

Escalation Clause (Property Insurance)

What does this mean?

An Escalation Clause is a provision in property insurance that automatically increases the Sum Insured during the policy period to account for rising construction or replacement costs.

This increase is usually a fixed percentage added gradually over the policy year.

In simple terms, it helps your insurance keep up with inflation.

Why is this Important?

Protects against inflation

Construction materials and labour costs increase over time.

Reduces risk of underinsurance

Without escalation, the Sum Insured may become insufficient during the policy period.

Ensures adequate claim settlement

Provides extra financial buffer if rebuilding costs rise after policy purchase.

Useful during long policy periods

Especially important for commercial and high-value properties.

How does it Work in Insurance?

A percentage increase (for example 10% or 15%) is applied to the Sum Insured.

This increase is distributed across the policy year.

At the time of claim, the enhanced Sum Insured is considered for settlement.

The escalation benefit is usually available for an additional premium.

What Does It Cover?

Escalation clause applies to:

Building reconstruction cost

Plant and machinery (in commercial policies)

Stock and business assets

Large infrastructure or industrial property

It supports rising replacement costs.

What is NOT Covered?

Common limitations

Does not cover new additions or major renovations

Does not replace the need for periodic valuation

Maximum escalation percentage is predefined

Applies only within policy limits and terms

It is a buffer, not a substitute for correct valuation.

Where is it Applicable?

Escalation clause is commonly used in:

Home and property insurance

Commercial property insurance

Industrial insurance policies

Engineering and project insurance

When Should You Choose It?

You should consider the escalation clause:

When construction costs are rising rapidly

For high-value or long-term assets

When renewal valuation may be delayed

For commercial and industrial properties

Simple Example

A building is insured for ₹1 crore with a 10% escalation clause.

Mid-year, a fire causes damage costing ₹1.05 crore to rebuild.

The policy allows the Sum Insured to increase up to ₹1.1 crore.

The insurer pays the claim as per policy terms using the enhanced limit.

Key Points to Remember

Automatically increases Sum Insured during policy period

Protects against inflation and cost increase

Helps prevent underinsurance

Available for extra premium

Does not replace regular valuation

Simple Summary

An escalation clause increases the Sum Insured during the policy period to keep coverage aligned with rising reconstruction or replacement costs.