

NCR INTERPRETATION
GUIDELINE:
APPLICATION OF
REGULATION 3(1) OF
THE FINAL CREDIT
LIFE INSURANCE
REGULATIONS, 2017
READ WITH SECTION
106 OF THE
NATIONAL CREDIT
ACT 34 of 2005



National Credit Regulator

Advocating For Inclusive Credit

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1. INTRODUCTION

Section 16(1)(b) of the National Credit Act 34 of 2005 ("Act"), empowers the National Credit Regulator ("NCR") to provide guidance to the credit market and industry by issuing explanatory notices on the interpretation of the Act.

2. PURPOSE OF THIS GUIDELINE

- 2.1. This Guideline is issued to provide clarity on the interpretation and application of Regulation 3(1) of the Final Credit Life Insurance Regulations, 2017 ("Regulations"), read with section 106 of the Act.
- 2.2. The objective is to promote consistency in the calculation of credit life insurance premiums and to ensure alignment with the consumer protection purposes of the Act.

3. STATUTORY FRAMEWORK

- 3.1. Section 106(1)(a) of the Act provides that a credit provider may require a consumer to maintain credit life insurance, provided that such insurance may not exceed, at any time during the life of the credit agreement, the consumer's obligations to the credit provider in terms of that agreement.
- 3.2. Section 106(2) further prohibits the offering or requiring of credit life insurance at an unreasonable cost having regard to the actual risk and liabilities under the credit agreement.
- 3.3. Regulation 3(1) permits the cost of credit life insurance to be calculated either:
 - 3.3.1. on the deferred amount at the inception of the credit agreement; or
 - 3.3.2. on the deferred amount from time to time under the credit agreement.

4. INTERPRETIVE PRINCIPLE

- 4.1. Regulation 3(1), as subordinate legislation, must be interpreted and applied in a manner consistent with section 106 of the Act.
- 4.2. Accordingly, while Regulation 3(1) permits different calculation bases, the application of any methodology must produce outcomes that remain consistent with section 106, including:
 - 4.2.1. parity between insurance cover and the consumer's outstanding obligations;
 - 4.2.2. alignment between premiums charged and actual risk exposure; and
 - 4.2.3. avoidance of unreasonable or excessive cost to the consumer.

5. ALIGNMENT WITH SECTION 106

- 5.1. The NCR emphasises the following principles:
 - 5.1.1. At no time during the life of a credit agreement may the level of credit life insurance cover materially exceed the consumer's outstanding obligations under that agreement.
 - 5.1.2. The calculation of premiums must not result in the consumer being charged, over the life of the agreement, for insurance cover materially in excess of the risk borne by the insurer.
 - 5.1.3. Where a calculation methodology results in a sustained misalignment between insurance cover and outstanding indebtedness, such application may be inconsistent with section 106(1)(a) and section 106(2) of the Act.
 - 5.1.4. Credit providers and insurers remain responsible for ensuring that their credit life insurance models, pricing structures, and system implementations comply with the Act, irrespective of the calculation basis selected under Regulation 3(1).

6. COMPLIANCE APPROACH

- 6.1. The NCR will adopt an outcome-based supervisory approach in assessing compliance.
- 6.2. In evaluating credit life insurance practices, the NCR will consider, among other factors:
 - 6.2.1. whether the level of insurance cover reflects the outstanding balance from time to time;
 - 6.2.2. whether premiums are reasonably proportionate to actual risk exposure;
 - 6.2.3. whether the total cost to the consumer is consistent with the protective purpose of section 106; and
 - 6.2.4. whether disclosures clearly explain the calculation basis and its implications.

7. INDUSTRY ENGAGEMENT AND TRANSITIONAL CONSIDERATIONS

- 7.1. The NCR recognises that credit life insurance pricing models are embedded within operational and actuarial systems.
- 7.2. To promote orderly alignment with the Act:
 - 7.2.1. The NCR will engage stakeholders, including credit providers, insurers and relevant government departments.
 - 7.2.2. Where adjustments to methodologies are required to ensure alignment with section 106, reasonable transitional arrangements may be considered.
- 7.3. This Guideline is prospective in application and does not create new obligations beyond those contained in the Act and Regulations.

8. CONCLUSION

- 8.1. The NCR reiterates that the purpose of section 106 is to ensure that credit life insurance serves its protective function without imposing unnecessary or excessive cost on consumers.
- 8.2. Regulation 3(1) must therefore be applied in a manner that gives full effect to the Act's requirement that insurance cover and associated premiums remain aligned with the consumer's obligations under the credit agreement at all times.

9. EFFECTIVE DATE

This Guideline is effective immediately.

FOR MORE INFORMATION, QUESTIONS OR CLARITY RELATING TO THIS GUIDELINE: Please address all queries to the **Executive Legal Unit** at ExecutiveLegalUnit@ncr.org.za

Disclaimer:

While the NCR has taken reasonable care to ensure the factual accuracy of this guideline, it cannot guarantee such accuracy, especially with regards to future events. Accordingly, NCR does not accept any liability for damages incurred by any party as a result of decisions or actions taken pursuant to this guideline.