In the News

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An insurance cover can get you a loan

By default, insurers offer loans if the policy includes a loan feature

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When it comes to getting loan for personal needs, the market is nothing short of options. Life insurance policies have become far more versatile in this regard; in addition to providing protective cover and acting as a vehicle for tax savings, loans are available against select policies.

The most popular way to obtain a loan on a policy is to approach the insurance company which could oblige if the product comes with a loan feature. Another way is to approach a bank. An advantage with going to a bank is that they may offer loans for policies that do not have the loan feature as well. That said, banks charge slightly higher rates of interest compared to insurance companies, says Santosh Agarwal, Head of Life Insurance, Policybazaar.

Approaching the insurer, though, is the default option exercised by most borrowers. Here is what you should know when getting loans from insurance companies:

Eligibility

Ashish Vohra, ED & CEO, Reliance Nippon Life Insurance says "Life Insurance companies offer loans against most of their traditional savings-oriented policies such as endowment, money-backs and whole-life plans. Current regulations do not allow loans under unit-linked policies. Your policy document will state clearly if a loan is available under the policy or not". Note that not all players offer loans against child policies. Even if the loan is offered, the amount should be utilised only for the benefit of the child. For instance, LIC offers such loans to policy holders. Thus, one of the important things to consider while taking loan against your life policies is the type of policy you hold.

To be eligible for a loan, a premium for a minimum number of years has to be paid.

For instance, an individual should have paid premium for at least three years with LIC's policies. In the case of Reliance Nippon, loans are available for policies for which premium for two or three years has been paid.

The rationale behind this, according to Tarun Chugh, MD & CEO of Bajaj Allianz Life, is that a loan is offered against traditional policies only when the policy acquires surrender value. There is a minimum lock-in period of two to three years

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for the policy to acquire surrender value.

When you are applying for any other loan, your income would be a deciding factor, but when it comes to policy loans, the surrender value of the policy decides the loan amount.

That said, your creditworthiness such as promptness in premium payment, would also be taken into account while determining the loan. About 90 per cent of the surrender value is usually offered as the loan amount by most players.

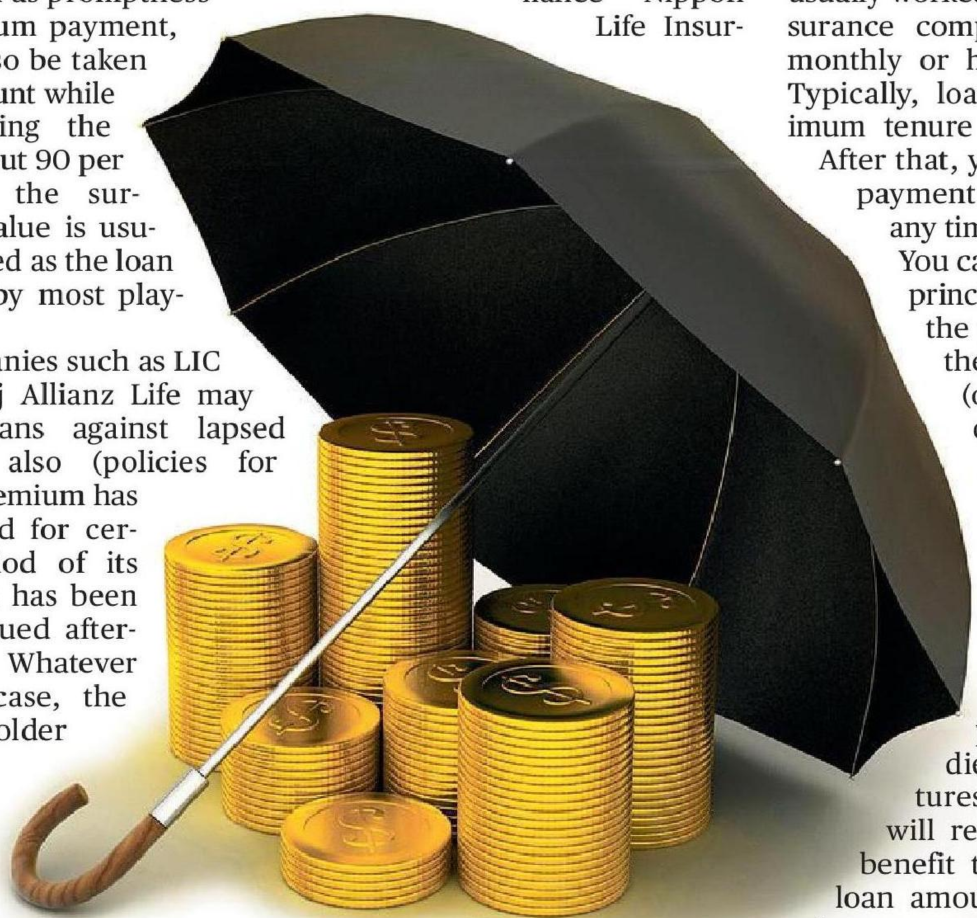
Companies such as LIC and Bajaj Allianz Life may grant loans against lapsed policies also (policies for which premium has been paid for certain period of its term but has been discontinued afterwards). Whatever be the case, the policy holder should continue paying the premium for the policy when he gets a loan against it.

Rate, tenure, repayment

Interest rates are usually the same across all policies of the respective companies. LIC and Bajaj Allianz Life, currently charge about 10 per cent compounding half-yearly, while Reliance Nippon Life Insurance offers loan at 8.25 per annum. "The rate of interest may vary from time to time based on economic conditions. You will have to check with the insurance company for details", says Khalid Ahmad, Head, Product Management, PNB MetLife India.

The repayment schedule is usually worked out with the insurance company either on monthly or half-yearly basis. Typically, loans have a minimum tenure of six months. After that, you can make repayment in lumpsum at any time until maturity. You can also adjust the principal amount with the policy benefit at the maturity time (only if insurance company approves) but the interest should be paid continuously.

In the case of default in repayment (or when the policy holder dies or policy matures), the company will reduce the policy benefit to the extent of loan amount and interest due.



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