Loan Insurance: Do You Really Need It?

Loan protection insurance gets pitched at almost every loan disbursement, usually as a bundled add-on, and whether it's actually useful depends heavily on who's asking. The basic idea is straightforward: if the borrower passes away, becomes disabled, or in some policies loses their job, the cover pays off the remaining loan so the burden doesn't fall on the family. For a large, long-tenure loan like a home loan, and especially where the borrower is the sole or primary earner, that protection can genuinely matter — the outstanding amount on a twenty-year home loan is not small, and losing the primary income source while that debt remains is exactly the situation this cover is built for.

Where it gets less clear-cut is when the borrower already holds a separate term life insurance policy with adequate cover, since that may already achieve the same protection without the loan being tied to it as tightly. The premium on loan insurance also isn't trivial — it's often added to the loan amount itself and financed along with it, which means you end up paying interest on the insurance premium too, quietly increasing the total cost of the loan beyond what the sticker rate suggests.

The more sensible way to approach it is to actually work out the numbers rather than accepting or declining on instinct — compare the premium being charged against the loan amount and tenure, check what existing cover already provides, and decide based on that rather than on how the offer is presented at the loan counter. For smaller loans with shorter tenures, the case for taking it is generally weaker; for large, long-term borrowing with a single dependent income, it's worth serious consideration.