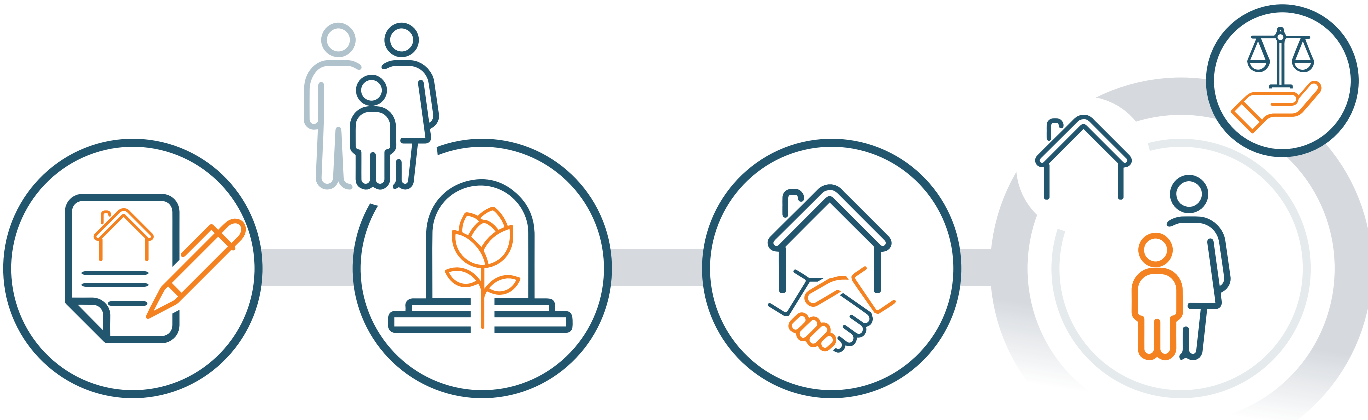
BetterSure
Financial Consultants
Healthy Home Insurance

Life insurance and signing an Offer to Purchase – what’s the connection?

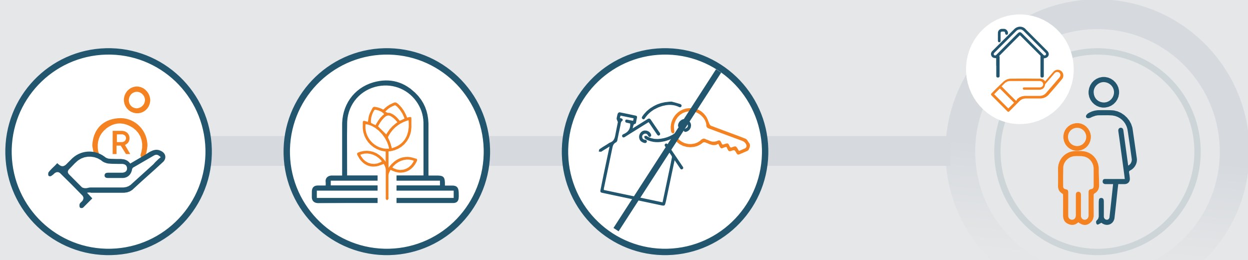
Signing an Offer to Purchase (OTP) for your dream home is a significant moment, but it comes with legal obligations like paying the purchase price and taking ownership of the property on the date of occupation. In South Africa, if you pass away before the property is registered in your name, the sale isn’t automatically cancelled, which is when life insurance becomes critical. What’s more, as the OTP obligations can no longer be fulfilled, your estate could face legal action by the seller, with the timing of your death having a significant effect on the outcome of the sale.

If you were to pass away between signing the OTP and fulfilling its obligations…



The executor of your estate would be required to fulfil your obligations as outlined in the OTP. This would include paying the agreed-upon purchase price and settling any other sale-related costs. If your estate is unable to fulfil these obligations, the seller could have grounds to cancel the agreement and seek damages against the estate.

If you were to pass away after finance has been arranged, but before transfer and registration...



The bank may have a claim against your estate for the outstanding amount of the loan. And given that most lenders have a security interest in the property, they may be entitled to take possession of the property to recover the outstanding debt.

If you were to pass away after finance has been arranged and after transfer and registration...

The property will form part of your estate upon your death and will be subject to the distribution of your estate according to your will. If you do not have a will, your estate will be allocated according to the laws of intestate succession, in which case your assets will be shared out in line with the formula set out by the Act.

How does having life insurance help?

When you pass away, your income, assets and liabilities become part of your estate under the administration of an executor. As part of their duties, the executor must settle any liabilities, for example a home loan or vehicle financing, and then distribute any cash that remains in your estate to your beneficiaries.

If you don't have sufficient cash (also referred to as liquidity) in your estate, the executor must then sell assets like your property, vehicle etc. to pay back any money you owe to creditors. This is where life cover can be a real lifesaver for your beneficiaries – they can use the tax-free payout from your policy to pay back the home loan, ensuring that they are able to continue living in the home you've created together.