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Insuring your home or car loan: Safeguard or unnecessary cost?

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I plan to buy a home or car with a loan. I came across loan protection insurance. Is it necessary, and what are its benefits?

—Name withheld on request

Buying a home or car is a dream come true, but unforeseen events can create financial strain. While not mandatory, loan protection insurance safeguards against job loss, illness, or death, preventing your dream purchase from becoming a burden.

Safety net

Loans are long-term commitments, and unexpected events—such as job loss, medical emergencies or death—can strain finances. Loan insurance ensures repayment burdens doesn't fall on your loved ones, and financial security.

Risk prevention

Loan protection insurance typically covers multiple risks:

Loss of life: In case of the borrower's demise, insurance ensures the outstanding loan is repaid, securing the asset and relieving the family from debt obligations.

Critical illness or disability: If a borrower is diagnosed with a major illness or faces a



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disability affecting his earning capacity, insurance can help cover the loan repayments.

Job loss protection: Certain policies offer temporary coverage for EMIs if borrower loses his job involuntarily.

Hospitalisation: There are plans that provide financial relief in case of hospitalisation.

Impact on loan affordability and EMI structure

Loan insurance comes at an added cost but is designed to be affordable. Borrowers can opt for a one-time premium or include it in EMIs for managing easily. Costs vary based on tenure, coverage, borrower

profile, but the long-term protection it provides outweighs the expense.

Right loan insurance

Borrowers should consider:

Coverage benefits: Select a plan that aligns with your risk factors like health issues, job security, or dependents.

Premium affordability:

Ensure the insurance cost fits in your budget without significantly increasing your EMIs.

Tenure and repayment obligations: Longer tenures and larger amounts may warrant comprehensive coverage.

Conclusion

Loan protection insurance is not compulsory, but is a valuable financial tool ensuring stability in uncertain times. It safeguards against unforeseen risks, protects assets and financially secures families. Securing a loan with the right insurance cover provides a safety net, ensuring long-term financial stability and protection.

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Do you have a personal finance query? Send in your queries at mlntmoney@livemint.com and get them answered by industry experts.