

P A P E R S

RELATIVE TO

FIDELITY SECURITIES

TO BE GIVEN BY

OFFICERS OF THE CIVIL SERVICE

OF

NEW ZEALAND.

PRESENTED TO BOTH HOUSES OF THE GENERAL ASSEMBLY, BY COMMAND OF
HIS EXCELLENCY.

WELLINGTON.

—
1870.

BOARD appointed by the Government of New Zealand to inquire into the subject of **Fidelity Securities**
to be furnished by Officers of the Civil Service of New Zealand :—

J. WOODWARD, Esquire, Assistant Treasurer ;
G. E. ELLIOTT, Esquire, Secretary, Postal Department ;
W. SEED, Esquire, Secretary of Customs ;
C. T. BATKIN, Esquire, Paymaster-General ;
W. PHARAZYN, Esquire, Assistant Law Officer ;
C. LEMON, Esquire, General Manager, Telegraph Department.

PAPERS ON FIDELITY SECURITIES TO BE GIVEN BY OFFICERS OF THE CIVIL SERVICE.

REPORT by BOARD ON FIDELITY SECURITIES.

THE Board appointed to inquire into the mode in which security is and should be given by Officers of the Civil Service holding positions of trust, have agreed to and respectfully present the following report:—

In entering upon this inquiry it appeared desirable to obtain statistical information as to the nature and aggregate amount of securities now given, and the average annual amount of defalcations which have taken place during the past five years.

The information obtained upon these two points is embodied in the Tables A and B, attached. From the first of these tables it appears that the total sum for which officers are now guaranteed amounts to £250,728, of which £193,030 is in the form of personal bonds, and £57,698 in that of Policies of Guarantee Societies. The premiums payable on this last-mentioned sum will average about 13s. 6d. per cent., and amount annually to £339 9s. 6d. Whether any and what amount of premium may be paid to their sureties by officers giving personal bonds, the Board had no means of ascertaining. In view however of the distasteful nature of the obligation incurred in these cases, it is not unreasonable to suppose that the payment of a premium is occasionally adopted in order to escape the objection.

It will be seen by Table B that the average amount of the defalcations which have occurred during the past five years is less than the collective premiums paid to Guarantee Societies; that for the past two years those defalcations did not amount to 3s. 4d. per cent. on the whole sum secured; and that for the two years immediately preceding the amount was *nil*.

It is apparent from these data that the premiums paid for assurance are altogether disproportionate to the risk incurred, and that the burden imposed on the assured is unnecessarily heavy, as compared with the object to be obtained, namely, the security of the public moneys with which officers are intrusted.

The present system of guarantee, besides pressing unnecessarily upon the assured, is troublesome and costly to the Government, and has in many cases proved wholly inefficient. The enforcement of a personal bond is always attended with disagreeable difficulties, and the instances of enforcement have—for this perhaps among other reasons—been extremely rare.

The Board is not aware of any case in which a claim has been made under a Guarantee Policy, but it is believed that the very stringent conditions on which those policies are granted will be found to present almost insuperable difficulties to the recovery of the amount guaranteed.

The labour of registration and examination of bonds under the present system is very great. This duty, performed in the Treasury, occupies a large proportion of the time of one clerk, while an equal amount of labour is entailed upon other Departments by the necessity of guarding against the lapse of Guarantee Policies through non-payments of premium.

Believing that no modification of the existing system could satisfactorily effect the object desired, the Board at once directed its attention to the system of Mutual Assurance, and requested the Managers of the several Banks to supply it with such information as they might feel at liberty to give, as to the system of mutual assurance adopted by those institutions.

The main features of the systems thus brought under the notice of the Board, consist in the establishment of a guarantee fund, to which all officers of the Bank (after the lapse of a probationary period, during which their fidelity is secured by personal bond, with two sureties,) contribute in proportion to their respective trusts. The fund thus created is, in some instances, augmented from time to time by sums contributed by the Bank, which thus appears to qualify itself for the somewhat despotic prerogative of adding to the list of the persons guaranteed without consulting those by whom they are assured.

There are several objections to the application of this system to the Civil Service. In the first place, the establishment of a system whereby all officers should be assured, in consideration of a money premium, would involve considerable labour in the collection of those premiums, and in the keeping of the relative accounts. Still greater objections arise out of the consideration that the premiums collected are, to the extent to which they exceed the annual defalcations, an unnecessary exaction. That the fund which they go to constitute is one which must accumulate, because the annual contributions must be fixed at something above the probable demands. These accumulations, after satisfying the demands of the Government, would rightfully belong to the contributors, and their investment would sometimes be attended with difficulty, and would always be watched with jealousy, and even discontent; whilst their ultimate disposal would be a problem for which the Board think it would be difficult to find a satisfactory solution. This last difficulty is one which is even now agitating the officers of some of the Banks in regard to their guarantee funds, and is, in the opinion of the Board, sufficient to condemn the introduction of the system under which it has arisen into the Government service.

The condition under which guarantees are required from officers of the Civil Service, and the facilities which the organization of the Civil Service offer for combination, appeared to the Board to suggest the adoption of some scheme of mutual assurance, which, avoiding the objections attaching to the systems previously noticed, should exact no other obligation than that of amply securing the Government against loss, and providing for the prompt settlement of all claims.

The principle of the scheme by which it is proposed to accomplish these results has been adopted for Marine Insurances, and is pronounced by writers on commercial subjects to be theoretically per-

fect, though it does not appear to have been extensively practised, on account of the difficulty occasionally met with in enforcing payment of the contributions due. In applying this system to the Civil Service, this difficulty disappears. Every member of the Association will be in the receipt of a salary, and from this his contribution will be deducted. No contribution will be required until a defalcation has actually occurred, and then each member will contribute rateably according to the sum for which he is assured and the sum in default, or as much thereof as is covered by the guarantee of the defaulter, will at once be made good. The contribution for which each member is liable will be deducted from any sum payable to him, and the loss, except in the case where the contribution required is a very large one, will be made good to the Government within a month after demand made.

It is proposed to require that each officer admitted to the Association shall have held office in the Public Service either of the General or of one of the Provincial Governments for a period of twelve months immediately preceding. During this probationary period, the fidelity of an officer placed in a position of trust will require to be guaranteed by personal bond with the customary sureties, as required by some of the Banks. It appeared to the Board that the guarantee of 'previous good conduct' should be a condition of admission, and that the period of service suggested would afford an opportunity of testing the eligibility of the candidate. Under the present system, officers rarely perfect their securities in less than five or six months, and as a measure for protecting the Association against loss, it is believed that this stipulation will not be considered unreasonable.

It is proposed to confine the scheme to officers serving in the Civil Departments of the Government, but to exclude from all participation therein persons holding the offices of Sheriff, Queen's Bailiff, Curator of Intestate Estates, or Official Agent under the Mining Companies Limited Liability Act, except in so far as those officers are Collectors of Revenue. These are officers whom it is believed no Society would guarantee. Their liabilities are almost unlimited, while the control of their transactions is imperfect, and is scarcely capable of being brought under satisfactory control. It is believed that the Government and the public will be more effectually protected from loss by a careful selection of the persons appointed to these offices than by any guarantee which the Board can suggest.

It is further proposed to invest the governing body of the Association with power to decline the assurance of any officer without reason assigned, and to discontinue the assurance of any officer on notice given. These are powers which it is considered the Association should possess, though it is believed it will be very rarely necessary to exercise them.

As the proposed scheme will effect a considerable saving in labour in the various Departments, the Board has felt justified in recommending that the clerical assistance needed for its working should be provided by the Government. With respect to those officers who are guaranteed by policies still current, it is recommended that they should be required to enrol themselves in the proposed Association at the commencement of the quarter within which their policies will expire. It is an essential feature in the proposed scheme that it should include all officers in the service, and that result will by the arrangement here proposed be accomplished within the year.

In concluding this Report, the Board desire to offer a remark as to the want of proportion which the amount of many of the securities now given bear to the value of the trust and to the salary of the officer.

The value of the trust and the salary paid to the officer are invariably the subject of inquiry by a Guarantee Society, and are evidently considered as important elements in determining the eligibility of a candidate for assurance. The Board is aware of one instance in which the proposal to guarantee an officer was declined, on the ground that the salary paid was not in proportion to the trust reposed, and it is probable that inquiry would elicit other instances. The subject is one which demands consideration; and in proposing a scheme wherein the liability of each assurer is measured by the amount for which he is himself guaranteed, the proportion which that guarantee bears to the fund from whence in case of a defalcation his contribution would be derived becomes a matter of direct and serious importance.

In justice to the proposed assurers, the Board has felt bound to call attention to the point; and it now respectfully submits this its Report and the accompanying proposals for the consideration of the Government.

Wellington, 12th February, 1870.

J. WOODWARD,
Chairman.

TABLE A.

STATEMENT showing the amount of Bonds now current; distinguishing that portion thereof which is covered by Private Securities, and the amount which is covered by Guarantee Policies.

| | | | | | |
|-----------------------------------|-----|-----|----------|---|---|
| Amount of Private Securities | ... | ... | £193,030 | 0 | 0 |
| Amount of Guarantee Policies | ... | ... | 57,698 | 0 | 0 |
| Total amount of Bonds now current | ... | ... | £250,728 | 0 | 0 |

TABLE B.

STATEMENT of Defalcation of Officers in the Civil Service, from the 1st July, 1864, to 30th June, 1869.

| | | | | |
|--|-----|--------|-----|-----|
| 1863-64.—Michael Creagh, Registrar of Deeds, Dunedin | ... | £1,130 | 1 | 6 |
| 1864-65.—Nil. | ... | ... | ... | ... |
| 1865-66.—Nil. | ... | ... | ... | ... |
| 1866-67.—G. Ross, Telegraphist, Dunedin | ... | 217 | 0 | 10 |
| „ —F. W. Merriman, Crown Prosecutor, Auckland | ... | 110 | 0 | 0* |
| „ —E. Lockhart, Postmaster, Alexandra | ... | 42 | 18 | 7 |
| „ —J. Parrell, Clerk, Customs, Mongonui | ... | 52 | 14 | 6 |
| 1868-69.—R. Curtis, Landing Waiter, Napier | ... | 78 | 0 | 0 |
| „ —A. Sharpe, Collector of Customs, Hokianga | ... | 291 | 4 | 0 |
| Total | ... | £1,911 | 19 | 5 |

* This amount was an advance for which this officer had failed to account at the time of his death.

C. T. BATKIN.

MEMORANDUM on Report by the Hon. the COLONIAL TREASURER.

THE proposal to give the Board the option of refusing to reissue is fatal, in my opinion, to the plan. Virtually, it would give the Board an overriding power over the Government in the matter of appointments to the Civil Service. Any appointments distasteful to the Board could be met by refusals to guarantee. Apart from the slur on the officer refused, and the pressure brought to bear on the Government to dismiss him, the exclusion would point to some second means of guarantee, the very thing which should be done away with.

The Union Bank, the guarantee system of which works to perfection, has for one of the rules of its Guarantee Fund, "Every officer, being or becoming an officer of the Bank, shall, by the fact of his having become or becoming such officer, be deemed to have approved of and be bound by these rules," &c., &c.; and all officers are guaranteed in proportion to their salaries. This is the principle we require to adopt, and the want of it leads to the anomalies to which the Board refers. The principle on which the Bank proceeds is, I think, sound, as applicable to the Government service. It is this: that every officer should be guaranteed in proportion to his salary. It is impossible to gauge the power of defrauding an officer possesses. The Government may be defrauded, not merely by an officer taking money, but by his being a party to some one else doing so; by his falsifying accounts, or withholding information. Besides, an officer not originally appointed to deal with money may at any moment be liable to have some responsibility thrown on him, and it is for his own interest that there should be a standing guarantee for his fidelity.

The Union Bank rule is: The officers of the Bank shall be assessed as contributors to the two funds, and their fidelity to the Bank shall be guaranteed by the Guarantee Fund, as follows:—If the salary of an officer do not exceed £100, the amount of his assessment and guarantee shall be £500.

| | | | | |
|---|------|-------|-------|--------|
| If the salary exceed £100 and do not exceed | £200 | ... | ... | £1,000 |
| Ditto | 200 | ditto | 300 | 2,000 |
| Ditto | 300 | ditto | 500 | 3,000 |
| Ditto | 500 | ditto | 700 | 4,000 |
| Ditto | 700 | ditto | 1,000 | 5,000 |
| If the salary exceed 1,000 | ... | ... | ... | 6,000 |

I do not know that these amounts are suitable to the Civil Service; but I consider, if there is to be a mutual guarantee, that every officer in the Civil Service and the Government, who, by mistaken appointments, may be responsible individually, should participate. I like the suggestion of saving annual contributions, and of making deductions only where money has to be recovered. Most of the suggestions of the Board would harmonize with what I propose, only much of the machinery would be avoided. The Service, for any default, should not be liable for more than the amount of the defaulter's assessed guarantee, based on the salary he receives. Though I would not have a Board with power to override Government appointments by refusing to guarantee appointees, it is clear the value of the whole plan will be destroyed unless there is a machinery by which, when to any officer or officers there appears to be a tendency to default on the part of another officer, complaint could be made and investigation follow.

The Board does not suggest provision for this, but it is presumed that it is intended that the proposed Board of Management should exercise a certain amount of vigilance or supervision over the conduct of officers insuring.

For such a purpose I think a Board should be appointed. It should be its duty to receive complaints; to cause such complaints to be investigated, and to recommend to the Government thereon. Such recommendation might take four shapes:—

- (1.) That the complaint is frivolous or vindictive, and that the complainant should be made to suffer for it; or that it is made under mistaken impression, justifiable under the circumstances disclosed.
- (2.) That the person complained of is lax in his conduct, or is accustomed to consort with undesirable companions, and that it would be advisable to remove him to another part of the country.
- (3.) That his conduct of business is irregular, and that he should be reduced to a less responsible post.
- (4.) That he is in the habit of so dealing with his duties as virtually to commit defalcations from time to time, and that it would be a hardship to the Civil Service to continue longer to be responsible for him.

It may be urged that this would constitute a system of espionage. I demur to the conclusion. What I propose would involve nothing more than a healthy exercise of discipline, which would make the Civil servants understand that they compose part of one body, and that they are subject to discipline and organization, and especially to the control of their superiors in office.

Besides, against any fanciful objection, there may be argued the amount of real benefit which would result. Few young men rush at once into a system of defrauding; their downfall is gradual, and is usually indicated by the symptoms which I have sketched out in the various recommendations the Board might be called on to make. A plan by which a check could be interposed in time would save many Civil servants, not from defrauding only, but from extravagance ruinous to their future prospects.

I think a private bond for one year fair and desirable.

J. VOGEL.

MEMORANDUM for the Hon. the COLONIAL TREASURER.

THE principal difference between the suggestions of the Hon. the Colonial Treasurer and the Report of the Board, is in respect to the manner in which officers shall be compelled to become responsible for the fidelity of persons of whom they may know nothing, or possibly may know something unfavourable.

As both plans agree in requiring a year's service under private bond, no remarks are required on this point.

The differences are substantially the same as those which appear in the plans pursued by the Oriental Bank Corporation and the Union Bank of Australia respectively: the former of which has a Board of its officers, with power to assure newly-appointed officers or to refuse them; while the latter puts every officer on the Assurance Fund two years after his appointment. (I suppose, also, that the Bank contributes to the fund, as I know it is done by the Bank of New South Wales.)

The Colonial Treasurer proposes the latter course, while the Board proposed the former.

The Colonial Treasurer further proposes that the Government shall contribute to the Fund, and that the Board of Management should not have the power of refusal, but should have power to receive, investigate, and report upon any allegations made by officers of the Civil Service, tending to show that other officers are conducting themselves in such a manner as to cause fear of present or future irregularities in respect of the pecuniary trust involved in their several offices.

This appears to me to clothe the Board of Management with larger powers than the Report ventured to ask for, and being coupled with a year's probation, with a contribution from the Government (I suppose on a fixed sum of say £6,000 or £7,000), and with the extension of contribution to all the officers of the Civil Service, whether at present under bond or no, will, I think, accomplish that which the Board desired to secure. Of course in this I only express my individual opinion.

I beg to add that I have used the term "officers of the Civil Service" specifically, because I think it still doubtful whether the assurance should extend to officers of the Armed Constabulary, who become Paymasters in the same manner as military officers of a similar rank. They are, to a large extent, removed from the control established by the Treasury Regulations, and are liable to casualties by which considerable sums of public money may be lost, without any moral culpability on the part of the officer. I think, therefore, that the assurance of the Civil Service would hardly be applicable.

The proposal to measure the amount of guarantee given by and for each officer by the amount of salary paid to him appears an admirable arrangement; and the proposal to make all officers contributors is shown, by cogent arguments, to be fair and reasonable; but I venture to suggest that some limit will require to be fixed.

There are Registrars of Births, who are very numerous, yet most of them are only guaranteed salary at the rate of £10 per annum. Then there are Telegraph messengers receiving salary at the rate of £1 per week, or even less.

Possibly, fixing a *minimum* rate of salary, below which assurances should not apply, would meet these cases.

Sheriffs, Curators of Intestate Estates, and Registrars of Joint Stock Companies, would also require some special provision, as nearly all are paid by fees (so that the amount of salary can only be fixed at the end of the year), whilst the responsibilities of the two first-named classes may be so great as to make the amount that would be guaranteed absurdly small, if salary were taken as the basis.

These are however matters of detail, which can all be arranged if the Government should see fit to adopt the system of mutual assurance, on the principle of rateable contributions to make up the amount assured in cases of default.

Treasury, Wellington.

J. WOODWARD,
Assistant Treasurer.
