

Secure Your Finances with a Loan Against LIC Policy

Financial emergencies can arise without warning, whether it is a medical expense, a child's education fee, home renovation, or a temporary cash shortage. During such situations, arranging funds quickly becomes a priority. One practical solution available to many policyholders is understanding **How to Take a Loan on Your LIC Policy** and use the accumulated value of their insurance plan to meet immediate financial needs.

A loan against an LIC policy allows policyholders to borrow money by using their eligible life insurance policy as collateral. Unlike personal loans that often involve extensive documentation and higher interest rates, LIC policy loans offer a convenient and cost-effective way to access funds while keeping the insurance coverage active.



How to Take a Loan on Your LIC Policy



What Is a Loan Against LIC Policy?

A loan against an LIC policy is a facility offered by the Life Insurance Corporation of India that enables policyholders to borrow money against the surrender value of their insurance policy.

Instead of surrendering the policy and losing its benefits, policyholders can obtain a loan while continuing to enjoy life insurance protection. The loan

amount is generally calculated as a percentage of the policy's surrender value and depends on the type of policy and its accumulated value.

This financing option is particularly beneficial for individuals who require immediate liquidity without selling investments or applying for high-interest loans.

How Does a Loan Against LIC Policy Work?

When a policy acquires a surrender value, it becomes eligible for a loan. LIC assesses the surrender value and sanctions a loan based on a specified percentage of that value.

The process involves:

- Submitting a loan application request
- Verifying policy eligibility
- Calculating the available loan amount
- Approving and disbursing the loan
- Charging interest on the borrowed amount

The policy remains active as long as the terms and conditions are fulfilled and interest payments are made on time.

Eligibility Criteria for LIC Policy Loan

To avail of a loan against an LIC policy, certain conditions must be met:

1. Policy Must Have Acquired Surrender Value

Most traditional LIC policies become eligible after a minimum number of premiums have been paid and a surrender value has been generated.

2. Active Policy Status

The policy should generally be in force or meet LIC's loan eligibility guidelines.

3. Ownership of the Policy

Only the policyholder or authorized assignee can apply for the loan.

4. Eligible Policy Type

Not all policies qualify for loans. Traditional endowment, money-back, and whole-life policies commonly offer loan facilities, while many term insurance plans do not.

Benefits of Taking a Loan Against LIC Policy

Quick Access to Funds

Since the policy serves as security, approval is generally faster than many conventional loans.

Lower Interest Rates

Interest rates on policy loans are often more affordable compared to unsecured personal loans.

Minimal Documentation

The process usually requires fewer documents, making it convenient for policyholders.

Continued Insurance Coverage

The policy remains active, allowing policyholders to retain life insurance protection.

Flexible Repayment

Borrowers can often repay the loan according to their financial convenience within the applicable terms.

No Need to Sell Investments

A policy loan allows individuals to meet urgent financial requirements without liquidating valuable assets.

Documents Required for LIC Policy Loan

The documentation requirement may vary depending on the policy and application mode. Commonly required documents include:

- Original policy document
- Loan application form
- Identity proof
- Address proof
- PAN card (if applicable)
- Bank account details
- Recent passport-size photograph

Providing accurate information can help ensure smooth processing of the application.

How to Take a Loan on Your LIC Policy

The process of obtaining a loan against an LIC policy is relatively straightforward.

Step 1: Check Policy Eligibility

Verify whether your LIC policy has acquired sufficient surrender value and is eligible for a loan.

Step 2: Calculate the Available Loan Amount

The loan amount depends on the surrender value accumulated under the policy.

Step 3: Submit Loan Application

Complete the prescribed application form and submit the required documents.

Step 4: Verification Process

LIC verifies policy details, ownership, and loan eligibility.

Step 5: Loan Approval

Once approved, the sanctioned amount is communicated to the policyholder.

Step 6: Loan Disbursement

The approved loan amount is credited to the registered bank account.

Interest Rate on LIC Policy Loan

LIC periodically determines the interest rate applicable to policy loans. The rate may vary based on prevailing policies and internal guidelines.

Interest is generally charged on the outstanding loan amount. Policyholders should regularly review the applicable rate and make timely payments to avoid accumulation of dues.

Before applying, it is advisable to check the latest interest rate applicable to your specific policy.

Important Things to Consider Before Taking a Loan

Assess Your Repayment Capacity

Borrow only the amount you genuinely need and can comfortably repay.

Understand Interest Obligations

Failure to pay interest regularly can increase the outstanding liability.

Check Loan Limits

The maximum loan amount depends on the surrender value available under the policy.

Review Policy Terms

Different LIC plans may have varying loan conditions and eligibility requirements.

Avoid Excessive Borrowing

Taking a larger loan than necessary may create repayment challenges in the future.

What Happens If the Loan Is Not Repaid?

If the loan and accumulated interest remain unpaid for an extended period, LIC may adjust the outstanding amount against the policy benefits according to applicable rules.

In some situations, if the outstanding dues exceed the policy value, the policy could be affected. Therefore, maintaining timely repayments is essential to preserve both the insurance coverage and policy benefits.

Who Should Consider a Loan Against LIC Policy?

A loan against LIC policy may be suitable for:

- Individuals facing temporary financial emergencies

- Salaried professionals requiring short-term liquidity
- Business owners managing cash flow gaps
- Parents funding educational expenses
- Homeowners handling renovation costs
- Policyholders seeking lower-cost borrowing options

However, it is important to evaluate alternative funding sources and choose the option that best aligns with your financial goals.

Frequently Asked Questions (FAQs)

Q1. Can I take a loan on every LIC policy?

No. Only eligible policies that have acquired a surrender value generally qualify for a loan facility.

Q2. How much loan can I get against my LIC policy?

The loan amount depends on the surrender value accumulated under the policy and LIC's applicable rules.

Q3. Is a loan against LIC policy better than a personal loan?

In many cases, a policy loan may offer lower interest rates and simpler documentation than an unsecured personal loan.

Q4. Can I continue my insurance coverage after taking a loan?

Yes. The policy generally remains active, subject to compliance with applicable terms and payment obligations.

Q5. How long does it take to get a loan against an LIC policy?

The processing time varies, but approval is often quicker than many traditional loan products due to the policy serving as collateral.

Q6. Can I repay the LIC policy loan before the tenure ends?

Yes. Early repayment is generally allowed, subject to LIC's prevailing guidelines.

Q7. What if I fail to pay the loan interest?

Unpaid interest may be added to the outstanding balance, which can impact policy benefits if left unresolved.

Conclusion

A loan against an LIC policy can be an effective financial tool when used responsibly. It offers quick access to funds, competitive interest rates, minimal paperwork, and continued insurance protection. Whether you need money for medical emergencies, education, business requirements, or personal

expenses, this facility can provide financial flexibility without surrendering your valuable insurance coverage.

Before applying, carefully evaluate your repayment capacity, understand the applicable terms, and assess the impact on your policy benefits. For expert guidance on insurance and financial planning solutions, Square Insurance can help you make informed decisions that align with your long-term financial goals.