Residential property bond holders warned: Ensure that you have life cover

By Mike van Alphen

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Throughout my 44-year career in banking and finance, I have, from time to time, been faced with the tragic plight of a new widow / widower finding that she / he is expected to continue to keep up with the monthly bond repayments on a home - but now that their is dead, they no longer have the income to do this.

In nine cases out of 10, the widow / widower then has to sell the home and either downgrade to a less-expensive unit or become a rent-paying tenant - again, probably in premises that are not as attractive as the home the family were used to living in.

This situation arises because, although the banks will always insist on a bond holder taking out a home owner's comprehensive policy to cover the home in the event of a fire or storm damage, they do not always insist that the bond holder takes life insurance out on himself / herself, in order to make sure that the outstanding bond is fully repaid should he / she die.

If the successful bond applicant is thought to be in secure employment and in reasonable health, it is quite possible that the bank will not insist that he / she has life cover. However, our experience has been that cancer and heart attacks often strike people who, in all respects, appear 100% healthy and on top of their game. If the deceased's estate is not large enough to pay off the bond and support the family, neglecting to take life cover is an almost criminally negligent act, leading to huge hardship for the family.

Keep it separate

Certain banks will include life cover in the mortgage, but this is not the way to go because it results in the total monthly bond repayments being unnecessarily high and the life premiums that are debited to the bond incur interest. It is far more efficient to keep the life cover separate from the bond and to pay it off with the monthly debit order.

Some of South Africa's bond originators, including Rawson Finance, make life insurance available to their clients at very competitive rates. They do this through associate companies with whom they have a relationship in order to assist the client in protecting his home and family. This is always a proposition that the client should look at.

Most bond holders taking out home owner's comprehensive insurance, other than the bank's policy, should note that many insurance companies do not cover the property for damage caused by subsidence or ground movement/landslide. If there is, in the bond holder's view, any danger of these occurring, a special policy should be taken out to cover them or they must have this included in their current policy.

Sectional title units are covered by the body insurance and the sums owing here are recouped via the monthly levies. Separate insurance here is, therefore, not necessary, but again, should there be a bond on the property, the bond payer should apply for sufficient life insurance to cover the outstanding amounts owing on the bond in the event of his / her death.

ABOUT MIKE VAN ALPHEN

Mike van Alphen is national manager of Rawson Finance.
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