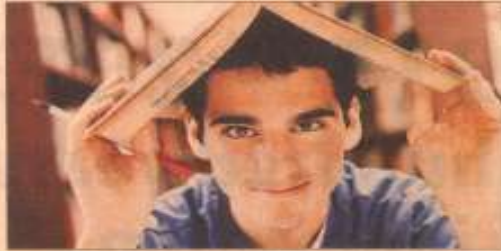


# Education Loan to Get Costlier



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Banks, stung by bad loans from lending to the education sector, are buying insurance to cover default risk that will eventually increase the cost of loan borrowing for students.

Under the cover, the bank will receive the entire loan amount from the insurer if the borrower dies. The cost of insurance cover with education loan is 2-3% of the loan size. The policy is of the value of the loan and assigned in favour of the bank. Banks offer this product when they disburse loans but like a home loan, it is not made compulsory with the loan. Generally, education loans are repaid in four to five years.

The total education loan size is ₹5,510 crore, according to the latest data provided by the Reserve Bank of India. While the ratio of bad loans was 4.5% in 2011-12, banking analysts expect another 100 basis points rise in bad loans during last year. Sensing an opportunity, Canara HSBC OBC is planning to launch life insurance term plan education loans. "We see opportunity in the education loan segment, and a student suffers if something goes wrong with the parent," said an executive of the company.

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"Education under personal insurance is one of the products we are offering and it gives security to a bank," said M Narendra, chairman and managing director Indian Overseas Bank. "We are not aggressively pushing it, but may look at it," he added.

Looking at the job market scenario and poor campus placement, banks have been cautiously bringing down the share of education loans over the past couple of years. It grew by 10% in 2012-13 while the overall credit grew 14%.

"The commerciality of the education loan has come down significantly with the growing NPA," said an analyst with a broking firm requesting anonymity. "It will be difficult to give out education loans without any kind of guarantee but insurance cover will add to the cost."

IDBI Federal Life Insurance provides term cover with education loan borrowers of IDBI and Federal Bank.

"Penetration of insurance cover with education loan is very low with only 25-30% while home loan has higher cover of 70-75%," said G V Nageswara Rao MD and CEO IDBI Federal Life Insurance. "The success of the product will depend on the ability of the borrower to pay for the insurance."

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