

FINANCIAL INSTITUTIONS OFFICE,

Private Bag X238,

PRETORIA.

June 1963.

CIRCULAR NO. F.S. 1

TO ALL PRIVATELY ADMINISTERED FRIENDLY SOCIETIES.

FIDELITY GUARANTEE INSURANCE.

1. In terms of the provisions of section 5(4) of the Friendly Societies Act, the Registrar must satisfy himself, inter alia, that the methods according to which business is or is proposed to be transacted by a registered friendly society are not undesirable. In this connection this Office deems it essential, inter alia, that a society obtain insurance cover against loss resulting from negligence, dishonesty or fraud of any of its officers.

2. Whilst the insurance market is prepared to issue a guarantee policy to friendly societies to include losses due to negligence, the premium is of necessity heavier than for more restricted protection. This Office is, therefore, agreeable that for the time being friendly societies, like pension funds, need not obtain cover against losses due to negligence. It must be clearly understood, however, that the position will be closely watched and may be reviewed at a later stage in the light of experience gained.

3. It is further essential that the rules of all societies make provision for fidelity guarantee insurance covering the ordinary commercial risks, excluding losses due to negligence, as offered by the standard form of fidelity guarantee policy, and those societies of which the rules do not contain such provision are urged to effect the necessary addition to the rules at the first available opportunity. It is suggested that a provision on the following lines be included in the rules:-

"The Committee shall insure the Society against loss resulting from dishonesty or fraud or any of its officers (including members of the Committee) having the receipt or charge of moneys or other assets belonging to the Society".

4. This Office has given serious consideration to the question of the amount of fidelity guarantee cover which friendly societies should take out. It is appreciated that on account of various factors such as the great divergence in the benefits offered by different types of societies and hence in the manner of operation, variations in the organisation of management and other varying circumstances, even amongst societies in the same category, it is virtually impossible to lay down a common basis for determining the amount of fidelity guarantee cover that friendly societies should take out.

5. The amount of cover that may be regarded as adequate therefore depends on the particular circumstances of each in-

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dividual society, and this Office is of opinion that the person who is in the best position to give advice in this regard is the auditor of a society. It is therefore suggested that each society in consultation with its auditor determine the amount of fidelity guarantee cover to be taken out by the society. It should be emphasised, however, that in this regard it would be wise to err on the conservative side due regard being had always to the maximum amount that may possibly be lost before the cause of such loss is discovered.

6. While this Office does not intend at this juncture to prescribe or recommend a formula for calculating the amount of fidelity guarantee cover to be obtained by friendly societies, it would suggest that either the total assets or the annual subscriptions, whichever is the greater amount, should be used as a basis for determining the minimum amount of cover, and that 5% of either assets or annual subscriptions, as the case may be, be regarded as reasonable cover. The amount of cover should be in multiples of R500 with a maximum of say R50 000.

7. The fidelity guarantee policy available to friendly societies, is commonly known as an "Employers' Fidelity Guarantee" policy. As this is the type of policy normally taken out by employers there should not be much difficulty in having the Employers' Fidelity Guarantee cover extended to include officers administering the friendly society business in the case of employer-employee organisations. It is desired to point out, however, that Employers' Fidelity Guarantee policies normally do not contain automatic reinstatement provisions. In other words, unless arrangements are made to the contrary the amount of cover decreases every time a claim is paid. Societies are therefore advised, in their own interests, to ensure that whenever a claim is paid steps will be taken to have the original amount of cover reinstated.

8. Friendly societies which have not as yet taken out fidelity guarantee cover should do so with the least delay. All societies must furnish this Office as soon as possible and in no event later than 31st July, 1963, with particulars of the fidelity guarantee cover taken out by them. They should indicate, inter alia -

- (a) the type of policy taken out and the risks covered;
- (b) the amount of cover; and
- (c) the expiry date of the policy.

9. Attention is directed to Regulation 24 of the Regulations published under Government Notice No. R100 in Government Gazette Extraordinary No. 162 (Regulation Gazette No. 58) of the 26th January, 1962, in terms of which the auditor of a society is required to submit annually a certificate to the effect that the society in respect of which he has authenticated the accounts has complied with its rules, if any, requiring it to obtain fidelity guarantee cover.

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10. As this Office has agreed as a temporary measure not to insist upon cover against "negligence", it is essential that it be established to what extent friendly societies suffer losses through the negligence of officers. Societies are therefore requested to furnish this Office before 31st July, 1963, with a statement, certified in the usual manner, and countersigned by the auditor, indicating the loss suffered by the society during each of the last three years on account of -

- (a) negligence; and
- (b) dishonesty and fraud.

REGISTRAR OF FRIENDLY SOCIETIES.

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