravaged the coastal areas of Tamil Nadu in November - December 2015, a total of 493,716 huts were completely damaged and 2,548,152 houses were surrounded by rainwater for at least two days.<sup>57</sup>

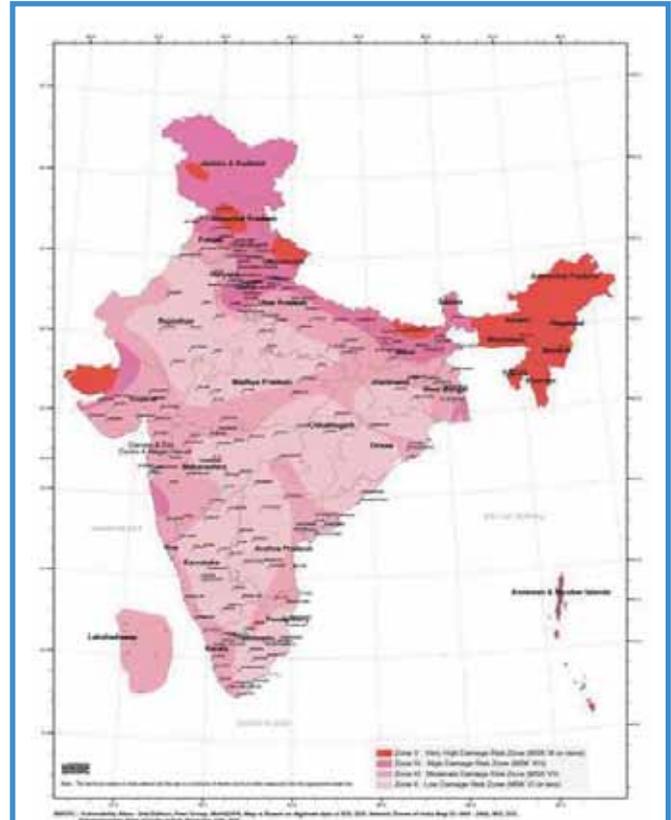
Kashmir<sup>58</sup> suffered disastrous floods across many of its districts caused by torrential rainfall in 2014. 277 people in India and 280 people in Pakistan reportedly died due to the floods. 2600 villages were reported to be affected in Jammu and Kashmir, of which 390 villages were completely submerged. Many parts of Srinagar were inundated and vital roads were submerged by the floods.

<sup>56</sup> 'National Disaster Management Authority (NDMA) - <http://www.ndma.gov.in/en/hazard-risk-response.html>

<sup>57</sup> Chennai flood relief: Tamil Nadu government disburses aid for 14 lakh families - <http://indiatoday.intoday.in/story/chennai-flood-relief-tamil-nadu-government-disburses-aid-14-lakh-families/1/563549.html>

<sup>58</sup> 2014 India Pakistan Floods, Wikipedia, [https://en.wikipedia.org/wiki/2014\\_India%E2%80%93Pakistan\\_floods](https://en.wikipedia.org/wiki/2014_India%E2%80%93Pakistan_floods)

<sup>59</sup> 2013 North India Floods, Wikipedia, [https://en.wikipedia.org/wiki/2013\\_North\\_India\\_floods](https://en.wikipedia.org/wiki/2013_North_India_floods)



**Figure 4:** 58.6% of the Indian landmass is prone to earthquakes of moderate to very high intensity.

**Source:** NDMA Website

A multi-day cloudburst centered on the North Indian state Uttarakhand caused devastating floods and landslides in June 2013. The floods occurred<sup>59</sup> because the rainfall received was on a larger scale than the regular rainfall. The debris blocked up the rivers, causing major overflow. Over 89% of the casualties occurred in Uttarakhand. More than 5,700 people were reported dead. Unusually heavy rainfall (about 375% more than the benchmark rainfall) during a normal monsoon caused the melting of Chorabari Glacier at the height of 3800 metres, consequent eruption of the Mandakini River causing heavy floods. Landslides due to the floods damaged several houses and structures, killing those who were trapped. The heavy rains resulted in large flashfloods and massive landslides causing entire villages to be obliterated. A sudden rapid melting of ice and snow on the Kedarnath Mountain, 6 km from the famous Kedarnath Temple flooded the Charbari

Lake (upstream) and then Kedarnath due to which the base of the temple was inundated with water, mud and boulders, damaging its perimeter resulting in several casualties.

**2.2.4: Cyclone Hazard:** The Wind and Cyclone hazard map of the NDMA (presented) indicates how over 40 million hectares (12% of land) of the Country is prone to floods and river erosion. Further, 470 lives were lost and 347,000 hectare of agriculture land plus 35,471 hectare of horticulture crop was damaged (total 382,000 hectare) as per reports.<sup>60</sup> 3,785 milch animals, 8,136 goats, 109 pigs, 85,895 hen, around 4000 fishing country crafts and motors, as well as 8106 fishing nets were also affected by the floods. *[These details are presented so that the problem is stated in its entirety.]* In Andhra Pradesh, as per NDMA data, about 13,000 lives, 338,000 cattle and nearly 3.3 million [33 lakhs] houses were damaged due to cyclones and floods between 1977 and 1992.

**2.2.5: Earthquake Hazard and Lessons from Bhuj:** From the heat map on Earthquakes presented, one finds that 58.6% of the Indian landmass is prone to earthquakes of moderate to very high intensity. The Gujarat earthquake, also known as the Bhuj earthquake<sup>61</sup>, occurred on 26 January, 2001 and lasted for over 2 minutes. The intra-plate earthquake reached 7.7 on the Moment Magnitude scale (6.9 on the Richter scale) and had a maximum felt intensity of X (Extreme) on the Mercalli intensity scale. The earthquake killed between 13,805 and 20,023 people, injured another 167,000 and completely destroyed<sup>62</sup> about 300,000 homes and damaged another 700,000. The Government had a massive task of removing the rubble, setting up temporary shelters, reconstructing damaged houses and retrofitting undamaged units. The total number of eligible houses to be repaired was 929,682 and the total number of eligible houses to be reconstructed was 213,685. Buildings fell in two categories (i) non engineered dwellings with load bearing walls supporting tiled or RC slab roofs and (ii) RC frame buildings with unreinforced masonry in-fills. Non-engineered masonry buildings with random rubble stones, cut stones, burnt clay-bricks and solid/ hollow cement bricks in the Kutch region (meizo-seismal area) collapsed, killing many people. It was significant that while masonry buildings of up to 4 stories at Ahmedabad (about 225 kilometers from the epicenter) withstood the quake, a

## Framework Recommendations

When assessing the availability, breadth, and depth of private market risk transfer solutions for disasters, and in particular in regard to disaster insurance, the following main elements can be considered:

- 1) The hazards covered (natural and/or man-made, depending on the disaster risk profile of the economy) against which coverage is available
- 2) The scope of losses covered (e.g. property damage, business interruption, life, accident, liability) by insurance.
- 3) The segments of the population and the economy for which coverage is available (e.g. households in urban areas, households in rural areas, farmers and herders, small business enterprises, large commercial and industrial corporations, local governments)
- 4) The contractual mechanism by which disaster coverage is made available on the market (e.g. stand-alone policies, optional endorsements to other policies)
- 5) The pricing mechanism of insurance coverage.

number of RC frame buildings collapsed or were severely damaged. It was observed<sup>63</sup> that many of these buildings were designed for gravity loads and not for lateral forces.

Buildings with an open first storey (ground floor) meant for vehicle parking collapsed, proving the classical 'soft story' situation during earthquakes. Though there are well developed seismic codes for buildings in line with international practices, most buildings in the region, including multi-story buildings had not followed seismic provisions. Attempts for compliance were found only with Government organizations and *"in the private sector where property developers invest in the building for sale of residential units to individuals, there is pressure to minimize structural costs."* It was also pointed out<sup>64</sup> that *"many architects insist on slender columns so as to make them flush with the infill walls; a building may have column width as low as 125 mm or 5 inches"*. There were

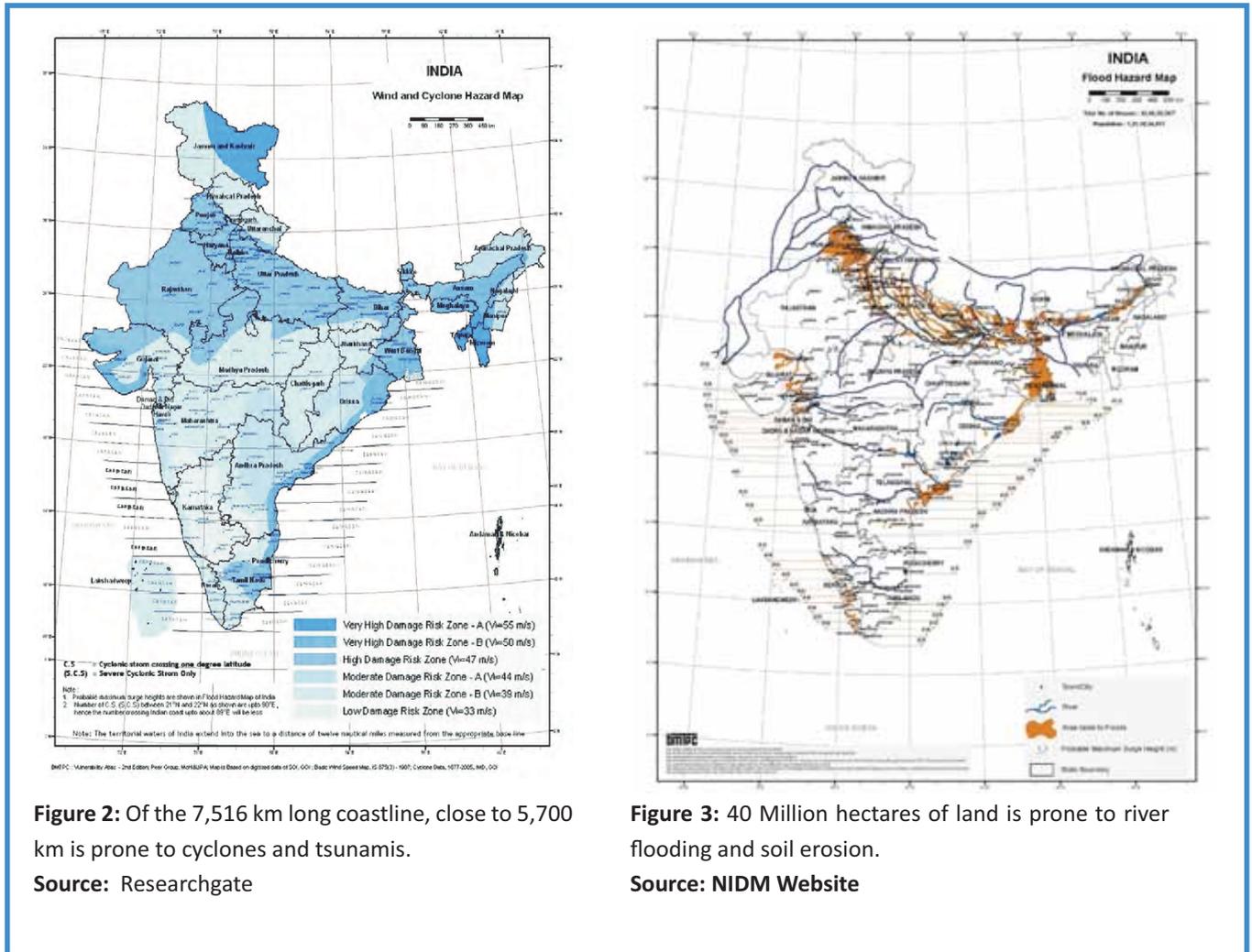
<sup>60</sup> Tamil Nadu Flood 2015: Joint Detailed Need Assessment Report - District Level Shelter, Food, Nutrition & Livelihood and WASH - <https://sphereindiablog.files.wordpress.com/2016/02/jdna-report-district-level-tn-floods-2015.pdf>

<sup>61</sup> Gujarat Earthquake – Wikipedia, [https://en.wikipedia.org/wiki/2001\\_Gujarat\\_earthquake](https://en.wikipedia.org/wiki/2001_Gujarat_earthquake)

<sup>62</sup> EERI Special Earthquake Report, April 2001, by Jaswant Arlekar, IIT Kanpur, Donald Ballantyne, EQE International, USA et al. [http://www.iitk.ac.in/nicee/skj/Research\\_Papers/INL\\_005.pdf](http://www.iitk.ac.in/nicee/skj/Research_Papers/INL_005.pdf)

<sup>63</sup> *ibid*

<sup>64</sup> *ibid*



**Figure 2:** Of the 7,516 km long coastline, close to 5,700 km is prone to cyclones and tsunamis.

**Source:** Researchgate

**Figure 3:** 40 Million hectares of land is prone to river flooding and soil erosion.

**Source:** NIDM Website

heavy damages to multi-storey buildings due to the collapse of water tanks built on top of them, mostly as cantilever appendages. Insufficient lateral load transfer between the RC elevator shafts and the rest of the structure<sup>65</sup> were also observed.

An Earthquake with an iso-seismic area of about 36,000 sq.km (about 300 km. in length) affected a large part of Patna, Munger, Motihari, Muzaffarpur and Darbhanga in Bihar as well as Bhatgaon and Kathmandu in Nepal in 1934. It killed 25,000 persons in India and Nepal and destroyed innumerable villages in between, though it is a matter of record<sup>66</sup> that many of the houses got sunk in the ground.

Landslide is another challenge for buildings. In 1983, 250 houses were damaged in Aizawl city due to landslide. Government agencies like the National Disaster Management Authority (NDMA), the National Disaster Response Force

(NDRF) and the National Institute of Disaster Management (NIDM) are working towards developing ex-ante and ex-post measures to reduce the impact of natural disasters.

The erstwhile Tariff Advisory Committee in India used to delineate Earthquake Zones and incorporate Earthquake maps as part of the All India Fire Tariff. Post detariffing, some companies continue to use the old maps; some rely on the newer maps by Governmental agencies like the NDMA. Some insurers follow Disaster maps of international mapping specialists like Risk Management International (<http://rmi.ie/>) and RMSI (<https://www.rmsi.com/>). Sources providing disaster maps and allied services include National Remote Sensing Centre of ISRO, (<https://nrsc.gov.in/floods>), Global Flood Maps (<http://globalfloodmap.org/India>), India Water Portal (<http://www.indiawaterportal.org/>) and Maps of India (<http://www.mapsofindia.com/>).

<sup>65</sup> *ibid*

<sup>66</sup> NDMA Website - <http://ndma.gov.in/en/bihar-sdma-office>

### 2.3. Mitigating Cost of Natural Catastrophe through Insurance - Global Practices

The G20/OECD Methodological Framework<sup>67</sup> recommends “a comprehensive and integrated approach for disaster risk financing strategies, including an assessment of the availability, adequacy and efficiency of different types of financial tools available to the population and within the economy, as well as their costs and benefits relative to other types of possible risk education measures”.

The Framework recommends private insurance as one of the main risk financing tools for businesses, households and governments to strengthen their financial resilience against disasters and to complement their investments in risk reduction. “Risk transfer instruments, such as insurance, allow for the shifting of a portion of disaster risks to others, in exchange for a price, and for the spreading of such risks. Within insurance markets, reinsurance plays an essential role in managing the financial impacts of disasters, given its ability

#### Some Key Aspects of Disaster Insurance

- 1) **Hazard covered:** Single/ Selected group/ All
- 2) **Scope of losses covered:** Damage to property, e.g.: Residential commercial/ Private/public (buildings and infrastructures)/ Damage to motor and transport vehicles/ Business interruption/ Life, accident/ Liability
- 3) **Segments of the population and economy covered (Policy holders):** Households (e.g. urban, rural)/ corporate (e.g. large commercial, small and medium-sized enterprises (SMEs), agriculture)/ Financial sector/ Government (e.g. central, local)
- 4) **Construction Mechanism:** Standalone policy/ Extension/endorsement/ Linked to separate contract, financial or non-financial/ Credit-linked insurance (e.g. mortgage, loan)/ Insurance linked to an infrastructure concession, engineering contract
- 5) **Pricing:** Flat/ Risk-based
- 6) **Other policy features:** Deductibles/ Co-insurance/ Basis of claim (indemnity-based or parametric-based)

to distribute risk and losses internationally. “A high level of dependence on the Disaster insurance mechanism is found in many developed countries, which facilitates rapid economic recovery in the aftermath of major disasters and reduces interruption to economic activity.

The framework points out that “in a number of economies, governments have sought to promote greater coverage against disaster risks through legislative and regulatory measures, as well as through subsidies and other financial incentives.” In some economies, the private sector has to provide for disaster insurance coverage, as an add-on to voluntary fire insurance policies, as per statute. In some others, insurance of disaster risks has been promoted through public-private collaboration.

Some experiences from the Framework are excerpted below with modifications.

**2.3.1. Australia:** A well-established private insurance market exists. Insurance allows the economy to manage risks more effectively, reducing financial uncertainty in the event of a disaster and allowing for a more efficient use of capital by individuals, businesses, and government. A series of natural disasters in Australia in recent years, including the Queensland floods of 2010-11 and Cyclone Yasi in 2011 resulted in insured losses running into the billions of dollars. The government is reviewing natural disaster insurance arrangements after the Canterbury earthquake sequence. Australia has Private-Public partnerships as well.

**2.3.2. New Zealand:** A high penetration of government-provided earthquake insurance coverage exists in New Zealand. The Earthquake Commission (EQC), a Crown entity of New Zealand is the primary provider of disaster insurance for most risks of residential property owners who insure against fire. EQC administers the National Disaster Fund (NDF) which is guaranteed by Government. The EQC scheme covers residential buildings subject to a per-dwelling cap of NZD 100,000 and contents up to NZD 20,000 for earthquake, volcanic eruption, natural landslip, hydrothermal activity, tsunami and fire caused by these perils.

**2.3.3. Belgium:** It is compulsory for all private insurers in Belgium that offer home insurance policies to include natural disasters including flood, earthquake, landslide and storm risks (including damage caused by hurricanes and other bursts of wind as well as by hail, snow and ice pressure). Though it

<sup>67</sup> Disaster Risk Financing - A global survey of practices and challenges, Published on November 04, 2015, ‘G20/OECD methodological framework on disaster risk assessment and risk financing’, <http://www.oecd.org/gov/risk/g20oecdframeworkfor-disasterriskmanagement.htm>

### Natural Disaster Insurance Review in Australia and New Zealand

Following major floods in Queensland during Dec. 2010-Jan. 2011, the Government launched the Natural Disaster Insurance Review (NDIR) to consider issues related to the availability and affordability of insurance offered by the private insurance market.

Triggers for the Review were the absence of flood insurance for many policyholders and evidence of under-insurance for bushfires, cyclones and floods. Also, many home insurance policies covering storm damage, including related water damage did not cover flood damage. This created frustration and confusion among policyholders. Some had opted not to take flood coverage where it was available. Some were unaware that their insurance did not cover flood or that it gave only partial coverage. “The lack of flood coverage in many home insurance policies led to a community backlash against insurers during 2011 and considerable distress, financial loss and disillusionment for many insured homeowners.”

“The NDIR was set up primarily to explore options for the most preferable risk sharing arrangements, with the overarching premise that there was no desire to interfere with the private market whilst it was functioning satisfactorily. There was a particular emphasis on examining the extent of non-insurance and underinsurance and ways of remedying this outcome. The biggest problem was in relation to the operation of exclusion clauses.”

Source: Disaster Risk Financing - A global survey of practices and challenges, Nov. 04, 2015, 'G20/OECD methodological framework on disaster risk assessment and risk financing', <http://www.oecd.org/gov/risk/g20oecdframeworkfordisasterriskmanagement.htm>

is not compulsory for home owners to cover disaster risks, insurances providing such coverages are quite popular. A large part of the population opt for disaster risk coverage on a voluntarily basis. However, there are certain limitations on the extent of cover, such as:

- The total sum insured for a building and its contents must not exceed EUR 1.466 million; and for goods that are used for trade or industry, must not exceed EUR 471 million.
- The scope of coverage includes homes, farms, horticulture, wine, fruit and livestock, and covers damages to buildings and furniture. It does not include business interruption or corporal damages.

- If the limits are breached, the Caissenationale des Calamities (National Disaster Fund) may intervene to expand on the coverage provided by private insurers.
- When it is difficult for a consumer to insure certain risks like a frequently flooded home or if private insurers refuse coverage or accept the risk only at a very high premium, the Bureau de tarification – Catastrophes naturelles, a public institution (Office of Pricing Natural Disasters) arranges tariff rates and conditions for natural disaster risk policies that insurers refuse to cover under their terms. [The benefits, losses and operating costs of the Office are shared by insurers offering simple risks and fire insurance in Belgium and the members of the National Disaster Fund.]

**2.3.4. Brunei:** There is no specific disaster insurance available. Coverage for disasters like floods and landslides are included in property cover.

**2.3.5. Czech Republic:** Coverage for the full range of natural hazard risks is available for households, companies, agricultural producers and the government. Disaster insurance is not compulsory. The existence of old dwellings in uninsurable flood zones is a challenge. The government does not issue a building permit in the flood zones and bans activities that could worsen drainage functions within the flood zones.

**2.3.6. Germany:** Insurance coverage for natural catastrophes including flood is available practically everywhere. Coverage is usually provided at the building's sliding replacement value (i.e. automatically adjusted to the price trend, thereby reducing the possibility of underinsurance). However, market penetration remains low (approximately 33%). Natural catastrophe cover and flood insurance are not available in certain high risk areas like river valleys. (Attempts are on to make coverage available in those areas). Authorized experts conduct extensive risk assessment and issue flood resilience certificates to improve insurability of households located in flood exposed areas.

**2.3.7. Hong Kong:** Here insurance for disaster losses is provided by the private insurance sector and covers all segments (individuals, households, small businesses, large corporations). Almost all policies cover earthquake, either as a specified peril (earthquake shock and fire, volcanic eruption and tsunami) or as part of an all risks wordings without specific charge.

**2.3.8. Hungary:** Household insurance products cover all disaster risks. A well-developed system of insurance coverage

including natural hazards- flood, storm, hail, earthquake and landslide has a relatively high penetration rate at approximately 75%. In high risk localities, some policies exclude flood. Those who are not able to get flood insurance can access the state fund Wesselenyi Miklos Ar-es Belvizvedelmi.

**2.3.9. Indonesia:** Here the Government has established a statutory approach by creating a reinsurance pool owned and operated by the private insurance industry. Asuransi Maipark, a specialist reinsurance company was established for the purpose. Premiums are based on the type of property, type of construction, the number of stories, the location and the policy coverage.

**2.3.10. Japan:** Earthquake insurance is available as an optional cover to fire insurance for residential buildings providing coverage for fire, destruction, burial or flooding caused by earthquake, volcanic eruption or resulting tsunami. The Japan Earthquake Reinsurance Company Ltd. was created with the specific purpose of providing earthquake reinsurance for private insurers. Income tax deductions are also allowed on Earthquake insurance premiums.

**2.3.11. Korea:** Both Central and State Governments support disaster insurance programs by way of partial premium subsidies. Though private insurance is available for most risks, governmental schemes were created through the National Emergency Management Agency (NEMA) to provide cover for earthquake, storm, flood including typhoon, flood, heavy rain, strong winds, waves, snow and tsunami in respect of residential property. NEMA was replaced by the Central Fire Service (CFS) founded under the Ministry of Public Safety and Security.

**2.3.12. Malaysia:** Disaster insurance is not available on a stand-alone basis. There is little demand for such products, due to the low level of disaster risk other than occasional floods. Household property insurance of private sector insurers covers hurricane, cyclone, typhoon, windstorm, earthquake, landslides and floods.

**2.3.13. Mexico:** Disaster insurance is supported by Income Tax deductions as well as by legal frameworks for insurance called 'Ley General de Instituciones Y Sociedades Mutualistas de Seguros'.

**2.3.14. Philippines:** With the support of the Asian Development Bank, the Insurance Commission of the Philippines has created the Earthquake Protection Insurance Corporation (EPIC) to provide an earthquake insurance scheme to complement the insurances offered by private insurers.

**2.3.15. Portugal:** Earthquake protection remains low in Portugal. The Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF), the Portuguese Insurance and Pension Funds Supervisory Authority has designed a public fund to accumulate financial resources to cover earthquake related losses, with the Government in the role of insurer of last resort. ASF's efforts to make earthquake cover mandatory has not yet fructified.

**2.3.16. Singapore:** Insurance products covering most disaster perils are available to individuals, corporate entities, and government. Most mandatory fire insurance policies are available with mortgage loans or as a Management Corporation Strata Title (MCST) property and offer basic coverage against damage to the building structure or common areas by fire, lightning, bursting or overflow of water tanks and apparatus, malicious intent and floods.

**2.3.17. South Africa:** The Government established the South African Special Risks Insurance Association (SASRIA) to tackle the resistance of the private insurers to provide political and terrorism risks. Disaster cover is provided for residences, though the focus is more on man-made disaster.

**2.3.18. Switzerland:** Here, there is a dual system for the provision of natural disaster insurance. In the seven Swiss cantons that do not have a cantonal monopoly insurer, Private insurers are obligated to offer natural catastrophe coverage for flood, storm, hail, snow, avalanche, snow pressure, rock fall, rockslide and landslide as part of fire insurance for buildings. In 23 of 26 cantons, it is compulsory for Private insurers to provide cover for home contents. In 22 Swiss cantons, it is mandatory for the building owners to insure buildings against natural catastrophes. Coverage for contents is, however, not mandatory. As almost all buildings are insured for natural catastrophes, the penetration rate for natural disaster is high.

**2.3.19. Thailand:** Insurances for the entire range of disasters were available in Thailand. However, after the devastating floods of 2011, many insurers were in the red and were not in a position to offer disaster insurances. The government established the National Catastrophe Insurance Fund (NCIF) to help out by way of a reinsurance reserve. This has enabled the local insurers to cover disaster risks, retain a part with them and transfer the rest to the NCIF.

**2.3.20. Turkey:** Following the 1999 earthquakes in the Marmara and Duzce regions of Turkey, the Turkish Catastrophe Insurance Pool (TCIP) was established with World Bank support. TCIP seeks to provide affordable insurance

protection. Earthquake cover is mandatory for dwellings in municipal areas, with compulsory limits. The limit was fixed at TRY 150,000 in 2012 which is periodically reassessed based on changes in the construction price index.

House owners are free to cover their properties for higher values as per their assessments. Premiums would vary between 0.4 per mille to 5.5 per mille based on factors like seismicity, local soil conditions and the quality and type of construction.

**2.3.21. The United Kingdom:** The Government has many agreements making the insurers to cover disaster risks and the Environment Agency provides plans to defend properties against flooding. It has a not-for profit reinsurance scheme (Flood Re) to make flood risks insurable.

**2.3.22. The United States of America:** The United States has a residential flood insurance provided by the federally run National Flood Insurance Program (NFIP), reflecting the true flood risk costs. Many States of the USA have insurance pools for storm risks, for the benefit of residential and commercial customers facing difficulty in placing their risks with the private insurance companies. The California Earthquake Authority (CEA) provides catastrophic residential earthquake insurance and insurers can choose whether to participate in the same or offer their own products. In Florida, a not-for-profit, tax-exempt entity - the Citizen's Property Insurance Corporation (CPIC) provides insurance protection against storms on similar lines. Both entities make use of the Capital Markets to transfer their risks through Cat Bonds.

**2.3.23. India:** Natural catastrophe situations in India and insurance related experiences are discussed in detail under 'Annexure D'.

## 2. 4. Global Perspectives and Evolution of Home Insurance

Home Insurance has evolved into a full-fledged market over the last half-century, though the origins and growth can be traced to earlier periods. There are quite a number of interesting contexts that has necessitated its change. Though the matter is of international significance and multiple countries have been affected in different countries, many of the major changes in home insurance were in the context of the US market and the challenges faced by its housing industry. The U.S. home loan market before the

1930s featured variable interest rates, high down payments and short maturities which are practically unrecognizable today. Before the Great Depression<sup>68</sup>, homeowners typically renegotiated their loans every year, but the market stabilized soon after.

**2.4.1. Home Insurance Market in the United States of America:** Historically, the USA is the biggest home insurance market and it has kept in pace with the growth of its home loan/ mortgage industry. The first homeowners' policy on record in the US market was sold in 1734 and gave protection against only one peril - fire. However, the 'Friendly Society for the Mutual Insurance of Houses against Fire', which sold the insurance policy soon went out of business when the great fire of Charles Towne (today's "Charleston"), South Carolina wiped out nearly the entire town.<sup>69</sup> In 1752, the 'Philadelphia Contributionship for the Insurance of Houses from Loss by Fire' became the first mutual fire insurance company in America. Other insurance companies soon followed to give protection for fire damage to houses, but there was no commonality about the other few coverages, terms and conditions offered by different insurance companies. 'Wind damage' was being covered under a separate insurance policy, not necessarily by the insurance company that gave the fire cover. Though Property owners purchased insurance to hedge the risk of loss by fire and by wind (which was popular at that time), it took some years for the coverages and rating factors to stabilize. Arguably, the first rating factor considered by all insurers at that time was 'flammability of the building material'.

After many consumer complaints and court decisions, the first uniform property insurance policy<sup>70</sup> called the '165-line New York Standard Fire Policy' got designed in 1918 and was adopted as a basic form in many states. Though it may appear basic in today's context, it covered fire and lightning and by endorsement also covers windstorm, hail, explosion, riot, air craft, vehicle damage, smoke damage, and sometimes vandalism and malicious mischief, this policy became the basis of all personal property policies today. In the 1940's insurers began offering liability protection along with protection of the property against loss caused by fire, theft, lightning, wind, explosion, hail, riot, vehicle damage, vandalism and smoke. This gave homeowners essential insurance protection at a price considerably less than the four separate policies they

<sup>68</sup> The Great Depression originated in the United States and became a severe worldwide economic depression that took place during the 1930s. Its timing varied across nations; from 1929 to the late 1930s. Considered the longest, deepest, and most widespread depression of the 20<sup>th</sup> century, the Great Depression is used as an example of how far the world's economy can decline.

<sup>69</sup> <https://www.ensurance.com/homeowners-insurance-history>

<sup>70</sup> *Ibid*

## Fighting Fires in early America

As American towns grew into dense cities, the situation was so bad that a single fire could threaten the lives of thousands. England had professional firefighters who were organized and paid for by insurance companies and responded only to fires affecting their insured. In early America which lacked institutions that fought fires and there being no major insurance companies to pay for such services, Americans had developed their own tradition of fighting fires as a grassroots collective. Such collectives came to be called as a 'bucket brigades' as neighbors from all around the fire would run to help or at least toss their buckets into the street for volunteers to fill with water and pass forward to be dumped on the fire.

In a scene from the film 'Gangs of New York', set in Civil War-era Manhattan, as a fire breaks out, a crowd gathers in the night. Volunteer from the Fire departments arrive one by one. But instead of cooperating to extinguish the blaze, the rival fire companies head straight for each other in an all-out brawl as the building burns. Experts say that in the 19<sup>th</sup> century context, there was some element of truth behind the scene. As per Timothy Winkle, Deputy Chair and curator of the division of home and community life at the Smithsonian's National Museum of American History, "There were rivalries in cities like New York and Baltimore where fire companies would go at it and be on opposite sides of civil unrest."

Around 1800, some early fire engines with manually operated pumps were horse-drawn. They required large groups of strong men to move them around. Riveted leather hoses and primitive hydrants were invented to take advantage of pressurized water sources. As buildings grew taller, stronger steam-powered pumps were needed. Those required fewer, but better-trained fire-fighters to operate. Volunteer fire companies serving as fraternal organizations as well as fire companies, gave death benefits for the family after the Fire-fighter dies, because there was no social safety net. The feeling of community bonding and the social security, which such fraternal organizations were providing, attracted volunteers to the risky business of fire-fighting.

**Excerpted and edited from Smithsonian magazine.** <http://www.smithsonianmag.com/smithsonian-institution/early-19-century-firefighters-fought-fires-each-other-180960391/>

were buying earlier to get same coverage. The revision of US laws in the 1950s allowed insurers to sell a wider variety of insurance and the Insurance Company of North America (INA), introduced new multiline<sup>71</sup> or package homeowner's policy (in September 1950) offering coverage for almost anything that could happen to a house and cost 20% less than the combined premiums on separate policies homeowners had to buy for similar coverage. The introduction of such comprehensive policies had a tremendous impact not only for the insurance industry, but for banking, savings and loan, and the home building industries as well. The protection offered by the new policies for homes and businesses provided more security to lenders' financial stakes in the real estate market. The Civil Unrest in the late 1960s resulted in a large number of damage claims in urban areas, making the sale of insurance policies unviable for insurers. Consequently, the Government imposed<sup>72</sup> FAIR (Fair Access to Insurance Requirements) plans, and assigned risk plans, essentially forming pools to spread

the risk of undesirable underwritings among a number of insurance carriers.

The next stage in the evolution was the introduction of the 'Homeowners 76' Policy in 1976 which standardized policies and simplified the contract language by organizing it into five parts, viz. (i) definitions, (ii) coverage, (iii) perils Insured, (iv) exclusions and (v) conditions. After revisions in 1982, 1984 and 1991, this Policy evolved into the "Homeowners' 91" Policy which covered dwellings used for residential purposes only (i.e. not used as farm houses, mobile homes or for business) and occupied by not more than two families, whether they were owners, renters or boarders. In the year 2000, the policy was changed again, this time making over 50 changes<sup>73</sup>, the most significant of which was the complete withdrawal of the Basic Form.

The insurance market became popular enough to attract insurers from other markets to set up offices in the USA. The 'Tokyo Marine Insurance Company' of Japan (which became the Standard Insurance Company of New York) started offering

<sup>71</sup> [https://www.loc.gov/rr/business/businesshistory/September/homeowners\\_ins.html](https://www.loc.gov/rr/business/businesshistory/September/homeowners_ins.html)

<sup>72</sup> <http://www.fundinguniverse.com/company-histories/the-home-insurance-company-history/>

<sup>73</sup> <https://www.ensurance.com/homeowners-insurance-history>

covers for fire, windstorm and flood as separate policies<sup>74</sup> in the US Market from the year 1918.

**2.4.2. Home Insurance Market in Japan:** The geographical location of Japan on the boundary between two tectonic plates - an oceanic plate and a continental plate has made it highly prone to earthquakes and tsunamis. Having been affected by about 20.8% of the world's earthquakes of magnitudes higher than 6.0, Japan has emerged as the second biggest market in terms of home insurance premium. Having witnessed 27,271 earthquakes in the 10 year period from 2005 to 2015, the Japanese insurance market has its own specialties. First of all, insurance payouts are pro-rated, meaning that there is a restriction that customers of the industry - homeowners and businesses would have to settle for a partial coverage of their losses. Secondly, on the payer's side there is a cap on the total claims paid out by both the government and private insurers as per the Japanese system.

The 'Tokio Marine Insurance Company' established in 1879 as the first Japanese non-life insurance company, started offering fire insurance in Japan<sup>75</sup> from 1914. Armed with the local market experience, it expanded its operations to the USA and started offering the fire insurance in USA from 1918 onwards.

**2.4.3. Home Insurance Market in the United Kingdom:** The insurance industry in the UK started at around 1688 and for at least one hundred years, the business focus was on marine hull and cargo. The Great Fire of London (1666) which destroyed more than 13,000 houses and displaced about 100,000 people, made many people realize the need for extending insurance protection to property risks and houses as well. 'The Insurance Office for Houses on the Backside of the Royal Exchange', established in 1681 as a mutual scheme for house insurance, guaranteed by a property investment fund, is regarded as the first fire insurance company in the UK. The trust deed of the Insurer allowed it to insure up to 10,000 houses, but it went out of business<sup>76</sup> in 1710. 'The Friendly Society for Securing Houses from Loss by Fire' which entered the market in 1683 and issued 23,000 policies, also closed down in 1730. 'The Hand-in-Hand Fire and Life Insurance Society' started fire insurance business in 1696 and could manage a firm foothold in the UK market. 'The

Sun Fire Office' came up in 1710 followed by 'the Union' in 1714, 'the Westminster' in 1717, 'the London' in 1720, and 'the Royal Exchange' in 1720. The housing industry and housing insurance were booming and the insurers enjoyed the longevity that the market needed.

From an academic point of view, these early initiatives called as Fire Offices can be essentially classified as three types viz., (i) Mutual Societies like the Hand-in-Hand and the Union; (ii) Unincorporated Companies or Extended Partnerships like the Sun and (iii) Privileged Chartered Monopolies like the Royal Exchange. All of them believed in loss prevention and loss minimization and made efforts to reduce their risk exposures by inculcating good risk management practices among the insured. Some of these Fire Offices were also having their own fire brigades<sup>77</sup>.

A broad formula for classifying Fire risks was also in place. The classifications were (a) Common Insurance - covering brick and stone buildings not used for hazardous trades, (b) Hazardous Insurance - covering timber and plaster buildings or brick and stone buildings housing hazardous trades and (c) Doubly Hazardous Insurance covering timber and plaster buildings used for hazardous trades and all premises of sugar bakers, distillers, china and glass manufacturers and other dangerous trades. This classification system was generally followed until the late 19<sup>th</sup> century. In between, 'the Sun Fire' added special categories for steam-powered mills and refineries which were generally accepted. By 1825, the Fire Offices<sup>78</sup> had better cooperation and a system of exchanging among themselves information about all classes of risk in a continuous manner. These ultimately culminated in the formation of a Fire Insurance Tariff which was on the lines of forming a cartel<sup>79</sup>.

The process of evolution in the UK has come through several historic events down the years - the insurance industry was put under pressure by government to provide cover for flood, there were threats of nationalization as well. Insurers agreed to provide cover at premiums made implicitly affordable through a process of cross-subsidies. The UK Government committed to flood mapping the entire country. It committed funds to mitigation, flood prevention and enforcing action

<sup>74</sup> <http://www.tokiomarine-nichido.co.jp/en/us/principles/history.html>

<sup>75</sup> <http://www.tokiomarine-nichido.co.jp/en/us/principles/history.html>

<sup>76</sup> <http://www.alisonkay.com/historicaljunk/fire-insurance/>

<sup>77</sup> Today, full-fledged Fire Brigades are taken care of by the Government and the respective industries under mutual understandings and Insurers do not invest in such safety infrastructure.

<sup>78</sup> *ibid*

<sup>79</sup> Cartel formation and monopolies are discussed later

on an ongoing basis. It demonstrated its commitment by building the Thames barrier to prevent flooding and increased its efforts to dissuade environmental degradation leading to climate change.

**2.4.4. Home Insurance Market in Australia:** Historically, the earliest policies in Australia were Fire Insurance policies on home buildings. Later on, in response to consumer demand and the emergence of new risks, policies were expanded to offer cover for explosion, impact by aircraft, earthquake, riot and civil commotion, storm and tempest as well as busting and leaking of water apparatus. Companies progressively excluded war, nuclear explosion, contamination, wear and tear, subsidence and landslip, tsunami and other emerging risks. Due to public outcry after almost every major flood, the Government, the insurance industry and individual insurers have reviewed the situation<sup>80</sup> and made attempts to find solutions commonly acceptable to the two important affected parties - the community and the insurers. The property insurance market Australian had always been lamenting the absence of universally available and affordable flood insurance but insurers were not providing flood cover. The passage of the Trade Practices Act in 1974 and the Insurance Contracts Act in 1984, however, made this cover possible. Only in the recent years some individual insurers took the initiative to provide commercially viable insurance covering flood. The Insurance Council of Australia (ICA) has reported that now approximately 54% of policies cover flood. There are State to State variations in risk profiles as 94% of the residential properties located on the East coast of Australia are at a high risk of flood. Competition has caused varied approaches from provider to provider. There were concerns about the lack of reliable flood<sup>81</sup> maps, the absence of risk management/mitigation and the ability of the target segment to afford the required premiums, the insurability of the risk itself and there are many insurers who completely exclude flood risks for commercial reasons in certain geographies.

## 2.5. Home Insurance in India

Though Property Insurance, in its present form, dates back to the times of the Great Fire of London in 1666, General Insurance made any significant presence in India only since

the establishment of the Triton Insurance Co. Ltd. in 1850 in Kolkata<sup>82</sup>. Insurance was being transacted in India by Agency Houses during that period. Most of the Agency Houses secured a common platform for joint discussion and collective action on insurance matters through the Chambers of Commerce established in Bombay, Kolkata and Chennai, where they were members. During the early 1800s they could take up the insurance industry's concerns affecting legislation, fire brigade, protection, jurisdiction of offices etc. and submit memoranda to the Government, to ensure better conditions of business<sup>83</sup> through these Chambers. The first company to transact all classes of general insurance business was the Indian Mercantile Insurance Ltd, set up in 1907.

The first set of codes that affected both the Insurance and Housing industries was arguably the 'Policies of Insurance (Marine and Fire) Assignment Act' (1866), which provided for assigning fire and marine policies, with the approval of the company, to persons to whom the interest of the insured property had passed. These provisions were later on incorporated<sup>84</sup> into the "Transfer of Property Act' (1882), which has since been amended.

On 13<sup>th</sup> April, 1882, 27 Agents operating in Bombay combined to form 'The Bombay Association of Fire Insurance Agents'. They established common 'tariff structures' based on common data which established standard coverages, industry premium rates, policy terms and conditions, which were followed by 'tariff' insurers, who regarded themselves as a class by themselves. Later on, similar associations were formed in other metros as well. The objectives of these associations included facilitating discussion and settlement of questions arising from the transaction of fire insurance business, taking joint action, establishing a uniform practices, securing common interpretation and application of tariff rules, enquiring into the cause of fraud, taking steps for the protecting and surveying property damaged by fire and the realization of salvage, watching legislation affecting fire insurance and protecting the interests of the companies in general, collecting and publishing statistics on the causes of fire loss.

By 1893 all offices tariff and non-tariff, are understood<sup>85</sup> to

<sup>80</sup> <http://www.theaustralian.com.au/in-depth/queensland-floods/suncorp-to-retain-its-automatic-cover/story-fn7iwx3v-1225989850502>

<sup>81</sup> <http://www.couriermail.com.au/business/suncorps-big-flood-cover-gamble/story-e6freqmx-1226000400299>

<sup>82</sup> [https://www.irdai.gov.in/ADMINCMS/cms/NormalData\\_Layout.aspx?page=PageNo4&mid=2](https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2)

<sup>83</sup> Book- "Fire Insurance in India" by Mani, P.A.S. , Hindustan Advertisers, Bombay 1952

<sup>84</sup> *ibid*

<sup>85</sup> *ibid*

have agreed upon charging<sup>86</sup> 'As'. 2% as the minimum rate for risks in the 'Town and Island of Bombay', As. 3% and As. 4% respectively for buildings and their contents in the Native Town or Native part of the Fort and a table of short term rates, with a brokerage of 10%. In September 1894, separate tariffs were introduced by the Fire Offices Committee for Madras, Rangoon and Karachi which were replaced by local tariffs. By 1900, independent local tariffs had come into existence in all local areas in India.

On 31<sup>st</sup> May 1905, an independent body, called the Fire Insurance Association, was established and merged all local offices into a single entity. In early 1928, prominent businessmen in Bombay met and formed 'The Indian Insurance Companies' Association' which organized conferences and educated public opinion on the benefits of insurance. Later on, in 1957, the General Insurance Council formed as a wing of the Insurance Association of India<sup>87</sup> framed a code of conduct for ensuring<sup>88</sup> fair conduct and sound business practices. Once the Indian Insurance Companies Act was enacted in 1928, the Government started collecting statistical information about both life and non-life business transacted in India by Indian and foreign insurers<sup>89</sup>. In 1938, when the insurance market in India was busy with 176 companies (both life and non-life), with a view of protecting the interest of the Insurance public, all the Insurance legislations were consolidated to form the Insurance Act, 1938. In 1968, this Insurance Act was amended to regulate investments and set minimum solvency margins and it formed the Tariff Advisory Committee (TAC) to regulate policy wordings, rates, terms and conditions of the general insurance industry. With effect from 1st January, 1973 the general insurance business was nationalized with the passing of the General Insurance Business (Nationalization) Act and 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The

General Insurance Corporation of India was incorporated<sup>90</sup> as a company in 1971 and it commenced business on 1<sup>st</sup> January 1973.

In 1999, the 'Insurance Regulatory and Development Authority of India' (IRDAI) was constituted as an autonomous body to regulate and develop the insurance industry. The nationalized industry was liberalized in the year 2000 and the sector was opened up for private sector insurers as well.

During the period of nationalization, residential buildings were being covered under the All India Fire Tariff (revised from time to time). As per the Tariff (31.3.2001), house properties were rated at 0.50 per mille and contents of the house were to be charged 0.50 per mille under the risk class 'Dwellings'. The standard cover was for 12 hazards, viz. (i) Fire, (ii) lightning, (iii) explosion/implosion, (iv) aircraft or other aerial and/or space devices and/or articles dropped from it, (v) impact damage by rail/ road vehicle or animal (belonging to third party) by direct contact, (vi) riots, strikes, malicious acts, (vii) storm, cyclone, typhoon, tempest, hurricane, tornadoes, flood and inundation, (viii) subsidence and landslides including rock slides, (ix) bursting and/or overflowing of water tanks, apparatus and pipes, (x) missile testing operations, (xi) leakage from automatic sprinklers and (xii) bush fire. Covers for earthquake (which included fire and shock) and terrorism<sup>91</sup> were among the many add-on covers. Incidentally, in a recent exercise of rationalizing the rates charged for various property risks, the General Insurance Council calculated the 'burning costs'<sup>92</sup> or 'loss costs' of 109 occupancies. As per the calculations, 'Dwellings' merited the lowest rate of 0.16 per mille.

Long-term Policies were made available for house/ flat owners for a minimum period of 3 years with a provision for periods beyond 10 years, subject to collecting the premium for the entire policy period in advance. This was designed to work in two methods. As per one method, the sum insured

<sup>86</sup> 'As' – stands for 'Annas'. The 'Anna' was a currency unit formerly used in India, equal to 1/16 rupee. It was subdivided into 4 paise (64 paise in a rupee). It was demonetized as a currency unit when India decimalized its currency in 1957.

<sup>87</sup> 'Insurance Association of India' was an industry body representing both Life and General Insurance Sector in India

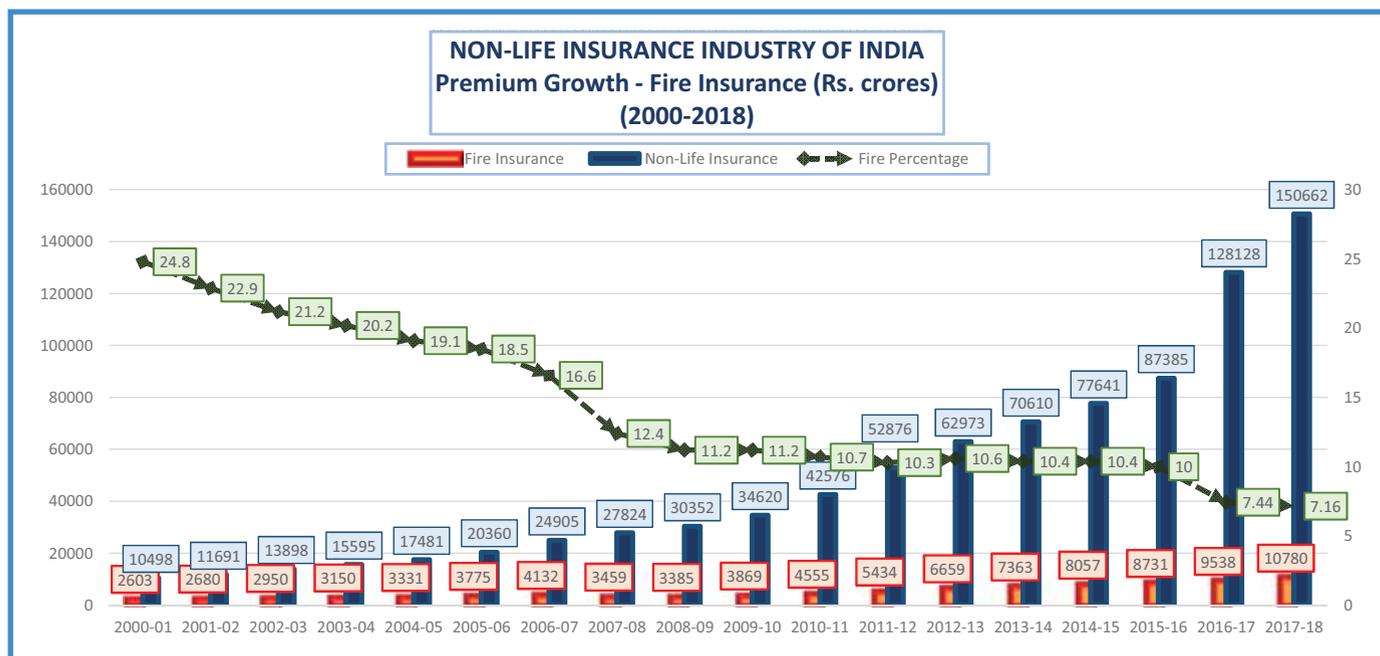
<sup>88</sup> [https://www.irdai.gov.in/ADMINCMS/cms/NormalData\\_Layout.aspx?page=PageNo4&mid=2](https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2)

<sup>89</sup> Book- Insurance Theory and practice by N. K Sharma – 2012 edition

<sup>90</sup> [https://www.irdai.gov.in/ADMINCMS/cms/NormalData\\_Layout.aspx?page=PageNo4&mid=2](https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2)

<sup>91</sup> 'Terrorism' cover was included from March 2002.

<sup>92</sup> Burning Cost is discussed under policy standardization. It is also known as 'Loss Cost', 'Pure Premium' or 'Reference Loss Cost Rate' in different markets. Burning Cost "refers to that portion of that rate needed to pay losses and loss-adjustment expenses". The loading "refers to the amount of the premium necessary to cover other expenses, particularly sales expenses, and to allow for a profit". The gross rate "is the pure premium and the loading per exposure unit." [https://en.wikipedia.org/wiki/Rate\\_making](https://en.wikipedia.org/wiki/Rate_making)



was deemed to increase by 10% of the original sum insured at the end of every 12 month period and the premium was to be charged in full without any discount. The other method was without automatic increase in sum insured, but provided for graded discounts as per the table below.

Though initially no refunds were allowed on cancellation of such long-term policies, it was provided for in 2005. The tariffs were withdrawn from 1<sup>st</sup> January 2007. Post detariffing, the File and Use mechanism of product approval was introduced and a few new products came into the market for residential buildings, essentially on the lines of the erstwhile Fire Tariff. Though the coverage of the products remained largely the same, the rates got slashed substantially as a result of the competition in the market, possibly making them easier to sell. The average term of the policy also got extended to match the term of the home loan; and some insurers have started offering terms as long as 25 years. However, policies for houses became popular after the emergence of the bancassurance channel whereby banks got incentivized to sell insurance products to their customers. From a different perspective, the bancassurance channel gave customers of various banks better access to insurance in the process.

**2.5.1. Changing Trends in Fire Insurance:** During the 18 years after the opening up of the insurance industry to private sector companies in the year 2000, General Insurance premiums grew from INR 104.98 billion [10,498 crores] (2001) to INR 1,506.62 billion [1,50,662 crores] (2018), i.e. by 1435%.

Fire premiums grew from INR 26.03 billion [2,603 crores] (2001) to INR 41.32 billion [4,132 crores] (2007) but slumped to INR 33.85 billion [3,385 crores] (2008) and then gradually rose to INR 10,780 (2018) growing overall by 414%.

The rate dip during 2007 and 2008 was a direct consequence of the competition driven rate-wars following the de-tariffing of fire insurance on 1.1.2007. The rates that fell have remained low during the subsequent years as well. Though the customers of insurance are happy to benefit from the fruits of competition, insurance experts point out that the

Duration of Policy	Premium to be Charged
3 years policy	3 years premium in advance less 15% discount
4 years policy	4 years premium in advance less 20% discount
5 years policy	5 years premium in advance less 25% discount
6 years policy	6 years premium in advance less 30% discount
7 years policy	7 years premium in advance less 35% discount
8 years policy	8 years premium in advance less 40% discount
9 years policy	9 years premium in advance less 45% discount
10 years policy	Entire premium in advance less 50% discount

reduction in rates has substantially weakened the financial capacity of insurers to handle low frequency - high intensity claims situations like tsunamis, earthquakes and similar catastrophes.

It is noticeable that despite the 414% growth of Fire insurance premiums over 18 years, the share of Fire insurance to the total Non-Life insurance premium has gradually declined over the years. While Fire contributed 24.8% of the premiums of 2001, it shares only 7.16% of the total premiums in 2018. This fall is attributed to the high growth in health, motor and crop insurance lines over the years.

**2.5.2. Changing Trends in Home Insurance:** Insurance for residential property is traditionally considered part of the Fire insurance portfolio of the non-life insurance industry. This includes annual policies and policies issued for long-term.

Specific Home insurance packages covering residences and their contents for Fire and allied perils (usually compulsory), Burglary and theft, Portable electronic equipment like mobile phones and laptops, Electronic equipment like television, music system, home theatre, Machinery breakdown of equipment like oven, washing machine, refrigerator, air

Year	Fire Insurance	Non-Life Insurance	Fire Percentage
2000-01	2603	10498	24.8
2001-02	2680	11691	22.9
2002-03	2950	13898	21.2
2003-04	3150	15595	20.2
2004-05	3331	17481	19.1
2005-06	3775	20360	18.5
2006-07	4132	24905	16.6
2007-08	3459	27824	12.4
2008-09	3385	30352	11.2
2009-10	3869	34620	11.2
2010-11	4555	42576	10.7
2011-12	5434	52876	10.3
2012-13	6659	62973	10.6
2013-14	7363	70610	10.4
2014-15	8057	77641	10.4
2015-16	8731	87385	10
2016-17	9538	128128	7.44
2017-18	10780	150662	7.16

#### Share of Housing Premium in Total Premium over 6 years

(11 insurers - representing 57.1% of the current market)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Premium of 11 insurers (Rs. Crores)	25339	30151	33983	36356	45264	60935
Housing Premium of 11 insurers (Rs. Crores)	305.26	400.51	517.24	571.75	749.62	921.97
Share of Housing Premium in Total (Percentage)	1.20	1.33	1.52	1.57	1.66	1.51

#### Share of Housing Premium in Total Premium over 6 years

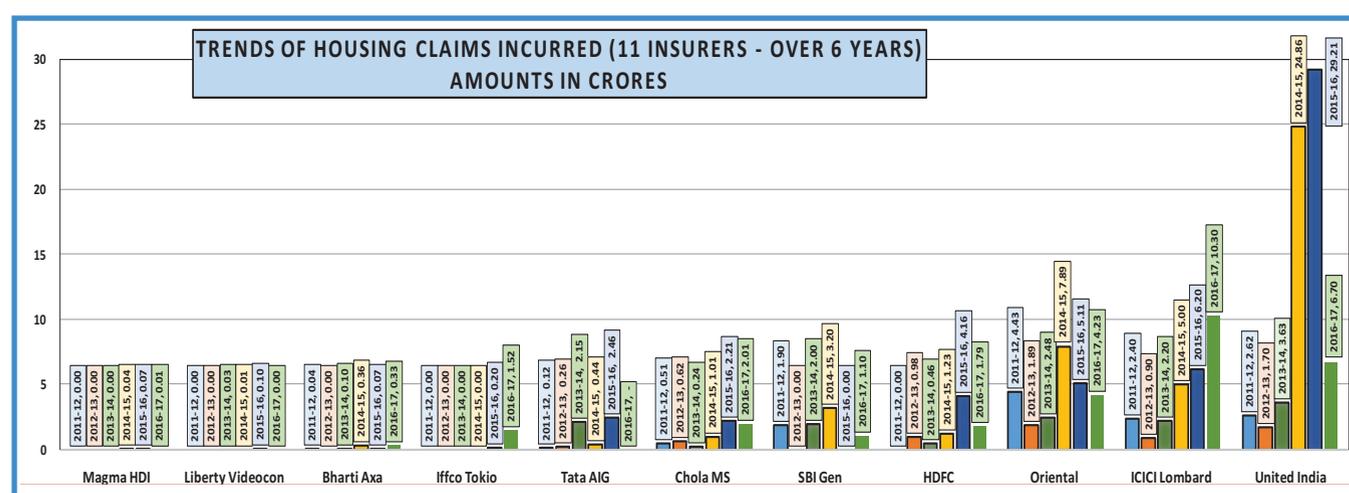
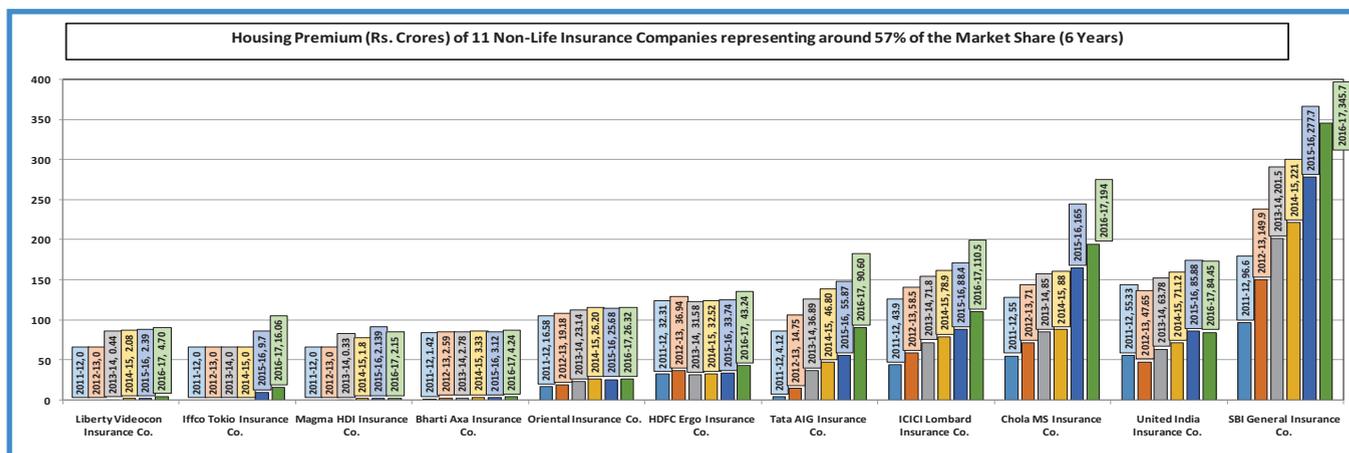
(11 insurers - representing 57.1% of the current market)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Premium of 11 insurers (Rs. Crores)	25339	30151	33983	36356	45264	60935
Fire Premium of 11 insurers (Rs. Crores)	2786.1	3451	3956.04	4247.31	4940.06	5448.51
Housing Premium of 11 insurers (Rs. Crores)	305.26	400.51	517.24	571.75	749.62	921.97
Share of Fire Premium in Total (Percentage)	11.00	11.40	11.60	11.70	10.90	8.90
Share of Housing Premium in Total (Percentage)	1.20	1.33	1.52	1.57	1.66	1.51
Share of Housing Premium in Fire Premium (Percentage)	11.00	11.60	13.10	13.50	15.20	16.90

conditioner, Public Liability/ Legal Liability to third parties visiting the house, Liability for staff employed on full time basis, Pets in the house, Personal Accident cover for the house owner and family members, Baggage cover for accompanied baggage carried during travel, Plate glass cover for glass doors in the house etc.

As Fire and allied perils are predominant in home policies, these are accounted along with Fire insurance and are not being published separately.

**2.5.3. Premium Trends:** As part of the study, the housing related policies of eleven non-life insurance companies,

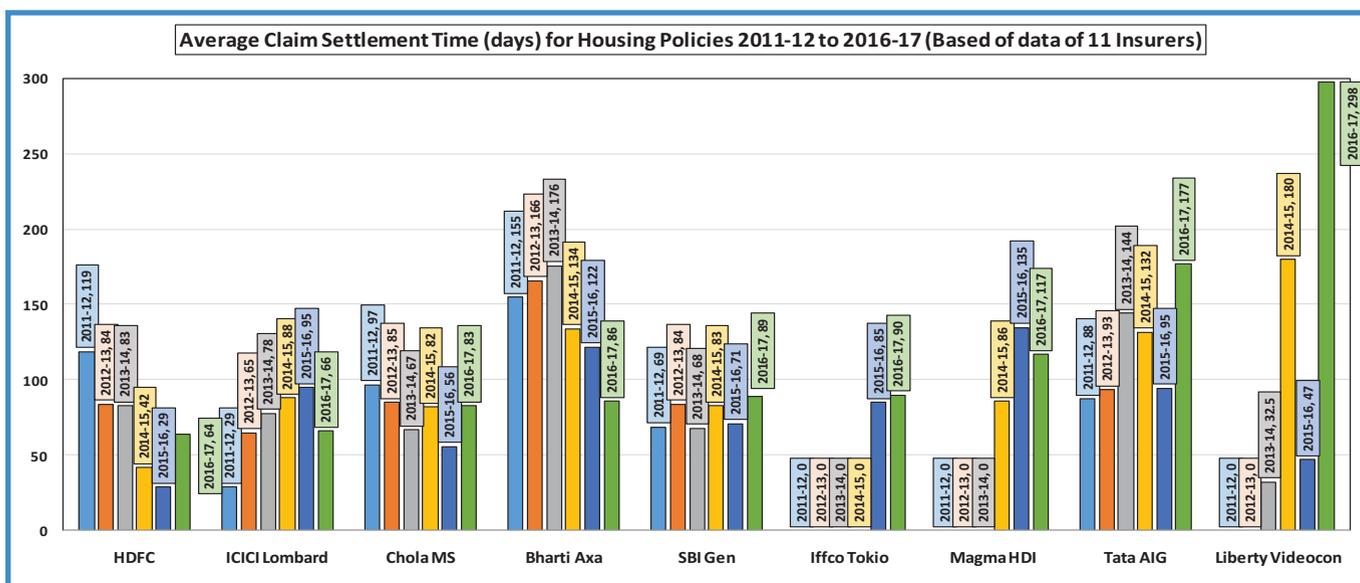


contributing to 57.1% of the Indian non-life insurance industry was analyzed. The trend seen over the last 6 years is that today the Housing sector contributes only to around 1.51% of the total premium of the Non-Life insurance industry.

At a macro perspective, it would be interesting to observe that Housing premium is accounted as one of the constituents of the Fire Insurance premium of the Non-Life insurance Industry. While Fire premium contributed to nearly 25% of the gross premium in 2000-01, its proportion vis-à-vis the gross premium has been progressively reducing over the years. It has come down to 7.5% in 2016-17 after hovering around 10% during the previous 6 years. Side by side to this change, it is significant to observe that the premium from housing is progressively increasing in actual terms. Also, despite the contribution of fire premium to the total premium in respect of these eleven companies having declined overall from 11.00% to 8.9% over the 6 year period, the share of housing premium has grown from 1.20% to 1.51%. Over the last 6 years, the share of Housing in the Fire insurance premium has also grown significantly from 11.0% in 2011 to 16.9% in 2016-17.

While three of the eleven Insurers (who provided data for the study) have relatively lower market shares (less than INR. 50 million) [5 crores] in the Housing market and three insurers fall in the range of INR 150 million to INR 500 million [15 crores to 50 crores], the remaining five have higher slices of the market ranging roughly between INR 800 million and INR 3.5 billion [80 crores and 350 crores]. It is worth mentioning that the appetite and market share of all these insurers have been consistently increasing over the years. Some of them have grown only by a small fraction, while others like SBI General, ICICI Lombard, Tata AIG and Cholamandalam experienced huge spurts of growth, possibly riding on their collaborations with Banks and other Lending Institutions. In this regard it may be worth pointing out that some Experts from the banking industry interviewed as part of the study had mentioned that they consciously educate their housing loan customers about the importance of insurance and also facilitate the purchase of insurance through the insurance companies that partner with them.

**2.5.4. Claims Trends:** The Claims trends emerging from the data received from these 11 insurers gives a general



**Trends of Housing Claims Incurred (11 Insurers - over 6 years): Amounts in Crores**

Claims Incurred - Trends (Housing)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Magma HDI	0.00	0.00	0.00	0.04	0.07	0.01
Liberty Videocon	0.00	0.00	0.03	0.01	0.10	0.00
Bharti Axa	0.04	0.00	0.10	0.36	0.07	0.33
Iffco Tokio	0.00	0.00	0.00	0.00	0.20	1.52
Tata AIG	0.12	0.26	2.15	0.44	2.46	- *
Chola MS	0.51	0.62	0.24	1.01	2.21	2.01
SBI Gen	1.90	0.00	2.00	3.20	0.00	1.10
HDFC	0.00	0.98	0.46	1.23	4.16	1.79
Oriental	4.43	1.89	2.48	7.89	5.11	4.23
ICICI Lombard	2.40	0.90	2.20	5.00	6.20	10.30
United India	2.62	1.70	3.63	24.86	29.21	6.70

\* not available

impression that the segment is not a loss making one for the insurers and has been generally stable over the last 6 years. However, as per some of the Experts interviewed, it is possible that some of the claims relating to housing packages get accounted under the Miscellaneous head in quite some companies/ policies. This could be because many Insurers have not yet started viewing Housing related policies as a distinct market segment, or due to inefficiencies in internal accounting/ reporting systems. Further, the fact that the number of claims reported do not reasonably correlate with the insurers having higher share of the housing market indicates that the apparent profitability of the segment might be just a mirage. In this background, as the claims data could

not be sufficiently validated, analysis of the same is not presented in the report.

**2.5.5. Claims Settlement Time:** The data raises some concern about the turnaround time in claims settlement. It is interesting that the insurers having the highest turnaround times (TAT) in settling claims are neither the ones having the largest market share nor those facing the largest number of claims. Indicating a lackadaisical interest in the housing market or internal inefficiencies insurers having the smallest portfolios were the ones taking the longest time for settling claims, the highest being 298 days, 180 days, 177 days and 176 days. Among the 56 insurance years<sup>93</sup> analyzed TATs were exceeding 90 days in respect of 18 Insurance years. The

<sup>93</sup> **Insurance years:** The years in which the insurer was in operation for this line of business. The initial years where no home insurance business was being done by them (some started operations only in 2013-14 and 2014-15) have not been taken into consideration for reckoning Insurance years. Of the 11 insurers which submitted data, turnaround times were available only in respect of 9 insurers for 6 years.

TAT data of two of the large players - Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd. was not available. Another large player, ICICI Lombard had their lowest average TAT of 29 days in 2011-12 and their highest TAT of 95 days in 2015-16, which improved to 66 days in 2016-17. SBI General Insurance Co. Ltd., which has the largest share of the housing market among the eleven insurers studied; stands out with a consistent average TAT of 68 to 84 days.

Though 11 insurance companies shared data<sup>94</sup> relating to their housing related policies for this study, only one insurer, HDFC Ergo has published<sup>95</sup> its home insurance premium figures. Notwithstanding the fact that HDFC (the promoter of HDFC Ergo) is one of the leading Housing Loan providers of the Country and that insurance companies have a healthy appetite for Home insurance and use different strategies like forging partnerships with Banks and other Primary Lending Institutions to tap the residential housing market, it is interesting to note that over the 11 year period from 2005 to 2016, the share of home insurance premium in the company's total premium has been at best 0.20% and as low as 0.02% at the lowest ebb. These figures roughly corroborate with the findings of a FICCI study<sup>96</sup> that "home insurance penetration is <1%". As per the 2011 census, India had 330 million [33 crore] homes of which only 50% were permanent in nature (pukka construction). The Economic Times<sup>97</sup> estimates that 2 million homes were insured in the Country (figures are discussed below), aggregating to INR 25 billion [2500 crore] in annual premiums. However, none of these figures could be corroborated as no official data on housing insurance is available in public domain.

A home insurance policy covers the financial loss incurred to a property and its contents due to artificial or natural calamities, including earthquakes and floods and that home insurance rates vary from 70 paise to INR 1 per area covered and the frequency of calamity occurrences. Often, banks and housing financing companies protect their investments from such probable fatalities by making home insurance mandatory for borrowers. According to the industry reports, with average

premiums touching INR 300,000, a huge potential in the home insurance segment lies dormant, waiting to be captured.<sup>98</sup> However, insurance companies have not been able to tap into the market due to lack of concrete data to capture demand. Many of the Lending Institutions provide a standard clause in home loan agreement<sup>99</sup> to ensure that "the mortgaged house should be insured against natural calamities, including earthquakes. If borrowers fail to insure their property, the bank debits the premium to the loan account of the borrower and pays for the premium."

As per Indian Census data<sup>100</sup> (based on the 2011 Census) the total number of houses is 330.84 million. Of these, 220.70 million are in the rural areas and 110.14 million in the urban. Among the households living in them, those availing of banking services are 145 million (91 million - rural and 53 million - urban). Going by the Economic Times data which states that 2 million [20 lakhs] houses are insured, only 0.60% of the total households are insured. As per the same figures, 1.4% of the households which had access to banking services were insured in 2011. The fact remains that around 99% of the country's residential houses are uninsured.

## 2.6. Statistical Trends in the US Market

Consolidated data and its analysis are helping the housing/ insurance industry in more developed markets. The charts presented below gathered from the Insurance Information Institute of USA and Insurance Services Office (a subsidiary of Verisk Analytics) indicate<sup>101</sup> certain trends of the Home Owners Multi-Peril Policies in the USA. Though findings may not be valid in India, the charts indicate the importance of analyzing such data.

During the 5 years from 2013 to 2017, on an average<sup>102</sup>, 5.51% of insured homes suffered some loss or other and made claims. It is interesting that among these claims, while 'Fire and lightning' contributed to only 5.1% of the total number, in terms of value, with an average yearly payout of \$68,322, they translate to 53.1% of the total claim amounts.

<sup>94</sup> Eleven insurers shared data for this study.

<sup>95</sup> Website of HDFC Ergo General Insurance Co. Ltd. - <https://www.hdfcergo.com/>

<sup>96</sup> India General Insurance "Vision 2025" Towards an inclusive, progressive and high performing sector, FICCI, October 2013 - <http://ficci.in/spdocument/20333/india-general-insurance-vision-2025.pdf>

<sup>97</sup> Fear Factor - Quake Sets off Avalanche at Insurers, Shilpy Sinha, The Economic Times (Delhi), 29 April 2015 <http://epaperbeta.timesofindia.com/Article.aspx?eid=31816&articlexml=FEAR-FACTOR-Quake-Sets-Off-Avalanche-at-Insurers-29042015001049>

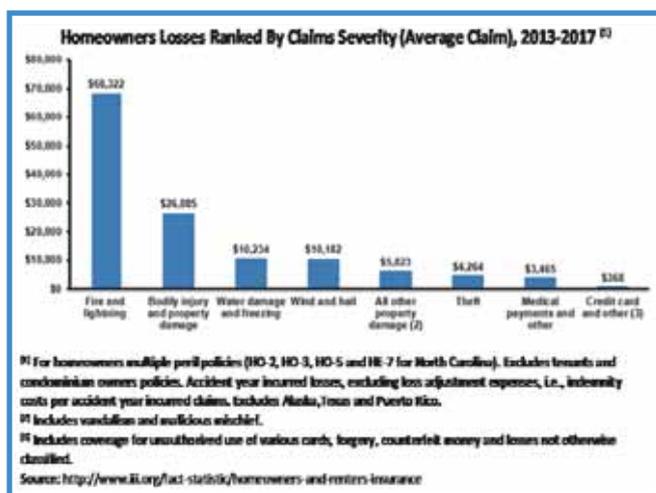
<sup>98</sup> *ibid*

<sup>99</sup> *ibid*

<sup>100</sup> House Listing and Housing Census Data Highlights - 2011 - [http://censusindia.gov.in/Tables\\_Published/H-Series/houselist\\_main.html](http://censusindia.gov.in/Tables_Published/H-Series/houselist_main.html)

<sup>101</sup> Insurance Information Institute based on ISO®, a Verisk Analytics® business - <http://www.iii.org/fact-statistic/homeowners-and-renters-insurance>

<sup>102</sup> *ibid*



### Homeowners' Losses - Ranked by Average Claim Amounts 2013-2017

Cause of Claim	US\$	Share %
Fire and lightning	68,322	53.1
Bodily Injury and Property Damage	26,085	20.3
Water Damage and Freezing	10,234	7.9
Wind and Hail	10,182	7.9
All other Property Damage	5,823	4.5
Theft	4,264	3.3
Medical Payments and other	3,465	2.7
Credit Card and other	368	0.3
<b>Total of an year (on weighted average)</b>	<b>128,743</b>	<b>100.0</b>

Source: <http://www.iii.org/fact-statistic/homeowners-and-renters-insurance>

Cause of Loss	Claims frequency as % of total policies	Share in total number of losses (%)
Wind and hail	2.1	38.1
Water damage and freezing	2.05	37.2
Theft	0.31	5.6
Fire and lightning	0.28	5.1
Bodily injury and property damage	0.08	1.5
Medical payments and other	0.03	0.5
Credit card and other	0.01	0.2
All other property damages	0.65	11.8
Total number of Insured Homes which made a claim	5.51	100.0

In the five-year period, 2013-2017, 5.51% of insured homes had a claim. Wind and hail accounted for the largest share of claims, with 2.1% of insured homes having such a loss, followed closely by water damage and freezing.

Source: <http://www.iii.org/fact-statistic/homeowners-and-renters-insurance>

Similarly, though 'Bodily injury and property damage' claims were only 1.5% of the total claims made, they caused yearly losses of around \$26,085 contributing to 20.3% of the losses. In contrast, though the highest incidence (38.1%) of claims were due to 'Wind and Hail', in terms of claim payouts, these accounted for only 7.9% of the total claim amounts, i.e. around \$10,182 annually. Again, while 'Water damage and Freezing' contributed to 37.2% of the number of claims, the average payouts were in the range of \$10,234, i.e. around 7.9% of the payouts. 'Medical payments' and 'Credit Card' related matters stood lowest by both numbers and amounts paid.

These statistical analyses<sup>103</sup> reveal that in the United States, during the period 2013 to 2017, Homeowners claims relating to wind or hail were the most frequent while the costliest were due to fire and lightning.

The following yearly trends about Homeowners' Insurance Claims Frequency also did emerge:

- ◆ Around one in 20 insured homes had a claim each year.
- ◆ Around one in 50 insured homes had a property damage claim related to wind or hail each year.
- ◆ Around one in 50 insured homes had a property damage claim due to water damage/ freezing each year.
- ◆ Around one in 325 insured homes had a property damage claim due to theft each year.
- ◆ Around one in 360 insured homes had a property damage claim related to fire and lightning.
- ◆ Around one in 900 home-owners policies had a liability claim related to the cost of lawsuits for bodily injury or property damage that the policyholder or family members cause to others.

According to a 2015 National Association of Insurance Commissioners (NAIC) report<sup>104</sup> based on data from 2012, **76.8% of homes were covered by Owner-occupied Homeowners' policies**. Of these, 62.9% had an 'All Risk' coverage for their home, with some perils like earthquake and flood excluded. 9.4% had the more expensive 'Comprehensive' insurance. Both policies are "all risks" or "open perils" policies which cover all perils except those specifically excluded. 2.7% had only specific named perils, while other policies had only limited coverage at about 1% each.

<sup>103</sup> Ibid

<sup>104</sup> Home insurance - [https://en.wikipedia.org/wiki/Home\\_insurance](https://en.wikipedia.org/wiki/Home_insurance)

Of the remaining, **21.3% of home insurance policies were covered by Renter's or Condominium insurances.** 14.8% of these had Renters' policies covering the residual risks on the contents of an apartment, not specifically covered in the blanket policy written for the housing complex. Renter's insurances can cover liability arising from injury to guests and negligence of the renter within the coverage territory. Losses due to lightning, riot, aircraft, explosion, vandalism, smoke, theft, windstorm or hail, falling objects, volcanic eruption, snow, sleet, and weight of ice are commonly covered. The rest had a Condominium (Unit-Holders') insurance, designed for the owners of condominiums and covering the part of the building owned by the insured and the property housed therein.

About **1.9% of homes were covered by a Dwelling Fire policy** typically sold to noncommercial owners of rented houses and covering property damage to the structure. It may cover the owner's personal property (such as appliances and furnishings).

Analytical information as above is invaluable for both the Insurance and Housing industries, especially for growing economies like India where insurance penetration is low.

## 2.7. Monopolies, Cartel Formations by Insurers

Though they compete with one another, in certain times of history, Insurers have come together to form trade associations or guilds. One major reason for this was to share data based on which, insurers could predict losses better. Based on collated statistics, insurers work out burning costs<sup>105</sup> or pure loss costs to know their probable maximum financial outgo when covering certain risks. On multiple occasions, they have come together and based on common data made common 'tariff structures' which established standard coverages, industry premium rates, policy terms and conditions. Tariffs which were mutually adopted by several insurers were in use some time or other in most insurance markets - the UK, Europe, Japan, the USA, Australia and India. Companies who were not members were known as "non-tariff" companies and they usually competed by offering premium discounts from the tariff prices, but operated largely on the same wordings. The tariff concept has faced challenges from the

point of view of cartel formation, monopolies and restrictive trade practices. In 1944, the United States Supreme Court discussed the industry's argument that most companies were too small to rely solely on their own experience in setting premiums, but ruled against the practice of cooperating to set common premium prices (tariffs) in *United States v. South Eastern Underwriters Association*. The Parliament, however, enacted the McCarran-Ferguson Act in 1945, exempting insurance-rate fixing from the Sherman Antitrust Act, and placing responsibility for industry regulation in the hands of state governments.<sup>106</sup> In Australia too, members of the Fire Accident and Marine Underwriters Association (FAMUA) published 'tariffs' for certain types of risk, till the passage of the Trade Practices Act 1974 (Commonwealth) which made every insurer obliged to undertake its own product development and pricing. The Insurance Council of Australia (ICA) continued to promulgate advisory premium rates and model policy wordings under an interim authorization from the Trade Practices Commission until September 1980. ICA continued to develop model policy wordings for member companies till 1986. In 1980 ICA estimated that 11,594 urban residential properties and 3,034 commercial properties in Sydney would suffer structural failure in a probable maximum flood (PMF) scenario which was way beyond the financial capacity of the insurance market at that time. In essence, the question of whether the industry can have collective pricing for insurance policies is being answered differently in different territories.

## 2.8. Protection against Dual Financing based on same Collateral

A situation which some experts<sup>107</sup> have referred to as 'dual financing' needs to be looked at closely, though it has not been widely discussed in public domain. This refers to situations where a builder takes a loan from a bank to build apartments offering the project (the land on which the flats are to be built) as collateral security and starts selling flats which are yet to be built. The prospective buyers also offer their flats (that are yet to be built) as collateral and get home loans from the bank. In this process, the same asset would get offered as collateral security twice to two different banks, or perhaps to the same bank. This situation works well when

<sup>105</sup> Burning Cost is also known as 'Loss Cost', 'Pure Premium' or 'Reference Loss Cost Rate' in different markets. Burning Cost "refers to that portion of that rate needed to pay losses and loss-adjustment expenses". The loading "refers to the amount of the premium necessary to cover other expenses, particularly sales expenses, and to allow for a profit". The gross rate "is the pure premium and the loading per exposure unit." [https://en.wikipedia.org/wiki/Rate\\_making](https://en.wikipedia.org/wiki/Rate_making)

<sup>106</sup> <http://www.fundinguniverse.com/company-histories/the-home-insurance-company-history/>

<sup>107</sup> Demonetization Impact: If Real Estate Prices Fall, Dual Financing Might Be Next Big Headache, Nov. 16, 2016 <https://teekhapan.wordpress.com/2016/11/16/demonetisation-impact-if-real-estate-prices-fall-dual-financing-might-be-next-big-headache/>

the apartment is built and handed over to the prospective buyer.

However, in case the “builders/promoters fail to repay the loan<sup>108</sup> availed from the bank” the position is that “the bank would have first charge over the property” and essentially, the bank’s rights would take precedence over those of the banks of the flat purchasers. The ensuing situation is that if the builder’s bank seizes the flats/ property to recover the loan, the buyers (and their banks) are left with little security. Again, while the buyers’ banks can still go after the other assets of the flat buyer as well, to recover their loan, the buyers have to fight a legal battle to establish their ownership over the flats and continue paying their EMIs on the home loans to protect their other assets.

According to the RBI<sup>109</sup> “while granting finance to specific housing/ development projects, banks are advised to stipulate as a part of the terms and conditions that: (a) the builder/ developer/ company would disclose in the Pamphlets/ Brochures etc., the name(s) of the bank(s) to which the property is mortgaged; (b) the builder/ developer company would append the information relating to mortgage while publishing advertisement of a particular scheme in newspapers magazines etc.(c) the builder developer company would indicate in their pamphlets brochures, that they would provide No Objection Certificate (NOC) permission of the mortgagee bank for sale of flats property, if required.” Banks were advised that funds should not be released unless the builder/developer/company fulfills these requirements. Again, RBI acknowledges<sup>110</sup> the situation that “Builders/ contractors generally require huge funds, take advance payments from the prospective buyers or from those on whose behalf construction is undertaken and, therefore, may not normally require bank finance for the purpose. Any financial assistance extended to them by primary (urban) co-operative banks may result in dual financing” and stipulates that Urban Cooperative Banks should, normally refrain from sanctioning loans and advances to this category of borrowers. [Examining the rationale for the rules for Urban Cooperative Banks and

Scheduled Commercial Banks being different is beyond the scope of this study.]

RBI’s concerns regarding dual/ multiple financing resulting in inadequate security, have been eloquently spelt out in its Master Circulars<sup>111</sup> and merits serious contemplation. “A number of cases have come to the notice of Reserve Bank, where unscrupulous persons have defrauded the banks by obtaining multiple bank finance against the same property by preparing a number of sets of the original documents and submitting the same to various banks for obtaining housing finance. Similarly the salary certificates of employees of certain public sector undertakings were fabricated, so as to match the requirement of banks for availing higher amounts of loan. The estimates given were also on the higher side, so as to avoid contribution of margin money by the borrowers.”

The National Housing Bank has stipulated elaborate provisions<sup>112</sup> on Asset Classification under Sections 23, 24 and 25 of the Housing Finance Companies (NHB) Directions, 2001 (as amended) which require the regulated industry to look at the quality of collaterals offered as security. NHB, in the wake of a case that came up in the Hon’ble High Court of Bombay, brought out<sup>113</sup> a Circular dated 23<sup>rd</sup> September 2009 making it mandatory that the “builder/ developer/ company would disclose in the Pamphlets/ Brochures etc. the name(s) of the Housing Finance Company/other lenders to which the property is mortgaged” as well as in newspaper advertisements of the project. In the interests of transparency and ethical ways of doing business, the circular stipulated that the builder was bound to “indicate that they would provide No Objection Certificates (NOCs)/ permissions of the mortgagee Housing Finance Company for sale of flats/ property if required.”

Despite multiple efforts of the RBI, the sectoral regulator NHB and Bankers to curb ‘dual-financing’, it is gathered that it still exists.<sup>114</sup> This is probably because most home loan borrowers are generally unaware about this loophole in the system as also because they are not financially literate enough to understand the legal repercussions that lie hidden in the fine print of the documents they sign. In this context,

<sup>108</sup> Reserve Bank of India (RBI) letter to banks dated January 20, 2016.

<sup>109</sup> RBI Master Circular RBI/2015-16/46 DBR.No.DIR.BC.13/08.12.001/2015-16 July 1, 2015 on Housing Finance for Scheduled Commercial Banks

<sup>110</sup> RBI Master Circular RBI/2015-16/8 DCBR.BPD (PCB) MC. No: 11 /09.09.001/2015-16, July 1, 2015 on Housing Finance for Urban Cooperative Banks (Also in RBI Master Circulars of 1<sup>st</sup> July 2011, 1<sup>st</sup> July 2013 and 1<sup>st</sup> July 2014.)

<sup>111</sup> ibid

<sup>112</sup> NHB - Notification No. NHB.HFC.DIR.1/CMD/2001

<sup>113</sup> NHB - Circular No: NHB (ND)/DRS/POL-No.30/2009dated 23<sup>rd</sup> September 2009

<sup>114</sup> Your Property Could Have Two Running Loans! Here Is What You Need To Know, Prop Guide, Expert Advice, Vivek Kaul, <https://www.proptiger.com/guide/post/your-property-could-have-two-running-loans-here-is-what-you-need-to-know> and ‘Demonetisation Impact: If Real Estate Prices Fall, Dual Financing Might Be Next Big Headache’, Nov. 16, 2016- <https://teekhapan.wordpress.com/2016/11/16/demonetisation-impact-if-real-estate-prices-fall-dual-financing-might-be-next-big-headache/>

this report seeks to highlight the situation where unless the builder reveals to the prospective buyers that the project is already mortgaged, they do not have any means to figure out the position on their own. This scenario weakens the rigor of well-conceived regulations and allows opportunity fraud. This significantly diminishes the individual home owner's ability to seek compensation from defaulting builders. From the insurance point of view, this situation that weakens the insured's rights severely impacts the insurers' subrogation<sup>115</sup> rights. (Insurers are known to shy away from scenarios where their rights to sue the defaulting parties are not strong, rendering insurance protection costlier or even unavailable.)

This concern could possibly be addressed by a three-pronged action plan, i.e. (a) creating public awareness of this situation, (b) ensuring stricter enforcement of RBI/ NHB rules in letter and spirit by the financiers and auditors; and (c) making the insurance ecosystem robust enough to withstand such systemic failures despite best regulatory efforts. (E.g. Provision for waiver of subrogation rights<sup>116</sup>.)

## 2.9. Governmental Initiatives to provide Insurance Solutions for the Housing Industry

The Real Estate (Regulation and Development) Act, 2016 (RERA) has stated the obligations of promoters regarding insurance of real estate projects under Section 16. Allowing the State Governments to deal with local requirements, it states under Sub-Section (1) that the<sup>117</sup> *"promoter shall obtain all such insurances as may be notified by the appropriate Government, including but not limited to insurance in respect of (i) title of the land and building as a part of the real estate project; and (ii) construction of the real estate project."* RERA has also taken care to make the market conduct clear enough by stating that the *"promoter shall be liable to pay the premium and charges in respect of the insurance specified in Sub-Section (1) and shall pay the same before transferring the insurance to the association of the allottees"*

*It has also clarified that the "insurance as specified under Sub-Section (1) shall stand transferred to the benefit of the allottee or the association of allottees, as the case may be, at the time of promoter entering into an agreement for sale with the allottee."* Going ahead, RERA clarifies that once the allottees form their association, *"all documents relating to the insurance specified under Sub-Section (1) shall be handed over to the association of the allottees."*

Globally, title insurance protects against financial loss from lacunae or defects in title of immovable property. Experts point out<sup>118</sup> that this *"form of insurance is unique because it is retrospective in nature, i.e. the insured party is insured not only against future losses, but also for losses arising from the events prior to the date of issue of the policy."* Responding to the RERA provisions, a builder<sup>119</sup> stated that the availability of title insurance products would *"boost private equity investment in Indian real estate since most of the institutions are very particular about clear titles. There will be increased interest in the sector once we have such a framework in place which will ensure a win-win situation for all the stakeholders in the sector."* He added that Buyers would *"no longer have to depend solely on the developers' assurances with regards to the title's legal sanctity."*

In order to protect themselves from the various risks that they are exposed to, there are various kinds of insurance solutions available for the housing industry. This would cover the needs of the Promoters/ Contractors as stated above and those of the retail customers who buy residential accommodation by loans or otherwise.

**2.9.1. Protection against Title Related Disputes:** The quality of the property assets offered as collateral security, in terms of the clarity of the title offered, is a challenge that lenders face in many countries. The key challenges that the Indian Housing Industry is facing have been identified<sup>120</sup> as (i) lack of clear land titles, (ii) absence of title insurance, (iii) absence

<sup>115</sup> 'Subrogation' is a term describing the legal right of insurers to legally pursue a third party that caused a loss to the insured. This is done in order to recover the amount of the claim paid by the insurer to the insured for the loss. (Edited/ adapted) <https://www.investopedia.com/terms/s/subrogation.asp#ixzz5EUeKtnLZ>

<sup>116</sup> Waiver of subrogation rights in an insurance contract forbids an insurance company from standing in for the insured to sue a third party for damages if the insured files a claim. Though waiver of subrogation rights clauses are common in construction contracts, property insurance and lease agreements, insurance companies generally tend to dislike waiving their subrogation rights because it increases their exposure to losses. (Edited/ adapted) <https://www.insuranceopedia.com/definition/4838/waiver-of-subrogation-rights-clause>

<sup>117</sup> Real Estate (Regulation and Development) Act, 2016, Ministry of Housing & Urban Poverty Alleviation, GOI - <http://www.indiacode.nic.in/acts-info/pdf/2016/201616.pdf>

<sup>118</sup> Title insurance in India: An opportunity awaits ..., Alok Tewari & Yudhist Narain Singh, Senior Partner and Principal Associate, Kochhar & Co. (a law firm) <http://www.moneycontrol.com/news/business/real-estate/title-insurance-in-india-an-opportunity-awaits-2394019.html>

<sup>119</sup> RERA could help Title Insurance take off in India – Surendra Hiranandani, Chairman & MD, House of Hiranandani, Forbes India - May 16, 2017 <http://www.forbesindia.com/article/special/rera-could-help-title-insurance-take-off-in-india-surendra-hiranandani/46975/1>

<sup>120</sup> Real Estate Housing Sector in India – A Report by Sateesh Kulkarni of ASA & Associates, January 2015

of industry status, (iv) lack of adequate sources of finance, (v) shortage of labor, (vi) rising manpower and material costs; and (vi) approval and procedural difficulties.

Under provisions<sup>121</sup> relating to Asset Classification under Section 23, NHB's Housing Finance Companies Directions, 2001 (as amended) has also spelt out the regulatory perspectives on the quality of collaterals to be accepted as security at a macro level.

There are also instances of forgery of title deeds<sup>122</sup> where the Hon'ble Court made a mention of the "mindset of borrowers from public financial institutions including banks" in the context of "borrowers after availing finance by creating mortgage on the base of certain documents which, as alleged, are forged, and ingeniously adopt the same modus operandi to avail the benefit from number of banks."

Though there have been many instances in India where the title of a property is being challenged, the Housing Finance Industry has not been significantly affected by disputed titles thus far. This could be due to various reasons like (i) the robust due diligence practices most PLIs follow under Regulatory mandates<sup>123</sup>, (ii) lack of awareness among rural population about protecting/ fighting for their legal rights, (iii) inherent weaknesses<sup>124</sup> of the land records maintenance system of some states, which do not allow the aggrieved to conclusively establish their rights.

However, with the growth in literacy, improvements<sup>125</sup> in the land records maintenance systems, and the challenge of reaching out and penetrating into the country's vast terrain and population, especially through mass schemes like PMAY, it was observed that PLIs would become increasingly exposed to inferior quality of collaterals and defending their interests in cases of disputed titles.

It is interesting to note that the Government of India's Digital

India Land Records Modernization Program (DILRMP) is based on the following four basic principles, (i) a single window to handle land records, (ii) the mirror principle that cadastral<sup>126</sup> records mirror the ground reality, (iii) the curtain principle that the record of title is a true depiction<sup>127</sup> of the ownership status, and (iv) **"title insurance, which guarantees the title for its correctness and indemnifies the title holder against loss arising on account of any defect therein"**. Though the Governmental vision is clear as regards title insurance and its benefits, this form of insurance is yet to stabilize in India.

[Technical details of Title Insurance are discussed in Chapter 3.]

**2.9.2. Initiatives by the Insurance Regulator:** In June 2016, to study the scope of 'Title Insurance' in the Indian Market, IRDAI constituted<sup>128</sup> a seven member 'Working Group on Title Insurance' with representation from the National Housing Bank, Indian Insurers, Reinsurers and IRDAI. The terms of reference of the Working Group are as under:

- To study the need and scope for "Title Insurance" in the Indian market vis-à-vis the existing practices in the international market.
- To identify the insurable risk and define the compensation structure.
- To suggest the design of the product and suggest the framework for assessment of risk, pricing, reserving and accounting with actuarial inputs keeping in mind the long-term sustainability of the product on stand-alone basis.
- To suggest policy wordings in line with Indian conditions both from content and from legal perspective and suggest the mechanism for policy servicing.
- To ascertain the availability of reinsurance support in the domestic and international markets.
- To assess the availability and accessibility of local

<sup>121</sup> NHB - Notification No. NHB.HFC.DIR.1/CMD/2001

<sup>122</sup> Reference - Criminal Appeal No.s2006-2009 of 2014 in State, Rep. by Inspector of Police, Central Crime Branch vs. R. Vasanthi Stanley & another in the Supreme Court of India, (Judgment date: 15 February, 2015.)

<sup>123</sup> Ibid.

<sup>124</sup> The Digital India Land Records Modernization Programme (DILRMP) was launched by the Government of India in August 2008, to modernize management of land records, minimize scope of land/property disputes and to enhance transparency in the land records maintenance system, with the vision to eventually move towards guaranteed conclusive titles for immovable properties in the country. Source: DILRMP Website - <http://nlrmp.nic.in/>

<sup>125</sup> The major components of the program are computerization of all land records including mutations, digitization of maps and integration of textual and spatial data, survey/re-survey and updating of all survey and settlement records including creation of original cadastral records, computerization of registration and its integration with the land records maintenance system, development of core Geospatial Information System (GIS) and capacity building. Source: DILRMP Website - <http://nlrmp.nic.in/>

<sup>126</sup> Cadastral: 'Showing or recording property boundaries, subdivision lines, buildings and related details' <https://www.merriam-webster.com/dictionary>

<sup>127</sup> "True depiction of the ownership status" would mean that mutation is automated and automatic following registration; and the reference to past records is not necessary. DILRMP Website - <http://nlrmp.nic.in/>

<sup>128</sup> IRDAI Website -Working Group on Title Insurance, Ref. No: IRDA/NL/ORD/MISC/115/16/2016, dated 10-06-2016 [https://www.irdai.gov.in/ADMINCMS/cms/frmOrders\\_Layout.aspx?page=PageNo2875&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/frmOrders_Layout.aspx?page=PageNo2875&flag=1)

revenue records, ascertain the status of digitization of land records in various states and availability of legal expertise to support the underwriting and claims management efforts of the insurer.

- To examine any other aspect relevant to “Title Insurance”.

The report of the Working Group has provided a great deal of clarity to the insurance industry and from 2018, the industry has started offering Title Insurance products and Inherent Defects Insurance products.

Commenting on the move, Legal experts<sup>129</sup> have pointed out that the “growth of title insurance will help restore confidence in this sector and will prove to be mutually beneficial for developers, promoters, financiers and buyers in a real estate project” and that Title insurance has tremendous untapped potential which shall add unprecedented value to the Indian real estate insurance market by providing a greater degree of certainty and transparency for all the key players in this market.

However, though Title insurance products<sup>130</sup> are offered by seven non-life insurance companies, namely, New India Assurance, Bajaj Allianz General Insurance, HDFC ERGO General Insurance, Tata-AIG General Insurance, ICICI Lombard General Insurance, National Insurance and Liberty General Insurance as of February 2019, the fact remains that only three title insurance policies have been sold in nearly two years, and that too were voluntarily bought by builders from the same insurer.

However, as these products have not been found successful so far [despite the Central Real Estate Regulation and

Development Act 2016 (RERA) mandating builders to buy title insurance covers for their projects], it is learnt that some insurers and brokers are individually trying to convince the prospective customers on the one hand and on the other, modify their products as also create products that are more relevant for the country.

## 2.10. Micro Level Risks of the Indian Housing Industry

Individual house owners face multiple micro level risks like death, disablement, accident, sickness or loss of employment of themselves and their family members. Situations can be so threatening that one would have to sell or mortgage one’s house to tide over the financial crisis entailing such risks. Again, natural and manmade catastrophe situations can deprive homeowners of their homes or force them to spent considerable amounts to make an affected home habitable. The same would happen for the valuables and belongings in one’s house.

If the owner of the affected house has availed of finance, all these risks would work differently and result in situations of non-repayment of the loans availed.

World over, most of these situations are addressed by insurance policies and the Indian insurance industry is generally keeping pace with the global community in the area of residential housing. **[Specifics about these micro level risks and the technical details of their insurance solutions are discussed in detail in Chapter 3.]**

<sup>129</sup> Title insurance in India: An opportunity awaits ... Alok Tewari & Yudhist Narain Singh, Senior Partner and Principal Associate, Kochhar & Co. (a law firm) <http://www.moneycontrol.com/news/business/real-estate/title-insurance-in-india-an-opportunity-awaits-2394019.html>

<sup>130</sup> ‘Despite RERA, Title cover has no takers’, Deccan Chronicle, Falaknaaz Syed, Feb 27, 2019, <https://www.deccanchronicle.com/business/companies/270219/despite-rera-title-cover-has-no-takers.html>

### 3. Insurance Solutions for the Indian Housing Industry

*[Chapter Structure: This chapter discusses the specific concerns of the Housing Industry, Primary Lending Institutions and their Customers and examines the extent to which these are addressed by the Indian insurance market.*

*The various insurance solutions available in India for the Home Insurance market such as the Standard Fire and Allied Perils Insurance, Long-term Home Insurance, Home Package Insurance, Contractor's All Risk Policy, Employees' Compensation Insurance, Public Liability Insurance, Professional Negligence Insurance, Fidelity Guarantee Insurance, Public Offerings of Securities Insurance, Terrorism Protection and Key Person Insurance and solutions thereof are discussed in detail. The micro level risks of the Indian Housing Industry such as death, personal accident, sickness of the home owner, medical treatment of the family, natural catastrophe and the macro level problems affecting the builders/ contractors and the financiers along with insurance solutions are also discussed in detail.*

The chapter discusses some need gaps of the sector and solutions like 'Title Insurance' and 'Decennial Liability insurance' (or 'Inherent Defect Insurance') which are used in other countries but are still in the evolving stages in India. Similarly, solutions like issuing insurance policies on 'all-risks' basis and creating bespoke solutions for large projects which are getting increasingly popular in this sector are also discussed in this chapter.]

PLIs promote various schemes by connecting with various customer segments, interacting with customers having acceptable credit scores, securing lender-interests through proper documentation and attempting to ensure regular repayments of the advances made. However, receiving repayments as per agreed time schedules and handling payment defaults, without causing any negative vibes among present and prospective customers of the industry and retaining customer goodwill are among their major concerns.

These concerns are at the micro level/ implementation level. Challenges in repayment stem out certain situations like death of the borrower, permanent/temporary disability of total or partial nature due to accidents or disease of the borrower, heavy financial burden due to surgeries or short/ long-term medical treatments for the borrower or his family, loss of employment, loss of assets/ livelihood due to natural/ man-made catastrophe, loss of livelihood due to competition/ changing market conditions in case of self-employed loanees,

unexpected legal liabilities to employees or any third party, sudden property market fluctuations etc. Many of these can mature into non-performing assets causing direct losses. [Though title related issues like loss of right on property due to flaws in the title of the property, adverse court decisions on disputable title etc. can arise at individual loanee level, these concerns are discussed in the previous chapter as it would call for policy level interventions by the Regulator.]

Some of these challenges may result in high costs by way of follow-up activity, litigation costs and compromise solutions like interest waivers, in addition to the nuisance value and the loss of management time. The risk elements of these concerns are examined and existing/ possible solutions available with the life and general insurance companies in India/ other markets are discussed.

As part of this study, a random set of customers across India was requested to rank 17 different challenges faced by the customers of the housing industry (they were given an option to state other challenges as well.) Their views are presented under Table 1 of Annexure 'B'.

The challenges are examined in this study at an 'Industry Need vs. Insurance Solution' level. The insurance solutions which suit most concerns of individual loanees and their lending institutions are discussed only at a generic level. Though some insurers' websites are provided in the footnotes/ references, these are for reference purposes and to facilitate a detailed understanding of the covers and exclusions by the readers. There are more or less similar insurance policies available with life, health and general insurance companies in the country, which can be compared by customers for their purchase decisions. Findings of a tag study on customer perceptions of reasons for loan default and insurances are presented as Table 2 of Annexure 'B'.

#### 3.1. Solutions for Micro Level Risks – (Risks faced by Individual House-owners)

The risks faced by the individual house owners, whether they have availed of a housing loan scheme or otherwise are as given below. A detailed comparative chart of the various policies offered by the Life and Non-Life insurers are presented in Annexures H & I.

**3.1.1. Death of Policy Holder:** Death of the borrower and consequent payment defaults are understood by the entire HL market. Officials dealing with loans and recoveries are

acutely conscious of the situation where the borrower meets with an early death and the family being left behind with the liability of repaying the house loan.

Many PLIs were found to insist that some sort of life insurance protection was absolutely essential for sanctioning the loan. Some PLIs were recommending particular insurers (usually bancassurance<sup>131</sup> partners), though no one was found to insist on a specific insurance provider. In contrast, there were a few PLI employees who observed that though life insurance was in principle essential, suggesting a prospective borrower to pay for insurance worked as a strong disincentive as many customers found it an avoidable expense. For this reason, some PLIs took the view that they were not concerned about the insurance part at all and consciously chose to leave it to the borrowers' wisdom to cover the risk of dying before repaying the house loan, resulting in a protection gap.

Among the life insurances purchased, two types stand out. The most popular policy is the 'Mortgage Redemption Policy', also known as 'Home Loan Protection Plan'. At the time of commencement, the Sum Insured of this policy would be the full amount of loan and interest outstanding. The Sum Insured decreases over time, as the loan outstanding gets reduced by EMI payments. Products of this type are attractive as the premium outgo of the borrower is quite miniscule. However, as the low price has a bearing on the commission income, it was reported that many insurance agents normally tend to dissuade customers from purchasing this policy. This insurance is found ideal to hedge the loan amount in full and prevent attachment of property in case the borrower meets with untimely death. However, the only negative in respect of this policy is that it would leave no amount for the sustenance of the family.

Mortgage Redemption Policies are usually available in three variants<sup>132</sup> and as a combination product. (i) Reducing Cover Option, under which the life cover reduces roughly in line with the loan repayment schedule (i.e., the life cover goes down with the outstanding principal). This is the popular option because it gives just the required protection at hence the lowest price. (ii) Level Cover (or Fixed Cover) Option, where the life cover remains constant for the term of the plan. As the risk is higher, the premium for this option is higher than the reducing cover option. (iii) Fixed Cover for a number of years followed by reducing cover for the remaining years. (iv)

Some insurers offer combo variants where the home loan insurance is clubbed with home/ property insurance for a typical term of 5 years. Optional covers such as accidental death, disability, critical illness, job loss for 3 EMIs etc., are offered under some of the plans.

The other policy popular among those who availed of home loans is the Term Insurance Policy where the borrower has the option decide the sum insured taking into account his current and future liabilities. From the PLI point of view, the term of the insurance policy should be till the loan period or after so that the risk of loan default due to the borrower's death gets covered. This policy is a pure risk cover with no savings or profits accruing thereon. In case of the borrower's untimely demise, the financier's dues get cleared by the insurance amount and the balance is paid to the family. Customer preferences on this are presented at Table 3 under Annexure 'B'.

**3.1.2. Personal Accident:** Permanent total disability or permanent partial disability arising out of accidents can often debilitate a loanee for life and make repayments delayed for long periods or even impossible. Though temporary total disability or temporary partial disability have some impact on the borrower, these result only in deferred or staggered repayments and ensuing increase of the cost of the loan.

Personal Accident (PA) insurance policies are usually low cost products covering accidental death and various situations of disability. Though most customers of the housing industry do not mind buying this policy, these are not usually being suggested by the loan processing officers of PLIs. It was observed that only in situations where a preferred insurer/ bancassurance partner was involved Personal Accident insurances were being bought.

A practical issue observed was that PA Policies seldom get renewed on time, when purchased on an individual basis. Possibly because of the low premium of the policies, renewals of such policies are often forgotten by both the borrowers and the PLIs; and also do not get followed up by insurers or their agents. Some PLIs attempt to solve these problems by purchasing Group Personal Accident (GPA) Policies for all their customers. Here, the insurance company would issue a GPA Policy covering all the borrowers for their respective outstanding loan amounts on a particular date.

<sup>131</sup> Bancassurance also known as Bank Insurance Model (BIM), refers to a partnership/ relationship between a bank and an insurance company, whereby the insurance company uses the bank sales channel to sell insurance products to the bank's client base. <https://en.wikipedia.org/wiki/Bancassurance>.

<sup>132</sup> Home Loan Protection Plan – What Bank Officials Won't Tell You, Deepesh Raghaw, 24 August 2015. <http://emicalculator.net/home-loan-protection-plan-what-bank-officials-wont-tell-you>

The PLIs would typically keep granting loans all through the month and making monthly declarations of the number of borrower lives and the total outstanding loan amounts, to the insurance companies on a designated date. Insurers, in turn, update their records and pass necessary endorsements. Insurers are statutorily obligated to receive premiums before accepting risks. Otherwise, they would not be able to pay for any accident to borrowers occurring during the intervening period. To overcome this situation, insurers ask PLIs to open Cash Deposit (CD) Accounts and maintain sufficient balance therein to take care of the additional number of loanees and outstanding loan amounts during the intervening period. In such cases, even if a borrower meets with an accident before his inclusion is declared to the insurer on the designated date, the claim would be honored if the CD account has sufficient balance to cover all the premiums due.

**3.1.3. Medical Treatment:** Medical contingencies including surgeries, critical diseases, protracted treatments etc. were well understood by the Housing industry. In contexts where PLIs insisted upon life insurance or recommended a preferred insurer/ bancassurance partner, many of the borrowers were found to be opting for Health insurance as well.

With the increasing costs of health care, illnesses of the loanee or any of his family members can often cause a loan payment default. Health insurance becomes vital in during medical exigencies. Though there could be variations in covers offered by different insurers, most common forms of health insurance policies cover expenses of hospitalization incurred towards room/ boarding charges, nursing charges, medical practitioners' fees, intensive care unit charges, surgery costs, operation theatre charges, costs of anesthesia, anesthetist's fee, costs of blood, oxygen, etc. (and costs of administering them), charges for physiotherapy treatment, costs of medicines consumed during hospitalization, costs of miscellaneous services like laboratory, x-ray, diagnostic tests, dressing, plaster casts etc., as well as the cost of prosthetic devices implanted during surgical procedures. In addition, expenses incurred by patients 30 days prior to hospitalization and 60 days post hospitalization also get covered. Many insurers set a condition that only diseases warranting 24 hours of hospital stay are covered. However, the treatment of certain diseases like hernia and cataract; and processes

such as dialysis, chemotherapy etc. (collectively, referred to as 'day-care procedures'), that may not require hospitalization treatment due to the advancements in medical technology are usually exempted from this condition.

**3.1.4. Natural Catastrophe - Indian Market Experiences:** Both PLIs and Housing Finance customers were generally aware of natural catastrophe and the damage it can cause to one's building. This stands endorsed by a tag study conducted as part of this research, results presented at Table 4, Annexure 'B'.

Though Insurance protection for natural disasters is compulsory under some State laws, compliance is not forthcoming or insisted upon. Despite Section 161 of the Maharashtra Co-operative Societies Act, 1960 making it compulsory for the Cooperative Society to insure its building/s necessarily against risk of natural calamities, fire, flood, earthquake, third party liability and the like, many of the buildings continue uninsured. In the case of Mumbai, the financial capital of India where insurance awareness should be fairly high, 95% buildings in City are not insured.<sup>133</sup> Many of the people who avail of housing finance from banks or non-banking financial companies are understood to be having some sort of Life insurance policy to cover the loan taken. However, when it comes to protecting their assets against natural catastrophes they were found uninsured or heavily underinsured.

The total economic losses in Chennai, home to several manufacturing companies, and a population of about 8.5 million due to the severe flash floods of November/ December 2015, was estimated at USD 2.2 billion, while *"the insured losses were USD 755 million<sup>134</sup>, making the floods the second costliest insurance event in India."* The figures highlight the vulnerability of the rapidly growing urban areas to flash floods originating from heavy rains on the one hand. On the other, it underscores the low penetration of general insurance, resulting in the huge gap between economic loss and insured loss. It also highlights the heavy underinsurance part, i.e. those insured were not insured for adequate amounts, making them under protected and susceptible to loss despite having an insurance policy. This situation needs to be seen in the backdrop of the country having a large number of newspapers and television channels that create widespread awareness<sup>135</sup> about our exposure to natural catastrophe.

<sup>133</sup> '95% of Mumbai housing societies are not insured', DNA Newspaper, 11<sup>th</sup> August 2011, <http://www.dnaindia.com/mumbai/report-95-of-mumbai-housing-societies-are-not-insured-1574717>

<sup>134</sup> 'Chennai floods largest natural catastrophe in India in 2015: Swiss Re' - The Hindu Business Line Report, 30<sup>th</sup> March 2016. <http://www.thehindubusinessline.com/news/national/chennai-floods-largest-natural-catastrophe-in-india-in-2015-swiss-re/article8413852.ece>

<sup>135</sup> Catastrophic situations like the large scale flood losses incurred in Srinagar, Uttarkashi, Mumbai and the Andhra Coast (Hud Hud) within the last decade, earthquake losses in Bhuj of 2001 and the devastating effects of the Tsunami of 2004 are still in public memory.

The Earthquake that devastated Bhuj of Gujarat in January 2001 is a case for consideration. The economic loss of the earthquake was "around USD 4.5 bn. but insured loss was only around USD 100 million".<sup>136</sup> [Based on a scenario analysis using Swiss Re's internal Nat Cat tool, the loss from a similar earthquake will cause an insured loss of more than USD 1.0 bn. in 2016.] The protection gap in Bhuj was generally blamed on the low insurance awareness. The State Government reconstructed 2,22,070 houses and repaired 9,17,163 houses. "To transfer future earthquake risk to the private sector, the Government of Gujarat formulated a multi-hazard insurance scheme in partnership with national insurance companies under the housing recovery programme. The package insured multi-hazard damages of a newly reconstructed house for USD 2,000 for ten years for a one-time premium payment of USD 7. The housing assistance policy made the insurance compulsory for all newly reconstructed houses."<sup>137</sup> Experts associated with the process recalled that though all the houses were insured in the first year, practically none of the insurances were renewed for more than a year.

In the aftermath of the Tsunami that hit the southern and eastern coast line of India in December 2004, the Tamil Nadu Government financed insurance coverage for tsunami reconstruction houses<sup>138</sup> for a 10 year period. The cover was for 14 hazards, viz. (i) Fire, (ii) lightning, (iii) explosion/implosion, (iv) aircraft or other aerial and/or space devices and/or articles dropped from it, (v) impact damage by rail/ road, vehicle or animal (belonging to third party) by direct contact, (vi) riots, strikes, malicious acts, (vii) storm, cyclone, typhoon, tempest, hurricane, tornadoes, flood and inundation, (viii) subsidence and landslides including rock slides, (ix) bursting and/or overflowing of water tanks, apparatus and pipes, (x) missile testing operations, (xi) leakage from automatic sprinklers, (xii) bush fire, (xiii) tsunami and earthquake including fire and shock and (xiv) terrorism.

### 3.1.5. Reasons for Low Demand for Catastrophe Insurance:

The reasons for people not insuring natural disasters and not renewing Government initiated benign schemes have been studied by experts and five different reasons<sup>139</sup> have been cited. (i) People have "Cognitive limitations as a result

of which low-probability events like natural disasters are systematically misjudged." Some call this the "it will not happen to me" attitude. (ii) Many have a behavioral bias and consider insurance as an investment. "Since low probability events like disasters cannot guarantee a return on investment there is low demand. People may ex ante prefer uncertain losses rather than the certain loss of paying the insurance premium." (iii) The governmental relief provided ex-post after disaster "would reduce incentives to purchase insurance coverage. This is referred to as the "charity hazard", as defined by Browne and Hoyt". This was endorsed by a study on crop insurance in the Netherlands which stated that "the willingness of producers to purchase private insurance was significantly negatively influenced by the producers' beliefs about the availability of disaster relief in the future." (iv) Again, severe budget constraints faced by some families limit their interest to purchase adequate insurance coverage. (v) Another reason is the lack of effective information, especially probabilistic information like occurrence of catastrophes. "People have difficulties judging risk assessments in terms of relative frequency."

In addition to the low demand for catastrophe insurance, supply side problems are reported in some territories and many insurers exclude coverage for property damage caused by catastrophes, holding that these were uninsurable. The Dutch Association of Insurers prohibited their members from covering flood and earthquake risks. With increased insurance awareness among governments, insurers and the public at large, insurance is well established in developed countries today. However, the premiums for disaster insurance are considered high and not affordable in many developing countries. This thinking has been found to affect the vulnerable groups and those living in high-risk areas, which are most in need of insurance protection. One of the Experts interviewed commended the role of the international reinsurance majors in catastrophe research and commented that 'natural catastrophes have become insurable as they are reinsurable'. In recent years insurance<sup>140</sup> in "post-disaster recovery and reconstruction has been gaining recognition, particularly in the housing sector." Insights from a tag study

<sup>136</sup> 2001 Gujarat Earthquake – A Retrospective, by K. S. Vipin, April 2016 - <https://openminds.swissre.com/stories/987/>

<sup>137</sup> Guidance on Housing - Disaster Recovery Toolkit, 2015 - Dr. Kuntoro M. Subroto, Chair and Mr. Satya S. Tripathi, Secretary, TGLLP-SC Published by the Tsunami Global Lessons Learned Project Steering Committee (TGLLP-SC) - [http://www.recoveryplatform.org/assets/tools\\_guidelines/Housing.pdf](http://www.recoveryplatform.org/assets/tools_guidelines/Housing.pdf)

<sup>138</sup> *ibid*

<sup>139</sup> 'Green Paper on the insurance of natural and man-made disasters', Michael Faure, Veronique Bruggeman - Reaction of the Malta Forum of Legal Experts on Climate Change Adaptation - July 2013

<sup>140</sup> Disaster Recovery Toolkit, 2015, Dr. Kuntoro Mangku Subroto, Chair, TGLLP-SC Mr. Satya S. Tripathi, Secretary, TGLLP-SC Published by the Tsunami Global Lessons Learned Project Steering Committee (TGLLP-SC) [www.adpc.net/tgllp/drt](http://www.adpc.net/tgllp/drt)

are presented at Table 4 of Annexure 'B'.

*The Mumbai and Chennai situations described above, point out the need for having regulatory provisions in all States to make insurance mandatory for housing societies, as also the need for ensuring implementation of the regulations. Regulatory attention is needed also for making citizens aware about transferring their risk of natural disaster to the insurance mechanism and for mustering public support for the cause.*

**3.1.6. Standard Fire and Allied Perils Insurance:** These are commonly available basic insurance policies generally available for 1 year terms, which cover many of the concerns of the target segment. (However, a few companies issue these insurances for durations of 3 to 5 years as well.) Coverage includes fire, lightning, explosion/ implosion, aircraft damage, riot, strike and malicious damage, impact damage, landslide/ rockslide, bursting and overflowing of water tanks, missile testing operation, leakage from automatic sprinklers and bush fire. With the addition of natural catastrophe cover, protection from earthquake, storm, typhoon, cyclone, flood etc. get included.

Additional coverages relevant to the housing industry/buyers of residential property and others in the housing industry (like construction companies and corporates) are architects, surveyors & consulting engineers fees, debris removal expenses, impact damage due to Insured's own rail/ road vehicles etc., terrorism, loss of rent and expense of rent for alternative accommodation.

Some of the common issues faced by borrowers are as follows:

- ◆ Generally, such policies are required to be renewed every year (some insurers offer 3 to 5 year policies) regularly so as to have continued insurance as breaks in insurance periods could result in denial of liability or delay in claim settlement.
- ◆ The value of the property (on reconstruction basis) needs to be updated at every renewal. Customers usually fail to appreciate the reason behind this revision and end up renewing the policies on expiring policy terms. When a loss occurs, such situations translate to undervaluation of assets and result in lower indemnification due to underinsurance.
- ◆ Depending on the market condition, the cost of insurance may vary at yearly renewals
- ◆ Customers who opt for add-on covers may do so without understanding their risk exposures which result in gaps in insurance coverage. After the loss, when a customer

comes to realize that the insurance purchased did not match his expectations, it upsets him. For example, many of the people having fire insurances who were affected by the Bhuj earthquake were left high and dry as they had not opted for earthquake cover.

- ◆ One of the main issues faced by the housing industry is that insurances are mechanically purchased without assessing the insured's need and understanding the coverage offered.
- ◆ A reason for confusion is that the insured do not readily understand that most Fire policies are 'named perils' or 'limited cover' policies where the insured has to select the coverage that is needed by him and pay for the same.
- ◆ House property insurances are location specific and providing limited coverage. It also means that if the correct description of the property and the correct location and address not specified, claims settlement can be compromised.

It would be advisable to make it compulsory to build internal capacity to understand their own insurance needs as also of and their customers so that the properties are covered adequately and money is not wasted by procuring ineffective insurance covers that give only notional protection.

**3.1.7. Long-Term Home Insurance (LTH):** Long-Term Home Insurance (LTH) covers the physical structure of the house for fire and allied perils and natural catastrophe such as earthquake, storm, cyclone, flood etc. Whenever taken, loanees prefer to purchase LTH insurance for the same duration as the loan term. In this kind of insurance the following issues are seen.

The policy is taken for the same sum insured as the loan value without considering the pecuniary value which is paid by way of own contribution in the loan. This would attract underinsurance provisions. The situation of underinsurance gets more pronounced if the loss happens after 10- 15 years of issuance of the policy as the replacement value increases over the period of 10-15 years.

In case of loans for partial modifications of a building, the above problem becomes very evident from the initial years itself as under the insurance contract, the sum insured would be the reinstatement value on the date of such reinstatement. As the sum insured in such cases reflect only the partial value of the property, in case of a loss, the amount may not be sufficient for reinstatement due to the application of underinsurance.

Whenever the claim amount falls less than the actual loss, due to operation of the underinsurance provision, the customers feel cheated, entailing trust deficit.

In long-term contracts, only the physical structure gets insured, whereas the contents of the house may also be damaged in case of a loss that impacts the physical structure of the building. Here, again, the insurance policy cannot respond and the insured would feel cheated.

In some cases, due to ignorance the land value also gets added to the sum insured, though most calamities do not affect the land. In such cases, the insured ends up paying more premiums.

To overcome such issues, now-a-days some insurers are offering separate products covering the house and its contents. The house contents policy is taken by the individual and the building portion is insured by the Housing Cooperative Society as a collective insurance for many houses in the same building.

While in annual contracts increases of Sum Insured (value of reinstatement) are taken care of through periodic revisions at renewals, in LTH Policies, insured usually do not revise the sum insured mid-term. This is another reason for underinsurance especially is losses occur at the fag ends of the loan periods and policy periods, which usually co-terminate.

In case of pre-closure of loans, customers have the option to transfer the policy to his name after obtaining No Objection Certificates from the PLI and continue the insurance. However, many times people are not aware of this facility and do not continue the insurance.

Most LTH policies cover fire, special perils and natural catastrophe events, though some offer slightly wider covers. Customer requirements as per a tag study are presented as Table 5 under Annexure 'B'.

However, the reasons for home loan defaults of house owners could arise from other life events such as personal accidents, legal liability to third parties, burglary etc. as well. However, the exposures to these risks, the costs involved in indemnifying them as well as pricing them can vary dramatically over the long term at a different pace or even at an inverse proportion in comparison with the major risk covered - the house property. For these reasons and others, these kinds of uncertainties are not covered by LTH policies. [These are covered in yearly policies like the Home Package discussed below.]

Some PLIs interviewed were not aware of long-term or short-term policies covering fire and natural calamities. Some of those who were aware of such insurances were found quite casual about them and felt that the additional costs involved would only scare customers away from them and dampen the prospective house-buyers' interest in availing housing finance. It was observed that situations where Bancassurance partners/ preferred insurers of the PLIs were in contact with borrowers, Long-Term Home Insurances were being opted for 10 to 15 year terms.

*It may be worthwhile to consider making long-term insurances a preferred mechanism for risk management and consider giving home loan customers incentives for the same.*

**3.1.8. Home Package Insurance:** This policy, known by various names,<sup>141</sup> is essentially a package of standalone products (existing in the market) that address different concerns of the same market segment of retail customers, bundled together to provide customer value at a lower cost. The salient features of such policies are listed below.

- ◆ Home owners need to manage one single policy/ document instead of having multiple policy documents and tracking their renewal dates
- ◆ Though the package policy would appear costlier than the Standard Fire and Special Perils Policy or the Long-Term Home Insurance Policy, customers get the benefit of much wider protection at substantially lower prices than buying them separately, as 'bundling' helps insurers to reduce distribution costs
- ◆ Most of these policies have a compulsory Fire Section and customers have the option to take add-on covers, which comes as additional sections of this policy
- ◆ The additional sections that usually form part of these package policies are mentioned below (the sections may vary in products of different insurance companies).
  - Fire and allied perils (*usually compulsory*)
  - Burglary and theft
  - Portable electronic equipment like mobile phones, laptops
  - Electronic equipment like television, music system, home theatre
  - Machinery breakdown of equipment like oven, washing machine, refrigerator, air conditioner

<sup>141</sup> *Householder's Package Policy, My Home Insurance - All Risks Policy, Total Home Policy, Home Secure Policy, and Home Suvidha Policy are some popular package policies providing the same coverage.*

- Public Liability/ Legal Liability in case any third party visiting the house suffers any injury/ loss and needs to be compensated
  - Liability for staff employed on full time basis
  - Pet cover for the pets like cats and dogs in the house
  - Personal Accident cover for the house owner and family members
  - Baggage cover for accompanied baggage carried during travel
  - Plate glass cover for glass doors, window panes and other big glass shutters in the house
- ◆ In recent years, as customer needs are increasing, many companies have started to offer innovative add-on covers to home package insurances to attract customers. Some of these are:
- cost of duplicate key
  - loss of wallet
  - damage of household goods while they are shifted by professional packers
  - cost of replacing lost/ damaged title deeds
  - loss or theft of credit cards/ debit card
- ◆ Some insurers cover the contents of the house on 'first loss<sup>142</sup> basis', which allows the insured to fix the maximum loss he expects by a single event as the sum insured. This works as follows. A house has contents valued at INR 500,000. The most expensive item in the house is worth INR 1,50,000. The house owner expects that if a theft occurs, items worth INR 200,000 only would be stolen and not the entire contents. When theft is insured on 'first loss basis', the insurance will be only up to INR 200,000 and any additional loss would be borne by the insured. It is also agreed that the insurer will not invoke the condition of average or underinsurance and reduce the claim payable in view of the sum insured being understated, which would have been done in the normal case. 'First Loss' policies are usually cheaper.

The positives of Package Policies for financiers are that many loss causing events get covered in one go. On the negative side, unlike in the case of long-term insurances, financiers need to track the renewals to ensure that the interests are

protected, which add to the administrative burden. Borrower preferences as per a tag study are presented as Table 6 under Annexure 'B'.

*PLIs could consider compiling a list of the reasons that render housing loans non-performing assets; and making it available to the insurance industry so that they could design package policies covering such reasons (to the extent these are insurable). Regulatory push by way of mandating that insurance would be compulsory for all loans and advances; or creating systems to incentivize adequate insurance protection could help.*

### 3.2. Solutions for Macro Level Risks – (Risks faced by Builders, Contractors and the Industry)

The typical insurance solutions for builders, contractors and other corporate customers of the Housing Industry and their operative details are discussed below.

**3.2.1. Fire Insurance Policies:** One of the main issues faced by Housing Financiers, Builders and Contractors is that insurances are mechanically purchased without assessing the insured's need and understanding the coverage offered. Such insurances turn meaningless in the event of a loss causing wastage of premium for the insured, loss of goodwill for insurers and erosion of trust in the insurance mechanism. The 'Standard Fire Insurance and Special Perils Policy' is typically one such insurance product.

Without realizing that this policy is designed for covering constructed houses and may not provide the requisite protection to building projects, many financiers recommend this policy for houses in the construction stage, and assume that the risk is fully covered. In such cases, typically, the occupancy of the building would be mentioned as 'under course of construction' and the entire project value (which would include the building, land, equipment and stock) would be stated as the Sum Insured without mentioning the breakup. The insurance company would issue the policy without realizing that the Sum Insured was overstated and the policy coverage was misunderstood. However, as this policy is designed to cover the value of the building, if a loss occurs, only the value related to the completed civil structure gets paid and damages to stock, project material, equipment etc. would not be indemnified.

<sup>142</sup> The term 'First Loss basis' refers to a "type of partial insurance (which covers less than the full value of goods or property at risk) where both the insured and the insurer agree that the 'subject to average' (i.e. underinsurance) rule does not apply. These policies cover only the estimated largest possible loss, and are used commonly in the burglary or theft insurance where the possibility of total loss is extremely remote (such as in case of a large store) <http://www.businessdictionary.com/definition/first-loss-policy.html>

Sometimes, instead of opting for the Construction All Risk (CAR) Policy designed specifically for projects, the principal or the builders knowingly purchase simple Fire policies which are much cheaper, merely to provide a placebo effect for the project financier and/or the main contractor. Often, the increase in insurance premium for opting for the CAR policy is nominal, considering the investment in the project. However, many developers do miss this point.

Another gap in understanding is that the insured do not readily understand that most Fire policies are 'named perils' or 'limited cover' policies where the insured gets only a small set of covers by default; and has to select the additional covers needed by him at extra cost. In contrast, a Construction All Risk policy is a comprehensive policy with 'named exclusions' where whatever is **not** specifically mentioned as 'not covered' stand covered.

*PLIs need to build internal capacity to understand their own insurance needs and those of their customers. This would help them in protecting their properties/ other risks adequately based on actual needs; without wasting money on procuring irrelevant or inadequate insurance covers that give only a 'placebo' effect or notional protection.*

**3.2.2. Project Policy/ Contractor's All Risk Policy:** This policy is specially designed to cater to the needs of Civil Engineering Contractors in the matter of works under construction. It works as an 'All Risks' policy, where the exclusions to the policy are spelt out, making everything else covered. Unlike most general insurance policies, this policy is issued for the duration of the construction project.

The project policy can be purchased by the Principal (Promoter/ Project Owner), Contractors, Sub-contractors or Financiers separately; or on joint name basis covering all or a combination. If the Principal takes this policy, he can ask for overall coverage that includes contractors, sub-contractors, supplied materials etc. The main advantage of the Project Owner as policy holder is that there is continuous insurance protection even if one contractor abandons the project.

In situations where the Contractor is the main insured, the project cost and project duration can be more accurate, better aligned and policy benefits optimized. As the premium

charged for this policy is a function of the overall project value and duration of cover along with the add-on covers opted, such optimization can help in reducing the premium outgo. Also, the project overruns and cost overruns can be monitored on real time basis and the coverage can be extended with increased sum insured or duration if needed. In cases where the financing is done to only one of the contractors it would be practicable for the contractor to take this cover. For projects, this policy offers seamless cover as the policy coverage starts from the time of commencement of work or after the unloading of the first lot of materials at site whichever is earlier till the date specified in the policy schedule or the date of handing over of completed works to the principal whichever shall be earlier. The Sub-Contractors would obviously cover only for the small area of work that he is involved in and not the entire project. In other words, such policies are available for covering either the whole project or a part of the project for which one is legally liable.

The Financier can be a joint insured or his interests added by way of hypothecating the insurance policy and in case of loss, the person to whom the claim has to be paid by the insurer would need to obtain 'no objection' from the other party. Such arrangement would help in maintaining total transparency and safeguarding the interests of both the contractor and in case unforeseen events. This policy has a provision of premium adjustment also, as the policy represents the complete value of the contract work. On completion of the construction, the actual values in respect of freight and handling charges, custom dues and construction costs are declared by the insured; and the difference in premium is paid/ refunded at the rate agreed earlier. However, any increase or decrease in the prime cost of material is not considered for such premium adjustment.

This policy covers losses arising out of natural hazards such as cyclone, earthquake and flood as well as common hazards at project site arising due to demolition, earthmoving, excavation, piling, trenching, and collapse of scaffolding, fire from cooking, negligence and inexperience. There are many specific add on covers which are available under this policy as well. Add on covers popular among residential building contractors are (i) Earthquake cover for EQ Zones 1& 2 [For Zones 3 and 4, EQ is usually covered as part of the package], (ii) 72 hours Clause<sup>143</sup>, (iii) 50:50 Clause<sup>144</sup>, (iv) Special conditions

<sup>143</sup> '72 Hours Clause': This clause indicates that all damage arising separately from single natural event and occurring within each and every separate period of 72 consecutive hours during the currency of this Policy shall be considered as one loss.

<sup>144</sup> '50:50 Clause': This means that if is not possible to establish whether the damage was caused before or after arrival of the goods at the contract site it is agreed that settlement will be made on a 50:50 percent basis between the Marine Cover and Contract Works Cover.

concerning firefighting facilities, (v) Professional fees clause, (vi) Clearance and removal of debris, (vii) Loss minimization expenses, (viii) Automatic reinstatement, (ix) Waiver of contribution, (x) Multiple insured, (xi) Escalation clause, (xii) Owners surrounding property, (xiii) Third party liability cover with or without cross liability<sup>145</sup> extension (within India), (xiv) Waiver of subrogation, (xv) Extended maintenance cover, (xvi) Valuable documents cover, (xvii) Design defect Cover, (xviii) Loss due to breakage of glass, (xix) Restoration of record, plan, documents, (xx) Loss or damage due to strike, riot and civil commotion and (xxi) Terrorism cover. Some of these add-on covers are available only for project values more than INR 1 billion.

On a different note, a point of view expressed during the interviews conducted as part of the study was stated that long-term policies should not be given to builders as there was a high possibility that their commercial/ trade risks and related other service deficiencies may get inadvertently covered. Also, it would be required that policies for contractors are suitably worded so that situations like a delay in handing over a constructed house due to a flood or cyclone would be payable under insurance, while if a builder chooses to delay construction due to an increase in the price of cement, it should not be payable, as it is a commercial/ trade risk.

The Industry finances multiple projects, the failure of which can be costly for the Financing Institution. It would be in the interest of the industry to ensure that the projects are properly protected by appropriate insurance policies under the advice of insurance experts. Alternatively, project financiers and contractors would have to build internal capacity to cover the projects with adequate insurance protection.

**3.2.3. Business Interruption:** (BI) (aka. Consequential Loss (CL) Insurance or Fire Loss of Profits (FLOP/ LOP) insurance or Business Income Insurance) Business Interruption insurance protects an enterprise from the negative consequences of a disaster beyond the immediate physical loss. Considered part of the Fire insurance group of insurances, Business Interruption insurance covers the loss of income that a business suffers consequent upon a disaster. This could

include the loss of income or the cost of rebuilding the business/ enterprise after the disaster. While Fire insurance (Property insurance) covers only the physical damage to the business, the Business Interruption policy covers the profits that would have been earned. The purpose of this insurance is to put a business in the same financial position it would have been in case no loss had occurred.

**3.2.4. Advance Loss of Profit Insurance:** (ALOP) (aka. Delay in Start-up Insurance or Delayed Completion Coverage Insurance) provides coverage for financial losses due to delays in construction and infrastructure projects. It would provide a payout if companies face loss of profits/ revenue when a project takes longer than expected to complete. The policy typically pays for Anticipated Net Profit plus Standing Charges (Fixed Expenses) during the period of delay, from the scheduled date of commencement of commercial operation up to the actual date of commencement of commercial operation, subject to a time excess and the Indemnity Period. This policy is considered quite important for large projects where delay in project completion could have a substantial impact on the expected revenue of the Company. The delay must have occurred due to a loss during construction, and payable under the Construction/ Erection All Risks policy. The policy is taken by the Principal as he stands to lose in case of any delay in the commissioning of the project. Typically, the object of ALOP Insurance is to indemnify the principal or owner of a project for the actual loss sustained due to a delay in completion of the insured works, caused by direct physical loss or damage covered under the CAR policy/ EAR policy. FLOP vs. ALOP can be understood as - while FLOP covers the loss of profits consequent to the material losses covered under Fire insurance, ALOP covers the loss of profits consequent to the material losses covered under Project insurances.

**3.2.5. Employees' Compensation Insurance:** The Workmen's Compensation Act, 1923 (renamed as Employees' Compensation Act w.e.f. 31-5-2010), which aims at providing financial protection to the workmen and/or their dependents in case of accidents arising out of and in the course of employment and causing either death or disablement of

<sup>145</sup> Cross-Liability refers to "Coverage in connection with a suit brought against an insured by another party that has insured status under the same policy." Cross-liability coverage is provided in liability policies. IRMI Website - <https://www.irmi.com/online/insurance-glossary/terms/c/cross-liability-coverage.aspx>. Some liability policies contain insured-versus-insured exclusions that eliminate cross-liability coverage. The Third Party Liability cover of the policy will apply to insured parties (Principal Contractor/ Sub-Contractor) named in the Policy Schedule as if a separate policy had been issued to each party. IIB - <https://iib.gov.in/IIB/tac/circulars/ecir2001.htm>

Notes: (i) Loss of or damage to items insured or insurable under Section I of the Policy, even if not recoverable due to an excess or any limit. (ii) Fatal or non-fatal injury or illness of employees or workmen who are or could have been insured under Workmen's Compensation and/or Employers' Liability Insurance, (iii) The Insurers total liability in respect of the insured parties shall not however exceed in the aggregate for any one accident or series of accidents arising out of one event the limit of indemnity stated in the schedule.

workmen, came into force on 1<sup>st</sup> July, 1924. Besides, the Act has a provision of paying compensation to the workmen for some occupational diseases contracted by them during the course of their employment.

The minimum compensation in case of death is INR 120,000 and INR 140,000 for permanent total disability. Also funeral expenses of INR 5000 are payable. The employee shall also be reimbursed the actual medical expenditure incurred by him for treatment of injuries caused during the course of employment.

The Employees' Compensation Policy (earlier known as Workmen's Compensation Policy) covers the statutory liability of the employer under the Employees' Compensation Act 1923 (earlier known as Workmen's Compensation Act 1923); the Fatal Accidents Act, 1855; and at Common Law and in case of accident or claim settles the claim directly with EC Commissioner. The scope of the Policy<sup>146</sup> is to pay all sums which the insured is legally liable to pay the employees in respect of personal injury by accident or diseases 'arising out of and in the course of the employment'. It covers the Insured's liability arising either under common law or the laws set out in the schedule Workmen's Compensation Act 1923 (Presently the Employees' Compensation Act 2017 and subsequent amendments). In addition, the costs/ expenses incurred by the insured with the consent of the company, to defend any claims are also paid.

Any employer, whether principal or contractor engaging 'workmen' as defined in the WC Act (now called EC Act) is eligible to purchase this policy to cover his liability to them under statute and at common law. Employers can cover employees who do not qualify as 'workmen' also under a separate table. Premium depends on the nature of work carried on by the insured. The Housing Industry deals with a large number of workmen in involved in risky and hazardous work. Liability due to a few deaths, injuries or treatment expenses can inflict heavy costs on the Builder/ Contractor, under common law. As per new EC Act, the insured is responsible for actual medical costs. One need to be very clear on what he is purchasing Medical benefits offered under such policies can be limited to actual expenses considering that. Also in some insurance policies, the claims due to common law are not covered by default.

*It would be advisable to make it compulsory for all PLIs to have in place adequate mechanisms to ensure that Contractors/ Builders are protecting themselves and their employees with the statutory Employees' Compensation Insurance.*

**3.2.6. Public Liability Insurance:** Public Liability Policies are of three types, viz. (i) Public Liability - Non Industrial Risk - for offices, hotels, motels, club houses, restaurants, boarding & lodging houses, flight kitchens, cinema houses, auditoriums, theatres, public halls, pandals, open air theatres, residential premises, medical establishments, research institutes, laboratories, schools, educational Institutions, public libraries, exhibitions, fairs and fetes, stadia, permanent amusement parks, film studios, circus, zoos, offices, hotels, cinema houses, hospitals, schools etc.; (ii) Public Liability Industrial Risk - for godowns, warehouses and factories; and (iii) Public Liability Insurance Act 1991 - a mandatory policy to be taken by owners, users or transporters of hazardous substance as defined under Environment (Protection) Act 1986 in excess of the minimum quantity specified under the Public Liability Insurance<sup>147</sup> Act 1991. Public Liability Policy can be usually extended to cover natural calamities like flood, earthquake etc., pollution risk and transportation risk on payment of additional premium. Public Liability policies cover the amounts which the insured becomes legally liable to pay as damages to third parties as a result of accidental death, bodily injury, loss or damage to the property belonging to a third party. The legal cost and expenses incurred in defending the case with prior consent of the insurance company are also payable subject to certain terms and conditions. While the Public Liability Act policy is mandatory for certain companies, all others exposed to liability risks can protect themselves using Public Liability Insurances. Many insurers allow multiple units situated in different locations under a single policy. Most policies offer a retroactive benefit for policies renewed without a break, whereby claims pertaining to prior periods (post inception of the 1<sup>st</sup> policy), but reported subsequently also are payable.

In Public Liability Policies, the Sum Insured is referred to as the Limit of Indemnity.<sup>148</sup> Limits are fixed on a per accident basis and referred to - as Any One Accident (AOA) limit; and on a per policy period basis - as Any One Year (AOY) limit respectively.

<sup>146</sup> Employers Liability Policy, The New India Assurance Policy - <http://www.newindia.co.in>

<sup>147</sup> Source: <http://pib.nic.in/newsite>

<sup>148</sup> Source: Public Liability Insurance, The New India Assurance Policy- <http://www.newindia.co.in>

## Builders to pay £ 14.7m after Glass Shards rained on City Workers

Builders responsible for an accident in which shards of glass rained down on the street from a City office block have been ordered to pay almost £ 15 million damages.

Pedestrians miraculously escaped serious injury when a glass panel on the 18<sup>th</sup> floor of the old London Stock Exchange shattered, sending pieces plummeting onto the pavement and road during the busy lunch hour.

The building, at 125 Old Broad Street, was heralded as a new City landmark when it reopened after on £80 million refurbishment in 2008. However, at least 35% of the toughened glass panels had not been heat-soaked and they began to fail almost immediately, the High Court heard. Seventeen panels used to clad the outside of the building cracked or shattered over four years.

Mr. Justice Stuart-Smith has now ordered contractor 'Lend Lease Construction (Europe) Ltd.' to pay £14,753,195 compensation to the building's owners over the debacle.

The court heard glass from a shattered panel fell into the street on September 2, 2008, but the extent of the problem was not realized. On April 27 the next year, a crack appeared in a 27<sup>th</sup> storey panel and on July 30 a panel on the 11<sup>th</sup> floor broke but remained in place.

The problem hit the headlines on August 19, 2009 when an 18<sup>th</sup> floor panel broke and fell to the ground, landing on the building's reception canopy and the road. Two pedestrians were struck by the falling glass but escaped serious injury. The building had to be completely reclad in 2013.

At the hearing last week Mr. Justice Stuart-Smith awarded more than £8.7 million in re-glazing costs as part of the compensation payout and almost £1.9 million for remedial works.

'Lend lease' was sued by the owner of the building, a company called '125 OBS (Nominees1)', as it had contractual oversight of the refurbishment, although Italian firm 'Permasteelisa' did all the actual glass work. Lend Lease declined to comment but Klaus Lothar, chief executive of 'Permasteelisa UK Ltd.', said the company was still reviewing the court's decision. "This judgment is relevant to an old project executed in 2005 and is connected with a decision by the client to change the project materials, which we objected to," He said.

**Source: Evening Standard, U.K., 17<sup>th</sup> July 2017**

The AOA limit which is the maximum amount payable for each accident should be fixed taking into account the nature of activity of the insured and the maximum number of people who could be affected and maximum property damage that could occur, in the worst possible accident in the insured's premises. For Public Liability Insurance Act policies, the AOA limit should mandatorily represent the paid up capital of the company subject to maximum of INR 50 million [500 lakhs]. The AOY limit is fixed at 3 times the AOA limit, i.e. Max. INR 150 million [15 crores].

In the context of this insurance, the term 'liability' would mean responsibility and 'legal liability' means responsibilities which can be enforced by law. Legal Liability is classified into Criminal Liability and Civil Liability, of which only Civil Liability claims are payable. Civil Liability claims will arise if there is prima facie evidence of negligence by the insured resulting in injury or death to any third party or resulting in damage to property belonging to a person other than insured, or in insured's custody.

In respect of the Housing Industry, Legal Liability under the Law of Tort can arise under several circumstances in the contractor's/ insured's premises such as, (a) collapse of building structures, (b) accidental falling of fixtures, (c) bad maintenance or poor housekeeping resulting in accident to visitors on the premises, (d) accidental leakage of toxic substance which pollutes the atmosphere and injures or kills people. Claims arising out of contractual liability, intentional non-compliance of any statutory provision, loss of goodwill, slander, fines, penalties, libel, false arrest, defamation, mental injury etc. are not covered under such policies. Negligence will be proved only when the duty of care exists, this duty is breached and someone suffers an injury or property damage as a result of that breach. There are policies where the insurer has the option of arranging the defense of the case.

Public Liability can be covered under policies like Contractors All Risks and Erection all Risks as add-on cover, subject to certain Sum Insured limitations. As large projects would require higher Sum Insured limits and certain specific extensions, they would need full-fledged Public Liability policies.

*It would be in the interest of the Housing industry if entities exposed to liability from members of the public to protect themselves with appropriate insurances.*

**3.2.7. Professional Negligence Insurance:** Negligence of certain experts involved in the construction of buildings can lead to different types of liabilities. Some of them may directly affect the professionals themselves while most liabilities directly or indirectly affect the principal/ contractor. The inability of the professionals to defend themselves may snowball into huge liabilities for the contractors and may harm the financiers' interests. Professional insurances<sup>149</sup> are often customized to take care of such concerns.

Architect's Professional Indemnity Insurance typically protects an insured against all loss resulting from any claim for any wrongful act of consultants or sub-contractors of an insured who are engaged in the performance of an insured's Professional Services and with whom the insured has entered into an enforceable contract for the provision of those services.

It covers the insured<sup>150</sup> from all losses emanating from claims<sup>151</sup> arising from civil liabilities arising from Professional Services rendered by him. This would usually include losses resulting from (i) any claim for wrongful acts arising from any collateral warranties, duty of care or similar agreements during the policy period<sup>152</sup>, (ii) defense costs<sup>153</sup>/ legal representation costs<sup>154</sup> incurred by an insured, (iii) losses resulting from fraud/dishonesty of employee(s) of the company, (iv) costs and expenses for replacing / restoring the insured's documents which have been destroyed, damaged, lost, distorted, erased or mislaid, (v) losses due to a buy-out by existing management of the company, (vi) direct cost of any remediation or mitigation, (vii) run off after a transaction and (viii) any claim for fraud/ dishonesty of any employee(s) of the Company, specialist consultants. The policy can be extended (ix) to cover run off periods usually up to 36 calendar months from the expiry date of the policy period in respect of for claims that arise from wrongful acts occurring prior to the date of such transaction<sup>155</sup>.

Construction Professional Indemnity Insurance is on the same

lines of the Architect's Professional Indemnity Policy and will pay on behalf of an Insured all loss resulting from any Claim against an Insured for a civil liability arising from an insured's Professional Services.<sup>156</sup> This includes those resulting from wrongful acts of his consultants or sub-contractors engaged in the performance of such Professional Services, with whom the Insured has entered into an enforceable contract for the provision of those services.

Construction Projects Professional Indemnity Insurance is broadly on the same lines of the Professional Indemnity Policies discussed above. It pays on behalf of an Insured all loss resulting from any Claim for any breach of duty of the Insured for Professional Services in respect of a Project, first made against the Insured and reported to the Insurer during the policy period or extended reporting period. Further, it can be extended to cover losses from Claims alleging any defamation arising from the performance of Professional Services, expenses incurred by the Insured in preparing and attending any professional inquiry or court attendance, the cost of any remediation or mitigation in certain cases, fraudulent or dishonest conduct of any Employee as well.

**3.2.8. Fidelity Guarantee Insurance:** Fidelity Guarantee Insurance policy protects ones business from financial losses in the event of a breach of trust by an employee. This policy covers monetary loss that one might have to suffer as a result of forgery, embezzlement, larceny, fraud/ dishonesty or fraudulent conversion of money or money's worth or goods by ones salaried employees. The loss should be detected during the continuance of the Policy or within 12 calendar months of the expiry of the Policy and in the case of death, dismissal or retirement of the employee within 12 calendar months of such death or dismissal or retirement whichever is earlier. The cover may be required in respect of a single employee or a group of employees. Insurance policies normally do not pay more than

<sup>149</sup> Professional Indemnity Insurance Policies issued by Bajaj Allianz General Insurance Co. Ltd. are referred to in this section.

<sup>150</sup> For this insurance, Insured/ Company means the Policyholder or any Subsidiary (including any predecessor business)

<sup>151</sup> For the purposes of this policy, some words have special meanings: 'Claim' has been defined as any (i) written demand for compensation in respect of a Wrongful Act of an Insured; or (ii) civil, regulatory or administrative proceedings whereby a Wrongful Act of an Insured is alleged. Damages would mean any amount that an Insured shall be legally liable to pay to a Third Party for a Claim in respect of judgments or arbitral awards rendered against an Insured, or for settlements negotiated by the Insurer with the consent of the Policyholder.

<sup>152</sup> The insurance would also cover wrongful acts, facts or circumstances, under any earlier policy with the same insurer, subject to certain conditions.

<sup>153</sup> Defence Costs mean reasonable fees, costs and expenses incurred by or on behalf of an Insured, with the prior written consent of the Insurer, in the investigation, defence, adjustment, settlement or appeal of any Claim

<sup>154</sup> Legal Representation Costs means the reasonable legal costs and expenses for which an Insured is legally liable and which are incurred, with the prior consent of the Insurer, for legal representation in connection with any attendance at an Inquiry, including legal costs and expenses in providing information or documents related to a raid or on-site visit to a Company by any official Governmental body or authority, regulator, governmental or administrative agency or any self-regulatory body in respect of such Inquiry.

<sup>155</sup> This cover is provided only if the Policyholder accepts the additional terms, conditions, exclusions or premium; as the Insurer may require.

<sup>156</sup> Professional Services mean services performed by an Insured under a contract for any professional design/specification, as building or engineering contractors including, but not limited to supervision of construction, feasibility studies, technical information, calculation or survey subject to any surveys being performed by properly qualified persons. This includes the duty to warn of defects in the professional activities of others.

one claim in respect of the action of any one employee.

Traditional Fidelity Guarantee covers may not be sufficient in the modern day scenario where a large number of crimes happen in the virtual world. Hence, insurers provide a modern version of Fidelity Guarantee policies known as 'Crime Policies' which cover employee dishonesty, forgery, counterfeiting, fraudulent alteration of documents and financial instruments, computer fraud through hardware and software, theft of assets etc.

The Industry deals with large amounts of public money and liquid cash. It would do well to make it compulsory for all employees who are in positions of trust and deal with money to have Fidelity Guarantee Insurance.

**3.2.9. Terrorism Protection:** The world in which we live continues to throw up unprecedented and unexpected hostile events and violence. This, of course, produces great tension, fragility and threat being experienced across the globe. Insurance companies protect for projects from property loss due to terrorist activity.

Standalone insurance policies covering terrorism are available for very large (mega) size projects. For other projects, insurance protection for terrorism can be usually purchased only as additional (add-on) covers, along with fire insurance or project insurance policies. It may not be out of place to mention that the cover is available in the Indian market at extremely low rates and all Indian insurers contribute to a national terrorism pool managed by the General Insurance Corporation of India, the State owned reinsurer.

*With the specter of terrorism looming large over practically everyone across the globe, and the impact can be devastating and catastrophic to builders, householders and apartment owners, it would be advisable to make terrorism protection mandatory for all construction projects as well as for individual customers of the Housing industry.*

**3.2.10. Key Person Insurance:** Individual talents are critical to the success of many companies and employees are also becoming an important factor in investors' valuation of the entities. Every business has at least a few highly valuable employees who contribute significantly to the running and growth of the company. As the name implies, the 'Key person' is the key to the success of the business; without him or her, the company would stumble. It makes sense to insure against the unfortunate event of their untimely demise. This is because the company may face business/financial loss in case of sudden death of such valuable employees.

It is here that Keyman insurance comes into play. 'Keyman Insurance'<sup>157</sup> helps a business recover from the loss of the valuable persons who run it and/or own it. The object of Keyman Insurance is to cover the life of a key person of the organization for a monetary value so that in case of the untimely death of such Keyman, the loss to the firm is recouped with monetary assistance (insured amount) received from the insurance company. This insurance is provided by Life insurers in the Indian market.

**3.2.11. Protection against Certain Liabilities arising out of Public Offerings of Securities:** PLIs often seek to raise capital by offering securities (shares or debt) to the public, issue prospectus/ listing documents etc. detailing company specific financial information, future objectives and strategies.

Offering securities for sale can present many risks and unexpected potential costs, apart from the initial costs involved in the transaction. The offer document and marketing presentations during the book-building stage give rise to potential liabilities and expose the company and its directors and officers to the risk of stakeholder litigation if the securities do not perform in line with expectations of the investors. Shareholders and investors want to know how well their money has been invested. Prospectuses/ documents of companies raising capital are often subject to continual scrutiny by investors and analysts long after the transaction has been completed. Signatories of a public prospectus have a personal responsibility for its contents and may be found personally liable for the losses of securities holders arising from misrepresentations within the prospectus. These potential liabilities arising out of the issue of a prospectus can hence occur much after the transaction and be quite substantial. Legal liability exists for the company, its directors, selling and/or controlling shareholders, and for the directors' liabilities to underwriters/ brokers in case of material misstatements or omissions in the documents related to an offering of securities. All these would entail legal action and ensuing costs.

Despite these significant risk exposures, a large number of public offerings do happen in the country, including those in the housing sector. The need for specialist insurance protection for issuers of securities, i.e. the issuing company and its directors, officers and employees for securities claims brought against them in connection with the offering is yet to be properly appreciated by the housing industry.

<sup>157</sup> Source: <http://economictimes.indiatimes.com/your-money/how-keyman-insurance-can-help-protect-the-life-of-a-business>

Public Offering of Securities Insurance (POSI)<sup>158</sup> is designed for companies raising capital through the publication of a prospectus. POSI protects the insured against many of the risks and uncertainties arising from an offering of a company's securities through Initial Public Offerings (IPO), secondary offerings and private placements by ring-fencing such exposures in a single premium, transaction-specific policy, usually with customized policy periods to provide protection for a few years. It covers liabilities arising from negotiations, discussions and decisions in connection with the offering. POSI also covers Prospectus Liability- controlling/ selling shareholder liability and underwriter exposure from the actual/ alleged untrue or misleading statement or information from the prospectus as well as defense costs. The POSI policy covers the company, its directors, officers and employees for securities claims brought against them in connection with the offering.

*Many of these challenges and the legal costs involved in the defense and settlement of such actions can be addressed through specific insurance policies available with general insurance companies in the country.*

**3.2.12. Title Insurance:** This insurance essentially protects both real estate owners and lenders against loss or damage that can occur due to liens, encumbrances or defects in the title to a property. It protects the insured against the eventuality of someone else having a legal claim on the property or trying to establish ownership through fraud or forgery of title documents. In other words, Title insurance protects against *“financial<sup>159</sup> loss from defects in title to real property and from the invalidity or unenforceability of mortgage loans”*. It covers the loss of ownership interest in a property due to legal defects. In the US market, it is understood as a standard requirement if the property is under mortgage as it defends against lawsuits attacking the title, or reimburses the insured for the monetary loss incurred up to the amount of insurance provided by the policy.

Title insurance can work as a lender's policy or as a borrower's policy separately or as a combination of both the policies.<sup>160</sup> The common type of title insurance<sup>161</sup> in the US Housing Finance Market is Lender's title insurance, (also called "mortgagee's policy") which is paid for by the borrower but protects the lending institution by covering its legal defense costs and reimbursing any mortgage payments the borrower cannot make if he/she loses the house to someone else's claim on it. Practically all institutional lenders in the US market include title insurance as a loan condition to protect their interests in the real estate offered as collateral. [They do insist on fire insurance and other types of insurance coverage

also to protect their investment.] Some lenders insist on Owner's title insurance covering the borrower's own legal fees and other losses, as yet another step toward protecting the lender's collateral. The Owner's Policy is sometimes paid for by the seller to protect the buyer's interests in the property. Sometimes a lender's policy and an owner's policy are required to be bundled and purchased together. This ensures that everyone involved is adequately protected.

**3.2.13. Practical Necessity for Title Insurance:** Many PLIs insist on title searches, which are typically done by law firms, lawyers and specialized service providers leading to issuance of non-Encumbrance Certificates by the Sub-Registrar's Office. However, these searches are not considered absolutely fool-proof. Though title searches give the buyers some degree of comfort, these are not 100% infallible, hence the need for insurance for both owners and lenders. Nolo, a legal advisory firm of the USA recommends,<sup>162</sup> *“even if your lender doesn't require you to buy an owner's policy, you should probably consider buying one anyway.”* Some reasons why experts from advanced markets like the United States advise people to insure their title emanate from various practical scenarios which are described below:

- ◆ Extreme situations where people try to sell homes that they do not own, to innocent buyers have been reported.
- ◆ Instances of renters posing as sellers have been reported in the USA, which could be defined as calculated crime.
- ◆ Typical title issues may not be essentially criminal. However, they can give rise to many complications as seen in the following examples.
  - A house property might have been co-purchased by two brothers several years ago. The brother in possession of the house (or his sons, on his demise) may not be aware that the brother's signature was required for selling the house that they had always believed to be their own.
  - The present seller of the house might have bought it from a single woman, not realizing that her ex-husband still co-owned the property and had not been party to the sale.
  - The present seller might have inherited the house under the terms of a will, which was replaced by a more recent will by which the house was left to someone else.
  - The property would have been originally purchased by two or more people and over time, the present seller(s) or his children would have lost contact with

<sup>158</sup> Coverage based on 'Public Offering of Securities Insurance' available with Tata AIG General Insurance Co. Ltd. <https://www.tataaiginsurance.in/corporate-insurance/financial-lines/public-offering-of-securities-insurance.html>

<sup>159</sup> [https://en.wikipedia.org/wiki/Title\\_insurance](https://en.wikipedia.org/wiki/Title_insurance)

<sup>160</sup> Title Insurance: Why a Home Buyer Needs It, Ilona Bray, J. D., <http://www.nolo.com/legal-encyclopedia/title-insurance-buyer-needs-36126.html>

<sup>161</sup> Title Insurance Definition Investopedia [http://www.investopedia.com/terms/t/title\\_insurance.asp#ixzz4SDwJlITc](http://www.investopedia.com/terms/t/title_insurance.asp#ixzz4SDwJlITc)

<sup>162</sup> <http://www.nolo.com/legal-encyclopedia/title-insurance-buyer-needs-36126.html>

the one of the original owners. The estranged owner (or his heirs) can come back and claim his right on the property even after the house has been sold.

Some title problems may not involve the whole house and may be surfacing long after the loan is granted. For instance, there could be liens filed against the house. In order to settle the owner's debt to them, some people / agencies might have legally claimed the right to be paid from the proceeds of the property's sale, which information may be available in the public records. Typical debts in the US market include taxes and contractor's fees, which create liens that stick to the house for long periods until the house is sold or debts foreclosed. "No preliminary title search, can accurately predict whether or when a long-lost relative or heir will turn up to stake a claim; or whether paperwork buried for years under a misspelled name will reveal a claim concerning the property."<sup>163</sup> In such contexts, in case the court decides that a long-lost relative is in fact the house's true owner, the lender would suffer financial losses.

It is pertinent to note that in many situations of title disputes, both the owner-borrower and the lender-mortgagee are caught unawares. The borrower<sup>164</sup> would no longer own the house, but still lose the down payments and the payments made towards principal and interest.

State laws regarding transfer of undivided share of land on which flats/ buildings are constructed for sale are not uniform across the country. This can cause anomalies with respect to rights of the flat/ building purchasers.

Again, in some states like Maharashtra, there are different provisions relating to transfer of land under different laws within the State. For instance, provisions for conveyance of land and entailing rights are different under the Maharashtra Cooperative Housing Societies Act 1960 (MCHSA) and the Maharashtra Apartment Ownership Act 1970 (MAOA). While the rights get transferred to the Society under the MCHSA, they get transferred to the individual owner under the MAOA. The perception is that Builders<sup>165</sup> prefer forming 'Apartment Owners Associations' under MAOA as against forming 'Societies' under MCHSA, due to multiple factors. Situations that emanate from such regulatory arbitrage are perceived by customers as benefiting the builder.<sup>166</sup> [Please see the box for an illustration in the context of the State of Maharashtra.] From the limited point of view of this study, such situations can exacerbate disputes relating to the title and complicate the interests of the loanee-owner and the lender-mortgagee.

In all these situations, title insurance would protect the owner of the property from suffering many of the potential damages. The policy would also protect the lenders' interest

### Comparison of Rights under Maharashtra Cooperative Housing Societies Act 1960 (MCHSA) and the Maharashtra Apartment Ownership Act 1970 (MAOA)

1. **Right to future Floor Space Index<sup>#</sup>:** (FSI). The builder is interested in using the increased FSI when awarded by the government for that area in future. If the Society is formed under MCHSA, upon the transfer and conveyance of land in favor of the Society, the increased FSI will be owned by the Society and the builder shall not have any right over it. Whereas, if it under the MAOA, the builder would own the increased FSI and use it.

2. **Right to Open Spaces:** In an MAOA context, the builder retains the ownership of the open spaces like terrace, open parking, stairs etc. which are not included in the saleable area. But in case of MCHSA the builder cannot retain any right on any of these areas and has to hand over everything to the Society. MAOA also provides for the ownership of an individual apartment in a building making it heritable and transferable property<sup>§</sup>.

3. **Settlement of Disputes:** Under MAOA, the Apartment Body have to approach in the Civil Court to decide upon certain matters like stopping commercial activities objectionable to the majority of members (e.g. catering activities/ courier services/ noise-making music classes). Such matters taken to the normal Civil Court may typically take years to resolve. MCHSA allows the Society powers to act in such situations which are binding on all members. Even when a Society needs judicial recourse to its problems, the disputes are resolved in a separate Co-operative Court dealing with Society matters where they are resolved faster.

4. **Redevelopment:** When Societies under MCHSA, decided to redevelop the old buildings the Society has better negotiation power with the builder. Under MAOA, the consent of every Apartment-owner is required, which makes decision making difficult. Even when dilapidated and unlivable buildings need to be forcefully vacated by eviction order from Court, Societies take decisions on a 'majority' basis, decisions in respect of Apartments need to be 'acceptable by everybody'. In such situations, builders who have retained one flat in an Apartment (and may not share the same concerns as the other flat owners) can veto card in his favor at the time of redevelopment.<sup>^</sup>

<sup>#</sup> **Floor Space Index (FSI), also referred to as Floor Area Ratio (FAR), is the ratio of total floor area of a building to the total lot area - <http://fullforms.com/FSI/Floor-Space-Index/5746>**

<sup>§</sup> **'Co-op Housing Society is better than Apartment Owners Association in Maharashtra', Sachin Iyer, Blog-Mag 12<sup>th</sup> Feb. 2015 <http://blogmag.in/co-op-housing-society-is-better-than-apartment-owners-association-in-maharashtra>**

<sup>^</sup> **<http://www.lawyersclubindia.com/articles/Difference-between-housing-society-and-apartments-owners-association-and-condominium-6413.asp>**

<sup>163</sup> <http://www.nolo.com/legal-encyclopedia/title-insurance-buyer-needs-36126.html>

<sup>164</sup> *ibid*

<sup>165</sup> **'Co-op Housing Society is better than Apartment Owners Association in Maharashtra', Sachin Iyer, Blog-Mag 12<sup>th</sup> Feb. 2015 <http://blogmag.in/co-op-housing-society-is-better-than-apartment-owners-association-in-maharashtra>**

<sup>166</sup> *ibid*.

on the mortgage and help him in defending his rights in title related legal disputes.

### 3.3. Knowledge Support, Bespoke Solutions and All Risk Policies

Insurers have a system of inspecting medium and large projects and buildings before accepting them for insurance by way of risk assessment. Such inspections are done by experienced risk engineers as part of the underwriting process followed in the company. Risk assessment exercises add immense value to the project in terms of finding the gaps in physical protection, understanding the kind of situations that have led to losses in similar projects and good practices followed in the industry. Risk engineers often give practical suggestions and tips to prevent losses and to minimize the impact of losses in case they happen.

Further, some projects face certain specific challenges that may not be part of the standard insurance policy. Most insurers are usually open to a good deal of customization of policies to suit specialized needs. Where required, Risk Managers of insurance companies specializing in project risks inspect and evaluate the specific risk situations, compare insurance solutions available in the international market and bring in new add-on covers to customize the policy.

Traditionally insurance policies have a basic set of covers that are commonly required and add-on covers are selected by the insured as per his needs. Such 'named peril' policies may not work in complex situations like projects where the customer may not be able to visualize the risks that he is exposed to and the insurance protection that he requires. All Risk policies are used in such situations where practically all risks that are not specifically excluded are covered. However, as All Risk policies place a lot of onus on the insurers and can expose them to unexpected shocks, such policies are sold only to select customers who are able to meet with certain prescribed standards.

### 3.4. Insurance Solutions Emanating from Governmental/Regulatory Policy

There is a lot of convergence between the Indian and international insurance markets and many of the products are available locally. However, many of the products are adopted or adapted by the Indian market based on the need and demand in the market. One such insurance which is of specific importance for the housing/ construction industry but yet to take roots on the Indian soil is discussed here.

Known as 'Decennial Liability insurance',<sup>167</sup> this insurance is to protect the Contractor/ Principal from costs associated with the potential collapse of the building after completion. 'Decennial' emphasizes the fact that it covers the 10 year period after the project is completed. It denotes a legal liability assumed

by builders for all defects that compromise the integrity of their structures or that cause them to become unsuited for their intended purposes, mandated under the Civil Code and imposed on builders for ten years from the acceptance date of the structure. In countries such as France<sup>168</sup> and Egypt it is a compulsory insurance. In some countries like Qatar, though not compulsory, Contractors opt for the protection as the strict liability regime which does not require any proof of fault makes it practical for them to have it, despite the cost of the insurance being significantly high at around 1.5% of structural value.

The significance of this policy is the sequence of events that led to its making. First, the regulatory/ judicial regime imposed a ten year liability period on the contractors/ builders to protect customers from latent defects and construction deficiencies. Second, the builders found it difficult to face the legal actions that arose out of such liability and approach insurers for protection. Third, Insurance Companies design a policy to cover the specific set of liabilities that builders require. Four, it becomes a standard practice that contractors/ builders protect themselves by this policy transferring their liabilities (and worries) to the insurance mechanism; and focus on their business of constructing better buildings and providing better value to their customers.

It may not be out of place to mention a similar situation in India. The Public Liability Insurance<sup>169</sup> Act of 1991 was enacted as a fall out of the litigation that followed the Bhopal Gas tragedy of December 1984, which demonstrated that people unconnected with a process may yet become victims of an industrial disaster. The Act made it mandatory for owners, users and transporters of hazardous substances to have liability insurance for providing immediate relief to members of the public who do not have any relief in such situations other than through a long and drawn out legal process.

*Appropriate mandates or regulatory compulsions can make Project Financiers, Building Contractors more responsible to their customers and to the general public from negative fall outs of their activities. Individual customers of the Housing Industry would also need some protection for themselves from certain disasters that could affect them or others connected with them. Mandates can set the business environment for the industry and compel Indian insurers to match the industry expectations with better insurance products at competitive prices.*

<sup>167</sup> Also known as 'Inherent Defect Insurance'

<sup>168</sup> Under French law (article L241-1 of the Insurance Code), every builder is required to purchase a ten-year insurance policy covering the mandatory decennial warranty on all construction projects.

<sup>169</sup> Source: <http://pib.nic.in/newsite>

## 4. Practical Concerns

**[Chapter Structure:** *This chapter discusses the ground level realities, challenges and practical considerations in providing insurance protection to the housing industry from the points of view of both the housing industry and the insurance industry. The conduciveness of the governmental/ regulatory environment for providing insurance solutions to the housing insurance industry is also discussed.*

*Various concerns of the owners/loanees of residential property, the availability of insurance products to address their needs, access to such products, the ease of doing business with insurers, availability of systems to redress grievances and the common customer's ability to access the judicial system for justice are touched upon taking into consideration the changing trends in the industry.*

*From the insurance industry's point of view also, there are multiple concerns in providing insurance solutions to the housing industry. Some of them are lack of insurance awareness, lack of guidance in selecting appropriate insurance plans, adverse selection, moral hazard and fraud. There are also multiple technical challenges that insurers face in classifying risk, compiling and analyzing information, challenges in effective underwriting in general as also for specific lines of business, fixing risk commensurate and actuarially validated prices, difficulties in creating sustainable insurance by covering large enough numbers for spreading the risk, using simple and standard wordings and evolving standard practices for the Indian housing insurance industry, which are also discussed in detail.]*

### 4.1. Insurance Awareness and Insurance Penetration

Lack of awareness is a common concern of the financial industry, which is more pronounced in the case of the insurance sector. Two important indicators of the level of development of the insurance sector in any country are (i) level of insurance penetration<sup>170</sup> and (ii) insurance density.<sup>171</sup> The sector has continued to grow in scale and diversity, surmounting the adverse impact of the global financial

crisis, although penetration remains relatively low<sup>172</sup>. Public sector insurers continue to command a majority of the market and life insurance predominates, with about 75% of total premiums. Non-life insurance is dominated by motor insurance. Though Penetration rates are generally lower than in comparator countries, especially in non-life, both insurance penetration and density have increased over the long term due to insurance awareness initiatives and Government sponsored insurance programs. Thanks to the government schemes, the number of people covered under insurance is also increasing substantially. The impact of such initiatives is visible on health insurance and crop insurance. On property insurances including insurance of the housing sector, the increase has been marginal.

The erstwhile Chairman of the Insurance Regulatory and Development Authority of India (IRDAI) pointed out<sup>173</sup> that “quite a few are uninsured purely due to lack of awareness about insurance as a protection tool and details about the types of insurances that are possible” and also that “all stakeholders have the responsibility of creating this awareness”. The insurance regulator is seized of the importance of advocacy on insurance and risk issues as an important tool that complements the insurance regulatory and supervisory framework. IRDAI has kept its focus on challenges like “(i) households’ growing risk exposures and responsibility for covering them; (ii) increasing diversity and complexity of insurance products; and (iii) heterogeneity of insurance providers and distribution channels.” The IRDAI NCAER Survey<sup>174</sup> points out that advocacy can typically: “(i) heighten individuals’ awareness and responsibility towards potential risks; (ii) enhance understanding of insurance mechanisms that can cover these risks; and (iii) enable the development of consumers’ knowledge and capacity in order to make informed decisions as regards insurance matters.”

IRDAI’s initiatives in this direction include insurance literacy campaigns, advertisements, and a collaborative venture with the Central Board of Secondary Education (CBSE) to include

<sup>170</sup> Insurance Penetration is measured as the percentage of insurance premium in gross domestic product (GDP)

<sup>171</sup> Insurance Density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP.

<sup>172</sup> Technical Note on Insurance Sector Regulation and Supervision under the 2017 Financial Sector Assessment Program (FSAP) for India, IMF Country Report No.18/86, April 2018, International Monetary Fund - <http://www.imf.org/en/Publications/CR/Issues/2018/04/02/India-Financial-Sector-Assessment-Program-Insurance-Sector-Regulation-and-Supervision-45754>

<sup>173</sup> Survey Report of Insurance Awareness Campaign 2011, by IRDAI and NCAER, in response to demand for learning, lessons and guidance on access to insurance from insurance policymakers, regulators and supervisors

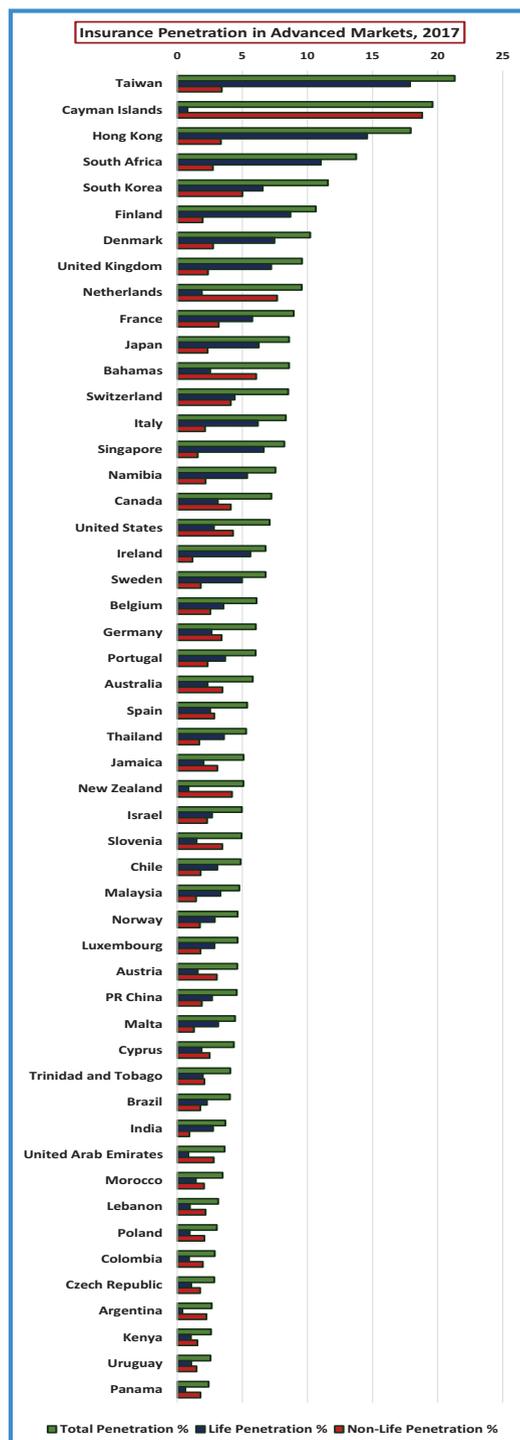
<sup>174</sup> *ibid*

insurance in the school curriculum. The Insurance Institute of India, the sole insurance certification body of the country, augments these efforts of the Regulator by circulating simple leaflets and cartoons for child and adult learning, facilitating training of CBSE teachers by insurance experts and conducting seminars in academic institutions / universities. Various reasons that contribute to the low demand as cited by Customers during a tag study are presented as **Table 7 under Annexure 'B'**.

India's share in the global insurance market was 2.0% during 2017 during which period the total insurance premium in India increased by 10.1% (inflation adjusted) while globally, insurance premiums increased by 1.5% (inflation adjusted). While globally, the proportions of Life insurance premiums vs. Non-Life insurance premiums were 54.32% and 45.68%, in India the share of Life insurance was at 74.73% as against 25.27% for Non-life insurance. In Life insurance business, India was ranked 10th among the 88 countries evaluated by Swiss Re. India's share in the global Life insurance market was 2.76% during 2017. The share of Indian non-life insurance premium in global non-life insurance premium was at 1.11% and India ranked 15<sup>th</sup> among global Non-life insurance markets during 2017.

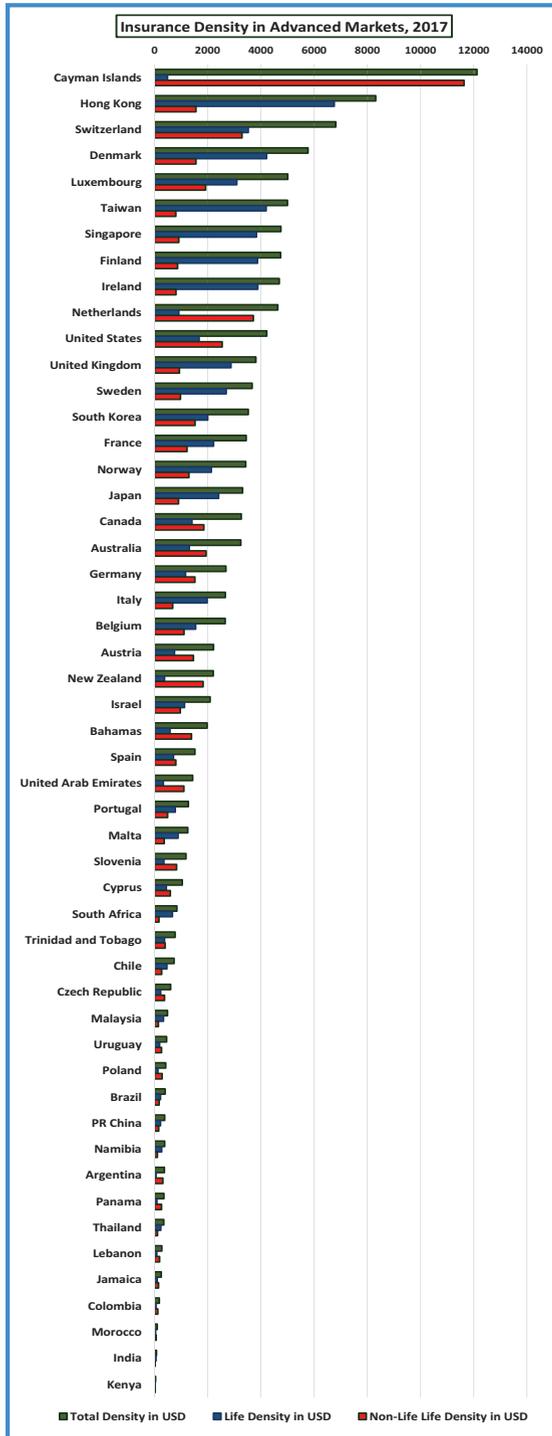
International data on Insurance Penetration helps in understanding the Indian scenario better. As per data published by the Swiss Re 'Sigma',<sup>175</sup> (presented in the table below) reproduced by IRDAI in their Annual Report, the global level of insurance penetration for Life Insurance stood at 3.33% (3.5% in 2015) and 2.80% (2.80% on 2015) for Non-Life insurance (Overall 6.13% (6.28% in 2016) in 2017. Technically, the top rank for insurance penetration went to Taiwan with 17.89% Life insurance penetration and 3.42% Non-Life insurance penetration (overall 21.32%). The 2<sup>nd</sup> rank went to Cayman Islands with 0.79% of Life insurance penetration and 18.82% of Non-Life penetration (overall 19.61%). [Cayman Islands may not find mention in many reports/ charts due to the miniature size and population of the country.] Hong Kong with 14.58% of Life insurance penetration and 3.36% of Non-Life penetration (overall 17.94%) ranked third. South Africa, South Korea, Finland and Denmark followed with more than 10% penetration overall. The United Kingdom, the Netherlands, France, Japan, Bahamas, Switzerland, Italy, Singapore, Namibia, Canada and the USA have penetration levels between 7% and 10%. Ireland, Sweden, Belgium, Germany, Portugal, Australia, Spain, Thailand, Jamaica and

New Zealand (ranked 28) fall in the 5% to 7% range of insurance penetration. India with 3.69% (3.49% in 2016) penetration ranks 41st among the 88 countries studied by Swiss Re **(Details are presented at Annexure C)**. Looking deeper into the Indian scenario, the overall Insurance penetration<sup>176</sup> of 3.69% comprises 2.76% of Life insurance 0.93% of Non-Life insurance penetration.



<sup>175</sup> World insurance in 2015: Steady growth amid regional disparities - Swiss Re - Sigma - 3/2018

<sup>176</sup> IRDAI's Consumer Education website - [http://www.policyholder.gov.in/indian\\_insurance\\_market.aspx](http://www.policyholder.gov.in/indian_insurance_market.aspx)



tall with an insurance spend of USD 12,122, followed by Hong Kong having a density of USD 8313, Switzerland with USD 6811, Denmark with USD 5772, Luxembourg with USD 5011, Taiwan with USD 4997, Singapore with USD 4749, Finland with USD 4737, Ireland with USD 4687, the Netherlands with USD 4631 and the USA with 4216, all above the USD 4000 level. While countries like the United Kingdom, Sweden, South Korea, France, Norway, Japan, Canada, Australia, Germany, Italy, Belgium, Austria, New Zealand, Israel, Bahamas, Spain, United Arab Emirates, Portugal, Malta, Slovenia and Cyprus were spending more than USD 1000 towards insurance premiums, India’s per capita expenditure towards insurance premium stood at USD 73 (Life insurance: USD 55 and Non-Life: USD 18) during FY 2017-18. (For the records, the overall insurance density in India was USD 59.7 during FY 2016-17 of which Life insurance contributed USD 46.5 and Non-Life USD 13.2.)

#### 4.2. Increasing Insurance Penetration

Insurers are business entities and the investors in the industry would need to earn decent profits for the business risks that they carry as entrepreneurs. Though they are in the business of taking and trading risk, they would be able to do insurance business only if it is financially viable for them. No one, including the government, would let insurance companies go bankrupt or unable to meet their customer obligations. Hence, it is in the interest of all stakeholders to make insurance a viable business and to create sustainable markets. Increased penetration would reduce the costs as well. Hence, increasing insurance penetration is high on the priority list for the government, the industry and practically every stakeholder.

As per an IMF Report<sup>177</sup>, while traditional sales channels continue to predominate, there is increasing diversity in the distribution of insurance products. In life insurance, the 2 million individual agents continue to account for about 70% of individual business, while group businesses is handled by Direct Sales. Corporate Agents, (most of which are banks) account for about 25%. New channels have been developing, supported by regulations and guidelines introduced by IRDAI, including online and ‘point of sale’ which account for only a negligible market share. In non-life insurance, as in many other markets, the share of individual agents in new business premium stands at about 35%. Brokers account for 25% of the non-life premium and Direct Sales Channels for 25%, followed

Insurance density, i.e. the World average per capita spending on insurance, was USD 650 (USD 353 for Life insurance and 297 for Non-Life insurance) in the year 2017 as against USD 638.3 (Life insurance: USD 353 and Non-life USD 285.3) in the previous year 2016.

In respect of Insurance Density, the tiny Cayman Islands stood

<sup>177</sup> Technical Note on Insurance Sector Regulation and Supervision under the 2017 Financial Sector Assessment Program (FSAP) for India, IMF Country Report No.18/86, April 2018, International Monetary Fund - <http://www.imf.org/en/Publications/CR/Issues/2018/04/02/India-Financial-Sector-Assessment-Program-Insurance-Sector-Regulation-and-Supervision-45754>

## Gist of Seminar on “Insurance Penetration of 5% and density of USD 100 by 2020 – A Mission”

(Conducted by Insurance Institute of India on 12<sup>th</sup> August 2017 at Indore)

This seminar brought together senior-most experts of the Indian industry drawn from (i) General Insurance Corporation of India, (ii) Life Insurance Corporation of India, (iii) National Insurance Co. Ltd., (iv) New India Assurance Co. Ltd., (v) Oriental Insurance Co. Ltd, (vi) United India Insurance Co. Ltd. and (vii) Insurance Institute of India.

The panel observed that key parameters like stable economic growth, growing population, urbanization, rising middle class, increasing awareness of risk involved in business and personal life that contribute to the growth of Insurance are significant factors in India as a fast developing economy.

It was emphasized that mass insurance schemes declared by the Government have the benefit of social security, creating awareness among beneficiaries and the demonstrative effect on the immediate neighbors of the affected parties who witness the flow of benefit to the affected. Towards improving insurance penetration, the panel identified the following steps to be taken in the next five years, viz. (a) promoting efforts towards building awareness, (b) improving the Distribution network in India comprising Brokers, Corporate Agents, individual Agents, Insurance Marketing Firms, Point of Sales Persons, Common Service Centers, Micro Agents etc., (c) support from the Government for Insurance, especially Health insurance through tax schemes (possibly through GST regime), tax exemptions or tax concessions for personal lines of insurance, keeping higher rates for commercial lines of insurance (two-slab GST for Insurance) and (d) other incentives. Another idea that came up was a ‘sachet’ approach of offering insurance in smaller packet sizes in terms of sum insured and amount of premium, as well as allowing premiums to be paid in small installments to make insurance accessible to the masses having lower residual incomes.

*“Penetration does not stop with encouraging a spurt in selling. There are other matters as well. How smooth are the later process of getting the policy document? For example, most products have standard wordings and are filed by each Company with the Regulator. Is it necessary that a full policy with all clauses and conditions are issued each time to every customer? Once the wording of a particular product of the Company is available in the Regulator’s website – a single page document only need be issued to show the period, address of insured, details of property covered and premium? For the rest, a simple reference to the website can be made to meet legal/contractual requirements.”*  
**Mr. John Pulinthanam, General Manager, National Insurance Company Ltd.**

*“We need to develop new parameters to understand penetration. The Indian Insurance industry has historically been standing for covering the risk. After 2000 when the industry opened up, it stopped looking at the number of people covered and instead started focusing on the amount of premium collected and measuring growth by global indicators like penetration and density.”*

*“There is a need for simplicity of products. A Governmental scheme like Pradhan Mantri Jivan Jyoti Yojana (PMJJY) is a simple product covering around 3 crores people by a simple enrollment process through banks. Insurance companies should take the initiative to develop such simple products, develop simple systems for distribution and claim processing utilizing technology.”*

*“It is important to charge risk-adequate premium. For enhancing penetration and density, we need systems for pricing products accurately, as well. ... However, in the zest to reach out, one should not reduce the premium rate and weaken the company in the long run.”* **Mr. Sharad Shrivastava, Executive Director, Life Insurance Corporation of India.**

Reference: 1 crore = 10 million.

by Corporate Agents (mostly banks) which contribute 7%.

Increasing insurance penetration goes much beyond selling a number of insurance policies. Some other aspects are listed below:

- Spreading the risk over a larger population
- Spreading the risk over a diverse population
- Making insurance protection affordable to all -reducing premiums, distribution costs, incentivizing purchase by allowing income tax benefits etc.
- Making people capable of understanding the risks that they face – using academic channels like schools and colleges; conducting seminars, adult learning mechanisms, street plays & road shows,
- Making people capable of deciding which risks are best transferred using the insurance mechanism,
- Making people capable of selecting the right kind of insurance protection required
- Making insurance protection available to all
- Providing people with hassle-free access to insurance, paying renewal premiums (electronic clearance systems, auto-debits, loan linked etc.), remunerating intermediaries adequately to provide service
- Providing policyholders with effective claim settlement mechanisms, turn-around time for payment
- Simplifying claims settlement – documentation, verification, prompt payment through bank
- Creating customer delight and getting a participative feeling of the system etc.

IRDAI’s initiatives in this direction include insurance literacy campaigns, advertisements, and a collaborative venture with CBSE to include insurance in the school curriculum. The Insurance Institute of India, the sole insurance certification body of the country, augments these efforts of the Regulator by circulating simple leaflets and cartoons for child and adult learning, facilitating training of CBSE teachers by insurance experts and conducting seminars in academic institutions/ universities. Various reasons that contribute to the low demand as cited by Customers during a tag study are presented at Annexure B.

### 4.3. Harnessing the Power of Homogeneity and Large Numbers

Insurers traditionally depend on the Law of Large Numbers

for many of their strategies. As per this Law, the actuarially computed mathematical outcomes become more dependable as the size of the universe increases. In other words, insurers can predict the probability of losses with better accuracy when the universe on which it is applied to grows larger and larger. This accuracy in prediction improves the insurers' bottom lines on the one hand, and on the other, results in lowering the insurance premiums of their customers. This is demonstrated in the case of Personal Accident Insurance offered along with Indian Railway tickets and Governmental Schemes like Pradhan Mantri Suraksha Bima Yojana which cover the entire country, where the premium involved is quite low.

The benefits to customers would accrue due to various reasons. The fixed costs of insurers getting divided as the numbers grow. Also, a larger universe allows insurers to design more effective marketing strategies to reduce per capita distribution costs. Again, as the number of customers increases, insurers can afford to provide better customer service. Further, once insurers have a larger number of customers, the customer-base can be sliced and diced into need-based segments and specialized insurance solutions at more granular levels can be provided in a sustainable manner.

As seen above, on the one hand, there should be sufficient number of people to share the risks for insurance to work successfully. On the other, in the interest of fairness and equity, only those who are exposed to similar risks should be sharing the risks. As the pool becomes more and more homogenous, rates would become more scientific and risk-commensurate.

#### 4.4. Reinsurance

Insurers need to spread their business over vast and diverse territories to get the statistical benefit of large numbers and be sustainable. To prevent their own ruin due to conflagration and catastrophe, insurers need to spread the risks they have assumed to reinsurers in India or overseas. However, their business model necessitates insurers to take up much more risk than they can manage with their limited finances. As it may not be practicable for insurers to keep on inducing funds for maintaining their capacity to do more and more business they are required to transfer risks beyond their capacity to reinsurers and share with them huge chunks of premiums. In the well-known case of the terrorist attack on the World Trade Center, where the risk exposures of individual insurers<sup>178</sup> were of huge proportions, the insurers had substantial reinsurance coverage and ultimately out of the \$32 billion to \$33 billion of insurance

claims paid, around \$20 billion was borne by reinsurers.

#### 4.5. Access to Insurance

The other side of the Distribution coin is the access to or availability of insurance. This is recognized worldwide as a common and widespread problem especially in developing economies. In the insurance context, the International Association of Insurance Supervisors (IAIS), the United Nations Capital Development Fund (UNCDEF) the International Labor Organization (ILO), the Consultative Group to Assist the Poor (CGAP), the Federal Ministry for Economic Cooperation and Development of Germany (BMZ) and the Finmark Trust launched the 'Access to Insurance Initiative' (A2ii) in response to the "demand for learning, lessons and guidance on access to insurance from insurance policymakers, regulators and supervisors". The Initiative supports policymakers and supervisors by providing them with critical knowledge on financial inclusion matters; and helping them develop global and regional learning tools and evidence-based synthesis of regulatory good practices.

In the context of providing finance for housing, access to insurance has multiple facets. In the first place, as discussed above, awareness of the general public on what insurance is all about and how it can mitigate risk is significant.

Secondly, Insurance companies should have done their homework and designed appropriate insurance products to match the insurable needs of the customers of the Housing Finance Industry. These products have to be constantly researched upon and aligned to the changing needs of the HFI's customers. Also, the products have to be right priced to make them affordable, interesting and value-for-money proposition for the HFI's customer.

Thirdly, even in developed countries many customers do not know what and how much to insure. Again, they are not aware of the procedures and nuances of making an insurance claim

#### UAE: Around 70% of households lack home insurance

Despite understanding the risks associated with not being covered by home contents insurance, the majority of UAE residents lack a home insurance policy, according to a recent survey by 'compareit4me.com', the Middle East's leading comparison site. The survey revealed that 69.1% of people in the UAE are currently not signed up to a home contents insurance policy. This is despite the fact that 84.5% of UAE residents admit that they would feel more comfortable if their belongings were covered home insurance when they travel.

Source: Middle East Insurance Review. 19<sup>th</sup> July 2017

<sup>178</sup> <http://www.washingtonpost.com/wp-dyn/articles/A45458-2005Apr11.html>

with proper documentation. A research study conducted by the Association of British Insurers reveals that out of every five home insurance claims made in the UK market (considered a highly insurance literate country) in the year 2013-2014, one was rejected. It is interesting to note that reasons<sup>179</sup> like “Not having the right level of cover, making claims for something not covered by the policy and trying to claim for something worth less than the excess were some of the most common reasons given for insurers rejecting these claims.”

The study suggests that in the UK context, if one has a mortgage, the building necessarily needs to be insured and it would be advisable to insure the contents. It points out that many people make the mistake of thinking a home insurance policy covers all of their belongings and fixtures, which may not be true. It stresses the importance of taking out a policy that covers the home at the level of protection one needs. Again, as per the UK study, if one’s home has any non-standard features, like a thatched roof or glass walls, or if the building is under renovation or even special in terms of its location like being near a river, forest or an explosive factory, a discussion with an insurance specialist is recommended. “In many cases, people have to claim on their home insurance for natural or criminal damage, which can include things like house fires, floods and burglaries. These sorts of events can be devastating as you’re left to pick up the pieces. Not having the right home insurance policy can make a bad situation much worse as you’ll have to find the cash elsewhere to repair or replace what’s been damaged or stolen.”<sup>180</sup> Also, one needs to read and understand the terms of your policy to know what is covered and what is not.

Lastly, empowerment of the point of customer contact is of great importance. In the Indian context, the importance of making the person who approaches a PLI for housing finance aware of the risks that entail the proposed house purchase and to what extent different insurance policies can protect him in case of an eventuality, cannot be overstated. This presupposes that the customer interaction points of PLIs have sufficient knowledge on the subject of insurance and are competent to explain the insurance solutions to the prospective customers.

**Recommendations:** *PLIs would do well by increasing insurance awareness for the general public with a long-term*

*view of nation development. The possibility of using CSR funds for creating insurance awareness could be explored.*

*The Housing industry needs to work more closely with the insurance industry and assess the extent to which insurable risks render their assets non-performing. PLIs should actively utilize the insurance mechanism to reduce their NPAs by getting their customers transfer their risks to the insurance industry.*

*Given that the expertise of PLI staff is in their core domain of housing, a capacity building exercise for the PLI staff in insurance products is felt required so that they can provide comprehensive professional insurance advice to their customers.*

*IRDAI has granted Corporate Agent licenses to 415 entities<sup>181</sup> many of which are banks and financial institutions. This facility enables the entity to provide seamless service to their customers on the one hand and earn handsome rewards by way of agency commissions. It would be worthwhile to assess the number of PLIs that have been granted such licenses and to what extent they are actually utilizing this facility for the benefit of the housing customers and for their own revenue. As a step towards capacity building, IRDAI has mandated that the ‘Specified Persons’ of Corporate Agents dealing with insurance sales (some of the PLIs are working as Corporate Agents licensed by IRDAI) should undergo a prescribed training. Likewise, RBI also has mandated that insurance sales by bank employees should be need based.*

#### 4.6. Litigation, Grievances, Complaints

The NHB in its role as the housing regulator considers the grievance redressal mechanism of an organization as “the gauge to measure its efficiency and effectiveness as it provides important feedback on the working of the organization and the entities regulated by it.” It has also walked the talk by getting all the PLIs to notify their grievance mechanisms and the provision to complain to the regulator on their respective websites. The NHB has a Grievance Registration and Information Database System (GRIDS) as a simple, speedy and cost effective mechanism to the aggrieved parties for online registration and tracking of complaints against housing companies or the NHB itself. This is in addition to the manual arrangements for the customers of the NHB or Housing Finance Companies (HFCs) to lodge complaints. ‘GRIDS’ brings in transparency in the grievance redress mechanism

<sup>179</sup> ‘Poor protection: One in five home insurance claims rejected’, Dan Griffiths, 17 June 2016 - <https://www.oceanfinance.co.uk/blog/poor-protection-one-in-five-home-insurance-claims-rejected-0-5013-0.htm>

<sup>180</sup> *Ibid.*

<sup>181</sup> List of Corporate Agents Registered with the Authority - as on 31/12/2016. IRDAI Website [https://www.irda.gov.in/admincms/cms/whatsNew\\_Layout.aspx?page=PageNo2818&flag=1](https://www.irda.gov.in/admincms/cms/whatsNew_Layout.aspx?page=PageNo2818&flag=1)

and is designed for online updating of responses by the NHB or the housing finance company.

In addition to the grievances made to the Sectoral Regulator, there are many grievances that escalate into Court Cases. Section 13(4)(a) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002 provides that *“In case the borrower fails to discharge his liability in full within the period specified in sub-section (2), the secured creditor may take recourse to one or more of the following measures to recover his secured debt, . . . take possession of the secured assets of the borrower including the right to transfer by way of lease, assignment or sale for realizing the secured asset”*.

Despite the enablement provided by the SARFAESI Act *“enacted with an object of regulating securitization and reconstruction of financial assets and enforcement of security interest empowering banks and financial institutions to take possession of the securities and to sell them without the intervention of the Court”*, there is a spate of litigation as evidenced in *K. R. Chandrasekaran<sup>182</sup> Vs. Union of India, the State Bank of India and Others*, which cause impediments in implementing the provisions of the Act. Also, in situations of death, permanent disability or loss of employment due to partial disability of the borrower, many PLIs do not find it prudent to evoke provisions of the SARFAESI Act to take over the property, as it may cost the company’s reputation badly, especially in small cities and rural areas. Again, in situations of floods or earthquakes making the building uninhabitable, cases of default may arise and SARFAESI provisions would not help the PLI. In addition the PLI has also to follow the legal process of implementing the Act. Another angle, that emerged was that in some cases, NPAs have a bearing on the individual Key Performance Indicators of many PLI employees. Against this background, it was understood that PLI employees try to avoid NPA situations by convincing borrowers to buy insurance policies as an easier solution.

**Recommendations:** *For the customers of the Housing industry and those of the insurance industry, there are various mechanisms in place to take care of grievances. However, grievance redressal needs to follow a fair and transparent process to ensure that justice is meted out to the aggrieved, which necessitates some time gap. To protect their financial*

*interests in the house property, independent of the legalese, logomachy and legal/ judicial procedures, it would make sense for providers of housing finance to use the contractual solution that insurance provides. This would be a faster and more effective remedy for making good their losses, instead of waiting for the completion of the litigation process. There are insurance policies that can cover litigation costs of the PLI as well.*

#### 4.7. Regulatory Aspects of Insurance

Insurance is basically a well regulated sector worldwide, thanks to the efforts of the International Association of Insurance Supervisors (IAIS). IAIS was formed in 1994 as the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector as also to assist in their implementation. IAIS is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries<sup>183</sup> with a mission to promote globally consistent and effective supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

In India, the sectoral regulator, Insurance Regulatory and Development Authority of India (IRDAI) ensures that all the market players and the services that they offer are well regulated so that the policyholders’ interests are protected. The importance for rigorous regulations in the insurance sector stem from the fact that insurance companies are in the business of selling promises. Hence they need to exist as healthy entities to be able to pay losses when they occur. IRDAI ensures this through a set of regulatory mechanisms to maintain their solvency. As insurers control large quantities of public funds held in trust for long periods, investment regulations are in place to prevent financial adventurism, mismanagement of funds, non-prudent investments and fraud. Regulators are known to insist that insurers park their funds in Governmental securities and certain priority areas like infrastructure development. Incidentally, Indian life insurers made an investment<sup>184</sup> of INR 1,861.12 billion [1,86,112 crores], which amounts to 8.61% of its investment, in Housing and Infrastructure during the year 2015-16. In the same year, Indian Non-Life insurers invested INR 195.03 billion

<sup>182</sup> *K. R. Chandrasekaran Vs. Union of India, the State Bank of India and Others W.P.Nos.950 of 2012 and 30223 of 2011 in the High Court of Judicature at Madras. Judgment Date - 17.4.2012*

<sup>183</sup> *Figures as on January 2017.*

<sup>184</sup> *Annual Report 2016-17 of IRDAI [https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_Layout.aspx?page=PageNo3360&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo3360&flag=1)*

[19,503 crores], representing 10.37% of their investment, in Housing and Loans to State Governments for Housing and Fire Fighting Equipment. This is in addition to their investment of INR 319.46 billion [31,946 crores], amounting to 16.98% of their investment portfolio, in Infrastructure.

Insurers are mandated to invest in infrastructure and the housing sector as also as part of social obligations set by the Government. IRDAI also prescribe such investments in the infrastructure and housing sectors up to a minimum requirement of 15%. Though such mandates do not reflect insurance regulatory objectives like supporting diversification and matching liabilities with appropriate assets, this requirement is consistent with the high priority given by government to development of these sectors.<sup>185</sup>

Again, insurance products being complicated promises entangled in legal jargon and nested clauses are non-intelligible to common man. IRDAI studies and approves every single product through the 'file and use' system (to be discussed later). While overpriced products are treated unfair to customers, underpricing of insurance products is more serious as the insurer would not be left with sufficient funds to settle claims fairly. If insurers do not have sufficient funds, they may try to unduly reduce claim amounts or even find reasons to reject legitimate claims. There are systems in place to ensure that pricing of insurance products are done in a proper manner.

Reinsurance is another area where serious mistakes can happen due to various reasons like flight of capital, drain of foreign exchange, chances of risks getting reinsured at cheap rates with reinsurers of weakly regulated markets who may not honor claims. In addition, there is the ubiquitous job of all regulators - to set a level playing field and umpire the game so that the interests of none of the players are compromised.

#### 4.8. Insurance Underwriting

Insurance underwriting is a common term which is often vague for people outside the insurance industry. Underwriting refers to the process of evaluating the risk offered for insurance.

The term 'underwriting' is believed to have been in use for more than 3 centuries. Originally, someone who sets out on a sea voyage would offer his risk - the possibility of a shipwreck and

the subsequent loss of cargo and/or even the crewmembers - to a financier who would accept the risk in exchange for a premium. On assuming risk, the financiers would literally write their names under the proposal confirming that the risk was assumed; hence, underwriting.<sup>186</sup> The document thus underwritten would be the evidence of the contract which could be produced in case of a loss or mishap.

As the whole process of insurance revolves around the concept of the insurer taking over the financial risk of an insured, the insurer needs to understand and assess any risk that he is assuming. As an elucidation, in a scenario where the value of the risk assumed could be more than a thousand times of the amount of premium received for accepting the risk; and that the insurance company can go bankrupt in case too big or too many losses happen, insurers take a lot of care to understand and assess the risks that they assume. Insurers pay the losses of the unfortunate few by spreading individual risks over a large number of similarly placed people who contribute to a common pool (by way of premiums) from which the losses are paid. The underwriter assesses the probability of the loss (the likelihood/ frequency of a loss to happen and the probable severity, thereof), if it were to happen, and decides whether the risk should be assumed by the company; and if so, at what price and subject to what conditions. The conditions set by the underwriter are essentially to improve the risk by reducing its loss-proneness and to limit the impact of the loss. Underwriting is considered a specialized job which can be quite complex; and at times it can involve a series of risk inspections by technical experts, especially in the case of large and complex risks like petrochemical factories. In essence, the underwriter decides whether the risk is insurable, the risk improvement/ risk management measures to be employed to improve the risk and make it less loss-prone as well as the amount of premium that would be commensurate for assuming the risk. A wrong decision by an Underwriter can expose an insurance company to huge levels of unforeseen risk and liability which can devastate the company's bottom lines. Hence, the underwriter serves as the gate keeper of an insurance company and decides the extent of risk that should come on to its books and ensures that the capacity of its premium pool is commensurate to the risk assumed.

<sup>185</sup> Technical Note on Insurance Sector Regulation and Supervision under the 2017 Financial Sector Assessment Program (FSAP) for India, IMF Country Report No.18/86, April 2018, International Monetary Fund - <http://www.imf.org/en/Publications/CR/Issues/2018/04/02/India-Financial-Sector-Assessment-Program-Insurance-Sector-Regulation-and-Supervision-45754>

<sup>186</sup> <https://coverhound.com/insurance-learning-center/what-is-insurance-underwriting>

Customers of the industry normally see sales persons and intermediaries and do not interact with underwriters whose roles are largely at the back-stage. However, many a time, underwriters are the people who set standards for risk management, provide suggestions for risk improvement and try to protect the risk from loss-making situations and reduce/minimize the impact of such situations on the particular risk. The rates and terms that intermediaries present to the insurer are those worked out set by the underwriters backstage after careful analysis.

In the context of the Indian Housing insurance industry, the process of underwriting takes place once the loanee/ house-owner seeks insurance protection and fills the proposal form and a specific questionnaire. Based on this information, the underwriter assesses the risk and determines what kind of perils it is exposed to; and decides whether or not to provide insurance protection. The protection offered could be subject to certain conditions and monetary considerations. In some cases, the coverage offered may be a restricted one, by way of adding specific warranties and conditions. In this process, the insured would be receiving ideas to reduce future losses.

**4.8.1. Different Perspectives of Underwriting:** When it comes to insuring property risks like house properties or construction projects, the subject matter offered for insurance is usually analyzed from four different perspectives.<sup>187</sup>

- a. **The inherent nature:** The types of losses that can happen to a fireworks factory, a chemical factory, a nuclear plant, a shopping mall, a textile shop, a school, a hotel or a housing complex are distinctly different from one another. Again, when a loss strikes, the impact could be different. In the context of a building, the quality of construction, the material used, the masonry, the power connections, air-conditioning etc. are significant. When considering a house property for insurance, the underwriter needs to understand and would be studied. A school constructed of bricks with asbestos sheet roofing would respond differently from one constructed with reinforced concrete cement when exposed to cyclone and heavy rain. The protection angle such as the presence of smoke detectors, fire alarms, sprinklers or other firefighting equipment also factor.
- b. **The exposure:** The environment to which the subject matter of insurance is exposed to gets analyzed. Typical examples in respect of a house would be proximity to rivers and water bodies which can cause floods,

constructions in earthquake prone zones, near the sea (exposed to tsunami or saline corrosion) or near chemical factories where explosions could happen. From a protection point of view, distance to the nearest fire station, the quality of the responding firefighting department, whether it is paid or free, quality of the fire hydrants in the building, water supply in the locality, adequacy of water pressure etc. are of importance.

- c. **The usage:** In terms of the risk covered, there are differences based on usage. The risk associated with buildings that are used for residential purposes, for housing heavy machines, for storage of flammable goods, for frequent public entry/ exit like a restaurant etc. are different.
- d. **The management:** How the subject matter insured is managed is another aspect. The risk element involved when a factory is used for manufacturing activity around the clock with shift duties, only during day-time, only during particular business seasons or kept open without any activity during the whole year, are starkly different from the risk perspective. Even a residential property occupied regularly painted and maintained by the owner or closed for months have different risk exposures. Buildings used by the owner as his private residence and those rented out for commercial purposes are exposed to different sets or risks.

Through detailed proposal forms, insurers collect a lot of information about the subject matter offered for insurance. For the purpose of insuring House Properties, they would ask for information on the type of construction, the location, the type of occupancy, fire-fighting mechanisms etc. When it comes to insuring Projects, insurers would ask for details like the number of floors in the building, the details of surrounding areas, the duration of the project, details of the management, sub-contractors and risk management practices.

**4.8.2. Risk Classifications in Underwriting:** Based on their own management philosophies, insurers group their customers into multiple risk classes. Classification essentially helps in sharing risks among homogenous groups and to reduce situations where those with low risk exposures end up cross subsidizing high risk categories. By classifying customers into appropriate risk classes, insurance companies strive to charge risk-commensurate premiums which work on the Perpetrator Pays Principle and provide a majority of their clients with affordable insurance premiums. Risk classes are composed

<sup>187</sup> <https://www.irmi.com/online/insurance-glossary/terms/c/cope.aspx>

of individuals and corporates having similar characteristics or predefined parameters. These classes are determined based on a variety of factors and would vary from insurance company to company. That is, there can be instances when an insured which is in the preferred class of an insurance company may be a declined or substandard class for another company. These common risk classes include the following:

- a. Standard:** Clients in the standard class are usually charged the standard rate for meeting certain typical risk requirements. It simply means the client is within range of the pre-determined criteria and no special positive or negative features are present in that particular risk. For example, a new housing society in a location which has neither any past loss history nor any positive features worth mentioning will be treated as 'standard risk' and insured accordingly.
- b. Preferred:** As the name suggests, these denote the risks preferred by underwriters due to the positive features present in them. Customers in this class typically enjoy lower rates because the underwriter has found that they are better than average risks. For instance, while insuring the houses in a flood prone town, the houses which are on higher terrain or in the hilly part of the town will be preferred over the houses in low lying area, as the probability of flood claims in low lying areas are much higher than those in higher terrain.
- c. Sub Standard or Rated:** This class generally represents customers who face above average risk. These are riskier than the standard segment but may not be so bad as to attract declination. As these are below par, to maintain parity and fairness to the others in the pool, these risks are accepted with some restrictive coverage's or warranties or subject to them paying loaded premium loading. To elucidate, if a housing society is located in low lying area with a history of flooding, flats located on ground floor will be considered substandard due to the increased chance of flooding.
- d. Declined:** Clients who are declined are those who pose uninsurable risks. This can be due to various reasons. A life insurer may not like to insure a wanted criminal or under severe burden of debt. Similarly, a 90 year old may not be granted a life insurance cover as his life expectancy may not be high. Again, a health insurer's perspective would be that insurance is for covering uncertainties and treatment costs for a 90 year old would be a certainty; and may not grant him a fresh health insurance cover. The decision to decline may not be uniform from insurer

to insurer. It may vary based on their past experience and the management philosophy of the insurance company.

- e. Postponed:** In respect of some customers, insurers may not readily have sufficient information with them to take a knowledgeable underwriting decision. Insurers may need a medical test to determine the health condition of a proposed customer for life or health insurance. In case of a property risk, a physical risk inspection may be required to decide on the exact nature of the risk. Sometimes, to rule out factors like a cyclone warning/ or an political unrest have caused a sudden interest in a property insurance, insurers may wait for a few days for matters to stabilize or for the imminent threat to be reassessed. Customers are put in the postponed class temporarily until more information can be obtained, a predetermined time has passed, or factors that might have had a bearing on the underwriting decision have changed. When one of these occurs, the underwriter reevaluates the customers to decide whether they can be placed in a more appropriate class.

Sometimes there could be a bull-whip syndrome whereby a lot of people approach an insurance company for property cover soon after an earthquake. This could be driven by the fear of after-shocks or just the realization that they were unprotected but had a providential escape that time. Though the situation may not arise out of moral hazard, it can turn out to be adverse selection for the insurer. For the insurance companies that have to take over the risk of reinstating the costs of many houses (in exchange for a miniscule amount of premium, in comparison to the potential payouts) it may not be prudent to cover all the risks offered immediately after an earthquake in haste. So, they might like to wait for a fortnight or so, to grant cover, so that they do not attract the losses due to aftershocks or latent defects at the plinth/ foundation level suffered during the first quake on to their books.

#### 4.9. The Process of Underwriting - Conceptual

The typical steps involved in underwriting process of all lines of business are listed below we will discuss the specific underwriting factors considered for each line separately

**4.9.1. Gathering Information:** Information collection is the first step of the underwriting process. The underwriter requires knowledge of several key pieces of information in form of material facts as well as financial information in order to properly evaluate the potential client. This information will vary depending on the line of business for which insurance policy is issued and type of insurance policy for which the

client is applying.

In some cases the information received from the customer may not be sufficient to provide the initial quotation in such cases the underwriter may request for the additional information or take decision based on merits of the proposal.

**4.9.2. Analyzing Information:** Once the required information is gathered, the underwriter starts the process of analyzing each piece of information. Underwriter follows the specific underwriting guidelines that the insurance company sets forth and also on his judgement based on his previous experience and exposure. These guidelines are used to evaluate all information that is gathered.

The purpose of analyzing the gathered information is to predict the amount of risk a potential customer will pose for the insurance company and also if accepting that particular risk on books is in line with the companies philosophy or not.

**4.9.3. Identifying Options:** Once all the information has been analyzed, the underwriter works to identify the options available for potential customers. The options are as follows:

- Approve the proposal as requested in proposal form.
- Deny the request for coverage.
- Accept the application but attach conditions or warranties for coverage.

**4.9.4. Acceptance:** If the underwriter approves the application, it will be given as a quote to the customer with the risk commensurate rates of premium. This could be done through the sales team, the agent or the broker. Once the customer accepts the quote pays the premium, the policy issuance is done by the designated department. However, in case the underwriter finds the risk unacceptable, the customer will be notified, usually by way of a rejection letter. However, the application could be reviewed by the sales person/ intermediary with the potential customer and resubmitted after resolving the underwriter's concerns for rejection.

Post acceptance of a risk also, underwriters may have to take a relook at the case once again. Such situations arise when there is a material change in the risk or a change in the insurance conditions. The underwriter's concern during such review is to determine whether the company is willing to continue the policy on the current terms and prices despite the change; or whether new terms like reduced/ limited coverages or increased deductibles need to be presented.

Insurers have internal mechanisms to authorize underwriters

to accept risk known as underwriting authority or underwriting licence, often linked to experience and expertise. This authority is granted up to a particular sum insured for a line of business. However, after analysing a risk, in case an underwriter feels that the risk merits evaluation by a more experienced underwriter, by virtue of its complexity vis-à-vis the sum insured, the underwriting decision could be made by that underwriter.

#### 4.10. The Process of Underwriting – Practical Aspects

Though parameters such as the claims history or loss experience of the customer may be similar, underwriting practices could be different for different lines of businesses or even vary from one insurance product to another.

A close look at how underwriting is practically done for some of the products relevant to this study is presented below:

**4.10.1. Fire Insurance and Long-Term Home Insurance (LTH) Policies:** These policies are discussed in detail under 3.1.6., 3.1.7. and 3.2.1. of this study. These are typically underwritten and rated based on the following factors:

- Location of the property
- Type of construction
- Cost of reconstruction
- Presence of fire extinguishing appliances
- Type of usage of the particular property (if a house is used only for storage purposes, it may be rated as a godown)
- The duration for which the policy is taken – applicable for Long-Term Home policies
- Add on covers opted for
- Voluntary deductibles

P.S. IRDAI formed a Working Group<sup>188</sup> in May 2017 to examine the product structure under which long-term cover against fire and allied perils is provided to dwellings, offices, hotels, shops and MSMEs. The Group is mandated to suggest standard and simple policy wordings, add-on covers, clauses and endorsements to be adopted by the general insurers that add value to policyholders.

**4.10.2. Home Package Insurance:** As discussed in detail under 3.1.8. of this study, this is a single package policy that replaces multiple policy documents. For such policies, most insurers keep fire insurance a compulsory section and the rest optional. Hence, the factors considered for the fire policy

<sup>188</sup> Source: <http://irdai.gov.in> – Working Group on Visiting the Product Structure for Dwellings, Offices, Hotels, Shops etc. and Micro, Small and Medium Enterprises for cover against fire and allied perils of no: IRDA/NL/ORD/ Misc/ 119/05/2017 dated 19<sup>th</sup> May 2017.

(discussed above) assume importance. The additional factors that are considered depend on the other sections chosen and the respective sums insured. That is, in respect of mechanical/ electrical/ electronic household equipment, factors like their age and condition are seen. If employees are covered, their number and salary details are looked into and if pet cover is granted, the details of the pets are collected. Further, there could be discounts for choosing more sections.

**4.10.3. Contractor's All Risk Policy and Loss of Profits:** The premium charged for this policy would be a function of the overall value of the project and duration of cover along with the add-on covers opted. Project specific information such as number of floors the contractor/ builder is planning to construct, the risk exposure from the surrounding areas of the project, the past record of the contractor/builder and the type of housekeeping/ safety practices followed are also given due consideration. When Advance Loss of Profits are covered, insurers study the project milestones and usually ask for the bar chart of the timelines. The premium would increase with the increase in project period on the one hand and on the other, decrease as the period of time excess<sup>189</sup> increases. (Details of this policy are presented at 3.2.2 & 3.2.3.)

**4.10.4. Employees' Compensation Insurance:** The Housing Industry deals with a large number of workmen in involved in risky and hazardous work. Liability due to deaths, injuries or treatment expenses to workmen can inflict heavy costs on the Builder/ Contractor, under common law. The premium depends on the nature of work carried on by the insured, the salaries and the safety records of the past. (Details of this policy are presented at 3.2.5.)

**4.10.5. Public Liability Insurance:** In Public Liability policies, depending on the Limits of Indemnity - Any One Accident (AOA) limit and Any One Year (AOY) limit selected by the customer, the add-on covers opted, the premium would differ. In addition, the underwriter would look at the financial health of the company and the records of management during the previous 3 years. (Details of this policy are presented at 3.2.6)

**4.10.6. Fidelity Guarantee Insurance:** The factors considered for underwriting this policy are the number of employees covered, the number of locations and also the past claims

experience of the customer in addition to sum insured selected. (Details of this policy are presented at 3.2.8.)

#### 4.11. Underwriting Strategy and Creating a Sustainable Market

Insurance is regarded as a complicated business and very few people are willing to enter into the insurance business. This is because the business of insurers' is to sell promises. When an insured returns to the insurer to redeem the promises (in case of loss or damage to the insured property), the amount required by the insurance company to pay the claim could run into hundreds or thousands of times the premium collected.

**4.11.1. Actuarial Science:** Insurers have to delicately work on the probability of policies maturing into claims. This requires evolving complicated statistical models for which actuarial science is used. Insurers employ a class of professional experts in finance and probability, called actuaries, to predict the probability - frequency and severity of loss making situations.<sup>190</sup> The premium being a function of the expected costs for bearing the losses, expenses for pooling risks (operating expenses) and profits of the insurance company. Actuaries take into account the rates of policy lapsation, interest rates, expected rates of return on investments, in the process of setting risk commensurate premiums which are acceptable to the market as well.

**4.11.2. Data Requirements:** Predictive analysis would need exhaustive and dependable data for long periods of time. Insurers need to wait for years to build up that kind of data internally and invest heavily for building data warehouses and data sharing arrangements.

In the Indian context, there were quite some efforts for creating a data warehouse for the insurance industry. As per Section 64 UE of the Insurance Act, all insurers were mandated to send all underwriting and claims data to the Tariff Advisory Committee. After nationalization, a special cell called 'Machine Tabulation Unit' (MTU) was set up with the latest IBM mainframe computers and 40 persons including technical experts, programmers and data entry operators. Every policy was issued in quadruplicate and the 4th copy was being sent to the MTU for creating a data base. (A similar internal cell was created in the Life Insurance Corporation of India) However, the rigor of this practice dwindled over the years. In 1985 and 1995, the General Insurance Corporation of India, in its capacity as holding company, recruited some

<sup>189</sup> Time Excess or Time Deductible refers to the period for which the insurers are not liable to pay.

<sup>190</sup> Zacks, Research Firm of USA <http://finance.zacks.com/risk-pooling-insurance-1890.html>

more experts to revamp the data submission process and create an industry database. In the early 2000s, with the IRDAI's support, TAC reinitiated its efforts to set up a pan India data warehouses for the general insurance industry. Some 15 lines of businesses were identified and the Motor and Health insurance databases were in place by 2007.

The next milestone was in 2009 when the IRDAI formed Insurance Information Bureau of India (IIB) as a separate organization, with the objective of supporting the insurance industry with sector-level data, enable data-based and scientific decision making including pricing and framing of business strategies. Additionally, the IIB was expected to provide key inputs to the Regulator and the Government to assist them in policymaking. The Bureau is visualized to act as an integrated channel providing centralized intelligence for the industry and accessible to all stakeholders. IIB has generated a few insightful reports, for the benefit of the industry.

The importance of collecting and compiling data at a central place is that no single company would be able to analyze market trends and arrive at reliable rates with dependable accuracy using its own premium and claims data. The reasons for inaccuracies in relying upon single company experiences could be various, ranging from the skewness of the sample due to physical reasons like geographical variations and market segments covered or even abstract reasons like the underwriting appetite of the insurer or the preference of captive/ longtime customers.

**4.11.3. Concerns relating to Fraud, Moral Hazard and Adverse Selection:** The insured knows everything about the risk that he is offering for insurance while the insurer knows nothing about it. Insurance companies operate on the principle<sup>191</sup> of 'Utmost Good Faith' and take their entire range of decisions based on the information presented by the customer. Customers who do not disclose critical information to the insurers or misrepresent themselves with fraudulent intentions, can deceive insurance companies and deplete the funds pooled from many for the purpose of indemnifying the genuinely unfortunate.

Moral hazard<sup>192</sup> occurs when the behavior of the insured changes in a way that increases the frequency or severity of

the loss, i.e. increasing the insurers' costs. Since the insured party no longer bears the full costs of that behavior, they can be more careless, or make an insurer pay more or even create a situation to enjoy the benefit of a loss situation. For instance, knowing that the insurer will pay for his treatment costs, a person may convert a small illness into an opportunity to get a full-fledged medical checkup, which may not have been payable in the normal case. Further, the knowledge that medical costs following accidents are payable can embolden a person to take up an adventure sport, which he might have avoided otherwise. Also, when admitted, he would have an added incentive to ask for pricier and more elaborate medical service, which would otherwise not be necessary.

Again, while insurers normally expect all those who are offered a particular type of insurance are similarly placed as regards their loss proneness, with a more or less uniform probability of being affected by unforeseen events, it is possible that some insured intentionally insure only risks that are highly loss prone and retain the less risk prone ones uninsured. Such 'adverse'<sup>193</sup> selection' is considered to be against the common good as it would adversely impact the common pool and make the pool more loss prone and unsustainable.

**4.11.4. Solvency Margins:** In the first few years of their operations before reaching sustainable scale, insurers need to invest huge amounts of cash to pay claims. Property insurers usually start make underwriting profits from the business only after long gestation periods of 10 to 12 years. Further, the Government and the Regulators have rigid rules in place to ensure that insurers do not over-promise and become insolvent when they need to deliver. Regulators do not allow situations of claims becoming higher than certain threshold levels which can cause insurance companies go bankrupt. As they start assuming more risk, they are required to maintain decent levels of solvency margins and induce more funds for maintaining underwriting capacity. Hence, only deep-pocketed investors can do insurance business.

**4.11.5. Investments, Provisions and Controls on Reaping Profits:** Again, insurers hold in trust the custody large amounts of public funds, which they would have to mandatorily invest in safe and secure funds prescribed and monitored by the

<sup>191</sup> The principle of Utmost Good Faith (called *Uberrima Fidei*) means that every person who enters into a contract of insurance has a legal obligation to act with utmost good faith towards the company offering the insurance. A person must, therefore, always be honest and accurate in the information they give to the insurance company. The insurance company also has a responsibility to act with good faith in all its dealings with the insured.

<sup>192</sup> Moral hazard indicates a subjective hazard that tends to increase the probable frequency or severity of loss due to an insured peril. It reflects the insured's behavior and the extent of potential loss or gain to the insured in case of loss. Moral hazards are considered when underwriting insurance, particularly fire insurance, and are addressed by certain policy exclusions. For example, underwriters are hesitant to insure vacant and unoccupied buildings because of the possibility that an insured will be tempted to intentionally start a fire to obtain an insurance recovery.

<sup>193</sup> Adverse Selection - An imbalance in an exposure group created when persons who perceive a high probability of loss for themselves seek to buy insurance to a much greater degree than those who perceive a low probability of loss - <https://www.irmi.com/online/insurance-glossary/terms/a/adverse-selection.aspx>

regulator. This is to restrain them from taking risky investment decisions leading to financial adventurism. As the cycles of claims emanating from natural or manmade catastrophe can keep changing and are often beyond predictability (tsunami's, earthquakes, terror attacks, plane crashes or industrial explosions can happen frequently or once in a hundred years); and as losses involving litigation can take long periods and high amounts, insurers have to make provisions for such outstanding claims and set aside huge amounts for the purpose, they are severely restrained from declaring dividends and reaping profits for long periods of time. This is another reason why only the deep-pocketed long-term players enter the insurance business.

**4.11.6. Hesitation to buy Insurance:** The hesitation of people to buy disaster insurances is discussed under 3.1.5 of Chapter 3. The reasons for people not buying property insurances are same to a large extent. Though many house owners/ home loan customers appreciate the benefits of the insurance mechanism for their property risks, in reality, many of them are not ready to buy insurance products, especially non-life type of policies. Purchase decisions, especially in General insurance, are based on various factors. People tend to believe that losses will affect only others and not them. Also, life insurance is traditionally looked upon as a financial investment. In general insurance, where there is no certainty of return unless claims happen, people feel that buying an insurance policy is a wastage of money. Again, there are no income tax benefits offered on purchase of general insurance policies other than health insurance. As per market reports, once the Government started providing income tax benefits for health insurance, there has been an increase in the sales of health insurance. People do not want to bear the 'certain losses' of paying premiums to avoid 'uncertain losses' which may not happen, especially in terms of general insurance. Also, people do not know the concept of insurance sufficiently enough to pay for the intangible protection that it offers. Further, sometimes, people feel that it is the duty of the government to make doles when natural calamities strike or rail/ road/ water accidents take place. All these factors put together result into low penetration of general insurance, which is currently less than 1% in India. Looking specifically into the Indian housing sector, only less than 1% of houses are insured.

## 4.12. Pricing of Insurance

Insurance rates are usually calculated using large quantities of reliable, high-quality insurance statistics produced by processing large volumes of data reported primarily by all insurers of the industry, taking into consideration the differences among specific products. Insurers do develop risk models in cooperation with reinsurers and other international experts who have access to multiple geographies. The Indian insurance industry has developed natural catastrophe models (and offered support to the SAARC and Afro-Asian Regions in creating NatCat<sup>194</sup> Pools) as well as weather-based agricultural insurance models with inputs from global risk management companies.

Reinsurers Swiss Re, Munich Re and professional bodies like the General Insurance Rating Organization of Japan (GIROJ) are reputed for developing natural hazard risk models for typhoons, floods, and earthquakes. The risk models<sup>195</sup> are rational and backed by the outcomes of continuous joint academic research in study groups comprising experts in meteorology, seismology, architecture and other disciplines as well as backed by historical insurance data.

After determining the risk, the underwriter sets the price/ the insurance premium that needs to be charged for assuming the risk.

**4.12.1. Pricing in Life Insurance:** The pricing of Life Insurance policies is done based on mortality and morbidity tables which are carefully created by experts in actuarial science, based on the country's population and health statistics. The basis of pricing each life insurance product emanates from these actuarial tables after considering the skewness<sup>196</sup> caused by the additional factors that go into the design of the product such as the targeted segment of the population, the risks covered, the period of cover, the exclusions etc. In addition, factors like income from investments and expenses relating to management and commissions are also factored in along with some margin for profits, for fixing the final premium.

**4.12.2. Pricing in Property Insurance:** Property insurance products are mostly annual policies other than Project insurances, which could be coterminous with the project period. These are priced based on 'Burning Cost'<sup>197</sup> and

<sup>194</sup> Natural Catastrophe Pools – Though the NatCat pools were not formed as planned due to other reasons, GIC Re extends support to the region.

<sup>195</sup> Information and Picture Courtesy GIROJ - [http://www.giroj.or.jp/english/main\\_2.html](http://www.giroj.or.jp/english/main_2.html)

<sup>196</sup> In probability theory and statistics, skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. The skewness value can be positive or negative, or even undefined. The qualitative interpretation of the skew is complicated

<sup>197</sup> Burning Cost is also known as 'Loss Cost', 'Pure Premium' or 'Reference Loss Cost Rate' in different markets. Burning Cost "refers to that portion of that rate needed to pay losses and loss-adjustment expenses". The loading "refers to the amount of the premium necessary to cover other expenses, particularly sales expenses, and to allow for a profit". The gross rate "is the pure premium and the loading per exposure unit." [https://en.wikipedia.org/wiki/Rate\\_making](https://en.wikipedia.org/wiki/Rate_making)

certain additional components. While factors like income from investments, expenses relating to management, commissions and some profit margin are taken into account for fixing the final premium of Property products as in the case of Life insurance; additional factors like unreported claims, claims waiting for court verdicts, reinsurance claims, provisions for low frequency - high intensity losses like earthquakes and tsunamis that can happen after very long periods have also to be taken into consideration. This total rate is referred to as 'Gross Rate', 'Commercial Premium' or 'Standard Full Rate' in different markets.

Both Life Insurance and General Insurance products are governed by the 'File and Use' norms set by the Insurance Regulator whereby insurers have to seek the approval of the regulator in respect of every product which they wish to offer in India. The 'File and Use' norms mandate insurers to submit all policy related literature including the policy wordings, the sales literature, the forms used and the advertisement material to the Supervisors for scrutiny and approval. The CEO needs to certify that the product is in consonance with the Company's corporate vision and policies. The product has to be scrutinized by a legal professional and certified that none of the policy wordings are against the interest of the policyholders. On the pricing front, an actuary has to certify that the factors and the assumptions that have gone into the pricing are rationale and would not impinge upon the solvency of the company.

**4.12.3. Underwriting and Pricing:** Additional to underwriting and pricing, there are a few concepts that are of importance.

**a. Rule-based Underwriting and Class Rating:** These refer to standardized plain vanilla insurance products having pre-defined coverages and preset rates, terms and conditions as per internal tariffs of the company. The designers of such products usually visualize and factor in rates and terms for a few variations outside the normal range, such as higher sum insured, higher deductibles, bonus for no claims, loading for high claims, low/ high hazard features etc. so that these insurances can be sold (with due diligence and documentation) with minimal underwriting by practically any office of the insurer, non-specialized intermediaries like banks or agents with basic training. Hence, these are referred to as 'rule-based' or 'pre-underwritten' products.

In India, some pre-underwritten products are available for segments like motor insurance, personal accident

insurance, travel insurance, home insurance and health insurance.

- b. Packaged or Customized Products:** Packaged products are essentially different existing products bundled together as a package to suit the needs of an insured. Customization can also happen by way of adding extra covers, waiving warranties/ exclusions or working out deductibles suitable to the insured. These policies are specially designed for a class of customers (or even for individual customers) in terms of scope of cover, deductibles, rates, terms and conditions.
- c. Individually Rated Products:** Some types of risks would have frequent low intensity loss occurrences. Such products are underwritten and rated based on the actual claims experience of the particular insured concerned. These are called 'individual experience rated products' or 'individually rated products'.
- d. Exposure Rated Products:** There are situations where losses are uncommon in a type of risk or where sufficient numbers of similar risks are not available for developing a scientific or empirical basis for rating. Such risks may have to be rated based on comparable risks in other markets or hazard evaluation based on factors like risk management, independent of the actual claims experience of that risk. Such products are referred to as 'exposure rated products'.
- e. Insurances of very Large Risks** above a high threshold sum insured, say, INR 25 billion [2500 crores], at one location for Property/ Material Damage/ Business Interruption risks or above INR 1 billion [100 crores], per event for Liability may not be within the underwriting or rating capability of Indian insurers. Such products may need the expertise of experienced reinsurers for deciding on the extent of cover that can be granted, the deductibles applicable and claims situations.

**4.12.4. Practical Considerations of Home Insurance Pricing:** Home Insurance Policy Premiums are computed based on the following factors :<sup>198</sup>

- Whether the property is occupied by the owner or let-out
- Whether it is a flat or a stand-alone building
- The age of the property
- Whether cover is needed only for the structure of the house or the contents or for both

<sup>198</sup> Adapted from 'Top & Best Home Insurance Plans – Details, Comparison & FAQs' -<https://www.relakhs.com/top-best-home-insurance-plans-details-comparison-faqs/>

- Type of construction
- Location of the property
- Whether the following add-on covers are needed for which extra premium has to be paid
  - Burglary cover
  - Jewelry cover
  - Personal Accident cover
  - Third-party liability/ Public Liability cover
  - Loss of rent cover
  - Temporary Resettlement (Rent) cover
  - Cost of shifting cover
  - Pet cover
  - Mobile phones / laptops / tablets / portable equipment's cover
- Whether excess is applicable [An excess is the amount the policyholder contributes towards a claim. Insurers offer discounts for opting for excess.]
- Sum Assured and type of indemnity options for the Structure of the Building
  - Sum Assured on 'Indemnity Value Basis': Here, the depreciation (natural wear & tear) value is deducted from the Reinstatement value (as shown in the table).

'cost of construction' on present day basis. As the cost of construction may not remain constant, home insurance plans allow 'escalation' clause.

- Sum Assured options for House hold contents are usually available.
  - **New for Old Basis:** Where 'New for Old' is applicable, the Sum Insured of the 'Contents' usually represent the Replacement Value of the insured items by a new item of the same kind and same capacity. The natural wear and tear or depreciation is not taken into consideration.
  - **Indemnity Basis:** In cases where Replacement Value is applicable, the value of the insured contents is calculated as the cost of a 'new item' minus 'allowance for 'depreciation'.
  - **Valuables:** For valuables like gold, jewelry, diamonds, precious stones and the like, computation of Sum Insured vary from policy to policy.

#### 4.13. Policy Standardization

There are multiple reasons for advocating standardization of insurance policies. The first and foremost reason is to ensure that the same language is spoken and understood by all stakeholders with the same meaning. Secondly, certain wordings have evolved over a period of time based on several court judgments and legal interpretations to convey a special legal meaning today. Given the regulatory focus on the policy holders' protection, non-standard policy wordings can create legal loopholes in the insurance contract, which in turn can deprive the insured of the benefits normally expected by them. Further, Insurers can cleverly create 'abortive policy wordings', which may appear innocuous to the policy holders, but undermine the apparently benign provisions and actually deprive them of the normally expected benefits.

Insurance premium rates are computed by Actuaries based on underwriting and claims data. The strength of this data emanates from the homogeneity of the risk groups studied. Individual companies may not have large enough samples of representative data for computing correct rates. The small sample size could lead to major errors in rating. Hence, for simple risks such as homes, where the geographical spread and volume involved are substantial and diverse, it is advisable to have rates based on the entire country's experience. Again, if the underlying contract wordings are different, the compiled data may not reflect the true picture.

Standardization of policy wordings also allows the customer

	Age of Property (Years)	Total area as per Sale deed (per Sq. Ft.)	Value as per Ready Reckoner for the locality (per Sq. Ft.)	Cost of Construction on date of Proposal (Per Sq. Ft.)	Re-construction Cost	Depreciation @5%p.a. on re-construction cost for 10 years	Sum Insured
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Agreed Value Basis		1,000	Rs.5,000				Rs.50,000 (b)x(c)
Reinstatement Value Basis		1,000		Rs.2,000			Rs.2,000,000 (b)x(d)
Indemnity Value Basis	10	1,000		Rs.2,000	Rs.2,000,000 (b)x(d)	Rs.1,000,000	Rs.1,000,000 (e)-(f)

- **Sum Assured On 'Agreed Value Basis':** Usually applicable for Flats / Apartments, this is done by multiplying the 'Total Sq. Feet area of the Flat' by the 'value per square feet'. (Area of the flat is taken from the Sale Deed & Per Square feet value is based on Ready Reckoner issued by the Revenue department. Valuation higher than the one mentioned in the ready reckoner (due to additional features of the flat) is allowed, if supported by Valuation Report given by a Government approved valuer.
- **Sum Assured on Reinstatement Value Basis:** Also known as 'cost of re-construction basis', Sum Assured is arrived at by multiplying 'area of the flat/house' by

to compare various home package policies and analyze the policy coverage, rates and the track-record of the company's service.

Usage of standard policy wordings (i) promotes the economy of the scale (as policy drafting and pricing are costly for insurers in terms of time and resources), (ii) reduces the regulatory cost (as regulators need to analyze and check policies) and (iii) also reduces litigation costs (in terms of court time on studying and interpreting non-standard policy wordings). Many a time, insurance companies are hazy about how judicial interpretations may affect their claims outgo. Creating databases of case laws will help insurers gather insights on their contract wordings as also to understand whether the premiums are adequate to take care of the consequences of the legal interpretations. Skewed wordings, when replaced by standard wordings can make legal implications more transparent and predictable.

In market scenarios like housing, where there are large customer bases having more or less the same requirements, standardization helps the sales force to convey a clear picture about the policy to the customer. Standardization helps in simplifying claims settlement procedures and setting service standards of a desired level. Customers too can meaningfully compare claims settlement and services across companies only if products and systems are standardized. Standards also help to improve transparency, information quality and access in order to increase customer satisfaction.

Efforts at standardization of property and casualty insurance policies in the United States, the biggest market for home insurance, date back to the late 19<sup>th</sup> century, when Massachusetts promulgated a mandatory policy form<sup>199</sup> for Fire Insurers. When many insurance companies failed after a massive earthquake in the early 20<sup>th</sup> century, efforts towards standardization increased. The Merritt Committee<sup>200</sup>, which looked into the matter, identified ruinous competition among insurers as the cause of such insolvencies. It was pointed out those insurers who lacked adequate information to predict the costs of future losses, set excessively low premiums which resulted in mass insurer insolvencies in the wake of a large disaster. To address these problems, the Merritt Committee proposed establishing state-sanctioned rate-making bureaus. Today most of the insurance policies in the USA are standardized, based upon the forms created by the ISO (Insurance Services Office, Inc.) or the American

Association of Insurance Services, a national insurance advisory organization that develops policy forms, manual rules, and rating information for property and casualty companies throughout the United States.

Post detariffing, India is also facing a similar situation where some of the new insurers are charging excessively low premiums to get access to new businesses; and existing players are matching the terms to maintain the business. In this vicious circle, it is feared that the steep reduction of premiums may impact the claims paying capacity of insurers and obviate very purpose of buying the insurance policy. To overcome this problem, the General Insurance Council along with Insurance Information Bureau did a Burning Cost Analysis of 109 occupancies under the Fire class of business with provisions to follow the industry burning cost or individual company burning cost.

Although explicit rate setting is considered anticompetitive and regressive, one needs to understand that aggregating and sharing loss data across the industry helps in proper pricing of products. It would also help new entrants take informed decisions and offer sustainable pricing.

The Fire Insurance policy which works on a 'named perils' basis uses more or less standard wordings. On similar lines, standardized wordings would be preferable for 'all-risks' policies offered to cover homes. Standardization is often demonstrated in insurance policies by having uniformity in the following areas:

**Declarations:** Declarations in the insurance contract provides structured information about the particular property or the activity carried out by the insured. Information contained in the Declaration identifies the insured, the insured's address, the insuring company, the risks or property covered, the policy limits (amount of insurance), the deductibles applicable, the policy period and the premium amount.

**Definitions:** This section defines the meaning of key words or phrases used in insurance policy so that coverage under the policy can be determined more easily in case of claim. (Certain definitions could have the same meaning across policies.)

**Insuring Agreement:** The 'Insuring Agreement' summarizes the promises of the insurer to indemnify the insured as also describes the perils covered, risks assumed and the nature of coverage.

<sup>199</sup> <http://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=5550&context=uclrev>

<sup>200</sup> *Ibid*

**Exclusions:** There are three major types of exclusions, viz.:

(i) **excluded perils** - the perils or causes of loss that are excluded from the contract, (ii) **excluded losses** - the types of losses which are excluded and (iii) **excluded property** - the properties which are excluded or have only limited coverage.

**Conditions:** The conditions section imposes certain duties on the insured. Common policy conditions include notifying the insurer if a loss occurs, protecting the property after a loss and cooperating with the insurer in the event of claim.

**Miscellaneous Provisions:** Insurance policies contain a number of miscellaneous provisions, such as cancellation, subrogation, requirements when losses occur, assignment of the policy.

**Endorsements:** An endorsement is a written provision that adds to, deletes from, or modifies the provisions in the original contracts. An endorsement attached to a policy generally takes precedence over any conflicting terms in the policy.

**Deductibles:** A deductible is a provision by which a specified amount is subtracted from the total loss payment that otherwise would be payable. Deductible can work as (a) fixed amounts or percentages to be deducted from losses, (b) caps on the time period of coverage or as (c) a co-pay, a common feature of many health insurance plans, where the insured pays a pre-agreed out-of-pocket amount for certain health care services.

**Policy Forms:** in some areas like Marine Hull and Cargo, there are uniform standard forms used in most parts of the world for particular purposes. When one says 'Institute Cargo Clauses A' the insurance and shipping industries know what are the coverages, exclusions, terms and conditions attached.

All these standards make the industry more transparent and manageable and help in giving better quality of service for customers. Better interaction between the Insurance and Housing industries would help in standardizing multiple areas for common good.

## 5. The Way Forward (Insights, Recommendations and Observations)

**[Chapter Structure:** *The insights, suggestions and recommendations which emanated from the study are presented in this chapter.*

*The study has flagged 15 aspects of significance in respect of the property insurance of new and existing housing and presented 25 specific recommendations which are presented in this chapter.*

*Recommendations touch upon topics like creating insurance awareness in the market, clearing common man's doubts and confusions about insurance schemes, building internal capacity by way of training employees of the housing industry in insurance and developing better coordination between the housing and insurance industries. The need to develop schemes to protect the housing industry and its various subsets from myriad uncertainties such as effects of natural catastrophes, terrorist activity, liabilities relating to public offering of securities, financial infidelity of key employees and disputes regarding title of properties. Protection against liabilities due to neglecting employee interests and non-compliance of various insurance related mandates like Public Liability Act, Motor Vehicles Act, and Employees' Compensation Act etc. which can attract heavy liabilities on the industry as well as the industry's prudential liability to insure are also discussed. At a micro level, concerns like protection from risks like death, disability, diseases, loss of employment etc. and consequent situations of loan default, individual exposures to fire and other natural/ man-made perils, general gaps in knowledge that can render insurance policies meaningless and optimizing the efficacy of the enabling mechanisms created by the Government are discussed. The importance of extending Income Tax benefits for incentivizing home owners to purchase insurance protection, especially in the context of making benevolent long-term schemes like Pradhan Mantri Awas Yojana (PMAY) and the Credit Linked Subsidy Scheme (CLSS) sustainable and continual are also deliberated upon.*

*On a different footing, the need for insurers to design simpler policies, make it easier to do business with them, simplify claims settlement systems, documentation and procedures, address frequently asked questions (FAQs) in simple words, make available and accessible to those beyond the mainstream, price insurance in transparent manner, design customer friendly package products, devise sector specific grievance redressal systems or legal aid systems and some*

*broader perspectives like creating forums for joint action by multiple stakeholders and regulatory bodies for supporting the insurance of new and existing houses are also discussed.*

*During the interviews conducted, a few stand-alone suggestions came up from some experts in the domains of housing and insurance who took the opportunity to express their views, merely out of their commitment to the industry. Though these are not directly emanating from the study and have not been validated or corroborated as part of the study, the researchers felt that a few specific suggestions were worth presenting as part of this report as additional observations for stakeholder evaluation. Suggestions relate to risk profiling for insurance purposes, sensitizing financiers on dual/ multiple financing on the same collateral, mandating insurance as a prerequisite for certain governmental matters, mandating certain insurances for builders and penalizing them for non-compliance.]*

### 5.1. Concerted Action by the Regulators and Industries

It was observed that in the Indian Market, there is no proper system of sectoral regulators interacting with one another to develop a better understanding and appreciation of other.

**5.1.1. Issuing Common Guidelines:** Educating the borrower about his risks and the requirement of insurance protection in a precise and convincing manner is an area that calls for attention. Though there were some isolated attempts by individual regulators and commercial entities to improve customer education, the results are not considered as tangible enough or well documented. The situation is not widely different in other developing countries, though some developed countries had built in insurance education into the curriculum.

The best example of a planned Governmental endeavor in this direction was found in the Massachusetts State of USA where (i) the Governor, (ii) the Lieutenant Governor, (iii) the Secretary of Housing and Economic Development, (iv) the Director of the Office of Consumer Affairs and Business Regulation and (v) the Commissioner of Insurance came together and jointly produced a lucidly worded document in 2007 for the customers of the Housing Industry (and other home owners) titled 'A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums'<sup>201</sup> which advises them unambiguously on what to do as a house owner. A snap shot (4 pages out of 24 pages) of the document is attached as **Annexure E**.

<sup>201</sup> 'A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums' <http://www.mass.gov/ocabr/docs/doi/consumer/homeowners-guide.pdf>

**Recommendation:** *This kind of concerted action by multiple regulators is worth emulating in the Indian context as well.*

**Recommendation:** *An approach of educating school/ college students on the benefits and risks of housing loans and the benefits of insurance protection for borrowers, could contribute to awareness. The Education Ministry/ Departments could be impressed upon to add a few paragraphs on this subject as part of the school curriculum.*

### 5.1.2. Improving Professionalism of Builders/ Contractors:

In a scenario where the Hon'ble Courts in the Country were taking a long time to deal with customer complaints, customers tend to forget their rights unless the Regulator sends a strong message that it supports customers. The attitude of builders of not being accountable to customers for deficiencies in service can be addressed by making insurance compulsory and imposing penalties way higher than insurance premiums for non-compliance.

There was a word of caution that the major chunk of default in respect of Housing Finance actually happen due to financial mismanagement by the beneficiaries, whether builders/ contractors or the customers in the home loan segment. Unlike the unfortunate natural reasons that are insurable, these are man-made aided by certain unhealthy nexuses, with the intention to profit from regulatory gaps, utilizing the pendency situation in most Courts and the inherent weaknesses (or even connivance) of personnel the implementing agencies.

It may be observed that Primary Lending Institutions finance multiple projects, the failure of which can be costly for the Financing Institution. Insurance policies for contractors need to be suitably worded so that situations like delays in handing over a constructed house due to a flood or cyclone are covered. [However, the Housing Industry should be aware that insurance is meant to cover only fortuitous situations and if a builder chooses to delay construction due to reasons like an increase in the price of cement, it would not be covered by insurance, as it is a commercial/ trade risk.]

**Recommendation:** *It would be in the interest of the industry to ensure that all construction projects are properly protected by appropriate insurance policies under the advice of insurance experts. Alternatively, project financiers and contractors would have to build internal capacity to cover the projects with adequate insurance protection. [Long-Term policies are not preferable for contractors/ builders to avoid the possibility of their commercial risks/ other service deficiencies may inadvertently covered]*

Inclusion of "housing and real estate services" under the definition of public utility services covered by Lok Adalats under the Legal Services Authorities Act, 1987 is regarded as a laudable gesture. However, if both the parties fail to agree to get the dispute resolved through Lok Adalat, the award is not executable and the regular litigation process remains open. In borrower vs. builder scenarios, getting the consent of the builder for solving such disputes may not be practicable.

**Recommendation:** *The Country would need multiple and alternate solutions for dispute resolution, which may be examined.*

Property Insurance is one of the most popular products for retail customers as these cover losses due to fire, lightning, explosion/ implosion, aircraft damage, riot, strike and malicious damage, impact damage, landslide/rockslide, bursting and overflowing of water tanks, missile testing operation, leakage from automatic sprinklers and bush fire. Protection from earthquake, storm, typhoon, cyclone, flood etc. is also offered. Some additional coverages relevant to the housing industry/ buyers of residential property and others in the housing industry (like construction companies and corporates) are architects, surveyors & consulting engineers fees, debris removal expenses, impact damage due to Insured's own vehicles, loss of rent, expense on rent for alternative accommodation and terrorism.

- a. Such policies are mostly available as annual policies, though some insurers offer 3 to 5 year policies as well. For these insurances to be fully effective, these have to be renewed in time without break in policy period, the property has to be insured at the proper value (on reconstruction basis) and updated at every renewal, add-on covers should be selected diligently based on practical requirement.

In May 2017, IRDAI formed a Working Group to examine the standardisation and simplification of policy wordings, add-on covers, clauses and endorsements of long-term property insurance products for dwellings, offices, hotels, shops etc.

**Recommendation:** *The Housing industry, especially the PLIs need to advise their customers properly so that such insurances are not purchased mechanically without assessing the insured's need and understanding the coverage offered. To ensure that the properties are covered adequately, PLIs need to build internal capacity.*

- b. Most customers of the housing industry do not readily understand that Fire policies are 'named perils' or 'limited cover' policies where the insured has to select the covers required and pay for them.

**Recommendation:** Insurers need to design simpler policies on all-risks basis offering long-term protection for the retail customers of the housing industry.

- c. Many people make the mistake of assuming that when they buy a policy for their house, all their belongings, Permanent fixtures and contents also get covered; or when they buy insurance for the contents of the house, the building would also be covered. These assumptions may not be correct. Also, if the house has any non-standard features, like a thatched roof or glass walls, or is under renovation or special in terms of its location - like being near a river, forest or an explosive factory, a discussion with an insurance specialist would be needed. One should buy a policy that covers the house at the level of protection one needs.

PLIs should be aware that there are multiple risks like death, disability, diseases, loss of employment etc. that can make a house building loan an NPA. Similarly, though a fire or flood may not affect the construction of a building, the entire contents thereof can be destroyed and leave the borrower without any money to repay his loan.

When there is a mortgage, the general tendency is to buy insurance to the extent of the loan amount. This can be quite pronounced when the loan is granted for extending an existing house. In such cases, when a loss occurs, there would be underinsurance and the insurer would not be able to settle the claim in full leaving the insured and the PLI without insurance protection.

As evident from many of the points discussed above, insurance awareness within the Primary Lending Institutions is quite low. Insufficient knowledge of insurance leads to buying wrong products or those that offer inadequate protection, either way wasting precious resources.

**Recommendation:** It should be mandatory for the PLIs to ensure that borrowers from them are well protected through adequate and appropriate insurance solutions. It should make it compulsory for the PLIs to build internal capacity (by way of multiple initiatives) so that they understand their own insurance needs and those of their customers. This would ensure that properties and other risks are covered adequately based on actual needs; and that money is not wasted by procuring worthless or inadequate insurance covers that give only a 'placebo' effect of notional protection.

**Recommendation:** PLIs would do well by increasing insurance awareness for the general public with a long-term view of

nation development. The possibility of using CSR funds for creating insurance awareness could be explored.

**Recommendation:** The Housing industry needs to work more closely with the insurance industry and assess the extent to which insurable risks render their assets non-performing. PLIs should actively utilize the insurance mechanism to reduce their NPAs by getting their customers transfer their risks to the insurance industry.

**Recommendation:** Given that the expertise of PLI staff is in their core domain of housing, a capacity building exercise for the PLI staff in insurance products is felt required so that they can provide comprehensive professional insurance advice to their customers.

**5.1.3. Ensuring Implementation:** It was gathered from Experts interviewed that the prototypes of the present insurance policies had been designed by the insurance industry, as per governmental directives, to specifically address the needs of the big contractors

**Recommendation:** Thanks to the regulatory initiatives, in congruence with the spirit of Section 16 of RERA, some policies have hit the market in 2018. However, as there are only limited number of takers, initiatives need to be taken so that the benefits of the insurance are fully understood and utilized by the Housing Industry.

**5.1.4. Insurance Products:** In areas where products were not appropriate to cover the needs of the industry, NHB and IRDAI should discuss and notify insurers about the need gaps in the market.

**Recommendation:** Creating insurance products for the specific needs of the PLIs on the lines of the Banker's Indemnity policy is recommended. Such products could act as a basic product for all PLIs with minimum coverages and could be customized as per the PLI's needs. Supervision would be required to ensure that insurers do not avoid issuing policies to these sectors. Mechanisms are required to be put in place to ensure that complaints of non-availability of insurance are addressed in time.

**Recommendation:** Introduction of a seamless policy covering the borrowers' interests from the construction stage itself could be way of addressing the issue. How the claim would be submitted and treated at different stages of the construction would also have to be specified clearly.

Property insurance policies on 'all risk' basis was commonly cited as a requirement. An Expert gave the idea that the Housing and Insurance industry (and their regulators)

could jointly develop a common product for the individual borrowers, like the Prime Minister's Schemes, which could be offered by all insurers (or groups of life + general insurers). This, some experts felt would reduce confusions and bring in a lot of clarity for customers and PLI employees who are the basic contact point for customers. This would require careful examination by insurers. From the distribution perspective also, such products have enormous potential as demonstrated by the Prime Minister's Schemes. However, replicating the same for the Housing Sector needs to be looked into so that all possible challenges are visualized and resolved in advance.

Another view was the IRDAI should come up with a single insurance product to take care of all the interests of individual borrowers including life, personal accident, health, property and catastrophe on a long-term basis. To take care of inflation, such policies would have to be reviewed every 2-3 years to maintain adequacy of sum insured and risk adjusted premiums. Borrowers who are not willing to pay revised rates would have to be clearly informed that underinsurance provisions would apply. However, though some sort of packaging of some of the insurances would be practicable, there would be difficulties in designing comprehensive policies covering all life and non-life insurances and multiple issues in implementing them.

Difficulties regarding payment of claims for losses during construction were cited. Insurers or PLI Sales Personnel may have to educate the insured about submitting claim documents and procedural formalities for securing full and fast assessment and payment.

The employees of PLIs dealing with customers are required to be properly trained in all relevant aspects of insurance so that they can advise customers properly and help them in claims documentation.

**5.1.5. Best Practices in Other Markets:** The Association of British Insurers (ABI) and the British Insurance Brokers' Association (BIBA) created a self-explanatory Code<sup>202</sup> to help consumers get the most competitive deals when they renew their car and home insurances. The five main points of the Code are stated below.

- Making sure staff are adequately trained to recognize vulnerable customers at renewal

- Reviewing legacy policies periodically to identify vulnerable customers.
- Checking whether they are interested in any alternative products which they found more suitable for their needs.
- Asking potentially vulnerable customers at renewal whether the current policy/ renewal terms meet their needs
- Considering whether additional communication by way of a phone call, would be needed to help vulnerable customers through the renewal process.
- Ensuring that the customer's options and the manner in which these can be exercised are clearly set out.

This is a voluntary code created for the insurer and brokers. A weakness of this code is that some of its voluntary stakeholders may not follow the same. Also no penal action is specified for those who do not comply with it. There were differences of opinion about the vulnerability of customers as such customers are prospects for others. Again, the code was limited to renewals only and there was no strategy for fresh customers or for those who wanted to cancel the policy.

**Recommendation:** Indian Regulators may like to design Codes on these lines for the use of customers of the PLIs. This would serve either as Market Guidelines or as mandates as desired.

A website in USA conducted a study in 2017 to identify the best criteria for selecting home insurance partners. The main features found in this research are paraphrased<sup>203</sup> and presented below. These pointers are merely illustrative and not recommendations for the Housing sector in India. Each PLI would have to develop its own parameters for choosing the partner to offer insurance solutions to its customers. For this, the corporate philosophy of both companies may have to be matched as well.

- As one size does not fit all your customers, your insurance company partner must offer various combinations. The insurer must underwrite the specified Comprehensive Home Insurance policy or the Limited policy based on the requirement of the customer.
- The insurer must have strong financial record so that at the time of a claim, lack of funds does not hinder the

<sup>202</sup> <http://www.thisismoney.co.uk/money/comment/article-3395372/New-best-practice-car-home-insurance-rules-won-t-stop-consumers-getting-ripped-insurers-renewal-says-Rebecca-Rutt.html>

<sup>203</sup> <http://www.reviews.com/homeowners-insurance/>

claim settlement. For instance, the Reviews.com study recommends that insurers should have a high rating from A.M. Best, as its focus was solely on insurance in addition to having a high Financial Strength Rating from one of the two largest independent agencies, viz. Standard & Poor's [Very Strong" (AA-)] or Moody's [High Quality" (Aa)].

- As per Lynne Mc Christian<sup>204</sup>, Florida Representative, Insurance Information Institute of the USA, "Large national carriers are likelier to invest in emergency response equipment and technology, which gives them an edge. Self-contained mobile response vehicles allow claims adjusters to process claims right at the scene of the disaster. Having in-person access to your insurance company representatives in a time of need is very important."
- The insurer has to provide some hand-holding. This can be in the form of sharing literature in the online/ offline space or by providing training to employees/executives or customers of the Primary Lending Institutions.
- Various add-on covers are available with insurers. PLIs should check whether the add-on covers required to take care of certain peculiar situations and providing comprehensive solutions are available with the company.
- Check out the insurer's track record of settling claims in a smooth, efficient and hassle-free manner with good customer satisfaction. [The past claims settlement record or details of past grievances registered can be studied from IRDAI Annual Reports, IIB Data and mandatory disclosures by the insurer.]
- The ease with which customers can do business with the insurer is another criterion. Reviews.com says, "We ranked the final five contenders on how happy we'd be if they were our provider of the HFC."
- PLIs should not be guided solely by the lowest premium offered. They should keep in mind that the cost is not everything as the cheapest insurance policy available may not be the best policy for the customer.

The Insurance Information Institute of USA recommends<sup>205</sup>

<sup>204</sup> *ibid*

<sup>205</sup> *Insurance Handbook (A guide to insurance: what it does and how it works) - [http://www.iii.org/sites/default/files/docs/pdf/Insurance\\_Handbook\\_20103.pdf](http://www.iii.org/sites/default/files/docs/pdf/Insurance_Handbook_20103.pdf)*

<sup>206</sup> 'Additional Living Expenses' refer to costs of living away from home if a house is inhabitable due to an insured peril. Rents payable for a new place while the home is being rebuilt, rent lost on the damaged property, hotel bills and other extra living expenses incurred.

that a standard home-owners insurance policy should have four essential types of coverages, viz. (i) Coverage for the Structure of the Home, (ii) Coverage for Personal Belongings, (iii) Liability Protection and (iv) Additional Living Expenses.<sup>206</sup>

**Recommendation:** *The Housing Companies need to evolve common parameters for selecting their insurance partners. Perhaps, a mandate may be helpful in achieving this.*

**Recommendation: Online Access to Insurance:** *Insurers need to integrate their systems with those of the Housing Sector – such as Housing Companies and Housing Finance Companies so that house buyers can have immediate online access to insurance products at the point of availing housing finance. The facility can minimize common errors like inaccurate location, name of insured, property description etc. as well as provide basic guidelines by way of FAQs. Also, it would take care of essential requirements of coverage, adequacy of sum insured and offer a bouquet of add-on covers to choose from based on individual needs. This would provide housing customers with a seamless experience of to offer insurance policies. A discussion between the various industry stakeholders would be helpful in achieving this. (Details of online insurance presently provided by insurers, brokers and web aggregators are presented at **Annexures F & G.**)*

The Insurance Information Bureau (IIB) under the IRDAI is visualized to act as an integrated channel providing centralized intelligence for the industry and accessible to all stakeholders. It is expected to provide key inputs to the Indian insurance industry, the Regulator and the Government to assist them in policymaking. IIB has generated a few insightful reports, for the benefit of the industry and its services have been utilized in a few critical areas by the non-life industry.

## 5.2. Additional Insights/ Suggestions

During the study, some insights and suggestions came in from the Experts interviewed and as responses to open ended questions in the survey questionnaires.

As the views/ insights came from some senior persons who took the opportunity to express their views merely out of their commitment to the industry, it was felt that these should be included in this report. However, as some of these views and observations were not corroborated by other Experts

and it was not clear whether these could be actually put into practice by the Regulators and the two Industries, it was felt that these be presented as a separate section.

- Some of the experts interviewed, recommended mandatory insurance cover for all loanees. Some felt that NHB should formulate some criteria for classifying customers and selecting compulsory insurances applicable for different customers segments, which PLIs could follow.
- Another thought was that like the mandatory 'Pollution under Control' (PUC) checking of motor vehicles, home insurance should be a pre-requirement for municipal tax payment or it can be purchased by respective local authorities such as municipal corporations, *panchayats* and so on and the premium could be collected from the people along with tax. This compulsion would improve the spread and result in better prices down the years.
- Some felt that such compulsion regarding insurance policy would be required only for builders/ contractors by making it as precondition at the time of granting the permissions itself.
- Whilst on this, it was suggested that insurance premium could be collected along with municipal taxes and remitted by the authorities to the insurance companies. However, this would involve many procedural hassles.
- Builders generally behave as if they are not accountable to customers for deficiencies in service. This needs to be addressed by making insurance compulsory and imposing penalties much higher than insurance premiums for non-compliance.
- Some felt that there should be special insurance policies for 'Employment Protection', while others felt that it could be given only an add-on cover as part of other insurance packages.
- Experts felt that though Health Insurance was easily understood in Urban areas it was not so in Rural India and conversely, while Natural Catastrophe was well understood in Rural India, it was not a big concern in Urban India and that policies should be offered accordingly.
- A view was expressed that as health concerns was actually a major factor that pushed a family into the Debt Trap, in the interest of the country, the insurance industry and the HFI should actively engage with medical practitioners and market health insurance using their credibility. The propriety and ethics of doing this and how the medical fraternity would look at this need to be considered.
- A Housing Finance Company official stated that their Sales Persons try to convince their customers to purchase a set of 4 insurances – a Mortgage Redemption Policy, a Health Insurance policy, a Personal Accident policy and either a Standard Fire Policy or an LTH for a term of 25 years (though the average term of a loan was 17 years). This was part of the company's policy (which was embedded into the KPAs/ KRAs of the Sales Persons) to prevent any situation when the property needs to be taken over (which can cost the company's reputation badly, especially in small cities and rural areas). Though this was not a mandatory pre-requisite, their experience was that at least 70% of borrowers of the LMI segment offered no resistance to purchase fire insurance for the house property or life or health insurance. Only 30% needed to be educated and convinced. According to them, the expenses by way of insurance premium could be financed under a non-housing financing head which would be maintained separately. They were sanguine that most of their customers were convinced of the rationale of incurring this extra expenditure and would comply; though there would be a few who walk away to save the costs involved. This experience was not validated by other Experts.
- Some Experts felt that despite all the laudable efforts of the Government in digitizing land records, these would not fully safeguard the housing industry's needs, as automation need not necessarily ensure the legality of the documents, which could be still challenged if the original documents had been compromised/ manipulated in physical form before digitization. They had opined that title searches can be manipulated and Title Insurance products should be introduced at the earliest to protect in such situations. Though 'Title Insurance' was cited as an actual requirement of the industry, many others felt that the product would be of no practical use to India as it would take a lot of effort to make people aware of such products. Some said that the situation would make it too risky for insurers and costs may be unaffordable. Subsequently, in 2018, some Title Insurance products have been introduced. However, the response of the market is not positive and insurers are still evaluating the situation.

- Despite the efforts of RBI, NHB and Bankers to curb such practices, it is gathered that ‘dual-financing’ exists.<sup>207</sup> This is probably because most home loan borrowers are generally unaware about this loophole in the system as also because they are not financially literate enough to understand the legal repercussions that lie hidden in the fine print of the documents they sign. The situation is that unless the builder reveals to the prospective buyers that the project is already mortgaged, they do not have any means to figure out the position on their own. This scenario allows opportunity fraud on the one hand. On the other hand, it significantly diminishes the individual insured’s ability to seek compensation from defaulting builders. From the insurer’s point of view, the situation severely impinges their subrogation rights.
- This concern could possibly be addressed by a three-pronged action plan, i.e. (a) creating public awareness of this situation, (b) ensuring stricter enforcement of RBI/NHB rules in letter and spirit by the financiers and (c) building up an insurance ecosystem which would come to the rescue of the borrower in case the systems fail despite best regulatory efforts.

*[Some additional views that came up from the Tag Study are presented in Tables 8, 9 and 10 under Annexure ‘B’.]*

The above suggestions are not directly emanating from the study and are incidental. Comments are offered on insurance related points only. It may be appreciated that some of these suggestions may be ahead of their time or disruptive while some others may not be practicable. Hence, these have to be evaluated by the Regulators/ other Stakeholders internally from a practical point of view.

### 5.3. Benchmarking the Changes in a Decade

In order to maintain objectivity, the study used a UN-Habitat study of 2008 as a third party touchstone or objective benchmark. Such an approach, of looking at the affairs of the sector against the backdrop of a nearly decade old study, restricts the influence of undue praise and criticism on the present state of affairs and also keeps opinions arising out of personal biases at bay.

The UN-Habitat study of 2008<sup>208</sup> laments the lack of clear land

titles and states that “*establishing homeownership in India is difficult due to a lack of clear land titles. In India, it is not for States to certify housing titles or land property, and ownership is established only by a sequence of earlier transfers (Planning Commission, 2002). Such tenuous titles to land have led to next-to-no transparency in property transactions as well as widespread disputes and litigation. In effect, the very foundations of the real estate market are distorted.*” The candid observations brought to public attention that laws governing the Indian housing and real estate sector the Indian Contracts Act 1872, the Transfer of Property Act 1882 and the Registration Act 1908 were archaic and date back to the 19<sup>th</sup> century. “*Despite the plethora of laws, the legal framework requires a complete overhaul to make it more relevant to today’s requirements*”, said the Study.

Mortgage insurance is mandatory in some countries if the loan-to-value ratio is high, but is completely missing in India, the UN-Habitat study pointed out. Two major advantages accrue if mortgage insurance providers are allowed to operate. First, it would enable the customer to obtain funds on easier terms, without putting high down payments on the mortgage. Mortgage insurance could enable financial firms to tap into other categories, like low-income or self-employed individuals.

It is poignant that the UN-Habitat Study emphasized how the strong synergies between housing and insurance made it possible for both life and home insurance products to be actively promoted to customers on top of home loans. It points out that while some of the larger commercial banks and HDFC have insurance subsidiaries and cross-sell their own brand products, the smaller housing finance companies have also entered into special arrangements<sup>209</sup> with external insurers to sell insurance products to their own customers. Lack of mortgage insurance is also stated as a reason why the private formal sector bypasses the low-income segment.

Though one cannot vouch that the Housing industry is in the most perfect shape, it is heartening that in the eight year period following the study, the Government and the Regulatory authorities have covered significant ground. Despite some bits of sporadic reactionary criticism, none of the recent studies have really painted a bleak picture of

<sup>207</sup> *Your Property Could Have Two Running Loans! Here Is What You Need To Know, Prop Guide, Expert Advice, Vivek Kaul, <https://www.proptiger.com/guide/post/your-property-could-have-two-running-loans-here-is-what-you-need-to-know> and ‘Demonetisation Impact: If Real Estate Prices Fall, Dual Financing Might Be Next Big Headache’, Nov. 16, 2016- <https://teekhapan.wordpress.com/2016/11/16/demonetisation-impact-if-real-estate-prices-fall-dual-financing-might-be-next-big-headache/>*

<sup>208</sup> *‘Housing Finance Mechanisms in India’ 2008 by UN-HABITAT*

<sup>209</sup> *ibid*

the industry. It is highly gratifying that the Government of India/ National Housing Bank can be proud of a more or less comprehensive Action Taken Report on this third party assessment of the sector, on several counts, including its endeavors on the Mortgage Guarantee front and even on commissioning this study.

#### 5.4. Summary of Insights and Recommendations

The major insights and recommendations that emanated from the study are presented variously in different parts of this study. These are compiled in this section with suitable narrations, so that they are readily available at one place for quick reference.

**5.4.1. Insurance Awareness:** As evident from many of the points discussed above, insurance awareness within the Housing Industry and among Primary Lending Institutions is quite low. Insufficient knowledge of insurance leads to buying wrong products or those that offer inadequate protection, either way, wasting precious resources and creating protection gaps.

**Recommendation R.1.:** *PLIs need to build internal capacity to understand their own insurance needs and those of their customers. This would help them in protecting their properties/ other risks adequately based on actual needs; without wasting money on procuring irrelevant or inadequate insurance covers that give only a 'placebo' effect or notional protection.*

**Recommendation R.2.:** *PLIs would do well by increasing insurance awareness for the general public with a long-term view of nation development. The possibility of using CSR funds for creating insurance awareness could be explored.*

**Recommendation R.3.:** *PLIs need to understand to what extent insurable risks cause loan defaults and make them NPAs. They need to work more closely with the Insurance industry to understand the extent to which their customers can transfer their risks to the insurance industry, thereby reducing their NPAs.*

**5.4.2. Concerted Effort for Insurance Awareness:** There is no specific system in India for educating Customers of the HFI industry on insurance. This leaves them in a situation of having to learn the basics of insurance from the insurance agent. As the agent has a personal interest, people may not actually take the knowledge shared by him with due seriousness. In the Massachusetts State of USA (i) the Governor, (ii) the Lieutenant Governor, (iii) the Secretary of Housing and Economic Development, (iv) the Director of the Office of Consumer Affairs and Business Regulation and (v) the Commissioner of

Insurance came together and jointly produced a lucidly worded document in 2007 for the customers of the Housing Finance Industry (and other home owners) titled 'A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums' which advises them unambiguously on what to do as a house owner.

**Recommendations R.4.:** *In the Indian context, it is highly desirable that the Housing and Insurance Regulators (and representatives of PLIs and Insurance Companies) together publish a guide to educate borrowers about their risks and the requirement of insurance protection, in a precise and convincing manner, along with illustrations as required.*

**5.4.3. Insurance of Projects:** A stable Housing Sector requires dependable entrepreneurs - Developers/ Builders/ Constructors to address the country's Housing requirements. They should be capable to construct and deliver Housing projects of the desired quality standards over long periods in a sustainable manner. The sector receives long-term finance in good measure as well. The Country cannot afford to allow them to fail as it can impact the entire housing industry – the developers, the individual owners/ investors and the financiers of both.

**Recommendation R.5.:** *Construction projects need to be properly protected by appropriate insurance policies under the advice of insurance experts. As Builders do not readily appreciate the power of the insurance mechanism and as Insurers are generally cautious when providing long-term policies for contractors/ builders, strict implementation of the RERA mandate under Section 16 - 1 (ii), which requires the promoter to obtain all such insurances notified by the Government in respect of the construction of the real estate project would be required.*

**5.4.4. Insuring Employee Fidelity:** The Housing Industry deals with large quantities of public money by way of financial instruments, bank transactions and liquid cash. Chances of employees in certain key functions defrauding the contractors/ builders/ buyers are significant.

**Recommendation R.6.:** *Contractors/ Builders may be mandated to insure all employees holding positions of trust and dealing with money to have Fidelity Guarantee and/or Crime Insurances.*

**5.4.5. Mandatory Liability Insurances:** Contractors/ Builders are exposed to multiple types of liabilities. Though the liabilities fall on the Contractors/ Builders; and the Government/ Regulatory Policies mandate certain insurance

solutions like Public Liability Insurance and Employee's Compensation Insurance, such compliances are often not to the desired levels.

- a. Contractors/ Builders are liable to compensate their employees in case of death/ disease/ accidental injury. In many cases, workmen (especially migrant laborers) are engaged in high risk activities without adequate precautions and in cases of mishap, they (and their families) have to suffer financial hardship, misery and apathy of their ex-employers.

**Recommendation R.7.:** *Systems need to be created to ensure that all Contractors/ Builders protect themselves and all their employees (including contractual/ migrant laborers) using statutory Employees' Compensation Insurances.*

- b. Persons who store or use hazardous substances defined under the Environment (Protection) Act 1986 are mandated under the Public Liability Insurance Act 1991 need to have insurance policies to cover their liability to members of the public affected by accidental death, injury or other conditions. Contractors/ Builders may have to take such protection for their various hazardous operations, which could expose them to various kinds of liabilities. (E.g. Construction in densely populated areas resulting in accidental liability to third parties, third party properties etc.)

**Recommendation R.8.:** *Regulatory compulsions may be required to make Project Financiers, Contractors and Builders more responsible to their customers and to the general public. It would be in the interest of the Housing industry if entities exposed to any type of liability are mandated to comply with all Liability insurances and other insurances in addition to protecting themselves with appropriate insurances based on prudential norms.*

#### **5.4.6. Insurance of Public Offerings of Securities (POSI):**

Entities in the Housing Industry which raise money through Public Offerings of Securities face certain specific challenges leading to liabilities and legal costs against which they would need insurance protection.

**Recommendation R.9.:** *The Housing industry needs to be made aware of insurance products like POSI so that they can cover their exposures, as required.*

**5.4.7. Insurance for Terrorism:** The threat of terrorism looms large over practically everyone across the globe. The impact of terrorism can be catastrophic and devastating for builders, house owners and housing societies. Large construction

projects like skyscrapers and townships having big-time security challenges can be easy targets of terrorists.

**Recommendation R.10:** *Terrorism protection insurance may be considered as a compulsory cover for all construction projects as well as for individual customers of the Housing industry.*

**5.4.8. Title Insurance:** Retail customers and Builders are exposed to disputes regarding the Title of the Property. Though Title searches are being done by way of prudence, instances of Title searches being manipulated cannot be ruled out despite the efforts of the Government in digitizing land/ property records. This exposes the housing industry to compromised/ manipulated documents.

'Title Insurance' policies protect the owners / loanees as also cover the lender's interests on the mortgage. These policies have been introduced in the Indian insurance market only recently as bespoke products for select customers. Standardized wordings are yet to come into public domain. PLIs and others in the Housing Industry may not be aware of such insurances and how to benefit from them. RERA [Section 16, (1) (ii)] has specified that the promoter shall obtain insurance in respect of the title of the land and building as a part of the real estate project.

**Recommendation R.11:** *The Housing industry need to be educated about the newly introduced Title Insurance and Inherent Defects Insurance products and how these protect the owner of the property on the one hand and the lenders' interest on the mortgage on the other, especially in defending their rights in title related legal disputes. Though the insurance regulator, insurers and brokers have been trying to make the industry aware of such products as also about the importance of complying with the RERA mandate since January 2018 when the first Title Insurance policy was introduced in India, the low uptake so far indicate that more efforts from multiple quarters would be needed for popularizing these products.*

**5.4.9. Life Insurance:** PLIs are generally aware of risks like death, disability, diseases, loss of employment etc. of the borrower and consequent payment defaults that can turn a house building loan into a non-performing asset (NPA). Some PLI's do convince customers that some sort of life insurance protection is absolutely essential for them in their own interest when availing the loan. However, PLI employees are not always competent to give the right advice and their customers end up paying for wrong policies/ inadequate coverages.

**Recommendation R.12:** *Though IRDAI and RBI provisions allow banks and financial institutions to be Corporate Agents of the insurance industry so as to provide seamless service to their customers on the one hand and earn handsome rewards by way of agency commissions on the other hand, many of the PLIs are not actually utilizing this facility.*

#### **5.4.10. Insurance Protection in cases of Loans / Mortgages:**

When there is a mortgage, the general tendency is to buy insurance to the extent of the loan amount. This can be quite pronounced when the loan is granted for extending an existing house. In such cases, when a loss occurs, there would be underinsurance and the insurer would not be able to settle the claim in full leaving the insured and the PLI without insurance protection.

**Recommendation R.13.:** *Strict compliance of Section 16 of RERA would ensure that borrowers are well protected through adequate and appropriate insurance solutions.*

**5.4.11. Insurance of Residential Property:** Earthquakes, floods or fires can affect the construction of a building and lead to its total loss or damage it partially. Such perils can destroy the entire contents of the house leaving the borrower with no money to repay his loan. Property Insurance (also known as Fire Insurance) covers losses due to fire, lightning, explosion/ implosion, aircraft damage, riot, strike and malicious damage, impact damage, landslide/rockslide, bursting and overflowing of water tanks, missile testing operation, leakage from automatic sprinklers and bush fire. Protection from earthquake, storm, typhoon, cyclone, flood etc. is also offered. Some additional coverages relevant to the housing industry/ buyers of residential property and others in the housing industry (like construction companies and corporates) are architects, surveyors and consulting engineers fees, debris removal expenses, impact damage due to Insured's own vehicles, loss of rent, expense on rent for alternative accommodation and terrorism. However, though these policies are available in the market and practically all general insurers are selling them, the following ground level realities were observed:

- a. Mid-term policies of 3 to 5 year periods and long-term policies of 10-15 years as well as policies that can be issued co-terminus with the loan period are also made available with some insurers. However, most Property Insurances are usually available as annual policies.
- b. Buyers are usually not aware that fire/ property policies are location specific and that details like address must be

clearly and correctly mentioned. Even small mistakes in this respect can result in disputes when claims arise.

- c. For these insurances to be fully effective, the property has to be insured at the proper value (on reconstruction value basis) and renewed on time without break with updated sum insured. Add-on covers also should be selected diligently based on actual requirement.
- d. Most house owners do not easily understand that Fire policies are 'named perils' or 'limited cover' policies where the insured has to select the covers required and pay for them.
- e. Customers should buy policies that cover the house at the kind of protection they need. Many people make the mistake of assuming that when they buy a policy for their house, all their belongings, permanent fixtures and contents of the house also get automatically covered; or when they buy insurance for the contents of the house, the building would also get covered. Such underlying assumptions may not always be correct. There is a case for the two industries coming together to consider common standard coverage and incentives.
- f. If the house has any non-standard features, like a thatched roof or glass walls, or is under renovation or is special in terms of its location - like being near a river, forest or an explosive factory, a discussion with an insurance specialist would be needed. Instances where the actual location/ address of the insured house are not stated on the proposal/ policy documents have been reported.
- g. It was observed that property insurances taken by the owner are based on the actual market value of the property, based on which the premium is paid. However, a substantial portion of the property value comprises the cost of land. When the building is damaged or destroyed, the claim for land value is not admitted by the insurance companies as the land does not get destroyed. Consequently, despite being fully insured *de jure*, only the building reconstruction value is *de facto* insured and qualifies for claim settlement. The mortgage lender is left exposed to default risk. In this situation, both the policy holder as well as the mortgage lender are inadequately protected.

**Recommendation R.14:** *PLI employees need to be given insurance knowledge to build internal capacity. This would help them to understand the insurance needs of their customers and advise them to buy the proper insurance*

policies and covers that address their real needs. They need to educate their customers to purchase insurances only after assessing the individual need, understanding the coverage offered and not in a mechanical manner.

**Recommendation R.15:** Insurers need to design simpler policies on all-risks basis with abundant clarity on what is covered and what is not. Long-term protection for the retail customers of the housing and housing finance industry also needs to be offered likewise. The Insurance Regulator would have to mandate every Life and Non-Life insurance company to have standardized insurance solutions giving common minimum protection at a more or less comparable price. The recommendations (once finalized) of the Working Group formed by the Regulator in 2017 to examine the standardisation and simplification of policy wordings, add-on covers, clauses and endorsements of long-term property insurance products for dwellings, offices, hotels, shops etc. is expected to help in this process. The merits of fixing subsidized prices on a promotional basis for a few years could also be considered. Additional covers could be optional at risk commensurate prices.

**Recommendation R.16:** Though all Property insurance policies sold to the housing sector have provisions to show separate sum insured for all components involved (such as the value of building/ construction, compound wall, installations, furniture & fixtures etc.) indicating the details of insurance protection offered for each component, these are seldom followed. Insurers should insist that such details need to be collected compulsorily. In other words, the sum insured of the building should compulsorily represent the break-up values of the building and compound wall, excluding the land value, which would qualify for claim settlement.

**Recommendation R.17:** Taking a cue from the Motor Vehicles Act, 1988 (which makes Liability insurance compulsory for driving vehicles in public places), the Government may consider making property insurance compulsory for taxation, water and electricity connections etc. To start with, they could consider properties in high hazard zones like earthquake prone areas, the coastal belt, cyclone affected areas etc.

**5.4.12. Access to Insurance:** Currently, policies are available in India to cover various indemnities and liabilities concerning the customers as well as those covering multiple risks during the construction stage and on completion of construction. However, such policies have only very few takers, even among

the targeted beneficiaries. This situation where the existing products are not being utilized by the intended market segment, especially the poor and vulnerable due to a host of reasons including awareness, affordability and accessibility is referred to as 'Access to Insurance' and recognized worldwide as a common and widespread concern, especially in developing economies. This includes designing insurance products suitable for those beyond the main stream, making such products available to them through effective distribution systems, making them understand the products and helping them access the benefits easily.

A study conducted by the Association of British Insurers in 2013-2014 reveals that out of every five home insurance claims made in the UK, one was rejected. "Not having the right level of cover<sup>210</sup>, making claims for something not covered by the policy and trying to claim for something worth less than the excess were some of the most common reasons given for insurers rejecting these claims." This is despite the high levels of insurance literacy in that country. Given the low insurance awareness levels in India, there could be many who are not able to benefit from insurance protection despite having bought a policy.

**Recommendation R.18:** The customer contact persons of PLIs need to help in estimating the value of the property and/ or contents at risk and arrive at the sum insured correctly.

**Recommendation R.19:** Insurance companies should constantly do their research on the changing needs of the customers of the HFI industry and design appropriate insurance products accordingly. (The study acknowledges that some insurers have attempted to introduce new products/ covers in the Indian market, with mixed results.) The products should be affordable, interesting and provide value-for-money. Further, as policy wordings are usually difficult for laymen to understand, insurance companies need to provide FAQs in simple words along with other policy documents.

**Recommendation R.20:** The Housing Industry and the Insurance industry should evolve systems to help needy customers in making insurance claims with proper documentation. This has to be done through designated persons of PLIs and insurance companies.

**Recommendation R.21:** Insurers should create insurance products for the specific needs of the PLIs on the lines of the Bankers Indemnity insurance policy. Such products could act as a basic product for all PLIs with minimum coverages and could

<sup>210</sup> 'Poor Protection - One in five Home Insurance Claims Rejected', Dan Griffiths (June 2016), Ocean Finance, UK. <https://www.oceanfinance.co.uk/blog/poor-protection-one-in-five-home-insurance-claims-rejected-0-5013-0.htm>

be customized as per the PLI's needs. Another suggestion that came up during the study was the need of seamless policies covering the interests of retail borrowers from the construction stage itself spelling out how claims would be treated at different stages. Insurers can think of package products like 'Housing Finance Company Package' and 'Housing Loan Borrowers Package', possibly on an 'all risk' basis.

**Recommendation R.22:** PLIs and Insurers may need to come together to develop a common product for the individual borrowers which could be offered by all insurers (or groups of life + general insurers). Life and General insurances should be designed to take care of all the interests of individual borrowers like life, personal accident, health, property and catastrophe on a long-term basis. Such policies would have to be reviewed every 2-3 years to maintain adequacy of sum insured and risk adjusted premiums. Underinsurance provisions would apply for borrowers who do not revise their sum insured or pay the revised levels of premiums.

**5.4.13. Grievance Redress Mechanisms:** The inclusion of "housing and real estate services" under the definition of public utility services covered by Lok Adalats under the Legal Services Authorities Act, 1987 is regarded as a positive sign. However, if both the parties fail to agree to get the dispute resolved through *Lok Adalat*, the award is not executable and the regular litigation process remains open. In borrower vs. builder scenarios, getting the consent of the builder for solving such disputes may not be always practicable.

Individual borrowers are usually in no position to fight legal battles against the strong institutions like contactors/builders or even insurers. Citizens who are uneducated, underprivileged or economically weak would need support to represent their cause with the authorities. NHB is having a well-designed Grievance Registration & Information Database System (GRIDS) at its website, with escalation protocols.

**Recommendation R.23:** Authorities may consider the merits of supplementing the existing grievance redressal systems with a Housing Ombudsman. Creating legal aid cells to examine grievances and support customers in their unequal fights for justice could also be thought of.

**5.4.14. Support by way of Income Tax Benefit, Reduction in Rate of Interest and Relaxation in Regulatory Provisions:** The Government needs to be convinced of the need to extend Income Tax concessions on the premiums paid for home insurance on the same lines as offered to life and health insurance policies. Income tax benefits are recommended on premium paid for insurance of residential property [for

Indicative costs for purchasing a Standard Fire Insurance Policy (In India)		
Sum Insured in INR (Reconstruction cost of the residential property)	Approximate rate of a Standard Fire Insurance Policy on Annual basis. (Rates are on a per mille basis, i.e. on INR 1000)	Premium of a Standard Fire Insurance Policy for a year (Rates and premiums are indicative as Insurers are allowed to charge different rates)
500,000	0.5	250
1,000,000	0.5	500
1,500,000	0.5	750
2,000,000	0.5	1000
2,500,000	0.5	1250
3,000,000	0.5	1500
3,500,000	0.5	1750
4,000,000	0.5	2000
4,500,000	0.5	2250
5,000,000	0.5	2500

operation clarity, benefits are recommended only for the Standard Fire and Special Perils (fire, lightning, explosion/implosion, aircraft damage, riot, strike and malicious damage, impact damage, landslide/rockslide, bursting and overflowing of water tanks, missile testing operation, leakage from automatic sprinklers and bush fire, natural catastrophe including protection from earthquake, storm, typhoon, cyclone, flood etc.) of Annual Policies as well as the Long-Term Housing Policy, on the structure and contents of the building (excluding precious metals - ornaments and currency)].

The study envisages tax benefits only on the core components of insurance protection listed above so that only the areas of National priority get the benefit. For example, insurance coverage of costly works of art, jewelry, precious stones or costly electronic equipment are not recommended for tax benefits as these are not the priorities of the common man, who needs the protection most. For the purpose of appreciating the impact of extending such benefits on the Country's exchequer, indicative costs for purchasing a Standard Fire Policy are presented in the table below. It may be noted that the premium payable on a residential property worth INR 50,00,000 is as low as INR 2500. (As premiums are market driven, the prices can be expected to come down as the spread of insurance increases.)

**Making affordable housing sustainable and continual:** In the context of the current initiatives like the Credit Linked Subsidy Scheme (CLSS) of the Pradhan Mantri Awas Yojana (PMAY), insurance has to be seen as an enabling mechanism. One should be cognizant that various Government initiatives like the post-Bhuj insurance in Gujarat and post-Tsunami insurance in Tamil Nadu have not become continual and accepted by the society. Extending Income Tax benefits at least for the lower and middle income groups would make affordable housing sustainable and continual. This could be possibly implemented by making relevant changes under Section 24 relating to deductions from Income from House Property and deductions under Section 80C.

A view also came up that the Housing Finance Industry may consider a token reduction of rate of interest in respect of insured residential property. This could create a culture of better risk management in the country over a period of time.

**Recommendation R.24:**

- (i) *There are various suggestions relating to taxation that came up in the study and examples from other markets in earlier chapters. These essentially say that the Government should extend tax benefits on insurance premiums. It is recommended that the NHB, IRDAI and the Tax Authorities may have to discuss these recommendations, the economic implications thereof and bring about requisite changes in the tax laws. Granting specific Tax benefits (e.g. Income Tax, GST etc.) on insurance premiums paid for covering residential property, house contents as also for life insurances designed for the purpose of protecting home loanees would act as a great incentive for promoting the housing industry.*
- (ii) *In view of the better risk management that comes in with insurance, the Housing Finance Industry may consider a token reduction of rate of interest in respect of insured residential property.*
- (iii) *For the same reasons, regulatory provisions for financing residential property could also be relaxed in cases where the property of the loanee is insured.*

**5.4.15. Difficulties in Securing Rights to Claims:** Insurance policies are typically issued in favor of the owner of the property and the claim settlement would proceed to his/her favor in the event of a loss/ damage. The practice of making the owner and financier joint insured also does exist,

though the financier's insurable interest is limited to the unpaid part of the loan, thus making his/ her legal position debatable in the event of a claim. Such insurance policies are usually co-terminus with the loan term. The policy needs to be hypothecated in favor of the financier with first charge to the extent of the loan amount. Once the loan is repaid, the hypothecation needs to be revoked. Financiers usually have the practice of directly debiting the premiums from the insured's account along with the EMIs (or billing it to them) till the loan term or pre-closure. In the case of Long-Term policies, insured often forget to revoke the hypothecation and continue to enjoy the insurance protection that they have already paid for, once they pre-close the loan. In case of annual policies, they do not renewing their insurances after the loans get closed. All these result in weakening the protection offered by insurance.

**Recommendation R.25:** *The Insurance Regulator and the Housing Regulator could jointly look into the concerns of the sector and discuss standard practices to be followed in respect of house property insurances. This would include the eligibility to insure, the mechanism of hypothecation and the modus operandi of claims settlement. The need to sensitize the housing industry is paramount.*

**5.5. Additional Observations**

During the interview, a few insights and suggestions came up from some senior persons who took the opportunity to express their views, merely out of their commitment to the industry. Some interesting views came up from the survey questionnaires as well. It may be appreciated that some of these suggestions may be ahead of their time or disruptive while some others may not be readily practicable. As these are mostly personal views, which could not be validated or corroborated as part of the study, these are presented below as additional observations. The observations are only on insurance related points only. These merit to be evaluated by internal stakeholders from a practical point of view.

**Suggestion S.1.:** Borrowers may be assessed and classified based on their risk exposure to create risk profiles. Insurance covers have to be prescribed for them based on these classifications, making it compulsory for certain risk profiles. (*Observation: This needs examination by appropriate authorities.*)

**Suggestion S.2.:** Home insurance should be made a pre-requirement for all borrowers for payment of municipal taxes, like the mandatory 'Pollution under Control' (PUC) checks for

motor vehicles. It can also be purchased by the respective local authorities such as Municipal Corporation and *panchayat* for all the tax payers and the premium can be collected from the people along with tax. Some felt that such compulsion was required only for builders/ contractors by making it a precondition at the time of granting the permissions itself. (*Observation: Mandatory insurances are considered most relevant for covering catastrophic events such as flood, cyclone, earthquakes etc., which can be devastating. This needs examination by appropriate authorities.*)

**Suggestion S.3.:** Builders generally behave as if they are not accountable to customers for deficiencies in service. This needs to be addressed by regulations that make insurance compulsory for builders/ contractors and impose penalties for non-compliance. Needless to say, penalties should be heavy at much higher rates than insurance premiums. (*Observation: This needs examination by appropriate authorities.*)

**Suggestion S.4.:** The high cost of specialized treatment in private hospitals is a major factor that pushes families into the debt trap. The HFI and the Insurance Industry should actively engage with medical practitioners and use their credibility to market health insurance in the interest of the country. (*Observation: This is a policy decision which the two industries have to take. Though the suggestion is rational, it needs to be taken up with the medical fraternity. Their willingness to consider such suggestions is another matter.*)

**Suggestion S.5.:** The large number of houses given on rent should not be lost sight of. The Government may consider making property insurance compulsory for premises given on rent, with the onus resting on the property owners. (*Observation: This may be a precondition for registration of rental agreement. This can also be incentivized by granting tax benefits.*)

**Suggestion S.6.:** Tenants need to protect their assets as well as their liabilities to the landlords and other third parties. (*Observation: This may be incentivized by granting tax incentives to them.*)

**Suggestion S.7.:** During the study, it was pointed out that difficulties exist in implementing SARFAESI Provisions: In situations of death, permanent disability, loss of employment due to partial disability, natural catastrophe affecting the building etc., many PLIs do not find it prudent to invoke provisions of the SARFAESI Act to take over the property, as it may cost the company's reputation badly, especially in small towns and rural areas. Also, one has to follow the legal process of the Act. From a different angle, in some cases, NPAs have a bearing on the individual Key Performance Indicators of many PLI employees. In this context, it was observed that PLI employees try to avoid NPA situations by convincing borrowers to buy insurance policies as an easier solution. (*Observation: The situations when invoking SARFAESI provisions are practically sub-optimal vis-à-vis alternate solutions need to be carefully examined by appropriate authorities and alternative solutions evolved.*)

## 5.6. End Notes and Limitations

Users of this study have to note that the size of the random sample of home owners is not large enough to draw conclusive pictures on the market.

However, given that the primary data was collected from 38 towns covering different parts of the country (albeit in small packet sizes) from customers of PLIs and from a few others who availed of finance from their employers or other sources, gives the findings a rare mix of unbiased views, which could be indicative of market sentiments in opinions and perspectives.

Matters of industry experience and customer feedback which could generate inaccurate pictures or erroneous impressions on the industry have not been included in the report.

It may be observed that the major strength of the study emanates from the elaborate literature survey carried out and focused interviews of domain experts from of both Housing and Insurance industry conducted as part of this research study.

## ANNEXURES

The following Annexures to the study present the background information and context of the study and ancillary details like (i) the findings of a dipstick survey of the housing industry gathered from a few micro-samples, (ii) data relating to Insurance Penetration and Density and (iii) data of major disasters in India. An initiative (iii) by multiple regulators of Massachusetts for creating customer awareness and building trust, (iv) a checklist for retail customers of the Insurance industry specifying mandatory disclosures, (v) sample policies providing home protection and the coverage, (vi) providing credit protection for groups were also discussed. Snapshots of the Research Methodology, Questionnaires used and experts interviewed for this Research Study are also annexed along with the background of the Research Team.

## ANNEXURE

# A

### Background Information and Context of the Study

The National Housing Bank<sup>211</sup> (NHB) commissioned the services of Insurance Institute of India (III) to undertake a research study to evaluate the role and potential of the insurance mechanism in promoting the Indian housing industry and to get insights that would help the industry and the regulator in policy framing, regulation and supervision.

The scope of the study included evaluating the insurance requirements of the Indian housing sector and the design and utility value of the insurance policies available in India to meet the specific needs of the housing sector. It was also desired to examine the interests of consumers, lending institutions and insurers and give special attention on the property insurance aspects.

Against this background, the study strives to provide insights into the Housing industry, its customers and the Insurance industry on various matters. The study documents the market position in India relating to housing finance and the extent to which insurance acts as an enabler for this segment. It examines the market completeness or the appropriateness and adequacy of the available insurance solutions for addressing the specific risks that the Housing industry and its customers face as well as the availability of and access to insurance products. The efficiency of the pricing process of the insurance industry, which in turn is related to assessment of the risk, appropriateness of classification, impact of adverse selection and moral hazard, transaction costs, market forces and the intrinsic worth of the products was examined. The service/ relationships experience of the Housing industry, their customers and insurers, which involves flexibility and customization of products and services, administrative ease and smooth claims servicing systems to meet the expectations of the buyers of insurance over a period of time were also studied.

<sup>211</sup> The National Housing Bank (NHB): NHB was formed by an Act of Parliament on 23<sup>rd</sup> December 1987, in pursuance of the National Housing Policy that envisaged the setting up of the Bank as the apex institution for housing. NHB was formed on 9<sup>th</sup> July 1988 by the Reserve Bank of India as a wholly owned body and contributed the entire paid-up capital. The NHB is headquartered in New Delhi and its management vests in a Board of Directors under the Act.

As per the Preamble of the National Housing Bank Act, 1987 the basic functions of the NHB are “to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto.” This would involve promoting “inclusive expansion with stability in housing finance market” and harnessing and promoting the market’s potential “to serve the housing needs of all segments of the population with the focus on low and moderate income housing.” Some of the major objectives for which the NHB was established were:

- To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelize them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

In the context of the Indian housing industry, the broad objectives of the study included:

- (i) Tracing the evolution of property insurance in India to meet the needs of the Indian housing industry, identifying the positives and negatives of the system and reasoning the causes for low penetration.
- (ii) Examining the insurance market structure, multiple property insurance products, the coverage that they offered and their adequacy in meeting customer requirements. Suggesting improvements/ alternatives for developing consistent, risk neutral<sup>212</sup> and sustainable short-term/ long-term property insurances, to garner better customer acceptance and increase the penetration of the Indian housing market.
- (iii) Analyzing the differences in underwriting approaches for risk pricing in property insurance and suggesting standardized/ sophisticated risk pricing, which can help speedier settlement of claims with reduced litigation based on Indian market experiences and international best practices.
- (iv) Suggesting strategies for insurers (a) to understand consumer attitudes towards insurance, underinsurance and non-insurance of properties; (b) to persuade consumers through active engagement of various stakeholders like government, regulator, industry, interest groups, academics to benefit from insurance; and (c) to help consumers take more informed decisions by simplifying property insurances.
- (v) Proposing transparent and seamless transaction systems required for property insurance for safeguarding the interests of consumers, lending institutions like banks, housing finance companies and insurers.
- (vi) Examining international best practice initiatives with suitable modifications for expanding the property insurance market in India based on general economic conditions, government regulations, business types, consumer preferences, etc.
- (vii) Suggesting uniform underwriting practices, creating long-term markets, developing distribution strategies through integration of channels, evolving centralized information systems to create market intelligence.

The insights gathered by the study would help the housing industry, the insurance industry and the regulators in policy framing, regulation and supervision. By way of detail, the study would attempt the following:

- Establishing a conceptual framework for understanding the intended role and functions of the insurance mechanism in supporting the housing sector in India.
- Finding out the insurance needs specific to the housing sector and analyzing the adequacy of the insurance mechanism in providing adequate insurance protection. This would include:
  - ❖ Availability of appropriate insurance products - providing customer value
  - ❖ Access to insurance - efficacy of the insurance distribution systems in making insurance available
  - ❖ Claims and customer service - delivering customer delight at operational and claim servicing levels
- Finding scope for innovation at the product/ distribution/ operational/ claims levels. (We hope that the study would reveal critical ideas which can indicate new ways of dealing with the subject.)
- Making an objective assessment of the situation with suggestions on course correction, if required.

Accordingly, the Research Department of the Insurance Institute of India<sup>213</sup> conducted the research study using the Estimate-Talk-Estimate (ETE) methodology, popularly known as 'Mini-Delphi'. This involved surveys and explorative discussions by the researchers

<sup>212</sup> Risk Neutral refers to preferences which are neither risk averse nor risk seeking. The decisions of a risk neutral person are not affected by the degree of uncertainty in a set of outcomes, so a risk neutral party is indifferent between choices with equal expected payoffs even if one choice is riskier. It reflects a mindset where an investor is indifferent to risk when making a decision. The risk-neutral investor is in the middle of the risk spectrum, where risk-seekers are at one end and the risk-averse are at the other.

<sup>213</sup> The Insurance Institute of India (III): III was established in 1955 under the Societies Registration Act, 1860 for imparting insurance education. It conducts examinations leading to certification as Associate Members and Fellow Members of III. It has 91 insurance institutes across the country. III is today an academic body of global repute committed to build professionalism in the industry.

from knowledgeable people in the focus areas, mentioned as 'Experts' in this report. Combined with secondary research, the ETE methodology<sup>214</sup> lent the power of critical thinking to the learning available from literature and data and synchronized the study with the realities of the market. 'Experts' in housing finance, insurance, stakeholder organizations and customers of the housing industry were contacted and views gathered through structured questionnaires and/ or personal interviews. This approach helped in identifying various insurance related aspects of the housing industry and gathering deeper insights into regulatory interventions, industry practices and market sentiments. By way of finer detail, the study could attempt the following aspects also. The background of the research study including the context, methodology, questionnaire, experts and researchers are presented in Annexure A, J, K, L & M.

- Construct a conceptual framework of the difficulties faced by the Indian housing finance industry and their customers, and the different types of insurance policies by which such difficulties could be ameliorated.
- Figure out a few mechanisms by which different stakeholders of the housing industry and their customers can be made aware of the benefits of the insurance mechanism.
- Identify a few mechanisms whereby the target segments can access the insurance policies and how insurers can improve their distribution mechanisms to them.
- Identify the need for innovation at the product/ distribution/ operational/ claims levels.
- Give pointers towards future policy, through an objective assessment of the situation.

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III is formally aligned with International Associations/ Organizations like International Association of Insurance Supervisors (IAIS), United Nations Environment Program-Finance Initiative (UNEP-FI), Institute of Global Insurance Education (IGIE), International Insurance Society (IIS). III is represented on the GOI - Finance Ministry's Advisory Committee/ Advisory Groups on Life Insurance and General Insurance. The Secretary General of III acts as Secretary General of the "Federation of State Insurance Organizations of SAARC Countries" (under SAARC Standing Committee/ SAARC Council of Ministers) as also Member of the Advisory Committee of the Insurance Regulatory and Development Authority of India (IRDAI). III works with IRDAI as examining body for pre-licensing/ testing of Insurance Agents, examining body for pre-licensing testing of Insurance Surveyors, training body for pre-licensing of Insurance Brokers, training body for Chief Insurance Executives for pre-licensing of Corporate Agents.

III's certifications -Licentiate, Associate, Fellowship are widely recognized by the IRDA for various purposes, by the Indian insurance industry and by a good number of overseas insurers as well. III Certifications are recognized by International bodies like Chartered Insurance Institute of U.K. (CII), American Institute for Chartered Property Casualty Underwriters (AICPCU), Life Office Management Association of U.S.A. (LOMA) & Life Insurance Marketing and Research Association (LIMRA) and the Insurance Institute of Canada.

College of Insurance (COI), the knowledge arm of III, established in 1966 is recognized for insurance training in India and under the Colombo Plan for SAARC countries. Col has been training insurance professionals from India, the SAARC Region, Middle East, Africa and beyond, and is regarded as their alma mater by most of the industry's senior executives. Its training calendar includes programs in various verticals like fire, marine, motor, health, micro insurance etc. as well as functional lines like underwriting, claims, marketing, prevention of fraud etc. While most training programs are open to all in the industry, some are customized for individual insurers, insurance regulators, brokers, health Third Party Administrators etc. COI/III conducts a Post Graduate Diploma in Health Insurance (PGDHI) in collaboration with the Economics Department of Mumbai University.

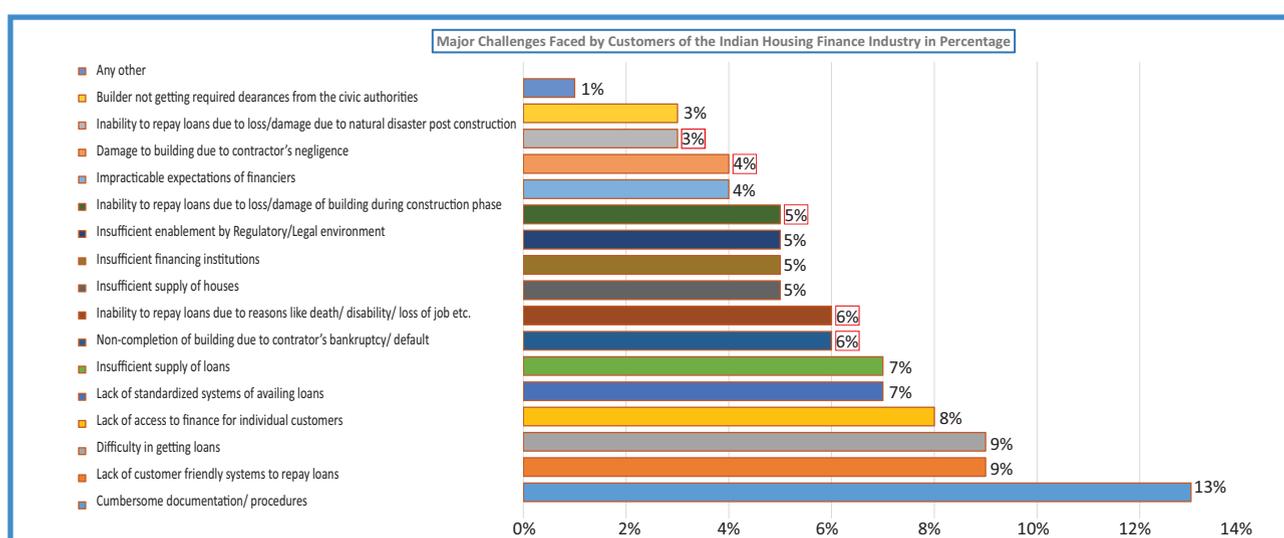
<sup>214</sup> The Research Methodology is presented at Annexure 'J' and the Questionnaires used are appended at Annexure 'K'.

## Insights from Customers of the Housing Industry

(Based on a tag study of random micro-samples from different parts of India)

As part of the research study, a few Customers of the Housing Industry were picked up as random samples and a tag study was conducted through mailers. The study, being on a small number, may not be sufficient to validate the findings. The information gathered through the survey could at best corroborate certain opinions given by the experts and give may give some insights from the field.

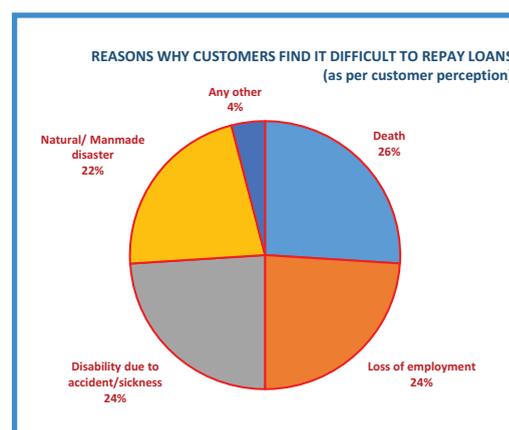
**Table 1:** The ranking of 17 different challenges faced by a random set of customers of the housing industry across India is presented below.



It may be observed that the six biggest challenges as per the perceptions of 40% of the participants were directly related to the Housing Industry, starting with 'cumbersome documentation' are beyond the scope of this study. However, it was observed that 5 different challenges faced by customers of the Indian Housing industry, viz. (i) Non-completion of building due to contractor's bankruptcy/ default [6%], (ii) Inability to repay loans due to personal reasons like death/ disability/ loss of employment etc. [6%], (iii) Inability to repay loans due to loss/ damage of building during construction phase [5%], (iv) Damage to building due to contractor's negligence [4%] and (v) Inability to repay loans due to loss/ damage of building due to natural calamities after construction [3%]; overall totaling to 24% of the challenges reported have more or less ready to use solutions in the insurance mechanism.

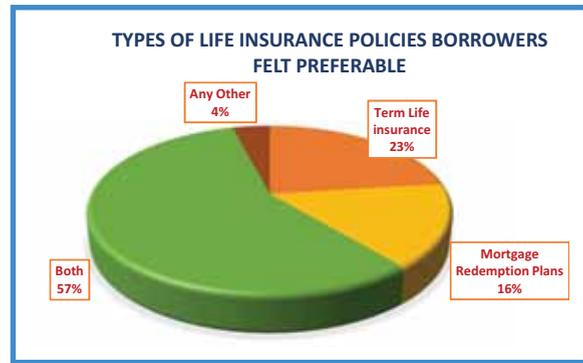
**Table 2:** From the primary data collected as part of the study, it was observed that most of the customers found the four classic fears of death (26%), accident/ sickness (24%) loss of employment (24%) and disaster (22%) the major reasons that could cause a loan default.

Against this perception, 88% of borrowers considered it necessary to buy insurance while 12% did not. Again 64% felt that both life and property insurances were required for protection, 14% felt that only life insurance was needed and 11% felt that only property insurance was needed, while another 11% were not having any opinion. On a different note, 61% of borrowers who had insurance protection stated that they bought insurance protection only because it was compulsory while only 39% felt that they would have bought it voluntarily. Among those who had purchased property insurances also, 58% did so out of compulsion, while 42% had bought it voluntarily.



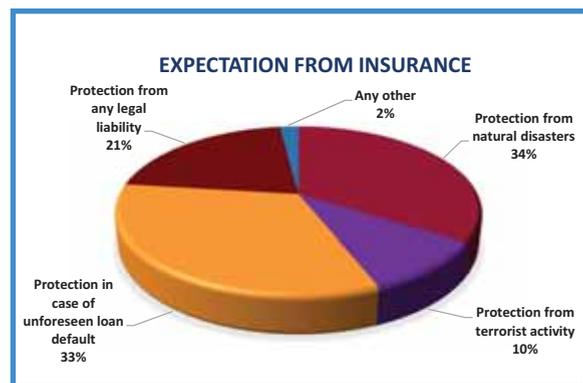
**Table 3:** As per the tag study findings, it was observed that among those who recommended Life Insurance policies along their loans, 23% felt Term Life as the best option while 16% voted for Mortgage Redemption Plans.

57% felt that both were necessary (4% of the respondents preferred other life insurance plans).



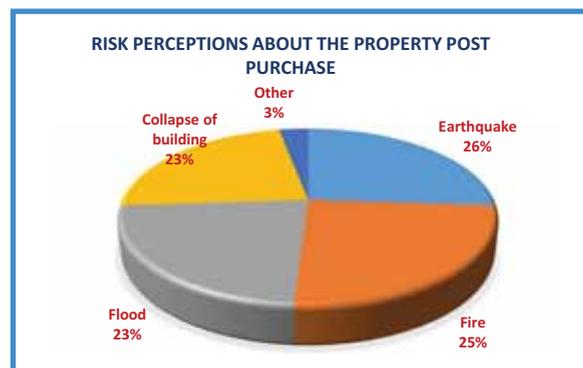
**Table 4:** The customer expectations of Customers of the HFI industry from the insurance mechanism are tabulated below.

It is interesting that the expectations indicated that 34% desired protection from natural calamities, while 33% expected protection from unexpected situations of loan default. Another 21% wanted protection from legal liabilities and 10% from terrorist activity.

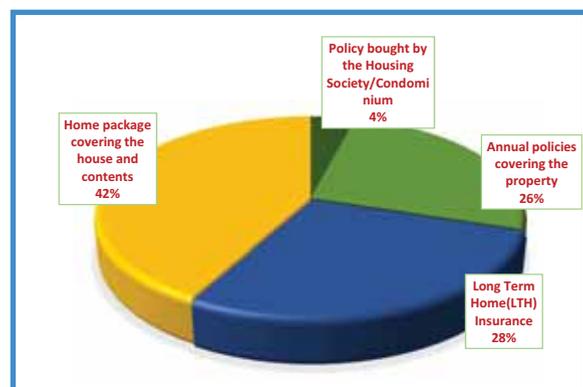


**Table 5:** The customers risk perceptions about the property after purchasing the house are also interesting.

It would be significant to observe that post purchase, the risk perceptions of home owners were in the sequence of Earthquake (26%), Fire (25%), Flood (23%), and Collapse of Building (23%).

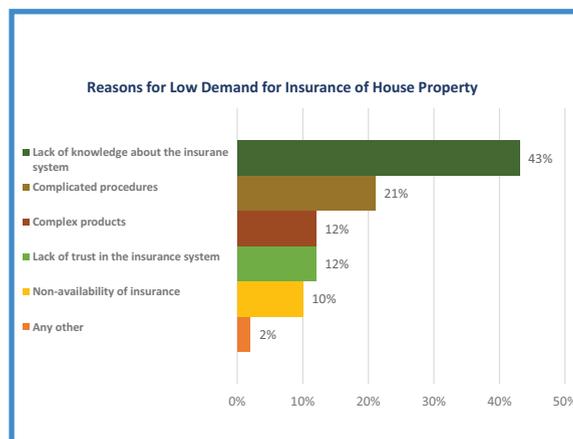


**Table 6:** The customer preferences of general insurance policies are as follows. Among the borrowers who preferred general insurance policies, 42% preferred home packages covering both the house and its contents, 28% preferred LTH policies, 26% preferred Annual Fire Policies and 4% felt that it was sufficient to have the insurance policies bought by the housing society / condominium.



**Table 7:** Though the respondents of the survey conducted as part of this study were generally positive that insurance was necessary, many were not buying it.

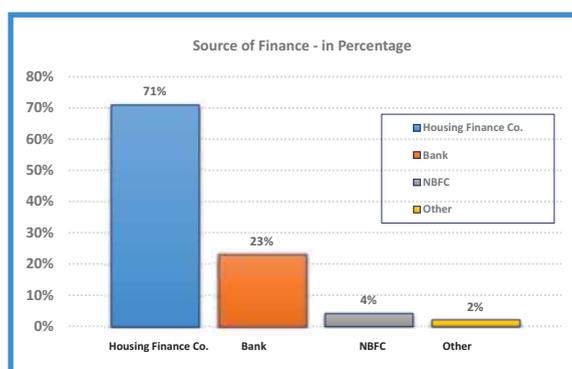
Drilling down to the reasons for people not buying house property insurances, it was observed by 43% of the respondents that lack of knowledge of the insurance system was the major reason. 21% felt that complicated procedures stood in the way, 12% felt that the products were complex and another 12% felt that they did not trust the insurance system. 10% of the respondents felt that insurance was not accessible/ available.



**Table 8:** The responses received indicated that 71% depended on \*Housing Finance, 23% on their own Savings in Banks, 4% on NBFCs and 2% on other sources.

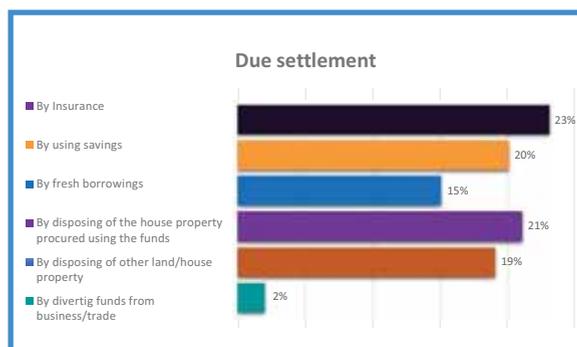
**\*Break-up**

- Housing Finance Company Loans - 39%
- Loans from Employers of Self/ Family - 18%
- Loans from Banks - 14%
- Total = 71%



**Table 9:** In response to a question on the options they would consider for settling their loans, 23% borrowers responded that they would depend on insurance, while 21% were ready to dispose of their house property to settle their dues.

20% had the plan to use their savings, 19% were willing to sell off other property, 15% would go for fresh financing and 2% would divert funds used in their business/ trade.



**Table 10:** Respondents were not entirely happy with the insurance industry and the products/ services that they offer.

30% expected better transparency in the way the insurance system worked, 27% wanted improvements for prompt and easy settlement of claims, 22% felt that procedures should be simpler, while 12% felt that documentation should be simplified and 9% felt that the products should be simpler.



## Insurance Penetration and Density Data

'Sigma' by Swiss Re is regarded as one of the most authentic sources of insurance related data. Sigma issue 3/2018 provides the latest figures on insurance penetration<sup>215</sup> and insurance density<sup>216</sup>. Data is presented as two charts, the 1<sup>st</sup> of the 'Life Insurance industry' and the 2<sup>nd</sup> of the Non-Life Insurance industry'.

### Insurance Density and Penetration in Advanced Markets, 2017

Sr. No.	Country	Total Penetration %	Life Penetration %	Total Density in USD	Life Density in USD
1	Taiwan	21.32	17.89	4997	4195
2	Cayman Islands	19.61	0.79	12122	490
3	Hong Kong	17.94	14.58	8313	6756
4	South Africa	13.75	11.02	842	674
5	South Korea	11.57	6.56	3522	1999
6	Finland	10.65	8.70	4737	3870
7	Denmark	10.21	7.46	5772	4215
8	United Kingdom	9.58	7.22	3810	2873
9	Netherlands	9.56	1.89	4631	915
10	France	8.95	5.77	3446	2222
11	Japan	8.59	6.26	3312	2411
12	Bahamas	8.59	2.53	1976	583
13	Switzerland	8.53	4.41	6811	3522
14	Italy	8.34	6.20	2660	1977
15	Singapore	8.23	6.64	4749	3835
16	Namibia	7.55	5.37	381	271
17	Canada	7.23	3.12	3260	1407
18	United States	7.10	2.82	4216	1674
19	Ireland	6.79	5.62	4687	3880
20	Sweden	6.79	4.98	3672	2694
21	Belgium	6.09	3.55	2655	1546
22	Germany	6.04	2.63	2687	1169
23	Portugal	6.02	3.68	1271	778
24	Australia	5.81	2.33	3247	1304
25	Spain	5.37	2.53	1519	715
26	Thailand	5.29	3.59	348	237
27	Jamaica	5.10	2.02	253	100
28	New Zealand	5.08	0.87	2209	379
29	Israel	4.97	2.67	2093	1125
30	Slovenia	4.94	1.48	1184	355

<sup>215</sup> Insurance Penetration is measured as the percentage of insurance premium in gross domestic product (GDP).

<sup>216</sup> Insurance Density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP.

Sr. No.	Country	Total Penetration %	Life Penetration %	Total Density in USD	Life Density in USD
31	Chile	4.88	3.08	736	464
32	Malaysia	4.77	3.32	486	339
33	Norway	4.64	2.89	3429	2134
34	Luxembourg	4.64	2.86	5011	3091
35	Austria	4.61	1.57	2217	753
36	PR China	4.57	2.68	384	225
37	Malta	4.44	3.15	1251	887
38	Cyprus	4.35	1.86	1042	446
39	Trinidad and Tobago	4.07	1.97	777	377
40	Brazil	4.05	2.28	398	224
<b>41</b>	<b>India</b>	<b>3.69</b>	<b>2.76</b>	<b>73</b>	<b>55</b>
42	United Arab Emirates	3.65	0.85	1436	333
43	Morocco	3.49	1.43	104	43
44	Lebanon	3.15	0.97	276	85
45	Poland	3.04	0.96	421	133
46	Colombia	2.88	0.91	181	57
47	Czech Republic	2.85	1.08	609	232
48	Argentina	2.65	0.40	371	56
49	Kenya	2.60	1.05	40	16
50	Uruguay	2.56	1.08	456	192
51	Panama	2.41	0.62	352	91

Notes: i) Insurance Penetration is measured as the percentage of insurance premium in Gross Domestic Product (GDP)  
ii) Insurance Density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP.  
Source: World insurance in 2017: solid, but mature life markets weigh on growth - Swiss Re - Sigma - 3/2018

### Insurance Density and Penetration in Advanced Markets, 2017

Sr. No.	Country	Total Penetration %	Non-Life Penetration%	Total Density in USD	Non-Life Life Density in USD
1	Taiwan	21.32	3.42	4997	803
2	Cayman Islands	19.61	18.82	12122	11632
3	Hong Kong	17.94	3.36	8313	1557
4	South Africa	13.75	2.74	842	167
5	South Korea	11.57	5.00	3522	1523
6	Finland	10.65	1.95	4737	867
7	Denmark	10.21	2.75	5772	1557
8	United Kingdom	9.58	2.36	3810	938
9	Netherlands	9.56	7.67	4631	3716
10	France	8.95	3.18	3446	1224
11	Japan	8.59	2.34	3312	901
12	Bahamas	8.59	6.06	1976	1393
13	Switzerland	8.53	4.12	6811	3289

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15	Singapore	8.23	1.58	4749	915
16	Namibia	7.55	2.18	381	110
17	Canada	7.23	4.11	3260	1853
18	United States	7.10	4.28	4216	2542
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20	Sweden	6.79	1.81	3672	978
21	Belgium	6.09	2.55	2655	1110
22	Germany	6.04	3.41	2687	1519
23	Portugal	6.02	2.33	1271	493
24	Australia	5.81	3.48	3247	1942
25	Spain	5.37	2.84	1519	804
26	Thailand	5.29	1.69	348	112
27	Jamaica	5.10	3.08	253	153
28	New Zealand	5.08	4.21	2209	1829
29	Israel	4.97	2.3	2093	968
30	Slovenia	4.94	3.46	1184	829
31	Chile	4.88	1.80	736	271
32	Malaysia	4.77	1.44	486	147
33	Norway	4.64	1.75	3429	1296
34	Luxembourg	4.64	1.78	5011	1920
35	Austria	4.61	3.04	2217	1464
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51	Panama	2.41	1.79	352	262

Notes: i) Insurance Penetration is measured as the percentage of insurance premium in Gross Domestic Product (GDP)  
ii) Insurance Density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP.  
Source: World insurance in 2017: solid, but mature life markets weigh on growth - Swiss Re - Sigma - 3/2018

**Yearly Changes in Insurance Penetration/ Density:** Insurance Penetration/ Density figures in India are updated and published by the IRDAI in its Annual Report (during October – December). As figures from other non-Governmental sources might include guestimates or be based on incomplete data, the tables below are based on the latest IRDAI Report 2017-18.

**Insurance Penetration and Density in India**

Year	Life		Insurance Industry - Global	
	Density (USD)	Penetraion (%)	Density (USD)	Penetraion (%)
2001	9.10	2.15	11.50	2.71
2002	11.70	2.59	14.70	3.26
2003	12.90	2.26	16.40	2.88
2004	15.70	2.53	19.70	3.17
2005	18.30	2.53	22.70	3.14
2006	33.20	4.10	38.40	4.80
2007	40.40	4.00	46.60	4.70
2008	41.20	4.00	47.40	4.60
2009	47.70	4.60	54.30	5.20
2010	55.70	4.40	64.40	5.10
2011	49.00	3.40	59.00	4.10
2012	42.70	3.17	53.20	3.96
2013	41.00	3.10	52.00	3.90
2014	44.00	2.60	55.00	3.30
2015	43.20	2.72	54.70	3.44
2016	46.50	2.72	59.70	3.49
2017	55.00	2.76	73.00	3.69

**Note:** i) Insurance density is measured as ratio of premium (in USD) to total population  
ii) Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

Source: IRDAI Annual Report 2017-18

**Insurance Penetration and Density in India**

Year	Life		Insurance Industry - Global	
	Density (USD)	Penetraion (%)	Density (USD)	Penetraion (%)
2001	2.40	0.56	11.50	2.71
2002	3.00	0.67	14.70	3.26
2003	3.50	0.62	16.40	2.88
2004	4.00	0.64	19.70	3.17
2005	4.40	0.61	22.70	3.14
2006	5.20	0.60	38.40	4.80
2007	6.20	0.60	46.60	4.70
2008	6.20	0.60	47.40	4.60
2009	6.70	0.60	54.30	5.20
2010	8.70	0.71	64.40	5.10
2011	10.00	0.70	59.00	4.10
2012	10.50	0.78	53.20	3.96
2013	11.00	0.80	52.00	3.90
2014	11.00	0.70	55.00	3.30
2015	11.50	0.72	54.70	3.44
2016	13.20	0.77	59.70	3.49
2017	18.00	0.93	73.00	3.69

**Note:** i) Insurance density is measured as ratio of premium (in USD) to total population  
ii) Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

Source: IRDAI Annual Report 2017-18

State and Union Territory wise details of Insurance Penetration, Insurance Density and Percentage of General Insurance Premium

**General Insurance Penetration and Insurance Density 2017-18 - Indian States and Union Territories**

GDPI Rank 2017-18	States/ Union Territories	State Domestic Product in Crores* (2017-18)	Premium in Crores* (2017-18)	Population Census Data (2011)	Population Growth% (2001-11)	Literacy % (2011)	Statewise Premium Per Capita	Insurance Density of State	% of Premium
1	Maharashtra	2,203,231	31,561	112,372,972	16%	83%	1.43%	2,809	20.95%
2	Tamil Nadu	1,338,766	13,661	72,138,158	16%	80%	1.02%	1,894	9.07%
3	Gujarat	984,971	13,135	60,383,628	19%	79%	1.33%	2,175	8.72%
4	Karnataka	1,268,881	11,964	61,130,704	16%	76%	0.94%	1,957	7.94%
5	Uttar Pradesh	1,339,452	9,382	199,581,477	20%	70%	0.70%	470	6.23%
6	Delhi	686,017	8,855	16,753,235	21%	86%	1.29%	5,286	5.88%
7	Madhya Pradesh	707,047	8,700	72,597,565	20%	71%	1.23%	1,198	5.77%
8	Rajasthan	840,263	7,729	68,621,012	21%	67%	0.92%	1,126	5.13%
9	West Bengal	920,000	5,797	91,347,736	14%	77%	0.63%	635	3.85%
10	Haryana	547,396	5,506	25,353,081	20%	77%	1.01%	2,172	3.65%
11	Kerala	570,523	5,485	33,387,677	5%	94%	0.96%	1,643	3.64%
12	Andhra Pradesh	699,307	5,031	50,396,150	11%	68%	0.72%	998	3.34%
13	Telangana	654,294	4,996	34,269,383	20%	71%	0.76%	1,458	3.32%
14	Bihar	486,430	2,993	103,804,637	25%	64%	0.62%	288	1.99%
15	Odisha	415,982	2,961	41,947,358	14%	73%	0.71%	706	1.97%
16	Punjab	408,815	2,888	27,704,236	14%	77%	0.71%	1,042	1.92%
17	Chhattisgarh	290,140	2,183	25,540,196	23%	71%	0.75%	855	1.45%
18	Jharkhand	241,955	1,423	32,966,238	22%	68%	0.59%	432	0.94%
19	Assam	201,064	1,300	31,169,272	17%	73%	0.65%	417	0.86%
20	Uttarakhand	217,609	1,016	10,116,752	19%	80%	0.47%	1,004	0.67%
21	Jammu & Kashmir	132,307	973	12,548,926	24%	69%	0.74%	775	0.65%
22	Chandigarh	30,304	800	1,054,686	17%	86%	2.64%	7,584	0.53%
23	Himachal Pradesh	110,511	738	6,856,509	13%	84%	0.67%	1,077	0.49%
24	Goa	60,895	569	1,457,723	8%	87%	0.93%	3,905	0.38%
25	Puducherry	32,222	252	1,244,464	28%	87%	0.78%	2,026	0.17%
26	Meghalaya	27,305	192	2,964,007	28%	75%	0.70%	646	0.13%
27	Tripura	-	124	3,671,032	15%	88%	-	338	0.08%
28	Dadra Nagar & Haveli	-	85	342,853	55%	78%	-	2,476	0.06%
29	Mizoram	14,204	79	1,091,014	23%	92%	0.56%	728	0.05%
30	Sikkim	16,637	62	607,688	12%	82%	0.37%	1,026	0.04%

GDPI Rank 2017-18	States/ Union Territories	State Domestic Product in Crores* (2017-18)	Premium in Crores* (2017-18)	Population Census Data (2011)	Population Growth% (2001-11)	Literacy % (2011)	Statewise Premium Per Capita	Insurance Density of State	% of Premium
31	Arunachal Pradesh	24,353	55	1,382,611	26%	67%	0.22%	395	0.04%
32	Nagaland	20,524	53	1,980,602	0%	80%	0.26%	267	0.04%
33	Manipur	18,749	38	2,721,756	19%	80%	0.20%	141	0.03%
34	Andaman & Nicobar Islands	-	38	379,944	7%	86%	-	1,000	0.03%
35	Daman & Diu	-	30	242,911	54%	87%	-	1,242	0.02%
36	Lakshadweep	-	7	64,429	6%	92%	-	1,088	0.00%
	<b>Total</b>	<b>15,510,153</b>	<b>150,662</b>	<b>1,210,193,422</b>	<b>17.40%</b>	<b>74%</b>	<b>25.52%</b>	<b>53280</b>	<b>100%</b>

**Notes:** i) Insurance Penetration is measured as the percentage of insurance premium in Gross Domestic Product (GDP)

ii) Insurance Density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP.

**Source:** Adapted/excerpted from Indian-Nonlife Insurance Industry Yearbook-2017-18 of the General Insurance Council of India

**Reference:** <https://www.gicouncil.in/downloads.aspx>

**Reference :** 1 crore = 10 million// 100 crore = 1 billion

State and Union Territory wise details of the Number of Lives covered and New Business Premium for Life Insurance

**STATE WISE INDIVIDUAL AND GROUP NEW BUSINESS (LIFE)\***

(Lives in Numbers) (Premium in INR Crore)

State/ Union Territory	No. of lives Covered (2017-18)	Premium (2017-18)
Maharashtra	43924281	48932.21
West Bengal	25453412	15831.64
Andhra Pradesh	25036944	4205.77
Karnataka	23627951	18825.74
Telangana	19861236	7872.49
Tamil Nadu	16452500	14580.79
Uttar Pradesh	11200534	9474.64
Delhi	10208767	21883.77
Kerala	6510038	6187.26
Rajasthan	5645817	4168.16
Odisha	5252817	3603.43
Haryana	4580049	3097.05
Gujarat	3941795	8957.22
Chattisgarh	3193750	1886.08
Madhya Pradesh	2560076	3648.88
Bihar	2408152	4090.36
Assam	2245887	2894.06
Punjab	1280917	2091.91
Jharkhand	1156049	2780.72
Uttarakhand	439330	4211.53
Jammu & Kashmir	364690	1100.75
Chandigarh	346630	1166.70
Himachal Pradesh	312887	918.58
Goa	187389	592.82
Tripura	146788	282.66
Puducherry	102000	176.87
Manipur	48468	103.56
Meghalaya	30420	103.14
Mizoram	23097	37.16
Nagaland	20818	71.28
Sikkim	18053	65.69
Arunachal Pradesh	16628	60.21
Daman & Diu	9298	16.48
Andaman & Nicobar	8746	18.80
Dadra & Nagra Haveli	3889	6.05
Lakshadweep	128	0.23
<b>ALL INDIA</b>	<b>216620230.9</b>	<b>193944.69</b>

Annexure D “\* Does not include its overseas new business premium”

## Major Disasters in India (Indicative List)

(As updated on the NDMA website on 28<sup>th</sup> February 2019 and Swiss Re Sigma 1/2018)

Sl. No.	Name of Event	Year	State & Area	Casualties/ Fatalities
1.	Low pressure Heavy rain Discharge (hydrology)s Landslide	2018	Kerala	483 deaths, 14 missing, 8,000 cattle, calves and buffaloes, 3,297 goats, 47 dogs have died Property damage - 40,000 crore (US\$5.6 billion)
2.	Mining Accident	2018	Meghalaya	15 deaths/ missing
3.	Gaja cyclone	2018	Thagattur, Voimedu, Thiruuthuraipoondi, Muthupettai, Pattukotai, Adirampattinam and Mallipattinam of Tamil Nadu	80,000 people were evacuated
4.	Stampede at a train station during morning rush hour	2017	Mumbai	23 deaths, 39 injured
5.	Ten coaches of passenger train derail after crashing into a dumper on the tracks	2017	Auraiya District, Uttar Pradesh	100 injured
6.	Passenger train derails	2017	Khatauli, Muzaffarnagar, Uttar Pradesh	22 deaths, 156 injured
7.	Passenger train derails	2017	Kulpahar, Mahoba, Uttar Pradesh	52 injured
8.	Passenger train derails	2017	Kuneru, Vizianagaram, Andhra Pradesh	41 deaths, 68 injured
9.	Boat carrying tourists capsizes on Krishna River	2017	Ibrahimpattanam, Mandal, Andhra Pradesh	16 deaths, 7 missing
10.	Boat capsizes on Yamuna River	2017	Baghpat district, Uttar Pradesh	22 deaths
11.	Overload wooden boat sinks on the Ganges River	2017	Patna, Bihar	24 deaths
12.	Explosion at a coal-fired power plant	2017	Unchahar, Rae Bareli district, Uttar Pradesh	32 dead, 100 injured

Sl. No.	Name of Event	Year	State & Area	Casualties/ Fatalities
13.	Residential building collapses	2017	Mumbai	33 deaths
14.	Six-storey residential building collapses	2017	Mumbai	30 deaths
15.	Explosion at a firecracker factory	2017	Balaghat, Madhya Pradesh	23 deaths, 10 injured
16.	Fire at a power plant	2017	Korba, Chhattisgarh	7 injured
17.	Wall of wedding hall collapses	2017	Bharatpur, Rajasthan	26 deaths, 28 injured
18.	Massive landslide buries houses, buses, other vehicles	2017	Kotropi, Mandi District, HP	47 deaths
19.	Avalanches bury civilians in a home and soldiers in an army camp	2017	Ganderbal, Bandipora (Jammu and Kashmir)	24 deaths
20.	Thunderstorms	2017	Jamui, Champaran, Vaishali, Samastipur, Bihar	29 deaths, 250 houses damaged
21.	Thunderstorms	2017	Malda, West Bengal	4 deaths, 20 injured, 20,000 houses damaged/destroyed 60,000 homeless
22.	Flash flood		Chennai, Tamil Nadu	21 deaths
23.	Flash flood	2017	Mumbai, Thane, Palghar	14 deaths, INR 5billion (USD 78m) Insured loss Total damage USD 300m
24.	Floods caused by heavy monsoon rains – precipitation driven floods	2017	Assam, Arunachal Pradesh, Nagaland, Manipur	156 deaths, Total Damage of INR 23bn (USD 360m)
25.	Floods due to Monsoon rains	2017	Bihar and multiple places in India	514 deaths
26.	Floods due to Monsoon rains and precipitation driven floods	2017	Gujarat	224 deaths
27.	Floods caused by heavy monsoon rains	2017	West Bengal, Jharkhand	58 deaths, 7,868 houses destroyed, 44,361 houses damaged, 10,59,000 hectare of crop land flooded 25,000 homeless Total Damage - INR 7.8bn (USD 122m)

Sl. No.	Name of Event	Year	State & Area	Casualties/ Fatalities
28.	Heat-waves	2016	Telangana, Andhra Pradesh (Also in Odisha, Rajasthan, Madhya Pradesh and Gujarat)	1600 deaths (4620 deaths over 4 years were recorded as per a study by the Indian Institute of Public Health, Gandhi Nagar)
29.	Earthquake (Mw 7.8)	2015	Nepal, India, China, Bangladesh	8960 deaths, Insured Losses 165
30.	Floods	2014	Jammu & Kashmir (India and Pakistan)	277 deaths (in India), 390 villages fully submerged (in India) Economic Losses INR 6000 Crores (in India)
31.	Cyclone Hud Hud	2014	Andhra Pradesh & Odisha (Also Nepal, Andaman & Nicobar Islands, Vishakhapatnam, Chhattisgarh, Madhya Pradesh, Uttar Pradesh)	124 deaths, Total Damage – USD 3.4 billion
32.	Odisha Floods	2013	Odisha	21 deaths
33.	Andhra Floods	2013	Andhra Pradesh	53 deaths
34.	Cyclone Phailin	2013	Odisha and Andhra Pradesh	23 deaths
35.	Floods/Landslides	2013	Uttarakhand & Himachal Pradesh	4,094 deaths
36.	Cyclone Mahasen	2013	Tamil Nadu	08 deaths
37.	Cyclone Nilam	2012	Tamil Nadu	65 deaths
38.	Uttarakhand Floods	2012	Uttarkashi, Rudraprayag and Bageshwar	52 deaths
39.	Assam Floods	2012	Assam	---
40.	Cyclone Thane	2011	Tamil Nadu, Puducherry	47 deaths
41.	Sikkim Earthquake	2011	Sikkim, West Bengal, Bihar	60 deaths
42.	Odisha Floods	2011	19 Districts of Odisha	45 deaths
43.	Sikkim Earthquake	2011	North Eastern India - Epicentre near Nepal Border & Sikkim	97 deaths (75 in Sikkim)
44.	Cloudburst	2010	Leh, Ladakh in J&K	257 deaths
45.	Drought	2009	252 Districts in 10 States	-----
46.	Krishna Floods	2009	Andhra Pradesh, Karnataka	300 deaths
47.	Kosi Floods	2008	North Bihar	527 deaths, 19,323 livestock perished, 223,000 houses damaged, 3.3 million persons affected
48.	Cyclone Nisha	2008	Tamil Nadu	204 deaths

Sl. No.	Name of Event	Year	State & Area	Casualties/ Fatalities
49.	Maharashtra Floods	2005	Maharashtra State	1094 deaths, 167 injured, 54 missing
50	Kashmir	2005	Mostly Pakistan, Partially Kashmir	86,000 deaths in total (1400 deaths in Kashmir)
51.	Tsunami	2004	Coastline of Tamil Nadu, Kerala, Andhra Pradesh, Pondicherry and Andaman and Nicobar Islands	10,749 deaths, 5,640 persons missing 2.79 million people affected, 11,827 hectares of crops damaged, 3,00,000 fisher folk lost their livelihood
52.	Gujarat Earthquake	2001	Rapar, Bhuj, Bhachau, Anjar, Ahmedabad and Surat in Gujarat	13,805 deaths, 6.3 million people affected, Insured Loss – USD 138 Million
53.	Orissa Super Cyclone	1999	Orissa	15,000 deaths, Insured Loss – USD 147 million
54.	Cyclone	1996	Andhra Pradesh	1,000 deaths, 580,000 houses destroyed, INR. 20.26 billion estimated damage
55.	Latur Earthquake	1993	Latur, Marathwada region of Maharashtra	9,475 deaths 30,000 injured
56.	Cyclone	1990	Andhra Pradesh	967 deaths, 435,000 acres of land affected
57.	Drought	1987	15 States	300 million people affected
58.	Accident in chemical plant – Methyl Isocyanates released (Known as Bhopal Gas Tragedy)	1984	Bhopal	6000 deaths, 558,125 injuries
59.	Cyclone	1977	Andhra Pradesh	14,204 deaths, hundreds of thousands homeless, 40,000 cattle deaths
60.	Drought	1972	A large part of the country	200 million people affected

**Sources:** National Disaster Management Authority website updated on 28 Feb 2019, Swiss Re Sigma 1/2018, Kerala Floods, Wikipedia.

An Initiative by Multiple Regulators of Massachusetts (4 pages excerpted as an example)

## A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums



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June 2007

## How to Use This Guide

Your home is your castle. It is your most valuable asset. It is where you keep many of your other assets, such as your furniture and your clothes. It is also the place that you live and your style of life centers around your home. If you lost your home due to fire, windstorm or lawsuit, your whole life would be disrupted. You would want to replace whatever you lost so your life can return to normal.

Protecting your home is an important undertaking. There is no single solution that is right for everyone. We hope this guide provides a helpful starting point in your search for a solution that is right for you. But don't stop here. Treat the purchase of insurance and taking steps to protect your house as you would any other major financial decision by seeking independent advice from professionals who are in a position to analyze your individual needs.

This guide provides a general explanation of insurance for your home and ways to protect your home and help to reduce your insurance premiums. It will familiarize you with some of the terms and practices related to insurance for your home in Massachusetts. To truly understand your own particular coverage, you should take the time to learn your exact coverage, as well as your rights and responsibilities under the coverage. Your insurance company or its producer should be able to help you with an analysis about the appropriate policy for your situation, but it is up to you to choose the coverage that is right for you. To understand some of the specific features of a typical insurance policy, consider reading "A Massachusetts Guide to Understanding the Insurance Policy Covering Your Home" that can be downloaded from [www.mass.gov/doi/Consumer](http://www.mass.gov/doi/Consumer). If you have additional questions, you can contact the Division of Insurance Consumer Services Section at (617) 521-7777 or through [www.state.ma.us/doi](http://www.state.ma.us/doi).

An insurance policy is a legal contract of the promise that an insurance company gives you to pay for losses outlined in your policy in return for premiums that you pay to the insurance company. Insurance is not a bank account where your premiums are stored, but rather is a promise that the insurance company will pay for the costs of any covered risks that impact your covered property during the policy period. **The insurance you buy to cover your home provides protection for a specific period or term of time, usually for a one-year period.** If your coverage is not renewed, the insurance company will not cover losses occurring after the end of the policy period.

There are appendices at the end of the guide with a glossary of commonly used terms that appear throughout the guide (Appendix A) and a record of any policy that you may purchase (Appendix B).

### Disclaimer

This guide is not a legal analysis of your rights under any insurance policy or government program. Your insurance policy, program rules, Massachusetts law, federal law and court decisions establish your rights. You may want to consult an attorney for legal guidance about your specific rights.

This guide includes information, documents, and materials (collectively, the "Contents") that are subject to change without notice. The Massachusetts Division of Insurance cannot guarantee that the contents of this guide are up-to-date or complete and assumes no responsibility for errors or omissions in any Contents, including Contents that are referenced by or linked (by hypertext links) to any other Contents or third party websites. The Massachusetts Division of Insurance makes no representations or warranties of any kind whatsoever for the Contents or for any products or services or hypertext links.

## A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums

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## A Massachusetts Guide to Insurance for Your Home and Ways to Help Reduce Your Insurance Premiums

### PART ONE: RISKS TO YOUR HOME

#### Why Buy insurance for My Home?

**Your home is a valuable asset.** If damaged or destroyed, it may take many years to recover the money that you invested in your home. Insurance can help pay to repair or replace your home.

**Your home is where you store other valuable assets.** Beyond the bricks and mortar, you keep your clothes, furniture, mementos and other things inside your home. Insurance can help repair or replace items that may be damaged or lost.

**Your home is the place that you live.** Almost everything associated with your non-work life is in your home. If damage to your home makes you live elsewhere, you not only want to fix what is wrong, but you may need to pay for additional living expenses while you can't live in your home. Insurance can help pay some transition costs until you return to your home.

#### What Could Ever Happen to My Home?

Just about anything. Fires or natural disasters, including hurricanes or earthquakes, could destroy your home. Your home may be susceptible to electrical fires, frozen pipes, burglaries or lawsuits filed by other parties claiming your negligence caused them harm. If you don't properly maintain your home, it could also be damaged by leaky roofs.

Insurance is intended to address the costs of unexpected damages beyond your reasonable control. It is not intended to pay the expected repairs you need to maintain your home whether by replacing worn out roofs or taking appropriate precautions. By purchasing the right insurance policy, you may be able to protect yourself from the financial costs of unforeseen losses. Without appropriate protection, you could lose everything that you have worked to obtain.

#### Am I Required to Buy Insurance for My Home?

Home insurance is financial protection to cover you and your loved ones from the costs of unexpected events damaging your home. There is no law requiring anyone to purchase any insurance on your home, but it is prudent to consider this coverage to protect your investment in your home.

You should note, however, if you need a mortgage to help pay for your home, your lender or bank may not loan you money unless you buy and maintain insurance on your home. If you drop coverage or stop paying for it, some mortgage agreements permit the lender to take action against you to recover the amount that they did loan you.

You should be aware, however, that even if your lender requires you to have insurance, the lender cannot require you to obtain the coverage from a particular insurer and cannot require you to insure your home for more than the replacement cost of the dwelling.

Source: Massachusetts Insurance Regulator-<http://www.mass.gov/ocabr/docs/doi/consumer/homeowners-guide.pdf>

## Check List for Retail Customers (Individual Owners/ Loanees)

*(Guide notes on matters that customers of the housing industry/ insurance industry need to be aware while obtaining Insurance for houses/ house contents.)*

This annexure is provided as a rough template for existing and prospective house owners and those who avail of loans for housing purposes. This is intended to guide current and prospective insured on matters they should be aware of while obtaining insurance. It would also give them some insight as to how an insurance company would understand and process their proposal. The common errors that stand in the way of prompt claims settlement are also addressed in this annexure.

### Physical Risk

- Mention correct location and address of the risk  
(In many cases, at the time of purchasing property, the address/ location may not be familiar to the owner. As incorrect mention of location may impact claims settlement, due care is required.)
- Specify details of property to be covered (e.g. flat, building or building including compound wall)
- Give detailed physical description of property with construction type (e.g. Reinforced Cement Concrete, Asbestos Roofing etc.)
- Safety features in the building (e.g. fire extinguishing appliances, refuge floors)
- Special/ stylistic/ unusual features in the building (e.g. common centralized air-conditioning, common generators, glass fascia, fly-ash concrete without cement, earthquake resistant construction etc.)
- Specify details of the square footage, the number of bathrooms, the materials used for the roof and exterior walls, the age and condition of the house, garages, etc.
- If possible, have the house inspected by the insurer. This can help in identifying potential problems and getting professional advice in making the property safer. This would also make the deal with the insurer transparent. (In advanced countries, some companies tend to refuse coverage or charge more if a home has certain types of damages, such as water damage, in the past.)

### Contents to be insured

In addition to the house, compound walls and other constructions, it is advisable to cover the contents of the property.

- Homeowners' policies typically cover personal property. In such cases, a detailed inventory of the contents should be made.
- Expensive items such as jewelry, computers, coin collections, artwork etc. need to be specifically covered. Sometimes these items may need special protections and may require specific endorsements.
- If the house is left unattended, while the owner travelling in the country/ abroad for long periods, insurers need to be informed.
- Everything has to be valued with reasonable accuracy
- Read the policy carefully to know exactly what's covered under which conditions and what is not covered.
- For extensions covering personal accident travel etc. read the policy carefully to know exactly who all are covered under what situations and who are not covered.

### Exposure

- Located in high risk area (e.g. exposed to floods/ earthquake/ chemical factories/ cracker factories/ places not reachable by fire tenders/ high rise buildings etc.)
- Located in remote area (e.g. congested shopping areas, narrow lanes, isolated villages, without proper approach road, without proper roads etc.)
- Located in areas with special features (e.g. high crime, politically sensitive, abandoned places, near high voltage power lines etc.)

### Management and Usage

- Purpose for which the house/ building is used (owner's residence/ rented out/ unoccupied/ used as storage place/ hostel or guesthouse etc.)

- Ownership (e.g. Individual/ Joint Ownership/ Trust owner/ Leased)
- Title (e.g. Clear freehold land and building/ Long-term leasehold/ Trust owned etc.)

### Value of Insured Property and Cost of Insurance

- Fix the Sum Insured of the property to be insured correctly (This should be based on financial valuation or similar assessments)
- Insured should be aware that Land value is not covered
- Find out how the insurance would work in case of different loss making situations like fire, flood, earthquake, burglary etc.
- Find out the correct value at stake required to reconstruct/ rebuild/ reinstate the house in case of a fire or other covered disaster.
- Try to get incentives/ discounts from insurers for good features/ good risk management
- In case of individual houses, insure the full house not the newly built/ extended part
- Do not restrict insurance to the value of the loan. (If the Sum Insured is not based on the proper value of the full house, it would be regarded as underinsurance and only a small part of the loss may be settled.)
- Sum Insured for contents of the house should be based on replacement/ reinstatement cost (In respect of machinery, furniture, fittings, fixtures etc.) in case of a burglary, fire, or other covered disaster.
- Partial coverage of house or contents can cause complications during a claim. Cover should be for full value.
- The insured should understand that premium charged is based on the sum insured and the risks covered. He should assess whether he is getting value for money from the insurance protection purchased by him.  
Additional/ Special Coverage required should be understood clearly
- Details of the normal coverage provided
- Details of the add on covers needed/ provided
- Understand whether loan/ mortgage protection is covered and how it works
- There could be a requirement of specific covers like removal of debris, architect's/ surveyor's fee after a loss.
- If the home is damaged by a covered loss and becomes unlivable during repairs, one would incur additional living expenses like rent for alternate accommodation. This can be insured.
- If people get hurt on the property, the owner may be liable to pay compensation, pay for lawyer's fees and pay medical bills. Hence, insurance cover for liability protection may be required.
- Excess/deductible option has to be understood and used.
- Understand whether any restrictions are imposed on any of the covers? (e.g. No storage activity inside the residential premises specially inflammable goods like crackers and explosives, activity restrictions for personal accident covers, security restrictions on covers for valuables)
- Appreciate that factors like having or not having 24 hour security for the house is a significant factor for insurance purposes. Adherence to building codes, presence of sprinklers, smoke detectors, sophisticated locks, closed circuit cameras etc. are also valid.
- Understand whether the policy can be cancelled or terminated by the insurer or insured. Also under what circumstances cancellation/ termination is allowed.

### Understanding the Claims Settlement Process

- Understand the claims settlement process
- Understand the time limit for claim intimation
- Understand how to file claims including procedures and documentation
- Understand who can file claims
- Understand how excess/ deductibles are applied in claim settlement
- Understand whether claims will be paid directly to service providers or reimbursed to the insured (e.g. cashless hospitalization, cashless repair of cars)
- Understand how the policy works vis-à-vis with other policies owned by the insured/ other people covered in the policy. (e.g. how different health/ accident policies/ travel policies contribute in a loss situation)

## Purchasing Home Insurance Online

Nowadays, many insurers<sup>217</sup> provide quotes for Home insurance online once the customer provides answers to some basic questions as given below:

PROPERTY DETAILS - Age of property is more than 30 years:	Yes/ No
TYPE OF OWNERSHIP:	Rented/ Owned
INSURANCE REQUIRED FOR: Apartment/ Independent House/ All flats of the Housing Society	
POLICY TENURE:	Start Date: __/__/____. End Date: __/__/____.
RISK COVERAGE DETAILS:	Structure/ Structure and Content
SUM INSURED: Structure:	Rs. _____,
Content:	Rs. _____,
Details of Content:	
Furniture-Fixture Sum Insured:	Rs. _____,
Electrical Appliances Sum Insured:	Rs. _____,
Other Content Sum Insured (Excluding Jewellery & Valuables <sup>218*</sup> ):	Rs. _____,
Description of other Content:	Rs. _____,
Sum Insured for Declared Content:	Rs. _____,
Burglary Cover (if required):	Rs. _____.

## Providing Home Insurance FAQs Online (Indicative excerpts from an insurance Web Aggregator's website)

Home insurance is available online at the websites of some Brokers and Web Aggregators<sup>219</sup> as well. In order to make matters easy for their Home Insurance buyers, some of them provide elaborate FAQs as follows:

### What is home insurance?

Home insurance provides coverage to house and its contents against loss or damage caused by natural (flood, storm, landslide, etc.) and man-made calamities (theft, burglary, strike, riot, terrorism etc.)

Mainly there are three insurable components - structure (building), content (material assets) and people (family members and third parties). You can go for the specific coverage either for the structure or content. Also you can go for a comprehensive cover that includes both structure and content.

### Why should I buy home insurance?

Your home is precious and probably the most expensive investment of your life. It is not immune from perils like fire, theft, flood, etc. Disasters are unwelcome guests who do not knock your door before intruding your home. So it is always good to be prepared beforehand to minimize any loss or damage to your home. Home insurance protects you from losing your hard earned money by insuring your house against man-made and natural calamities.

<sup>217</sup> Adapted from the website of HDFC General Insurance Co. Ltd. [https://www.hdfcergo.com/OnlineProducts/homePortal/CalculatePremium.aspx?utm\\_source=bing&utm\\_medium=search&utm\\_term=Core-Pure-BMM&utm\\_content=home\\_text\\_ad&utm\\_campaign=Core-Home/Household/HomeownerInsurance&msclkid=831b746d2d601e423ec62ee08f006f22](https://www.hdfcergo.com/OnlineProducts/homePortal/CalculatePremium.aspx?utm_source=bing&utm_medium=search&utm_term=Core-Pure-BMM&utm_content=home_text_ad&utm_campaign=Core-Home/Household/HomeownerInsurance&msclkid=831b746d2d601e423ec62ee08f006f22)

<sup>218</sup> \*Jewellery and Valuables are not normally covered under online policies as their value need to be ascertained by professional valuers before extending coverage, especially for high values.

<sup>219</sup> Policybazaar Insurance Web Aggregator Pvt. Ltd. (IRDAI approved Web Aggregator), <https://www.policybazaar.com/home-insurance/>

### **What are the perils covered under home insurance policy?**

Home insurance offers protection against both natural and man-made calamities. Mainly, it safeguards your house from Lightning, Fire, Flood, Earthquake, Riot/ Strike, Cyclone, Landslide, Bursting/overflowing of water pipes/ tanks, Leakage from automatic sprinkler installation and Damage caused by vehicle of a third party.

### **What perils are not covered under home insurance policy?**

Home insurance policy doesn't offer coverage to kutchha construction and under construction building. Some of the other exclusions of the policy are, loss/ damage caused by war or warlike activity, loss/ damage caused by radioactive contamination, loss caused by pollution/ contamination, destruction caused by wear and tear of the house, any loss/ damage caused in residence-cum-shop, any loss/damage caused in residence-cum-office premises, any loss/ damage caused in residence-cum-warehouse/ storage, loss of cash, cards or other document, paintings, antiques, loss or damage caused when the house remains unoccupied for a long tenure, usually a month.

### **What contents are covered under home insurance policy?**

Home insurance covers the following contents – furniture, furnishing items, expensive belongings, electronic items like laptops, televisions, home appliances like refrigerator, washing machines, etc.

### **How is sum assured calculated?**

Sum assured for the structure and content is calculated separately.

Sum assured for the structure = Built up area x cost of reconstruction per sq. ft.

Sum assured for the contents = Actual Cash Value of the asset/ or Actual cost of replacement (i.e., Current Market Value – Depreciation)

### **What is the tenure of home insurance policy?**

Usually, the tenure is of 1 year, but some insurers offer plans up to a term of 30 years.

### **What do you mean by reinstatement cost?**

It is the cost which would incur on reconstructing the damaged property. As per standard practice, reinstatement cost includes value of foundation and it does not include land cost.

### **When does the insurance cover start?**

Insurance coverage will start from the time your payment is received by the insurer.

### **Can I take home insurance policy from 2 companies?**

Yes, you can buy home insurance policy from two companies. At the time of claim both companies will pay you on a proportionate basis.

## Guidance and Disclosures by Sellers of Housing Insurance Policies (Applicable for all sellers including Primary Lending Institutions/ Direct Selling Agents/ Agents/ Advisors)

The sellers of insurance should be aware that the House owner may not be aware of his/ her knowing his risk exposures, risk management and insurance requirements. When purchasing insurance, they may be ready to comply with the requirement of purchasing an insurance policy, which may turn out to be of no real value to them in case a disaster strikes.

It is the duty of the seller of insurance to ensure that the buyer is reasonably aware of the policy that he/ she purchases and how it would be of help when a loss strikes. If the seller does not perform this duty, it would not be fair to the purchaser and can cause an erosion of trust for both the Housing Industry and the Insurance Industry. Such mis-selling is viewed seriously by all regulators and RBI and IRDAI have made specific mention of it on their websites.

### Sellers of insurance are expected to advise their buyers of the importance of the following:

- Mentioning correct location and address of the risk
- Specifying details of property to be covered including safety features in the building, special/ stylistic/ unusual features in the building, details of the square footage, the number of bathrooms, the materials used for the roof and exterior walls, the age and condition of the house, garages, etc.
- Having the house inspected by the insurer, if possible
- Advising the need to insure compound walls, other constructions and the contents of the property in addition to the house.
- Advising to making detailed inventory of the contents to be insured.
- Advising coverage of expensive items such as jewelry, computers, coin collections, artwork etc. specifically and make specific endorsements when required.
- Making the insured aware of special care to be taken when house is left unattended, while the owner travelling in the country/ abroad for long periods.
- Advising that everything has to be valued with reasonable accuracy
- Advising regarding what is covered, under which conditions and what is not covered.
- Advising regarding persons covered, situations covered and who is not covered and when.
- Advising the importance of mentioning the location in high risk areas, remote areas, areas with special features etc.
- Advising the importance of mentioning the purpose for which the house/ building is used, ownership type and property/ house title particulars,
- Advising about fixing the Sum Insured of the property to be insured correctly and clarifying that the land value is not covered
- Advising how insurance would work in case of different loss making situations like fire, flood, earthquake, burglary etc.
- Advising how the correct value at stake required to reconstruct/ rebuild/ reinstate the house in case of a fire or other covered disaster are to be mentioned.
- Advising how to get incentives/ discounts from insurers for good features/ good risk management
- Making house owners understand that in case of individual houses, the full house (and not the newly built/ extended portion only) has to be insured

- Making house owners aware that the insurance has to be for the full value of the house and not restricted insurance to the value of the loan. (If the Sum Insured is not based on the proper value of the full house, it would be regarded as underinsurance and only a small part of the loss may be settled.)
- In situations when claims arise, house owners should be advised that in case the full house is not insured and/ or the full value of the house is not declared, they would not be eligible for the full claim. The same logic applies for contents also.
- Making house owners aware that the Sum Insured for contents of the house should be based on replacement/ reinstatement cost (In respect of machinery, furniture, fittings, fixtures etc.) in case of a burglary, fire, or other covered disaster.
- Making the insured understand that the premium charged is based on the sum insured and the risks covered. Help him/ her to assess whether he/ she is getting value for money from the insurance protection purchased.
- Making the insured understand details of the normal coverage provided
- Making the insured understand details of the add on covers needed/ provided
- Making the insured understand how loan/ mortgage protection is covered and how it works
- Making the insured understand that there could be a requirement of specific covers like removal of debris, architect's/ surveyor's fee after a loss.
- Making the insured understand that if the home is damaged by a covered loss and becomes unlivable during repairs, additional living expenses like rent for alternate accommodation can be insured.
- Making the insured understand that if people get hurt on the property, the owner may be liable to pay compensation, pay for lawyers' fees and pay medical bills. Hence, insurance cover for liability protection may be required.
- Making the insured understand how excess/ deductible options work.
- Helping the insured understand whether any restrictions are imposed on any of the covers? (e.g. activity restrictions for personal accident covers, security restrictions on covers for valuables)
- Helping the insured appreciate that factors like having or not having 24 hour security for the house, adherence to building codes, presence of sprinklers, smoke detectors, sophisticated locks, closed circuit cameras etc. are significant for insurance purposes.
- Helping the insured understand whether the policy can be cancelled or terminated by the insurer or insured. Also under what circumstances cancellation/ termination is allowed.
- Helping the insured understand the claims settlement process, who can file claims, how to file claims, what are the procedures and documentations required.
- Helping the insured understand how excess/ deductibles are applied in claim settlement
- Helping the insured understand whether claims will be paid directly to service providers or reimbursed to the insured (e.g. cashless hospitalization, cashless repair of cars)
- Helping the insured understand how the policy works vis-à-vis with other policies owned by the insured/ other people covered in the policy. (E.g. how different health/ accident policies/ travel policies contribute in a loss situation).
- Helping insured understand about timely claim intimation
- Helping the insured understand regarding typical documents needed for the claims settlement
- Helping insured understand how and where to register the claim
- Helping insured understand what difficulty they may face in case of non-disclosure of certain material information
- Helping insured understand the principle of indemnity and how it will work.

## Individual Policies giving Home Protection - Provided by Non-Life Insurance Companies (Extent of Coverage available)

### Individual Policies giving Home Protection - Provided by Non-Life Insurance Companies (Extent of Coverage available)

Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Company Name	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Insurance	Kotak Mahindra General Insurance	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance
Name of Cover	My Home Insurance - All Risk Policy	Householder's Package Policy	Home Policy	Home Policy	Home Insurance Policy	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Home Contents package policy	Home Contents Insurance Policy	Home Insurance Policy	Home Contents Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy
<b>Basis of valuation:</b>																					
*Agreed value	✓		✓					✓	✓	✓											
*Reinstatement Value	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
*Market Value/Indemnity value	✓		✓	✓	✓	✓	✓	✓	✓	✓											
<b>Coverages/Benefits/Features</b>																					
Building Cover	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Home Contents	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fixtures Fittings & Renovation	✓				✓	✓				✓			✓					✓			
Fire and allied perils	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Burglary, housebreaking, theft, larceny or any such attempt or any omission of any kind of any person	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Electrical and Mechanical breakdown	✓		✓			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Portable equipment/Electronic equipment	✓				✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jewelry, Valuables, Curios, Works of Art & Paintings, etc.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss of Documents: Shares, policy, passport, driving license	✓				✓	✓		✓	✓	✓			✓								
Personal Accident	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Company Name	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Home & Family Protector Policy	Kotak Mahindra General Insurance	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance
Name of Cover	My Home Insurance - All Risk Policy	Householder's Package Policy	Home Policy	Home Insurance Policy	Home Insurance	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Householder's package policy	Home Contents Insurance Policy	Home Contents Insurance Policy	Home Contents Insurance	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy
Accidental hospitalization on family floater basis			✓																		
<b>Add on Covers:</b>																					
Terrorism		✓			✓	✓	✓	✓	✓	✓			✓								
Loss of Rent	✓				✓	✓	✓	✓													
Debris Removal																					
Professional Fees																					
Rent for Alternate Accommodation	✓	✓	✓		✓	✓	✓	✓	✓		✓										
Temporary Resettlement Cover	✓				✓	✓	✓	✓	✓												
Plate Glass Insurance cover			✓		✓	✓	✓	✓	✓	✓		✓				✓					✓
Baggage		✓	✓			✓	✓	✓	✓	✓						✓					✓
Pedigree Pets	✓	✓				✓	✓	✓	✓	✓											
Purchase Protection cover on credit card			✓				✓	✓	✓	✓											
Keys & Locks Replacement	✓					✓	✓	✓	✓	✓											
ATM withdrawal Robbery Cover	✓						✓	✓	✓	✓											
Public Liability Cover/ Third Party Cover	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				✓					✓
Employee's Compensation Cover	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓									✓
Loan Payment Protection						✓	✓	✓	✓	✓											
Loss of contents/cash whilst in transit					✓			✓													
Funeral Charges						✓															✓
Ambulance Charges					✓	✓															✓
Education Fund					✓	✓															✓
Tenants' Legal Liability					✓	✓	✓	✓	✓	✓											✓

Sl. No.	Company Name	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Insurance	Kotak Mahindra General Insurance	Kotak Home Secure	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance
	My Home Insurance -All Risk Policy	Householder's Package Policy	Home Policy	Home Insurance Policy	Home Insurance Protector Policy	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Home Contents Insurance Policy	Householder's package policy	Home Contents Insurance Policy	Home Insurance Policy	Home Contents Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy
	Pedal Cycles	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	<b>Exclusions</b>																					
	Damages which are pre-existing in nature	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Mis-representation, Mis-description or Non-disclosure of any material particulars	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Damage caused by or arising out of willful act or negligence	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss or Damage or Collapse of Building due to structural defects, latent defects, poor maintenance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Manufacturing defects in Electrical, Mechanical and Electronic items	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Mechanical / electrical breakdown (items which are more than 10 years)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Breakage, Cracking or Scratching of Crockery, Glass, Cameras, Binoculars, Lenses, Musical Instruments, Sports Gear or similar items of Brittle nature, unless caused by fire	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss or Damage to Money, Securities, Manuscript, Deeds, Bill of Exchange, Bonds, Promissory Notes, Stock, Stamps, Plans, Precious Stones, Jewellery, Blueprints, Credit/Debit/ATM/Membership Cards, Computer Records	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Company Name	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Insurance	Kotak Mahindra General Insurance	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance
Name of Cover	My Home Insurance - All Risk Policy	Householder's Package Policy	Home Policy	Home Insurance Policy	Home Insurance	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Householder's package policy	Home Contents Insurance Policy	Home Contents Insurance	Home Contents Insurance	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy
Over Winding, Denting or Internal Damage of Watches and Clocks	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Expenses incurred for maintenance of Electronic and Electrical equipment and Domestic Appliances	✓						✓														
Damage to property not belonging to or held in trust by you or in your custody or control.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mysterious disappearance and Unexplained losses	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, destruction, damage directly occasioned by pressure wave caused by aircraft and other aerial devices	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, Destruction or damage to articles of Consumable Nature	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Any loss or damage to the insured property or to the general public and/or legal liability arising out of immoral or unethical use of insured property	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss or damage arising from detention, confiscation, nationalization, requisition, occupation or willful destruction by or under the order of the government	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, destruction or damage, caused by war, invasion, act of foreign enemy, hostilities/volcanic eruption	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sl. No.	Company Name	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Insurance	Kotak Mahindra General Insurance	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance	
	My Home Insurance -All Risk Policy	Householder's Package Policy	Home Policy	Home Insurance Policy	Home Insurance Policy	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Householder's package policy	Home Contents Insurance Policy	Home Contents Insurance Policy	Home Contents Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy	
	Loss or damage caused by depreciation or wear and tear, moth, vermin, insects or mildew, restoring, repairing, retouching or renovation, inherent vice	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss of earnings, loss by delay, loss of market or other consequential or indirect loss or damage of any kind or description whatsoever including those caused by spoilage resulting from the retardation or interruption or cessation of any process or operation caused by or operation of any of the perils covered.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss or damage directly or indirectly caused by or arising from or in consequence of or contributed to by Nuclear weapons material, or ionizing radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss, damage, or destruction caused to the insured property by Pollution or contamination	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Loss of or damage to livestock, motor vehicles, and pedal cycles	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
Company Name	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	Iffco Tokio General Insurance	Future Generali Insurance	Mahindra General Insurance	Kotak Videocon General Insurance	Liberty General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompo General Insurance
Name of Cover	My Home Insurance -All Risk Policy	Householder's Package Policy	Home Policy	Home Insurance Policy	Home Insurance Policy	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Home Contents package policy	Home Contents Insurance Policy	Home Insurance Policy	Home Contents Insurance Policy	Home Contents Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Home Insurance Policy	Householders' Insurance Policy	Householder's Insurance Policy
Loss by theft/larceny during or after the occurrence of any insured peril except as provided under Riot, Strike, and Malicious damage cover.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss of the passport due to the delay or confiscation or theft or snatching	✓																					
Damages caused by the tenant	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Escape of Water/oil from washing machine, natural heating installation, dish water/leakage/spilling, combustion	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chewing, scratching, tearing or damage by domestic animals	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, Damage, cost of expenses caused by resulting from controlling, preventing, suppressing or in any way relating to terrorism	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Injuries such as libel, slander, false arrest, wrongful eviction and detention, deformation and mental injury	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Any fines, penalties, punitive or exemplary damage or any other damages resulting from the multiplication of compensatory damages	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Company Name	Bajaj Allianz General Insurance	Bharti Axa General Insurance	Chola MS General Insurance	HDFC ERGO General Insurance	ICICI Lombard General Insurance	iffco Tokio General Insurance	Future Generali Insurance	Kotak Mahindra General Insurance	Liberty Videocon General Insurance	Magma HDI General Insurance	Raheja QBE General Insurance	Reliance General Insurance	Royal Sundaram General Insurance	National Insurance	The New India Assurance	Oriental Insurance	SBI General Insurance	Shriram General Insurance	Tata AIG General Insurance	United India Insurance	Universal Sompoo General Insurance
Name of Cover	My Home Insurance - All Risk Policy	Householder's Package Policy	Home Insurance Policy	Home Insurance Policy	Home Insurance	Home & Family Protector Policy	Home Secure	Kotak Home Secure	Home Connect	Householder's package policy	Home Contents Insurance Policy	Home Contents Insurance	Home Contents Insurance	Householders' Insurance Policy	Householders' Insurance Policy	Householders' Insurance Policy	Long-Term Home Insurance Policy	Householder Umbrella Insurance Policy	Home Insurance (Standard Fire and Special Perils)	Householders' Insurance Policy	Householder's Insurance Policy
Loss, destruction or damage to any electrical machine, apparatus, fixture or fitting arising from over-running, short circuiting, excessive pressure	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Expenses incurred on Architect or Surveyors/ Consulting Engineer's Fees and Debris removal	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, destruction caused by Forest Fire	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss, destruction or damage to the stocks in Cold Storage caused by change of temperature	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Natural Death	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loss or damage to mobile phones or other similar communication device	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Liability arising out of sale, manufacture, production, distribution of asbestos	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Compiled, structured and simplified for academic purposes from websites of IRDAI and the respective companies

## Group Credit Protection - Provided by Life Insurance Companies - (Extent of Coverage available)

Group Credit Protection - Provided by Life Insurance Companies (Extent of Coverage available)

Sl. No.	Company Name	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21			
		Aegon Life Insurance	Aviva Life Insurance	Allianz Life Insurance	Bajaj Life Insurance	Bharti Axa Life Insurance	Birla Sun Life Insurance	Canara HSBC OBC Life Insurance	Exide Life Insurance	Future Generali India Life Insurance	ICICI Prudential Life Insurance	IDBI Federal Life Insurance	Life Insurance Corporation	Max Life Insurance	HDFC Life Insurance	Kotak Life Insurance	Kotak Life Insurance	MettLife Insurance	Reliance Life Insurance	SBI Life Insurance	Shriram Life Insurance	SUD Life Insurance	Tata AIA Life Insurance		
Name of Product		Group Credit Life Insurance Plan	Aviva Credit Suraksha	Group Credit Protection Plus	Loan Secure	Loan Secure	Group Asset Assurance Plan	Group Secure	Group Loan Suraksha	Loan Suraksha	Group Loan Protect	Loansurance	Group Credit Life Insurance	Group Credit Secure Plan	Group Credit Protection Plus	Group Credit Insurance Plan	Group Credit Shield Plan	Loan and Life Suraksha	Group Credit Assure Plan	Rin Raksha	Group Life Protector Plan SP	New Aashiana Suraksha	Group Total Suraksha		
<b>Coverages and Benefits</b>																									
Death Benefit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Critical Illness Benefit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Terminal Illness Benefit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Disability Benefit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Financial protection from the burden of repayment of loan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Financial protection to the families/eligible members in addition to loan protection	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Optional life cover for the spouse of the member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Co-borrower/Joint Life Insurance Policy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Death due to suicide within 1 year from the commencement of the policy *	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
* Insurance Regulatory and Development Authority (Linked Insurance Products) Regulations, 2013 states, "In case of death due to suicide, within 12 months from the date of inception of the policy or from the date of revival of the policy, the nominee of the policyholder shall be entitled to the fund value / policy account value, as available on the date of death."																									
* Insurance Regulatory and Development Authority (Non Linked Insurance Products) Regulations, 2013 states, "In case of death due to suicide, within 12 months from the date of inception of the policy, the nominee of the policyholder shall be entitled to at least 80% of the premiums paid or from the date of revival of the policy, the nominee of the policyholder shall be entitled to a minimum of the surrender value / policy account value, as available on the date of death."																									
<b>Additional Features</b>																									
Only Single Premium Policy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Surrender Benefits	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sum Assured will be the original loan sanctioned	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sl. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21			
Company Name	Aegon Life Insurance	Aviva Life Insurance	Allianz Life Insurance	Bajaj Axa Life Insurance	Bharti Sun Life Insurance	Birla Sun Life Insurance	Canara HSBC OBC Life Insurance	Exide Life Insurance	Future India Life Insurance	Generali India Life Insurance	ICICI Prudential Life Insurance	IDBI Federal Life Insurance	Life Insurance Corporation	Max Life Insurance	HDFC Life Insurance	Kotak Life Insurance	Kotak Life Insurance	Kotak Life Insurance	Reliance Life Insurance	SBI Life Insurance	Shriram Life Insurance	SUD Life Insurance	Tata AIA Life Insurance	
Name of Product	Group Credit Life Insurance Plan	Aviva Credit Suraksha Plan	Group Credit Protection Plus	Loan Secure	Group Asset Assure Plan	Group Secure Plan	Group Loan Suraksha	Group Loan Suraksha	Future India Life Insurance	Loan Suraksha	Group Loan Protect	Loansurance Federal Life Insurance	Group Credit Life Insurance											
Discount for Women		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Increase in sum insured				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Cover Continuation Option				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Exclusions</b>																								
No maturity benefit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
No Surrender Benefits	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Suicide	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Any breach of law	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Disability/ Accidental Death as a result of war, invasion, civil war, rebellion or riot, aviation, Poison, Criminal acts, Nuclear Contamination, Hazardous Sports	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Disability as a consequence of the member/s being under the influence of alcohol or drugs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Disability as a result of the member/s taking part in any naval, military or air force operation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Diagnosis and treatment outside India	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
AIDS related illness or HIV infection	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Congenital condition of insured or related illness arising out of a pre-existing medical condition.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Source: Compiled, structured and simplified for academic purposes from websites of IRDAI and the respective companies

## Research Methodology

This study was designed as an exploratory foray into the insurance needs of the Housing Industry (HI) in India. The research study was three-pronged.

**I. Literature Review and Data Collection:** The first part was a Literature Review.

- (a) This included tracing the growth of the Housing Industry (HI) in India.
- (b) Information/ data on HFIs available on public domain, published literature were studied.
- (c) Insurance policies of relevance to HFI sold by different insurers from IRDAI website and company websites were studied.
- (d) The study attempted to locate data/ information on reasons for Non-Performing Advances to identify the insurable needs from among the reasons. However, this attempt was not successful as such information was available from the interviewed PLIs.

**II. Estimate-Talk-Estimate:** The second part of the study was an **Estimate-Talk-Estimate** (ETE) methodology popularly known as 'Mini-Delphi'. This involved explorative discussions and fact finding by the researchers from people knowledgeable in property insurance and related areas, referred to as '**Experts**'.

**The methodology adopted was as follows:**

- A background paper setting out the context of the study along with focus areas of discussions was sent to the identified '**Experts**'. ['Experts' were broadly in 2 groups, '**HFI Professionals**' and '**Insurers**'.]
- This was followed up by detailed personal discussions by two researchers, jointly and individually.
- The gist of discussions was captured in structured formats. Gist was rechecked with the Experts either at the end of the interview in person or telephonically or by email transcript (as required) for their review. Some of them sent emails adding their views subsequent to the interviews.
- A 2nd round of discussions by phone/ email was conducted wherever required, especially, to analyze and cross-check the information received for accuracy
- Outcomes were discussed in detail with a few Key Resource Persons (from among the Experts) for crystallizing the vision.

**III. Information Gathered through Structured Questionnaires:** Questionnaires were sent to 3 groups – (1) Insurers, (2) HFI Experts and (3) Customers of the HF Industry. The study has attempted to put in place an unbiased evaluation of the situation from academic/ professional/ customer points of view which would enable policy makers and other stakeholders plan their strategies.

**Technical details of the ETE Methodology:** The Delphi method is a systematic interactive forecasting method for obtaining forecasts, estimates or opinions from a panel of independent experts. The carefully selected experts answer to a problem in two or more rounds. After each round, a facilitator provides an anonymous summary of the experts' results from the previous round as well as the reasons they provided for their judgments. Thus, participants are encouraged to revise their earlier answers in light of the replies of other members of the group. It is believed that during this process the range of the answers will decrease and the group will converge towards the "correct" answer. Finally, the process is stopped after a pre-defined stop criterion (e.g. number of rounds, achievement of consensus and stability of results). Delphi is based on well-researched principles and provides forecasts that are more accurate than those from unstructured groups. The technique can be adapted for use in face-to-face meetings, and is then called mini-Delphi or Estimate-Talk-Estimate<sup>220</sup> (ETE).

Delphi is based on the principle that forecasts (or decisions) from a structured group of individuals are more accurate than

<sup>220</sup> <http://www.saltlane.co.uk/Resources/delphi%20method.HTML>

those from unstructured groups. The Delphi method is based<sup>221</sup> on structural surveys and makes use of the intuitive information of the participants, who are mainly experts. Therefore, it delivers qualitative as well as quantitative results and has beneath it explorative, predictive even normative elements. There is no 'the one Delphi methodology' and the applications are diverse. There is agreement that Delphi is an expert survey in two or more 'rounds' in which in the second and later rounds of the survey the results of the previous round are given as feedback. Therefore, the experts answer from the second round on under the influence of their colleagues' opinions.<sup>222</sup> Thus, the Delphi method is considered a 'relatively strongly structured group communication process, in which matters, on which naturally unsure and incomplete knowledge is available, are judged upon by experts'<sup>223</sup>.

Usually all participants remain anonymous and their identity is not revealed to other participants, even after the completion of the final report. This prevents the authority, personality, or reputation of some participants from dominating others in the process. Arguably, it also frees participants (to some extent) from their personal biases, minimizes the "bandwagon effect" or "halo effect", allows free expression of opinions, encourages open critique, and facilitates admission of errors when revising earlier judgments<sup>224</sup>.

However, in the instant case, the anonymity part was not followed as practically everyone in the housing/ insurance industry knew everyone else and many of the Experts enquired with the Researchers about the other Experts and suggested the names of others who could give valuable inputs for the study.

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<sup>221</sup> [http://en.wikipedia.org/wiki/Delphi\\_method](http://en.wikipedia.org/wiki/Delphi_method).

<sup>222</sup> [http://www.unido.org/fileadmin/import/16959\\_DelphiMethod.pdf](http://www.unido.org/fileadmin/import/16959_DelphiMethod.pdf)

<sup>223</sup> Häder and Häder (1995, p. 12) <https://pdfs.semanticscholar.org/21a4/a0ac70928452880eae6c51e171aa9289a00a.pdf>

<sup>224</sup> [http://en.wikipedia.org/wiki/Delphi\\_method](http://en.wikipedia.org/wiki/Delphi_method).

## Abbreviations used for the Research Study

Sr. No.	Abbreviation	Full form
1	A2ii	Access to Insurance Initiative
2	ABI	The Association of British Insurers
3	ADB	Asian Development Bank
4	AHP	Affordable Housing in Partnership
5	AICPCU	American Institute for Chartered Property Casualty Underwriters
6	ALOP	Advance Loss of Profit Insurance
7	AMRUT	Atal Mission for Rejuvenation and Urban Transformation
8	AOA	Any One Accident
9	AOY	Any One Year
10	BIBA	British Insurance Brokers' Association
11	BLC	Beneficiary Linked Construction
12	BMPI	Building materials price indices
13	BMZ	The Federal Ministry for Economic Cooperation and Development (Germany)
14	CAGR	Compound Annual Growth Rate
15	CAR	Construction All Risk
16	CBSE	Central Board of Secondary Education
17	CDA	Cash Deposit Accounts
18	CERSAI	Central Registry of Securitization Asset Reconstruction and Security Interest of India
19	CFS	Central Fire Service
20	CGAP	The Consultative Group to Assist the Poor
21	CII	Chartered Insurance Institute of U.K.
22	CL	Consequential Loss
23	CLSS	Credit Linked Subsidy Scheme
24	CMHC	Canada Mortgage and Housing Corporation'
25	CPIC	Citizen's Property Insurance Corporation
26	CRED	Centre for Research on the Epidemiology of Disasters
27	CRGFTLIH	Credit Risk Guarantee Fund Trust for Low Income Housing
28	DILRMP	Digital India Land Records Modernization Program
29	EM-DAT	Emergency Events Database
30	EPIC	Earthquake Protection Insurance Corporation
31	EQC	The Earthquake Commission
32	ETE	Estimate-Talk-Estimate

33	EWS	Economically weaker Section
34	FAIR	Fair Access to Insurance Requirements
35	FAMUA	Fire Accident and Marine Underwriters Association
36	FLOP	Fire Loss of Profits
37	G20	Group of Twenty
38	GDP	Gross Domestic product
39	Genworth	Genworth Financial Mauritius Holding Limited
40	GNPAs	Gross Non Performing Advances
41	GPA	Group Personal Accident
42	GRIDS	Grievance Registration and Information Database System
43	HFCs	Housing Finance Company(ies)
44	HFI	Housing Finance Institution(s)
45	HPI	Housing Price Indices
46	HRI	Housing Rental Index
47	IAIS	International Association of Insurance Supervisors
48	ICA	The Insurance Council of Australia
49	IFC	International Finance Corporation
50	IIB	Insurance Information Bureau of India
51	IIS	International Insurance Society
52	ILO	The International Labor Organization
53	IMGC	India Mortgage Guarantee Corporation Pvt. Ltd.
54	IMGF	India Mortgage Guarantee Fund
55	InvITs	Infrastructure Investment Trusts
56	IPO	Initial Public Offering
57	IRDAI	Insurance Regulatory and Development Authority of India
58	ISO	Insurance Services Office Inc.
59	ISSR	In-Situ Slum Redevelopment
60	ITIR	Information Technology Investment Region
61	LIG	Low Income Group
62	LIMRA	Life Insurance Marketing and Research Association
63	LOMA	Life Office Management Association of U.S.A.
64	LOP	Loss of Profits
65	LPI	Land Price Indices
66	LTH	Long-Term Home Insurance
67	MAOA	Maharashtra Apartment Ownership Act 1970
68	MCHSA	Maharashtra Cooperative Housing Societies Act 1960
69	MCST	Management Corporation Strata Title

70	MG	Mortgage Guarantee
71	MGC	Mortgage Guarantee Company
72	MIG	Middle Income Group
73	MoHUA	Ministry of Housing and Urban Affairs
74	MTU	Machine Tabulation Unit
75	NAIC	National Association of Insurance Commissioners
76	NAREDCO	National Real Estate Development Council
77	NBFCs	Non-Banking Finance Companies
78	NCAER	National Council of Applied Economic Research
79	NCIF	National Catastrophe Insurance Fund
80	NDF	National Disaster Fund
81	NDIR	National Disaster Insurance Review
82	NDMA	National Disaster Management Authority
83	NDRF	National Disaster Response Force
84	NEMA	National Emergency Management Agency
85	NFIP	National Flood Insurance Program
86	NHB	National Housing Bank
87	NIDM	National Institute of Disaster Management
88	NPA	Non-Performing Asset
89	OECD	Organisation for Economic Co-operation and Development
90	PLI	Primary Lending Institution
91	PMAY	Pradhan Mantri Awas Yojana
92	PMF	Probable Maximum Flood
93	PMI	Private Mortgage Insurance
94	POSI	Public Offering of Securities Insurance
95	PUC	Pollution under Control
96	REITs	Real Estate Investment Trusts
97	RERA	Real Estate (Regulation and Development) Act 2016
98	RHF	Rural Housing Fund
99	RPPI	Residential Property Price Index
100	SARFAESI	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act
101	TAC	Tariff Advisory Committee
102	TAT	Turn Around Time
103	TCIP	Turkish Catastrophe Insurance Pool
104	UHF	Urban Housing Fund
105	UNCDEF	The United Nations Capital Development Fund

## Questionnaires used for the Research Study

### Q.1: QUESTIONNAIRE FOR HOUSING INDUSTRY EXPERTS

[Framed to elicit views of the financiers of the Indian Housing Industry.]

**Note:** All questions are in the Indian context (including Metro, Urban, Suburban, Rural and Special Economic Zones.)

- |   |   |                          |
|---|---|--------------------------|
| 1. How will you describe your company<br>(please tick ✓ all relevant)   | a. Housing Company  | <input type="checkbox"/> |
|   | b. Financing Company  | <input type="checkbox"/> |
|   | c. Bank   | <input type="checkbox"/> |
|   | d. NBFC   | <input type="checkbox"/> |
|   | e. Institutional Customer                                       | <input type="checkbox"/> |
|   | f. Any other (please give details)                              | <input type="checkbox"/> |
| 2. What are the major challenges faced in<br>the development of the Indian Housing<br>industry? (Rank by importance)        | a. Lack of demand for houses                                    | <input type="checkbox"/> |
|   | b. Lack of supply of houses                                     | <input type="checkbox"/> |
|   | c. Unrealistic pricing expectations of customers                | <input type="checkbox"/> |
|   | d. Lack of access to finance for individual customers           | <input type="checkbox"/> |
|   | e. Insufficient financing institutions                          | <input type="checkbox"/> |
|   | f. Difficulty in doing business with financing institutions     | <input type="checkbox"/> |
|   | g. Difficulty in doing business with house builders             | <input type="checkbox"/> |
|   | h. Lack of customer friendly systems to repay loan installments | <input type="checkbox"/> |
|   | i. Insufficient enablement by Regulatory/ Legal environment     | <input type="checkbox"/> |
|   | j. Lack of standardized systems of availing loans               | <input type="checkbox"/> |
|   | k. Any other (please give details)                              | <input type="checkbox"/> |
| 3. What are the major challenges faced by<br>the Indian Housing Finance industry in<br>granting loans? (Rank by importance) | a. Lack of demand/ supply of houses                             | <input type="checkbox"/> |
|   | b. Lack of demand for loans                                     | <input type="checkbox"/> |
|   | c. Impracticable financing expectations of customers            | <input type="checkbox"/> |
|   | d. Lack of access to finance for individual customers           | <input type="checkbox"/> |
|   | e. Insufficient financing institutions                          | <input type="checkbox"/> |
|   | f. Difficulty in getting loans                                  | <input type="checkbox"/> |
|   | g. Lack of customer friendly systems to repay loans             | <input type="checkbox"/> |
|   | h. Insufficient enablement by Regulatory/ Legal environment     | <input type="checkbox"/> |
|   | i. Lack of standardized systems of availing loans               | <input type="checkbox"/> |
|   | j. Cumbersome documentation/ procedures                         | <input type="checkbox"/> |
|   | k. Any other (please give details)                              | <input type="checkbox"/> |
| 4. At a broad level, do you think any of the<br>following can be achieved by using the<br>insurance mechanism?              | a. Increasing the demand for houses                             | <input type="checkbox"/> |
|   | b. Increasing the supply of houses                              | <input type="checkbox"/> |
|   | c. Increasing the demand for loans                              | <input type="checkbox"/> |
|   | d. Increasing the access to finance for individual customers    | <input type="checkbox"/> |
|   | e. Reducing the pricing of houses                               | <input type="checkbox"/> |
|   | f. Giving more peace of mind to the individual house buyer      | <input type="checkbox"/> |
|   | g. Any other (please give details)                              | <input type="checkbox"/> |

5. Would you like to discuss any operational risks of the housing industry that can be mitigated through insurance?
6. Would you consider insurance as a way to manage your business/ operational risks? Yes/ No
7. Would you consider insurance as a means to expand your business? Yes/ No
8. Can you identify the major risks related to the Housing industry that you think can be mitigated using insurance? (Rank by importance)
- a. Non-repayment of loans due to personal reasons like death/ disability/ loss of employment etc.
  - b. Non-payment of loans due to loss/ damage of building during construction phase
  - c. Damage of building by natural calamities during construction
  - d. Damage to building by natural calamities after construction
  - e. Damage to building due to contractor's negligence
  - f. Non-completion of building due to contractor's bankruptcy/ default
  - g. Inability to pay compensation due to legal liability to third party
  - h. Inability to pay litigation costs
9. Kindly make a wish list of all the additional coverages that the Housing industry would need
- a.
  - b.
  - c.
10. Need for insurance - Kindly mention any additional risk related to the Housing industry that may be considered for mitigation through insurance? (Four indicative risks are mentioned - which may or may not be insurable. Please mention the needs that you feel important and rank them by importance)
- a. Reduction of demand due to changing trends/ market conditions
  - b. Inability of sub-contractors to perform
  - c. Fall in expected profit due to disruption of work
  - d. Changes in the financial systems in the country
  - e.
  - f.
  - g.
  - h.
  - i.
11. Under any legal/ contractual/ market obligation, would you be liable to offer any financial compensation to your clients for deficiencies in services? Yes/ No
12. If so, please list out the details
13. How do you fund such financial compensations/ liabilities?
- a. Divert operational funds
  - b. From demarcated funds created over a period of time
  - c. By pooling arrangements/ funds created by a group of similar companies/ associates
  - d. By billing it to partners/ outsourced entities
  - e. By trying for legal recourse
  - f. By insurance bought from own funds
  - g. By insurances bought by customers/ billed to customers
  - h. By insisting that customers/ stakeholders buy insurance protection
  - i. Any other system (please give details)

14. Do you have any policy to cover your legal liabilities? Yes/ No

15. What are the situations where an insurance policy would be most helpful for a Housing company?  
(From the Housing industry point of view and not Employee Benefits)

**Answer if different from the above** (Rank by importance)

16. Can you briefly narrate a specific instance where an insurance policy would have helped a business entity in a difficult situation?

17. Out of the four phases mentioned below where do you feel insurance can provide support?

	<i>Construction phase</i>	<i>Pre-sale phase</i>	<i>Loan phase</i>	<i>Post handing over possession/ management to Buyer/ Housing Society</i>
--	---------------------------	-----------------------	-------------------	---

18. Do you feel that the insurance policies available in the market are adequate for the needs of the Housing service providers? Yes/ No

19. If yes, kindly list the type of policies purchased by you and/ or which you would recommend. Please mention the name of the insurance company also.

<b>Policy</b>	<b>Comments</b>	
a.		<input type="checkbox"/>
b.		<input type="checkbox"/>
c.		<input type="checkbox"/>

20. Is it compulsory that your housing customers should have insurance policies? Yes/ No

21. If so, what types of policies are insisted upon? Select relevant options

	a. Life insurance	
	b. Property/ Long-Term Home (LTH) Insurance	<input type="checkbox"/>
	c. Both	<input type="checkbox"/>

22. In case of Life insurance, what types of policies are insisted upon? Select relevant options/ multiple options, if applicable.

	a. Term Life insurance	
	b. Mortgage Redemption Plans	<input type="checkbox"/>
	c. Both	<input type="checkbox"/>
	d. Any other	<input type="checkbox"/>

23. In case of Non-Life insurance, what types of policies are insisted upon? Select relevant options/ multiple options, if applicable.

	a. Annual policies covering the property	
	b. Long-Term Home (LTH) Insurance	<input type="checkbox"/>
	c. Home package covering the house and contents	<input type="checkbox"/>
	d. Policy bought by the Housing Society/ Condominium	<input type="checkbox"/>
	e. Any other	<input type="checkbox"/>

24. Do insurance companies advice you or your customers on risk management/ loss prevention mechanisms? Yes/ No

25. Do you have any system to specify the sum insured of the policy? Yes/ No

26. If so, what parameter do you insist for fixing the sum insured?

	a. Not less than the market price of the property	
	b. Not less than the loan amount granted by you	
	c. Not less than the loan and interest due by you	
	d. Not less than all the liabilities of the customer on the property	
	e. Based on construction cost	
	f. Based on construction plus land value	
	g. Equal to the estimated cost of reconstruction	

27. In your opinion, what are the reasons for inadequate insurance penetration?

	<i>High cost of insurance</i>	<i>Specific covers not available</i>	<i>Customer is not aware of the benefits of insurance</i>	<i>Customer does not cooperate with financier/builder</i>
	Yes/ No	Yes/ No	Yes/ No	Yes/ No

28. In case you feel there is an additional/ different reason, kindly mention the same.

29. What are the difficulties faced in getting the insurance coverage that you require/ getting competitive quotes from insurance companies/ generally dealing with them?
- a. Insurers are not interested in providing cover to the housing sector
  - b. Though interested in the business, insurers do not respond to calls
  - c. Covers provided by insurers are not of practical use to the sector
  - d. Prices are not realistic
  - e. Insurers cartelize and insist on unacceptable prices/ conditions
  - f. Documentation requirements are hard to comply with
  - g. Past experiences with insurers were generally not good
  - h. Insurers do not pay claims to the agreed levels
  - i. Insurers do not pay claims in time
  - j. It is generally difficult to deal with the Insurance industry
  - k. Insurance systems are not transparent enough
  - l. Any other (please mention)
30. What was the best experience that you had with any insurance company?
31. Have you made any insurance claim in the past? Yes/ No
32. If so, what was your experience on settlement of the claim?
33. Was there any instance when you were wrongly dragged into litigation (i.e. with no fault of yours)? If so, please give details
34. In case you have come across any law/ regulation/ legal enablement available in other countries that could be helpful in improving the Indian Housing industry, kindly share the same with us (web-links are welcome).
35. If you have any suggestion/ message for the Housing or Insurance industry, which can be incorporated in the study, kindly mention the same.
- Select (tick ✓ relevant)
- With your name:
- Without your name:
- Name: // Telephone number: // Email address: Address:

## Q.2: QUESTIONNAIRE FOR CUSTOMERS

**[Framed to elicit views of the Individual Customers/ Loanees of the Indian Housing Industry.]**

**All questions are in the Indian context (including Metro, Urban, Suburban, Rural and Special Economic Zones)**

1. How will you describe yourself as a customer of the housing industry (please tick ✓ all relevant)
- a. Individual End-User
  - b. Investor/ Reseller
  - c. Loan recipient from Bank
  - d. Loan recipient from Housing Finance Company
  - e. Loan recipient from Non-Banking Finance Company
  - f. Any other (please give details)
2. Have you availed of a loan for purchasing a house? Yes/ No

3. If yes, what was the source of the loan?
- a. Own funds/ savings
  - b. Bank loan
  - c. Employer of Self/ Spouse/ Parents
  - d. Housing Finance Company
  - e. Non-Banking Finance Company
  - f. Multiple sources among the above
  - g. Any other (please give details)
4. What were the major challenges faced by you as a loanee/ customer of the Indian Housing industry? (Rank by importance)
- a. Insufficient supply of houses
  - b. Insufficient supply of loans
  - c. Impracticable expectations of financiers
  - d. Lack of access to finance for individual customers
  - e. Insufficient financing institutions
  - f. Difficulty in getting loans
  - g. Lack of customer friendly systems to repay loans
  - h. Insufficient enablement by Regulatory/ Legal environment
  - i. Lack of standardized systems of availing loans
  - j. Cumbersome documentation/ procedures
  - k. Inability to repay loans due to personal reasons like death/ disability/ loss of employment etc.
  - l. Inability to repay loans due to loss/ damage of building during construction phase
  - m. Inability to repay loans due to loss/ damage of building due to natural calamities after construction
  - n. Damage to building due to contractor's negligence
  - o. Non-completion of building due to contractor's bankruptcy/ default
  - p. Inability to get possession as builder/ contractor has not been able to provide all the required clearances from the civic authorities.
  - q. Any other (please give details)
5. Having availed of a housing loan, what are the major risks that you may face in repaying the loan? (Rank by importance)
- a. Death
  - b. Loss of employment
  - c. Disability due to accident/ sickness
  - d. Natural/ Man-made disaster
  - e. Any other (please give details)
6. If you are unable to repay your house property loan, how will you settle your dues?
- a. By using savings
  - b. By fresh borrowings
  - c. By disposing of the house property procured using the funds
  - d. By disposing of other land/ house property
  - e. By diverting funds from business/ trade
  - f. By insurance
  - g. By any other system (please give details)
7. Would you consider insurance as a way to manage your loan related risks? Yes/ No
8. If no, what are the other options available to you?

9. If yes, what specific benefits would you expect from an insurance policy?
10. Having purchased a house property, what are the major risks that you face? (Rank by importance)
11. Would you consider insurance as a method to manage your house property related risks? Yes/ No
12. What are the reasons why many people are not buying house property related insurance?
13. What benefits do you expect from an insurance policy as a house owner?
14. What do you expect from an insurance company after you purchase a policy?
15. Was it compulsory for you as a house property owner to have an insurance policy? Yes/ No
16. Was it compulsory for you as a loanee to have an insurance policy? Yes/ No
17. If so, what types of policies were required to be bought for protection from loan default?(Select relevant options)
18. In case of Life insurance, what types of policies are insisted upon/ found useful? (Select relevant options/ multiple options, if applicable.)
19. In case of Non-Life insurance, what types of policies are insisted upon/ found useful? (Select relevant options/ multiple options, if applicable.)
20. Do insurance companies advise you on any risk management/loss prevention mechanisms? Yes/ No

21. How did you decide on the sum insured of the policy?
- The market price of the property
  - The loan amount granted to you
  - The loan and interest due by you
  - All your liabilities on the property
  - Based on construction cost
  - Based on construction plus land value
  - Equal to the estimated cost of reconstruction
22. Can you briefly narrate a specific instance where an insurance policy helped/ would have helped you or someone you know in a loan default situation?
23. Can you briefly narrate a specific instance where an insurance policy helped/ would have helped you or someone you know in a situation of physical loss/ damage to a house property?
24. Do you feel that the insurance policies available in the market are adequate for the needs of the customers of the Housing industry? Yes/ No
25. If yes, kindly list some of the policies you have purchased/ you would recommend. (Please mention your comments on the same.)
- | Policy | Comments |
|--------|----------|
| a.     |          |
| b.     |          |
| c.     |          |
26. If no, please list out the major needs that not getting covered by the insurance policies?
27. The common reasons why housing customers are not availing of insurance are usually the following:
- |  | <i>High cost of insurance</i> | <i>Specific cover not available</i> | <i>Being not aware of the benefits of insurance</i> | <i>Builders/ financiers do not cooperate with customers</i> |
|--|-------------------------------|-------------------------------------|---|---|
|  | Yes/ No                       | Yes/ No                             | Yes/ No   | Yes/ No   |
|  |                               |                                     |   |   |
28. In case you feel there is an additional/ different reason, kindly mention the same.
29. What are the difficulties faced in getting the insurance coverage that you require/ getting competitive quotes from insurance companies/ generally dealing with them?
- Insurers are not interested in providing cover to the housing sector
  - Though interested in the business, insurers do not respond to calls
  - Covers provided by insurers are not of practical use to the sector
  - Prices are not realistic
  - Insurers cartelize and insist on unacceptable prices/ conditions
  - Documentation requirements are hard to comply with
  - Past experiences with insurers were generally not good
  - Insurers do not pay claims to the agreed levels
  - Insurers do not pay claims in time
  - It is generally difficult to deal with the Insurance industry
  - Insurance systems are not transparent enough
  - Any other (please mention)
30. What was the best experience that you had with any insurance company?

31. Have you made any insurance claim in past? Yes/ No
32. If so, briefly narrate your experience on the settlement of claims?
33. Was there any instance when you were wrongly dragged into litigation (i.e. with no fault of yours)? If so, please give details
34. Do you have any policy to cover your legal liabilities as a house owner?
35. Kindly make a wish-list of all the coverages that someone who avails of a Housing Loan would need?
36. Kindly make a wish-list of all the coverages that someone who purchases a House would need?
37. In case you have come across any law/ regulation/ legal enablement available in other countries that could be helpful in improving the Indian Housing industry, kindly share the same with us (web-links are welcome).
38. If you have any suggestion/ message for the Housing or Insurance industry, which can be incorporated in the study, kindly mention the same.
- Select (tick ✓ relevant)

With your name:

Without your name:

Name: // Telephone number: // Email address: Address:

### Q.3: QUESTIONNAIRE FOR INSURANCE INDUSTRY EXPERTS

[Framed to elicit views of the Indian Insurance Industry.]

**Note:** All questions are in the Indian context (including Metro, Urban, Suburban, Rural and Special Economic Zones.)

1. Kindly mention your company name
2. What are the major risks faced by **Problems due to:**   
the House financiers in granting a. Death of Loanee   
loans to individual buyers? (*Rank* b. Sickness/ accident of Loanee   
*by importance*) c. Loss of employment/ retrenchment/ livelihood   
d. Sickness/ accident of relative   
e. Natural catastrophe   
f. Complaints about faulty construction   
g. Other problems (please mention)
3. What are the major risks faced **Problems due to:**   
by the Housing financiers in a. Natural catastrophe   
granting loans to builders/ b. Faulty construction   
construction contractors? (*Rank* c. Escalation of costs   
*by importance*) d. Bankruptcy of contractor   
e. Litigation   
f. Breach of obligations by sub-contractor   
h. Other problems (please mention)
4. Name the types of life insurance a. Term Life insurance   
policies of your company b. Mortgage Redemption Plans   
designed for those who avail c. Both   
of loans for housing purposes? d. Any other (please give details)   
Select(tick ✓ relevant)(only for  
life insurers)

5. Name the types of non-life insurance policies of your company designed for those who avail of loans for housing purposes?(tick ✓ relevant)(only for non-life insurers)
- |    |  |                          |
|----|--|--------------------------|
| a. | Annual policies covering the property        | <input type="checkbox"/> |
| b. | Long-Term Home (LTH) Insurance               | <input type="checkbox"/> |
| c. | Home package covering construction risks     | <input type="checkbox"/> |
| d. | Home package covering the house and contents | <input type="checkbox"/> |
| e. | Policy issued to the Housing Society         | <input type="checkbox"/> |
| f. | Policy issued to the Housing condominium     | <input type="checkbox"/> |
| g. | Any other                                    | <input type="checkbox"/> |
6. Name the types of non-life insurance policies of your company designed for protecting house owners' interests?(tick ✓ relevant)(only for non-life insurers)
- |    |  |                          |
|----|--|--------------------------|
| a. | Annual policies covering the property        | <input type="checkbox"/> |
| b. | Long-Term Home (LTH) Insurance               | <input type="checkbox"/> |
| c. | Home package covering the house and contents | <input type="checkbox"/> |
| d. | Policy issued to the Housing Society         | <input type="checkbox"/> |
| e. | Policy issued to the Housing condominium     | <input type="checkbox"/> |
| f. | Any other                                    | <input type="checkbox"/> |
7. Name the types of non-life insurance policies of your company that cater to the needs of Housing Financiers/ House builders?(tick ✓ relevant)(only for non-life insurers)
- |    |  |                          |
|----|--|--------------------------|
| a. | Project/ Construction Insurances         | <input type="checkbox"/> |
| b. | Property Insurances                      | <input type="checkbox"/> |
| c. | Liability Insurances                     | <input type="checkbox"/> |
| d. | Policy issued to the Housing Society     | <input type="checkbox"/> |
| e. | Policy issued to the Housing Condominium | <input type="checkbox"/> |
| f. | Any other                                | <input type="checkbox"/> |
8. Please identify areas where new insurance policies need to be designed for the Housing industry?
9. Can insurance help in making housing accessible to individual house buyers? Yes/ No
10. If so, what are your views on the role of insurance in making housing affordable and accessible to individual house buyers?
- |    |   |                          |
|----|---|--------------------------|
| a. | Increasing the spread by making insurance mandatory | <input type="checkbox"/> |
| b. | Making insurance affordable by government subsidy   | <input type="checkbox"/> |
| c. | Increasing the spread by intense marketing efforts  | <input type="checkbox"/> |
| d. | Designing policies with very minimal cover only     | <input type="checkbox"/> |
| e. | Designing policies with comprehensive cover         | <input type="checkbox"/> |
| f. | Any other (please specify)                          | <input type="checkbox"/> |
11. How can insurance be of specific help to builders?
12. In addition to the existing covers, please list out the additional covers that can be offered to builders.
13. How can insurance be of specific help to financiers?
14. In addition to the existing covers, please list out the additional covers that can be offered to financiers.
15. How can insurance be of specific help to loanees?
16. In addition to the existing covers, please list out the additional covers that can be offered to loanees.
17. Do you feel that builders should mandatorily have insurance policies? Yes/ No
18. If so, please list out the policies/ covers that should be insisted upon.
19. Do you feel that financiers should mandatorily have insurance policies? Yes/ No
20. If so, please list out the policies/ covers that should be insisted upon.
21. Do you feel that loanees should mandatorily have insurance policies? Yes/ No
22. If so, please list out the policies/ covers that should be insisted upon.
23. Do you feel that all home owners should mandatorily have insurance policies? Yes/ No
24. If so, please list out the policies/ covers that should be insisted upon.
25. What should be the practical way of collecting premiums?
26. Please suggest mechanisms to improve persistency of long-term policies and continual collection of premiums

27. Please suggest mechanisms to improve continuous renewal of annual policies and collection of premiums
28. Do you (as an insurer) feel that risk management/ loss prevention mechanisms should be recommended to non-loanee house owners? Yes/ No
29. Do you (as an insurer) feel that risk management/ loss prevention mechanisms should be recommended to loanee house purchasers? Yes/ No
30. Do you (as an insurer) feel that risk management/ loss prevention mechanisms should be recommended to builders? Yes/ No
31. Do you (as an insurer) feel that risk management/ loss prevention mechanisms should be recommended to housing financiers? Yes/ No
32. Kindly suggest a few risk management/ loss prevention mechanisms for the multiple players of the housing industry
33. What parameter do you insist for fixing the sum insured?
- Not less than the market price of the property
  - Not less than the loan amount granted by you
  - Not less than the loan and interest due by you
  - Not less than all the liabilities of the customer on the property
  - Equal to the estimated cost of reconstruction
34. Can you briefly narrate a specific instance where an insurance policy has/ would have helped an individual in a difficult situation?
35. Can you briefly narrate a specific instance where an insurance policy has/ would have helped a business entity in a difficult situation?
36. Kindly mention any additional cover that insurance policies should have to make them more relevant to the housing industry?
- |   | Cover                  | Comments                      |  |   |
|---|------------------------|-------------------------------|--|---|
| 37. The reasons for inadequate insurance coverage are | High cost of insurance | Specific covers not available | Customer is not aware of the benefits of insurance | Customer does not cooperate with financier/ builder |
|   | Yes/ No                | Yes/ No                       | Yes/ No  | Yes/ No   |
38. In case you feel there is an additional/ different reason, kindly mention the same.
39. What are the difficulties faced in providing the insurance coverage required/ giving competitive quotes/ generally dealing with the housing industry?
- Insurance needs of the housing industry are not clear
  - There are no policies to provide the required coverage
  - Premiums are low and there is no motivation to deal with them
  - Follow up with housing customers is cumbersome
  - It is a buyers' market and customers need it more than insurers
  - The housing industry cartelizes and insist on unacceptable prices/ conditions
  - Documentation requirements are hard to comply with
  - Past experiences with the sector were generally not good
  - It is difficult to actually pay claims as customers do not provide all documents required
  - Housing Sector is weak and not transparent enough
  - Any other (please mention)
40. Generally, what are the major hurdles faced by insurance companies in giving competitive quotes for its customers?
41. What were the major difficulties that you have experienced in settling housing related claims?
42. What measures would you recommend to streamline claim settlement?



43. Is there any instance when you were wrongly dragged into litigation (i.e. for no fault of yours)? If so, please give details
44. In case you have come across any law/ regulation/ legal enablement available in other countries that could be helpful in improving the Indian Housing industry, kindly share the same with us (web-links are welcome).
45. If you have any suggestion/ message for the Housing or Insurance industry, which can be incorporated in the study, kindly mention the same.

Select (tick ✓ relevant)

With your name:

Without your name:

Name: // Telephone number: // Email address: Address:

=====

## Experts Interviewed for this Research Study

### Insurance Practitioners (Names in alphabetical order)

Sr. No.	Name (Mr./ Ms.)	Company	Designation	Location
1	R Chandrasekaran	General Insurance Council	Secretary General	Mumbai
2	Subrata Ghosh	GIC of India	General Manager (Retired)	Kolkata
3	D Nagalakshmi	United India Ltd.	Deputy General Manager	Chennai
4	Debashish Purkait	United India Ltd.	Chief Manager	Chennai
5	K U Bhaskar	Chola MS General Insurance Ltd.	Sr. General Manager	Chennai
6	R Pattabhiraman	Chola MS General Insurance Ltd.	Advisor	Chennai
7	R Sankaranarayanan	SBI General Insurance Co. Ltd.	Regional Underwriting Head - South	Chennai
8	Shanthi Naveen	SBI General Insurance Co. Ltd.	Sr. Manager	Chennai
9	Randip Singh Jagpal	Insurance Regulatory and Development Authority of India	Sr. Joint Director	Hyderabad
10	Purushotham Reddy	K M Dastur Insurance Brokers	Director	Hyderabad
11	A.M. Durga Kumari	Oriental Insurance Co. Ltd.	Deputy General Manager (Retd.)	Hyderabad
12	Avinash Singaraju	SBI General Insurance Co. Ltd.	Branch Head	Hyderabad
13	Anup Kumar Kirtan	Sahara Housing Finance	Corporate Manager	Kolkata
14	Amal Kumar Goswami	SBI Bank	RBO Region	Kolkata
15	Ananta Basak	SBI Bank	Housing Loan Sales Team	Kolkata
16	Kada Sudhakar	SBI Bank	Assistant General Manager	Kolkata
17	Vijay Sinha	DHFL General Insurance	CEO	Mumbai
18	Dev Kumar Aikat	DHFL	AVP-New Business	Mumbai
19	M A Qadir	National Trust	VP-Operations	Chennai
20	Subhashini Sreenivasan	National Trust	Manager - PBC	Chennai
21	G Subramaniam	Aptus	Executive VP- Risk & Operations	Chennai

### Responses to Questionnaires from Individual Housing Customers (Location-wise Breakup)

Sr. No.	Location	Responses	Sr. No.	Location	Responses	Sr. No.	Location	Responses
(1)	Ajmer	1	(14)	Kadapa	1	(27)	Panipat	2
(2)	Balrampur	2	(15)	Kalyan	1	(28)	Paramathivelur	1
(3)	Bangalore	13	(16)	Kanpur	1	(29)	Ponnur	1
(4)	Bhinmal	1	(17)	Karnal	17	(30)	Raipur	24
(5)	Bhopal	2	(18)	Karur	3	(31)	Rajkot	29
(6)	Bikaner	25	(19)	Kolkata	4	(32)	Sachore	1
(7)	Chennai	7	(20)	Kurekshetra	1	(33)	Salem	2
(8)	Coimbatore	22	(21)	Kurnool	8	(34)	Thiruniravur	1
(9)	Gonda	1	(22)	Lucknow	30	(35)	Tirupur	7
(10)	Guntur	2	(23)	Mangalagiri	1	(36)	Trivandrum	1
(11)	Hyderabad	13	(24)	Mumbai	1	(37)	Virudhunagar	1
(12)	Jaipur	31	(25)	Nagercoil	19	(38)	Vishakhapatnam	6
(13)	Jodhpur	36	(26)	Pallavaram	1	<b>Grand Total</b>		<b>320</b>

Questionnaires: 337 (Insurance Experts - 15, Housing Industry Experts - 2, Housing Customers - 320)

## Research Team



III's Research Centre is recognized by the University of Mumbai for Ph. D. Research. It conducts various research studies for the Institute and for reputed national and international entities. III fosters learning and research by supporting budding researchers through research based essay competitions and by extending financial support to researchers. Under its Knowledge Management Initiatives, III reaches out to more than 100,000 practitioners of insurance every week and keeps them abreast of the latest in the industry every week. Institute news is shared on a monthly basis and the III Journal is published every quarter.

### Brief Profile of Research Head

**Dr. George E. Thomas** is Professor (Research and Non-Life) in III's College of Insurance. He has done his Ph.D. in Management from University of Pune. His qualifications include MBA, MA (English), MA (Sociology), FIII, BGL, Diploma in Insurance Law and Diploma in PR & Advertising. He is Fellow Life Member of Indian Council of Arbitration and Life Member of Indian Institute of Public Administration.



He joined the General Insurance Industry in 1985 as direct recruit Officer in Tariff Advisory Committee (TAC). He has exposure to different areas of non-life insurance, particularly insurance regulation, product design and approval at TAC & IRDA, tariff administration and health insurance. He is the International Insurance Society's Ambassador for India, Member of the 'Insurance Regulation and Resilience Policies Working Group' of the Insurance Development Forum (IDF), Member of the 'Academic Steering Committee on Financial Inclusion' of the International Cooperative and Mutual Insurance Federation (ICMIF) and Member of the Advisory Board for the 'ICMIF - Cambridge Institute for Sustainable Leadership (CISL) Study' on 'the value of mutual micro-insurance to deliver sustainable development.' He was a Member of the 'Advisory Group (Non-Life Insurance) formed by the Finance Ministry, Gol and an Invitee of the 15th Finance Commission's expert group on Disaster Risk Financing.

As Head of Research of the Insurance Institute of India, Dr. George E. Thomas has led research studies on the Insurance aspects of Disaster Risk Financing, the regulatory aspects of Microinsurance, Mutuals, Co-operatives and Community-based Insurance (MCCOs), the Insurance needs of the Logistics industry and the Insurance needs of the Housing Industry; for both Indian and International stakeholders. He can be contacted at <thomas@iii.org.in>.

### Brief Profile of Co-Researcher

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