

Smart Insurance For Smarter Cities

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ABOUT RIKA

RIKA is a social entrepreneurship startup (DIPP-29629) with an aim of bringing research into the core of disaster management activities in India and other parts of South Asia. Resonating the Sendai declaration in relation to the need for widening the scope of Science and Technology in the disaster management, we at RIKA envision to act as a bridge connecting academic research, policy makers and field practitioners to make informed decisions and use of new technologies

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Introduction

Housing in India varies from palaces of erstwhile maharajas to modern apartment buildings in big cities to tiny huts in far-flung villages. In the recent years, there has been tremendous growth in India's housing sector as incomes have risen. Further the central government announced new public private partnership (PPP) policy to promote private investments in affordable housing in line with its Housing for All by 2022 scheme. Confederation of Real Estate Developers Association of India (CREDAI), the apex body of private real estate developers, supported this by planning to launch 250 affordable housing projects across India through its various members. A major push has been made by the government in the selected 100 smart cities across India by infusing a total 2.04 lakh crore¹. India has currently has around 20 crore houses and another 2 to 2.5 crore houses will be built by 2022. But on the other hand recent studies on penetration of housing insurance in the India market suggests a mere 0.7% of the houses are insured (1).

The dream of most Indian families is to buy a “dream home” for the family. In the Indian scenario a house is an appreciating asset serving various purposes in addition to providing a mere roof over the head.

- A house can be used as investment for “son/daughters wedding”
- Can be used as investment for funding “kids education”
- Can be used as a “retirement home”
- Can be used for earning “monthly rental income”

Hazard risk in smart cities across India

A house is an appreciating asset whose value is ascertained based on the geographic location and development scenario. A recent study in the United States shares that housing prices in high disaster risk areas are almost twice in comparison to those in the low risk areas. In India The 100 selected cities as a part of smart cities program across India is at risk from various hazards like flood, earthquake, cyclones, landslides among others. In the recent years, cities like Chennai, Bhubaneswar, Nagpur, Navi Mumbai, Thane, Pune, Surat, Kochi, Varanasi and others have faced flooding. While cities like Delhi, Dehradun, Ahmedabad, and cities in the northeastern states are located in seismic zone IV or V.

Learning from the past

The economic losses in Cyclone Hudhud in 2014 were calculated around 45,000 crores with insured losses accounting for only about 10% of the amount. Similarly in Jammu and Kashmir floods the economic loss was evaluated at approximately 5,000 crores, and the insured loss was less than 10% of this. While after 2005 floods in Mumbai, only 4% of the total insurance claims were settled which were majorly under the motor vehicle claims.

Source: IRDAI Disaster Management Journal March 2016, FICCI India Risk Survey 2015

References

1. Grant Tronton (2018) Annual Handbook of Indian Real Estate
2. Hindustan times (2014), Land prices go up high in disaster-hit areas; <https://www.hindustantimes.com/dehradun/land-prices-go-up-high-in-disaster-hit-areas/story-ekoKk1j7lXyq8oaHnSLN76L.html>

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It is important to highlight here that not all of these cities have a comprehensive hazard risk assessment done to identify the possible hazard risks.

Post 2013 Uttarakhand floods; Hindustan times (2) reported a surge in the land prices in Chamoli and Garhwal districts due to higher demand of land¹. Similar trends have been noticed in the United States after 2017 disasters paid 20% or higher rates for repair and buying of land. This suggests, a need for smart investments for the buyers and also for renters in the smart cities.

Disaster insurance around the globe

Sendai Framework for Disaster Risk Reduction (SFDRR) has advocated for disaster insurance as effective risk transfer mechanism. At global level various countries have come up with insurance schemes as listed below;

- Mexico (FONDEN) : A parametric catastrophe bond providing cover for earthquake and hurricane risks.
- Alabama, USA: State Insurance Fund to cover for hurricane risks
- Caribbean Catastrophe Risk Insurance Facility (CCRIF): Covers 28 countries for earthquake, flood and hurricane risks. Flexibility for member countries is available to choose cover limits up to \$ 100 million.
- ARC (African Risk Capacity): This covers Floods and Drought for 9 African countries using country specific satellite information on rainfall levels to derive modelled losses.
- Flood Re: A UK government facilitated insurance pool scheme to cover flood risks for homeowners.

The way forward

A way forward in disaster insurance can be made through these proposed activities.

- A National disaster insurance policy followed by State level insurance policies integrating various housing and infrastructure schemes.
- Regional insurance schemes to take care of transboundary hazard risks.
- Comprehensive risk assessment of cities to be linked with land pricing through partnership with insurance companies.
- Awareness generation among homebuyers by insurance companies and linking housing insurance with bank loans.
- Promote innovative comprehensive insurance schemes to cover multihazard risks in cities.
- A techno-legal regime to strengthen insurance infrastructure of insurance companies in India.