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What Is Payment Protection Insurance?

Payment Protection Insurance guarantees the repayment of a particular debt in case your financial circumstances change in such a way that you can no longer afford the monthly payments. The insurance then repays your debt as long as needed till you recover. The particular protections may vary but the main ones are: protection against being made redundant, grave illness or serious accident.

In the event of any of the above triggers, you need to file a claim with the insurance company that will then analyze your case and if approved, the repayment of your debt will start immediately. This can protect you from repossession and from ruining your credit score and history by avoiding negative inputs on your credit report.

Do I Need Payment Protection Insurance?

This is a tricky question because nobody NEEDS insurance. Yet, it is advisable to be protected against unexpected events to avoid ruining your credit and compromising your finances. However, the use of payment protection insurance needs to be considered carefully. The reason is simple; protection for default is good only if the payments of that protection don't contribute to your default.

Therefore, you need to consider the affordability of the loan, line of credit or whatever financial product you are planning to insure. If the monthly payments are already too close to your limit, the smartest choice is to try to lower the balance rather than insure the payment. However, if we are talking about an important loan like a home loan, refinance home loan or home equity loan that could endanger your property, payment protection insurance is definitely the smart choice even if the monthly payments rise a bit due to it.

Summing up, when a particular financial product endangers your property and you fear repossession, if the monthly payments of payment protection insurance don't compromise your income that much, it is advisable to pay for it.

But if the financial product is unsecured and there is no risk of repossession whatsoever or if your monthly payments are already too high and any additional payment might trigger a default in a near future, it is better to consider other solutions like debt consolidation or debt settlement prior to insurance.

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