FINANCIAL INSTITUTIONS OFFICE,
PRIVATE BAG 238,
PRETORIA.

July, 1962.

CIRCULAR NO. P.F. 5.

TO ALL PRIVATELY ADMINISTERED PENSION FUNDS.

FIDELITY GUARANTEE INSURANCE.

It seems that a number of pension funds found it difficult or were reluctant to obtain fidelity guarantee insurance as required in my circular No. P.F. 3 of December, 1961, for the main reason that such cover proved to be very expensive. Investigations revealed that the real cause of the high premium rates is the fact that this Office insisted upon cover inter alia against "negligence".

After further negotiations with the Insurance Associations it was agreed that for the time being pension funds need not obtain cover against losses due to negligence. It was made clear, however, that the position will be watched very closely and may be reviewed at a later stage in the light of experience gained.

The Insurance Associations have agreed to make available to pension funds what is commonly known as "commercial risk" policies which cover practically everything this Office had in mind except negligence. Pension funds are therefore advised to obtain this type of policy in future. As this is the type of policy normally taken out by employers there should not be much difficulty in having the employers' fidelity cover extended to include officers administering pension funds.

In regard to the "commercial risk" policies it is pointed out that they normally do not contain automatic reinstatement provisions. In other words, unless arrangements are made to the contrary the amount of cover reduces every time a claim is paid. Pension funds are consequently requested to see in their own interests that steps be taken whenever a claim is paid to have the amount of cover reinstated to the original amount.

It may be mentioned that some pension funds refer individual policies or extracts from policies to this Office with the request that this Office must say whether they comply with the fidelity guarantee requirement. However much this Office would like to assist, I regret that it may be placed in a most invidious position if it were to give legal advice. Funds are aware of the necessary requirements and if they have any doubt as to whether a policy covers those requirements, they should consult their legal advisers.

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Although this Office prefers fidelity guarantee policies to be taken out it is prepared to consider in special instances depending upon the financial standing of the guarantors, guarantees by participating employers to make good any losses suffered by funds due to dishonesty of their officers.

The acceptance of such guarantees must be regarded as a temporary measure until experience has proved that such guarantees are effective or otherwise. Consequently those funds which obtain permission to accept guarantees from the participating employers must understand that if this should become necessary this Office may insist later upon insurance cover being taken out. It may be mentioned here that a provision in the rules whereby the participating employer guarantees the solvency of a pension fund (as distinct from a provident fund) will not be sufficient compliance with the fidelity requirement as pension funds **with** actuarial surpluses should also be covered against losses due to dishonesty.

In its previous circular on this subject, this Office recommended that a 5% cover with a maximum of R100,000 be taken out. If this recommendation is regarded as too high considering the circumstances of individual funds, the trustees of such funds may determine their own bases and maxima, always bearing in mind their duties and responsibilities as trustees.

As this Office has agreed, as a temporary measure, not to insist upon cover against "negligence" it is essential that there be established to what extent pension fund moneys are lost due to negligence. It would accordingly be appreciated if this Office could be furnished before 30th June, 1963, with a statement, countersigned by the fund's auditor indicating the loss suffered by each fund during the last five years on account of

(a) negligence; and

(b) dishonesty and fraud.

C.R.B. de Villiers
REGISTRAR OF PENSION FUNDS.

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