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**Guidelines for the preparation of a business plan pursuant to an application for the registration of a new Friendly Society as per Section 5 (1) of the Friendly Societies Act, Act No. 25 1956**

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## **1. INTRODUCTION**

In terms of Section 5(1) of the Friendly Societies Act, Act No. 25 1956, *every Friendly Society shall apply to the Registrar of Friendly Societies for registration*. A prospective Friendly Society is required to submit its Business Plan to NAMFISA (“The Authority”) when applying for registration as a Friendly Society. The business plan is a written document that describes in detail how the new Friendly Society is going to achieve its objectives from a financial and operational viewpoint.

The purpose of this document is to guide and assist prospective applicants in preparing a business plan for approval of a new Friendly Society.

## **2. BUSINESS PLAN FORMAT**

This section of the guideline outlines the minimum content requirements and the recommended structure of the business plan with respect to the proposed Friendly Society.

### **2.1 Objectives**

The applicant must supply sufficient information relating to the purpose of registering the new Friendly Society. The application should include as a minimum the following:

- The need/purpose that the proposed Friendly Society is aiming to meet for its intended target market; and
- The mission and objectives of the new Friendly Society.

### **2.2 Background information in respect of the new friendly society**

The applicant should as a minimum include the following information in the business plan:

- The full name under which the proposed Friendly Society is to be registered;
- The date on which the proposed Friendly Society is to come into operation;
- The full names, physical and postal addresses of the Principal Officer and the Management Committee of the proposed Friendly Society;

- The physical and postal addresses of the registered office of the proposed friendly society;
- The name and address of the person who will administer the friendly society including an organogram of the Administrator and its related parties;
- A detailed statement of service to be undertaken, directly or indirectly, on behalf of the proposed friendly society by the Administrator;
- The name and address of the Auditors of the proposed friendly society;
- Details of any reinsurance contracts to be entered into by the proposed friendly society;
- Names and relationships of all related parties to the proposed friendly society, as well as all details regarding the delivering of any services by these related parties to the proposed friendly society; and
- A description of the proposed Friendly Society's structure and corporate governance approach, which should include *inter alia*:
  - All the internal functions
  - All the outsourced functions
  - Composition of the Management Committee
  - Details regarding the new Friendly Society's conflict of interest policies and procedures
  - Details regarding the training of Management Committee members

### **2.3 Strategy and Implementation**

The information requirements relating to the prospective Friendly Society's operational strategy and the implementation thereof, are discussed under this section of the guideline.

### **2.3.1 SWOT analysis of the main competitors**

A SWOT analysis is an organized list of the Friendly Societies greatest strengths, weaknesses, opportunities and threats. The purpose of the SWOT analysis is to aid the Friendly Society in developing a strong business strategy, by ensuring that the applicant considered all of the Friendly Society's strengths, weaknesses, opportunities and threats, the Society may be exposed to in the industry.

#### **2.3.1.1 Strengths and opportunities**

The applicant must give a brief overview of factors considered strengths and those considered opportunities, as well as the reasons why the applicant considers the factors as such, and the manner in which such factors will assist the proposed new Friendly Society to succeed. Possible strengths/opportunities factors could include but are not limited to the following:

- A competitive product offering, including the reasons for the proposed society being competitive;
- Comprehensive benefit offering;
- Effective risk management;
- Economies of scale;
- Quick hassle free claims turnaround time as a result of the type of systems to be utilized;
- Lower administration and or lower operational expenditure per member per month, compared to the current industry average;
- Good investment strategy.

The factors listed under section 2.3.1.1 merely serve as an example of some of the strengths and opportunities that the proposed Friendly Society may have. Each Friendly Society's circumstances will be different and applicants should not limit their analysis to the factors mentioned above.

### **2.3.1.2 Weaknesses and threats**

Similarly, an overview of factors considered as weaknesses and threats to the proposed Friendly Society must be provided. The applicant should indicate how the Management Committee intends to deal with those identified threats and weaknesses (i.e. risk mitigation plan).

Factors that could be a threat or a weakness could include but are not limited to the following:

- Deviation in expected average benefit utilization patterns;
- Dissatisfied members due to late claim payments;
- Spiraling overhead costs due to high inflation, which may threaten the solvency and viability of the proposed society;
- Failure to attract sufficient members to increase the size of the risk pool;
- Fraud and corruption;
- Poor investment returns

The above factors merely serve as an example of what could hamper the survival of a Friendly Society. Each Society's circumstances will be different and applicants should not limit their analysis to the factors mentioned in section 2.3.1.2 of this guideline document.

## **2.4 Market Analysis**

Market analysis is one of the most important aspects of any startup strategy, as it helps in identifying the various factors that may have an impact on the prospective Friendly Society or members. The strengths, weaknesses, opportunities and threats (SWOT) of a Friendly Society can be identified through market analysis.

### **2.4.1 Membership/Target market strategy**

The applicant should make projections in terms of the proposed membership of the new Friendly Society, including the projections per benefit option.

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The Friendly Society's target market should also be indicated (i.e. low income earners, professionals etc.), including detailed information on how the Society intends to amass its membership. The applicant should submit the following minimum information:

- A five-year forecast in terms of membership growth, including sensitivity testing under alternative assumptions;
- The applicant should compare the new Friendly Society's target market to the industry and determine whether the new Society will be attractive to the proposed target market, compared to its competitors;
- Geographical area of the projected members, if relevant;
- If the proposed contribution tables differentiate between income bands, the applicant should indicate the number of members estimated per income band; and
- Customer needs analysis.

Furthermore, the Society is required to provide its estimated membership mix. Below is an example of how the prospective Society's options could illustrate its membership mix:

**Table 1: Membership mix**

<b>Membership mix</b>	<b>Average number of principal members</b>	<b>% of average number of principal members</b>	<b>Average number of beneficiaries</b>	<b>% of average number of beneficiaries</b>
<b>Option 1</b>				
N\$0 – N\$1000				
N\$1 001 – N\$3000				
N\$3 001 – N\$5000				
N\$5 000 plus				
<b>Option 2 (no income bands)</b>				
<b>Total</b>				





#### **2.4.2 Market Comparison**

The applicant should submit a detailed comparison with the competitors' of the proposed new Friendly Society.

The following minimum information should be included in the comparison:

- Comparable benefits (i.e. similar offerings by competitors)
- Range of options (i.e. number of options)
- Differentiations in respect of level of benefits and structure of benefits, if applicable;  
and
- Comparison of contributions.

#### **2.5 Benefits**

The applicant should provide for the following information regarding its proposed benefit options:

- A description of the benefits ( i.e. the type of benefits and the nature of the benefits);  
and
- The benefit structure of the benefit options, if applicable.

Where the Friendly Society enters into any capitation arrangements or reinsurance agreements, the Society should submit a copy of the proposed contract, as well as a detailed list of all services covered in the proposed agreement. The capitation fee paid should also be justified i.e. demonstrable value for money.

#### **2.6 Overhead Expenditure/Costs**

The applicant should perform a detailed analysis of the overhead expenditure/costs per benefit option. Furthermore, the applicant should also express the overhead expenditure/costs per benefit option as a percentage of contribution income and on a member/beneficiary per month basis.

## **2.7 Pricing Strategy**

Pricing strategy refers to the method Friendly Societies use to price their benefits or services. A pricing strategy takes into account the target market's ability to pay, market conditions, competitor actions and input costs, amongst other factors.

### **2.7.1 Contributions**

The aspirant Friendly Society should provide details of its proposed contribution tables per option as well as the underlying assumptions used in the pricing of the contributions. This should be included in the rules of the proposed Friendly Society.

Table 2 provides an illustrative example of the contribution structure of income based options and Table 3 illustrates the contribution structure for an option(s) which is not income based.

**Table 2: Contribution structure of income based options**

<b>Income bands</b>	<b>Member</b>	<b>Adult dependent</b>	<b>Child dependent</b>
N\$0 – N\$1000			
N\$0 – N\$1000 (savings)			
N\$1001 – N\$3000			
N\$1001–N\$3000 (savings)			
N\$3001–N\$5000			
N\$3001–N\$5000 (savings)			
N\$5001 plus			
N\$5001 plus (savings)			

**Table 3: Contribution structure of options which are not based on income**

	<b>Member</b>	<b>Adult dependent</b>	<b>Child dependent</b>
Option 1			
Option 2			

It is important to note the basis for arriving at the monthly contribution rate charged. The breakdown of the monthly contribution could be on a member per month or on a beneficiary per month basis. The detailed assumptions to the contribution amounts should also be provided per benefit option, together with the motivation for each assumption. The following are a few examples of assumptions to be documented:

- Description of data used;
- Price inflation;
- Age adjustments, if applicable;
- Expected utilization of benefits; and
- Investment return.

The above factors merely serve as a guide and are not in any way exhaustive of the assumptions that may be used. A detailed explanation of both the assumptions and the basis or impact of the assumptions on the financial position will prove useful.

### **3. RISK MANAGEMENT**

Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risk management's objective is to assure uncertainty does not deflect the endeavor from the business goal. The Friendly Society may minimize its exposure to risk through various interventions that may include any of the following:

- Detailed documented risk management policies and procedures;

- Risk transfer arrangements with insurance companies where an element of risk is transferred to the insurance company or shared between the Society and the insurance company;
- Capping of claims payable to contracted service providers in return for services to members, thus reducing exposure to high inherent claims risks;
- For societies that do not have a large membership, reinsurance can afford them an effective means, to manage and contain risk. It should be noted that it is the responsibility of the Management Committee to consider the need for such reinsurance and to comply with the relevant legislation.

The Friendly Society is required to provide full details of its risk management tools, policies and procedures, within six months after its registration with NAMFISA. Any risk sharing arrangements should be supported by appropriate reasons for the implementation thereof (i.e. needs analysis).

#### **4. FINANCIAL PLAN**

The applicant should provide details of the financial projections of the overall Friendly Society and per option in order to determine how the Society will finance the achievement of its goals and objectives.

Projections shall comprise of at least the following information:

- A detailed consolidated statement of comprehensive income per month for 5 years;
- A detailed statement of comprehensive income per benefit option per month for the first 5 years of operation;
- Projected reserve level and solvency ratio (net income + depreciation/total liabilities) for five years;
- Projected consolidated cash flow statement for 5 years; and
- Projected cash flow statement per month for the first 5 years of operations.

## **5. INDEPENDENT REVIEW**

The applicant may wish to seek the services of an expert to evaluate certain aspects of the business plan, especially with regards to the proposed benefit design of the new Friendly Society. The evaluation report must be addressed to the Management Committee of the proposed Society. The person to perform the evaluation is not limited to an actuary and can be performed by any person with the appropriate skills in statistics, economics and actuarial science or any other relevant skills.

The evaluation shall at minimum report on the appropriateness and adequacy of the following:

- Contributions, taking into account the level of benefits offered by the proposed Society;
- The level of overhead expenditure/costs;
- Overall risks faced by the proposed Friendly Society and the extent to which the proposed Society is vulnerable or covered against these risks; and
- A sensitivity analysis.

## **6. REVIEW**

This guideline shall be reviewed regularly on an ongoing basis, as and when the need arises to ensure its relevance, by incorporating new developments observed in a particular period, and improve the efficiency of the document.

## ANNEXURES

### Annexure A

#### Specimen monthly statement of comprehensive income (consolidated and per option)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Contribution income</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Contributions received	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Claims recoveries	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Gross results</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Administration costs	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY
Operational costs	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY	YY
<b>Net results</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>
<b>Other income</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Donations received	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Investment income	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Other expenditure</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Interest expenses	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy	Yy
Investment costs	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

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Sundry expenses	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Net surplus/ (deficit) for the year</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Property revaluations	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Total comprehensive income for the year</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>	<b>xyx</b>

**Annexure B**

**Specimen year to date statement of comprehensive income (consolidated and per option)**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
<b>Contribution income</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Contributions received	xx	xx	xx
Claims recoveries	xx	xx	xx
<b>Gross result</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>
Administration costs	xx	xx	xx
Operational costs	xx	xx	xx
<b>Net Result</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
<b>Other income</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Donations received	xx	xx	xx
Investment income	xx	xx	xx
<b>Other expenditure</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Interest expenses	yy	yy	yy
Investment costs	yy	yy	yy
Sundry expenses	yy	yy	yy
<b>Net surplus/(deficit) for the year</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
<b>Other comprehensive income</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
Property revaluations	xx	xx	xx
<b>Total comprehensive income for the year</b>	<b>XYX</b>	<b>XYX</b>	<b>XYX</b>



**Annexure C**

**Specimen for the year to date cash flow statement**

	<b>Year 1</b>	<b>Year 2</b>
<b>Cash flows from operating activities</b>	<b>XXX</b>	<b>XXX</b>
Cash receipts from members	XX	XX
Cash paid to providers and members	XX	XX
Cash generated from operations	XX	XX
Interest paid	XX	XX
Other (specify)	XX	XX
<b>Net cash from/(used in) operating activities</b>	<b>XXX</b>	<b>XXX</b>
<b>Cash flows from investing activities</b>	<b>XXX</b>	<b>XXX</b>
Purchase of property, plant & equipment	XX	XX
Proceeds from disposal of property	XX	XX
Purchase of investments	XX	XX
Others (specify)	XX	XX
<b>Net cash from/(used in) investing activities</b>	<b>XXX</b>	<b>XXX</b>
<b>Cash flows from financing activities</b>	<b>XXX</b>	<b>XXX</b>
(Repayments)/increase in borrowings	XX	XX
Other (specify)	XX	XX
<b>Net cash from/(used in) financing activities</b>	<b>XXX</b>	<b>XXX</b>
<b>Net increase in cash and cash equivalents</b>	<b>XXX</b>	<b>XXX</b>
Cash and cash equivalents at the beginning of the year	Xx	Xx
<b>Cash and cash equivalents at the end of the year</b>	<b>XXX</b>	<b>XXX</b>

**Annexure D**

**Specimen monthly cash flow statement**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Cash flows from operating activities</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Cash receipts from members	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Cash paid to providers and members	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Cash generated from operations	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Interest paid	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other (specify)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Net cash from/(used in) operating activities</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Cash flows from investing activities</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Purchase of property	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Proceeds from disposal of property	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Purchase of investments	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Others (specify)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Net cash from/(used in) investing activities</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Cash flows from financing activities</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
(Repayments)/increase in borrowings	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Others (specify)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX

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<b>Net cash from/(used in) financing activities</b>	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
<b>Net increase in cash and cash equivalents</b>	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Cash and cash equivalents at the beginning of the year	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
<b>Cash and cash equivalents at the end of the year</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>