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Ways to insure home-loan repayments

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Mortgage or home loan insurance is essentially a life policy that covers the borrower against the non-payment of loan in case of his/her death.

Now, there are two ways to buy an insurance to ensure your family will not be burdened with loan repayment or, in the worst case, asked to vacate the house. First, you can go for home mortgage loan insurance sold by players such as Reliance General Insurance and ICICI Pru Life Insurance. The other option is to buy a term insurance policy and assign the policy to the lender or your nominee, to settle the outstanding loan amount in case of an unforseen event.

Mortgage insurance

There are two types of mortgage insurance products offered in the market. One is decreasing term insurance where the sum assured decreases with the outstanding balance of the loan amount.

Second is fixed cover option, where the life cover remains constant throughout the term of the plan.

The sum insured, in mortgage insurance, normally, will be equal to the loan amount and are usually single premium payment policies.

These policies are offered only along with your home loan by the lenders. But if you are unable to pay the premium amount upfront, your lender could club it with the loan amount. Your EMI would be calculated on this amount.

Note that, if you combine the premium with the loan amount, you would lose out on the tax benefits that you can otherwise claim under Section 80C for premium payment.

Mortgage vs term cover

In terms of outgo in premium payments, a term cover appears to be better compared to mortgage insurance policies. For instance, in ICICI Pru Loan Protect Plus plan, for a 35-year-old male, for a SI of ₹40 lakh (policy term 10 years) the premium works out to ₹1,15,759 (single premium) and your SI reduces every year.

But in ICICI Pru iProtect Smart, a term cover, for SI of ₹50 lakh, the premium outgo per year would be ₹4,426. This amounts to ₹44,260 over a 10-year period.

Thus, cost-wise, going for a term cover is a better option. Also, the death benefit in mortgage insurance will be lower compared to the benefit under a term insurance.

Alternatively, if you don't want to buy an insurance cover for a home loan, you can assign any other existing life policy to the lender.