FINANCE — GENERAL

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Illusive 'bond boycotters' are re

W/E Mail 26/10 – 1/1

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pay. ARTHUR MAIMANE

Hernus Kriel ... stirred up hornet's nest

PLANNING and provincial affairs Minister Hernus Kriel has stirred up a hornet's nest by dragging the serious housing shortage into the party-political arena with his claim that major building contractors are withdrawing from the townships because of political unrest and bond boycotts.

He claims the violence has caused the number of private houses being built in the Transvaal to fall from 20 090 last year to 13 541 so far this year. The black housing programme was designed to provide more than five-million new homes by the turn of the century, which now seems impossible: the Urban Foundation's estimate is that the national backlog is a million units, with about 850 000 being in the African sector.

Another reason, according to Kriel, is the "bond boycott" which he indirectly blames on liberation movements because their members are the boycotters. The African National Congress' heated reply is that housing is a fundamental right that should be provided by the state: private building should be a complementary option — and it's one most Africans cannot afford.

The ANC also points out that "since the early 1970s the Nationalist Party government has virtually stopped all building programmes of rented accommodation for black people". A likely reason for this policy could be that there are now, according to Kriel, 3,5-million people living illegally in urban squatter camps and township backyards: to house them would cost the government R5-billion. Kriel says a new national housing policy is being formulated by the SA Housing Advisory Council which will, in time, produce a White Paper.

That could take years during which more people join the urban flood of squatters in increasing acres of "informal housing" — and the formal housing shortage worsens while the government and political movements blame each other for the worsening crisis.

What, then, are the facts — as far as they can be made out?

According to Perm managing director Bob Tucker, there is, for a start, no organised "bond boycott" but only an inability to pay high interest rates. And home-buyers are shackled by a loan threshold that is "overwhelmingly in the R40 000-plus price range".

Standard Bank, though, says it has experienced two "isolated" cases of bond boycotts; but involving only about 40 householders in all.

Common-sense observers hold a similar view to the Perm on the basis that no reasonable person who's bought a house is likely to join a boycott, knowing that the property could be re-possessed and they'd lose all of their investment.

Tucker adds that there's also been "considerable uncertainty" following the government's decision to end the first-time buyer's subsidy as well as "bureaucratic delays in the payment of bond subsidies" that still exist.

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MAIMANE reports

The Urban Foundation adds that with the high threshold for a loan, only 10 percent of Africans can consider buying a house. If the threshold was reduced to R12 500, the Foundation estimates 40 percent could afford the bond payments.

Banks and building societies are refusing to lend money for houses valued at less than R35 000 because administration costs are the same as those for higher-priced houses on which they get a higher return. And the lenders regard people who can only afford low-cost housing as a higher debt risk. To encourage down-market loans, the Urban Foundation has raised R20-million at home and abroad for what it terms a Loan Guarantee Initiative.

The scheme, which will take effect in November, insures the purchaser against falling into debt. For a property valued at R12 000 the purchaser will pay a premium of R159,38 which provides five years' cover against an inability to pay the bond — and so removes the risk currently feared by lenders. For a property valued at R35 000, the present minimum loan, the premium will be R446,25. So far 12 finance companies including Allied, Eastern Province Building Society and Natal Building Society have agreed to operate the Loan Guarantee Initiative.

Aspirant home-owners forced by the present system to borrow more money than they should are the ones most in danger, according to Phil Khumalo, chief executive of Business Challenge.

"They are persuaded by estate agents to buy houses they can't really afford just so these agents get their commission," he told *The Weekly Mail* at his Johannesburg headquarters, where he works closely with the Allied Building Society.

"These agents sort of cook the books to make a sale, and they promise government subsidies which will not happen. But most serious is that they don't explain the financial load to purchasers, like warning them that inflation could increase their bond repayments beyond the 25 percent of income which is the standard rate."

Khumalo says the money-lenders aren't much help either: "If people who go to them for a loan qualify (because their repayments will be under 25 percent) they're just told 'sign here and sign there' without any detailed explanation of what they're committing themselves to. Most people need help and education about the building industry, but they don't get it from any of the people concerned."

Khumalo remarked that the R35 000 minimum valuation for a loan assumed "people want palaces when in fact all they want is decent shelter for their families".

According to research by advertising agency DMB&B, only a tiny percentage of Africans, Asians and coloureds are among the "fortunates" whose income is above R6 000. A few more are among the "succesfuls" with incomes above R4 000 while the overwhelming number of the "strugglers" paid less than R1 000 are African.

Yet the average price of a small suburban house — four rooms and garage — is R119 000, requiring bond repayments of R1 500 a month and stretching the family budget even for a "successful" breadwinner.

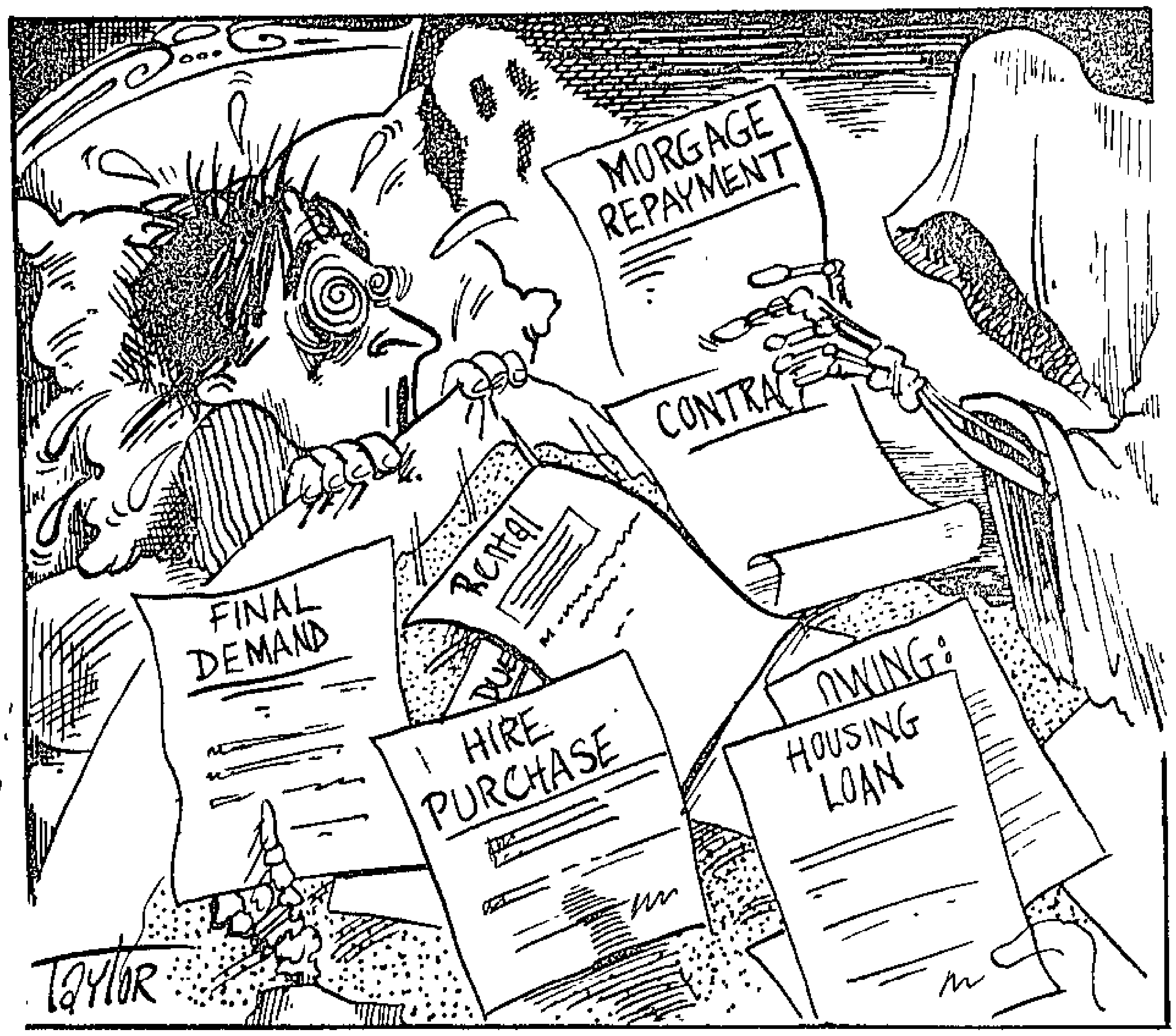
In townships the total price of a small house, including land and legal fees, is R75 000 — far beyond the reach of "strugglers". The bond repayments are near-impossible even for "survivors" — about half the black population, who earn up to R2 000. But they are encouraged to buy houses and when they fall behind with repayments and lose their investments, they are called "bond boycotters".

Star 6/10/90 (58)

Interest rates to stay high until inflation is under control

Sweat it out a little bit longer, says De Klerk

FINANCE STAFF



THE Government has dashed prospects of an imminent cut in interest rates. Interest rates will stay high as long as inflation remains at current levels.

This warning comes from no less than State President F W de Klerk himself.

Speaking in Durban this week he emphasised the determination of the authorities to beat inflation — despite the hammering the high real interest rates is giving business.

At the annual banquet of the Natal Chamber of Industries, he responded to a plea by the chamber's president, Brian Wallett, to consider easing the burden on commerce by reducing rates.

Mr de Klerk said the biggest source of momentum in the cost of living was an unrealistically high expectation of inflation.

'Sweat out'

The country had to "sweat out" high interest rates "a little bit longer" in the interests of the economy.

The Government was acutely aware that the private sector was "on a knife-edge because of the pressure of certain monetary and fiscal measures we are keeping in place".

"On the other hand, we share the realisation that if we let go too soon, then in a year's time the private sector might say we made a mistake."

South Africa would attract the investment it desperately needed only if it succeeded in bringing down inflation to a level comparable to that of its major trading partners.

For 10 years South African inflation had been three times the rate of the countries with whom it did most of its trade.

Research showed that 70 percent of price increases in a year were a direct result of increases the previous year.

"We have a built-in expectation of inflation that we must break."

The State President appealed to business not to allow increases in the price of oil brought about by the Middle East crisis to "add fuel to the already intense fire of inflationary expectations."

The country had advantages in the energy field over some of the major economic powers of the world in that it produced a portion of its petrol from coal, in addition to having a large stockpile of oil.

Urging the private sector to do everything it could in the inflation fight to maintain price and wage increases to the level of productivity improvements, Mr de Klerk said the public had a right to expect that these rises would be at a discount to retail prices.

Reacting to his statements, economists yesterday were mostly in agreement with the authority's position.

While some suggest there could have been room for a cut in the prime overdraft rate were it not for the Gulf crisis, the say these hopes have now been dashed for the time being.

Imported oil

The sharply higher cost of imported oil will add about R3,7 billion to South Africa's import bill, placing pressure on the balance of payments.

While gold has risen in response to the Gulf crisis, the rise has not been enough to compensate fully for the near-doubling of oil prices.

The effects of higher oil prices have already resulted in an increase in the petrol price and sharply higher air fares, while the cost of chemicals is set to rise significantly.

A central theme in the Government's monetary policy is the protection of the currency, which has dropped alarmingly in value in the past 20 years.

This sharp decline in the rand against all major currencies — and some not so major — has resulted from the disparity between local and overseas inflation rates.

Against the Italian lira, one of the weakest currencies in the world, for instance, the rand is now worth only about 52 percent of its 1970 value.

Against the Swiss franc the rand is now worth only nine percent.

Housing shortage a chronic problem

C|Pres 7/10/90 (58)

By ZB MOLEFE

THE country's chronic housing shortage presents a problem for South Africa now and in the post-apartheid future, says South African Housing Trust managing director Wallie Conradie.

But Conradie believes a number of innovative solutions have to be found to tackle this problem.

These include informal housing as the core of a national plan, a co-operative approach to the funding of low cost housing and a drive to help people become familiar with home ownership.

These suggestions emerged from the Trust's annual report released this week.

Trust chairman Simon Brand says more than 4 200 000 people are living in squatter settlements in and around metropolitan centres.

This confirms research that urban South Africa can expect an influx of more than 956 000 new city dwellers a year for the next 20 years as urbanisation accelerates.

"Informal settlements will have to be recognised as an essential part of meeting the shelter requirements of the South African population on an affordable and sustainable basis, in tandem with more formal housing developments," said Brand.

The urgency of the housing problem is also illustrated by the report which quotes Council for Scientific and Industrial Research figures that put the housing backlog in metropolitan South Africa at more than 1 800 000.

The Trust has also recognised the danger of unscrupulous operators, and has helped the Legal Aid Bureau set up a Housing Advice Centre to provide legal assistance and counselling "to those who may have been tricked".

In addition, points out Conradie's report: "Focused home ownership education is one of the most fundamental prerequisites."

There is also a regular programme on Radio Metro by the Trust's executives who discuss specific aspects of home ownership.

As a result of South Africa's chronic housing problem, the Trust has become a leading contributor in the affordable housing sector. Already it has approved R1,3-million to be spent on housing projects. This, points out the annual report, will result in the building of 62 681 houses and the provision of 54 831 serviced stands.

Statistics on the homeless also serve to underscore the urgency of the Trust's call for greater participation in housing by the country's financial and construction sectors.

SA Housing Trust's MD Wallie Conradie.

The Trust is already deeply involved in studies, research and shelter experiments in a number of squatter communities. Nine prototype core units have been built and viewed by leaders in these communities.

These units can be built for R8 500 to R10 000, including the cost of a serviced stand. "Additional options may yet be added to these prototype units as the SAHT philosopy is non-prescriptive and is driven by the preferences of potential buyers in the lower income groups."

A subsidiary company of the Trust has already given the lead in this area by granting bonds of less than R10 000 on core units. The Palm Springs project north of Evaton in the Vaal is a case in point.

In calling for a co-operative approach to low cost housing by financial institutions, Conradie concedes that risks in this market have been underlined by (township) unrest and boycotts.

But he adds: "In-depth discussions held with some of these institutions during the year will continue with a view of clearly defining such underlying difficulties."

BACKGROUND

The black housing bubble has burst

The euphoria which greeted huge housing projects in black townships has almost disappeared because of unrest and a refusal — usually as a result of intimidation — by house owners to repay their loans.

NORMAN CHANDLER traces the history of the market.

A catch phrase is no more. And also gone appear to be the hopes of millions of South Africans who do not have a suitable roof over their heads.

The phrase is "black housing" — the huge industry which has come into its own since influx control was lifted six years ago and black people began to move from rural districts into key urban centres.

With their arrival, the majority without shelter of any sort, squatter towns began to dot the countryside.

The Government's method of dealing with this phenomenon was to declare the better ones "informal towns" which would at some time or other be upgraded to "formal towns".

It did not take long for entrepreneurs in the building industry to see the chance of a new potentially lucrative market.

They were soon followed by medium-sized companies, and then by the construction giants who fell over themselves to help blacks find a decent place in the South African sun.

All of these saw the housing market mushroom into the "miracle" the industry had been waiting for ever since the bottom fell out of the commercial market a few years ago.

Huge townships — much like the New Towns which have become a feature in the United Kingdom — have been developed.

Thousands of people moved from their old houses to homes styled on "European lines" (their own preference, as house builders said), with their own gardens, services and other mod-cons.

The Government has gone on record as saying that at least 9 million people will have become urbanised by the end of the decade — and that translates into tens of thousands of houses being required.

But the bubble burst when the latest wave of unrest began.

The violence has resulted in expensive new homes being destroyed and people being urged, usually through intimidatory methods, not to repay loans obtained from banks and building societies.

As the violence escalated, the building industry began to re-examine their position and when staffs were threatened and building materials pillaged in townships across the country, decided to adopt a wait-and-see attitude.

The legal-notices sections of successive Government Gazettes have become thicker and thicker as finance houses applied successfully for court orders against bondholders who did not meet their commitments.

Thousands of people have lost their homes as a result of such orders.

There have been denials and counter-claims on this issue for months, but at some stage the nettle had to be grasped.

It was done this week by Hernus Kriel, Minister of Planning and Provincial Affairs, when he called a press conference to discuss the country's housing situation and the development of a new policy.

What he said is proving devastating for black people, for the industry and for investors.

Financial institutions had, he confirmed, placed a freeze on new home bonds for black clients, and top construction companies had decided to stop operations in the townships and were now merely completing existing contracts.

The reasons, Mr Kriel spelt out, were the violence, a refusal to repay loans and an understandable reluctance by finance houses to invest money in what has become a risk market.

First indications that there was something drastically wrong with the market came last month when the SA Perm and Natal Building Society, two of the biggest lenders, doubled their deposit requirements for black buyers.

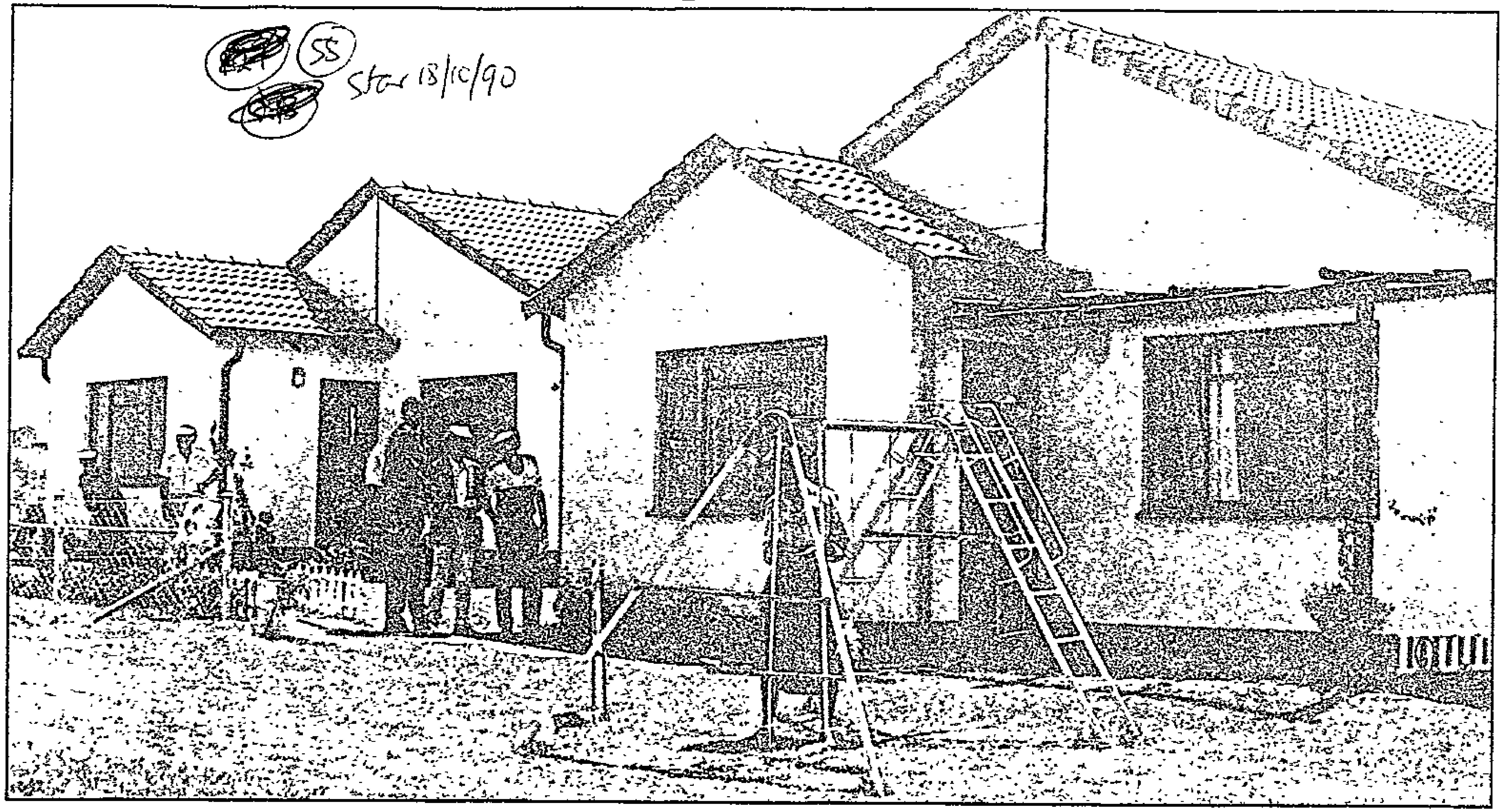
Others said they were being "more selective" — in other words they were not giving out any further loans until they knew what the situation would be like.

At the same time, building contractors virtually downed tools.

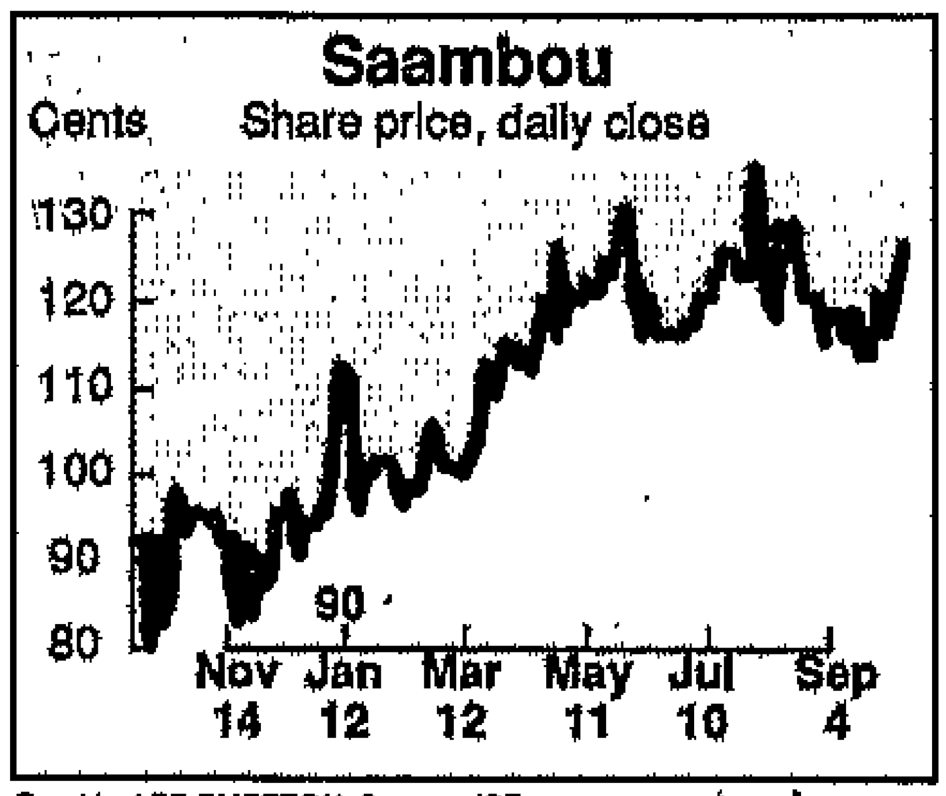
It was a cruel irony that only a day or so before, the Urban Foundation — which has been in the forefront of trying to improve the lot of black South Africans — announced a November 1 launch date for the first of thousands of new home loans for low-income families.

This is part of a multibillion-rand loan guarantee fund, assisted by the British, German and Swiss governments, designed to protect bond lenders from the risk of default.

Even more ironic, in view of what has taken place this week, is that the guarantee fund is backed by some of the same financial institutions which are rethinking their position on the black housing market.



Recent violence in the townships has resulted in new homes similar to the ones above being destroyed and people being urged, usually through intimidatory methods, not to repay loans obtained from banks and building societies. Consequently, the building industry began to re-examine their position and when staff were threatened and building materials pillaged in townships across the country, decided to adopt a wait-and-see attitude.



Graphic LEE EMERTON Source: JSE

B Day 12/10/90

Saambou gains point to possible merger

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NEIL YORKE SMITH

STRONG gains in the share price of small building society group Saambou suggest merger talks could be under way.

But industry players are at pains to propose a suitor.

"Judging by recent share price movements something is probably going on at Saambou — I wouldn't be surprised if something was announced soon," a leading banking analyst said yesterday.

The shares closed at 130c yesterday, representing a gain of more than 35% over the price at the beginning of this year. But they still trade at a substantial discount to stated net asset value which was 235c a share at end March.

CE Hendrik Sloet said in an interview yesterday Saambou had been approached

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Saambou

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☐ From Page 1

by a few companies but discussions had ended soon after commencement.

"We accept that increasing rationalisation is likely in this industry and legislation coming into effect next year (the Deposit Taking Institutions Act) will make it much easier," he said.

Management was not crying out to sell but was prepared to talk to anyone and to make recommendations to the board. A number of exciting announcements would be made in the next few weeks, Sloet said.

Saambou, with assets of about R3,7bn, was below critical mass in the SA financial market, an analyst said.

"Without the support of a big brother, Saambou may become irrelevant in this market which is increasingly dominated by major players."

Firms face big losses from black housing

Star 18/10/90

By Norman Chandler
Pretoria Bureau

Huge losses may be incurred by some of the biggest construction companies in South Africa as a result of their withdrawal from the black housing market.

Those in the process of quitting include LTA Comiat Homes, Schachat Home Builders, Time Holdings, Gough Cooper Homes, Bester Homes and Grinaker Construction.

Another company, Stocks and Stocks Holdings, said yesterday it would remain in the field.

It is understood a number of medium-sized companies are also reassessing their position following the disclosure by Minister of Planning and Provincial Affairs Hernus Kriel this week that the industry had virtually ground to a halt because of unrest and a shortage of bond financing.

He said banks and building societies were not providing new bonds for blacks because loans were not being repaid.

The input of the private sector was vital to overcome the housing backlog.

The Urban Foundation yesterday expressed concern at the withdrawal of companies from the black housing market and said that without their participation, the potential to meet housing needs of low-income segments was limited.

Misleading

The National Association of Home Builders believes many companies pulling out will probably return once the unrest situation has normalised.

One of the building societies providing home bonds for black clients, the Perm, said yesterday that to lay the blame solely on bond boycotts was misleading and inaccurate.

Perm managing director Bob Tucker said the demise of the market had occurred over a period of time and was attributable to the interaction of a range of different forces.

These were:

- That houses built by the private sector fell overwhelmingly in the unaffordable R40 000-plus price range.
- The high rate of interest payable on bond finance.
- The quality of the housing.
- Very recently, the possible withdrawal of some financial institutions had been supposedly attributed to threatened bond boycotts.

Independent Development Trust chairman Jan Steyn said treating households differently on the basis of "imputed racial identity" had no place in South Africa.

● **Black housing bubble bursts — Page 21.**

Cit Trip THURSDAY, OCTOBER 18 1990 58

Bank, building societies blacklisting townships

Own Correspondents

JOHANNESBURG. — Most banks and building societies are effectively blacklisting townships where unrest and threats of bond repayment boycotts have occurred — a move which could hamper the implementation of the Urban Foundation's R3,5bn low-cost housing scheme.

While bankers are emphatic there have been no official decisions to cut exposure to the black housing market, they say the risk attached to some townships, such as Vosloorus and Kathlehong, is too high to justify lending on solid commercial grounds.

While they remain committed to the foundation's scheme to build 140 000 low-cost homes, they have informed the foundation that there are certain areas they want to avoid.

Allied home loans manager Geoff Bowker said: "We have not changed our official lending policy. But every loan is assessed for risk in the normal course of business and naturally unrest and the threat of bond repayment boycotts in many cases rule out the granting of loans in some townships."

He said the Allied remained committed to participating in the Urban Foundation housing scheme, which is based on partial insurance for financial institutions against bond payment defaults.

"But that does not mean we will provide bond finance in areas where it does not make commercial sense," he said.

First National's Pat Lamont said any manager that had to assess the risk of a loan in areas where there was a threat of boycotts and violence would have to take those factors into account.

"Sometimes it would be downright irresponsible to grant the loan," he said. However, he stressed that there had not been any official policy decision to cut back.

The Standard Bank's Dennis Matfield said: "We have to be sure that we are lending against security and right now we do not have this certainty in a number of areas. The same risk criteria apply to lending in terms of the Urban Foundation fund. But we remain committed to the black housing market and the fund."

So far, the only financial institution to have started granting finance in terms of the foundation fund is the Perm. Its MD, Bob Tucker, said yesterday that it had not been subject to a single "bond boycott" anywhere in the country and that was continuing to grant loans to black home owners at more or less the same pace as in the past.

"It is true that the Perm has experienced a couple of threatened repayment boycotts but in every instance, the problems have been of a specific and localised nature and have been resolved as a result of intense interaction and communication with the community concerned," he said.

A housing expert said that financial institutions had responded differently to the changing situation in black townships.

While some were scaling down involvement, others were making it more difficult to obtain loans and requiring larger deposits.

Urban Foundation MD (residential development) Matthew Nell said last night he agreed with Kriel that the bond boycott situation in the Western Cape was causing "a very high level of anxiety".

"There can be no question that with the lack of clarity, particularly concerning the issue of mortgage boycotts, that financial institutions are monitoring the situation very carefully before going into major new investments."

However, the situation in the Western Cape related to a specific area and was not "spreading like wildfire" throughout the country.

Nell said, however, that it would not be a fair commment to say that any of the financial insititutions involved in the fund were currently reconsidering their positions.

Nell said in a statement yesterday the foundation was concerned at the withdrawal of major private sector home builders from the black housing market.

He added that the potential for private sector home builders to operate viably was severely curtailed by the current environment.

Loan Guarantee Fund finances first project

58

5/10/90 BDN

THE Perm's new low-cost housing development in Daveyton, aimed at people with incomes from as low as R600 a month, is the first project financed by the Loan Guarantee Fund.

Speaking at the launch of the Emaphupheni pilot project yesterday, Perm GM housing Denis Creighton said mortgage finance under R35 000, requiring a 5% deposit from individual qualifying borrowers, would be available from the Perm within the Association of Mortgage Lenders and the Urban Foundation Small Loans initiative.

MARIETTE DU PLESSIS

Borrowers qualifying for a loan would be required to pay monthly instalments of at least R120.

The first phase, to be completed in November 1991, comprised 550 houses ranging from $30m^2$ up to houses of $55m^2$ and would be available for purchasers from R12 540.

He said the supply of housing must match the real affordability of the community and as such this project aimed at the lowest possible cost for formal housing, opening up a range of housing options not previously addressed by the industry.

Through this private sector initiative, low-income earners in the informal sector, small business and domestic service could become eligible for loans.

Development

Creighton said the planning was done with an integrated approach which balanced township design and construction in order to reduce costs and increase delivery speed.

Being concerned with the micro and macro environmental conditions within which the housing process developed, the Perm actively involved the local community in the development of the concept, he said.

The houses would "cluster" around the courtyard, replacing some 60% of the formal streets and meeting the social and cultural needs of the target area, he said.

Services provided included the availability of waterborne sewage, reticulated water, electricity and hard-surface roads.

Homes: Special unrest cover needed

Sowetan 5/10/90

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By BRIAN SOKUTU

HOMEOWNERS whose houses are destroyed during unrest cannot claim compensation from insurance companies without an additional policy with the South African Special Risks Insurance Association, the group's executive director, Mr George Raath, warned this week.

Many homes have been destroyed on the Reef since the outbreak of violence in August.

However, it appears many township residents are not aware of the special risks policy.

The association, said to have accumulated R2 billion, was started after the outbreak of the 1976 Soweto uprisings and has links with the Government, Raath said.

Help

"But so far we have been running without any financial assistance from the Government," he said.

An average homeowner's comprehensive insurance policy only covers damages caused by a storm, earthquake or fire - not riot or unrest damage.

This would be covered by the South African Special Risks Insurance Policy at a rate of R22,50 a month for a home and its contents valued at R150 000.

The policy does not apply to council homes.

The Star
Finance

(58)

Star 5/10/90

Perm launches R25-m low-cost housing scheme

By Frank Jeans

The Perm has launched a massive R25 million housing spread at Daveyton on the East Rand which will eventually bring on to the low-cost market 1 000 homes priced from R12 500 to R27 800.

Using a sliding form in concrete construction, a home at the project called Emaphupheni — Place of Dreams — can be built to roof height in two days.

Perm GM Denis Creighton.

Launching the first phase of Emaphupheni which will have more than 500 homes, Mr Denis Creighton, the Perm's general manager, housing, said: "This is a pilot project which is commercially viable and we can only hope that it will be a model for similar developments in other areas of need."

A strong infrastructure of commercial, retail and social amenities, is also planned to support the development.

The Perm, mindful of the need of the low-income potential homeowner, is pitching its initial marketing programme at the buyer of the basic R12 500 home.

A buyer of this home can qualify with a salary as low as R600 a month along with a 5 percent deposit.

"The supply of housing must match the real affordability of the community," said Mr Creighton.

"This project aims at the lowest possible cost for formal housing and opens up a range of home options not previously addressed by the industry."

Mr Dawie Joubert, of Citicon, the management company of the Emaphupheni development, said: "We expect the first buyers of the homes to be moving in by the end of the year.

"Other phases will take place on demand and we expect overall completion by the end of next year."

NBS cutting a bigger slice for investors

By Magnus Heystek Star 17/10/90 (58)

The financial services industry still seems to be operating profitably as far as Natal-based NBS Holdings is concerned.

NBS has reported a 24 percent increase in earnings per share to 41,2c per share (33,2c) in the six months to September 30, 1990. Attributable profit increased 24 percent to R24 million (R19 million) and an interim dividend of 13c a share (11c) has been declared, reflecting an 18 percent increase which is well above the rate of inflation.

Managing director of NBS Holdings, John Gafney stated his satisfaction with the progress the group has made, as well as the consistent earnings growth that has been achieved over the past few years. The results were achieved on growth in assets of 34 percent which presently stand at R6,3 billion (R4,7 billion).

Despite the prevailing interest rates, mortgage advances, which are a major component in the balance sheet, have grown by 12 percent since the financial year end.

Commenting on the results, Mr Gafney says that the incidence of arrears and the number and value of properties in possession has continued to escalate. "In order to account for this, the provision of losses on mortgage advances and properties in possession have been increased from R30,7 million to R38 million," he said. "These provisions are equivalent to 92,7 percent of properties in possession or 0,84 percent of the mortgage loan portfolio," he said.

"We expect to achieve an increase in excess of 20 percent in earnings for the full financial year. "A lowering of interest rates would ease the plight of borrowers and make home-ownership more affordable, and although the next movement in interest rates could only take place early in 1991, we expect it to be downward."

The new Deposit-Taking Institutions act, due for implementation in January 1991, will mean level playing fields for banks and building societies. "Capital requirements have been amended in the new regulations and the NBS group has sufficient capital to meet the new levels and to provide for growth for the foreseeable future," he added.

Perm refutes claims of 'bond boycotts'

WMail 19/10 - 25/10/90

Weekly Mail Reporter

IN response to Planning and Provincial Affairs Minister Hernus Kriel's recent comments on the withdrawal of eight home builders from the black housing market, SA Perm MD Bob Tucker says the Perm is not subject to a single "bond boycott" anywhere in the country and secondly, that the building society is continuing to grant loans to black home owners at more or less the same pace as it has done in the past.

Tucker says most houses built by the private sector cost R40 000 or more; this coupled with high interest rates makes them unaffordable to most blacks.

He says uncertainty was generated by the termination of the first time home-buyers subsidy. (58)

"To lay the blame solely on bond boycotts, when, in our experience, there are none and where the demise of the market has occurred over a period of time and is attributable to the interaction of a range of different forces is, in my view, very misleading and inaccurate," he says.

Home loans: Lenders wary of grey areas

W/Mail 19/10-25/10/90

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Lenders' reluctance to grant mortgage bonds on homes in grey areas could make the fear that these areas will become slums a self-fulfilling prophecy, reports **REG RUMNEY**

FINANCIAL institutions are showing reluctance to grant loans in at least one grey area.

The Weekly Mail has come across two incidents of people being refused bonds in different properties in Bertrams, Johannesburg. Banks and building societies polled by *The Weekly Mail* have denied they have national bans on granting bonds in certain areas — but most say decisions are left to regional managers.

Estate agent Eileen Kovacz, who operates in Bertrams, remarks: "They say Bertrams is a high-risk area because it's 99 percent black."

She says if there is already a bond on the property the bank or building society may grant a "takeover bond" but is only prepared to give 65 percent to 70 percent of the bond amount being asked for.

It's virtually impossible to buy a house in Bertrams unless a company bond is available, reckons Kovacz.

A journalist for a major newspaper, Glynis O'Hara, was flatly refused a bond by the United Building Society for a house in Judith's Paarl. However, the SA Perm was willing to grant a bond — at R10 000 less than was asked for.

Her experience suggests that even where bonds are granted, house prices are pushed down.

De Huizemark chairman Piet Hamman goes further. He is adamant that financial institutions are refusing to grant loans in suburbs like Hillbrow, Joubert Park, Jeppe, Bez Valley, and Malvern.

Applications for loans in these areas are either flatly refused or the terms offered make things very difficult for prospective buyers.

If Hamman is correct, the reluctance to grant bonds in those areas threatens to hasten a decline in those areas.

"If this is happening it would make the prophecy that grey areas will become slums self-fulfilling," agrees property economist Neville Berkowitz.

The refusal to grant bonds restricts the sale of properties and condemns the areas to slumdom. Buyers' only alternative is to find cash; other owners will have to rent out their properties on a large-scale, accepting low rentals for them.

UBS MD Mike De Blanche says decisions are left to the local boards. "There are a few areas where we do not grant loans, for instance where we feel the general area to be dilapidated. Most areas would qualify for loans. Any area would be reviewed on a regular basis."

"Each branch would have its own specific policy," says the SA Perm senior GM Peter Hibbit. But he says the stability of the area is important in assessing the risk of individual applications.

Allied Building Society MD Don Hunter says there is no blanket policy on granting loans in certain suburbs. "There are minimum standards. We have to have some cut-off point below which we don't lend." Hunter says the dwelling and the ability to pay the loan are assessed.

This is mirrored by First National Bank GM Jimmy Mckenzie, who says decision-making on bonds is decentralised. "The regional general managers probably know the areas they want to be in."

He adds: "Every case would be evaluated in terms of risk." Mckenzie says FNB has done business in grey areas, such as Hillbrow.

"We haven't a formal policy," says Standard Bank senior GM Dennis Matfield. "We look at each case on its merits. There must be value in any house or flat we decide to finance."

In the US, financial institutions have "red lined" certain areas into which blacks move, causing prices to fall. Estate agents have been accused of engineering red lining to snap up properties cheaply for later gentrification or for use as office space.

In South Africa, fears of "bond boycotts" by disgruntled residents similar to the widespread rent boycotts in the townships may be causing banks and building societies to think twice about granting bonds in grey areas.

1990 likely to be bumper year for housing — UBS

58

BDay 23/10/90

CHARLOTTE MATHEWS

THE residential property market looks set to turn in its best performance in 1990 as a whole since 1983, according to the United Building Society (UBS) Quarterly Housing Review released yesterday.

The overall price increase for medium-sized houses is likely to amount to 11-12% in 1990, which implies a drop of only 1% in real terms, according to the review.

"Although the residential property market can be expected to be affected by the recession, other factors could again contribute to buoyant conditions next year," the UBS comments.

"These could include slightly lower mortgage rates, a continued net immigration gain, increase in public sector employees' housing subsidy and the repeal of the Group Areas Act as it stands."

In the third quarter of 1990 the average price of a medium-sized house rose 3% to R106 000 compared with the previous quarter and by 12% over the same period in 1989, while the price of smaller houses rose by 15% to R88 500 on average compared with the same period in 1989.

At the top end of the market the UBS's survey shows the average price has remained virtually unchanged on the previous quarter at R146 300, only 7% above the same period in 1989.

The price of new houses has risen less steeply in the third quarter to 16% year on year compared with increases of 30% and 28% in the first two quarters.

House prices in Natal outside the Durban/Pinetown area rose by 5% in the last quarter compared with 4% in the western Cape, 3% on the East Rand and 2% in the Johannesburg, Free State and northern Cape areas.

In the Vaal Triangle house prices fell by about 3% in the third quarter.

Johannesburg is still the most expensive place in the country. A new house of medium size costs nearly R137 000. Second most expensive is the western Cape where a medium-sized house costs about R126 000.

Nominal mortgage repayments on a 20-year bond of 80% on the value of a medium-sized house — a bond of R84 800 — amount to R1 495 a month in the third quarter of 1990, the UBS notes.

This is 19% more than the monthly repayment a year ago but in real terms is only 6% higher.

The UBS says the possibility of a decrease in its 20,75% basic mortgage rate before the end of 1990 is unlikely.

PROPERTY

Home owners struggle to meet bond payments

B Day 28\10\90 (58)

Reports by CHARLOTTE MATHEWS

MAJOR home mortgage institutions agree the number of individuals struggling to meet their bond repayments has been creeping up over the past 18 months.

All institutions emphasised they were willing to make arrangements with clients who were battling to meet their repayments.

As one solution, Camdons Nationwide MD Scott McRae has suggested that the lifetime of a bond is extended to 45 years instead of the usual maximum of 35 years.

He said the cost of homes was doubling every four to five years because building materials were rising at around 15% a year. The individual's after-tax pay was not keeping pace with this.

However, spokesmen from the institutions said there was little point in extending the bond repayment period by much over 25 years.

UBS executive director Nallie Bosman, Standard Bank senior GM Dennis Matfield and First National Bank (FNB) GM Norman Axten said the point of having an average bond of 25 years was so that the repayments were made during the individual's earning life.

Meaningful

"If a person buys a house at 30 on a 45-year bond, he would be repaying the loan until he is 75," Axten said. "It is not really desirable for him to be paying off his house in his retirement."

NBS Holdings MD John Gafney showed that a R70 000 bond at 21% interest a year over 45 years would cost R1 225,10c a month in repayments compared to R1 231,76 a month for a 25-year bond on the same basis.

"There is government assistance where they peg the rate at 17% and allow institutions to capitalise the interest," Gafney said. "That is far more meaningful."

Institutions generally are making arrangements on the basis of the individual plight.

"We are going to quite extraordinary lengths to prevent people from losing their houses," Perm housing division GM Dennis Creighton said.

"But none of the assistance programmes we offer are long-term solutions. They really are short-term crisis measures to get people over the difficult patch."

Some institutions will extend a further loan if the individual needs bridging finance, depending on the valuation of the property, or reduce the payments to what he can afford.

"It has to be a realistic figure, sometimes even capitalising the interest he cannot afford to pay now," Standard Bank's Matfield said.

The institutions agreed it was better to keep the individual in his house — repossession is not in either the owner's or the institution's interest.

Housing market buoyant

Star 24/10/90

By Frank Jeans

Further indications of the continuing buoyancy of the residential property market despite high interest rates and general economic constraints is seen in the latest housing review of the United Building Society.

It says the average price of a medium-size home is likely to have risen by 11 to 12 percent this year — the best performance of the housing market since 1983.

During the third quarter this year the average price of a medium-size house rose to slightly above R106 000 which is three percent higher than the previous quarter's figure and 12 percent more than the year-ago price.

Prices of smaller units averaged about R88 000 during the third quarter, representing an increase of 15 percent previously.

The top end of the market appears to have been affected by the downturn, with the average price for larger homes remaining virtually unchanged since the previous quarter at R146 000.

Nevertheless, this is seven percent higher than the figure for this category a year ago.

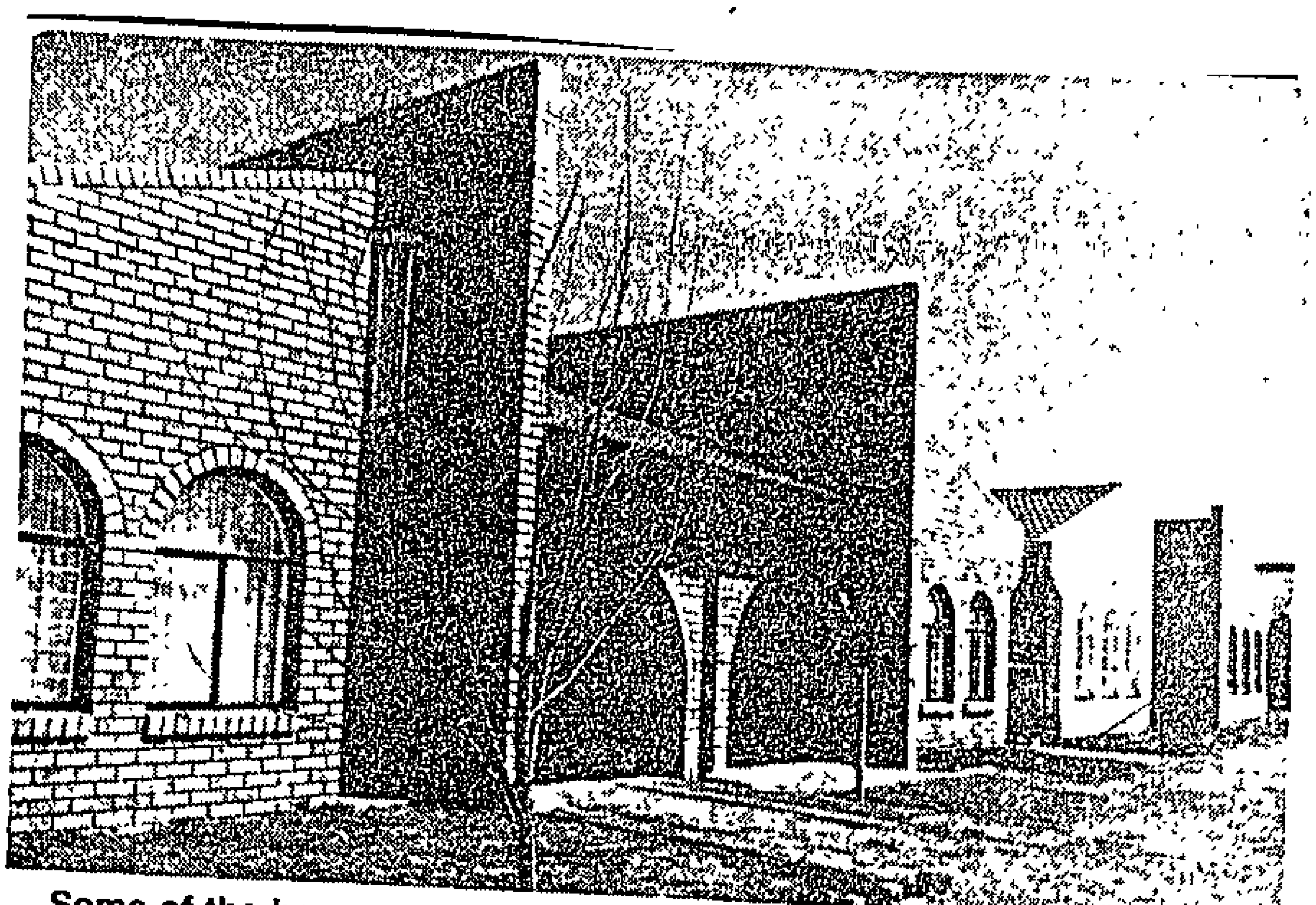
The Johannesburg area is still the most expensive region in the country, says the review, with the average home of about 265 sq m costing nearly R270 000, while the figure for the average medium-size property is R137 000.

The second most expensive area is the Western Cape (R126 000 average), followed by Pretoria (R111 000), Durban-Pinetown (R107 000) and West Rand (R105 000).

Looking at the affordability factor, the review says repayments on a 20-year bond of 80 percent of the value of a medium-size house (a bond of R84 000) amounted to R1 495 a month in the third quarter — 19 percent more than the repayment a year ago.

"However, after adjusting for the effect of inflation, this repayment is only six percent more".

Bullish in its outlook, the United sees a boost for the market in 1991 on the back of a hoped-for reduction in mortgage rates, a continued net immigration gain and the repeal or amendment of the Group Areas Act.



Some of the houses at newly developed "up-market areas " for urban blacks.

Perm continues to grant loans

Sowetan 25/10/90

58

THE SA Perm is not affected by the withdrawal of home builders from the black housing market and will continue to grant loans to black home buyers at the same pace as it has done in the past.

Managing Director Mr Bob Tucker said "building contractors could have withdrawn for a combination of several factors" which he identified as:

* Houses built by the private sector fall overwhelmingly in the R40 000-plus range, rendering them unaffordable to the vast majority of the people they are meant for - the urban black dweller.

* The high rate of interest payable on bond finance from the financial institutions.

* Harsh comparisons between subsidised housing produced by the State and the South African Housing Trust as compared to the unsubsidised housing produced by the private sector.

* The quality of the housing product actually offered to the black community and,

* Very recently the possible withdrawal of some financial institutions supposedly attributed to threatened bond boycotts.

Tucker added that it was "inaccurate and misleading to lay the blame for the withdrawals solely on bond boycotts." "There are no bond boycotts as far as the Perm is concerned," said Tucker.

He said the only problem experienced by the Perm on its black home loan portfolio were mainly attributable to to bureaucratic delays in the payment of bond subsidies, the effects of the recession, high rates of interest on the home owner and unaffordable and indifferent quality hoousing.

However, Tucker said the use of repayment boycotts as a political weapon would act severely to the prejudice of the communities concerned, as the financial institutions and other private sector players would be forced to withdraw from the market under those circumstances.

Home loan rates to drop next year

Star 24/10/90

By Tom Hood

CAPE TOWN — Home loan rates will drop next year by at least three percentage points from the current 20,75 percent, Southern Life economist Mike Daly forecasts.

He says in the company's latest Economent Comment higher oil prices will impact severely on the current account of the balance of payments.

The upshot of this is that the expected decline in local interest rates will take longer to materialise with the first cut in bank rate coming only in the first quarter of 1991.

UBS: keep pay hikes below inflation

6 1 D'4 31/10/90

ANDREW GILL

(58)

AN INCREASE in next year's wage bill should be kept two percentage points below the inflation rate if a rate of 11% is to be achieved by the end of 1991, the United Building Society (UBS) said in its latest Economic Monitor.

If, however, wage bills increased by 14% next year, it was unlikely that the inflation rate would fall at all.

This had become more pertinent since the 25% petrol price increase with the resultant deterioration in the inflation rate and the expected worsening of the terms of trade.

As a result, a cut in Bank rate should be expected only in the second quarter of 1991.

Reducing the inflation rate to single-digit figures by 1992 would require a real Bank rate of 5% in the foreseeable future, it said.

"Assuming a 13% inflation rate in April next year, this would imply a Bank rate reduction only from the second quarter onwards."

It was also likely that the current recession would be prolonged and positive growth in gross domestic product could be expected only in September 1991.

The slowdown in the world economy was expected to dampen merchandise exports in 1991, while merchandise imports and net service payments were expected to pick up slightly next year.

This could reduce the current account surplus for 1991, the Economic Monitor said.

ANC takes up the debate on the soul of the white bank

B/Day 31/10/90

58

GRETA STEYN

ANC economist Vella Pillay describes the financial and banking system as the "living soul of the social order". With the social order in SA undergoing profound changes, the role of banking and other financial services in a new SA has come under the spotlight.

At a seminar on the issue arranged by the Islamic Bank this week, Pillay reiterated the ANC's view that SA's financial markets have turned into "veritable casinos" where paper chases paper. These "centres of sustained speculation and instability", Pillay said, no longer functioned as efficient conduits for the investment of savings in productive activity. Government intervention would be essential as "the financial and banking community cannot and should not be allowed to evade their responsibilities".

Pillay's argument was that blacks' need for loan and equity finance was being ignored in a sophisticated financial system that compares well with the most advanced in the world.

He also strongly supported the allocation of credit to preferred sectors of the economy; interest rate controls, the provision of cheap deficit financing for government and sterner prudential requirements for banks to end "the pursuit of profitability at the expense of prudentiality".

On official allocation of credit, he said: "In South Korea — a country now being intensely studied for an explanation of its economic prowess — well over one-third of commercial bank credit was directed by the government to designated sectors throughout the 1970s.

"Despite some relaxation of these regulations in the early 1980s, commercial bank loans are still monitored and supervised."

Finance special adviser Japie Jacobs was visibly irritated by Pillay's stance, especially his concerns with "paper chasing paper" in the financial markets.

He responded: "There is no reason why I should share in the patent ignorance of the ANC about the functions and functioning of financial markets."

He accused the ANC of causing uncertainty in the markets with an "undefined statement" about restructuring the financial markets and called for more details.

Registrar of Banks Hennie van Greuning ventured an explanation as to why the paper chase was necessary.

"Traditional banking business is no longer profitable and other income from trading activities ensures that banks make profits."

A profitable banking sector was essential for the public to retain confidence in it. Loans could be made only if there were deposits; if a crisis of confidence should see deposits flee, there would not be finance available anyway.

Van Greuning suggested that the paper chase be used for development. Sophisticated financial instruments could be used to channel finance into areas such as housing.

Securitisation was one such example. The sale of mortgages on a bank's book to a company that issues securities against these loans immediately raises new cash for the mortgage market. In this way, the shortage of finance for black housing could be addressed, Van Greuning said.

Another issue that elicited strong reaction was the ANC view that blacks did not have adequate access to banks' loans because of a "fixation with the white-based economy".

First National Bank MD Barry Swart said: "The nature of banking is colour-blind. In banking, the only colour that matters is the colour of money, and the financial risks attached to it."

Pillay criticised this attitude: "Something of the nature of a self-fulfilling prophecy has taken place: being allegedly high risk, loans to black people do not take place; this in turn either undermines entrepreneurship among them, or causes their business efforts to fail for lack of start-up funds and capital."

Swart emphasised a bank's need to be sure that a loan would be repaid in making a lending decision. He said if banks were forced to make money available where "only doubtful financial capacity" existed, it would amount to shooting oneself in the foot in the longer term.

"Bad debts will increase, too little income may be generated, costs would rise, all of it jeopardising the savings and capital of depositors and shareholders alike."

Jacobs argued that direct interference by government in the management and functioning of banks to change the nature of their credit allocation would threaten their solvency, liquidity and profitability.

The public's confidence would be undermined and the public would move their funds. Government's role was to create a basic legal framework and to leave the rest to market forces.

But Jacobs had to smile when the Standard Bank's André Hamersma pointed out that many of the monetary controls now advocated by the ANC — prescribed asset requirements, interest rate controls, cheap deficit financing for government — were government policy for years and that Jacobs himself had implemented them.

Jacobs's sense of humour got the better of him and he and Pillay spent some time chatting together quietly. Perhaps the real value of these conferences lies in the conversations over tea.

A feature of the conference was the lack of attention paid to nationalisation. Although bankers are glad the ANC seems to have abandoned its plans to nationalise the banks, they are still concerned about the extent to which a democratic government would intervene in the markets.

Pillay gave some clues as to the nature of the intervention in credit allocation. He mentioned the creation of official industrial banks that would be financed by prescribed investments made by banks and other financial institutions. These banks would provide finance to industry in terms of an industrial development policy.

The idea of specialised banks was not new, Jacobs pointed out, noting the existence of the Development Bank, the Small Business Development Corporation and the Industrial Development Corporation. But he was opposed to the idea of prescribed investment.

Van Greuning suggested the creation of a new type of co-operative bank. The Mutual Building Societies Act could be rewritten to create scope for such people's banks. Their sources of deposits could come from individuals, trade unions, political groups, stokvels and companies.

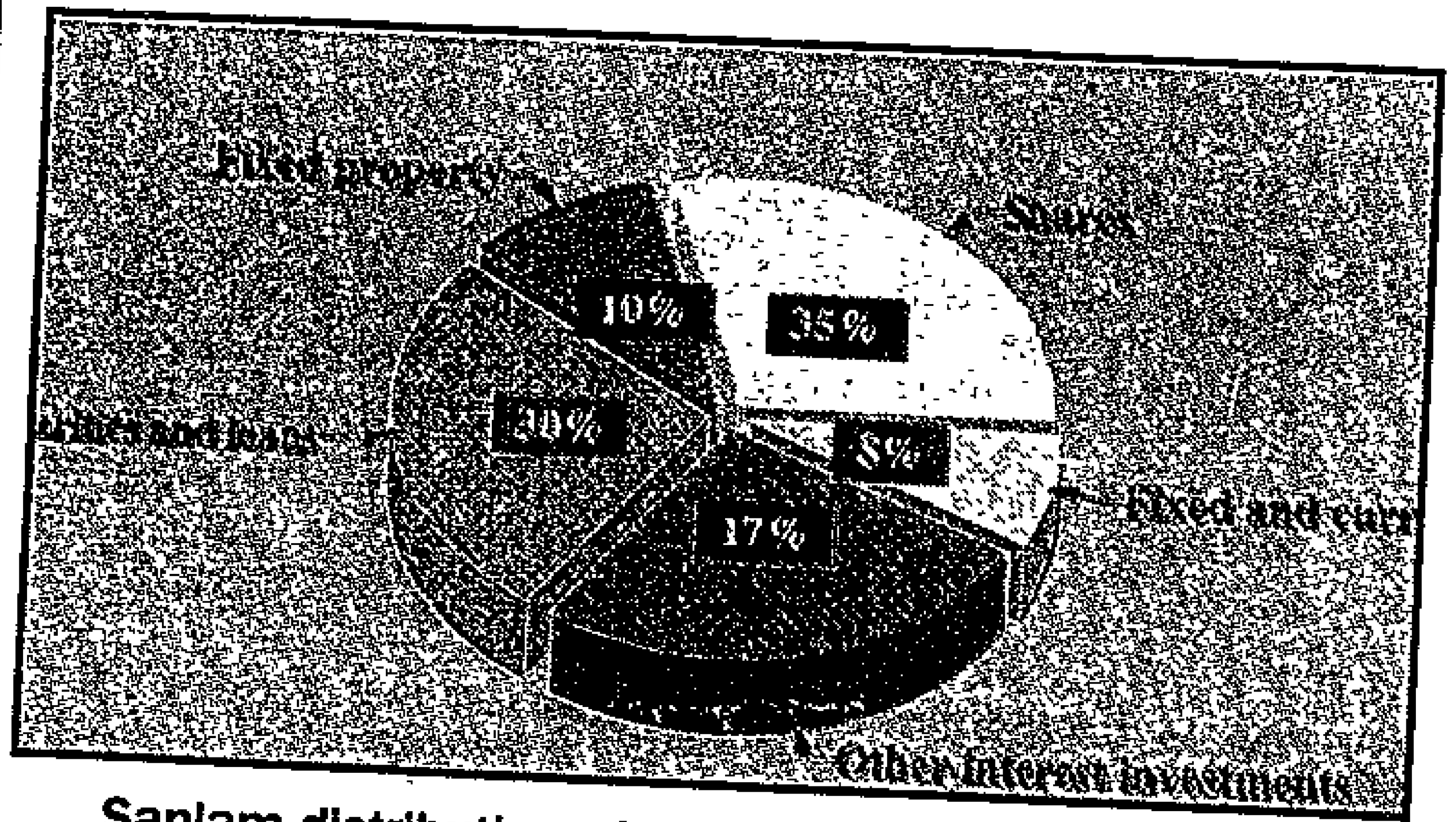
They would be involved mainly in retail lending activities such as home loans and hire purchase loans. With no shareholders, there would be no dividend declaration and any profits would be ploughed back. The prudential requirements of such a bank would be limited and as with the banking sector as a whole, aimed at risk management.

Pillay's reaction was that the ANC would like to explore the concept further with the Reserve Bank.

It was clear from the conference that government economic policy-makers, bankers and the ANC are keen to continue talking.

There is a general realisation that economic restructuring will affect monetary policy, banking and the rest of the financial services sector — even though bankers might not be quite so poetic as to describe the financial system as the "soul of the economy".

Sanlam's income tops R10-bn mark



Sanlam distribution of profits (September 30, 1990).

By Derek Tommey

Sanlam's agents have had a good year, showing more drive and selling much more insurance than they did last year, and in the process helping to push Sanlam's total income above the R10 billion-mark for the first time.

Sanlam does not give recurring and new premium income figures separately. But the R1 billion or 26 percent increase to R4,7 billion in premium income from individuals in the year ended September indicates that the organisation made a major selling effort.

A far greater one, in fact, that in 1989 when the increase in premium income from individuals was only 18 percent. Group premium income also rose in cash terms and proportionately.

This item increased by 19 percent to R2,8 billion and follows a rise of 14 percent to R2,3 billion in 1989.

Total premium income rose by 23 percent, from R6,0 billion to R7,4 billion.

However, reflecting the more difficult economic conditions, the rise in investment income fell back from the exceptionally high 41 percent in 1989 to a nonetheless highly satisfactory 22 percent in the year ended September.

In cash terms it increased from R2,45 billion to R3,0 billion.

Total income, which rose 22,8 percent to R8,5 billion in 1989, rose another 23 percent this year, to R10,4 billion.

Benefits paid jumped by 59 percent from R2,4 billion to R3,9 billion. This followed a 25,8 percent increase in 1989. However, Aids had nothing to do with the sharp increase in benefits paid.

Mr Pierre Steyn, Sanlam's managing director, says that confirmed cases of aids were responsible for only nine deaths and four disability claims and required payments of R600 000.

But this illness remains a large potential problem as a substantial increase in claims is possible towards the end of the century, he says.

Administrative expenses jumped 41 percent from R289 million to R408 million, but he says this still reflects the lowest cost ratio in the insurance industry.

The book value of Sanlam's assets at September 30 was R28 billion, a 24 percent increase on the 1989 figure of R22,4 million. However, this is not the limit to Sanlam's assets.

Sanlam lifts income 23%

CAPE TIMES 31/10/90 58

By PIETER COETZEE
Financial Editor

SANLAM maintained total income growth at 23%, rising to R10,42bn from R8,49bn, for the year ended September 1990.

Total premium income rose by 23% from R6,04bn to R7,43bn after growing by 17% the previous year.

Investment income, however, showed a much lower growth rate of 22% to R2,99bn from R2,35bn after the previous year's 41%.

Individual premium income grew by 26% from R3,71bn to R4,66bn, while group premium income grew by 19% from R2,33bn to R2,77bn.

MD Pierre Steyn says sustained attempts to extend Sanlam's services to English speakers and also to blacks have been very successful.

"Recurring new premiums received from English speakers were up 39% on the previous year's, and now account for a third of Sanlam's new business."

Steyn says total assets increased by 24% to almost R28bn — without taking any capital appreciation into account.

"In addition the company controls assets of more than R50bn through its wholly-owned subsidiary, Sankorp."

At cost, investments in fixed property amounted to R2,8bn on September 30, 1990, shares stood at R9,8bn, securities in the public sector at R8,3bn and other interest-bearing investments at R4,7bn.

Benefits paid rose sharply by 59% in the year under review.

Steyn says R3,88bn, or on average more than R15m every working day, was paid to policy-owners and other beneficiaries in the past financial year.

He says Sanlam paid out about R2,1bn in terms of individual policies, while group benefit schemes and their members received almost R1,8bn. Of the total amount only R610m was paid as a result of death claims.

"Confirmed cases of Aids were responsible for only nine death and four disability claims — a total payment of less than R600 000. This illness, however, remains a large potential problem as a substantial increase in claims is possible towards the end of the century."

Administrative expenses showed a noticebale increase of 41%. "This is the result of large investments in infrastructure, including the decentralisation of services to regional head offices which became operational this year.

"As a percentage of total income, administrative expenses amounted to only 3,9%," says Steyn.

He expects that increasing administrative expenses will also be a feature in the current financial year but that it will remain at relatively low levels as a percentage of income.

About prospects for the current financial year, Steyn says: "Everything indicates that 1991 will be a difficult year for the industry.

"Challenges, however, often offer opportunties and Sanlam is geared to take full advantage — to benefit not only of policy-owners but also the country as a whole," he says.

Concern as debt judgments surge

B Day 31/10/90

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GERALD REILLY

PRETORIA — South Africans are sinking deeper into debt with the value of debt judgments up by 40% in the first half of the year compared with January-June last year.

Information Trust Corporations chairman Paul Edwards said yesterday that although the country was caught up in a recessionary phase, consumers continued to maintain a high level of credit buying.

And this was in the face of continuing high interest rates which, according to the Reserve Bank, would be maintained at current levels until early next year.

He said debt judgments in the January-June period increased to levels equal to that of 1985. But it was the very high value of debt judgments that was causing concern.

This, Edwards said, indicated consumers had been resorting increasingly to credit to finance current spending and, when they went under, the amounts involved were large.

He stressed the problem centred on a reluctance among whites to adjust.

"Most consumers fail to understand, even with inflation-related salary adjustments, they may be losing ground through bracket creep."

Because of this many were worse off than they were before the increase.

He feared many consumers would continue to spend themselves into trouble in the run-up to Christmas.

Many families suffering financially would be tempted to overspend in tune with the traditional end of the year spending spree.

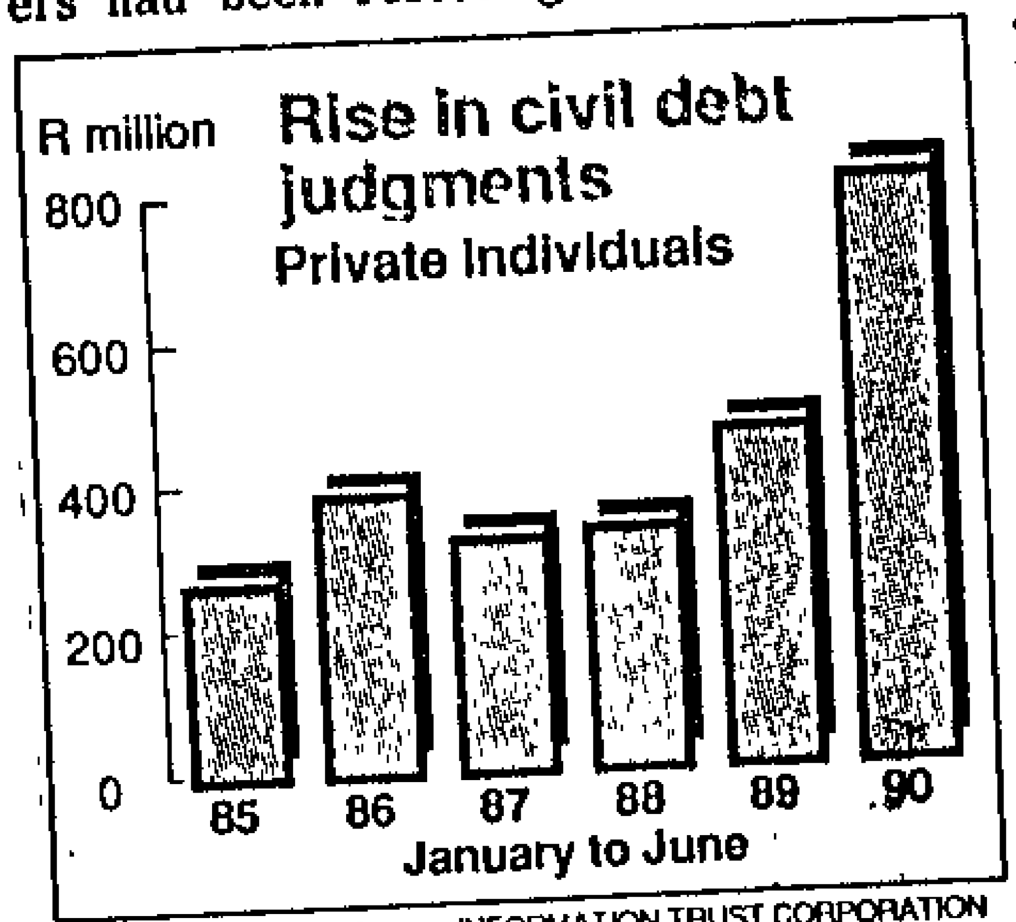
They would face a debt hangover in January, a common SA problem, Edwards added.

And a Central Statistical Service release yesterday showed in June-August summonses for debt increased by 14,7% to 259 319 compared with the same three months a year ago.

And the increase in civil debt judgments also increased by 14,7% to 133 671.

The statistics also showed that amounts involved in debt judgments of individuals increased from R119,3m in August last year to R177,9m in August this year.

The value of debt judgments involving individuals and businesses, according to the statistics, amounted to R195m compared with R130,2m in August last year.



Graphic F KRISCH Source INFORMATION TRUST CORPORATION

(38) STAR 31/10/90

BOE again doubles profit

Board of executors (BOE) has doubled its profits for the second successive year by reporting attributable income of R9,2 million (R4,5 million) for the year to September.

Fully diluted earnings a share rose by 42 percent to 75c (53c).

Earnings an ordinary share increased by 28 percent to 102c (80c).

Interest on BOE loan stock rose by 25 percent to its ceiling of 62,5c (50c) a unit.

A 28 percent improved dividend of 32c (25c) a share has been declared.

Assets under administration increased by 38 percent over the year to R2,9 billion (R2,1 billion).

Managing director Bill McAdam says that despite the unpredictable economic and political climate, he expects BOE to achieve real growth in 1991.

"Our corporate objective is to generate growth in fully diluted earnings per share, which is well in excess of the inflation rate," he says. — Sapa.

Sanlam unit trusts 'on a firm footing'

LESLEY LAMBERT

158

CAPE TOWN — Sanlam's five unit trusts outperformed the major stock market indices during the market's decline, largely as a result of higher levels of liquidity and relatively sound performances by shares held, said portfolio manager Stafford Thomas.

The cash levels of all five trusts, which were at relatively low levels at the beginning of the year to enable the trusts to benefit from the strong equity market, were increased during the past quarter as the market became increasingly expensive.

Sanlam Trust's liquidity was raised from 20% to 27,5%, Sanlam Index Trust's from 16% to 22%, Sanlam Industrial Trust's from 20% to 26,1%, Sanlam Mining Trust's from 15% to 25,2% and Sanlam Dividend Trust's from 15% to 25,5%.

The inflow of funds into the unit trust trebled over the past year, while the outflow increased by 34%. New accounts increased by 40% during the same period, Stafford said.

Sanlam growth defies depressed climate

B/Day 31/10/90 (58)

LINDA ENSOR

SANLAM notched up a 23% rise in total income to R10,4bn in the year to end-September, while benefits paid soared by 59% to R3,9bn, representing an average payout of more than R15m a day.

The life assurer's total premium income rose 23% to about R7,4bn, made up of R4,66bn in individual premium income, which rose 26%, and R2,76bn in group premium income, which increased by 19%. Recurring premiums received from individuals shot up 27%.

The growth was achieved despite a depressed climate characterised by uncertainty, high interest rates and high bond repayment levels, all of which affect the salary-earner's ability and willingness to save.

Gains were also made in investment income, which climbed 22% to R2,99bn. Total assets (at cost) of policy-holders and group benefit clients grew by 24% to about R27,9bn, which excludes the R50bn controlled through Sanlam's wholly owned subsidiary Sankorp.

MD Pierre Steyn says the One Policy series introduced five years ago has been highly successful, increasing at a rate of 10 000 a week. Also, there has been better market penetration of the English-speaking and black markets.

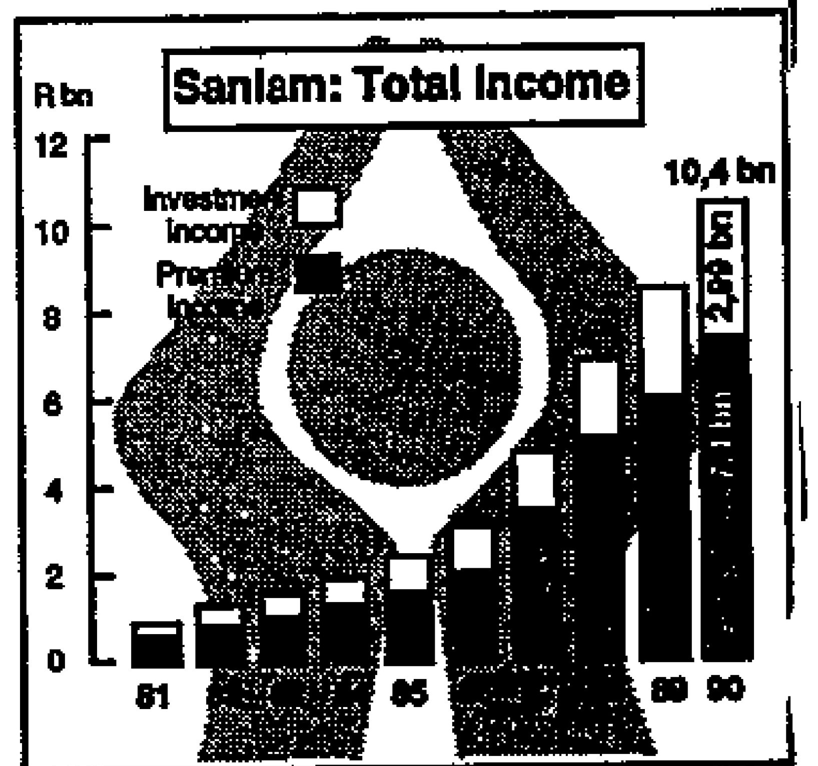
"Recurring new premiums received from English-speakers were up 39% on the figure for 1989 and now account for a third of Sanlam's new business."

Steyn claims that Sanlam has a leading market share of more than 30% of premiums in SA currency, while in Namibia the life assurer received more than R1bn in premiums.

Premium income from group benefit business totalled R2,8bn, as the "excellent returns of the 100 Plus and 200 Plus investment portfolios attracted substantial new business".

Since January 1985 the 200 Plus portfolio of pension funds has achieved an average annual return of 31,8%, while the 100 Plus has achieved a return of 24,9%.

At cost, investments in fixed property amounted to R2,8bn, equity to R9,8bn, government stock to R8,3bn and other interest-bearing investments to R4,7bn. The share portion of the total investment portfolio increased 56% over the year.



Graphic: LEE EMERTON Source: SANLAM

Revenues of accounting firm increase

ROBERT GENTLE

CHARTERED accountants Arthur Andersen & Co boosted revenues by 32% for the year ending August on the back of increased business in its tax, audit and corporate finance divisions. (58)

The company does not disclose actual revenue figures, but after adjustment for inflation, the 32% increase is comparable with the increase of worldwide revenues.

These increased 23% to \$4,16bn (\$3,38bn), just over half of which came from Arthur Andersen itself (business advisory service, audit, tax, corporate finance).

The balance came from consulting arm Andersen Consulting (strategic services, integration services, change management services and information technology). BDay 31/10/90

With 298 locations in 66 countries, Arthur Andersen's worldwide partners increased from 2 134 to 2 292.

A highlight of the year was the appoinment of Leslie Bergman of Andersen Consulting's Johannesburg office to the Austrian office to take charge of an expansionary drive into Eastern Europe.

Arthur Andersen country managing parter Barry Adams expressed satisfaction at the SA results and said he anticipated an increase in business after the spate of accounting mergers.

BOE doubles income to R9,2m

Cape Times 31/10/90

By AUDREY D'ANGELO
Business Editor

THE Board of Executors (BOE) has doubled attributable income for the second successive year, to R9,2m (R4,5m).

And in spite of "the unpredictable economic and political climate" MD Bill McAdam forecasts continued real profit growth in the current financial year.

Dividends rose by 28% to 32c (25c) per share in the year to September 30. Assets under administration grew by 38% to R2,9bn (R2,1bn).

Income before tax and loan stock interest, but after transfers to internal reserves, rose by 42% to R10,7m (R7,6m).

Tax and "associated charges" dropped by 18% to R1,4m (R1,7m). The directors point out that tax was low in relation to total income "because substantial income is received in the form of non-taxable dividends."

Fully diluted earnings per share rose to 75c (53c) in spite of the 30% increase in equity units — shares and loan stock — arising out of the acquisition of Mercury Trust.

Ordinary share earnings rose by 28% to 102c (80c) each. Interest on BOE loan stock rose by 25% to its ceiling of 62,5c (50c) a unit.

McAdam says BOE aims at generating growth "well in excess of the inflation rate" in the coming year.

He points out that the "current state of flux in the financial services industry" might provide some interesting opportunities to make acquisitions.

BOE is "keeping a careful eye open for a suitable acquisition but our strong organic growth does not make this imperative".

He says that in the past year "virtually every facet of our business performed well".

Asset management received a large inflow of new business. The BOE Growth Fund hit the R10m-mark only three months after it was launched in July.

"On the investment side, equity accounted earnings more than doubled to R3,2m in the wake of the acquisition of Mercury Trust, now renamed BOE Selections."

Investments in Fidelity Bank and the Speciality/-Storeco retailing group provided good returns. But BOE remained highly liquid, with R25m invested in short-term preference shares.

Retained income more than doubled to R6,3m (R3,1m) and R3,5m was transferred to the general reserve.

B Day 31/10/90

Research service to help find markets

58

A NEW property research service has been launched which offers feasibility studies and databased lists to help owners and developers identify potential markets.

Property Research Marketing is an arm of marketing consultancy Marketing Concepts whose head, Kathryn Payton, says the initial response has been overwhelming.

Barometer

"This industry, by its nature, is a barometer of the state of the economy and reflects every nuance of the changing political and social environment, as well as the investment climate," she says.

"Whether developers are involved in the retail, commercial or industrial sector, they benefit from accurate facts and figures, regularly updated at every stage of a property project."

$85m US bank loan for black business projects

Cape Times 31/10/90

Own Correspondent

JOHANNESBURG. — In a major shift in US policy the Import/Export Bank of America (Eximbank) is to fund black business projects in SA with a loan of $85m.

The move was confirmed yesterday by business consultant Willie Ramoshaba who co-ordinated the 65-man Black Business Observation team which toured the US earlier this month.

He said the loan, which is not being underwritten by local banks, was one of the major successes of the trip. Details of the local projects would be released in due course, he said.

Ramoshaba said several other companies, including McDonald's Hamburgers and Johnson & Johnson, were also expected to announce extension of franchises to black SA businessmen soon.

"The funding by Eximbank, at 10,8% interest, is exempted from sanctions legislation in terms of a Congressional approval which granted the bank power to back black business ventures," Ramoshaba said.

"The agreements have to respect the prevailing sanctions laws, so all, except the Eximbank agreement, will only come into effect after sanctions have been lifted," he added.

The US Consulate's senior commercial business ventures," Ramoshaba said.

"The agreements have to respect the prevailing sanctions laws, so all, except the Eximbank agreement, will only come into effect after sanctions have been lifted," he added.

The US Consulate's senior commercial officer Richard Jackson said Eximbank, which finances US foreign trade, had been given authority to finance black SA ventures under the original sanctions legislation in 1986.

However, he personally has not had any feedback from the US and had not spoken to the local business yet.

Ramoshaba said the mission, led by Soweto civic leader Nthato Motlana, was the first to get the support of sanctions lobbyists, and it was fully backed by SA black organisations.

He said the US-based International Finance Corporation (IFC) was also considering various schemes to finance black business ventures in SA and was expected to make an announcement soon.

"We also expect an announcement from various venture capitalists, black investors who are fine-tuning schemes to invest in SA through the African Growth Fund, which we started before we left."

The objectives of the mission were to expose black businessmen to market opportunities in a First World environment, to show them how their counterparts did business with new ideas and technology, Ramoshaba said.

The team also set out to interest black Americans to do business with blacks in a post-apartheid SA and look at the possibility of future funding of black business projects.

The mission left SA on October 7 and returned last week.

NIES

BoE doubles profit for second year running

BDay 31/10/90 (58)

LESLEY LAMBERT

CAPE TOWN — The Board of Executors (BoE) has doubled profit for the second consecutive year, reporting 105% growth in attributable earnings to R9,2m for the 12 months to end-September.

But growth in fully diluted earnings a share was inhibited by a 30% increase in issued shares and loan stock after last year's acquisition of holding company, Mercury Trust.

Fully diluted earnings a share rose 42% to 75c (53c), while earnings an ordinary share increased by 28% to 102c (80c).

BoE MD Bill McAdam said the company's objective was to continue achieving real growth in earnings a share on the fully converted share base.

The year under review was preceded by a fiercely contested bid by Investec to gain control of BoE through minority shareholdings in Mercury Trust.

The bid was eventually thwarted by Liberty Asset Management's acquisition of a 20% stake in BoE which then proceeded to acquired full control of Mercury Trust.

McAdam ascribed the year's financial performance to improvements in all business activities.

"Asset management — our core activity — received a large inflow of new business with BoE Fund Management increasing assets under administration to R650m from only R17m four years ago, and BoE Growth Fund hitting the R10m mark scarcely three months after its July launch," he said.

On the investment side, equity-accounted earnings more than doubled to R3,2m after the acquisition of Mercury Trust which was renamed BoE Selections Ltd.

A dividend of 32c was declared, covered 3,2 times by earnings and representing 28% growth.

Boardprop declared a total distribution of 57,95c (55c) a unit for the year to end-September. Its results were slightly ahead of the forecast made at the time of a rights issue to raise R39,3m, which, with acquisitions, saw the total number of units in issue rise by 8,8-million to R19,57m.

Boardprop achieved an after-tax income of R47 000 (R30 000).

Institutions must play social role, says ANC

Star, 30/10/90 (58)

By Duma Gqubule

Under an ANC government, financial and banking institutions would be required to invest a proportion of their assets in social investments, ANC economist Vella Pillay said yesterday.

He said at an Islamic Bank workshop on the role of banking in the new South Africa that financial markets had become veritable casinos where the trade in "money" had tended to replace the financial system's function as an efficient conduit for the investment of savings in productive activity.

Mr Pillay said an ANC government and its central bank would seek powers to enforce the direction of credit and its deployment in the national economy.

"Steps may need to be taken for a renewal of interest rate controls and the allocation of credit to preferred sectors such as housing and to secure relatively cheap sources of deficit financing for the democratic state," he said.

However, the special economic adviser to the Ministry of Finance, Dr Japie Jacobs, told the workshop it was a fallacy to contend that the capital market did not sufficiently direct savings into productive activity.

"There is no reason why I should share in the patent ignorance of the ANC about the functions and functioning of financial markets," he said.

Mr Jacobs said that while the authorities had to provide the basic legal framework within which the various categories of institutions operated, the evolution and development of financial institutions should best be left to market forces.

Mr Jacobs said SA was overbanked and that some mergers of deposit-taking institutions could be expected after they started operating under the Deposit-Taking Financial Institutions Act, 1990.

Market ratings ensure long overdue discipline

58

B Day 30/10/90

ROBERT GENTLE

IN THE past few months, SA financial markets have been subjected to the gradual advent of a degree of sophistication in the form of ratings — the process whereby companies and their debt issues are independently judged by a rating agency.

Investors are then free to use the different ratings — say, AAA versus AA — as a yardstick to decide on what basis to deal with a company or whether to invest in its paper.

Republic Ratings, SA's equivalent of such well-known overseas rating agencies as Standard & Poor or Moody's, has rated Eskom, the Post Office and local water board Umgeni Water since it started operating about four months ago.

Unanimous

Republic says that Transnet and Landbank are the next big entities to come out with a rating, and that ratings of a number of other "substantial capital and money market participants from both the public and private sectors" are in the pipeline.

Financial market specialists, from the Reserve Bank to banks and discount houses, are unanimous that this gradual rise in the number of ratings will instil a degree of discipline into the market that is long overdue.

"There is just no way one can be negative about the long-term advantages of a rating agency," says Prima Bank executive director Herman Hamman.

The logic behind the enthusiasm is simple: a rating strips away the hype often heard about different companies — "You can't go wrong with us because our name is well known in the market" or "We're a bank. Banks don't go bust" — and replaces it with a clinical, uniform standard investors can relate to.

The rating company achieves this by a thorough analysis of a company's financial state of health as well as its competitive position in the industry in which it operates.

It then assesses the risk of a company defaulting on a specific debt issue. Depending on legal structure, seniority and credit enhancement, it is possible to have different ratings for different debt issues within a company.

Republic issues long- and short-term ratings. The highest long-term rating is AAA+ and the highest short-term rating is A1. Ratings are further categorised into investment grade and speculative.

The Post Office got a AAA+ rating not because it is inherently any better than Eskom (which got a AAA rating), but because it is inextricably part of the state.

"The state, by definition, represents the most favourable risk category from a domestic credit viewpoint," says Republic executive director Gideon van Rhyn.

"Should ownership structure of the Post Office change ... the rating would obviously require reconsideration."

Ratings are a reflection of the relative credit risk of different companies and debt issues. However, says Van Rhyn, other investor preferences such as tradeability also play a role in determining the price at which a stock trades.

So whether one is talking companies or commercial paper, ratings separate the excellent from the merely good, the okay from the rather less-than-okay, and the bad from the terrible.

For example, the view that a bank is a bank is a bank is contested by Van Rhyn. "There is no such thing as the big five banks. They are different, and the fact that some have to pay more to attract wholesale deposits than others reflects this."

Downgraded

Indeed, ratings among banks could have been the early warning system that may have prevented the Alpha Bank debacle, which was triggered by motor distributor Spareco's inability to repay a R6m loan — almost twice Alpha's capital base.

The ultimate success of the SA ratings scene will depend on the accuracy and soundness of Republic's ratings methodolody. The extent to which the market accepts them will soon become apparent as further ratings are announced.

Service is the key to a loyal clientele

58

B Day 30\10\90

NEW Republic Bank, a retail and corporate general banking organisation established in Durban in 1970 by prominent Indian businessmen, is something of a banking enigma.

Operating from a comparatively tiny network of banking outlets, facing equal pressures on margins in a competitive financial industry along with national banking giants, NRB has seen a 400% increase in pre-tax profits over the past three years.

Total assets more than doubled in this period to R291m. The bank's total advances book which stood at R118m in 1988 grew by 44% to R169,9m in 1989 and by a further 46,3% to reach R248,6m in 1990.

Managing director Mahmood Mia, commenting in the bank's 1990 annual report, says this performance has exceeded all expectations, particularly in the light of fierce competition, interest rate increases and generally tight economic conditions.

He says "sound management of operating expenditure and debt control, together with controlled broadening of the bank's client base" are contributing factors to the success.

"As a small bank, we try to be both personal and flexible. We are in a position to match other banks on price.

Lower

"With a smaller infrastructure, our costs are lower, while we are up to date on technology other than in ATMs, which we don't feel strongly about at present."

Further expansion and market penetration will have to be linked to the opening of new branches.

NRB's network comprises eight retail outlets (six in Natal and two in Johannesburg) and three corporate branches — Durban, Cape Town and Johannesburg.

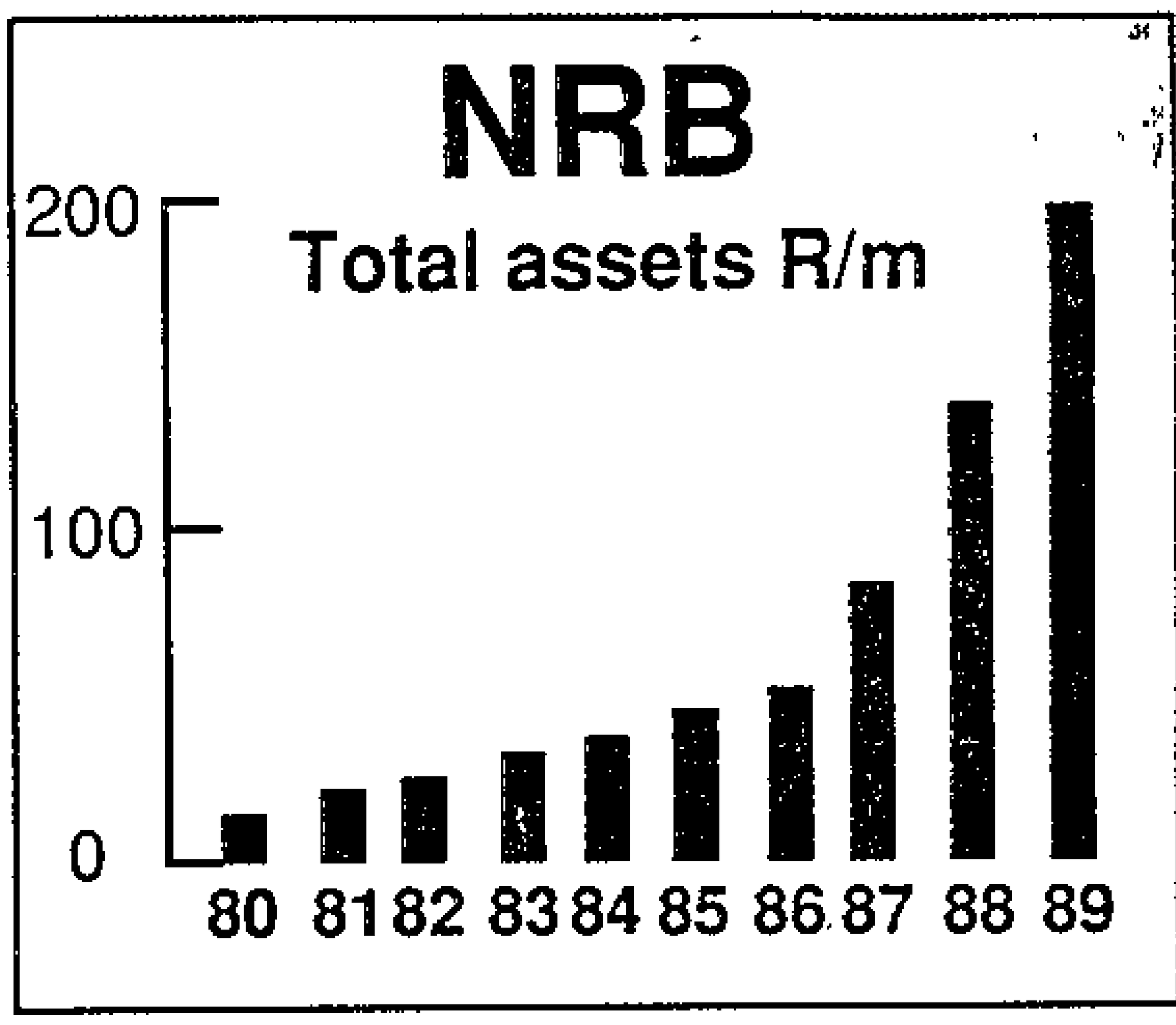
A measure of "personal service" and loyalty by customers is that NRB has many customers that have been with the bank since inception.

Mia says: "It is seldom we lose a client to another bank."

During 1990, while gross operating income rose by 40%, operating expenses rose by 30%, accounted for in the main by higher staff salaries, increases in advertising and marketing, the opening of new outlets and the expansion of NRB's Durban head office.

"The most profound advancements will emanate from the bank's human resources — its people," says Mia.

A policy of performance-related remuneration is key to the bank's approach to its staff and is the reason for a high standard of productivity.



Carefully selected clientele in the AB income group as well as medium to large businesses is the bank's prime target market.

Although NRB's historic marketing focus has been predominantly the "Asian population", Mia says ethnic labels are historical in the new South Africa.

He says an open marketing philosophy has been adopted and will evolve to serve the needs of all South Africans.

The initial authorised share capital of one million shares of R1 each at NRB registration in 1970 has over the years been increased to match the bank's growth.

NRB activities lie in varied investment and lending products. The former include: savings accounts, call deposits, notice deposits, fixed deposits, bankers acceptances and negotiable certificates of deposit.

Lending products include: bills discounting, instalment sale, fixed loans, instalment loans, leasing and call loans.

Wooltru Properties takes on much expanded role

BD 20/10/90 LESLEY LAMBERT (58)

CAPE TOWN — Wooltru's property arm, Wooltru Properties, has expanded its role from the management of the group's R400m property portfolio to the development of new retail outlets for ownership or sale.

The property portfolio represents almost 50% of Wooltru's assets and is free of borrowings. The expansion of its expertise in property development has clearly been aimed at improving the return on group assets.

Wooltru Properties, a fully-fledged operating company, recently completed a R20m store in Germiston for Makro. Woolworths will open a new store in Gezina, Pretoria, this week in a shopping centre developed by the property subsidiary.

Yesterday, Wooltru Properties MD John Rabb opened Warwick Place, a renovated retail centre in Claremont.

A number of other significant projects were in the planning stage, he said.

Over the years, Wooltru has constructed a number of buildings, including the group's Cape Town head office, Wooltru House.

Despite weakening economy . . .

Gencor lifts earnings 38%

Cape Times 30/10/90

From BRENT MELVILLE

JOHANNESBURG. — In a year devoted to consolidation, Gencor managed to shrug off a weakening domestic economy and softening international commodity prices to record a hefty 38% rise in attributable earnings to R1,45bn (R1,05bn).

Incorporating the 20% increase in share capital resulting from last year's rights issue however, Gencor — touted as the world's second largest mining house after Anglo American on gross assets of R16,3bn (R14,4bn) — produced earnings a more sedate 17% up at 123c (105,5c) a share. A total dividend of 40c (34c) a share was declared.

The performance, however, comes on the back of a warning by Gencor executive chairman Derek Keys that operating profits are likely to fall next year.

Keys said subsidiary Genmin was likely to be one of the hardest hit as Samancor, Gengold, Implats and Trans-Natal were likely to post earnings at levels about 10% and 15% lower.

In addition, he said the Genmin contribution, reduced to 41% (54%) of attributable earnings for the period, would be further diluted by a higher level of international exploration spending as it began to look further afield, and by lower earnings from its mineral sands investments.

Although Samancor remained the major contributor to Genmin for the year, its donation fell to R251m (R321m), or 17% from 31% of Genmin bottom line.

Gengold pulled up next on the list of contributors at R157m (R154m) and the recently formed minerals division kicked in R119m (R77m), lifting its contribution slightly to 8% (7%).

Implats, which joined forces with Lonrho's platinum mines this year by selling them its contiguous Karee developing mine in exchange for a 27% interest in their enlarged operations, left its donation at R91m.

Gencor's industrial side took a pounding however as pulp & paper group Sappi's contribution to group attributable profit fell to 16% (26%) on deteriorating domestic and international markets.

Keys said it was unlikely that Sappi, which chipped in R240m (R276m) to attributable profits, would show growth next year although the purchase of five paper mills in the UK were seen as important building blocks for the future.

Malbak also reduced its contribution to R116m (R145m) as a result of the higher tax charge on the exhaustion of assessed losses and a reduced Gencor holding in the diversified industrial group.

Recently listed energy giant Engen, market capitalised at more than R3bn, contributed a maiden R203m, or 14% to bottom line earnings and Genbel and investments added a full 29%, or R414m (R191m).

Keys expected the performance of both divisions to improve in the current financial year.

In addition he forecast that while Gencor's operating profit was likely to fall, transaction profits should be fairly substantial and the group should certainly be comfortably able to maintain its dividend at its increased level.

New 'mindset' gives African Life a boost

BDay 30/10/90 (58)

AFRICAN Life Assurance Company is a non-listed company success story that has to be told now because the company is to list on the Johannesburg Stock Exchange on November 15.

Its preferential share offer, which closes on November 2, is likely to be oversubscribed on the strength of the company's extraordinary performance over the past four years.

This has seen recurring premium income grow from R4,1m in 1986 to R49m in the year to February 1990.

A further 35% growth was recorded for the half year to September.

Sixteenth among life assurers in terms of total assets, this relatively small assurer came top in terms of premium growth in 1989 and says it can do so again this year.

New business increased from R5,8m in 1986 to R21m, policy benefits from R6m to R12m and dividends to shareholders grew by 36% from 3,14c to 7,9c.

Investment return has consistently placed the company among the top quartile of SA insurance companies.

MD Bill Jack says the effort towards growth has been part of a strategic plan adopted in 1986, which brought a new "mindset" to the company.

Observing the socio-political environment which would see rapid change and usher in a new order, the company decided to move in tandem and allow management, shareholder and policyholder profiles to "mirror" SA society.

Strongest

African Life is now among the strongest in marketing to the black population and has succeeded in its chosen niche — the market for low premium policies. Not surprisingly, this is a market many assurers find difficult.

Says Jack: "Many companies have burnt their fingers. It's a market in which one must have expertise and good systems.

"Low unit cost is what's important.

"Administration systems must allow rapid low-cost processing.

"We communicate with every policyholder when there's something to say, but no less than twice in 11 months. The tone of that communication is warm and personalised."

Beyond that, however, the level of staff and sales force motivation to make growth in policy sales possible is high.

Jack says: "What makes it work? People. What else?"

To achieve its growth targets in market penetration and policy sales, African Life doubled its sales force and through efficient processing systems avoided additional costs in administration.

Its ratio of service personnel (180) to sales people (613) is among the lowest in the industry.

The company continues to look at new ways of expanding its market. Its first direct mail campaign was conducted three years ago. Direct mail business now accounts for 10% to 15% of business.

Further growth is expected to come through the development into group business.

FINANCE

Possibility of Bank rate hike 'remote'

B/Day 27/10/90

(58)

WITH the Treasury bill (TB) rate in the van, money market rates moved decisively upwards on Friday, presenting investors with safe, rewarding returns on three-month outlays.

The TB rate rose by 25 percentage points to 17,95% — that is five points below the Reserve Bank's discount rate — in a twice over-subscribed tender for R120m bills. This hardening in the rate of the prime short-term paper which nudged up liquid bankers acceptances (BAs) also by 25 percentage points to 18,25%. And tagging along were non-liquid BAs at rates between 18,35% and 50%.

Desirable

These rates are discount rates giving healthy positive returns. The yield on the TBs is 18,75%, on the liquid BAs 19,11% and on the non-liquids a very satisfactory 19,21%. The capital risk is virtually nil because the possibility of Bank rate being raised within the next three months is as remote as Andries Treurnicht defecting to the PAC.

And just as remote is the possibility of Bank rate being reduced during this timespan — although if that were to happen investors could make a neat little capital profit.

But don't go looking for it. At a meeting at the Reserve Bank last week, Governor Chris Stals made it clear to bankers that Bank rate would stay just where it was until all the cardinal indicators had slotted into a pattern he considered desirable.

"And tell your customers that I have said so," Stals is reported to have told the bankers, a radical switch from the norm when they have been warned to leave the

IN THE MONEY MARKETS

Harold Fridjhon

Bank's tower block with zipped mouths.

The slight time-lapse between governor's tell-the-world message and the uptick in rates was probably due to the market waiting to see the outcome of Friday's TB tender. A small increase had been expected, not the relatively large leap. When the results were known rates across the three to six months spectrum hardened.

Six-month negotiable certificates of deposit (CD) added 15 percentage points to a buy/sell spread of 18,55/45%. The 12 month CD rate has, so far, remained unchanged at 18,25/15%, but for how long?

At best a two percentage point cut in Bank rate by October 1991 can be expected so that a judicious loading of the banks' funding books by, say, half a percentage point to attract longer-term deposits surely would not be out of line.

The overnight call also lept up on Friday to 18,75% for the major banks and rising to 19% for the others.

This was unrelated to the movements in the TB and BA rates; it was entirely a function of seasonal pressures. The Friday market shortage — the banks' total debt to the Reserve Bank — was R3,16bn and will probably exceed R3,5bn at the close of business on Wednesday when the banknote issue soars from Friday's R8,8bn to its month-end peak of at least R9,5bn.

The personal savings goose is okay as she is

S/Times 28/10/90

58

CARMEN MAYNARD, economist at stockbroker Martin & Co, argues the case against tilting the savings playing field in favour of the banks

SOUTH AFRICA saves too little to support the longer-term growth needs of an expanding population.

The Government intends to provide greater incentive for individuals to save and thereby boost the personal savings rate.

Part of the approach to achieve this commendable objective is embodied in its plan to restructure the economy — essentially curbing inflation and maintaining real interest rates.

However, Pretoria also seems to have decided to redirect some savings from the life offices to banks and building societies which provide risk capital to entrepreneurs capable of generating jobs.

Japie Jacobs, chairman of the investigation into the flow of funds to financial institutions, says the intention is not only to improve the level of personal savings but to unlock funds for risk capital.

CARMEN MAYNARD

To achieve the second objective (assuming one believes that the life offices do not provide risk capital and create jobs) the authorities must provide investors with better options than the products of the life offices. Their investment products have been clear winners in the era of double-digit inflation and negative real interest rates. They provided returns of 20% and more a year in the past decade.

To redirect cash flows the Government plans to introduce a withholding tax on interest income (probably at 10%) in the hands of individuals instead of taxing it at the investor's marginal rate.

Advantages

In the real interest-rate environment promised by Reserve Bank Governor Chris Stals this would mean positive real after-tax rates for individuals — an almost unheard of phenomenon in SA. Even pre-tax real rates are rare.

Under withholding tax, assume a one-year deposit is made at 16%. With inflation at, say, 13% this translates into a real return of 3%.

After a 10% tax, the investor will receive a net 14,4% — a real return of 1,6%. Today an investor taxed at the marginal rate would have a net return of 8,8% and a negative real return of about 4%.

The advantages of boosting personal savings through real after-tax interest rates are clear.

First, investors will be better able to create wealth; second, the base of capital to fund growth and thereby create jobs will improve.

What is not clear, however, is the motivation behind the redirection of savings from the life offices. The beauty of contractual savings is that there is already an effective marketing machine selling life assurers' products, encouraging savings.

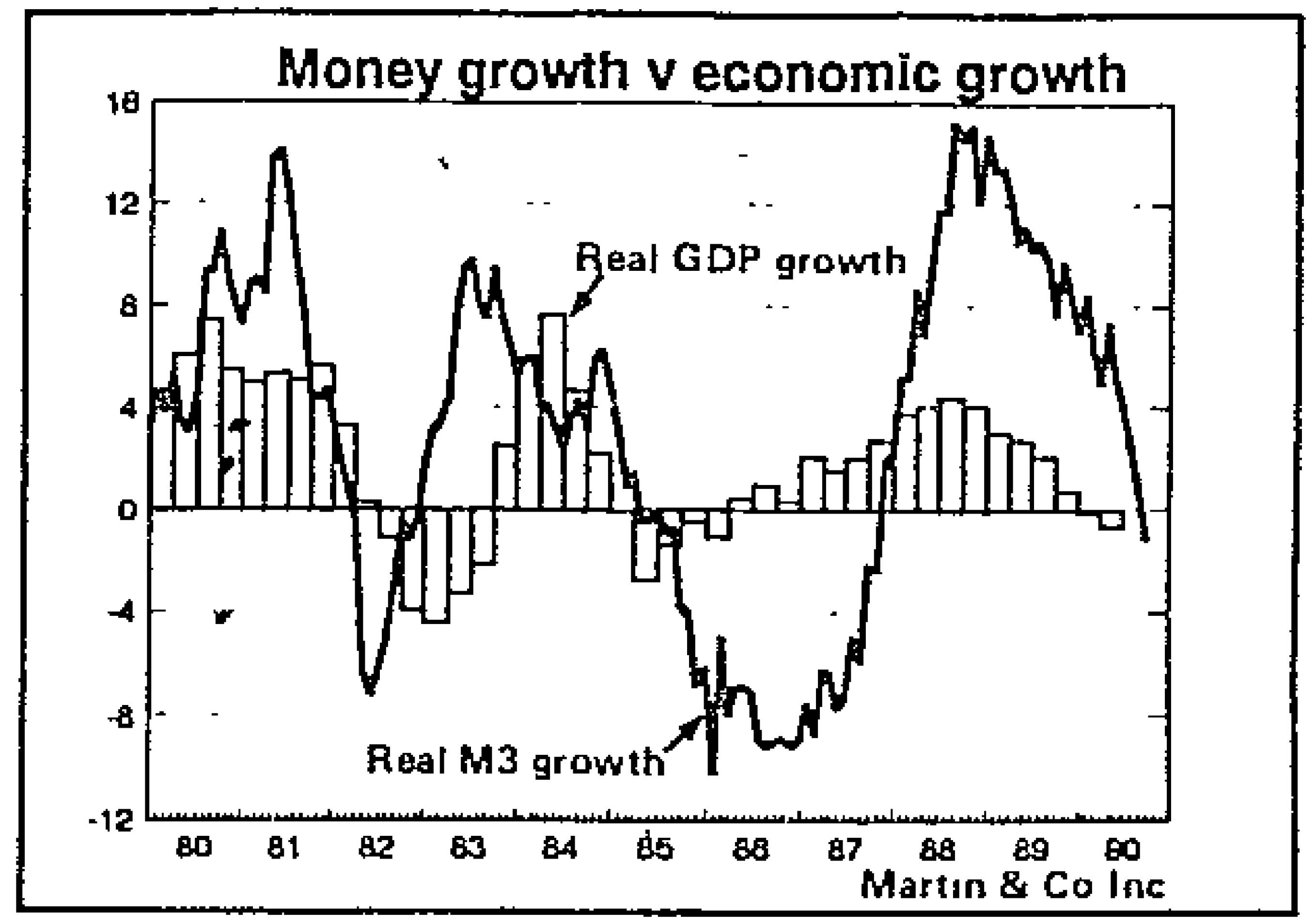
On the contrary, money-supply growth in the 1980s — and before — was mostly excessive, as shown by the graph. Real money growth frequently exceeded that of the economy by large margins.

As institutional cash flows have grown, so the money held by assurers and pension funds on deposit with banks and building societies (which can onlend to entrepreneurs) have ballooned. Life offices and pension funds hold more than R26-billion (10% of gross domestic product) on deposit. Life offices alone account for R15-billion.

Sufficient

The Government is already doing the right things to encourage savings. It should not be too concerned about where these savings flow.

As confidence grows that real interest rates are here to stay, personal savings will grow sufficiently of their own accord to fund the 4% to 5% annual real growth needed for the new SA.



What Pretoria should avoid is singling out highly successful areas of savings as being somehow undesirable.

Without them, personal savings would be in a desperate state and below what they were a decade ago.

6 (58) S/Pres 28/10/90

Pay up now, or we'll cut off your water!

By COLLETTE CAINE

THE Goldfields Water Board (GWB) is threatening to cut off water supplies to Free State townships which cannot pay their bills.

The Free State Provincial Administration says it does not have the funds to help local councils pay the arrears.

Two weeks ago the GWB – the second-largest water board in the country after the Rand Water Board – cut off water to Virginia's Meloding township without notice. The entire township of more than 45 000 people was without water for five days.

The supply was restored after the Meloding Council sold three of its vehicles to raise money to pay part of the bill.

An initial R40 000 was paid and the council undertook to make weekly payments of R10 000 to pay off the balance of R64 000. Despite payment of the first R10 000 instalment, the GWB threatened to cut off the township's water supply by noon last Friday unless the balance was paid in full.

Meloding residents stopped paying for water in protest against the local town council – including allegations of maladministration, defective water meters and failure to send out regular water accounts.

A last-minute meeting between GWB chairman Marais Vermaak, the Meloding Civic Association and attorneys from the Johannesburg Legal Resources Centre averted a repeat cut of water supplies.

The entire town council resigned and the GWB was forced to negotiate with the civic association.

The association agreed to hold community meetings to come up with a proposal for paying the water account. A proposal that each household pays a flat rate of R8 a month for water will be discussed at community meetings this week.

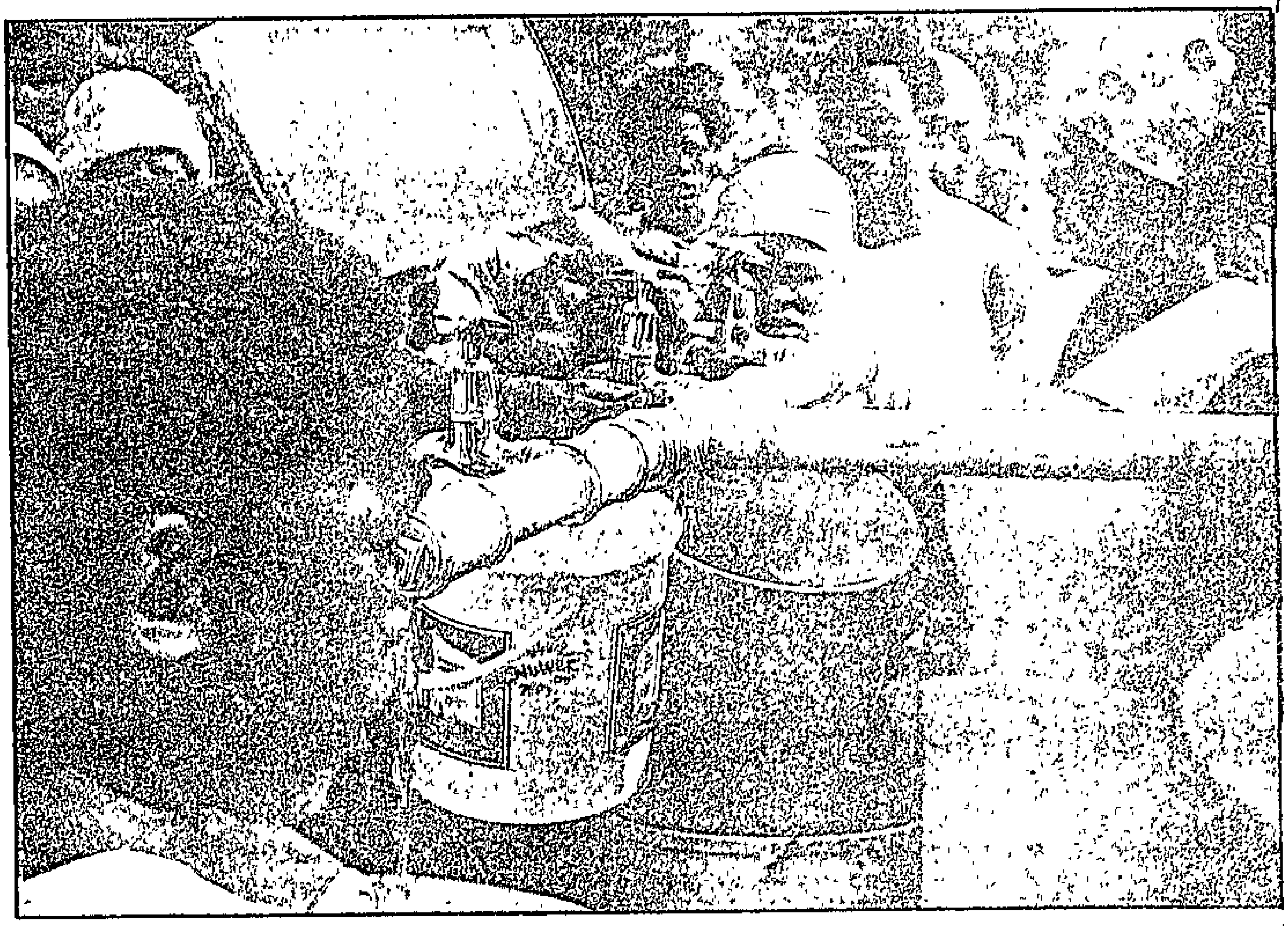
Vermaak told *City Press* if water accounts were not paid by local authorities, water to the entire township would be cut off.

He said: "It's a very simple matter – if accounts are not paid and no arrangement are made with the board, obviously we will cut the water off."

He said Meloding had until Wednesday to make arrangements with the board for the payment of its water account or ... no water.

A spokesman for the Thabong Civic Association (TCA) said it had a meeting with the GWB last week to discuss rumours that the giant Welkom township's water supply was also about to be cut off. He said the TCA reached an agreement with Vermaak that residents would pay a flat rate of R10 a household for water from the end of this month.

■ The Free State Provincial Administration says it is not in the same position as the Transvaal Provincial Administration which supplied R24-million bridging finance to township authorities. It said it had no money to give bridging finance to local authorities.



Shape of things to come ... When the authorities are about to cut water supplies, it's a mad scramble for the taps

'They are inhuman to treat us like this'

"WE wonder if these people are human – how can they cut off water to everyone – even small babies and children must suffer when they cut off our water."

Echoing the feelings of Meloding's 45 000 inhabitants, local ANC women's league chairperson Elisa Lande said the whole community was shocked at the Water Board's decision to cut off water this month.

"These people are heartless – they are inhuman to treat us like this. We didn't even have time to prepare for the cut-off because they did it without warning," said another member of the Meloding Civic Association (MCA), Elias Chalale.

"They arrested us and beat us up when we tried to get drinking water from the station for our children," said grandmother and MCA member Betsy Yola.

She said: "I look after my five-month-old grandchild – I couldn't wash nappies or make bottles. When we tried to fill our containers at the station, the police beat us up and chased us away.

"We tried to get water from nearby farms – eventually one farmer allowed us to buy water at 50c for 10 litres. It was the only way we could get water for cooking and drinking," she said.

Residents said they couldn't wash for the five days during which water was cut off. "One of the worst things was that the toilets throughout the township were blocked and the smell was terrible," said Lande.

Chalale said: "The Water Board knew there was a dispute between the community and the town council about the water account, but they didn't negotiate – they cut the water off first.

"Now that the water is back on, we have agreed with the board that the community will come up with proposals on how to pay for the water," he said.

'Superbank' needed to help black business

Star 27/10/90 (58)

JOHN SHERROCKS

THE creation of a "superbank" which would eliminate the weighted disadvantage black businessmen face in obtaining finance has been proposed by leading tax expert Mike Katz.

Speaking at the BMF conference at the Wild Coast this week, Mr Katz listed a number of areas in which company laws needed to be changed to allow blacks fuller participation in the economy.

He said calls for blacks to become more involved in the economy were meaningless under the present system whereby banks applied conventional risk analysis to loan applications by black businessmen. Due to the violence in townships these loans were obviously often regarded as not safe.

To overcome this situation Mr Katz suggested that the five major banks provide large non-returnable contributions to create a superbank which would guarantee 90 percent of loans granted by the individual bank to black businessmen.

The remaining ten percent of the loan would be assessed on conventional risk valuation to ensure prudent banking standards.

Advocating free enterprise as the best system for wealth generation, Mr Katz noted that the system was plagued by a number of historical defects that urgently needed to be eliminated.

This could be achieved through adaptation of the system and a restructuring of its participants, for example companies and pension funds.

Mr Katz said there was a need to promote the concept of share ownership. He said that in Britain share ownership by individuals had dropped from 38 percent in 1975 to a current 20 percent, largely as a result of the tax system and a lack of promotion by companies.

Wider ownership of shares must not, however, be at the expense of other issues such as wage increases.

At present tax issues, company laws and other financial services acts prevented large scale employee share ownership. These areas needed to be adjusted.

On the subject of company directorship Mr Katz proposed a two-tier board similar to that practised by a number of companies in Germany. Under this system the traditional board of directors is appointed by the shareholders. This board operates in conjunction with a supervisory council comprising management and employees.

Saturday Star October 27 1990

58

...e barriers tumble in house sales

We sell to anyone in any area, says agency

RA

OWN CORRESPONDENT

DURBAN — The Natal division of property group J H Isaacs is removing the racial barriers in its residential sales book.

At a function to launch a section of its residential sales division to cater to black areas of Durban, Trevor Warman, chairman of JHI (Natal), said the company would sell any property on its books in any area to any person.

Scrapped

This was, he said, a response to the invitation from President de Klerk to everybody to "participate in the new South Africa" and should not be seen as a challenge to the Government.

He expected the Group Areas Act to be scrapped no later than May next year.

In the meantime, the company would continue to comply with the law requiring black people buying homes in white areas to be issued with permits.

"Government officials have entered into the spirit of this thing, the only limitation on them being the rate at which they can issue permits, rather than spending time finding ways to refuse them," said Mr Warman.

He said his company had found homes for several black businessmen in central Durban.

Three weeks ago it acted for an Umlazi woman who sold her house for R200 000 and bought a flat for R90 000 in the city centre.

Reacting to reports of financial institutions not lending to black prospective home buyers, Mr Warman described banks and building societies as "responsible citizens" and said the reported withdrawal from the market would be "the last thing they would do".

"They may be more specific about areas they grant mortgages in and the risks they accept, but they would not pull out of any area."

He said the institutions recognised the fact that blacks tended to place more store by home ownership than other people, and consequently, often made better risks.

Ron Mattig, the company's sales manager in the black housing initiative, said his staff would work hard to counter myths that existed about home ownership.

One of these was that property could not be sold or homes extended until bonds on them were paid off.

New annuity offers after-death benefits for spouse and heirs

Star 27/10/90

(58)

Peter Anschutz, a director of the UAL Management Company.

DEREK TOMMEY

UAL Merchant Bank and Crusader Life have launched an annuity which could revolutionise the annuity market as the new product overcomes the two main criticisms of this type of invest.

The new form of annuity, which is called the UAL Equity Linked Life Annuity, can provide the holder with rising payments during his or her life time and also enables the holder to leave a significant portion of the capital invested in the annuity to his or her heirs, says Mr Peter Anschutz, a director of the UAL Management Company.

This new form of annuity is expected to make substantial inroads into the annuity market, which has a turnover of between R1 billion and R2 billion a year.

The new product is a response to the fact that people preparing for their old age, and encouraged by tax concessions, place billions of rands every year into retirement annuity funds. But when they go on pension and have to rely on the returns from these funds, they are usually extremely disappointed.

One reason is that the law states that two-thirds of the proceeds of a retirement annuity fund has to be invested in an annuity.

The return on this annuity will depend on the applicant's age, state of health, the size of sum to be invested and on the current level of interest rates.

But at whatever level the return is determined, it will remain unchanged for the rest of the annuity holder's life.

Inflation

Annuity holders can specify that the annuity should run say for a period of at least 10 years, or that payments should continue to be made to the surviving spouse.

But to get these concessions the annuity holder has to accept a sharp reduction in his monthly payments. Some schemes provide for part of the monthly payments to be invested in a life insurance policy on the annuity holder. But the premiums are usually high and leave little for the annuity holder to live on.

The UAL scheme overcomes both these problems.

Of the money invested in UAL's equity-linked annuity, one third will be placed in UAL's gilt fund and the balance in UAL's ordinary equity funds.

Secure return

The money in the gilt fund, which is normally invested in Government stock, provides the annuity holder with a fairly high-yielding and secure return. The money invested in the equity funds provides him with income and capital growth.

Depending on how he sees the investment outlook, the annuity holder has the right, at no charge, to increase or reduce the amount of the annuity funds which have been placed in the gilt fund, providing the one-third minimum is maintained.

The annuity holder can also forecast by how much he expects the money invested in the annuity will grow during the next 12 months. He can forecast a figure between 2,5 percent and 20 percent.

His forecast, together with three other factors — his age, sex and whether he is a smoker or not — are then employed to determine the payment in the future or to leave a larger sum to his heirs.

Should he opt for the maximum growth rate of 20 percent his monthly return from R100 000 would be R1 615,72 equal to a gross return of almost 19,5 percent.

The danger in this case is that if the return of 20 percent is not realised, a larger portion of the capital that was justified actuarially would have to be used to maintain the monthly payments.

However, as the monthly payments are actuarially recalcuated every year, there is little risk of the annuity holder receiving back all of his capital before his death and being left with no income. However, if the annuity holder's growth forecast is not achieved, he must expect a drop in income in the following year.

A person forecasting a 20 percent growth would receive from an investment of R100 000 a monthly payment of R994,78 equal to a gross return of around 12 percent.

When the annuity holder dies, the money in the annuity will be paid to the nominated beneficiary by way of an accelerated annuity, calculated to pay out the entire investment including capital growth and income in five years.

Equity linked life annuities hold some risk as they are market based, says Mr Anschutz. Therefore, they should not be used as a sole source of retirement income, and should not account for the major portion of total retirement funding.

But the sophisticated investor will find the new annuity extremely useful in providing a growing retirement income and in estate planning.

LIFE EXPECTANCY RATES (Years)
Techical Management Assigments cc

	Males		Females	
Age	Non-smoker	Smoker	Non-smoker	Smoker
50	27,667	26,000	32,083	30,250
51	26,833	25,167	31,167	29,417
52	26,000	24,333	30,250	28,583
53	25,167	23,583	29,417	27,667
54	24,333	22,750	28,583	26,833
55	23,583	22,000	27,667	26,000
56	22,750	21,167	26,833	25,167
57	22,000	20,417	26,000	24,333
58	21,167	19,667	25,167	23,583
59	20,417	19,000	24,333	22,750
60	19,667	18,250	23,583	22,000
61	19,000	17,583	22,750	21,167
62	18,250	16,833	22,000	20,417
63	17,583	16,167	21,167	19,667
64	16,833	15,500	20,417	19,000
65	16,167	14,833	19,667	18,250
66	15,500	14,250	19,000	17,583
67	14,833	13,667	18,250	16,833
68	14,240	13,000	17,583	16,167
69	13,667	12,417	16,833	15,500
70	13,000	11,833	16,167	14,833
71	12,417	11,333	15,500	14,250
72	11,833	10,750	14,833	13,667
73	11,333	10,250	14,250	13,000
74	10,750	9,750	13,667	12,417
75	10,250	9,250	13,000	11,833
76	9,750	8,833	12,417	11,333
77	9,250	8,333	11,833	10,750
79	8333	7,500	10,750	9,750
80	7,917	7,083	10,250	9,250
81	7,500	6,750	9,750	8,833
82	7,083	6,333	9,250	8,333
83	6,750	6,000	8,833	7,917
84	6,333	5,667	8,333	7,500
8[illegible]	6,000	5,333	7,917	7,083
8[illegible]	5,667	5,083	7,500	6,750
8[illegible]	5,333	4,750	7,083	6,333
8[illegible]	5,085	4,500	6,750	6,000
8[illegible]	4,750	4,250	6,333	5,667
9[illegible]	4,500	4,000	6,000	5,333

FM 26/10/90 (58)

NBS

HITTING HOME

Unlike other building societies, Natal Building Society (NBS) continues to focus primarily on home loans. GM Mark Farrer says mortgages make up 85% of group lending. He believes the geographic, customer and product focus is the main reason for the 24% rise in attributable income to R24m for the six months to September 30 and expects a full-year increase "in excess of 20%." NBS operates only in the coastal regions of Natal, the PWV and some other large centres.

Mortgages rose 12% for the six months but Farrer says it is difficult to say whether this means increased market share, as competitors' statistics are not yet available. However, it helped advances rise 34% to R5,3m.

Because of poor economic conditions, provisions for bad debts have also been increased because of a greater incidence of arrear instalments and properties in possession. Properties in possession rose 21% to R41m. "For prudent reasons and the uncertainty about when interest rates will fall, mortgage related bad debt provisions have

GOING HOMEWARDS

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '90
Net income (Rm) ..	18,9	23,4	23
Advances (Rbn)	4	4,6	5,3
Earnings (c)	33,2	43,4	41,2
Dividends (c)	11	18	13

been increased 24% to R38m," Farrer says. These provisions are equivalent to 92,7% of properties in possession or 0,84% of the mortgage loan portfolio.

The banking division is also growing rapidly but is still fairly small, contributing about 7% of group profits. Lending from the banking operation amounted to about 10% of total group lending.

While other banks and societies talk of merging, NBS has no plans of forming an alliance. "We are financially sound and have considerable excess capital to fund growth and stay independent," says Farrer.

NBS is rated with the best in the banking sector on a p:e of 8 and dividend yield of 4,5%. Its share price has continued to rise in a lagging market. Farrer says second-half prospects are favourable. *Heather Formby*

INSURANCE FM 26/10/90

COMPARING BENEFITS

For five years, Sanlam has been extracting, analysing and publishing detailed comparisons of benefits and scales in several hundred pension funds. The latest report also surveys provident funds, which many trade unions advocate in preference.

The survey has become a standard reference work for employers anxious to see how their funds compare with industry norms. Now the life office is taking the survey one marketing step forward and offering a new (free) service to pension fund trustees who wish to evaluate their retirement benefits. Though the service is offered to fund trustees, who will not always include employee representatives, it is bound to attract union attention. Employee benefits have become almost as important a bargaining chip as the annual round of wage talks. (58)

The survey makes it possible to compare, within a sector such as construction or financial services, features of a single fund against the sector average. Recent trends are also charted: these include a discernible move to equal treatment of males and females, improved withdrawal benefits and better rates of interest on employee contributions.

In smaller funds (annual premiums less than R500 000), 38% still pay less than 4% interest on employee contributions; another 50% pay less than 8%. The bigger the fund, apparently, the more generous the attitude to withdrawing members: of funds paying an annual premium of R2m-plus, more than half pay 12% interest or more.

Interest rates are only one factor used for comparison. Sanlam's offer calls for trustees to furnish six basic information elements — normal retirement age, the period for which a pension is guaranteed, the applicable pension scale, the period over which final average salary is calculated, the amount of a widow's or widower's pension and provisions for increases in pensions after retirement.

Armed with that information, it is relatively easy to establish the merits of a fund. ■

ESTATE AGENTS ACT FM 26/10/90 (58)

INTO A STRAITJACKET?

There's growing consternation in real estate circles that what should ostensibly be a simple "tidying up" of the Estate Agents Act is being used to give the Act's administrators sweeping new powers.

Critics complain that this is completely contrary to government's stated policy of deregulation. If the Estate Agents Bill, published in July, remains unchanged, they say it will make the property industry the most regulated sector of the economy.

Perhaps of as much concern, is the fear that the Bill will give the Estate Agents Board (EAB), the statutory body regulating the affairs of estate agents, even more muscle than it already has.

In essence, the revision of the Act should be simple. The aim is not to precipitate any shift in policy towards the regulation of the property industry, but rather to incorporate more effectively the ad hoc changes which have been made to it since it first came into force in 1976.

But the revisions have had anything but a smooth passage. The first attempt in 1988 to revise the Act was stopped in its tracks. The stumbing block was a clause which would not make the EAB obliged to show the Fidelity Fund accounts to the Trade & Industry minister on an annual basis.

The Bill was subsequently referred to the Competition Board and what has now emerged is said to be a watered-down version of the 1988 proposals.

This time around, the Institute of Estate Agents is understood to have taken umbrage at several other aspects of the revisions. In addition to a written report setting out its complaints, it is believed to have requested an extension to the closing date for comment so its attorneys can have additional time to thoroughly scrutinise the implications of the proposed new legislation.

While the institute, for the present, prefers to keep mum on why it disapproves of the Bill, committee member Moira Wingate-Pearse, has expressed her personal reservations. High on the list is still a real concern over the disclosure of detail related to the Fidelity Fund.

"I, and others, believe the annual statements should at least be available to those who contribute towards the fund, namely the agents. They should also be open to attorneys and others representing home buyers. This is nothing more than a desire for fair business practice."

Other bones of contention include:

☐ Industry representation on the EAB. Even though the constitution provides for at least eight estate agents to be appointed to the board, it is felt that once office bearers are paid by the EAB, their allegiance could be questionable;

☐ The new process of registration which will allow a person, once he has passed the board's examination, to "practise on the public" as a registered agent — even though he has no practical experience in the property industry; and

☐ An ambiguity over whether the EAB represents and protects the interests of estate agents or the public. When the 1976 Act came into force, it was quite clearly the latter. But the wording of the new Bill now suggests otherwise.

"Mine, and the feelings of several colleagues, developed over the past two years, is that the original intention of the Estate Agents Act has been overstepped. With each amendment its obligations and authorities have been extended."

She adds that much of what is covered in the Bill is in fact covered by other legislation, such as that relating to advertising standards, the Companies Act, or even common law.

"This dictates, for example, that an advertiser's name has to appear on advertising material and, that an agent may not misrepresent facts and must look after the interests of his or her client. We feel that a bit of over-legislation has crept in."

She points out that with the establishment of the Fidelity Fund to protect the interests of home buyers (created, incidentally, after pressure from the institute) it was necessary to register agents and have a statutory body police the Act and discipline the industry. Hence the establishment of the EAB.

"This, basically, is the beginning and end of what the board should be about. I have no problem with the concept of tidying up the Act as a process of legislative house-keeping, but in doing so the revisions should deal only with those matters which are appropriate," says Wingate-Pearse.

Not that everyone agrees with her views. Real estate consultant and author Stefan Swanepoel estimates that the Fidelity Fund contains in the region of R50m in accumulated funds.

He argues it should also be protected from those who only want to know how much is in the fund merely so they can get their hands on it and spend it.

IN A WESTERLY DIRECTION

Johannesburg's CBD seems to be spreading ever westward. Bucking the trend, however, is one of the city's newest buildings, the R20m "Hosken House" on the corner of Anderson and Mooi streets.

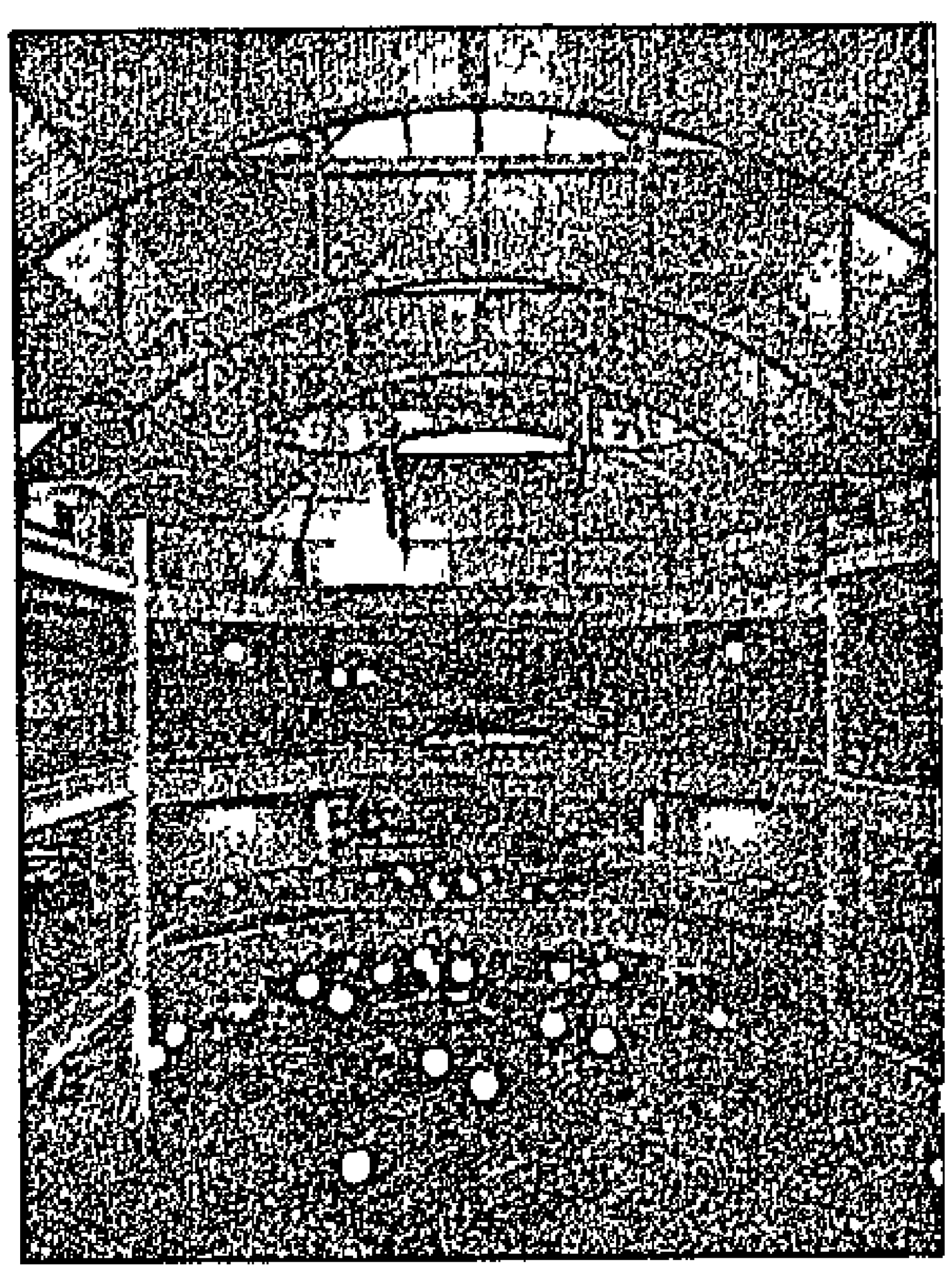
The Johannesburg-based activities of the Hosken Insurance Broking group have been incorporated into the new block.

One of the building's selling points is its low rentals. The owners argue it is more cost-effective to pay R13,50/m² in Mooi Street than rentals of around R30/m² for A-grade accommodation, without access flooring, in trendy Parktown. Hosken House features raised computer flooring and a sophisticated sound-masking system.

The block has 7 500 m² of offices on three floors, focused around a central, landscaped, atrium. There are 285 parking bays on the two basement levels.

Provision has been made for the addition of a fourth floor, which will add a further 2 500 m² of office accommodation.

The building was designed by architects Taljaard Carter and the structural and electrical engineers were Thompson & Van Eck Inc.



BLACK HOUSING FM 26/10/90

AGAINST THE TIDE

Though many developers and financiers are fleeing the black housing market in the face of violence and co-ordinated bond boycotts, F|M 26/10/90 (58)

COMMERCIALISATION

BOON FOR BANKS

Now that government has put the brake on privatisation some business expected by banks has dried up.

But all is not lost. Commercialisation — getting semi-State businesses to run on private-sector lines — continues and banks and other financial institutions are reaping the benefits.

One of the first steps is the transfer of financial services from the Reserve Bank to commercial banks. Sasol, Iscor and Eskom have used commercial banks for years. Now Transnet (formerly Sats) is taking its business to major banks. Standard Bank has taken over banking services for the railways, Nedbank for SAA, First National for road transport and Volkskas for harbours, medical, housing and SAR travel.

The CSIR has moved to Volkskas.

These accounts are big business. It is estimated that the Transnet accounts, for instance, will earn the banking sector more than R3m a year in charges.

Volkskas's Johan Coetzee says services now provided by commercial banks include cheque deposits and fund management, as well as extras such as staff car and housing schemes. "We also offer financial advice. Until now, public corporations have known little about the financial services available in the private sector."

First National's Johan Meiring says: "We are aiming to change the culture of State-owned enterprises, to ensure they resemble commercial enterprises in terms of management, information systems, finance, accounting methods and corporate strategy."

Merchant banks, though losing potential revenue from new listings, have also become involved in commercialisation. UAL concentrates on managing portfolios for State and semi-State organisations and handles pension and other pool funds.

Assistant GM Ben Kruger says Standard Merchant Bank has taken steps to attract business as commercialisation gathers momentum. "We have organised feasibility studies on privatising Autonet and SAA."

Merchant banks are meeting increasing competition from the big accounting firms. Though these do not manage funds, they advise on management, financial restructuring (including accounting policies), budgeting, costing and information systems. Top firms have specialists in tax, treasury operations and use of human resources. André Clow, in charge of commercialisation at Deloitte Pim Goldby, says: "There is little the major accounting firms cannot do to assist in the commercialisation process."

There is no shortage of companies in need of advice. Transnet uses Deloitte Pim Goldby and, to a lesser degree, Aiken & Peat to make its components more efficient. Deloitte is also involved in the difficult task of restructuring Posts & Telecommunications.

Commercialisation has been given further impetus by the Browne Inquiry into the accountability of public corporations. It was recently published for comment in the *Government Gazette* as draft legislation.

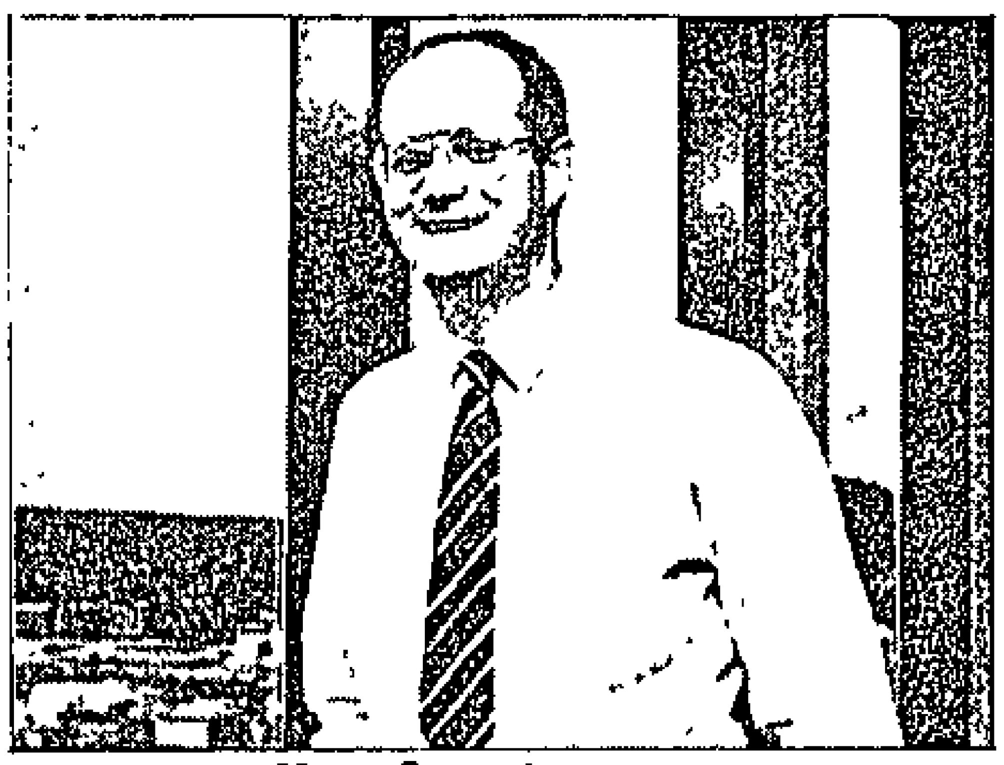
BANKING FM 26/10/90 (58)

THE GHOST OF FRANZSEN

Since the third Franzsen report on monetary and fiscal policy in November 1970, attempts have been made to control the size of single shareholdings in banks. These have been motivated by xenophobia and the historical corollary: a fear of concentration of power in a few large organisations.

Like many futile efforts to impose pointless controls, they have lost impetus over the past decade. In the wake of the De Kock report on monetary policy, which proposed liberalising the banking industry, new legislation will increase the limit to 49%. Though much higher than the previous 10% (30% for financial institutions) limit, this still ignores several important facts:

- ☐ Whatever the limit, regulators can't prevent informal arrangements among shareholders, which enable them to exercise control at crucial points in a bank's history;
- ☐ There is no way to avoid an excessive shareholding when the only hope for a bank is rescue by a major institution; and,
- ☐ There is no good reason, anyway, why there should be any limit on the control exercised by the largest shareholder.



Van Greuning ... *acknowledges reality*

The issue is highlighted by the fact that the giant Sanlam life office is likely to hold more than 90% of Bankorp after a rights issue in November. There is no chance it can reduce this below 50% in the foreseeable future, let alone by year-end.

Banking registrar Hennie van Greuning acknowledges the reality of the situation. It does not cause him sleepless nights.

"My view is that there are more effective ways of limiting control — full disclosure in terms of Generally Accepted Accounting Principles, and a 49% limitation on the number of directors any one shareholder may appoint," says he.

Tim Store of Deloitte Pim Goldby, a chartered accountant who specialises in financial institutions, agrees. "Over the years these attempts have failed and there is no reason they should succeed in the future. There are always reasons exceptions have to be made."

However, the decision has been made.

Van Greuning is committed to implementing the Deposit-taking Institutions Act as it stands — as far as practically possible. There is no suggestion that the legislation will be amended to exclude it. However, with Bankorp, which has experienced several troubled years, compliance will clearly not be possible. The Act allows exemptions in such circumstances. Sanlam would find few takers of any enforced sale of shares and the authorities are not about to create a crisis in banking by insisting that it partially disinvests.

One other banking group has a single shareholding exceeding the new statutory limit — Nedcor. This too flows from problems. In 1986, an unfortunate configuration of events, including the 1985 debt standstill, hit profitability hard — at a time when provisions had to be made against expected future losses. Old Mutual underwrote a rights issue and now holds 52%.

Theoretically, this can easily be brought within the limit. But a practical implication is that Old Mutual will be unable to invest any new pension funds or other funds into Nedcor shares, without contravening the Act. The same applies to any other company classified as an associate under the Act.

The last thing banks need, as they go into an era of increased capital requirements, is any constraint on their ability to raise capital. The most likely source is, naturally enough, powerful organisations who in all probability already hold large stakes.

Moreover, common sense dictates that the best thing a bank can have is a powerful parent, given banks' vulnerability to any loss of investor confidence.

Whatever the practicalities, the limitation itself is a separate issue.

It is a relic of another era, when the government of the day felt threatened by powerful commercial organisations and sought to prevent them extending their influence in banking. If the industry is not to be nationalised (and it now seems clear it will not be) there is no valid reason for treating it differently to any other sector. ■

OIL

OFF THE BOIL

Signs from Saudi Arabia that Iraq may get what it wants once President Saddam Hussein pulls his army out of Kuwait knocked more stuffing out of the war premium in oil prices this week. In London, Brent North Sea Blend (December delivery) dived to a low of US$26,05 a barrel before short covering produced a rally to $28,85.

On the New York Mercantile Exchange (Nymex), West Texas Intermediate suffered its worst one-day drop of $5,40 to $28,40 a barrel. Action was frantic: Nymex turnover reached nearly 141m barrels while London's International Petroleum Exchange doubled recent averages to 32m barrels.

That left benchmark crudes, on balance, roughly 30% below their October 11 highs and at their lowest for six weeks. Refined products followed suit. North west Europe prices of jet fuel at $385/t are 23% down, premium petrol 25% off at $320/t, heating oil by 28% at $256/t and heavy fuel oil by 26% at $112/t.

Hussein

The prime reason was a statement by Saudi Defence Minister Prince Sultan ibn Abdul Aziz that "the Arab countries are ready to give Iraq all its rights." Qualifications flew thick and fast: Iraq still had to get out of Kuwait and territorial concessions had to be fraternally negotiated.

Prince Sultan was referring to the long-disputed offshore islands of Warba and Bubiyan and the northern border with Iraq which cuts across the Rumailah oilfield.

But the Saudi statement confirmed three weeks of rumours and hints from the Soviet Union, France and the Middle East that a deal could be the way out of the crisis.

It was also the first real crack in the international coalition's resolve that Saddam Hussein should not benefit in any way from his aggression.

The Saudis do not want a war which they and King Hussein of Jordan fear will ultimately destroy the existing order in the Middle East. And they have become increasingly anxious about the political and religious backlash their dynastic regime faces the longer US forces are on Saudi soil. President George Bush is also hearing voices of doubt.

They, however, are not the only parties in the confrontation to blink. Peace talk has been fuelled by ex-UK PM Edward Heath's hostage rescue mission to Baghdad, petrol rationing in Iraq (refineries are running out of additives and chemicals) plus the probable unilateral release of French citizens and some sick and elderly Americans.

The propaganda line from Baghdad stays the same: not an inch of its newly acquired 19th province will be given up. But to the melange of rumour and subsurface diploma-

INVESTEC FM 26/10/90

CORBANK TO COME 58

Even without the full impact of Corbank, acquired with effect from July, earnings and EPS each rose 33% in the six months to September, to R10,7m and 50c. MD Stephen Koseff believes the full effects of Corbank will be felt in the second half and expects the acquisition alone to boost EPS by 5%-7% on the 1990 financial year. Total EPS is expected to rise by 24%-30%.

Investec acquired only Corbank's banking services and treasury division, corporate services division and the property and instalment finance operation. It sold the trading divisions to Cape Investment Bank.

The acquisition added R220m to assets

which were 83% higher than a year before, at R1,7bn. Shareholders' funds rose 50% to R105,8m leaving a capital:asset ratio of 6,2%. Koseff says this improves if one takes into account cash and short-term funds, which made up 30% of assets at end-September. The capital:asset ratio then is 8,8%, which Koseff considers "comfortable."

He says that now Corbank has been fully integrated, the group is ready to look at further acquisitions which fit in with its "four pillars" — merchant banking, property, Metboard and banking."We have the capacity to absorb other companies should they come our way," he says.

Of the "four pillars," property and Metboard outperformed, with results exceeding budget. The Natal regional office also exceeded budget targets. However Koseff sees other areas doing better in the next six months. "With present interest rates, lending margins are widening for the first time in about two years." This will have a positive

PILLAR OF STRENGTH

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '90
Net income (Rm) ...	7,5	6,8	10,7
Total assets (Rm) ..	926	1 255	1 698
Earnings (c)	37,5	50	50
Dividends (c)	16	24	20

effect on treasury operations.

He also expects the new Deposit-taking Institutions Act which will come into effect on January 1 to help. Regulations, expected soon, should reduce reserve and liquid asset requirements and hence cost of funds. "The way banks are rationalising rather than penetrating new areas will also benefit our business," Koseff says.

Investec's rating continues to outshine the banking board. On a p:e of 12 and dividend yield of 3,8% it is bettered by none. Its share price is not far from its 1 150c 12-month high at 1 050c. *Heather Formby*

Niche bank Fidelity sparkles

BDay 26/10/90

KEVIN DAVIE

THE problems facing some small banks will not affect Fidelity Bank, MD Jules Langenberg says.

And in an interview yesterday, he backed his contention by pointing out that earnings had consistently grown at a faster rate than assets which, in turn, had regularly grown more quickly than dividends.

The niche bank today releases results that show a 43% increase in net income to R4m from R2,8m. Total assets grew by 34% to R376,6m, total liabilities by 36% to R351m and the dividend by 25% to 20c.

The bank, with headquarters in Port Elizabeth, has total assets of R377m and retains strict banking policies to ensure success, says Langenberg. Asset growth is controlled, exposure to individual clients is not allowed to exceed 10% of the bank's capital, and no single deposit may be more than 5% of total liabilities.

Targets

Langenberg says there are no buybacks or off-balance sheet items that have to be brought onto the books on January 1.

Fidelity does not advertise, but targets individuals and the medium-sized business market directly.

Major shareholders are the Eastern Province Building Society and the Board of Executors, both with a 30% stake. It has 10 branches, with about 65% of its business coming from the PWV area.

Melamet heads Financial Services Board

ACHMED KARIEM

THE Cabinet has appointed Mr Justice D A Melamet as Financial Services Board chairman. B/Day 26/10/90 (58)

The judge, who has chaired several commissions of inquiry into the short-term insurance industry, will be actively involved in the running of the financial services industry.

The Finance Minister's special economic adviser Japie Jacobs has been appointed vice-chairman.

The board will control the activities of financial institutions (barring banks and building societies) and other financial services.

It will also advise Finance Minister Barend du Plessis on affairs concerning financial institutions and financial services.

Other board members are: JSE presi-

☐ To Page 2

Melamet

B/Day 26/10/90 (58)

☐ From Page 1

dent Tony Norton; Get Ahead deputy MD Israel Skosana; consulting actuary Dawid Malan; Reserve Bank Deputy Governor Chris de Swardt; former Free State University rector Wynand Mouton; Federale Volksbeleggings executive director Peet van der Walt; Charter Insurance CE Len van Wouw; Financial Institutions registrar Piet Badenhorst; and state actuary Piet Robbertse.

Badenhorst said last night government had succeeded in appointing persons of stature and expertise from the private sector to the board. He said he would resign from his current post if offered a staff post with the board.

The Financial Institutions Office will be converted into a statutory board on December 31 and will commence its duties in terms of Section 3 of the Financial Services Board Act, 1990 (Act 97 of 1990), from January 1991.

Financial services face tough times

(58)

B\Day 26\10\90

LIZ ROUSE

● MATISONN

RAND Merchant Bank (RMB) chairman Johann Rupert and deputy chairman G T Ferreira foresee a difficult time ahead for the financial services sector in general in SA.

They say in the bank's annual review that much of the shake-out in the financial markets abroad has still to be felt in SA.

The rationalisation of the banking industry in particular will gain momentum as a result of the changes in the Banks Act. They expect this to create opportunities for the bank's corporate finance division.

"It is difficult to budget for innovation, but we believe the bank's proven ability in structuring unconventional transactions will continue to boost group earnings."

Slowdown

They express their confidence in their annual review that the bank will maintain its "excellent" credit management record in the current year.

In the conventional banking business the group faces a continuation of the recent slowdown in credit demand. However, the pressure on margins is likely to lessen.

RMB achieved its 12th year of consecutive growth in disclosed income, with net income up 20% to R25,2m in the year to June from 1989's R21m.

Total assets grew by 13,4% to R1,52bn (R1,34m). Shareholders' funds increased by 19% to R99,4m (R83,8m) while the after-tax return on shareholders' funds was maintained at 25% a year. The dividend was raised by 21% to 17,5c (14,5c).

The annual report shows that RMB produced a disclosed income of R23,3m (R20m) and Rand Consolidated Properties (RCP) and its associate companies contributed slightly less at R1,1m (R1,3m).

Rupert and Ferreira say the downturn in the domestic economic activity is paving the way for an interest rate decline. However, the longer-term orientation of the monetary authorities, and their determination to avoid the mistakes of the past when interest rates were allowed, or even encouraged, to fall as soon as cyclical factors pointed in this direction, will result in interest rates falling only modestly in the course of the 1990/1991 year.

The expected decline in interest rates, together with the restructuring of the bank's treasury division, will hopefully restore this division to its traditional position as a major profit contributor, they say.

Reviewing the past year's performance against the background of tight monetary policy, Rupert and Ferreira say that the traditional lending business (especially lending tied to the prime overdraft rate) was unprofitable for most of the past year.

Fee income of the corporate finance division exceeded budget, the largest transaction being the acquisition by the Rembrandt group of a major stake in Goldfields of SA. The division also increased its market share.

However, the traditional corporate finance work is expected to be less buoyant in the current year and a more active policy of "tree shaking" will be required to ensure an adequate flow of work.

The capital market division exceeded its budgeted profit by a substantial margin, as did the project finance division.

Tough times take their toll on Malbak

STAR 25/10/90 (58)

By Ann Crotty

Given the state of the economy during the period, few people will be surprised by Malbak's 12 percent drop in earnings in the year to end-August — down to 111,2c (126,9c) a share. The 30,5c dividend is 3,9 times covered.

Although it wasn't on the cards back in December when the chairman's report stated that financial '90 earnings would be unchanged on '89, by April — when the interim results were released — it was apparent that Malbak could not survive the deteriorating economic conditions unscathed.

For much of the review period gross domestic product had been shrinking as the Government's commitment to fighting inflation and political/social unrest took its toll on the economy.

As Malbak executive chairman Mr Grant Thomas indicates, the review 12 months was quite a traumatic time to be doing business in South Africa.

Grant Thomas . . . Recession will deepen.

The September general election was followed by the Government comitting itself to a restrictive monetary and fiscal policy; in October the prime rate was increased to 21 percent; in February Nelson Mandela was released; in July township violence flared and gross domestic expenditure registered a three percent fall.

Given this bleak scenario, the fact that Malbak was able to hold the decline in pre-tax profit to just one percent, is reasonably commendable.

For financial '91 there is little to encourage investors. Mr Thomas expects the steady pace of deterioration in the economy to continue: "The economic downturn which was evident throughout the financial year has accelerated in recent months. Indications are that the recession will deepen before it levels out and, in addition the economy will be buffeted further by the oil price increase."

He adds:"The board anticipates lower earnings for the year ahead but the extent of the reduction is particularly difficult to predict at present."

There was a marked deterioration in performance in the second half of financial '90. At the half-way stage management reported a four percent increase in earnings per share. But a slowdown in sales and much tighter operations margins turned this into a full year eps drop of 12 percent.

In the 12 months to end-August sales were up 14 percent to R8,4 billion (R7,3 billion), operating income only managed a 6 percent increase — from R683 million to R724 million.

Interest payments were up 27 percent to R218 million (R171 million) which meant that pre-tax income was down one percent to R506 million (R512 million). Tax took R172 million (R154 million) leaving taxed income showing a 7 percent decline to R334 million (R358 million) equivalent to attributable earnings of R233 million (R251 million).

Boosted by the excellent performance from Ellerine's, Malbak's branded consumer goods division made the largest contribution to attributable earnings. The R58 million from these activities accounted for 25 percent of total earnings — compared with 23 percent in financial '89.

Next was the packaging and paper division, accounting for 24 percent (22 percent); engineering and mining supplies 22 percent (23 prcent); construction supplies 16 percent (17 prcent) and food chipped in with an unchanged 11 percent.

Under pressure

Concerns that future earnings growth at Malbak will be determined by the strength of the economy (and also worries about the international operations) have put the share price under pressure in recent months.

Although the share moved up 20c yesterday to close at 520c, the dull earnings outlook and the generally bearish investor sentiment towards industrials is likely to militate against any significant rerating in the short-to-medium term.

In the longer-term if Mr Thomas's team looks as though it can deliver his target of real earnings growth of around five percent, then the benefits will be seen in the share price.

Two securitisation issues in the pipeline

D10q 25|10|90 (58)

ROBERT GENTLE

AT least two new securitisation issues — one of which is believed to be over R500m — are in the pipeline, it emerged in financial market circles yesterday.

Chartered accountancy firm Arthur Andersen is handling the issues.

Securitisation is the repackaging of a company's assets into negotiable securities which are then bought and sold in the market.

It allows a company to lighten its balance sheet, gain extra cash and improve key financial parameters while providing investors with high grade investment paper.

Arthur Andersen country managing partner Barry Adams confirmed that his firm was handling "a couple of issues" but said he was not able to divulge details.

"We have a couple of asset securitisation issues in the pipeline, one of which is quite important," Adams said. "We hope to release details within the next couple of months."

If, as market talk suggests, the "major" securitisation issue the firm is working on is over R500m, it would be the largest yet — more than twice the value of the R250m issue launched earlier this year by Mortgage Securities 101 (MS 101).

MS 101, a company jointly formed by United Building Society and Discount House of SA, repackaged R250m of UBS mortgages. The resulting mortgage-backed paper was placed with institutional investors.

Arthur Andersen is acknowledged to be an SA leader in providing companies with the necessary expertise for securitisation issues.

Securitisation is expected soon to become an attractive prospect as an alternative to traditional off-balance sheet financing.

Banks, especially, will find it a useful antidote to the stricter capital adequacy requirements they will soon be operating under as SA moves more into line with overseas norms.

B/Day 25/10/90 (58)

United sets up international network

ROBERT GENTLE

UNITED Bank has established a major international agency network with about 80 foreign banks in 20 countries, United MD Nallie Bosman said yesterday.

It was the result of a two-month international road show, announced in July, aimed at better serving United's small corporate sector in line with the bank's long-term strategy.

The foreign banks will act as conduits for United's foreign transactions and grant United credit lines.

"The programme was a success in terms of our initial objectives," Bosman said.

"We cannot disclose the size of the credit lines, but they are enough to start our business."

The international network puts United on the road to offering its clients a full range of forex services as soon as its full forex licence is granted by the Reserve Bank.

"It is still being negotiated, but we do not foresee a problem with the final approval," Bosman said.

United would then join the ranks of banks like Standard Bank or French Bank, which have either offices or agency networks abroad and are able to handle forex-related transactions themselves.

On attitudes towards SA during his contacts with foreign bankers, Bosman said he had found a much greater willingness to do business with SA, particularly in Europe and the Far East.

Even in the US, bankers had said they would like to deal with SA but were constrained by US anti-apartheid legislation.

Bosman also said that various countries in Eastern Europe had expressed a great interest in SA banking expertise.

MDM not behind bond boycott

4
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25/10/90
Sowetan

THE Civic Associations of Southern Transvaal (Cast) has dismissed the Minister of Planning and Provincial Affair's statement that the Mass Democratic Movement was behind the boycott of bond repayments by homeowners.

Cast spokesman, Mr Cas Coovadia said: "We must emphasise that we have not called for any bond boycott. If people decide to go on a bond boycott because of defective houses built by private developers - then they have good reason to do so."

"We thus find it ludicrous when Mr Hernus Kriel places responsibility for the housing crisis and some bond boycotts on political leaders and our so-called "irresponsible" behaviour.

Coovadia was featured on TV2/3 news on Monday where he explained the MDM's position on the bond boycott.

Also featured was Mr Bob Tucker of the SA Perm and Mr Martin van Zyl of Comiat Developers.

Tucker called for the government, developers, home owners and relevant organisations to "join hands in solving the problem.

Star
24/10/90

R154-m to keep services going

By Louise Burgers
Municipal Reporter

An emergency grant of R154 million has been made by the Central Witwatersrand Regional Services Council (CWRSC) to ensure that essential services continue operating in Greater Soweto and Alexandra.

Responding to an "SOS" from the Transvaal Provincial Administration, the CWRSC last night resolved to take emergency action to prevent further hardship in the Soweto, Diepmeadow, Dobsonville and Alexandra communities.

CWRSC chairman John Griffiths said the financial position of the four councils was critical and TPA funds for bridging finance were seriously depleted.

Agreed

The flat rate paid by residents in Soweto, for example, was not enough to pay the electricity bill of R50 million owed to Eskom.

"At the request of the Minister of Finance, the CWRSC has agreed not only to reschedule capital projects for the improvement of infrastructure in black local authorities, but also to provide additional financial assistance to meet essential operational costs," Mr Griffiths said.

The action is temporary and the situation will be reviewed in April next year.

A thorough investigation established that between September this year and March next year, the four councils would need R172,7 million to enable essential operations to continue.

Star 24/10/90

Alpha Bank gets go-ahead

By Magnus Heystek (58)

With prudent further management, troubled specialist bank Alpha Bank can be placed back on its feet while depositors will in due course be repaid their capital in full.

This emerges from a statement last night by the Department of Finance which has received a provisional report from curator Ernst and Young.

However, interest earned and unpaid on deposits as at October 23 will have to be forfeited, but interest payments will be resumed from the same date at a rate one percentage point lower than the current BA rate.

Further particulars will in due course be made to all depositors.

In a statement, the Department re-iterated that the Registrar of Banks " will continue doing everything in his power to ensure that public funds placed with registered financial institutions are safeguarded".

African Life is an enticing prospect

Star 24/10/90 (58)

Diagonal Street

ANN CROTTY

Interim figures released last week indicate that African Life is well on the way to meeting its prospectus forecast for earnings per share of 14,2c and a dividend of 9,5c in the 12 months to end-March 1990.

With the share on a prospective price/earnings rating of 9,2 times and dividend yield of 7,3 percent, MD Bill Jack's education/sales trip to meet potential shareholders around the country, should prove to be a relatively easy exercise.

On the basis of figures to end-March '90, African Life's listing price of 130c represents an historic price/earnings rating of 11 times and a dividend yield of 6,1 percent.

Even as the overall market slides to p/e and dividend yield levels that look very attractive compared with a year or two ago, at 130c African Life will be very enticing when it comes to the market on November 15.

Adding to its attraction is the group's sterling track record — especially over the past three years; the solid growth prospects provided by its niche markets and; the fact that the shares will be fairly tightly held.

Preferential offer

The preferential offer of 2 million shares is being made to employees, existing shareholders, policyholders and selected business associates of African Life.

The 2 million shares are being sold by Southern Life and if the offer is taken up in full it will result in Southern's holding being reduced from 81 percent to 77,4 percent.

Although the current condition of the equity market will put a bit of damper on the event, Mr Jack and his management team do not seem particularly perturbed by these short-term considerations. He points out that the listing is part of a strategic plan that was initiated back in 1986.

Until '86 the group was quite inward-looking with attention being focused on building up operating structures. Then the emphasis switched to defining the group's business and its customer profile. From this it was decided that African Life should be a mirror of South African society in terms of its staff, policyholders and shareholders.

The first move towards a listing was taken last November with the issue of 25 million shares at 110c a share — 7 million were taken up by staff, policyholders and business associates. The remaining 18 million were taken up by Southern.

Over the past 12 months African Life's management has been trying to complement this move with a programme aimed at informing staff and policyholders about the issues involved in share-ownership.

Mr Jack hints that in the medium to longer-term Southern may further reduce its holding with other strategic players being brought in as shareholders. Analysts, believe that given the profile of African Life's customer base, and management's stated desire that its shareholders should be a mirror of SA society, any other single major shareholder would be representing a black organisation.

Looking to growth, the group's prospects are considerably enhanced by the fact that most of its products (with premiums costing between R35 -R70 a month) are directed at the lower income group — which is largely that sector of the black population that is currently enjoying significant increases in disposable income.

About 75 percent of African Life's business is generated by its own sales force (of about 600 sales personnel). Some 15 percent comes from brokers and the remaining 10 percent is generated through direct mail selling.

Alpha Bank depositors to recover capital

PRETORIA — All depositors of Alpha Bank would be able to recover their capital in full, Finance Minister Barend du Plessis said yesterday.

(58)

In a statement he said after Ernst & Young had been appointed curator to the bank, the Registrar of Banks had received a provisional progress report.

"It appears from the provisional report that, with prudent further management by the curator of the assets of the bank, all the depositors of Alpha Bank will in due course be able to recover their capital in full."

Interest earned and unpaid on deposits as of yesterday would have to be forfeited, but interest payments would be resumed from that date at a rate of interest 1% lower than the bank acceptance rate.

Du Plessis said rumours of possible difficulties had also emerged in other smaller banks, but in view of the fact that the financial system was based largely on trust, "it is of the utmost importance that it be realised such unfounded rumours ... are not conducive to stability and can only be to the detriment of the interests of depositors and of market conditions".

The Registrar would do his utmost to ensure the public's funds, placed with registered financial institutions, were safeguarded. — Sapa.

B/Day 24/10/90

Sycom results 'satisfactory'

B/Day 24/10/90

CHARLOTTE MATHEWS

SYFRETS and Commercial Union Property Fund (Sycom), which recently merged with Tricom Property Fund, has declared a net distributable income of 77,74c (72,52c) a unit for the year to September.

Tricom posted earnings of 60,22c a unit from 56,97c in 1989. (58)

Sycom management company UAL Property Fund Managers MD John Peters said the results were satisfactory in view of the reduction in Sycom's cash balances which had been earning a high interest rate.

Sycom has now acquired another 3,08% undivided share in Southgate Shopping Mall bringing its share up to 12,95%. All uninvested funds have been absorbed.

Sycom is forecasting a 2% growth in distributable income to 79c a unit in the current year.

Stn 23/10/90

RSC says no to financial help for Wesselton

Staff Reporter

The Conservative Party-controlled Oosvaal Regional Services Council has refused cash aid for Ermelo's waterless Wesselton township, even though the Transvaal Provincial Administration (TPA) had given it permission for this.

Wesselton today entered its eighth day without water or waterborne sewerage after Ermelo's CP council suspended services for non-payment of services and rent.

Fears have been expressed by local leaders about the deteriorating sanitary conditions and the possible outbreak of disease.

Oosvaal RSC chairman Gert Gouws said the Wesselton Town Council had applied for general financial assistance on October 11 and had been turned down last Wednesday, the day after water was cut.

The African National Congress was due to meet the TPA today in an attempt to have Wesselton's water reconnected.

Star 23/10/90 (58)

Old Mutual's Rob Lee moves to BoE

Rob Lee . . . Joins BoE team.

By Tom Hood

The Board of Executors has recruited one of Old Mutual's top investment managers, Mr Rob Lee, as a senior portfolio manager from January.

Mr Lee, assistant general manager of Mutual's investments division, has managed some of the country's largest investment portfolios for the past four years.

He spent 11 years in economic research and forecasting, seven as chief economist.

He joins BOE fund management team as its pension and provident funds under administration have risen to R650 million from R17 million four years ago.

Mr John Winship, senior general manager at the BOE, said the appointment strengthened the team and Mr Lee's capabilities in macro investment forecasting would immediately benefit client portfolios. Ultimately this would be reflected in superior investment performance.

"The higher petrol price can be expected to lead to higher costs and affect company profits, resulting in lower share prices," said Mr Wwinship. "It means also a great many buying opportunities for investors."

Mr Lee said today: "I think the Board is a very exciting and fast-growing company and I look forward to working there."

Bank shareholding limit 'may go'

GRETA STEYN

REGISTRAR of Banks Hennie van Greuning yesterday hinted the 49% limit on shareholding in a bank by an individual shareholder would be scrapped in future.

In the meantime, the Reserve Bank intended to be "very lenient" about it, he said in response to a question from the floor at a Mercantile Bank seminar in Johannesburg on the new Deposit-Taking Institutions Act. The Act replaces the Banks Act and becomes effective next year.

Van Greuning said his office did not support the limit as it did not believe manipulation of a bank took place through shareholding.

"We lost round one on the issue but the politicians are listening to us. The issue of shareholding in a bank has always been an emotional one, but we believe that any manipulation of a bank will take place through the board of directors and not through the shareholders. We would prefer to focus our attention on the composition of the board rather than on the majority shareholding," he said.

He acknowledged the Finance Minister had the final say.

The issue of limits on shareholding has been the focus of attention since the Sanlam bail-out of Bankorp left Sanlam with about 90% of the bank's shares. Old Mutual, too, holds more than 50% of Nedcor after giving it a shot in the arm in 1985.

● Picture: Page 3

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BD 23/10/90

Property stocks begin to look better investment

B/Day. 23/10/90

CHARLOTTE MATHEWS

PROPERTY stocks on the JSE are starting to look a better investment because of potentially greater institutional demand, the low gearing of property companies at a time of high interest rates, and the marketability of property stock in comparison to fixed property.

Board of Executors Properties (Boardprop) Transvaal director Nikki Vontas has released a survey on property loan stock companies in 1990 which projects that the property sectors will be re-rated in 1992, although they will remain underrated in 1991.

The new prudential investment guidelines introduced on October 1 1989 allowed institutions to invest up to 30% of the market value of their assets in property.

Property loan stocks and property unit trusts are now considered as alternative investments to physical property.

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Unlinked

A property loan stock company can have unlinked units consisting of separately listed shares and debentures with the debenture interest being linked by a formula to dividend growth. Or it can have linked units consisting of a debenture linked to a share.

Anglo American Properties, Barlow Rand Properties and Retprop have unlinked units, while Boardprop, Growthpoint, Hyprop Investments, Pangbourne Properties and RMS Properties have combined units.

The purpose of combined units is to offer a pre-tax income distribution to those institutions such as pension funds which are not liable for normal tax.

The debenture portion is a loan from the institution to the property company.

The reason for having a debenture linked to an equity portion is to give the loan stock holder proportional voting rights in the loan stock company.

Graphic LEE EMERTON Source BOE PROPS-N VONTAS

"The industrial shares tend to outperform property stocks in times of economic growth characterised by low interest rates (industrials are very heavily geared) asin 1979-1982 and 1987-1988," Vontas says.

"The economic growth translated into growth in rental income generally affects the property industry and property share earnings with a certain delay of at least 18 to 24 months.

"This should mean that 1990 earnings of most property loan stock companies will show steady growth."

In the short term, Vontas believes, property loan stock companies will perform well because prevailing rental levels are still high and vacancies still relatively low, although there is increasing oversupply in some areas.

"At present, forward investment yields on property loan stock companies are higher (if we take into account the diversification of risk through a property portfolio) than similar quality fixed property initial yields," Vontas says.

He adds that property loan stock units are more attractive than fixed property because they are more marketable.

The opportunity cost incurred during the sale and transfer of fixed property can cost up to 1% of the value of the asset.

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The Governor has the last word

HAROLD FRIDJHON

MONEY market rates hardened last week, which was to be expected as offshore key indicators — the prices for gold, oil and platinum — reflected unwelcome volatility and recession talk overseas appeared to gain momentum.

To add to the grey mood overhanging the market, authoritative voices have made it abundantly clear that Bank rate will stay where it is when the new year bells chime.

The Treasury bill (TB) rate gained 38 points in a three-and-a-half times oversubscribed tender for R120m bills, R20m more than the maturities. The rate for liquid 90-day bankers' acceptances hardened over the week to 17,80% from 17,35%. This is a clear indication of the bearish sentiment which has also affected rates for negotiable certificates of deposit (NCDs) of all maturities up to one year which have been marked 30 points higher than they were a week ago.

The prevailing rates pattern appears to negate reports that the switching by institutions from stock exchange investment into money market assets has brought a flood of new money into the money market which, sooner or later must bring down interest rates. Bankers, however, say these institutional funds are not "new" money as such. It is largely a change in the direction of cash which is in the national "kitty".

To oversimplify the movement of funds: when institution "A" buys shares from institution "B", funds move from "A" to "B" which probably places some of the proceeds in the market. Consequently when "A" does not buy shares, "A" invests in money market assets the cashflow funds which would not have gone to "B".

If there had been a material increase in the flow of money into the market, the market shortage — the banks' debt to the Reserve Bank — would have declined materially. But it hasn't. Although the shortage dropped to R2,4bn on Thursday from the previous week's R2,6bn, this is a typical mid-month dip. In all probability the shortage will move up to around R3,5bn by the end of the month.

The Reserve Bank is keeping the market short of liquidity in order to hold interest rates at current levels. Minor fluctuations in rates are tolerated but if the Bank considers that speculative market trading appears to be challenging official monetary policy, it soaks up excess liquidity by various means.

Currency swaps with the banks siphon out rands for dollars. Government bonds are tapped into the market. Issues of TBs are increased and in special instances, short-dated TBs are sold.

Reserve Bank Governor Chris Stals has the final say as to where interest rates are going, not the market.

SGI offers cover for ill health

S Times 24/10/90

Business Times Reporter

LIFE assurers can now provide cover for surgery and hospital costs.

Short-term insurers have previously provided this cover, but without official approval and without the backing of life assurers.

Standard General Insurance has introduced a new policy known as Cash Plan, which covers hospitalisation, surgery and confinement in intensive care.

The daily basic benefit can be between R200 and R400. The annual maximum net claimable amount is R60 000 for an individual and R360 000 for a family. (58)

Premiums start at R40 a month and the guaranteed renewable policy can be attached to any permanent life policy, including a pure endowment.

Standard breaks ranks on interest rate secrecy

58

S1 Times 21/10/90

By DIRK TIEMANN

INDIVIDUAL bank customers can pay as much as 32% a year interest on their overdrafts — often without knowing it.

Most banks negotiate the amount of an overdraft and the rate to be paid when the customer first requests it. Initially there is no confusion.

But since overdrafts often run for years and rates move upwards and downwards, it is a rare bank customer who actually knows what rate he or she is paying. In most cases, all one sees on statements is a debit.

Few bank customers are in a position to check what rate they are paying or whether they are being correctly debited.

There is an irony about this lack of information. Judging by their advertising and the statements of chief executives, banks allegedly compete aggressively. But the pricing of their main product is mostly a mystery to customers.

A round of applause then to Standard Bank for breaking ranks on disclosure. It informs customers in every statement what the present rate is.

Section 10 of the Usury Act stipulates that written notice is required within three months of any change to the overdraft rate. This notice must also inform the borrower precisely when the rate changed.

None of the banks spoken to actually indicates the interest charge on its statements, but some do notify their clients of changes in the interest rate.

Risk

Standard and Nedbank appear to be most open with clients. A Standard Bank spokesman says changes in prime-related overdrafts are mentioned on the statement, although the prevailing rate is not.

In individual cases, where the margin above prime changes, a letter is sent out notifying the client of the change. On the other hand, if the individual does not have an overdraft facility, then an overdrawn account can lead to a default rate of up to 32% — if the bank decides to honour the cheque.

This is not normal, but the rule does apply: the higher the risk, the higher the rate.

Nedbank deputy managing director Johan Westraat says the rate charged depends on the risk involved and the income generated from that account. He says any changes in the rate and all service fees are indicated on the statement.

First National, outstanding for its disclosure to shareholders, is not so forthcoming with its customers.

First National senior general manager Jimmy McKenzie says the bank is considering notifying clients on statements of changes to the rate.

"If the prime interest rate were to change, and the cost of the overdraft changed correspondingly, the client would not be notified. There is however nothing stopping him from phoning us.

"We have been considering a facility letter, in which the terms and conditions of loans are set out. The new Hogan, info-based system, may make this possible."

Mr McKenzie says individual risk assessment is usually done by the branch managers, and if the risk changes, the rate changes. No mention of the changes appears on the statement.

Change

The maximum rate as determined by the Usury Act is 32% for amounts up to R6 000 and 29% for amounts between R6 000 and R500 000. Above that there is no restriction.

TrustBank customers are not informed of prime-linked overdraft rate changes on their statements because "these could land in the wrong hands". Besides, any change in prime would be publicised widely in the media. If an account goes dormant then the customer is called in and the matter discussed.

A spokesman for the Registrar of Financial Institutions says that banks are obliged to disclose all finance charges. The overdraft rate and any change in this rate should be well-known to the customer.

The allegation has been made that banks will inform clients of an increase in prime, but forget to mention a fall in the rate.

ANC banking talks

Business Times Reporter (58)

THE ANC and the Treasury will discuss the future role of the banking sector at a workshop organised by the Islamic Bank. ST Times 21/10/90

Special economic advisor to the Treasury Dr Japie Jacobs will put forward the public-sector argument.

Registrar of banks Dr J H van Greunen will represent the Reserve Bank. First National bank managing director Barry Swart will propose the private-sector view.

The ANC will be represented by Maria Ramos and Vella Pillay and other members of the economic unit.

The seminar will be held on October 29 at the Johannesburg Sun hotel. Contact Miss Waja on 838 254 for further details.

Rates up savings down

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S Times 21/10/90

By DIRK TIEMANN

REAL interest rates have been high for some time now, but domestic saving in the economy has declined.

The Reserve Bank bulletin says the ratio of gross domestic saving to the gross domestic product declined from 22% to 21%, from the first to the second quarter of 1990.

This is ascribed to lower corporate and government saving, while personal savings only improved slightly.

The Reserve Bank bulletin says net personal savings increased because of the slight rise in disposable income. Higher aggregate real labour remuneration and a cut back in household spending has increased the personal savings ratio.

Corporate savings have declined because of a lower aggregate net operating surplus, which was only 9% higher in the second quarter of 1990 compared with the same period last year.

Net saving by government declined because consumption expenditure was not matched by a rise in direct and indirect tax receipts.

Barend: SA hurt by finance curbs

CAPE TIMES 20/10/90 (58/180)

By BARRY STREEK
Political Staff

TRADE sanctions did not hurt South Africa much but financial sanctions, which forced the country to operate on a cash basis, did, Finance Minister Mr Barend du Plessis said yesterday.

He also said: "Unless you have confidence, comprising political and economic confidence, there cannot be growth."

In a wide-ranging address on the economy to the Transvaal congress of the National Party, he expressed confidence about its future. "We are not without our problems, but our economy is more healthy," he said.

No government could spend itself into prosperity and, as a result, tight control over the money supply had to be exercised.

The money supply had been reduced from 30% to 14%, but this control had resulted in high interest rates, Mr Du Plessis said.

South Africa was the eighth most open economy in the world, making it dependent on vital imports and the generation of money through exports.

"Trade sanctions did not hurt us to that extent, but financial sanctions, the fact that we had to run this country on a cash basis, did affect us."

The low growth rate in the 1980s, with its high state expenditure and increasing tax burdens, had resulted in a real decline in income for most people.

"Give us a chance. We will get this economy under control," Mr Du Plessis added.

By the third quarter of next year, the government would be in a position to free the economy for growth and then the effect of sanctions would disappear.

INSURANCE

NO GUARANTEES

(58)

About 100 000 deals a year are done in which traders extend warranties — mainly for used vehicles. If the proposed Short-term Insurance Bill is accepted in its present form none of these contracts will be underwritten.

Since 1981, the Registrar for Financial Institutions has deemed warranties to be a form of insurance. The list of definitions in the current draft specifically excludes warranties. FM 19/10/90

Insurers most affected include Aegis, Eagle, Hollard, Standard General and Lloyd's of London. The loss of premium income may, however, be less significant than the loss of real protection for consumers.

"The public have short memories," says Hollard MD Miles Japhet. "Before 1981, when it became general practice to have these second-hand warranties underwritten, there were spates of complaints from the public. In recent years, defaults on warranty claims have not been an issue."

The reasoning for the exclusion is that the registrar considers warranties not to be insurance but an extension of a service contract. The counter-argument, says Japhet, is that thousands of consumers are at risk because they pay heavily for extended warranties which will become useless if the dealer disappears or is unable to meet his liabilities.

A compromise may be for underwriters to insure the dealers' contractual obligations rather than the warranties. ■

BANKING

FM 19/10/90 (58)

SETTLEMENT SNAG

Cape Investment Bank (CIB), 30% held by Jan Pickard's Pichold group, has been forced to do its own gilts clearing and settlement from November 1. It will set up a facility in its Johannesburg trading division, bought from Corbank earlier this year.

The decision was made after Nedbank announced about two weeks ago that it would no longer act as CIB's settlement house, as it had agreed to do, until the centralised clearing and settlement house Unex comes on stream.

Nedbank's Mike Leeming says the decision was taken because the volume of CIB trading had grown and it did not feel it could continue offering a temporary service that was not normally part of its business.

Others says that the decision was taken because the bank feels its risk involved in gilts settlement is too high. Nedbank's facility entails exchanging CIB securities for cheques. It stands security against cheques from third parties.

FM 19/10/90 (58)

Usually, Nedbank doesn't know who's the buyer of scrip or the margins, so can't evaluate the risk. Under the arrangement, Nedbank pays for scrip bought by CIB with bank cheques. In return, it gets a fee, not necessarily related to the risk.

Leeming says that no risk is involved and that CIB has lodged substantial security with Nedbank.

CIB had decided not to set up its own settlement system until Unex comes on stream. This was planned for June 30 1991, but delays make October more likely. Unex's risk management system will be able to determine each institution's total gilts exposure and whether it is over-trading. ■

HOME LOANS

NO ACCESS

FM 19/10/90 (58)

Another volley in the home loan war was fired this week. Standard Bank is to apply to the Supreme Court for an order restraining United Bank and United Building Society from using the term "Access."

FM 19/10/90 (58)

Standard, which launched a home loan product, AccessBond, in March 1988, claims UBS's use of the term for its Equity Access Plan "is calculated to confuse the public."

The UBS product has been available for several years, under the name Property Equity Access Facility and was extended in July under its present name. Both products allow clients to draw on the repaid portion of a home loan to finance other spending.

In a press release this week, Standard describes AccessBond as the core product for its home loan marketing strategy and said it was instrumental in raising its home loan book from R256m, when it launched its campaign in 1986, to September's R5,9bn. The bank says it has spent more than R5,5m advertising and promoting the product.

"As a result of its heavy financial commitment, substantial goodwill is now vested in AccessBond." Standard will submit that use of "Access" by UBS and its affiliates is "unlawful and contrary to the norms of fair competition." ■

Financial Mail

'SOCIAL' INVESTMENT

A REAL PAPER CHASE

(58)

FM 19/10/90

If this country's large life assurance companies allow themselves to be intimidated into investing 5% (or R9bn) of their policyholders' assets into so-called social projects that offer little or no return (see *Economy*), they will themselves become party to the robbing of widows and orphans — an act hitherto preserved by government for its own perverse ends.

If the bulk of the savings of ordinary people had not been invested by the life assurers in quoted shares and, instead, been invested in fixed-interest bank or building society deposits or phony "shares," the buying power of these savings would have been reduced to less than a third of what it was 15 years ago.

These assurers (or "life offices" as they like to distinguish themselves) have provided just about the only protection that small savers have had against the inflation government has created and sustained. They have, fortuitously, provided the most socially responsible service available to savers.

The life offices that are sufficiently socially irresponsible that they can conceive of even a fraction of the assets under their stewardship being invested in securities that do not maximise returns, deserve serious censure.

If they support the idea, these offices would assist in establishing a principle leading once again to the introduction of statutory investments by government to assist the funding of its own profligacy.

It would not add to the capital stock of the country which ultimately finances growing prosperity for everyone. It would be an acknowledgement of the spurious claim of economic illiterates that the investment of savings in quoted shares simply creates a circular demand for paper assets. And that is not true.

As these savings are invested in the stock market, the value of shares rise and this, in turn, makes it cheaper for companies to finance the expansion that creates more jobs. Far from being a paper chase, the investment of contractual savings in the stock market begins the process of additional capital formation, which is vital to economic growth.

Poor people benefit far more from the consequent rise in jobs and incomes than they would from the provision of jerrybuilt shelters that they will probably not be able to afford for long anyway.

If the authorities agree to this 5% despoilation idea, the integrity of government's anti-inflationary and ultimately growth-orientated economic policies will be shot. For it to work, Pretoria would have to make it obligatory, otherwise pension fund trustees will act in the best interests of their members and remove their business from those life offices that embrace the idea.

The first priority in helping the poor must be to provide higher incomes. These will come from increased (not diminished) contractual savings, which translate into increased investment, rising output and higher productivity — the outcome of which will inevitably be higher wages, if the growth is to be sustained.

Simply putting savings into shanties will prolong poverty, not end it. ■

BANKING FM 19/10/90

CONFIDENCE CRISIS (58)

Times ahead could prove difficult for small banks. Against a declining economy they face a crisis of confidence caused by the recent curatorship of Alpha and general worries about inexperience and overtrading in the gilts, options and futures markets.

Most are philosophical about the economy but not about Alpha. Prima Bank MD Johan Bellingan says: "These things reflect badly on small banks. We can only hope the position doesn't deteriorate."

It could get worse. Alpha is believed by some to have negative net worth and, with the Reserve Bank reluctant to step in, is unlikely to find a big brother. That puts depositors' funds at risk and increase concern about small banks.

Some banks are more concerned than others. Islamic Bank CE Ebrahim Kharsany says his organisation is community-based, so there is a large degree of customer loyalty. The bank also offers clients — who are mostly Muslims — services not available elsewhere. "The nature of our business insulates us from some of the present problems."

Others have big brothers that could provide cash infusions in a crisis. New Republic Bank has Standard with a 20% stake and Mertrade (part of SA Bias Holdings) with 30%. International Bank of Johannesburg, owed R12,6m by Spareco, is 50% held by Bankorp. The other 50% is owned by an undisclosed European financial institution.

Prima has AA Life with a 25% stake and

FM 19/10/90 (58)

Pretoria Bank counts Sanlam, Nedcor, Rentmeester and Masterbond Trust among its shareholders. On a smaller scale, CIB has the backing of the Pickard family. (Holding company Picbel holds 61% of Pichold which, in turn, holds 30% of CIB.)

Mercantile Bank is held 15% by Momentum and the balance by Unidev and management. A spokesman says its ability to inspire investor confidence is based on sound management rather than on the identity of its shareholders: "A small bank must maintain enough liquidity to cover call deposits." Alpha failed to do this.

For trading banks, prudence is also an asset. Bellingan says that while Prima trades heavily, all deals are back-to-back, which means there is no risk. Confidence, however, remains a problem. Matters are worsened by the fact that most small banks have not been established long enough to acquire track records. Some still have provisional licences (including Islamic Bank, Mercantile and Alpha), which could make potential clients nervous.

In fact, the only difference between a provisional and permanent licence is that the former must be renewed annually. Under the Banks Act, a permanent licence must be applied for after five years of operation. Bellingan says: "A permanent licence proves you've made the grade, your business has been successful." Prima Bank, now in its third financial year, received a permanent licence in September.

Islamic Bank has already applied for a permanent licence and Mercantile plans to do so once the new Deposit-taking Institutions Act comes into force.

Small banks cannot remain entirely unaffected by events at Alpha. Pretoria Bank MD Mike Wells says there has been some negative reaction by the investing public, especially local authorities (which make up the bulk of Alpha deposits). "But the problems are not insurmountable." ■

INSURANCE FM 19|10|90 (58)

PENSION FREE-FOR-ALL

Influential members of the Life Offices Association (LOA) believe they should apply at least 5% — R9bn — of the assets of pension fund business to socially desirable developments. Others hold that pension trustees and managers are legally obliged to maximise safe returns for their savers. They argue that subsidising good works does not come into this category of investment. However, the weight of opinion in the LOA appears to be turning in favour of the do-good route.

Sanlam GM group marketing Francois Marais says: "We should invest some of our funds in so-called social directions." But Sanlam can't go it alone. This would invite pension fund trustees to move funds to managers less inhibited by conscience. Therefore, Marais insists, if pension monies are to be earmarked for socially orientated investment, the rule must apply to all funds, including those managed privately or by non-LOA portfolio managers.

Southern Life executive director Adrian Arnott is equally in favour of social spending but is sounding out the trustees of funds Southern manages. He feels the trustee principle is not in danger. "If 95% of investments earn 20% a year and the other 5% bring in only 10%, the dilution is not serious."

Bill Haslam, MD of TimeLife and a member of the LOA committee probing the issue, declares himself totally in favour of social investment, but adds: "It is up to us to be creative. We must design vehicles through which pension monies can achieve social objectives and still give pension fund members a market-related return."

However, Old Mutual MD Mike Levett remains unconvinced that pension managers may ignore their fiduciary obligations. "If the idea is to channel money into avenues which provide a lower return, or carry a higher risk, than is otherwise available, then the managers would not be acting in terms of their fiduciary responsibility." The pension industry, he adds, is already directing its managed funds in a socially responsible manner, firstly by creating savings and secondly by investing in job-creation.

Union reaction is positive. Indications are that members would forego a small and distant diminution in pension benefit for the sake of a massive and instant injection of social responsibility spending.

The PR aspect runs deep. Advocates of a social responsibility programme look not only for the obvious publicity benefits. They hope, also, that this contribution will influence the Jacobs Committee, which is looking into the question of "level playing fields" in the financial services sector. How life assurers and their policyholders are taxed in future is crucial to their market share, so Brownie points are being scored before the Jacobs Committee reports to Finance Minister Barend du Plessis.

And so, the jackpot question: where to put R9bn of social development funds?

Social responsibility

Life offices do not have the infrastructure or skills to apply funds to low-cost housing or even education. To apply funds to a special government stock, earmarked for specific programmes, has some appeal. That would also relieve life offices of their trustee trap because the dilution will not be voluntary.

Levett could go with that, were the return market-related; but Arnott feels such a prescribed asset would be self-defeating — life offices would not be seen to be giving anything away.

An LOA committee has been examining the implications, including where the money — if allocated — should be applied. A suggestion that funds should go to low-cost housing has been given attention but the committee could recommend other avenues, including education.

Finding billions may be easier than spending them. Because there are still conflicting views (less about the principle than about the mechanics), the LOA committee is not expected to come up with firm recommendations for some months.

Levett

Nor do building societies seem a proper channel. Arnott comments: "When societies think of low-cost housing, they think of homes costing R12 000-R40 000. The reality is people who need R500 to build a primitive shelter. What's needed is a genius who thinks laterally to find a way of applying these funds in a real situation, not a textbook lending environment."

Southern's inquiries prove that any attempt by life offices to channel funds in a given direction might be self-defeating. "The communities affected must be allowed to decide how funds are applied."

Haslam says there have been suggestions that life offices' funds should be applied to long-term loans to land investment trusts, so making large areas of privately owned land available for low-cost housing.

So it will not be the actual amount of money for social development programmes that challenges the life assurers. The legal problems and the practical application of the funds remain very much an issue.

RANKING PARTNERS

Exports to the UK picked up in the first half of 1990, to £557m, compared with £885m in the whole of 1989. Imports from the UK were £572m (just over £1bn). How our trading partners ranked in the six months emerges in this table (in US$), drawn from figures provided by foreign consulates:

- West Germany $2,5bn ($1,6bn imported by SA and $865m exports);
- UK $1,9bn ($972m and $946m);
- Japan $1,8bn ($708m and $1,1bn);
- Italy $1,7bn ($352m and $1,3bn — see also *Current Notes*); and
- France $623m ($255m and $368m).

Figures for the US are not available yet.

The Republic of China (Taiwan), which is not a member of the IMF, does not publish details of trade with SA. But indications are that it was the sixth largest partner in 1989, at about $800m — including $600m-plus exports, the largest item being $211m worth of SA coal. SA's largest import was data processing equipment worth $38m.

BANKING FM 19|10|90

SETTLEMENT SNAG

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BANKING

IN THE NET

FM 19/10/90 (58)

In January, when the Deposit-taking Institutions Act is promulgated, concerns that take money from associate and other related companies could find that that they stumble over the definition of "public" in the Act.

KPMG Aiken & Peat consultant Tim Thackwray says: "'General public' is not defined in the Act but legal opinion seems to hold that group companies are part of the general public in relation to a group's central treasury."

It is rumoured that applications for exemption from two corporate treasurers have been turned down.

FM 19/10/90 (58)

What is excluded from the definition of deposits is money paid by a holding company to its subsidiary, or by a subsidiary to its holding companies or between subsidiaries. So, if the treasury is a subsidiary, it is excluded. "Caught in the net, then," says Thackwray, "are deposits placed by associates and other non-subsidiary companies with another group company."

A corporate cannot get around the legislation by forming a trust and borrowing trust funds for its own purposes. Banks & Building Societies Registrar Hennie van Greuning points out: "Trust accounts will not be excluded. The definition caters for them."

To what extent will this affect the business of many blue-chip companies with corporate treasuries? It is expected the treasuries will act as agents by placing funds, under separate names, with a deposit-taker.

Borrowing against the issue of debentures is exempted, as the Act is now worded. The Reserve Bank intends to issue a position paper shortly to close this loophole.

So far, exemptions include co-ops which borrow money from members and those which do not accept deposits regularly (and have not solicited nor advertised for them). Provisos are that they don't hold deposits from more than 20 people and that total deposits don't exceed R500 000.

Money broking is allowed, provided the broker, acting as an agent, places funds with a deposit-taking institution on the same day.

How the Act will be policed is not certain. It seems the Bank has no intention of setting up an inspectorate to cover areas it cannot delegate to a self-regulatory body.

Policing could be done by auditors, says KPMG Aiken & Peat's Mike Ettling, but they are unlikely to accept the legal liability of not picking up deposit-taking institutions' irregularities.

The simpler part is likely to be regulating banks. The problem will be to identify all non-bank organisations touched by the Act's tentacles. "It could take two to three years for the implications to unravel," says Thackwray.

A feature of the legislation is that, though the registrar has the power to grant registrations and exemptions, any decision bar one may be appealed against. If an application to "investigate the possibility of becoming a deposit-taking institution" is turned down there is no appeal. ■

Aida ups income in uncertain market

B Day 19/10/90

CHARLOTTE MATHEWS

ESTATE agency group Aida Holdings has achieved a 12,5% improvement in income after tax to R369 000 in the six months to August despite an uncertain residential property market.

Turnover rose 33% — no amount is given — compared with the same period in 1989, when turnover fell by 43%.

The directors say the group has increased the total value of property sold by 25% over the same period last year.

Earnings of 2,6c (2,7c) a share have been posted on an increased number of shares in issue as a result of a R1m rights offer held in March/April. No interim divident is paid.

The rights issue was held to finance an expansion of Aida's franchise network.

The directors say the number of outlets and branch offices in the network has grown by 29% over the same period in 1989.

58

Aida plans to penetrate the low income housing market on a large scale in the area of marketing and bond finance

Midas's attributable profits [illegible]

VEHICLE accessory distributor Midas's attributable profits plummeted 76% to R1,7m for the six-months to August, with a loss of R2,3m after extraordinary items.

The economic recession saw a 55% decrease in operating profits to R4,9m.

Midas MD John Rich said another reason for the poor results was the additional expenditure incurred through the restructuring of the group. B Day 19/10/90

Although Rich was confident the group had "turned the corner", earnings a share, at 11,5c, were 79% lower than the same period last year. [illegible] from 11,5c, [illegible] Turnover in[illegible] of the acquisit[illegible] However, st[illegible] ments and stock [illegible] Midas is split [illegible] sions, one concent[illegible] another on auto [illegible] third focused [illegible] chises, such as [illegible]

Two broking firms hold merger talks

Star 19/10/90

By Jabulani Sikhakhane

Two stockbroking firms, Frankel Kruger Vinderine (FKV) and Max Pollak & Freemantle are holding exploratory talks about a possible merger of their operations, FKV senior partner, Sidney Frankel said yesterday.

The merger will result in the loss of some jobs but Mr Frankel saidit will result in a dynamic team offering a tremendous service to clients.

None of the senior partners at Max Pollak & Freemantle could be reached for comment last night.

Speculation has been rife on possible mergers or take-overs between broking firms due to sharp falls in the daily turnovers on the market.

Rise in commercial insurance rates looms

BDay 19/10/90

A SIGNIFICANT increase in the rates charged for industrial and commercial insurance risk is on the cards, says SA Reinsurance Offices Association chairman Steve Murphy.

LINDA ENSOR

He estimates an adjustment of at least 25%-30% and in time even more.

The main reason is the large fire claims this year. Fire constitutes about 50% of the total reinsurers' gross income.

"Up to the end of August the cost of fire losses totalled R300m compared with the total for the entire 1989 year of R122m, excluding the Sasol losses, which were almost entirely reinsured overseas."

58

Renewals

The cost of the Welkom tornado earlier in the year cost the industry R100m while the estimated cost of the Sames fire is approximately R120m.

"These high claims are not matched by adequate premiums which are too low in the industrial and commercial category.

"We are also hoping that the major treaty renewals in January will see a firming and tightening of the commissions we charge insurers for their business."

In recent years, reinsurers placed commission they paid insurers for their fire (and other) business on a sliding scale, which meant that if the business was profitable, higher commissions could be earned.

"However, with the reasonably good results which were experienced on fire treaties, the lower end of the sliding scale commissions was increased to a level which did not have the desired effect when poor results occurred.

"Reinsurers are hoping that the lowest level of the sliding scale will reduce so that the penalty is more acute for insurers transferring losses to their reinsurance partners."

Another area where rates are likely to increase is that of liability insurance where premiums have not kept pace with amounts awarded.

He believes reinsurers will not achieve more than 10%-11% growth in gross premium income in 1991. In 1988 gross premium income for the indusry rose 2% increasing to 14% in 1989 giving a total of R710m.

"There has been increased activity in the SA reinsurance maket by overseas reinsurers commonly known as the 'suitcase brigade' and Lloyds are also regularly referred to as being a source of aggressive competition."

The most active players in the SA reinsurance market besides Lloyds are Swiss Re, Munich Re, Hollandia Re and Mercantile & General.

Old Mutual targets R200bn as asset base

58

LESLEY LAMBERT

CAPE TOWN — Old Mutual is aiming to build its R60bn asset base into one worth R200bn by 1995, says chief operating officer Gerhard van Niekerk.

At the launch of a new advertising campaign unveiled on TV last night, he said the life assurer's goal could be achieved if growth during the next five years continued at the pace set in previous years.

Total assets managed for members and investment clients grew from R15bn in 1985 to R60bn during the 1989/90 financial year to end-June when 28% growth was achieved off an extraordinarily high base of 48% reported the previous year.

The new ad campaign is aimed at bringing Old Mutual's traditionally staid image up to date with the 1990s. It is clearly also part of a new educational drive to defend the life assurer against the claims on its assets by political organisations seeking funding sources for redistribution.

Old Mutual and Sanlam have been under pressure to make a contribution to the new SA by channelling more of the funds at their disposal into development projects.

Economic statements by ANC and PAC spokesmen have continued to name both mutual societies as targets for this purpose, even though the political organisations' stance on economic control has become increasingly moderate.

Old Mutual chairman and MD Mike Levett has consistently argued that his organisation's responsibility is to achieve the best possible return for its members who are the real owners of the funds it manages. Investment in risky or non-performing assets would limit this return.

Guarantee

In a recorded preview of the ad campaign, Levett reiterated yesterday that "every possible cent" was ploughed back into the funds of Old Mutual's 2-million members to ensure "excellent payouts at the time of a claim".

In a recent interview, however, Levett said Mutual would co-operate on condition that the government set up a fund to guarantee the capital invested and a market-related return on the capital, and that its competitors, the deposit-taking institutions, be subjected to similar investment requirements.

Demand for units in Old Mutual funds still strong

Star 18/10/90 (58)

By Jabulani Sikhakhane

Despite a softer stock market, demand for units in Old Mutual's funds remained strong in the September quarter with total new accounts growing by 22 000 to just under 300 000.

This means that Old Mutual's funds accounted for over 35 percent of the total 62 000 new accounts attracted by the country's 36 units trusts during the three months to end-September. Old Mutual Unit trusts account for some 40 percent of the industry.

Assistant general manager (Unit trusts), Bestian van der Westhuizen says the favourable returns earned by investers over five years or longer on a monthly basis have continued to attract new investors.

"The rate of growth in new monthly investments was more than maintained in the September quarter and we expect the trend to continue even if the stock market remains subdued in the short term," he says.

With the increasing awareness among regular monthly savers, Old Mutual is forecasting continued growth for the industry.

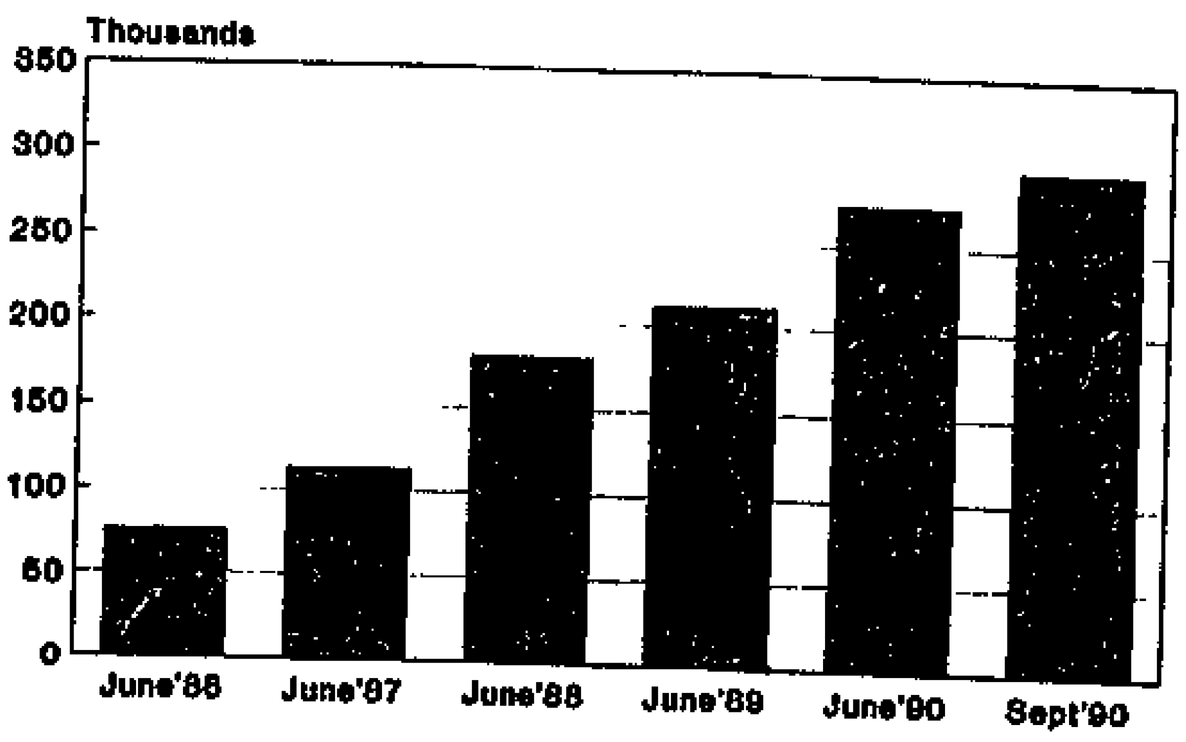
The **Investor's Fund** which has assets of more than R2 billion used the softer market as buying opportunity.

During the quarter, the fund added 9,5 million Iscor shares. Fund manager, Rowland Chute says the Fund's strategy of not taking up a large number of the shares at the time of Iscor's listing has paid off handsomely. Iscor now constitutes 2,25 percent or R47 million of the fund's portfolio.

Other acquisitions were Barlows (1,7 million shares), while 497 800 Sasol shares were bought ahead of the recent run-up in price. The Fund also bought 406 000 TSI shares, increasing its stake to 906 100. Liquidity was maintained at 17 percent, while R131 million was invested.

Although slightly down in percentage terms, the specialised **Industrial Fund** outpaced the JSE industrial index. Fund manager, Adrian Allardice says emphasis is still placed on highly selective purchases. With a strong inflow of funds this meant higher liquidity.

At the end of the quarter, the value of the fund stood at R28,2 million. New counters bought were Dimension Data, Iscor, Holdains, Waltons Cons and Score-Clicks.



Number of account holders in OM's unit trusts.

The **Mining Fund** increased liquidity to 18,75 percent from 15,27 percent, due to the volatile outlook for mining shares. Entire stakes in Vaal Reefs, Ofsil, Welkom, Venters, Western Areas and Rand Mines were sold, while holdings were reduced in Amcoal, Witbank Colls, Southvaal, Unisel and Sasol.

Fund manager, Marco Celotti says the uncertainty surrounding the Middle East crisis and its repercussions within the world economies ensured continued interest in the gold fund.

Liquidity in the **Gold Fund** was kept to a minimum at 8,42 percent from 8,15 percent in the previous quarter.

The **Income Fund** showed a return of 4,46 percent over the three months, while the annual return was 21,12 percent against inflation of15,1 percent.

Hitch for low-cost housing scheme as institutions 'blacklist' townships

58

BDay 18/10/90

PETER DELMAR
and GRETA STEYN

MOST banks and building societies are effectively blacklisting townships where unrest and threats of bond repayment boycotts have occurred — a move that could hamper the implementation of the Urban Foundation's R3,5bn low-cost housing scheme.

While bankers are emphatic there have been no official decisions to cut exposure to the black housing market, they say the risk attached to some townships, such as Vosloorus and Kathlehong, is too high to justify lending on solid commercial grounds. While they remain committed to the foundation's scheme to build 140 000 low-cost homes, they have informed the foundation that there are certain areas they want to avoid.

Allied home loans manager Geoff Bowker said: "We have not changed our official lending policy. But every loan is assessed for risk in the normal course of business and naturally unrest and the threat of bond repayment boycotts in many cases rule out the granting of loans in some townships."

He said the Allied remained committed to participating in the Urban Foundation housing scheme, which is based on partial insurance for financial institutions against bond payment defaults.

First National's Pat Lamont said any manager who had to assess the risk of a loan in areas where there was a threat of boycotts and violence would have to take those factors into account.

"Sometimes it would be downright irresponsible to grant the loan," he said.

The Standard Bank's Dennis Matfield said: "We have to be sure that we are lending against security and right now we do not have this certainty in a number of areas.

"The same risk criteria apply to lending in terms of the UF fund. But we remain committed to the black housing market and the fund."

So far, the only financial institution to have started granting finance in terms of the foundation fund is the Perm.

Its MD, Bob Tucker, said yesterday that it had not been subject to a single "bond boycott" anywhere in the country and that it was continuing to grant loans to black home owners at more or less the same pace as in the past.

"It is true that the Perm has experienced a couple of threatened repayment boycotts but in every instance, the problems have been of a specific and localised nature and have been resolved as a result of intense interaction and communication with the community concerned," he said.

A housing expert said that financial institutions had responded differently to the changing situation in black townships.

While some were scaling down involvement, others were making it more difficult to obtain loans and were requiring larger deposits.

Urban Foundation MD (residential de-

☐ To Page 2

'Blacklist'

BDay 13/10/90

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☐ From Page 1

velopment) Matthew Nell said last night he agreed with Planning and Provincial Affairs Minister Hernus Kriel that the bond boycott situation in the western Cape was causing "a very high level of anxiety.

"There can be no question that with the lack of clarity, particularly concerning the issue of mortgage boycotts, financial institutions are monitoring the situation very carefully before going into major new investments."

However, the situation in the western Cape related to a specific area and was not "spreading like wildfire".

Nell said, however, it would not be fair to say that any of the financial insititutions involved in the fund were currently reconsidering their positions.

Nell said in a statement yesterday the foundation was concerned at the withdrawal of major private sector home builders from the black housing market.

Preferential share offer by African Life

Sowetan 18/10/90 (58)

AFRICAN Life, South Africa's fastest growing life assurance company, is offering 2 000 000 preferential shares at 130 cents a share to existing shareholders, policy holders and selected business associates, the majority of whom are black.

The closing offer for these shares, which opened on September 26, is November 2 and the company is expected to be listed on the Johannesburg Stock Exchange on November 15.

The company has once again posted record results for the six months to September 1990, according to the managing director, Mr Bill Jack.

He said for the half year to September 1990, total income increased by 38 percent to R3,1 million. Earnings per share rose by 25 percent to 6c. An interim dividend of 4 cents a share, 25 percent up on last year, will be paid to existing shareholders.

In accordance with the company's normal practice, bonus shares will be offered in lieu of dividend.

He said when it was listed, African Life would one of the few companies on the Stock Exchange to have a majority of black shareholders. About 65 percent are black.

Jack said that all aspects of the company's business had improved over the past half year.

Increase

"New individual life recurring premium business from our sales force and independent brokers increased by 37 percent over the same period last year, while total business from all sources increased by 22 percent.

"Recurring premium income increased by 35 percent to R29,5 million, Jack said.

He added: "Net investment income rose by some 55 percent, as a result of additional funding from the issue of new capital last year. Although total assets at R183,2 million are marginally below the figures at the end of last financial year owing to the international political situation, our defensive investment position has limited the impact on our assets.

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the Stock Exchange."

JCI September Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
Randfontein Estates	**2 292**	**3,25**	**7 449**	**91,93**	**28 287**	**32 187**	**32 308**	**20 126**	**32,9**
	2 307	3,02	6 956	82,85	27 479	31 106	29 954	5 135	8,4
Western Areas	**710**	**4,69**	**3 333**	**156,80**	**33 402**	**31 920**	**(11 503)**	**(15 285)**	**(37,9)**
	858	4,43	3 801	145,51	32 846	31 285	(6 384)	770	1,9

Old Mutual fund decides it is buying time

BDay 18/10/90

ROBERT GENTLE

LIFE assurer Old Mutual's flagship unit trust, the R2bn Investors Fund, maintained liquidity at 17% for the quarter ending September, the latest quarterly report shows.

Liquidity is the proportion of total assets invested in liquid assets such as cash, fixed deposits and negotiable certificates of deposit (NCDs). However, the softer tone of the stock market was used as a buying opportunity, and R131m was invested in quality shares that included Iscor, Barlows, Sasol, TSI and Minorco.

Old Mutual's specialised Industrial Fund, although slightly down on the previous quarter, easily outpaced the industrial index and achieved one of the best performances in the industry, the report said.

(54)

The Mining Fund raised its liquidity during the quarter under review to 18,75% (previous quarter: 15,27%) in view of the "volatile outlook for mining shares".

Liquidity in the Gold Fund was kept to a minimum in line with its fully invested philosophy and stood at 8,42% (previous quarter: 8,15%).

Holdings in Old Mutual's Income Fund remained unchanged except for a R4m NCD switch on yield considerations.

The annual return stood at 21,12%, about 6 percentage points above inflation.

Overall, demand for Old Mutual's funds — which account for about 40% of the industry — remained strong in the September quarter, with total new accounts growing by 8% to 300 000.

No relief on high interest rates – Barend

58

Plunging gold batters economy

Star 17/10/90

By Michael Chester
and Peter Fabricius

The dramatic retreat of the gold price on world markets threatened to prolong and deepen the country's economic downswing, Finance Minister Barend du Plessis warned today.

Bullion took a renewed battering on the Hong Kong market this morning when it tumbled to $365,18 an ounce in first deals — following the downward trend in London to New York yesterday.

The price has now slumped more than $50 an ounce from the peaks it reached in recent weeks when the risk of a Gulf war sent the metal soaring.

The collapse has dashed hopes that South Africa could rely on higher gold prices to help offset the impact of doubled oil prices.

And the Chamber of Mines has warned that "tens of thousands" of miners' jobs would be in jeopardy if bullion stayed below the $390 level for a long period.

The problem has been compounded by an even worse drop in platinum, now at its lowest level in four years at $389,75 an ounce.

Mr du Plessis indicated Government would be forced to delay any gradual reduction in high interest rates. Plans to ease its strict monetary policy would have to be postponed, he said in an interview.

"We don't like it. We would prefer it to be otherwise. But we have to deal with it responsibly.

"We are irrevocably part of the larger world economy.

"The rapid drop in the gold price directly affects our ability to pay for essential imports and meet international commitments.

"This fact rules out any short-term stimulation of the economy."

He pointed out the root of the problem was that the traditional relationship between rising oil prices and rising gold prices — which cushioned SA from the worst effects of previous oil crises — no longer existed.

This meant the outflow of dollars from SA to pay for oil was not compensated for by an comparable inflow of dollars to buy gold.

In the past SA could always count on political conflict somewhere in the world or a financial crisis to push up the gold price.

The fact that this relationship between oil and gold prices no longer existed had vindicated the Government's policy of not relying on gold to maintain a balance of payments surplus, he said.

Mr du Plessis said when economic policy was formulated late last year and early this year, the Government had expected to be able to relax certain monetary measures such as interest rates during late 1990.

Vindicated

But caution in waiting further developments in the Gulf crisis had been vindicated.

For the moment the Government would "stay put" and await firmer indications of some direction in the world economy.

- Syfrets economist Elmien de Kock has estimated that gold needs to hold at more than $415 to counterbalance the cost of oil price increases.
- Nerves were also strained this morning before the start of trading on the Johannesburg Stock Exchange, where the gold share index had tumbled 7,5 percent since the retreat of bullion prices began on Monday.

Shares of the marginal mines have been hardest hit. These mines will have the greatest difficulty making a profit at the present gold price. Any further fall will put them at risk of closure.

Proud pilot . . . Fulvio Destafinis became one of
received his licence on his 17th birthday.

His bi

Market gloom over Gulf is overdone

By Magnus Heystek, Finance Editor

St 17/10/90 (58)

Enough already!, says Cathy Potts, economist at AFC Investments. The pall of gloom cast over financial markets by the Gulf crisis seems overdone. While the international bear market in equities is by no means over, a mid-term bear market rally could be in the offing, she adds.

"Although hawkish noises continue to emanate from all sorts of sources, especially in the Middle East itself, there are glimmers of hope for a political solution, given new diplomatic initiatives on the part of France, Russia and Japan. I feel that the stalemate is building towards some form of denouement, and action either way would remove the uncertainty that is proving so harmful to the markets," she says.

Potts also refers to the possibility of a resolution to the US budget deficit crisis, which is the key to the relaxation of monetary policy "Once America has got its house in order the way will be clear for Japan and Germany to consider cutting short term interest rates. Both economies can no longer afford the capital outflows that were such a feature of the Eighties; both have shrinking trade surpluses and both need the money at home.

"In Japan's case this is because of the high ongoing growth and the impact that the market fall has had on the banking system, and in Germany's case the capital is required to finance the upliftment of its eastern states.

She adds that Britain's entry into the European Monetary System, which has already produced a cut in interest rates, could lead to further cuts, not only in Britain but also in high yielding currencies such as Australia and Canada.

"Taken together, and coupled with the relaxation of margin requirements of Japan, those developments should produce tradeable stockmarket rallies. Gold, however, may well be a casualty in the process and I continue to remain bearish on the metal," Potts adds.

"I hope I'm wrong but the outlook for gold does not look promising in the short to medium term. Despite the likelihood of some easing of monetary policy and therefore of high real interest rates that have proved so damaging to gold in the eigthies, we are not ready to call a better environment for gold's prospects at this stage.

(58) Star 17/10/90

Investec meets demanding targets

Banking Group Investec has reported a 33 percent growth in earnings during the six months to end September.

The interim dividend has been raised by 25 percent from 16 cents to 20 cents per share.

Attributable profit after transfers to hidden reserves improved from R7,5 million to R10 million. Earnings per share clocked in at 50c compared with 37,5c for the same period in 1989.

Executive chairman Bas Kardol says: "With the exception of the merchant banking division, which for obvious reasons could not escape the reality of worsened economic conditions, most of our operating divisions achieved or exceeded their demanding budgeted targets. It was a solid all-round performance.

During the half year to end September, Investec acquired Johannesburg-based merchant bank Corbank. Kardol says integration of this operation into the group has run "smoothly" although the full benefits of the deal will only be felt during the second half of the financial year. Sapa.

Investec and NBS are bucking the trend

BDay 17/10/90

NEIL YORKE SMITH

58

INTERIM results from niche bank Investec and building society NBS Holdings show how financial institutions are bucking the trend of reduced corporate earnings. BDay 17/10/90

Both NBS and Investec attributed their performances to focused management and astute risk management.

"In the current environment of high interest rates and business uncertainty, risk management becomes vital," Investec executive chairman Bas Kardol said in an interview yesterday.

Investec boosted earnings by 33% to R10m and NBS by 24% to R24m during the six months to end-September. At per share level Investec earned 50c (37,5c) and declared a 20c (16c) interim dividend, while NBS earned 41,2c (33,2c) and declared a 13c (11c) dividend.

An impressive aspect of the NBS figures was its 34% increase in total assets, which reached R6,3bn. This could increase the group's bad debt exposure, but NBS management services GM Mark Farrer stressed the group was comfortable with both asset growth and bad debt provisions.

Provisions for losses on mortgage loans and properties in possession were increased to R38m (R30,7m), or 0,84% of the total mortgage lending book.

"The provisions are substantial and we are not losing any sleep about possible bad debts."

NBS was well capitalised and would not be approaching the market for additional

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Investec, NBS

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capital for at least two years, Farrer said. NBS remained predominantly a mortgage lending institution, but other divisions also performed well, he said.

"Banking, which is focused on high net worth individuals and small business, maintained its excellent growth."

Kardol said all Investec divisions performed well except merchant banking, which suffered because of reduced economic activity.

"We are particularly pleased with the better-than-forecast results achieved by trust company Metboard, the property division and the group's Natal region."

Investec boosted assets under administration by R1bn to R5,4bn during the period. About half this growth related directly to the acquisition of merchant bank Corbank, Kardol said.

On balance sheet assets increased to R1,7bn (R1,3bn) and shareholders funds were up to R106m (R76m).

"We are pleased with the growth in assets but are determined to retain our focus on increasing profits — that is what this business is about."

The companies are the highest rated in the banking sector. At 975c Investec shares are on an historic price-earnings multiple of 12. NBS shares — at 700c — have a price to earnings ratio of 9,1.

Standard Bank in bid to restrict 'Access'

GILLIAN HAYNE

TWO financial institutions in which Rembrandt has a stake are involved in a court battle over the use of the word "access".

Standard Bank, 10% held by Rembrandt, said yesterday it was asking the Supreme Court to restrain United Bank and United Building Society from using "access" in relation to home loans.

United is 10% held directly by Rembrandt, which has an additional stake in the group through Volkskas's holding.

BDay 17/10/90

Standard, which owns the trademark Access, maintains that UBS's use of the names Equity Access and Equity Access Plan for home loans infringes its rights and constitutes unlawful competition. 58

Standard said its home loans were worth more than R5,9bn and that more than R5,5m had been spent advertising Access-Bond.

Smaller banks come under the microscope

B/Day 17/10/90

(58)

GRETA STEYN

THE viability of independent banks has become the focus of attention amid takeovers, problems in the futures and options markets and a liquidity crisis at one bank.

When Alpha Bank recently froze deposits and a Reserve Bank-appointed curator moved in, many small banks found themselves under a magnifying glass.

Some of the smallest — those with capital of less than R25m — say Alpha Bank's liquidity crisis has raised the interest rate premium they have to pay to attract deposits. They are being compelled to prove their soundness to potential depositors in the wholesale market.

In the US, banks facing financial troubles are two a penny, but no one worries too much — mainly because of the existence of government-guaranteed deposit insurance. In SA, no such insurance exists and confidence and credibility are of the utmost importance. The depositors' only guarantee lies in a perception that the banking sector is unshakeable.

Alpha Bank's troubles have not had a material effect on confidence in the banking sector — but they have made life more difficult for the players that are not among the "big five".

Alpha Bank's fall from grace was triggered by Spareco's inability to repay a R6m loan — almost twice the bank's capital base. Quite simply, its lending had been reckless — no bank lends such a large proportion of their capital to single clients.

It seems other small banks are avoiding that degree of exposure. Mercantile Bank, which has a larger capital base of R8m, says it would consider a loan to a single borrower in excess of its capital base only against security provided by a large financial institution.

Fidelity Bank has a policy of not lending more than 10% of its capital base of R24m to any single client and also takes precautions against over-exposure to any single depositor.

Unibank, which took over the British Kaffrarian (BK) Savings Bank's licence recently, limits loans to individual customers to 15% of its capital of R11m.

A proven track record helps in banking, and Unibank MD Gerrit van der Merwe notes the BK Savings Bank has been around since 1860 while Fidelity Bank's Jules Langenberg points out the bank has existed in one form or another since 1853.

These banks have chosen to stick to traditional lending and borrowing business, steering clear of jobbing in the markets where much bigger players than they have burnt their fingers. TrustBank's gilts loss in December last year, rumoured at about R20m, is the first example that springs to mind.

Specialisation has its rewards and risks. And while several of the smaller banks believe a broad base of banking business minimises risk, others are deliberately choosing to specialise.

That is the strategy taken by Prima Bank (with shareholders' funds of only R4m), which has chosen the derivatives markets as a specific niche. MD Johan Bellingan says the bank has deliberately kept its lending book to a minimum and has opted for opportunities in the developing derivatives markets. He cites its results, which showed a return on equity of almost 43%, as evidence that the decision was the right one.

Says Bellingan: "I'd like to see where the big banks would have been today without Sanlam and Old Mutual to help them."

The markets have not been kind to all the small banks. A current example is the medium-sized Cape Investment Bank (CIB) — with capital of about R40m — whose client, Davis Ralph Sadler (DRS), defaulted on a futures exposure of more than R1m.

CIB recently held talks with the Reserve Bank about the negative sentiment in the market towards the smaller players and how it had affected the bank.

Could the DRS futures default have happened to a major bank?

CIB's Andy Swartz says: "The DRS situation could certainly have happened to any bank that is a clearing member of Safex.

"What is important to note about the situation, though, is that the systems at CIB and Safex level were sufficiently geared to pick up the problem in time."

Another small merchant bank that ran into trouble in the markets was Corbank (formerly Hill Samuel), which has since been taken over — its trading activities by CIB and its bank by Investec. Corbank suffered trading losses of more than R10m in the money and capital markets and other losses in investment management, causing a 43% dive in earnings a share in its last year of reporting.

And it did not have a wealthy parent to bale it out.

The Corbank Group, which had shareholders' funds of R32m when it reported for the last time, was less of a niche player than other comparable smaller merchant banks.

After the UK Hill Samuel group sold out, local management chose to diversify rapidly from the merchant banking base into a range of markets including portfolio management.

Yet management lacked the systems to detect losses in the money and capital markets — perhaps indicating a first things first approach is necessary for smaller banks.

Corbank's takeover was not the first among the small players — Duros Merchant Bank was also taken over by Investec, Securities Discount House took Interbank and National Discount House into its fold and is to complete its takeover of Distriksbank when the Deposit-Taking Institutions Act takes effect.

The independent banks are already becoming fewer and larger in size. Prejudice and low volumes in the markets and the difficulty of meeting the capital required to run a large lending book suggest there could be some more thinning out.

LETTERS

Sanlam plans R15-m office park for Lynnwood

58

Star 16/10/96

Sanlam Properties is planning a R15 million office park development in Lynnwood, Pretoria.

Fanus Gerber, Sanlam Properties' provincial manager in Pretoria, says the development is in Lynnwood Road between King's Highway and Church Street.

"The capital is experiencing a scarcity of suitably-zoned premises and rezoning from residential to business was approved last month," he says.

The office park is designed by Studio 3 Architects.

It will have free-standing double-storey buildings blending with the surroundings.

Lynnwood is a sought-after decentralised office node with easy access to Pretoria's CBD.

Colonial style

wing the success of the Lanzerac development in Midrand, Langley Fox Development's latest commercial space venture is in American colonial style at Mount Royal, south of the Snake Park.

It has a large variety of office, warehouse and light engineering space, including high quality offices and showrooms.

5 (58)

African Life boosts premium income 38%

By Duma Gqubule

African Life, South Africa's fastest growing life assurance company, has once again posted an impressive set of results.

In the six months to September total premium income increased by 38 percent to R37,1 million. Earnings per share rose by 25 percent to 6c and an interim dividend of 4c a share, 25 percent up on last year will be paid to existing shareholders.

African Life, to be listed on the Johannesburg Stock Exchange in next month has forecast a 20 percent increase in earnings to 14,2c a share (allowing for the new shares to be issued in November) in the year to March 1991. The dividend is forecast to increase by 20 percent to 9,5c a share.

Managing director Bill Jack says all aspects of the company's business have improved over the past six months.

"New individual life recurring premium business from our sales force and independent brokers increased by 37 percent over the same period last year, while total new business from all sources increased by 22 percent."

"Net investment income rose by some 55 percent, as a result of additional funding from the issue of new capital last year.

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the Stock Exchange," he says.

African Life does well on all fronts

LINDA ENSOR

AFRICAN Life — due to be listed on the JSE on November 15 — increased its earnings by 25% to 6c (4,8c) in the six months to end-September with all aspects of its business showing growth. BDay 16/10/90

An interim dividend of 4c (3,2c) was declared, with three bonus shares being offered for every 97 shares held in lieu of the dividend.

Total income rose 38% to R37,1m (R26,9m) and net investment income rose by about 55% to R7,3m due to the additional funding from the issue of new capital last year.

"New individual life recurring premium business from our own sales force and independent brokers increased by 37% to R12m over the same period last year and total new business from all sources increased by 22%," MD Bill Jack said.

Defensive

58

Recurring premium income increased by 35% to R29,5m.

"Although total assets at R183,2m are marginally below the figure at the end of last financial year (R188,3m) owing to the international political situation, our defensive investment position has limited the impact on our assets.

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the Stock Exchange."

The life fund fell from the year-end R124,1m to R120,6m.

African Life is to be listed by way of a preferential offer of 2-million shares to staff, existing shareholders, policy holders and selected business associates.

Institutions reduce small bank exposure

Star 15/10/90 (58)

By Derek Tommey

The recent appointment of a curator for a small bank has caused problems for Cape Investment Bank (CIB), says its chairman, Jan Pickard, jr.

It has led the institutions to reduce their exposure to smaller banks, and this has restricted CIB's operations in the gilt options market.

Mr Pickard said CIB's positions were always fully hedged.

Several gilt dealers interviewed said they had no problems trading with CIB but they had heard that some dealers had reduced their holdings of CIB options.

Syfrets branches into clinics

LESLEY LAMBERT

CAPE TOWN — In a multimillion-rand venture, Syfrets has announced it is to enter the private health care market. (58)

Health Oriented Systems (Host), a private hospital development company controlled by Syfrets, has the go-ahead to start building the first of three new private "polyclinics" planned, at a cost of R60m, for the Cape Peninsula.

But sources said its entry into the state regulated market had been strongly opposed by leading participants, including the Rembrandt Group, through Medi-Clinic, as well as African Oxygen (Afrox) and Clinic Holdings.

Host MD Dr Jaap Huisamen confirmed at the weekend that the Health Department had granted a licence — after a long delay — for the first clinic to be built at the new N1 City shopping complex outside Cape Town. But, he said, the licence was only granted for a limited number of beds.

B/Day 15/10/90

Huisamen, who developed one of the first polyclinics in SA in partnership with Barney Hurwitz, now Clinic Holdings' chairman, declined to comment further.

But sources said it was because a dominant participant in the market, understood to be Rembrandt, had opposed the application, arguing that the number of private hospital beds in the Cape Peninsula already exceeded state-imposed limits and the market could not support more private hospitals.

Huisamen said his plans had been supported by the Cape Provincial Administration because they included 24-hour casualty sections which would provide some relief for provincial hospitals.

He believed the constraints on the private market's growth would have to be

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Syfrets

B/Day 15/10/90

(58)

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eased in future as demand for health care increased, and particularly if Parliament approved a new form of motor accident insurance which would make private hospitals financially accessible to more people.

This would enable Host and Syfrets to go ahead with plans to build at least seven more clinics countrywide.

Huisamen said Host was also developing an in-house insurance system to overcome one of the biggest financial obstacles of the private health care sector — the risk of non-reimbursement for the treatment of accident cases. Most medical aids would not reimburse until negligence had been proved.

The first 60-bed clinic would be built at an estimated cost of R35m, guaranteed by Syfrets. Its casualty section would be equipped with a radiology department, a pharmacy, septic theatres, a resuscitation room and a laboratory, Huisamen said.

The clinics would be financed largely by participating doctors who bought shares in each development. Host had started marketing the first clinic to private doctors and would accept 40 as shareholders of 74% of the complex, he said.

Huisamen said his goal was to contribute to community health care by opening up private health care facilities to more people. This could be achieved at a national level by privatising health care as far as possible and replacing medical aid schemes with health insurance.

CIB, Bank discuss trade conditions

58

GRETA STEYN

CAPE Investment Bank (CIB) and the Reserve Bank have held discussions on the "difficult trading conditions" CIB faces in the trading markets, CIB chairman Jan Pickard confirmed yesterday.

The Reserve Bank declined to comment on the nature of the discussions, but Pickard said they had focused on how scepticism in the market towards small banks had affected CIB.

CIB was rumoured to be battling to find trading partners last week amid talk that its market position was vulnerable.

Pickard said: "The small players have come under the magnifying glass after the recent curatorship of a bank.

"Participants in the financial markets are reviewing the extent to which they trade with independent merchant banks and the market has become particularly susceptible to rumours about these banks.

"We have brought the problem under the Reserve Bank's attention. Our positions in the trading markets, such as they are, are fully hedged and are normal in the course of business." B\Day 15\10\90

Senior bankers at major banks said CIB had been in touch with them in an effort to clear up what it described as "misunderstandings" and "rumour-mongering" on its position in the market. It is expected talks will continue this week.

CIB, in spite of lacking size, has been a significant player in the trading markets.

"However, other activities such as corporate finance, project finance and investment banking are gaining in significance relative to trading," Pickard said.

58 C/Press 14/10/90

CITY PRESS, October 14, 1990

School for blind short of funds

Potential new students may have to stay on the streets

CP Correspondent

KHANYISA – the only school for the blind in the Eastern Cape – will be unable to admit new students next year unless funds are found

Many visually handicapped children and adults, who had intended starting their education next year, will be left roaming the streets in the Eastern Cape, Border and Cape Province.

Principal JC Crous said Khanyisa (the name means to make light or bring to light) was a State-subsidised school, but it had not been allocated funds for next year.

"The school has a waiting list of some 72 visually handicapped children and this number is growing every day. Some of the names on the waiting list had to be removed because the children had become too old to be admitted," he said

Crous said although the normal annual school fees were only R20 a student, including accommodation, they could not be raised to provide funds for another building because many of their pupils came from poverty-stricken families.

Khanyisa was established in 1983 when the Transkei Department of Education stopped admitting students from outside the Transkei to its Efata School for the Deaf and Blind

"The workshop is functioning nicely and is now providing training for seven pupils and four adults," said Crous

Despite the lack of facilities for extra-mural activities at the school, sporting activities have shown promising growth.

"Staff and pupils attend athletic courses and have to be transported to the city for training – at times even after hours," said sports head John Eastes

At the Junior Games for the Blind, held in September last year and attended by blind athletes from many parts of South Africa, Khanyisa pupils set four records in the field and track events – winning 11 bronze, five silver and eight gold medals

Eastes said eight of their athletes were chosen to represent Eastern Province at the South African Junior Athletics Championships – "an achievement of which we are all very proud"

They competed in 11 field and track events, winning 10 gold medals. The EP team managed to win 13 gold medals in total and three of their athletes recorded three new South African records

C/Press 14/10/90

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Hostels may be family homes

Numsa to provide R1-billion

Numsa general secretary Moses Mayesiko.

By PATRICK MAFAFO

THE National Union of Metalworkers of South Africa (Numsa) is prepared, subject to government guarantees, to pledge up to R1-billion from its provident and pension fund to convert hostels into family homes and to build affordable houses for blacks.

In a document given to the Mass Democratic Movement, Numsa proposes that the project should be handled by the ANC/Cosatu/SACP alliance.

Numsa general secretary Moses Mayekiso said the draft proposal was being studied by affiliates and should be finalised by the end of the month.

He said the hostels would be converted because they were not fit for human accommodation. "Violence will be endemic as long as they exist. They are health hazards and split families."

To finance the development Numsa proposes:

- A trust fund to be controlled by the alliance and the government;
- Cosatu and its affiliates, mainly Numsa, put up close to R1-billion when the amount is guaranteed by the government;
- The Independent Trust Fund and the government each contribute R1-billion; and
- A consortium of building societies and finance houses under the possible leadership of the SA Perm building society together provide R1-billion.

The proposal provides for houses for sale to families and to individuals, and houses for rent.

Mayekiso said once the proposals had been finalised the next step would be a meeting between the alliance and the State President. He hoped for action in the second quarter of next year.

It is proposed that a joint committee be established by the end of this month to develop the project. At regional level a sub-committee of local authorities and civic associations is proposed to handle the project.

According to statistics from the Council for Scientific and Industrial Research (CSIR), the housing backlog in cities is close to two million units. In addition, 320 000 units a year will have to be provided to house the urban population by the year 2000.

According to the latest Central Statistical Service figures, only 11 000 black housing units were built last year.

Institutions just waiting to pounce

58 Star 13/10/90

Inside Out

ANN CROTTY

SOME prices moved up, some moved down — but nobody bought or sold. It was all very quiet with just the wash of institutional funds lapping in the distance — loud enough to seriously disturb brokers who are now having to contemplate the prospect of retrenchment.

In what seemed like a fairly desperate attempt to provoke some enthusiasm, Myles pointed out that institutional investors are currently building up considerable cash re serves.

This means that as soon as the market turns up, and the first of the sheep come back to the market — prices should move up dramatically.

But in the nearer-term, given the grim outlook for industrial company results, only the most hardened contrarian would be an enthusiastic buyer of equities.

Then there's the ongoing Middle East crisis which has done nothing for gold or any of the other precious minerals. Myles hears talk of some Iraqi bank trying to sell a few billion dollars of gold — not the sort of rumour that will get gold soaring to new highs.

And as if that wasn't bad enough, there's speculation of another petrol price hike this weekend. And air fares about to go up — again. All very very grim.

Sasol is seeing some benefit. Apparently it's being punted among London investors who seem quite keen.

Myles wondered if anyone had seen Digoco's results. They were released in one of the Afrikaans papers last Saturday — a move which seems designed not to excite too much response from investors. He can't remember the details but thinks some size of a loss was reported.

Some news about the assets that are being injected into Furntech should be released this week.

Apparently Vivian Imerman will not be involved in the Graham Beck-led consortium that's buying out Union Wine. Of course no one ever said for certain that either he or Royal Corporation would be involved — but there was some speculation — now it seems he won't be in the deal.

There should be some reasonably firm news on the Spareco front, next week. The major creditors are due to have a meeting on Wednesday to discuss the various offers that have been made to the liquidators — leading the list is the one from Vaaltrucar. But there are others.

It seems ages since anything's been heard from Pepgro — almost three weeks since the talks with Tradegro were terminated and still no news of a new acquisition target. Has Mr Wiese finally come to terms with having so much cash? Myles reckons that the next target will be something like Frame ... interesting thought.

Talking of which, if Pepgro and Tradehold had got together, the latter's Fraser subsidiary would have provided a nice outlet for Pepgro's blankets — this could have hurt Frame.

It looks as though Gants is still out of favour. Myles says he's heard something about the disposal of one of their factories.

No news about the Fedfood deal. Myles is quite certain it relates to the disposal of the group's local and Namibian fishing interests. Apparently they're being sold to an unlisted company that is getting some funding from an overseas party.

And then there's De Beers. The slide continues, with talk of it going to as low as R53. Did somebody mention R135?

INSURANCE

FM 12/10/90

MORE UNIT TRUSTS

58

Two more life assurers, Fedlife and Timelife, intend starting unit trusts.

Timelife MD Bill Haslam says there are still critical decisions to make, including the appointment of suitable managers and agreement on the investment focus, but he hopes to have Timegro Equity Fund operational within a few months.

That a licence should be granted to a life company with a track record of only two years is, says Haslam, unusual. It also reflects the more competitive conditions expected by life companies. Life offices continue to pay tax on two-thirds of dividend income (a burden of which individuals were relieved in the last Budget). Unit trust dividend income is not taxable.

Haslam says Timegro simply gives investors an extra option. They can now decide whether they want all their savings in life policies or divert some into the unit trust.

While the establishment of a unit trust so early in Timelife's development can be seen as defensive, Haslam asserts that the argument over taxation of life offices' dividend income is far from over. He calls the tax both discriminatory and unwise, since it undermines contractual savings.

The far larger and older Fedlife (assets: R3,6bn) has no defensive motive, asserts Ian Fraser, GM group investments. "It's something we wanted to do in any case." ■

FM 12/10/90 (58)

PICARDI GROUP

LIQUIDITY SQUEEZE

The fortunes of Pichold's three listed subsidiaries turned sour in financial 1990 and no dividends were declared. This year, rationalisation of Picapli, the sale of Union Wine and possible reorganisation of Picprop and unlisted Sagin — which owns 30% of Cape Investment Bank, which apparently turned in positive earnings — will change the nature of the group; but performance still hinges on Picapli selling white goods profitably.

Pichold's operating profit was halved, as turnover slid and the operating margin collapsed from 9,8% in financial 1989 to 4,8%. The main problem is Picapli, whose rand turnover is not revealed, but fell 14%. Operating profit plunged 61%. Chairman Jan Pickard says the company stopped making cheaper portable audio and TV equipment: this led to the fall in sales and margins.

Union Wine managed a meagre 10% improvement in sales but operating profit fell by a third. The margin reduction is blamed on cost pressures and competition, particularly in the market for spirits.

Picprop's profit improved, but it sold all its operating subsidiaries and at year-end held only one property and R16m cash.

Operating problems were aggravated by crippling interest costs. A group interest bill of R40m transformed R25m operating profits into a R15m loss, but Pickard says that by year-end interest-bearing debt had been cut by R90m to R120m (mostly at Picapli) and cash of R40m was available.

Lower interest costs

Picapli's 1989 balance sheet reflected interest-bearing debt of R163m; this fell to R114m. Stocks and debtors were also reduced, which may indicate a fall in interest costs this year.

The sale of 60%-held Union Wine to Kangra Holdings for R21,5m effective on July 1 will also reduce debt and the interest burden. But the sale of Sagin to Picprop, moving another R13,15m to Pichold and shifting Picprop's listing to the banks and financial services sector, has not been completed. In early July Picprop said it would hold an EGM to approve the deal "as soon as possible;" a three-month delay suggests there may have been a hitch, though the company is mum.

Pickard says Pichold's balance sheet has been substantially improved. Despite difficult economic conditions he expects a return to "acceptable profitability" this year. Refocusing Picapli on its traditional area of white goods should improve margins and boost profits. But speculation is again rife that Picapli is up for sale or that a merger in the overtraded industry is on the cards. A rights issue cannot be excluded.

Remarkably, while the rest of the group is shuffling assets and moving cash where it can best be used to cut debt, the top company of all, Picbel, paid a dividend, if of only 15c,

FM 12/10/90 (58)

against 50c in 1989. Picbel's sole assets are 68,7% of Pichold and R7,5m cash, it reported an attributable loss of R8,3m, euphemistically described in the prelim as "reduced earnings." The dividend will absorb R667 000.

Was there nothing in the group that Picbel could buy? Or are its shareholders for some reason more worthy of a dividend than the others?

Pam Buskind

LIFE ASSURANCE FM 12/10/90 (58)

LONG-TAIL CONSUMER CATCH

A key consumer protection clause is missing from the latest draft Bill on Long-term Assurance — an omission which could keep lawyers busy for decades. In earlier drafts, there was provision for a compulsory cooling-off period after an individual life policy is contracted. In this draft, there is no mention of the consumer's right to change his mind, after possibly being exposed to a particularly persuasive assurance consultant.

In its place, there is provision for the Long-term Assurance Advisory Committee to propose rules, on its own initiative or at the request of the Minister of Finance, *inter alia*, to ensure "that policies are entered into, executed or enforced in good faith."

There are some strongly held opinions in the life industry that the issue needs to be legislated, to stave off problems. These assurers, says Old Mutual Legal Services manager Abri Meiring, would rather see this aspect of consumer protection enacted now, on assurers' own initiative, than face the complexities which will flow from the absence of consumer rights.

Those complexities, explains Meiring, can be sparked by another issue being examined by the Law Commission: the desirability of an Unfair Contracts Act, similar to the UK legislation. Meiring says the commission seems to be drawing inexorably to the conclusion that SA needs such an Act and that it could be on the statute books in a year or so.

UK life assurers escaped the net thrown by the Unfair Contracts Act by writing cooling-off periods into life contracts. They argued successfully that the cool-off clause provided much the same sort of protection as the Unfair Contracts Act.

Meiring argues that *without* a cool-off and *with* an Unfair Contracts statute, there could be legal chaos. Life contracts are essentially long-term and life assurers must know at any time what their potential liabilities amount to. "We cannot live in a climate where contracts entered into today can be interfered with by a court in 20 years' time."

The probable reason for excluding consumer right clauses, says the Life Offices Association (LOA), is that they were too embracing. They could have included a provision, again based on UK legislation, that insurance agents must explain to a prospective client precisely how their commission system works and, therefore, how long it will take before an assurance contract contains any surrender value.

That clause virtually spelt the death-knell of the independent assurance broker in Britain. Its inclusion in SA legislation would be strenuously resisted.

Nevertheless, according to the LOA, the cool-off period is by no means dead, though there is still no consensus. Southern, fourth-largest life office, has hinted it may force the issue by writing a cool-off unilaterally into its individual life policies. If it does, others could feel obliged to follow.

If the draft Bill is weak on one aspect of consumer interest, it suggests giving the registrar sharp teeth when it comes to advertising. A provision allows the registrar to ban an advertisement by an assurer, should he consider this in the public interest.

The provision is aimed at curbing comparative advertising, particularly when the comparisons are not justifiable. There have been ads comparing investment performances of various assurers where the portfolios may have been chosen to show the advertiser in the most favourable light. An example would be to compare a small portfolio which has done exceptionally well in a bull market with a competitor's very large portfolio with an average performance.

LOA deputy director Jurie Wessels finds this clause "curious." There is already an Advertising Standards Authority, he points out, and the LOA has an advertising subcommittee to consider misleading advertising. Wessels questions whether the onus for killing a campaign — which may have cost hundreds of thousands of rand — should be with the registrar, whose expertise is technical rather than marketing.

There is pressure to get the Long-term Bill finalised. The first date for industry comment is long past; government wants the legislation to go before parliament next year.

Bryan Dean

MORTGAGES

BANK BOND BASHING

FM 12/10/90 (58)

Any hopes that the flagging residential property market could be given a much-needed year-end boost through a drop in interest rates — even a small one — have been dashed by the Middle East oil crisis.

Nevertheless, the lending institutions seem to think it unlikely that the unresolved confrontation will precipitate a further *rise* in rates.

That, however, is where the good news ends for property. An indication of just how quickly the market has turned from growth to decline is given in the Reserve Bank's *Quarterly Bulletin*: "The value of real estate transactions rose from its previous record level of R5,7bn in the fourth quarter of 1989 to a new high of R6,2bn in the first quarter of this year. It then dropped back again to R5,7bn in the second quarter" (see graph).

While the transactions represent all property rather than just residential, there is widespread agreement that house sales are conforming to this general pattern; and lending institutions expect the level of transactions to decline further in coming months.

Factors which might mitigate against the downtrend — such as an increase in personal disposable income in the national accounts, or higher (contractual) savings, are discounted. They face political uncertainty, rising unemployment and expectations of a tough 12 months ahead — coupled to the known determination of Bank policy under Governor Chris Stals to use high interest rates to hammer down inflation.

There are also significant indications in the *Bulletin* that the banks — which so aggressively entered the market, capturing large chunks of mortgage lending from building societies — have at least temporarily run out of steam.

The *Bulletin* points out that the rate of increase in banking institutions' holdings of mortgage loans declined slightly from R1,3bn in October-December to R1,2bn in the first three months of this year and even further, to R900m, in the second quarter. By contrast, it says, new building society home loans, which had declined to R1,4bn and R1,5bn in the third and fourth quarters of last year, rose steadily to R1,8bn in the first two quarters of this year.

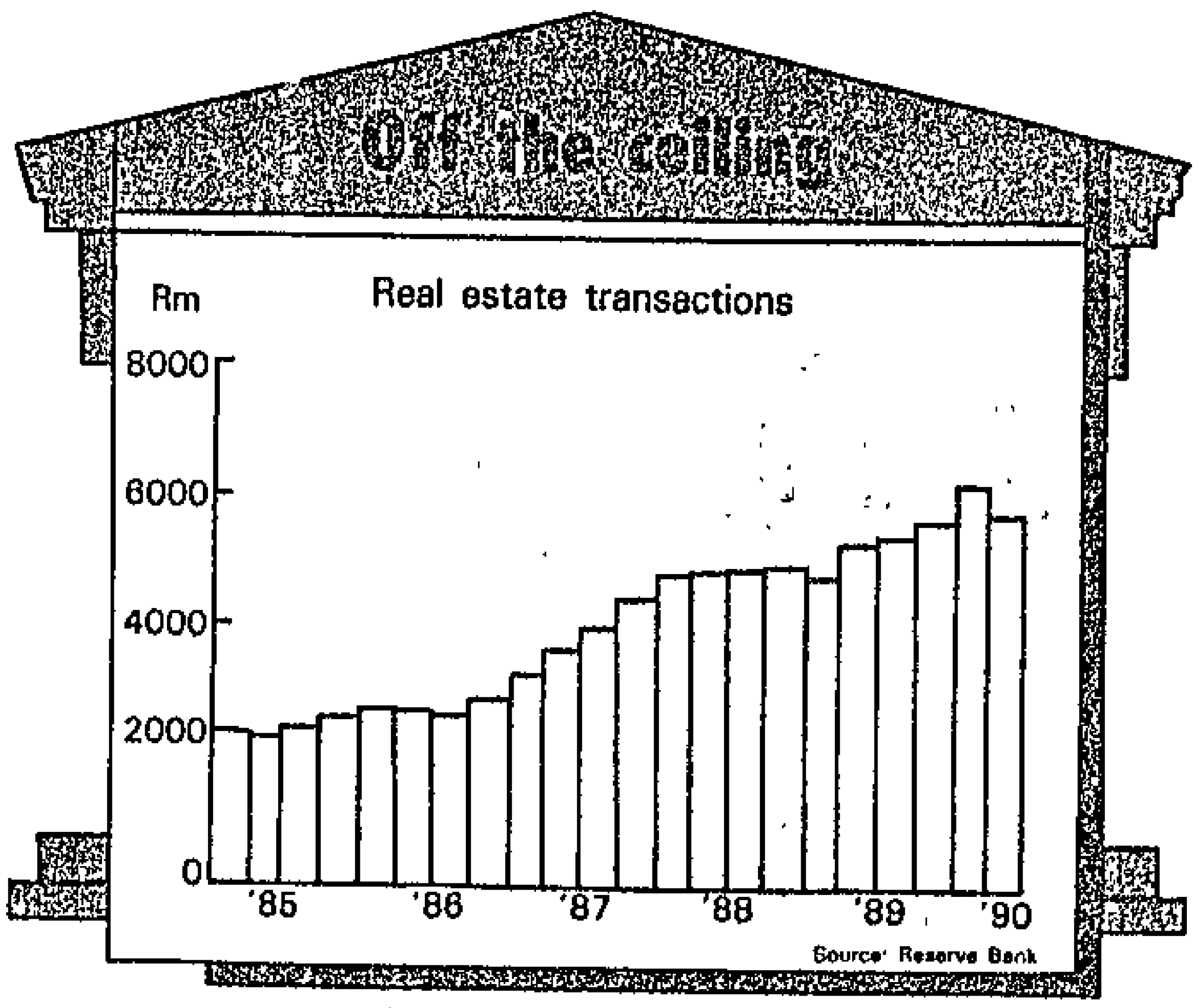
The *Bulletin* adds that the increase in building societies' holdings of mortgage loans, which had amounted to R500m in both the third and fourth quarters of last year, rose to R700m between January and March and R800m in the second quarter.

This switch in fortunes could in part be a reflection of the poor state of the residential property market — but there is likely to be more to it than that.

The Perm's Peter Hibbert ascribes the change to a strategic withdrawal from the new home loans market of the big banks. "None of them, First National, Standard or TrustBank, has for the past year been particularly aggressive in the market," he says. "The traditional building societies have remained aggressive."

He warns against building society complacency: "It seems First National is coming back into the market. Standard is also certainly still in the ring even if it isn't as aggressive as it was 18 months ago."

Hibbert believes that though the competition could hot up again, it's unlikely to reach the same proportions as the bond war which ensued when the banks entered the home loans market.



This is partly because of the stringent requirements of the Deposit-taking Institutions Act and the fact that all the main banking groups — perhaps with the exception of United — are short of capital in terms of the new requirements.

"From the banking side, profitability is an absolutely key factor and the days of just going for growth per se are over."

A further hint of increasing competition comes from First National's Jimmy McKenzie who points out that new packages offering special rates for integrated banking and bond finance have opened the pipeline for a further thrust into the bond market.

"We have been on a marketing drive promoting the package, and tackling estate agents for three or four months — and we can expect to see the affect of that on our books soon," he believes. "The package is competitive and should reverse the declining trend."

Another reason, perhaps, for the slowdown in the new bond market may simply be a matter of maturing book. It was easy for the banks to expand in this market when they first came in. Now they have to lend a great deal more to offset the outflow.

SERVICE STATIONS

PIT STOP

The Ben Schoeman highway between Johannesburg and Pretoria is undoubtedly the country's busiest motorway — but it doesn't have a service station. At least, not yet.

Whether this is by design or because the oil companies have simply allowed an opportunity to go begging remains to be seen.

Had the Ben Schoeman been in Europe there seems little doubt that petrol retailers and fast food firms would have been falling over each other for the opportunity of developing such facilities.

One European yardstick used to gauge viability is that between 1% and 3% of freeway traffic pulls off at each inter-city petrol station to take advantage of services. If this rule of thumb is applied to the Ben Schoeman, which carries between 60 000 and 70 000 vehicles a day, then the prospects for a successful stop-off point would seem excellent.

While it refuses to be drawn on the figures, Shell — which has finally taken the plunge and is building an "Ultra City" complex with separate facilities servicing the north and southbound carriageways near Halfway House — must feel they carry some weight.

The company believes turnover will be roughly twice that of its other large Ultra Cities.

Aptly named Big Ben, the complex is due for completion by December and is situated between the Development Bank of Southern Africa and the new SA Mint.

The station on the southbound side comprises 71 900 m², while the northbound one is 70 200 m². Buildings on each side cover 1 934 m² — and there is parking on either side for 10 trucks, three coaches and 82 light vehicles.

The Ultra Cities will have 28 fuel pumps, a Golden Egg restaurant, washrooms and car parks. Most of the services will be open

Unit trusts still tops with investors

(58) Star 12/10/90

By Magnus Heystek

Unit trust investors seem undaunted, so far at least, by the worldwide decline in stock markets with the industry recording strong growth in both net inflows as well as the number of new accounts during the September quarter.

Although net repurchases increased to R260,8 million (up from R209,5 million in the previous quarter) gross sales were very strong at R543,3 million, which was the third-ever highest for the industry.

Statistics released by the Association of Unit Trust reveal that almost 62 000 new unit trust accounts were opened in the September-quarter, bringing the total number of accounts held at the end of the quarter to over 700 000. In the past year the number of accounts have increased by over 150 000.

These statistics tend to underscore the growing trend among the investing public who are attracted to unit trusts as a superior investment when compared with other alternative investments.

Says Roy McAlpine, the chairman of the Association of Unit Trust: "The figures highlight the increasing maturity of local unit trust investors. They recognise that unit trusts are essentially a medium to long-term investment. While they will always be subject to occasional adverse short term fluctuations, they are an excellent investment over time."

Although the equity-based unit trusts sharply increased their liquidity levels during the September-period, the market value of the funds dropped back as a result of the weak stock market.

The high liquidity levels offered investors some kind of protection against a weakening stock market.

The combined assets of the general and specialist equity funds declined by 6,4 percent in the quarter to R6,815 million while the income funds, a capital protector in troubled times, increased from R337 million to R385 million.

High liquidity

The high liquidity levels that prevailed during the quarter resulted in the equity-based funds outperforming the JSE Overall market, which declined by almost 11 percent during the same quarter.

Investors still favour the general equity funds, the Association's fugures show. The assets of the 16 general equity funds totalled R5,63 billion (June: R5,97 billion) while the 12 specialist funds had assets valued at R1,19 billion (June: R1,27 billion).

Possibly as a result of the increasing awareness of switching between funds, the assets of high income funds rose from R337,2 million to R385,1 million in the quarter. Income funds offer investors a hedge and a safe haven in times of troubled equity markets.

As was evident from the quarterly reports of the respective unit trust, virtually all funds increased their liquidity sharply. The general equity trusts increased liquidity from 19 to 24 percent while specialist funds increased its exposure to cash and near-cash from 17 to 22 percent.

Over a twelve-month period general funds have achieved an average return of 8,6 percent and the specialist trusts an average of 3,7 percent.

Like the Natal rugby side, the income funds eventually had their day, recording an average return for the last twelve months of 19,3 percent, more than 5 percent higher than the inflation rate during this time.

SA on track to regain capital inflows — IMF

CAPE TIMES 11/10/90

From SIMON BARBER

SA is doing almost everything right to regain access to international capital markets — according to a confidential report by an International Monetary Fund (IMF) staff mission.

The report, due to be presented to IMF executive directors at their scheduled annual consultation on SA yesterday, says the key question now is how to meet the needs and expectations of a society in transition without wrecking this balance.

The IMF's answer can be summarised as continued discipline, both monetary and fiscal; patience and — above all, as a matter of urgency — new inflows of foreign capital and investment.

If these inflows can reach 3% of GDP, the report predicts that black employment will be expanding at a healthy 5,2% per annum by 1995, as opposed to 1% if the current situation persists.

However, even with the prospects of fresh capital flows improving — and the real possibility that SA will once again have access to IMF facilities — now is not the time to reflate the economy, the report argues.

"At this juncture, financial policies should not be aimed at directly stimulating growth."

The report says that the "effective constraint on economic opportunities" for blacks — IMF-speak for apartheid — has undergone a "considerable dismantling".

Tight monetary policies are laying the foundation for sustained growth. A little more budget discipline would be useful. But, overall, "the real macro economic balance of the economy has been made firmer than for some years".

Furthermore, the report says, in spite of continued calls for sanctions by the ANC and others, "the expectation of political and constitutional reform is leading to a reassessment by many potential foreign investors".

Reserve Bank Governor Chris Stals' "welcome" grip on the money supply should be viewed as a "medium term" proposition to wring the last inflationary expectations from the economy and keep exchange rates steady.

Thanks to past "over-investment" in power generation and roads, public infrastructure expenditures can be held down in coming years.

The report says that government should stop putting some major social expenditures off budget. "New calls on resources cannot avoid careful assessment only because they have an obvious priority".

To avoid the temptation for further off-budget spending, the government would be wise to develop "new procedures for conducting open market monetary policy operations that avoid market borrowing in excess of budgetary needs".

The IMF report also recommends that the government should avoid any temptation to reduce taxes.

"The aggregate tax burden does not appear excessive ... the staff would counsel tax reforms that bear a net revenue cost should be postponed until it is clear that there is budgetary room to meet that cost."

But it also urges the removal of the remaining import surcharge "as quickly as possible to avoid it becoming embedded in the tax and cost structures."

It offers a stiff warning to organised labour and those who might seek to appease it: "Efforts quickly to redress income disadvantages of the black population through large wage claims" will not only be highly inflationary, but will "bear the risk of stifling the growth of needed employment opportunities" and of creating a new divide between a labour aristocracy and the unemployed.

Wage differences reflect disparities in skill levels. These can be addressed through improved education and training, "and then only slowly".

Closing gold prices

(In $ an ounce)

LONDON: 389,50/390,00
Fixing am: 392,20
Fixing pm: 391,80
ZURICH: 388,00/391,00
(390,00/393,00)
NEW YORK: 388,50/389,00
— Reuter

Rise in liquid asset levels of Sage funds

(58)

B/Day 11/10/90

LIZ ROUSE

SAGE Fund's total assets increased marginally to R658,43m in the September quarter from the previous quarter's R645,63m, as liquidity rose sharply.

Liquid asset levels increased in both the Sage Fund (24,6%) and Sage Resources Fund (30,7%).

The portfolios were modified to reflect the economic environment. Sage Fund sold its holdings in Harties and Vaal Reefs, and upped those in Southvaal, Implats, Nedcor, Lonrho, Gencor, Engen, Tiger Oats and Tongaat.

Its holdings in Lebowa Platinum, GFSA, Amic, Barlows, Plate Glass, Richemont and Nampak were reduced. In the foreign portfolio, Reuters and FMC Gold were reduced, while the holding in Eastman Kodak was increased.

The 10 largest holdings at the end of September were Richemont, Anglo, De Beers, JCI, Rembrandt Beherende, Rembrandt, Allied, Gencor, Tiger Oats and SA Breweries.

Sage Resources sold its holdings in New Wits and Lebowa Platinum, while additions were made to Anamint, Keeley, Gencor Beheerend, Tongaat and Lydenburg Platinum. Holdings were reduced in Beatrix, Elsburg and Samancor.

Total assets were reduced slightly to R50,6m from the June quarter's R53m. Top 10 holdings were Engen, De Beers, Gencor, Anglo, JCI, Kinross, Mid Wits, Gencor Beheerend, Impala Platinum and Driefontein.

Sage Fund managers say the recession and high interest rates do not augur well for corporate profits.

Global growth prospects have been revised downwards, leading to a decline in major stock markets.

Standard Bank funds hold up well

BDay 11/10/90

LIZ ROUSE

STANDARD Bank's three funds minimised the effect of a falling market partly by pushing liquidity levels higher in the September quarter.

In the case of the Gold Fund, judicious selling at the height of the short-lived gold share rise in mid-August helped assure a rise in the purchase price.

The general equity trust, Standard Bank Mutual Fund, limited the fall in its purchase price to 5%, compared with the 11% fall in the JSE all share index.

Liquid assets increased to 41,71% from the June quarter's 30% and the heavier weighting towards the financial index also served as a cushion.

The only change recorded in the portfolio during the quarter was a lightening of holdings in Richemont Securities.

The increase in liquidity was mostly due to new funds being invested in the lucrative money markets.

At the end of the quarter, the equity portfolio showed a 39% exposure to the mining board, an 18% allocation to the financial sector and a 43% allocation to industrial shares.

At the end of September, total assets were at R325m, R9m down from June levels.

Standard Bank Gold Fund showed a 2,4% increase over the quarter compared with a 5,3% gain recorded by the all gold index and a 12,2% fall recorded by the mining house index.

Producers

58

The gold price opened the quarter at about $357 and its safe haven, counter-inflationary appeal to investors saw the price run up to a quarterly high of more than $415 in the wake of the August 2 Iraqi invasion of Kuwait and the resulting doubling in spot oil prices.

The gold counters on the JSE largely followed suit and Gold Fund managers took advantage of the mid-August surge in prices to lighten holdings in Randfontein and Freegold. The liquidity level increased to 20,53% from the previous quarter end's 20%.

At the quarter end, equity holdings showed the fund was 74% invested in direct producers and 25% invested in mining houses and gold exploration shares.

Total assets in the Gold Fund remained steady at R280m.

The Standard Bank Income Fund has achieved a 19,63% return to unit holders in the 12 months to September, topping the high savings rates on offer during the quarter.

Fund managers report that long-term rates edged marginally lower during the quarter, with below average market activity in trading levels. The capital market failed to follow on a stronger gold price, easing no more than 20 to 30 points from the high of the previous quarter.

The fund continued to adopt a strategy of maximising returns while minimising capital risk exposure. This saw the fund maintain a high level of liquid investments — 70,58% compared with 65% at the end of June.

The strategy has paid off, with the fund increasing its quarterly dividend to 3,74c from the 3,67c paid at the end of the June quarter, representing a return of 4,1% for the three months.

Standard Bank fund managers says the increase in oil prices has added a new twist to an already complex and uncertain economic and financial outlook.

The uncertainties facing financial markets are reflected in the performance of world stock markets, including the JSE.

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Boost for SA

CAPE TIMES 11/10/90

IMF calls for new credit access

From SIMON BARBER

WASHINGTON. — The International Monetary Fund (IMF) has nudged the international capital markets towards "concerted actions" to raise South Africa's access to savings — both domestic and foreign.

This year's confidential IMF staff report on South Africa gives President F W de Klerk's reform initiatives and Reserve Bank governor Mr Chris Stals's tight monetary policies unprecedented acclaim.

The report was prepared for the fund's executive directors on the basis of its annual staff mission to South Africa last June.

It concludes that the government has achieved a "considerable dismantling of the effective system of apartheid".

Changes hailed

Reversing the "major setback to growth potential . . . in the mid-'80s" — a reference to the sudden refusal of international banks to extend further credit in 1985 — is termed a matter of "urgency".

The changes now under way are "most encouraging" and "promise for the first time in decades the opportunity to address fundamental social issues that underlie economic weaknesses".

The report warns, however, that there can be "no easy short cut" to establishing a "virtuous cycle of opportunities and wealth creation" needed to overcome racial inequalities.

It bluntly recommends that "financial policies should not be aimed at directly stimulating growth" and finds that "the new purpose being applied by the Reserve Bank . . to the task of combating inflation is indeed welcome".

Inside:

SA SET TO REGAIN CAPITAL INFLOWS

See PAGE 10

Reconciling the rising expectations of black South Africans with the economy's ability to satisfy them is "one of the most difficult challenges facing the government".

In particular, "excessive wage growth would present a clear inflationary threat" and would foster "a new income divide — between the few with well-paying jobs, and the many jobless

"Efforts to quickly redress income disadvantages of the black population through large wage claims bear the risk of stifling the growth of employment."

Instead, all South Africans need to take the long view. "Wide skill and productivity differences can only be reduced with improvements in black education and training, and then only slowly."

"Tight monetary policies combined with an exchange rate that has remained "broadly stable in nominal effective terms" since mid-1989 have already significantly reduced demand and "will lead to a lowering of inflation"

While exporters will see their profits eroded during the "disinflation process", the report predicts without qualification that "losses in competitiveness will not continue".

Budgetary discipline is also deemed essential as "the demands of a society in transition on the public purse become more urgent".

Medium-term goal

While noting that efforts have been made to trim spending and that the dismantling of apartheid structures like the tricameral system will itself produce important savings, the report insists that more needs to be done

The government's medium-term goal of restricting the budget deficit to 3% of Gross Domestic Product is insufficiently "ambitious" and the practice of placing certain major expenditures off budget should be discontinued.

Furthermore "the aggregate tax burden does not appear excessive . . . the staff would counsel that tax reforms that bear a net revenue cost should be postponed until it is clear that there is budgetary room to meet that cost".

The winning kiss

CONGRATS . . . Winner of the Cape Times/Frasers International Big Walk's 80,4km event Mr Ephraim Morgan gives Ms Elizabeth Phillips a kiss at the finishing line. A Red Cross worker, Ms Phillips has personally assisted him for the six times he has won the race. **Report and more pictures — Page 7.**

Picture: RICHARD BELL

Broker switches firms

Star 10/10/96 Finance Staff (58)

Stockbroking firm Kaplan and Stewart's Durban director David Evans has resigned to become co-director of the local branch of rival Frankel Kruger Vinderine (FKV).

Mr Evans says a condition of his acceptance of the FKV offer was that he could take his five staff — including one broker — with him. He believes this lay behind reports that FKV was planning a takeover of Kaplan and Stewart.

Kaplan and Stewart senior partner Malcolm Stewart reportedly denied FKV was about to take over his firm.

Mr Evans has declined to give his reasons for moving, but says he believes his departure was the reason for the 25 reported retrenchments made by Kaplan and Stewart's Johannesburg head office.

Unit trusts do better than indices

(53) Star 10/10/90

The UAL Gilt Unit Trust has reported a return of 19,54 percent for the year ended September 30.

Clive Turner, MD of UAL Management Company, says income distributed to unitholders showed a 6,24 percent increase to 176,25c, with a yield of 16,8 percent achieved in a challenging and competitive environment.

The UAL Unit Trust, the general fund in the UAL stable, showed a 50,13 percent increase in income distributed to unitholders.

UAL Mining and Resources fund achieved a total return of 3,15 percent, which should be seen against a comparable negative return (−6 percent) from the Mining Financials Index, Mr Turner says.

UAL Selected Opportunities, which specialises predominantly in small and medium-sized industrial companies, turned in an overall performance of 2,99 per cent, including a total income distribution of 67,02 cents per unit.

Sage Fund

Sage Fund outperformed the JSE all-share index, posting total returns of 8,7 percent to its unitholders in the 12 months to end-September, while the all-share index fell by 0,8 percent.

But total returns in the Sage Resources Fund were down 2,5 percent over the same comparable period.

Both funds increased their liquid asset levels with Sage Fund's up to 24,6 percent in the September quarter and Sage Resources Fund up to 30,7 percent. At the same time, the portfolios were modified to reflect the unfolding economic enviroment.

Standard Mutual Fund

Local and international stockmarkets did not fare well in the September quarter, and Standard Bank's Mutual Fund, with its heavier weighting towards the financial index and liquid cash holdings, did well to limit the fall in its purchase price to five percent.

The Standard Bank Fund Managers' quarterly report says this fall compares favourably with the 11 percent fall in the Johannesburg Stock Exchange All Share Index.

The Gold Fund showed a 2,4 percent increase during the quarter compared with the 5,3 percent gain recorded by the All Gold Index and the 12,2 percent fall shown by the Mining House Index.

The Extra Income Fund has shown a 19,63 percent return to unit holders for the 12 months to September.— Sapa and Finance Staff.

Brokers lay off staff as trading depression bites

ROBERT GENTLE (58)

STOCKBROKING firm Kaplan & Stewart had laid off about 25 people countrywide as a result of the present trading depression and would soon close its Durban office, sources from rival stockbroking firms said yesterday. B|Day 9|10|90

The head of the Durban office would be moving over to head up the Durban office of stockbroking giant Frankel Kruger Vinderine (FKV), one of the sources said.

Malcolm Stewart, senior partner at Kaplan & Stewart, confirmed that layoffs had taken place in Johannesburg and Durban, but would not give any numbers or comment on the nature of the moves.

"It is a private matter and disclosing these details would be detrimental to the interests of the people being laid off," he said. Stewart denied persistent market talk that FKV was about to take over the whole of his firm.

"It is not even on the horizon. We have no merger aspirations."

Other firms rumoured to be part of the expansionary designs of FKV, acknowledged to be one of the three biggest brokers in SA, were Max Pollak & Freemantle (which last week announced 10 layoffs) and Mathison & Hollidge.

Senior spokesmen from these companies have denied any merger plans with FKV.

FKV financial director Geoff Rothschild declined to comment on the blitz of merger talk concerning his firm.

FKV senior partner Leslie Frankel was quoted last week as saying that the firm would be announcing "an expansion of our base" within a fortnight.

Market sources said it was clear a lot of thinking was being done about mergers in the wake of pitifully low trading volumes, and that merger talk would continue.

Overhaul may end 'tax war'

GRETA STEYN

A MAJOR overhaul of the tax system for financial services is on the cards as part of government's move to level the playing fields between the different institutions.

A new basis of taxation for life offices would accompany the implementation of a withholding tax on interest on savings at banks and building societies, a senior life industry source said yesterday.

The overhaul could bring to an end the years-long tax war waged by the building societies, with UBS CEO Piet Liebenberg at the forefront, against the life offices. The societies claim the life offices' "unfair tax advantage" is an important reason why the public chooses to save with these institutions rather than the banking sector.

The societies appeared to have won the first round in the war, a source said, as government seemed likely to tax the life assurers' previously free reserves at the company tax rate.

But whether they will actually end up paying more tax depends on how a new dispensation is implemented.

Their reserves — the surplus of their assets over their liabilities to policyholders — run into billions of rands and have been the subject of debate for years. The life offices have argued that their surplus cannot be viewed as profit.

Policyholders' funds would be taxed at the same rate applicable to savings at banks — the withholding tax rate, expected to be 10%.

However, a senior life industry source said the issue was not clear cut — everything hinged on the definitions of reserves versus policyholders' funds, and also on the nature of transfers between them.

Discussions between the life industry and the authorities were focusing on this issue.

The outcome would determine whether the life offices would be worse off under a new tax dispensation.

More clarity is expected when Finance special adviser Japie Jacobs reports on his investigation into the life industry, probably before the end of this year.

Bday 12/10/90

(58)

Syfrets unit trusts maintain growth

Star. 8/10/90 (58)

CAPE TOWN — Maintaining high liquidity levels, rather than increasing portfolio exposure to equities, once again paid off for Syfrets Growth Fund.

Investors have enjoyed an increase in income distribution of 65,5 percent in the past year, compared with the previous 12 months.

The increase flowed from an improved investment performance of 18,9 percent over the year, the quarterly report released by Syfrets Managed Assets (SMA) shows.

SMA fund manager Anthony Gibson says the income distribution provided by SGF is 3,41c for the past three months, realising a total distribution of 10,03c for the year.

As a consequence of the uncertain state of the equity market, portfolio activity was maintained at a low level.

The declining trend in prices on overseas share markets, coupled with the deterioration in local economic fundamentals, has continued to exert a negative effect on the JSE, he says.

The investment objective for the next six to 12 months is to protect the capital profits enjoyed by investments over the past 10 years, he says.

"Our strategy remains one of cash accumulation until such time as investment opportunities represent attractive value," he says.

Liquidity levels of 34 percent provide the portfolio with a cushion against any further weakness in share prices.

Investment philosophy at Syfrets Income Fund has remained unchanged, with the accent on medium and short-dated gilts and deposits.

He believes the Syfrets Income Fund portfolio is appropriately structured to accommodate any changes, with very little diverted into cash and the major investments being placed in medium-dated gilts and short-term deposits.

This mix brought about an income distribution of 4,07c for the quarter and a total distribution of 16,63c for the year. This represents an income yield of 16,32 percent on the unit price ruling 12 months ago. — Sapa.

Forex reserves in decline

By Duma Gqubule

After surging 11,7 percent to R6,037 billion in August, gold and foreign exchange holdings fell 3,95 percent to R5,853 billion in September.

Senior deputy Governor of the Reserve Bank Professor Jan Lombard says there are two reasons for the decline.

"Firstly, in September there was a quarterly payment of interest on the foreign debt of R460 million. Secondly, there was a R250 million repayment on two bearer-bond issues.

"I'm quite satisfied with this result. It is important to note that the stability of the rand is such that we showed a substantial profit on our forward book," he says.

Building reserves to a healthy level is a key objective of Bank policy and Governor Dr Chris Stals has said he would like to see reserves about twice those of the present level.

Without strong reserves, the rand could be vulnerable in the next upswing when imports start increasing again.

Simpson Mckie economist Graham Boyd says: "Although the weakness of the economy is working in favour of reserves because of lower imports, there have been signs of weakness in commodity prices and oil prices have risen.

"One would probably expect the cost effect of higher oil prices to dominate slowing imports volumes on the current account.

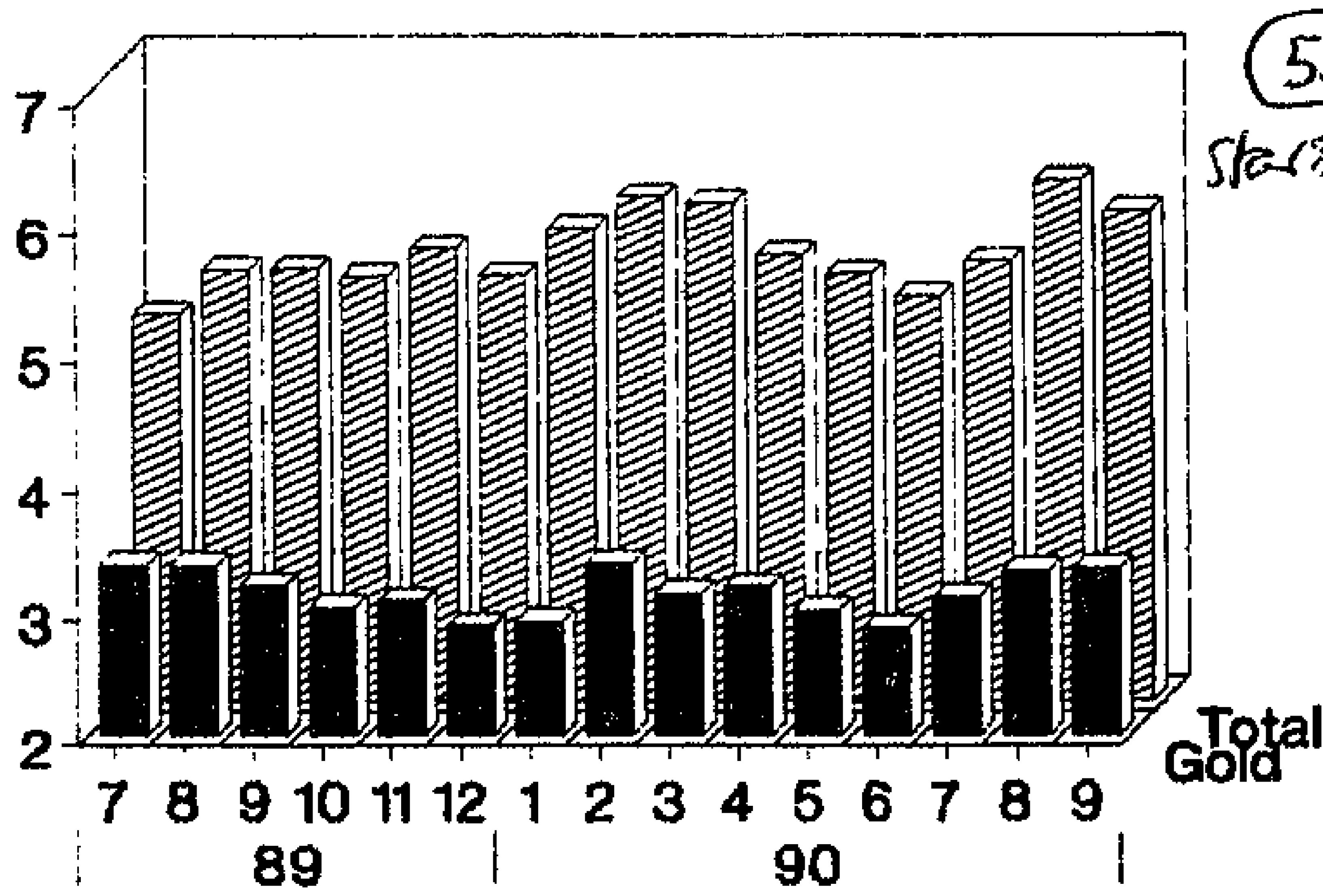
"However, what is crucial is the prospect of lower capital outflows because of lower debt repayments and debt rollovers next year, which could well permit a rise in foreign exchange reserves, despite other negative factors," he says.

Figures released by the Reserve Bank on Friday show that gold holdings rose slightly to R3,332 billion — 0,43 percent up on August's R3,317 billion.

Foreign exchange holdings, however, were down by 9,2 percent at R2,5 billion — a fall of R254 billion on August's R2,75 billion.

Gold was valued in September at R927,81 an ounce, compared with R905,52 in August.

Physical gold holdings, however, fell by 72 314 ounces to 3,591 million ounces in September from 3,664 million in August.



Movement of gold and forex reserves

(53)

Star 3/10/90

Sowetans queue to pay rent

Star 8/10/90

By Montshiwa Moroke

There has been a dramatic increase in the payment of rent and service charges in Soweto since the signing of the Greater Soweto Accord about two weeks ago, says the Soweto City Council.

The accord was signed by the Transvaal Provincial Administration, the three Greater Soweto councils of Diepmeadow, Dobsonville and Soweto, and the Soweto People's Delegation (SPD) on September 24.

Figures released by Soweto town clerk Piet Geers for the period between September 1 and October 4 show dramatic increases of between 15 and 917 percent.

On September 1 Jabavu collected R12 778 in rent and on October 1 R31 257 — an increase of 144 percent.

On the same days, Chiawelo collected R8 668 and R19 861 (129 percent); Orlando East R9 165 and R26 228 (186 percent); and Zola R3 438 and R21 834 (535 percent).

Tladi's rent collection showed a 917 percent increase from last month.

Mr Geers said the department had taken extra security measures at pay points since the increase in payments.

The acting town clerk of Diepmeadow, Tom Mabambe, said the response to the accord had been good.

A spokesman for the Dobsonville treasury department, Chris van Zyl, said that from Tuesday last week, cashiers had been fairly busy.

Power cuts loom for thousands

Star 8/10/90

By Therese Anders, Highveld Bureau

As the rent and services boycott continues in 27 Transvaal townships, many thousands of people face power cut-offs this week.

Cash-strapped town councils now owe Eskom R70 million, an increase of R47 million since the Government cut bridging finance on September 1.

The Transvaal Provincial Administration (TPA) reports that after recent agreements, service payments in Soweto and in the Eastern Transvaal have improved.

However, the situation has deteriorated on the East Rand, and more towns have joined the boycott in the Western Transvaal.

Last week Civic Associations of the Southern Transvaal president Moses Mayekiso announced the boycott would continue until a number of demands had been met, including the scrapping of discriminatory laws and the system of local government.

The organisation later said the boycott in Soweto was off.

Carolina's Conservative Party-led council, which cut electricity, water and sewerage services to Silobela township several weeks ago, has warned it will cut services again today.

Flat rate

Vosloorus residents, who are already having their power cut for up to six hours a day, have until Thursday to pay up.

Unless accounts are paid, the Pretoria City Council will cut power to a number of townships, including Mamelodi and Atteridgeville, on Friday.

In many Eastern Tranvaal townships, residents are paying a flat rate for rent and services that is well below the amount needed to cover the ratepayer's true electricity and water consumption charges.

This still leaves black local authorities with big bulk-supply accounts that they cannot pay.

The TPA, therefore, is allowing councils to apply for funds earmarked by regional services councils for township capital projects.

Eskom communication manager Johan du Plessis said the electricity giant viewed the boycott in a serious light.

"But we are not anxious about it because we are negotiating ... rather than switching towns off."

He said the fact that people were starting to pay meant they felt they could "pull this thing through".

He stressed Eskom would not consider writing off any of the R70 million debt.

Star 8/10/90 58

The Star
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Amic tipped as good buy at current market price

By Jabulani Sikhakhane

Despite expected lower profit figures for the current financial year, analysts think that Anglo American Investment Corporation (Amic) is now oversold and represents a good buy at the current low levels on the JSE.

After falling 38,4 percent to R69 from a 12-month high of R112, Amic recovered 200c last week to close at R71.

The fall was precipitated by a sharp deterioration in earnings (down 19,5 percent) for the six months to June.

Directors warned then that earnings for the year were expected to deteriorate further, due to more difficult trading conditions in the second half.

Analysts say some institutional investors, who reckon that the share has bottomed out and that it offers good value at these levels, have been nibbling at the stock.

They add that at the R69 to R70 range, the share is priced in line with expected earnings for the current financial year.

They point out that investors have already discounted the forecast 17 percent to 25 percent fall in earnings for the current financial year.

Davis Borkum Hare analyst Pierre Greyvenstein says in a recent report that relative to the industrial index, Amic has been underperforming since September 1989 and is now moving to oversold territory.

The share is now trading in line with its net asset value of R70,71.

In terms of the dividend and earnings yields, the trend appears to be moving towards levels seen in 1988.

Based on the present outlook and static dividend growth, the share should once again offer value and represent opportunities for long-term investors to accummulate stock.

Underpinning his view is the quality of the group's earnings which, he says, are understated relative to many other major industrial groups because of its comprehensive method of accounting for deffered tax.

In addition, there's the group's lower gearing.

Syd Vianello of Ed Hern Rudolph is forecasting earnings of 900c to 925c, meaning a fall of 23 to 25 percent from the 1 211c achieved in the 1989 financial year.

Based on these forecasts, Mr Vianello says Amic is correctly priced.

But he warns that the share, because it is tightly held, could still go higher and that if it does, it would not be a good buy relative to expected earnings.

On a conservative note, Mr Greyvenstein says that until real progress is made in the political arena and there is a general improvement in the economic climate, industry (in this regard, Amic) might face a period of at least 18 months before real improvement in corporate perfomance takes place.

Other negative factors are the softer economic trend in major OECD industrial countries, softer commodity and base-metal prices and a stable rand exchange rate.

Mr Greyvenstein is forecasting a fall of 20 percent in Mondi's operating income (eight percent down at attributable level).

In financial 1991, Mondi should show zero growth in operating profits because of the state of international paper and pulp markets.

However, attributable earnings should improve by approximately 16 percent thanks to lower interest charges.

The recent capital injection of R454 million by De Beers and Anglo American will reduce Mondi's gearing to below 35 percent.

Mr Greyvenstein says the new capital structure should contribute around R45 million (net) to annualised earnings.

For AECI, earnings should fall six percent this year, but improve by 21 percent in financial 1991.

Earnings at Hiveld Steel, which has contributed windfall profits to the group, should decline 43 percent this year and by a further 12 percent in 1991.

He says it is rather difficult to envisage an upturn within the next 18 months, considering that the steel industry usually lags the economic cycle by approximately six to 12 months.

He thinks Scaw Metals's earnings should be marginally lower this year (five percent), with zero growth and unchanged earnings for 1991, while Boart's earnings should decline 10 percent this year, but grow by 10 percent next year.

Overall, Mr Greyvenstein forecasts that due to Amic's diversified investment portfolio, 1992 should be the year for a real upturn in corporate perfomance.

JSE trade for proposed gold mine starts today

CAPE TIMES 8/10/90

Own Correspondent

JOHANNESBURG. — Trading in rights to take up shares in Johannesburg Consolidated Investment Company's (JCI's) proposed South Deep gold mine starts on the JSE today.

JCI had already spent R86,7m on exploring this "most extraordinary and exciting ore body" and planned to spend another R170m over the next 15 months, gold and uranium division chairman Kennedy Maxwell said on Friday.

A decision would only then be taken whether to go ahead with the mine, south of and overlapping part of the group's Western Areas (WAGM) gold mine near Randfontein.

If the go-ahead was given, capex of R2,2bn in July 1990 terms would be needed over a 10-year period to reach full production of 180 000 tons a month, he said.

This capex excluded the R86,7m already spent, but would be R400m less because of revenue from mining the shaft pillar before full production started, he said.

The prospectus published today said South Deep Exploration Company (Soudex) proposed to raise R231,6m by way of a rights offer of 19 708 000 shares in order to support its continued exploration and preliminary mining development programme and to reimburse the twin haulage and surface rights loan accounts of WAGM, JCI and the "principal participants".

The rights in which trading begins today will entitle holders to take up shares in Soudex at R14,30 a share.

BoE unit trust raises R10m in first quarter

LESLEY LAMBERT

THE Board of Executors' first unit trust, the BoE Growth Fund, has raised R10m from 1 000 unitholders during the first quarter since its launch in July, says senior GM John Winship. B/Day 8/10/90

"The public support has been beyond our expectations and the trust has grown much more quickly than other recently launched trusts," he says.

BoE's fund managers have used the current stock market weakness to establish core holdings in blue chip shares, but still retain high liquidity with cash and fixed interest securities at nearly 30% of the portfolio.

The key to BoE's strategy is a large holding in Elfi bull stock which gives the investor exposure to the share market, and a high level of income which is sure to outperform the share market over next 18 months, says Winship.

The fund's top 10 holdings are diamonds (7,1%), Anglo (4,3%), Richemont (4,2%), Rembrandt (3,6%) and Sasol (3,9%). The banking sector is represented by UBS (2,9%) and Nedbank (1,4%) and recovery stocks are Powertech (2,1%), Iscor (1,3%), and Sunbop (1,0%).

For the quarter to end-December, BoE expects further market weakness, with consolidation at best. "This is the best time to buy units. The purchaser gets more units for the same rand amount and when the share market recovers into 1991, will enjoy the gains," Winship says.

Syfrets opts for liquidity

58

8/10/90

LIZ ROUSE

SYFRETS Growth Fund's portfolio activity was at an extremely low level in the September quarter and liquidity was raised to 34% from the previous quarter's 30%. In the March quarter, liquidity was as low as 17%.

Maintaining high liquidity levels, rather than portfolio exposure to equities, paid off for Syfrets Growth Fund and consequently for investors, who have enjoyed an increase in income distribution of 85,5% in the past 12 months.

This flowed from an improved investment performance (capital plus income) of 18,98% for the year, says the latest Syfrets Managed Assets quarterly report.

By comparison, the JSE overall market index increased by 2,8% (including income) over the time.

Income distribution for the three months was 3,41c a unit, realising a total distribution of 10,03c for the year.

SMA fund manager Anthony Gibson says only minor additions were made to existing stock holdings over the past quarter. He forecasts that an era of positive real interest rates will exert the most significant influence on investment patterns for some time.

He says the declining trend in prices on overseas share markets, coupled with the deterioration in economic fundamentals in the SA economy, has also continued to have a negative effect on the JSE.

Strategy remains one of cash accumulation until investment opportunities represent attractive value. Liquidity levels of 34% provide the portfolio with a cushion against share price weakness.

Syfrets's investment philosophy with regard to the management of Syfrets Income Fund has also remained essentially unchanged over the past quarter.

Very little of the Syfrets Income Fund was diverted into cash with the major investments being placed in medium-date gilts and short-term deposits.

The mix brought about an income distribution of 4,07c a unit over the quarter, bringing total distribution to 16,63c for the year. This represents an income yield of 16,32% on the unit price ruling 12 months ago. The total return amounts to 18,43% for the year.

15/10 ay

COMPANIES

Liquidity helps Norwich NBS fund

8/10/90

LIZ ROUSE

NORWICH NBS unit trust pushed its liquidity level to 32,8% of total assets in the September quarter, in line with its defensive strategy.

In addition, the fund had a 6,6% holding in Eskom E168 loan stock as a hedge against volatile equity markets.

Due to favourable rates earned on these investments, the fund declared a record distribution of 12,03c a unit, bringing total distribution for the year to 23,67c — an increase of 43% over the previous year.

Fund manager Charles Graham says the high liquidity level helped protect the fund from cold winds that have been blowing through foreign and local stock markets.

Despite the high level of liquidity at the quarter end, the fund was able to add to various holdings and to initiate new holdings from a "most favourable" inflow of new funds during the quarter.

New positions were taken in Anamint, Richemont and Interleisure, while the Anglo, Gencor, Minorco, Barlows and Liberty holdings were added to. The Dries, West Deep and Messina holdings were sold.

Graham says the equity market is again entering value territory in selected areas and the fund's liquidity will gradually be reduced to increase its equity exposure.

SAAMBOU MAY SEEK SHELTER

By DIRK TIEMANN

THE merger and rationalisation trend epitomised by Allied, Sage Financial Services, UBS and Volkskas discussions to form a mega-bank may force Saambou to take shelter in a group.

Group managing director Christie Kuun says Saambou will not rush into anything. "I've got a responsibility to my shareholders, the staff and to the name of Saambou. If the three parties stand to benefit from such a proposition, we will consider them." 58

Mr Kuun says Saambou is ~~keeping its~~ eyes open for good business propositions. On the question whether the small independants still have a role to play, Mr Kuun thinks it would be a pity if they disappeared. "Three or four big financials will manipulate the market. Is this a market orientated situation? There must be room for a medium-sized organisation. I think it will be an unbalanced situation."

Mr Kuun has just been to Europe to view state of the banking technology. "As office automation gets off the ground, staff reductions in the banking sector will be substantial. Capex on new technology is the highest cost on the annual budget, together with staff costs. I believe that computer-sharing bureaus should be established. Tukkies, ourselves and a third party, are sharing mainframes.

"The problem is not over-banking, but rather overcomputerisation. The costs involved in this computerisation, means that smaller groups will be forced to move closer together. We will maintain the status quo, with our eyes open."

S Times 7/10/90

Money

Saambou considers itself totally independant, even when it had Volkskas as its big brother. "Although Volkskas directors were on the Saambou board, we never had a money connection.

"Since we went public, Sanlam and Volkskas have no representation on the Saambou board." Sanlam and Volkskas each have about a 10% stake in Saambou.

Mr Kuun says the building society business is the power-base. "We can't turn away from it, because we are specialists in this field.

The Building Society Act restricted our business, while the Bank Act gives more scope to banking, which prompted us to start our own bank." Saambou has assets of R600-million.

Real returns the secret to success

S/Times 7/10/90

58

THE life offices have just completed an extraordinarily successful decade, in which cash flows have grown strongly in real terms, virtually continuously, even though savings have declined sharply.

By GERHARD van NIEKERK
Chief Operating Officer, Old Mutual

This success has attracted criticism and concern, not least from banks and building societies that compete in the savings market.

Unfortunately there is a great deal of muddled thinking in this discussion. As I see it the two key issues that need to be addressed in this savings debate are:

First, why has the savings performance been so poor, and why have the life offices captured the lion's share of personal savings?

Second, to what extent have these factors inhibited domestic economic growth and job creation?

To answer the first question, we need to quantify the fall in savings. Total net domestic savings declined from 21,3% in 1980 to only 5,8% by 1989.

Culprit

There are three sources of domestic saving — corporate, government and individual. Net corporate savings fell from 11,6% to 5,5% last year, but now contribute virtually all of the net savings in the economy.

Government has been a major culprit in the decline in overall savings, with government saving falling from a positive figure of 3,8% in 1980 to negative saving in the period 1984-89.

The other really worrying part of the saving picture is net personal savings, which fell from 6,1% of GDP in 1980 to only 0,5% in 1989. Expressed as a percentage of personal disposable income, savings by individuals declined from 10,8% to only 0,8%.

The apparent contradiction between this decline in personal savings and strong cash flows to life offices and pension funds is that households increased their debt to banks and building societies almost as fast as they increased their "contractual savings" — remember the average figures quoted above are net figures.

Without the life offices' ability to attract long-term savings, personal savings would have actually declined very sharply over this past decade.

Overwhelmingly the most important causes of low personal savings have been endemic high inflation, combined with the associated long periods of negative real interest rates, and high marginal tax rates on nominal interest income.

In after tax-terms the real returns to savers in banks and building societies have been extremely negative in recent years.

Dramatic

Such savers have literally been robbed of the value of their savings in this process.

It is this fact, and not the supposed tax advantages that life offices enjoy, that explains the dramatic swing of savings away from banks and building societies and towards life offices who have been able to offer positive real returns on savings via their ability to put funds in so called growth assets, namely equities and property.

The authorities have now adopted a policy of maintaining positive real interest rates and reducing inflation, and we support this — even if it makes banks and building societies more competitive in savings markets.

On the second key issue, neither the declining level of savings in the economy nor the fact that a greater share of those savings went to the life offices, either explains or contributed to the economy's declining propensity to invest in recent years.

Fixed investment in real assets is largely dependent upon businessmen's perceptions about future demand for their products and the expected future return on such investment.

During most of the past decade economic conditions have been generally depressed and perceptions regarding the future clouded by political uncertainty and financial instability, including extremely volatile interest and exchange rates and high inflation.

Furthermore, economic policy was for most of the period deliberately aimed at dampening domestic demand and fixed investment to generate the required surpluses, in the current account of the balance of payments to meet obligations to repay large amounts of foreign debt.

Limited

The sad fact is that even though the level of domestic savings has fallen, the level of domestic investment has fallen even more, so that domestic savings have exceeded domestic investment by a wide margin in recent years.

This surplus capital has been exported to foreigners.

There has been neither the will nor the need to expand capacity in the economy through net new fixed investment.

Accusations that the life offices have channelled the money into the "wrong" areas simply miss the point — in overall terms there was limited demand for funds in the "right" areas, and if demand had been stronger the extra savings would have been channelled there.

A particular criticism of the life offices is that they perversely prefer investment in paper assets on the JSE to investment in "productive" assets.

It is not the business of financial institutions to directly own or finance fixed investment assets — that is the business of industry.

By subscribing to rights issues of existing companies or to paper in newly listed companies, financial institutions provide the true long-term risk capital that is needed to finance industrial and mining development.

The problem has been that because overall demand for investment funds has been low, there has been a relative dearth of new equity issues.

The role that life offices have played in absorbing the flood of equity disinvestment from SA should also be noted, serving to both protect local employment on a large scale and reduce dividend and interest payments to foreigners.

Returns

Furthermore, investment in existing rather than new equity assists the growth process because higher share prices reduce the cost of capital to industry.

In addition, investment in equities has provided policy holders with positive real returns on their savings and thus has created additional wealth to finance future investment.

The feeling that not enough personal savings have been channelled into banks and building societies by implication suggests that there has been an overall shortage of bank credit in the economy.

This is a second important misconception, because the evidence indicates otherwise. Indeed, there has been, more often than not, *too much* bank credit extended, i.e. excess money supply growth, for much of the last decade.

Much of this credit has been used to finance consumption spending. Would not a higher level of savings in deposit-taking institutions have resulted in even more credit-financed consumption spending?

A recent World Bank study shows the critical importance for development of well developed financial institutions that can attract long-term savings.

The authorities should therefore be wary of misguided appeals to "level the savings playing field", which could be motivated by self-interest.

They should avoid making the field for long-term savings unplayable.

Avins well set for new acquistions

Benefits for small companies

58

STimes 7/10/90.

NEWLY constituted Anglovaal Insurance Holdings, with assets of R500-million, is well set to add other financial institutions to its structures.

The new insurance company was recently formed after the merging of Crusader Life and AA Life under the Anglovaal umbrella. Likely life and short-term insurance companies would be incorporated within Avins.

A Fergusson Bros, Hall, Stewart research report says there are a number of small unaffiliated life offices which could benefit from incorporation into the Avins structure. This would give access to scale economies in administration, not normally attainable.

Group managing director Brian Benfield says the group structure allows the introduction of new players without disturbing the culture.

Crusader Life and AA Life have not been merged and the cultures and markets have been left undisturbed. Mr Benfield outlines several benefits and opportunities of being under the Anglovaal roof.

By DIRK TIEMANN

BRIAN BENFIELD

Small

Intergroup re-assurance means that a greater part of the risk is kept inhouse. Re-assurance premiums outside could thus be reduced.

The brokers' research report says that as both companies are fairly small they have reduced risk through re-assurance, at the expense of profits.

The R50-m in assessed tax losses incurred by both companies under the I-E life assurers tax regime will ensure greater profitability in future.

The brokers' report says the new structure also removes a capital constraint faced by the two life companies. New life policies tend to be unprofitable for the first year because substantial costs are incurred, which are greater than the premium.

This so-called new business strain means that additional capital is required to sustain the growth rate.

AA Life secured R50-m in 1989 through the Anglovaal buy-in. The rights issue in Crusader has been abandoned because of the high cost of capital.

Mr Benfield says: "We would like to be well capitalised, and we will increase capital in due course." Crusader will operate on existing capital for the time being, but it will have easier access to capital through the Anglovaal parent.

Mr Benfield says the Anglovaal name should bring marketing and financing advantages.

AVF Business Systems, a wholly owned subsidiary of Avins, services both life companies which operate side-by-side with the same computer systems, infrastructure and using common services.

Mr Benfield says many aspects such as underwriting, actuarial work, billing and accounting are the same for the industry.

He does not expect the life business to decline dramatically because endowment savings are likely to continue strongly, in line with inflationary wage increases.

Attractive

The brokers' report gives Avins' dividend contribution for 1989 at 6,4c a share and the forecast for 1990 and 1991 is 5,8c and 9,7c respectively.

Earnings for Avins are projected at 8,9c and 16c a share for AVF. This excludes savings in administration costs and organic growth in income for both life companies.

Mr Benfield says the exposure to investments will increase, because asset management is looking increasingly attractive.

BACKGROUND

(58) Star 5/10/90

Highway robbery, they scream – again

A new policy of tolling existing freeways — reversing the policy of tolling only new roads — is being drawn up by the Department of Transport. SHIRLEY WOODGATE looks at one of the most emotive issues in the history of South African road transportation.

The privatisation of roads in South Africa ranks as one of the greatest transportation disasters of all time, second only to the maiden voyage of the Titanic, Johannesburg city engineer George Grant once said.

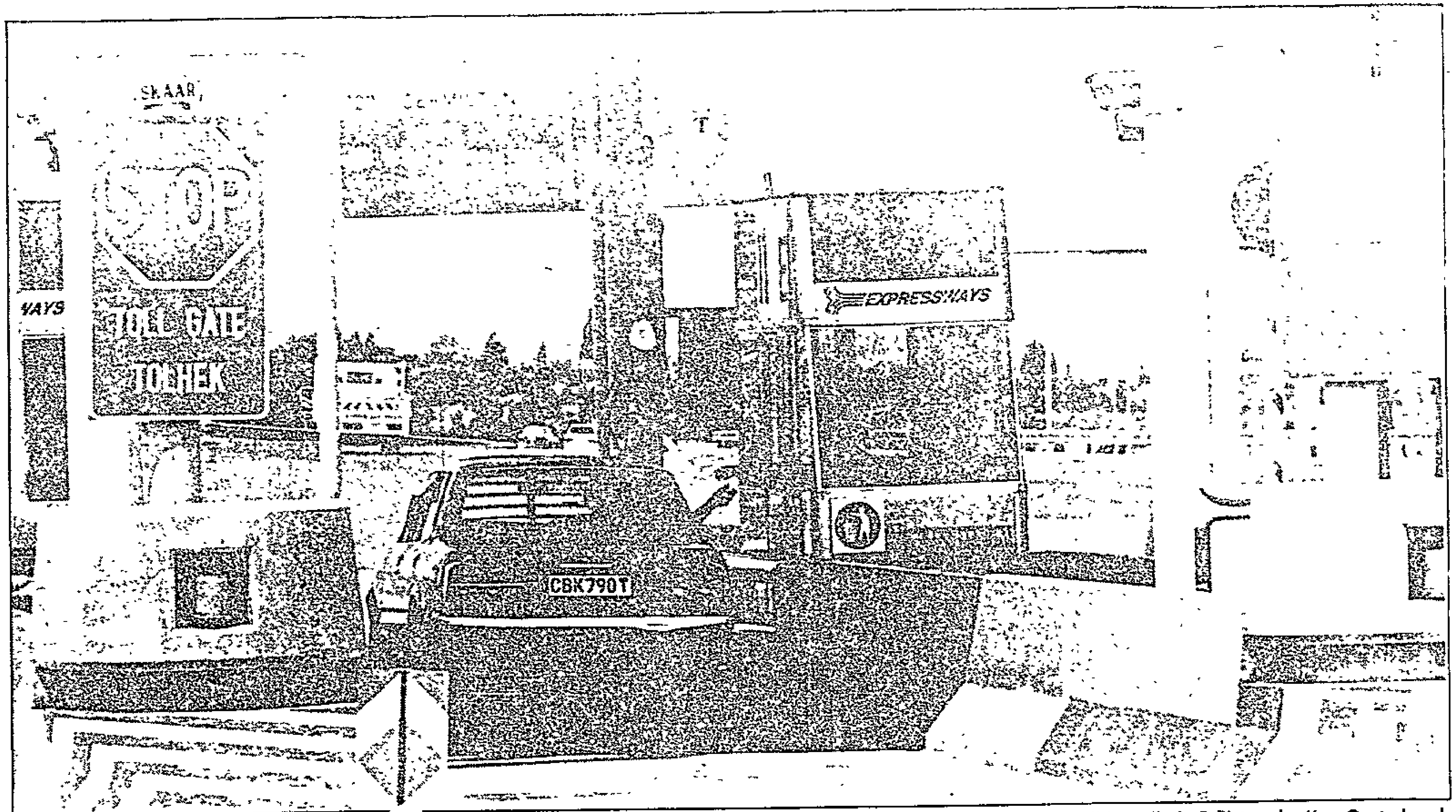
He was discussing the financing of parts of the N3 toll road linking the Reef to Durban.

The history of road tolling in South Africa has been a sorry tale of poor public relations, public outrage leading to toll concessions, and court action both threatened and actual.

It was court action which finally plunged the toll road concept to an all-time low when the Johannesburg City Council was forced to take the Government to court to have the Winchester Hills Plaza on Tollways' Springs/Krugersdorp highway thrown out.

From day one, when the system of obtaining funds to finance new roads was mooted before 1980, the glaring omission was communication with the very people who would deliver the money at the toll plazas. the motoring public.

It was, therefore, hardly surprising that this sector reacted with outright anger when they were forced to foot the bill at the plazas after paying for years the so-called dedicated fuel tax for the construction of new roads.



Paying the price . . . If the Government's 'network' toll road policy is approved by the Cabinet, all major freeways will be tolled. © Picture by Ken Oosterbroek.

The Government left it largely to the two major toll companies, Tolcon and Tollway, to sell the concept. But the toll companies were hindered in that they were in no position to speak on behalf of the State.

By the time the toll companies were freed to launch into public relations campaigns, it was a case of "too little, too late".

In July 1988 the then Johannesburg management committee head Danie van Zyl claimed that former Transport Minister Hendrik Schoeman had undertaken not to toll existing roads — but the Department of Transport denied this.

At that stage the question of alternative routes was high on the agenda, and Minister Eli Louw said of the N13 toll plaza: "If the alternative route does not comply with acceptable standards, the department will sympathetically reconsider the matter to ensure that the alternative routes comply with the requirements."

Latest announcements have excluded reference to alternative routes.

Until yesterday — with the announcement that existing freeways could be "tolled" to pay for their maintenance — the uproar over toll roads had largely died down

For as the toll road question came in for public debate in the late 1980s, the concept of tolls gained wider acceptance.

It was a fact that the State could not afford to build new roads, so privatisation in the form of toll companies appeared the only answer.

But now, "highway robbery" is again the cry.

Johannesburg Metropolitan Action Group secretary Conrad Berge said yesterday: "Previous categoric denials that existing freeways would be tolled on this massive scale had always been positive proof it would happen, as this has been the style of those involved."

The apparent about-turn in policy announced yesterday — from charging tolls for new freeway construction roads to imposing tolls on highways long in existence — is highlighted by a previous statement reportedly made by Transport Minister George Bartlett.

The Minister commented that one of the major problems which had to be resolved was the "understandable concern" of the public about high tolls, "particularly of existing roads"

That motorists are unwilling to accept that roads, which taxpayers have already paid for, should be tolled is highlighted by a recent Automobile Association study

Some 73 percent of motorists canvassed were not prepared to pay toll fees on existing roads.

AA spokesman Robin Scholtz said the AA's policy was that it accepted tolls on condition that only new roads were developed as toll projects

"Only the inclusion of small sections of existing roads in a tolled scheme may be considered in exceptional circumstances," he said.

A major consideration which the AA insisted on was that alternative roads must be maintained in good condition for the duration of the competing toll road.

Mr Scholtz yesterday said the organisation would be reviewing this policy at the earliest opportunity.

Asked to comment on the new plan, Road Freight Association chairman Deon Blignaut yesterday said tolling a new network of freeways and existing freeways would inevitably push up the cost of road transport

However, he expressed "reluctant" acceptance of the new policy.

"We were informed of the move on Monday at a meeting in Pretoria with Transport Minister George Bartlett, Malcolm Mitchell and Ronnie Meyer, and after hearing the reasons, we are reasonably happy to accept the new policy.

"We have previously favoured the addition of levies to fuel or licences as a more efficient way of collecting money.

Welcoming the move, Tolcon chief executive Ron McLennan said tolls were the only solution if the country's road system were to be maintained.

R50-m boost for health services

Star 5/10/90 58

MARITZBURG — President de Klerk yesterday announced a R50 million injection for the financially strapped Natal and KwaZulu health services and urged those involved to meet Minister of Health Dr Rina Venter next week to discuss how best to spend the money.

He was speaking during a surprise visit to Durban's King Edward VIII hospital.

The move comes at a time when health administrators are expressing their dismay at falling standards of care because of budget restraints. Hospital and ambulance chiefs have said services were stretched to the limit and on the point of collapse in some instances.

Medical Association of South Africa chairman Dr Bernard Mandell welcomed the news, but urged the Government to create a unitary health system under one Minister. — Sapa.

ALPHA BANK FM 5/10/90

RAISING QUESTIONS (58)

Should Alpha Bank be liquidated, one estimate is that there will be a shortfall of roughly R15m-R20m on total lendings of about R140m. That means depositors will lose. While an Alpha director says the estimate is excessive, "a shortfall will only occur if there is a fire sale, otherwise we should be able to meet our obligations," other sources say a shortfall is inevitable.

The best solution would be for Alpha to be taken over by a "big brother," to ensure all deposits are covered. There have been discussions with several life assurers, including Fedlife and Sanlam, and other financial institutions, but a deal is not in the offing.

It does not make sense to take over net liabilities, without compensation. Some consider the banking licence to be a valuable asset, worth more than R1m, but the Reserve Bank says there is no such thing as a banking licence. They are certainly not for sale.

The provisional liquidation of Spareco will not help matters. Alpha is unlikely to get back all the R6m it lent the troubled autoparts company last year.

Rough calculations suggest Spareco has

FM 5/10/90 (58)

liabilities to the banks of R51m and other liabilities of maybe R10m-R15m, against stock of R27m (worth maybe 30c/R1 in liquidation), R2m property and other assets of R9m (worth about 50c/R1 in liquidation). According to these figures, and if they get preference over trade creditors, banks could see about 30c/R1, suggesting Alpha will only recover about R2m.

There are also an increasing number of questions about Alpha's relationship with Pinnacle Holdings, which has its own problems (see *Investors revolt*). Last week, Alpha Bank CE Reinhold Joubert called the relationship "distant" and pointed out that Attie Botha — with whom he formed Alpha — is no longer chairman of Pinnacle.

Sources close to Pinnacle say that substantial sums from Alpha were used to finance Pinnacle's assets, as well as projects in which Botha was personally involved (*Economy* September 28).

Botha was an executive director at Alpha but has resigned, while retaining a 10% stake. Joubert is a director of Pinnacle, though he had resigned for the 10 months to February this year. Further accusations of conflict of interest may be difficult to avoid.

Detmar Schwichtenberg

Rent boycott to stay until demands met – Mayekiso

Star 5/10/90

By Esmaré van der Merwe, Political Reporter

Rent boycotts would continue until a wide variety of demands, including the scrapping of all discriminatory laws and the current system of local government had been met, the president of the newly formed Civic Associations of the Southern Transvaal said last night.

Moses Mayekiso said the organisation would meet on Sunday to draw up a plan of action on violence, the curfew and the "mini state of emergency" in several townships.

Speaking at the ANC's first conference on local authorities in Johannesburg yesterday, Mr Mayekiso said civic associations should retain their independence, stay clear of any political affiliation and should not replace local government structures.

They should remain pressure groups fighting for better socio-economic conditions and should act as watchdogs over any future government.

Demands which should be met before the rent boycotts were called off included:

- Scrapping of the black local authority system.
- A start to negotiations on a system of nonracial municipalities.
- Ending of the "mini states of emergencies" and phasing out of the hostel system.
- Abolition of discriminatory laws.
- A stop to the privatisation of housing, with civic associations taking control of residential development.
- Removal of imbalances in the distribution of wealth through economic restructuring, including nationalisation.

BDay 5/10/90

Finrand fund lures foreign investors

58

GRETA STEYN

EUROPEAN investors have pushed more than R20m into the Standard Bank-backed Finrand High Yield Fund since the fund's launch in mid-August.

The trust has been listed on the Luxembourg Stock Exchange and holds a portfolio of capital market stock quoted on the JSE. The fund is administered by the Banque Internationale á Luxembourg but Standard Bank is responsible for most of the marketing and investment advice.

Standard Bank Fund Managers MD Derick Finlayson said yesterday all the gilts purchases as a result of the inflow had not been completed.

"Careful management of the fund's liquidity will be necessary. We would prefer the size of the trust to grow gradually as excessive volatility could present problems."

The volume of demand so far was all the more surprising as fullscale marketing of the fund had not yet begun. Finlayson, who tested the market in Europe before the launch of the fund, said this was partly because of listing requirements in Britain and Germany.

The finrand discount makes the fund an attractive investment giving a high return — in commercial rands — with tax benefits. It is similar to a unit trust and has the benefit for the individual investor that he need not keep tabs on the SA capital market.

193 cases for life industry ombudsman

B Day 5/10/90 (58)

LESLEY LAMBERT

CAPE TOWN — The life assurance industry's ombudsman Mr Justice G P Kotze received 193 complaints against the industry last year, many of which were related to low policy surrender values.

Commenting in his annual report, Mr Justice Kotze said the number of complaints represented a substantial increase on previous years, which indicated a growing awareness of the service he provided to policyholders.

Finality was reached in 101 of the cases he was able to follow up and all requests for companies to reconsider decisions adverse to policyholders or beneficiaries received a favourable response, Mr Justice Kotze reported.

Of the 101 cases where finality was reached, just over 50% were resolved wholly or partially in favour of the complainant.

The number of complaints about surrender values (28) was double that of last year. In 11 of the cases submitted, he decided in favour of the complainant.

He encouraged life assurers to continue their efforts to inform unsophisticated policyholders of the disadvantages of surrendering policies early to obtain ready cash in times of financial need.

Another common complaint was the repudiation or reduction of disability benefits. In eight of the 13 cases submitted, the ombudsman found in favour of the complainant.

COMPA

BDay 5/10/90.

Momentum Unit Trust holds price slide

LIZ ROUSE

MOMENTUM Unit Trust held its price decline at 5,89% compared with the JSE overall market fall of almost 14% over the September quarter. (58)

Momentum Asset Trust MD Peter du Toit says the rapidly changing international and local investment background makes investment focus exceedingly difficult in the short to medium term.

The pace of change in social, economic and political orders has been substantial during the past 12 months.

Perceptions of value are undergoing fundamental reassessment, he says.

However, difficult as it is to focus investment in the short term, a new dispensation in SA will herald many new opportunities.

The prime objective of Momentum fund managers is to manage investment funds in such a way as to secure maximum long-term benefits, he says.

R1 fee on Ben Schoeman mooted

SAch 4/10/90 (58)

Plans to toll all highways in pipeline

By Peter Fabricius and Louise Burgers

The Government is considering imposing tolls on the busy Ben Schoeman highway linking Johannesburg to Pretoria — and all other major freeways.

A new policy of placing tolls on existing freeways — reversing the policy of tolling only new roads — is being drawn up the Department of Transport.

The Department of Transport disclosed this today after being approached for comment on a report that the Transvaal Regional Development Advisory Committee had proposed that a R1 toll be established on the Ben Schoeman highway which is used by more than 400 000 cars each week.

Today deputy director-general of transport Malcolm Mitchell said that, although no decision had been made about the Ben Schoeman, it was "quite conceivable" this would be one of the main roads considered.

He said a new "network" toll policy — which he stressed had not yet been approved by the Cabinet — would be based on the principle of equality. It was unfair to erect tolls only on new roads because this placed an uneven burden on them.

Poorer people

Mr Mitchell quoted the example of the new "outer, outer" ring road which was being built around Durban. This road was mainly for the use of poorer Indian and coloured people.

Yet if the policy of tolling only new roads was followed, the toll on this road would probably be in the order of R8 or R9 — while motorists on the existing western bypass road paid no tolls.

Asked whether it was not unfair to toll people on roads which they had already paid for through their taxes, Mr Mitchell said the building costs of a road were usually only about a third of the eventual lifecycle costs of the road.

The major expenses were incurred in maintenance.

A major publicity campaign was being envisaged to market the new policy if it was accepted.

Guardbank trusts go on the defensive

By Derek Tommey 58 Star 4/10/90

Deteriorating conditions in the share market led Guardbank Growth Fund, SA's second-largest unit trust, to go on the defensive in the September quarter.

In times of uncertainty, the institutions like to switch their investments into cash, and Guardbank followed this line.

Its holdings of cash and near-cash jumped 30 percent from R164,5 million, or 16,9 percent of the portfolio, at the end of June to R214,3 million, or 22,93 percent, at the end of September.

At the same time the value of shares held declined 11 percent from R810,6 million, or 83,13 percent, to R720,3 million, or 77,1 percent.

Guardbank says its net disinvestment from equities was R9,3 million, suggesting that much of the R90 million drop in the value of its equities was the result of falling share prices.

The total value of Guardbank's portfolio of cash and shares declined just over four percent from R975,0 million to R934,6 million, indicating that the fund continued to enjoy a sustained and heavy cash inflow.

This is confirmed by the 7,24 percent drop in the repurchase price of Guardbank units in the quarter, indicating an increase in the number of units issued.

However, despite the fund's setback in the quarter, the repurchase price of its units was 5,29 percent higher than a year ago.

Dividends totalling 86,6c were paid during the year, equal to a return of 5,5 percent on the Septembee 1989 repurchase price of 1561,08c.

During the quarter, Guardbank sold its Frame group and Curfin shares. It reduced holdings in Minorco, Barlows, Curfin, Richemont, Sappi, Iscor and Remgro.

The only completely new addition to the portfolio was gold share Winkelhaak.

Guardbank increased its holdings in other gold-related companies, including Kinross, Anglo American, GFSA and Rand Mines. Its 10 top holdings at September 30 were Richemont, De Beers/Centenary, SA Breweries, Liberty Holdings, Wooltru A, Anglo American, Adcock, Anamint, Gencor and Rand Mines.

Guardbank Resources Fund also went on the defensive. Its holdings of cash and near-cash rose from R9,7 million to R13,5 million, while the value of its equity holdings dropped from R46,6 million toR39,6 million. The value of its portfolio fell from R56,3 million to R53, million.

The fund's repurchase price dropped 7,04 percent during the quarter, but has decreased by only 2,58 percent in the past 12 months. It paid 8,95c in dividends.

It increased holdings in Rand Mines and East Dagga, while selling Palamin, Minorco, Lonrho and Sappi.

Its top 10 shares at September 30 were Witbank Colliery, De Beers/Centenary, Kinross, Sasol, Anamint, Rand Mins, Amcoal, Northam Plats, East Daggfontein and Anglo American.

NBS Hallmark pushes portfolio to R12,5m

B Day 4/10/90

(58)

LIZ ROUSE

ASSETS managed by NBS Hallmark mutual fund increased in the September quarter despite investor uncertainty arising from domestic unrest and the Gulf crisis, and the decline in the local share market.

In the 26 months since NBS Hallmark was founded, its portfolio has grown to R12,5m.

Commenting on the fund's performance in the past three months, MD Ken Burns said that, naturally, with all the uncertainty about, net sales slowed.

However, the blue-chip, rand-hedge quality of its share portfolio and high liquidity cushioned unitholders from a major decline in the value of the portfolio.

Burns said that NBS Hallmark had adopted a somewhat defensive investment strategy of late and increased liquidity again, from 25% at the end of June to 30% at the end of September.

In addition to this high level of liquidity, the trust held almost 6% of its assets — or more than R700 000 — in long-dated Eskom E168 stock.

At September 30, the fund held 30,1% of its assets in mining and mining finance shares and increased the industrial equity portion of its portfolio to 34,3% from the June quarter's 32,9%.

During the quarter the fund marginally increased its holdings of Anglos, Midwits, NBS, BTR Dunlop, Engen, Sasol, Powtech and Sunpak and made new investments in Lonrho, Cadschweppes and Consol.

NBS Hallmark's top five investments are Eskom 168, Sasol, Minorco, Higate Property Fund and Richemont.

The fund is making a 26,54c a unit distribution for the six months, which is 16,6% higher than the distribution a year ago.

This put the fund on a 8,04% yield on the repurchase price quoted at the end of the quarter.

Life assurers meet tax men

58

GRETA STEYN

LIFE assurers' bid to stave off tax clamps and other measures that could be included in plans to restructure the economy will feature in discussions between them and senior monetary and tax officials today.

Life assurers' representatives will meet Finance special adviser Japie Jacobs — who is conducting a special investigation into the industry — as well as tax advisory committee chairman Michael Katz and Reserve Bank officials in Pretoria today.

There is no agenda for the meeting but life assurance sources said they expected tax to be an important topic of discussion.

The building societies are lobbying Katz and Jacobs to subject the life assurers to higher effective tax rates. The life offices have already submitted written responses to the societies' arguments.

Today's meeting comes as government is poised to announce a comprehensive economic restructuring plan. Part of the plan will be a move to encourage discretionary savings rather than contractual savings (marketed by the life offices).

The plan's main architect, Administration and Economic Co-Ordination Minister Wim de Villiers, is understood to have looked at tax life offices' earnings and their investment returns as a way to encourage greater flow of savings to banks.

Imposing punitive banking legislation on life products that could be compared directly to banking business is also a possibility.

Industry sources, however, expect De Villiers to wait for Jacobs's report on the life assurance industry before any final decision on specifics is taken, confirming expectations that only fragments of the plan will be announced soon.

BDay 4/10/90

Share falls reflected in GuardBank trusts

BDay 4\10\90 (58)

LIZ ROUSE

QUARTERLY results from GuardBank's two equity trusts — Growth Fund and Resources Fund — showed the ravages caused by the fall in share prices towards the end of the September quarter.

The GuardBank Income Fund, on the other hand, is beginning to look brighter with its gilt holdings.

The Growth Fund and the Resources Fund disinvested R11,9m (including lightening holdings in blue chips), pushing up their liquidity levels. Repurchase prices of the two funds suffered declines of 7,24% and 7,04% respectively.

However, the JSE all share index fell 10,8% over the quarter, sparked by a hefty 25,8% decline in the diamond index and falls of more than 10% in the mining financial and industrial indices.

GuardBank portfolio managers point out that, notwithstanding the market mauling which took place in the third quarter of 1990, the overall equity market is only at slightly lower levels compared with last year.

The overall financial and industrial indices have declined by 0,8% and 0,2% respectively for the year to September 30 1990.

Putting the two equity funds' longer-term performances into perspective, the Growth Fund's repurchase price showed a rise of 5,29% over the year. Taking income distribution of 86,60c a unit into account, the overall increase in the fund's repurchase price (reflecting both income and capital appreciation) therefore amounts to 10,83%.

Satisfactory

The Resources Fund's repurchase price decreased by 2,58% over the year to September but taking income distributions of 8,95c a unit into account, the overall increase in the unit price over the 12 months amounts to 4,39%.

The Income Fund, on the other hand, enjoyed a highly satisfactory quarter, being invested in gilts, maintaining a high level of liquidity and showing a return well above the inflation rate for the 12 months, taking distribution into account.

Total assets of the Growth Fund fell to R934,6m from slightly more than R975m in the June quarter, with the value of its equity portfolio down to R720,3m (R810,6m) and liquidity up at R214,3m (R164,5m), representing nearly 23% of total assets compared with 16,87% in the June quarter.

Resources Fund's assets declined to R53,1m (R56,3m) with value of its equity portfolio down to R39,6m (R46,6m) and liquidity up at R13,5m (R9,7m), equal to 25,43% of total assets compared with 17,23% at the end of June.

The fund's portfolio managers consider the performance satisfactory in the face of difficult conditions.

The Income Fund fared well with value of short dated gilts up at R9,9m (R8,4m) and liquidity improved to R3,2m (R1,9m), equal to 24,67% of total assets compared with 18,48% at the end of June.

The fund's repurchase price showed an increase of 4,72% over the quarter while the increase over the past 12 months was 1,53%. Taking distribution of 18,32c a unit into consideration, the increase in the unit price over 12 months was 18,23%.

It was a difficult quarter and GuardBank fund managers are looking forward to a return of relative stability to world bourses.

Insurer takes the next step towards automated system

BDay 4/10/90

Information Technology
MELANIE SERGEANT

(58)

SHORT-term insurer Auto & General is turning to expert systems to automate and improve the quality of its decision making.

The UK-supplied KnowledgeLink, which is represented locally by Information Trust Corp, is being used to analyse the insurer's customer base and to segment it into groups with identifiable characteristics and assignable risk factors.

The move to expert systems is the latest in Auto & General's high-tech range; it pioneered the concept of telephone-based insurance, and sees the application of knowledge-based expert systems as a logical advance in its move to automate its systems.

MD Steve Klinkert says: "Being successful in the short-term insurance field is all related to making good-risk decisions and identifying profitable market segments.

"The expert system will automatically assign incoming business to particular categories and will indicate risks and possibly even premiums to be charged for business."

He predicts that SA's short-term insurance sector will soon copy the trend abroad in installing expert systems.

Projects

ITC chairman Paul Edwards says Auto & General's decision is a breakthrough for KnowledgeLink in SA.

"We have spent recent years concentrating on systems for the financial sector, and have notched up several successes with local banking groups.

"We are already delivering mainframe-based systems geared to improve decision-making processes in areas such as hire-purchase lending and credit card assessments.

"Several projects have been undertaken for one major banking group."

KnowledgeLink supplies expert systems and related consulting services worldwide. Its approach is developed by expert systems specialist Donald Mickey.

Systems are provided for many large international and local financial institutions ranging from banks, to credit card organisations and short-term insurers.

"A system similar to that being developed for Auto & General in SA has been developed for a leading UK motor insurer, and has proved so good at predicting risks involved that the company added £4m to its bottom-line profits during the first year."

(58) St 3/10/90

Unit trusts take a pounding

By Magnus Heystek

Unit trust investors took a knock in the quarter to end-September and were given a timely reminder that unit trusts still contain an element of risk in the short-term.

The long-term trend of positive performances has been badly dented by the weak equities market in the quarter to end-September. But, due to high liquidity levels maintained by most fund managers, setbacks were cushioned to some extent.

Equity markets have been badly buffeted by the Gulf-crisis since Iraq's invasion of Kuwait on August 2.

While the JSE overall index declined by 10,82 percent during the quarter, the average capital decline of the equity-based unit trusts was 7,11 percent. This calculation does not take into account income and dividend distributions.

The capital performance of general equity funds, which have a broader base than specialist equity funds, ranged from −11,61 percent in the case of Southern Equity to −3,54 in the case of NBS Hallmark.

The other fund that performed weaker than the overall index was UAL on −10,99 percent.

Ironically, in the previous quarter NBS Hallmark was the worst-performing general equity fund.

The specialist equity funds fared better. As a result of the rise in the gold price Standard Bank was the best performer, shedding only 0,83 percent with old Mutual's new Gold fund dropping 0,96 percent.

Worst performer was UAL Mining and Resources which was down by 11,94 percent while Old Mutual's Mining fund declined 11,43 percent.

Fund managers are at pains to stress that any investment in unit trusts should be considered as a long term investment. But the sharp decline in equity markets, and hence unit trusts performances, during the third quarter of this year indicate that unit trusts are heading for one of their worst years in a long time.

Unit trusts have recently been pushing for a change in legislation which will allow them the freedom to invest in derivative instruments, such as options and futures. It is believed that the authorities are considering these appeals positively.

Consolidated Fund Managers (CFM), a specialist portfolio management company which was launched earlier this year, reported a 0,28 percent rise during the third quarter, according to figures supplied by MD Clive Fox, reflecting the cautious approach of the fund to equities during this time.

The value of income funds, normally not a favourite amongst unit trusts investors, was underlined by their rock-solid performance during the same quarter. As they are not equity-linked income funds experienced no capital loss.

Spokesman for the unit trust industry declined to comment on the flow of funds of unit trusts.

The quarterly report of the Association of Unit Trusts is expected within a couple of days.

British unit trusts have been reporting a net outflow of funds following on the weak markets but this does not automatically mean that local investors will follow suit.

● Old Mutual yesterday announced it was paying out a record 59,3c a unit for its Investors' Fund for the September quarter, bringing the total for the year to 112,99c a unit — up 19,5 percent from last year.

The recently introduced Industrial Fund is paying 4,99c a unit and the Income Fund 4,56c, giving a total of 15,24c a unit.

●Sanlam's unit trusts outperformed the major indices during the quarter. As the share market became increasingly expensive during the first half of the year, liquidity was gradually increased.

Sanlam Trust declared an income distribution of 38,0c a unit and Sanlam Dividend Trust 8,8c.

This is how the various growth funds performed during the third quarter (percentage declines):

General equity funds

Allegro	(5,56)
BOE	(8,98)
Guardbank Growth	(7,72)
Momentum	(9,33)
Metfund	(9,78)
NBS Hallmark	(3,54)
Norwich NBS	(6,00)
Old Mutual Investors	(9,01)
Sage	(7,68)
Sanlam	(6,38)
Safegro	(3,47)
Sanlam Index	(10,39)
Southern Equity	(11,61)
Standard	(8,09)
Syfrets	(6,52)
UAL	(10,99)

Specialist equity funds

Guardbank Resources	(8,03)
Sage Resources	(7,44)
Sanlam Industrial	(7,11)
Sanlam Mining	(9,44)
Sanlam Dividend	(2,64)
Southern Mining	(7,45)
Standard Gold	(0,83)
UAL Min & Resources	(11,94)
UAL Sel Opportun	(5,3)
Old Mutual Mining	(11,43)
Old Mutual Gold	(0,96)
Old Mutual Industrial	(1,61)

BDay 3/10/90

Management of unit trusts returns 0,28%

LIZ ROUSE 58

CONSOLIDATED Fund Managers (CFM), a specialist portfolio management company advising on investment in unit trusts, achieved a positive performance of 0,28% for the September quarter.

This good performance reflects CFM's conservative stance on investment in units and the high levels of liquidity being maintained.

Unit trusts continued to decline in line with overall market trends, according to CFM MD Clive Fox. "Preliminary figures (excluding income distribution) indicate that the growth funds showed an average negative performance of 7,11% for the quarter," he said.

According to CFM figures, both general equity and specialist equity funds, however, fared better than the overall market index — which was down 10,82% over the quarter.

Top performing funds were the two gold funds with a performance of slightly better than minus 1% for the quarter — Standard Gold down 0,83% and Old Mutual Gold down 0,96%.

One general equity fund recorded minus 11,61%.

CFM's figures show that Old Mutual Industrial performed well under the circumstances with a negative 1,61%, while NBS Hallmark did reasonably well with minus 3,54%, as did Sanlam Dividend with minus 2,64% and Safegro with minus 3,47%.

Old Mutual in big fund payout

Business Day Reporter

OLD Mutual has declared a distribution of 59,30c a unit for its Investors' Fund, adding more than R64m to the investments of about 200 000 account holders.

Old Mutual said that, including the maiden distribution of 4,99c a unit declared by its recently launched Industrial Fund and the 4,56c a unit for its Income Fund, the distributions paid by the Old Mutual unit trusts for the quarter totalled more than R66m. BDay 3/10/90

Distributions for the Investors' Fund are declared in March and September. The total for the year is 112,99c a unit — a 19,5% increase over the previous year.

There's no overkill, insists Reserve Bank

(58) Star 2/10/90

By Ann Crotty

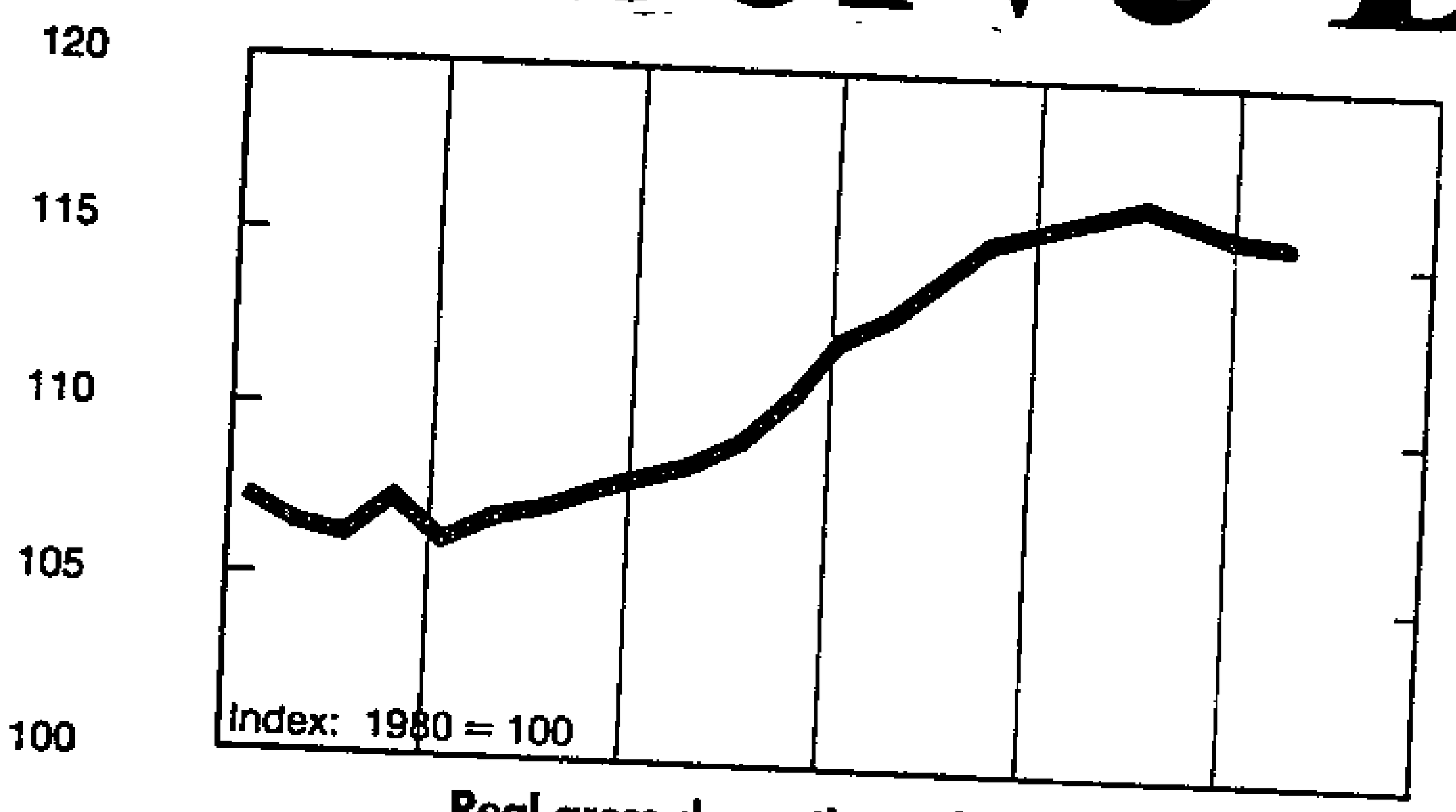
In its latest quarterly bulletin the Reserve Bank defends itself against charges from the business community that current tight monetary restrictions will result in an overkill of the economy.

And it repeats the Governor's earlier message that although the time for a relaxation of monetary policy was approaching, the right moment for such a change had not yet been reached.

The Bulletin adds: "The Bank would not, however, hesitate to relax its policy as soon as such a change could be justified".

But on the basis of the latest available statistics, the Bank seems confident that the "comparatively benign character of the current cyclical slow-down up to the middle of 1990 at least" justifies its current restrictive policy stance.

In fact, the bulletin suggests that far from the gloom and doom picture that businessmen are painting, the economy is currently enjoying a soft-landing. It seems that the level of economic activity is falling but not at break-neck speed.



Real gross domestic product.

Evidence of the continuing mildness of the current downturn includes: relatively stable registered employment figures; relative firmness of the volumes of wholesale and retail sales (including comparatively well-maintained levels of new motor vehicle sales); the absence of a clear upward tendency in insolvencies and company liquidations since late 1988; and the very limited incidence of "amounts overdue" recorded by the banks.

All-in-all, as the bulletin points out: "The composite coincident business cycle indicator moved essentially sideways through 1989 and moved more unambiguously downwards only in February-March 1990."

According to the quarterly bulletin, in the second quarter of 1990 the annualised rate of decline in total real output was just under one percent. Although this was a little higher than the preceding quarter, it means that the contraction in real gross domestic product (gdp) in the 15 months to mid-1990 was in the region of a modest annualised 0,5 percent (seasonally adjusted).

Over the same period, expenditure in real terms was falling by a moderate annualised rate of 2,5 percent.

(In the second quarter of 1990 real expenditure staged a minor recovery chiefly due to a reduced rate of disinvestment in inventories.)

The Bank puts forward a number of reasons for the mildness of the decline in economic activity: the sustained remarkable strength of merchandise exports; the relatively high average level of real government spending; the relative firmness of real private spending and; the modesty of the decline in real fixed investment.

By contrast with the perception that the steps taken by the authorities in July-August 1984 were emergency measures; this time around the gradually more restrictive measures introduced since late 1987 or early 1988 have been met with a more considered response.

Omnia (58) [redacted] Star 1/10/90

Omnia Holdings increased distributable income to R3,1 million for the six months to June, compared with R2,6 million for the comparative period last yer.

Turnover rose to R157,4 million, up from R134,9 million last year.

An interim dividend will be considered at the company's November meeting. — Reports by Finance Staff and Sapa.

AVI looking at R1 billion in capex

Star 1/10/90

58

Anglovaal Industries' (AVI) capital expenditure for the next three years is expected to exceed R1 billion, says chairman Basil Hersov in his annual review.

While borrowings rose slightly, Mr Hersov says gearing remains at a prudent 31 percent (30 percent). Despite the higher level of expected capex, the ratio is expected to decline over the next three years.

The group expects to raise earnings in the current year, but he warns that this forecast must be tempered by any deterioration in prevailing socio-economic conditions.

AVI achieved a substantial advance in earnings for the year to June, despite trading conditions that were more taxing than expected.

He says the substantial earnings advance was achieved in trading conditions that were far more difficult than those of the previous yea)r.

Adverse conditions, including high interest rates and reduced consumer spending, curtailed business performance. The second six months, in particular, reflected a deterioration in trading conditions.@

In the circumstances the group's performance was impressive, with each of AVI's five business sectors contributing to the record consolidated earnings of R207,8 million (R164,6 million).

The impact of the enlarged share capital limited the individual share-earnings increase to 733c (657c), Mr Hersov says. — Sapa.

Allied 'cheques' in

Star 19/10/90

The Allied Bank last night launched its cheque book to complete its line-up of financial products.

The cheque book has a unique feature in the form of a carbon copy of every cheque written out, providing clients with a detailed record of all their expenses.

Speaking at the launch last night Kevin de Villiers, managing director of the Allied Group, said that initial response from the public for this new type of cheque book had been overwhelming.

"Its the first time such a cheque has been introduced in South Africa and possibly even in the world," he said.

Since the Allied converted from a building society into a fully-fledged financial services operation in 1987 its product range has increased from 9 to 55.

FINANCE – GENERAL

1990

NOVEMBER — DEC.

Black builders issue appeal on housing crisis

B Day 1/11/90

58

THEO RAWANA

SOWETO developers yesterday blamed spiralling interest rates for residents' failure to meet their bond obligations, and called on building societies to extend the repayment period from 20 years to 35.

The Soweto Developers and Builders Forum (SDBF) also deplored white developers pulling out of black areas, and criticised building societies' decision to stop granting loans in some areas.

Planning and Provincial Affairs Minister Hernus Kriel said last month eight major construction companies had withdrawn from the black housing market because of political unrest and repayment boycotts.

A number of banks and building societies were later reported to have effectively blacklisted townships where unrest and threats of bond repayment boycotts had occurred.

SDBF chairman Aubrey Mokoena yesterday rejected the allegation that political agitation stopped blacks from meeting their bond obligations.

Mokoena told a Press conference in Johannesburg:

"We believe that the so-called bond boycott is related to the rent boycott in that it has overtones of inaffordability.

"We believe houses must be paid for, but that all misunderstandings must be taken out of all issues regarding black housing bonds and finance."

His organisation would request a meeting with the office of the Minister of Finance and the Reserve Bank, "with a view to discussing the effect of the interest rates on the building industry".

Building societies would be petitioned for a meeting to discuss ideas to ease the pressure on bond repayments by stretching the repayment period.

Inviting white developers to return and form joint ventures with blacks, Mokoena said: "We view the pull-out by major developers and the reluctance of building societies to grant loans as a very strange coincidence. This may be to the further detriment of the small contractor."

Time Holdings financial director Neil Carter said the problem with operating in the townships was that building societies were not lending in some areas, but something had to be done. Interest rates might come down at the end of next year, but the situation had to be assisted by a stable political situation.

Stretching the repayment period would not change the situation much because it would reduce the rates by three percentage points, Carter said.

Allied home loans manager Geoff Bowker said his bank would lend to all areas if it was prudent to do so. "We have to move cautiously where there is an element of risk".

Billions of rands could be unlocked

B|Pay 6|11|90

Assurers in huge housing finance plan

KEVIN DAVIE

THE life assurance industry is investigating a major new initiative which could release billions of rands for black housing projects.

The probe is considering the creation of a government housing stock which would be tradeable on the capital markets, as is Eskom and RSA stock.

Because of the political risks involved in black housing, the stock would be managed by a trust which would have access to further government or development funds, such as the R2bn "backlog" funds which were voted in this year's Budget.

These funds would serve to underwrite the trust and ensure the life industry received a market-related return on its investments. The trust would make direct loans to low-income black homebuyers.

Life Offices' Association (LOA) deputy director Jurie Wessels confirmed yesterday the LOA had set up a committee to look into "socially desirable" investments.

The committee was looking into housing and other "grassroots" economic development ventures such as small businesses and the informal sector.

He said this was done because of pressure from government, labour, the private sector and political movements for the life assurers and pension funds "to stop chasing paper on the JSE and do more to stimulate the economy and benefit the needy".

Wessels said the availability of money was not the problem, but there was a lack of a suitable vehicle in which to invest.

On June 30, the life industry had R37,7bn invested in public sector stocks. The life offices had total assets of R127,7bn at mid-year.

If 10% of these funds were invested in housing stock, R12bn would be released for black housing. At a cost of R20 000 per home, 600 000 houses could be built, but it is doubtful whether land and resources can be mustered to build that many houses.

The disclosure of the life offices' housing investigation comes against the background of discussions between members of the ANC and individual assurers on an informal basis. ANC economist Vella Pillay sparked a public debate on the issue last week when he suggested the life offices invest 5% to 10% of their funds in socially desirable projects.

Life industry leaders Mike Levett of Old Mutual and Pierre Steyn of Sanlam have said they would not voluntarily invest policy holders' and pension fund members' money in development projects which did not yield a market-related return.

Government transferred its R2bn backlog money to the Independent Development Trust (IDT) in July. Several attempts by Business Day to get the IDT to release details of how it intends spending the money have proved fruitless. In August, IDT chairman Jan Steyn told the Afrikaanse Sakekamer in Johannesburg that his intention was to turn the R2bn into R10bn by

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Assurers

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involving the private sector.

Wessels said investment in low-cost housing would mean a lower than market rate of return, coupled with a high political risk: "We need an investment vehicle to bridge the gap between high and low risk."

The life assurers did not believe a national problem should be placed on the shoulders of just the life industry. If the taxpayer could provide funds (such as the R2bn voted this year) to guarantee loans this would buy leverage and financial guarantees.

"The guarantees could be given by government or by an organisation such as the Development Bank, the Urban Foundation or a body created for this purpose.

"Such an organisation could, instead of using the funds available to it for direct development, rather use this money to 'underwrite' loans from assurers and other financial institutions, thereby obtaining much larger funds," Wessels said.

The scheme would be targeted at the lower end of the market.

The housing stock scheme would obviate the need for new prescribed assets requirements.

LOA: housing probe is our idea

B/Day 7/11/90.

THE life assurance industry's investigation into the possibility of making billions of rands available for black housing was not in reaction to ANC demands, says Life Offices' Association (LOA) chairman Dorian Wharton-Hood.

Wharton-Hood, who was responding to reports of ANC demands that insurance companies invest some of their huge cash flow into housing and other acceptable, socially desirable projects, said the LOA's investigation was "proactive" and had started some months ago. (58)

"The LOA committee to look into this matter had been set up on our own initiative and not in response to any organisation or person. There had been no discussions with the ANC on the subject."

Wharton-Hood said life asurers, as custodians of policy-holders' investments, did not have the right to invest their money at anything other than market-related rates. B/Day

While it was true the LOA possessed a huge cash flow and assets, it did not have the resources and infrastructure to manage funds for housing and community projects.

"We are not equipped to operate in these areas. Nor is it our role. Another body will have to be formed to act as intermediary."

The LOA committee had not completed its investigations, and its report would not necessarily recommend investment in black housing, Wharton-Hood said. It might regard community projects such as job-creation or black education as more feasible. — Sapa.

● Comment: Page 10

BDay 8/11/90.

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Business eyes social needs

LESLEY LAMBERT in Cape Town

SA's financial sector, sophisticated by world standards, is applying its expertise to an entirely different problem — that of making development projects viable.

Banks, building societies and life offices have come under increasing pressure from government and political organisations to assist in the process of redistribution by releasing a portion of their investment funds into development projects.

Their responses have been to explore and design sophisticated new financial mechanisms aimed at reducing the risk and enhancing the return of otherwise unprofitable investment projects, like low-cost housing or education.

By making these "socially desirable" investments more financially viable, the institutions hope to achieve what many still regard as the impossible — to meet the growing demands on their resources, while ensuring investment return.

As Independent Development Trust chairman Jan Steyn says, the bottom line is that unless they start channelling a portion of their funds in this direction now, the pressures for radical state intervention as a means of redistribution could become politically irresistible in a future SA.

The Urban Foundation and Mortgage Lenders' Association paved the way earlier this year by introducing a R20m loan guarantee fund to address the risks and constraints on profitability of home loans at the low end of the market — an area previously avoided by institutions.

Essentially, the fund provides insurance guarantees to reduce member institutions' exposure from the traditional 80% to 95% of the mortgage property's value to 65% on loans between R12 500 and R35 000 which attract going rates of interest.

There is also a "sweetener" in the form of special debentures which convert into preference shares after ten years and fulfil capital adequacy requirements, while providing an additional marginal return.

Another benefit is that the institutions can raise the loan capital by way of debentures which convert into preference shares after 10 years. The debenture mechanism, which fulfils capital adequacy requirements and provides an additional marginal return, saves the institutions from applying their own scarce capital resources.

As custodians of the bulk of the nation's savings, life assurers and pension funds have also had to anticipate pressure for a more "direct" contribution to social and economic development.

Still hot from the long battle against prescribed investment in government stock, the life industry has responded angrily to ANC suggestions of another round of directed investment, this time to stimulate such development.

But, behind closed doors, individual life offices and a special committee of their representative body, the Life Offices Association, have clearly been hard at work investigating alternatives which could provide the necessary compromise between demand for funds and fulfilment of fiduciary responsibility to policyholders and pension fund members.

Earlier this week, Business Day reported on one of these alternative plans: to create a government housing stock as a possible conduit for investment in low-cost housing. The stock would be backed by home loans and tradeable in the capital market, alongside Eskom and government RSA stock. Its appeal to the life offices and pension funds would be its relative security, market-related return and direct effectiveness.

Up to now, housing has been the target of the private sector's development initiatives not only because it is one of the areas of greatest need, but also because investment is more easily recoverable from housing than, say, education or health.

But the risks of this market remain a significant obstacle. When the loan guarantee fund was introduced earlier this year, the bond repayment boycott gathered momentum. Whether by coincidence or design, it had the effect of shaking the confidence of some of the institutions which had made a heavy commitment to the fund.

When Jan Steyn launched his R2bn IDT, he said his greatest challenge would be to use the financial leverage he had acquired to tap the resources of the First World and apply them to SA's development needs.

But he added that if the private sector found ways of contributing, there would have to be a quid pro quo. "The promotion of a mortgage boycott at the very time the loan guarantee fund was launched could only be highly counter-productive," he said.

While the ANC obviously supports the release of investment funds into development projects, recent statements discouraging the bond boycott suggest they might also regard the private sector's slowly emerging initiatives as something worth protecting.

LETTERS

Millions for home buyers

Cape Times 9/11/90

Business Editor

MILLIONS of rands locked up in pension and provident funds are now available to help members buy their own homes — without any drop in pensions or retirement pay-outs.

It will put home ownership within the reach of thousands of people who would not otherwise be able to afford it.

The first loans will be made under a joint plan by Old Mutual and the Urban Foundation which has been prepared and tested over the past two years.

Announcing the plan on Wednesday, Mr Gerhard van Niekerk of Old Mutual said its approval by a high-level cabinet committee meant the realisation of a long-standing vision "to unlock millions of pension and provident fund monies for socially desirable projects".

The Perm will also be involved in the plan.

Other major insurers are certain to follow suit. And with an estimated R100 billion in pension and provident funds, the amount likely to be borrowed is conservatively estimated at between R5 billion and R10 billion.

Mr Van Niekerk said the plan would not be subsidised by members of pension and provident funds who were not making use of the loan scheme.

Members taking part would retain the full value of their retirement benefits.

Under the scheme, a pension or provident fund member will be able to borrow enough for a 5% deposit on a house as soon as the sum is covered by his contributions.

If his wage or salary is insufficient to cover the bond repayments the difference is made up by additional loans from the fund. But the loans for the deposit and bond repayments never exceed the member's withdrawal benefit.

Repayments to the fund do not start until the member's wage or salary has increased to a level at which he can afford to make them and also keep up his bond repayments. The total sum of both repayments will never exceed 25% of the member's pay.

During this phase the member also makes normal contributions to the pension or provident fund.

Once the bond is paid in full the member continues to make repayments to the fund until the loan has been fully repaid. This ensures that at retirement the full benefits of the fund are available.

Bond boycott was not politically motivated

THERE is no politically motivated bond boycott in the townships, say the Perm and NBS.

The recent boycott on bond repayments in Khayalitsha, orchestrated by the local civic association, has been settled.

Perm MD Bob Tucker says reasons for the bond boycott in the Cape township were the rapid escalation of mortgage rates coupled with an overlay of political interests.

"There was a situation where subsidised housing was positioned right beside private housing and the bond repayments were quite different.

"There was also a question of poor quality housing.

"The ANC has never advocated a boycott of bond repayments and was not behind the Khayalitsha boycott.

"The Perm has over 60 000 bonds and not one is under any form of boycott."

Government cancelled the first-time home buyers subsidy in July and this caused a furore among first-time home buyers.

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Exposure

The subsidy was re-introduced to ease the bond repayment amounts, particularly for lower income earners.

This, says Tucker, exacerbated an already tense situation.

He says The Perm had only 5% of NBS's exposure to the boycott.

NBS GM in charge of public affairs Brian Short says the boycott was resolved after direct intervention with the local civic association, which had made a number of demands on the institutions.

"One of the concessions we offered was to capitalise the arrear payments of those who had boycotted their bond repayments."

Cabinet okays Old Mutual plan

Pension funds released for black housing

BI Day 9/11/90

LESLEY LAMBERT

CAPE TOWN — Government has approved an initiative by Old Mutual and the Urban Foundation to unlock millions of rands in pension and provident fund money for use in the provision of black housing.

The initiative proposes the use of SA's massive pool of retirement funds as leverage for widespread home ownership.

It represents one of the most significant breakthroughs in attempts to release institutional funds for development.

In essence, the plan will enable pension and provident fund members to use their investments as backing for and initial repayment of a bank or building society home loan, without compromising the value of their retirement packages.

If implemented, it will make full use of the R20m Urban Foundation Loan Guarantee Fund established to underwrite lending institutions' exposure to the lower end of the home loan market. Old Mutual chief operating officer Gerhard van Niekerk said it would allow pension and provident funds to release money for development without sacrificing market-related returns.

If the plan is taken up by other major pension and provident funds, it will make a major contribution towards solving the problem of affordable housing.

Van Niekerk confirmed yesterday the plan had been approved by a high-level Cabinet committee.

For Cabinet to approve the plan, it first had to agree to exempt the Old Mutual from legal clauses — in the Pension Fund Act of 1956 and the Usury Act — which had inhibited the use of pension funds as loan guarantees or repayment sources.

Registrar of Financial Institutions Piet Badenhorst said the exemptions would not have to be approved by Parliament.

Key benefits of the plan are that it will give pension and provident fund members, unable to accumulate the required deposit, access to a lump sum, and ease the initial repayment burden on low-income members.

It will also provide greater security and easier administration for lending institutions as repayments will be collected in bulk through the employer's salary administration system.

The schemes were designed by the Perm and Old Mutual with the Urban Foundation.

Perm MD Bob Tucker said the Perm's "salary-linked home loan" would more than double the amount a prospective home-owner could afford to borrow.

Tucker said even if only a small percentage of pension and life assurance assets were used for the new scheme, R10bn could be made available to finance new homes immediately, with a further R2bn each year.

This is a brief outline of how the plan will work: When a pension or provident fund member's accumulated withdrawal benefit amounts to the 5% deposit required by the loan guarantee fund to buy a house valued at between R12 500 and R35 000, the member will be entitled to a loan from the fund which will be backed by his or her withdrawal benefit.

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Pension funds

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Using that loan as a deposit, the member will have access to a bank or building society home loan. If 25% of the person's salary is not enough to cover bond repayments, the shortfall will be made up by further monthly loans from the fund. The loan granted for the deposit, together with the additional loans, will be structured in such a way that they do not exceed the member's withdrawal benefit entitlement.

Once the person's salary can support full repayments, the member will start repaying the additional loans to the fund. The sum of the bond and loan repayments will not exceed 25% of salary. The member will continue to make normal pension or provident fund contributions during this phase.

Once the bond is fully repaid, the member will continue to make additional payments to the fund until the additional loans are also repaid. These repayments will ensure full benefits at retirement.

Members will remain eligible for the normal death and disability benefits provided by the fund during this process.

If the member resigns before retirement, the outstanding loan from the fund will be offset against the withdrawal benefit, less tax payments due.

One of the first steps in implementing the plan will be to refine specific details in consultation with pension and provident fund trustees, says Henk Beets, Old Mutual employee benefits assistant GM who was instrumental in developing the plan.

One of these details will be to determine an interest rate on additional loans from the fund which will prevent fund members who do not use the loan facility from subsidising those who do.

BI Day 9/11/90

a/Argus 10/11/90

Pension deal boost for housing

By TOM HOOD
Business Editor

A BUILDING boom in low-cost housing is certain if employers let workers use their pension and provident fund contributions as a deposit for a house or for part of their monthly repayments.

This is forecast by a leading housing authority, Mr Selwyn Myers, retired general manager of Garden Cities, the utility company that built Pinelands and Edgemead.

"There is a huge percentage of employees earning less than R1 000 a month who could now be able qualify for a building society loan. It will encourage companies to cover employees with pension funds where they are not already covered."

At present many low-earning employees were penalised by not being allowed to take a company housing subsidy if they already had the government's 33 percent subsidy for first-time home buyers.

Old Mutual opened the door this week for thousands of people in the lower-income groups by getting government approval for use of pension and provident fund contributions for house purchase. Government approval was needed because parts of the scheme ran counter to the Pensions Act and the Usury Act.

Blacks have about R10 billion in pension and provident funds which they could dip into.

Mr Henk Beets, asistant general manager of Mutual's employee benefits division, who spent two years working on the plan, said both employers and trade unions had been consulted about the scheme. There had already been an incredible reaction, with hundreds of people phoning Old Mutual's offices for more details.

Many were complaining, however, but they did not understand that the scheme would not mean subsidies and did not penalise members of pension funds or the sacrifice of retirement bnenefits.

Other people phoned Old Mutual and threatened to cash in their insurance policies because, one put it: "You are capitulating and giving my monmey to the ANC."

On average it would take more than two years' service before an employee could build up his pension fund contributions and be able to qualify. Employees borrowing deposits would be charged the full market rate of interest.

The interest rate prescribed by the government was 19 percent but it could go higher. For example, trustees may have to charge a rate as high as 23 percent — the investment rate earned by provident funds administered by Old Mutual, or 22 percent in the case of pension funds.

Small amounts

Employees generally would be borrowing small amounts. For the deposit on a R30 000 house, an employee could borrow 5 percent — R1 500. The balance of the purchase price would have to come from a bank or building society. If he was not earning enough to qualify for bond he could borrow further sums from the pension fund to help in the initial period of buying a house.

Generally, the scheme would allow employees to afford houses 50 percent dearer than at present. A limit of R45 000 has been set.

A test with a large manufacturing company with several thousand workers showed only 56 percent could afford to buy a R20 000 house. With the scheme, about 97 percent could afford the house.

Employees taking part would retain the full value of their retirement benefits.

Mr Beets said he hoped other life assurers would recommend similar schemes.

They would have a little less money to invest in the short term but "it will all come back later."

BUSINESS PERSONALITY OF THE WEEK

SOWETAN BUSINESS

Insurers to probe black homes plan

Sowetan 12/11/90

THE Life Offices Association, representing the majority of life assurance companies in South Africa, has appointed a committee to investigate "socially desirable" projects, including black housing, small business development and education.

The committee, which was formed last May, is the initiative of the LOA members and has nothing to do the African National Congress, the Pan Africanist Congress or the Government.

It has not held discussions with any of these groups.

This was confirmed by the chairman of LOA, Mr Dorian Wharton-Hood, who told *Sowetan* Business this week that the committee would make recommendations to the management committee as soon as it had completed its investigations.

However, Wharton-Hood, did not rule out the possibility that they might have discussions with the groups on the matters at a later stage.

Demands

For the moment, he added, "we have not held discussions with the ANC on the issues."

The explanation comes in the wake of demands by the ANC that insurance companies invest some of their cash into housing and other "socially desirable" projects.

The ANC has suggested that insurance companies lend money at low interest rates, and that the LOA has to consider this as an alternative to nationalisation.

Wharton-Hood said the LOA had not been approached on these matters and no discussion had taken place between it and the liberation movements.

It was inappropriate to imply that life insurers' initiative, which could release billions of rands for housing projects, was as a result of the ANC's demands.

Both Old Mutual and Sanlam - the country's biggest life insurance companies - have said that they would not not voluntarily agree to invest policy holders and pension fund members' funds in development projects which did not yield a market-related return.

It was inappropriate and improper for Old Mutual as trustees to arbitrarily tax the savings of its million members, most of whom were ordinary working people, the company's chairman, Mr Mike Levett, said this week.

"Only the State should tax savings, after full consideration of the alternatives and short - and long-term implications, and subject to democratic review.

"Old Mutual is a mutual society with more than two million members. These members and their dependants look to the proceeds of their life policies for their future financial security - very often their sole source.

"Furthermore, the workers who are members of pension and provident funds, also look into Old Mutual to manage their monies wisely and well.

He said for that reason the company strived to earn the best returns consumarate with security and risk on all the assets backing the liabilities under the policy contracts.

"By its activity in investing the monies of its members and clients in infrastructural development, in long-term risk capital and in other ways, all the investments have gone towards the economic and social development of Southern Africa," he said.

Beer sales continue to go up despite squeeze

Sowetan 12/11/90

By JOSHUA RABOROKO

SOUTH African beer drinkers continue to spend vast sums of money quenching their thirst inspite of the squeeze in consumer demand and the state of the economy, the SAB's performance for the six months to September indicates.

The group's beer division reports that sales volumes increased by 11 percent to about one-billion litres for the period.

Its contribution to the bottom line climbed to R140 million (R112m) or 64 percent of attributable profits of R214 million (R177m).

The surge in beer sales helped to bolster group turnover by 19 percent to R6,9 billion with earnings up 21 percent to 80c (66,1c) a share.

The dividend charge was improved by 20 percent to 30c (25c).

SAB chairman Mr Meyer Kahn attributes the 11 percent increase in beer sales to "fairly aggressive advertising, promotions, keen pricing and good management"- all of which held to increase beer's shares of the total drinks market. The increasing population also helped uplift sales.

Kahn confirmed that SAB, which boasts such diversified entities such as Edgars, OK Bazaars, Amrel, Afcol, Da Gama and Southern Sun in its portfolio, was still planning to spend most of its authorised R1,8 billion capex for the next two years on its beverages division.

He was pleased with the performance of each one of the divisions with the exception of Southern Sun, which from September became a wholly owned subsidiary.

He said uprisings led to the reduction in the number of tourists.

The Perm opens door to low-income houses

S/Times 11/11/90.

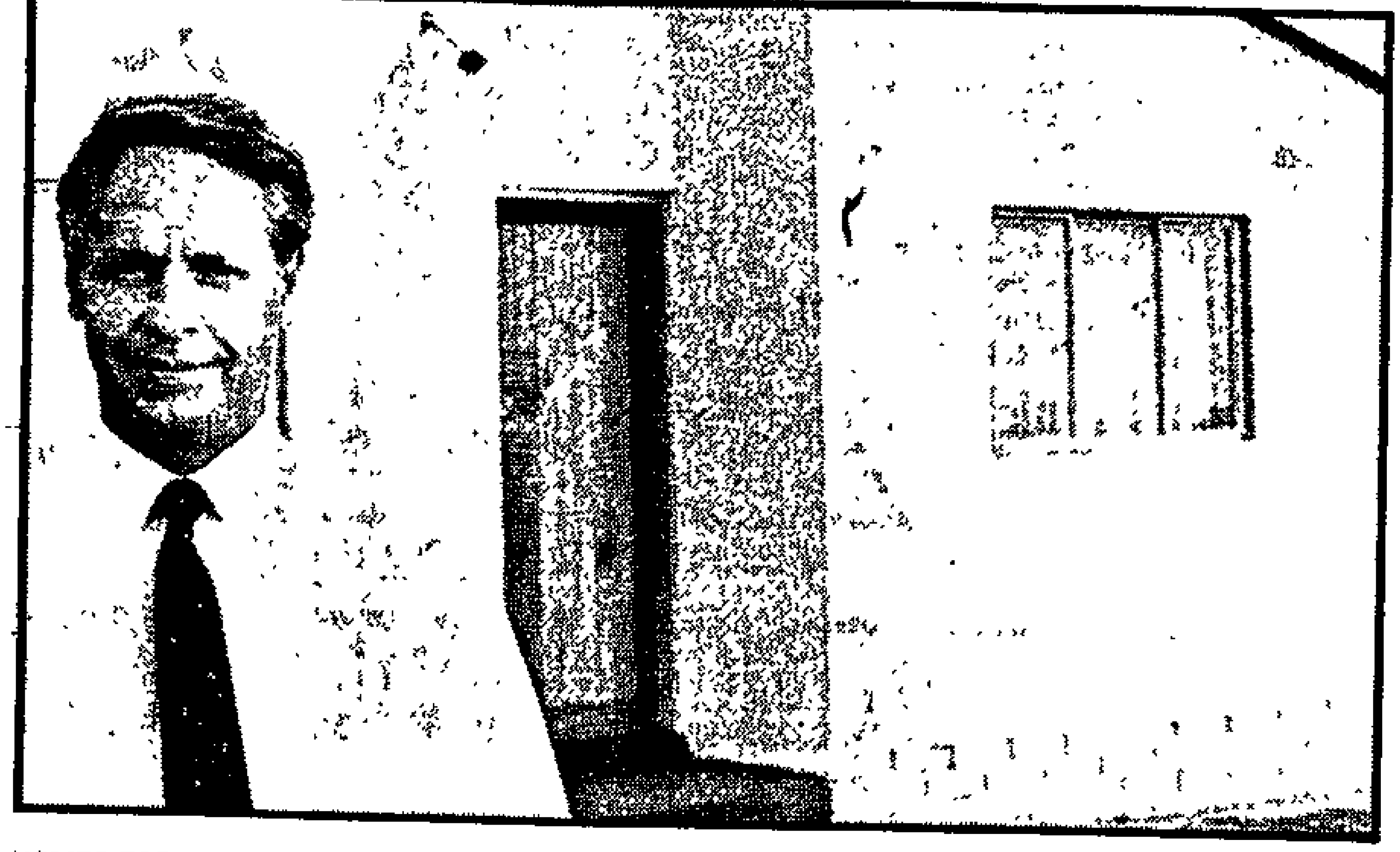
(58)

By DAVID CARTE

IF YOU wish to buy a house, the Perm will help you — by buying a slice of your salary for the next 20 years for a large capital amount, which you use to get a home.

A Cabinet committee agreed this week to let the Perm launch a revolutionary scheme making home ownership easier for everyone with a job.

The mortgage replacement plan, devised over three years in collaboration with Anthony Asher of the Wits actuarial faculty, also allows pension schemes to channel money into housing without compromising their fiduciary responsibility.



HOMES FOR THE MANY: An income of R700 a month buys this R28 500 house Picture: TOM EDLEY

Static

Pension funds will provide the money and the Perm will administer the scheme, which is available for houses of all prices.

Perm managing director Bob Tucker says: "When you pay off a bond, assuming constant interest rates, the monthly payment remains static in nominal terms. But in real, inflation-adjusted terms, one's contributions start to fall after a few years.

"Under this system, because one's salary normally rises over time, payments actually rise in nominal terms and — depending on one's pay increases — in real terms as well. For this reason, one can afford a better home with the new plan."

Another advantage is that payments are unaffected by interest rates.

"You won't get the situation where a man buys a house when interest rates are 12,5% and discovers he cannot afford it when they rise to 21%."

Mr Tucker says present formulas allow house buyers to borrow only 17 times their monthly salary. Most blacks earn less than R1 000. They can thus borrow, at most, R17 000, which is not enough for a house.

The scheme makes it possible to "borrow" 42 times the monthly salary — in other words 2,5 times more. A person who could afford a house of R10 000 is suddenly able to get one costing R25 000.

The Perm's proposal obviates the need to save for a deposit — providing employees are established members of the pension fund.

"We stress this is not an ordinary loan. On behalf of the pension funds, we buy a proportion of a man's salary for 20 years. For the buyer, it is actually less onerous to pay than an ordinary bond.

"At present, the home owner's bond payments must not exceed 30% of his salary at the time of grant.

"The average payment in terms of the new scheme will always be less than 20% of a person's pay. Obviously, the proportion payable depends on the cost of the house he or she wants to buy and salary. We use actuarial tables to calculate these things."

Promotion

Mr Tucker says all contingencies have been anticipated.

"If anyone enjoys rapid promotion and large pay increases and believes he is paying too much for his house, he can convert to an ordinary bond at any time. The scheme will not be usurious.

"If a person changes jobs, no problem. We simply continue to collect the agreed proportion of income. If he is unemployed and cannot pay, his position is the same as it would be under existing arrangements."

Mr Tucker says the new bond does much to defuse politicisation of the housing issue. It makes home ownership more accessible to many. At the same time the pension funds' billions can be safely deployed.

"About 9% of urban blacks can afford a R35 000 home. Another 12,5% can afford one valued between R12 500 and R35 000. No fewer than 60% cannot afford a R12 500 house.

First

"But huge numbers of the black employed can afford only R10 000. These people could under the new scheme afford a house of R25 000. This could be enhanced if the Government goes ahead with its R6 000 capital subsidy for first-time buyers of serviced sites."

Mr Tucker says pension funds may join the scheme individually or as part of a pool. They can either have a dedicated portfolio of finance for their own members or can take part in a pool of loans to employees of their own and other pension funds.

The Cabinet committee also approved a plan put forward by Old Mutual and the Urban Foundation to make pension and provident funds accessible to house buyers.

Fund members will be able to use their retirement investments as backing for and initial repayment of a bank or building society loan up to R45 000 without reducing the value of their retirement benefits.

This is an incremental improvement on existing mortgage schemes and is different from the Perm's scheme, which is a world first.

If the Perm and Old Mutual proposals are widely copied, black house ownership should boom. The initiatives could go a long way to heading off demands from the ANC for institutional money for black housing.

Housing initiatives praised

LESLEY LAMBERT

CAPE TOWN — New initiatives to broaden the base of home ownership in SA would help to break the logjam that had kept investment funds from flowing into low-cost housing, Urban Foundation housing MD Matthew Nel said at the weekend.

Referring to initiatives devised by the Old Mutual and the Perm to bring home ownership within the reach of millions of low-income pension and provident fund members, Nel said there were many similar initiatives in the pipeline.

He said research conducted by the Urban Foundation and the Old Mutual had indicated that the use of retirement funds could have a significant effect on SA's critical housing shortage.

BDay 12/11/90

In one pilot test, the application of the Old Mutual's scheme to a large industrial company in Johannesburg had had the effect of increasing the percentage of its employees with access to a bond on a R20 000 house from 55% to 97%.

The Perm's salary-linked bond repayment scheme, which also relies on backing from retirement funds, will also give earlier and more affordable access to low-income earners. (58)

In essence, both schemes make provi-

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(58)

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sion for the earliest possible access to a low-cost house on the basis of the assumed repayment potential of future salary increases and savings.

But Nel says that to be truly effective, these initiatives would have to be accompanied by two other developments: successful implementation of the R20m loan guarantee fund which underwrites portion of lending institutions' exposure to the lower end of the market, and the restructuring of government's housing subsidy schemes in favour of low-cost housing.

Henk Beets, Old Mutual employee benefits GM who was instrumental in designing the scheme, says the limit was determined by two factors: the need to target the low end of the market, and the authorities' concern that access for wealthier people could have an inflationary effect on house prices.

"At R45 000 — a price level at which there has not been strong demand in the past — there are few existing houses with prices to inflate. Instead, it should stimulate the building of new homes at that price level," he said.

Bond scheme 'will boost loan industry'

B Day 14/11/90 (58) (...)

GILLIAN HAYNE

THE Perm's new salary-linked mortgage scheme will be open to most prospective homebuyers, not just first-time and low-income buyers.

The entire loan industry is set for a major shake-up as a result of the plan, which will dramatically increase the number of people able to take out home loans.

The Perm scheme will have the effect of allowing homebuyers to borrow more than 40 months' salary, compared to the present 17 months.

Perm manager Brian Peck says the loans will be available to all, although they will particularly boost first-time buyers.

This will put houses in all price ranges within the reach of many more buyers.

The scheme is designed so that the borrower does not have to carry the repayment burden at a time when he is least equipped to do so, as it is spread evenly over the time of the loan.

Registrar of Financial Institutions Piet Badenhorst said yesterday government had approved the scheme and the necessary adjustments to the legislation would be finalised within a month.

Peck says mortgage bonds currently on offer place the main burden of loan repayment at the beginning of the term, with the instalments declining rapidly as a percentage of income. The new scheme will keep repayments at a constant percentage of the individual's salary.

Estate agents have been enthusiastic in their response to the scheme.

Camdon's Nationwide MD Scott McRae said it would have a massive impact, and put the "oomph" back into the market.

Time Realty director Lilian Passet said high interest rates had made home loans a very competitive business with buyers shopping around for the best deal. The Perm could take the major market share with the scheme, she said.

Not everyone qualifies for the loan.

The scheme encompasses two elements:

- Because a pension fund is used as collateral for the loan, the employee must be an established member of a pension fund, which will determine the value of the loan.
- The company must enter into an agreement with the Perm to provide salary details and allow the Perm to deduct repayment instalments at source, through

☐ To Page 2

Perm bonds

B Day 14/11/90 (58) (...)

☐ From Page 1

the salary system.

As a result of the Perm pooling the loans into an investment fund, life offices, pension and provident funds now have the ability to invest in an asset that will yield a return related to salary inflation, Peck says.

Other banks and building societies have adopted a "wait-and-see" attitude to the concept. Not only was it a departure from the traditional home loan concept, it constituted a new investment medium, spokesmen said.

One industry source said the scheme was a perfect solution to the ANC's call for releasing pension fund monies for socially responsible projects.

In this way home loans would become accessible to people who could never have afforded the repayments on conventional loans.

● Comment: Page 10

When the small people fail to pay, the big lenders 58 turn away

While the demand for housing mushrooms, the cost of building homes spirals. The private sector says it cannot build cheap houses anymore and financial institutions are getting tougher on bond defaulters

As the recession bites, more black homeowners are failing to pay their bonds .. and losing their homes.

By MONDLI MAKHANYA

THE rate of house repossessions is steadily rising as people fail to meet bond repayments, but most major financial institutions say the trend has not yet reached crisis proportions.

None would divulge any statistics illustrating the seriousness of the situation, but the Central Statistical Services has revealed that the number of civil judgments relating to debt increased 14,7 percent in the three months up to August as opposed to the same period last year.

The failure to repay bonds has been cited as one of the reasons several major developers have pulled out of black townshsips.

Financial instutions have shown an increasing reluctance to lend money to prospective black homebuyers. The newly-formed Soweto Developers and Builders Forum recently slammed financial institutions for joining eight major developers in an exodus from townships.

This also comes at a time when a debate has begun between the African National Congress and financial institutions about what role the private sector should play in alleviating the housing crisis.

ANC International Affairs director Thabo Mbeki says that both the private sector and the government should address the question of affordable housing for poor people who could not carry the burden of real interest rates.

He calls for discrimination to be applied in favour of the poor "by not applying the same considerations to everybody who needs a home".

The increase in repossessions is confirmed by the Natal Building Society's public affairs general manager Brian Short.

He says, however, that the NBS has negotiated with civic organisations about repayment patterns and a deal was recently struck with the civic association in the Cape township of Khayelitsha.

Responding to Mbeki's statement, Short says while he agrees there should be discrimination in favour of the poor, the responsibility for housing should rest on the shoulders of government and not the private sector.

"The government needs to shift the emphasis of housing subsidies from the middle class to the poor. Rather than subsidising loans, the government should apply its subsidy to the acquisition of land, which would then be utilised for low-income housing," he says.

The Standard Bank's home loans divisional manager Terry Power says in cases where repayment is difficult for people, financial institutions usually try to structure a lenient repayment deal with clients and use repossessions only as a last resort.

"If a person can't pay, he can't pay. It is not in the interest of the homeowner or the financial institution to repossess the house, so we try to work out a manageable timetable for the benefit of both parties. Rarely do we simply repossess without having tried other means to retrieve our capital," he says.

Power adds that his institution understands that when people take out loans there is no way they can predict that interest rates will rise in the future. This is why recessions tend to result in poor bond repayments.

He says Mbeki's recommendation on interest rates is not feasible because "if you are in business you have to charge the market-related interest".

"We are committed to alleviating the housing shortage. The Standard Bank is into low-cost housing because we have realised that many houses stand vacant in the townships because people just can't afford them," Power says.

He adds that the Standard Bank cannot be expected to make any concession on interest rates because they were already 0,5 percent below the prime rate.

Refusing to disclose what percentage of the UBS' loan lenders were black, credit manager of the United Building Society, Piet Kruger, says although there has been an increase in defaulting, it is not significant. He dismisses as "unfounded" ANC banking expert Vella Pillay's argument that blacks are largely excluded from financial institution funding (See page 47).

"I don't think the ANC has got its facts right. In the short space of time since 1978 that we've been lending money to black homebuyers ,we've done relatively well. At the moment our loans to them are well in excess of R1-billion.

"This has been achieved despite unrest and upheavals in the townships and I don't think one can do much better than this," Kruger says.

David Harrison, general manager of the SA Perm Building Society's greater Johannesburg region, says there are always some people who are not good at meeting bond repayments during recessions, but this trend has not been dramatic in the past few months.

"The people to whom we loan money are those employed in the formal sector and who have a stable salary. We can therefore ascertain whether a person can repay or not and therefore reduce risk," Harrison says.

More loans in reach of homebuyers

CAPE TIMES 14/11/90

Own Correspondent

JOHANNESBURG. — The Perm's new salary-linked mortgage scheme will be open to most prospective home-buyers, and not just first-time and low-income buyers.

The entire home loan industry is set for a major shake-up as a result of the plan, which will dramatically increase the number of people able to take out home loans.

The Perm's scheme will have the effect of allowing homebuyers to borrow more than 40 months' salary, compared to the present 17 months.

Perm manager Brian Peck says the loans will be available to all, although they will particularly boost first-time buyers.

The Registrar of Financial Institutions, Piet Badenhorst, said yesterday government had approved the scheme and the necessary adjustments to the legislation would be finalised within a month.

Peck says mortgage bonds currently on offer place the main burden of loan repayment at the beginning of the term, with the instalments declining rapidly as a percentage of income; whereas the new scheme will keep repayments as a constant percentage of the individual's salary.

Estate agents have been enthusiastic in their response to the innovative scheme.

However, not everyone qualifies for the loan.

The scheme encompasses two elements:

- Because a pension fund is used as collateral for the loan, the employee must be an established member of a pension fund, which will also determine the value of the loan.
- The company must enter into an agreement with the Perm to provide salary details and allow the Perm to deduct repayment instalments at source, through the salary system.

As a result of the Perm pooling the loans into an investment fund, life offices, pension and provident funds now have the ability to invest in an asset that will yield a return related to salary inflation, says Peck.

Other banks and building societies have adopted a "wait-and-see" attitude to the concept. Not only was it a departure from the traditional home loan concept, it constituted a new investment medium, spokesmen said.

One industry source said the scheme was a perfect solution to the ANC's call for releasing pension fund monies for socially responsible projects.

"This way home loans will become accessible to people who could never have afforded the repayments on conventional loans, and ensure that the repayments stay within affordable limits not subject to interest fluctuations."

58

ANC demands an end to play in the 'financial casino'

WM 16/11 - 22/11/90

ASKED what has formed the controversial ideas he presented at a recent Islamic Bank seminar, "The Role of the Banking Sector in the New South Africa", Vella Pillay says simply: "I am a banker."

He has just reached retirement age, but until recently was one of the general managers of the international section at the Bank of the People's Republic of China.

The specific proposals Pillay made at the seminar are a far cry from the calls for nationalisation which have given South African business community the jitters.

But they do represent a movement towards more state intervention in the economy.

The proposals represent a further refinement of the African National Congress' economic policy from the broad policy documents which have been presented so far.

Pillay says the ANC has reached the end of the second stage of the process of defining the boundaries of a democratic economic policy.

The next stage is finality on a programme.

Progress has been made towards formulating a programmatic document setting out clearly the targets of and instruments for promoting a democratic economic policy.

"We had hoped the final stage would be completed in time for the national congress this year but the delay will enable us to continue to refine the ideas of the programme we will present at the national conference next year."

There exists a number of expectations as to what democracy will mean to the most people in the economic area.

These are provision of:

- An adequate level of shelter
- Employment
- Educational facilities for children
- Adequate level of health care
- A safety net for the elderly, disabled and sick.

"These will have to be met and this requires us to address the problems of how and in what way the revenue can be mobilised to meet these fundamental needs.

ANC banking expert Vella Pillay caused a stir recently by revealing the movement had discussed with life assurers the redeployment of a portion of their assets. Pillay spoke to REG RUMNEY about the development of the ANC's economic policy

"At the same time we are aware that the structure of the economy and the pattern of industry needs to be transformed away from the basis of a mining industry which has been built through the availability of cheap labour."

How is the transformation to take place?

"We will seek to use our abundant human capital through education and the acquisition of a wide range of skills."

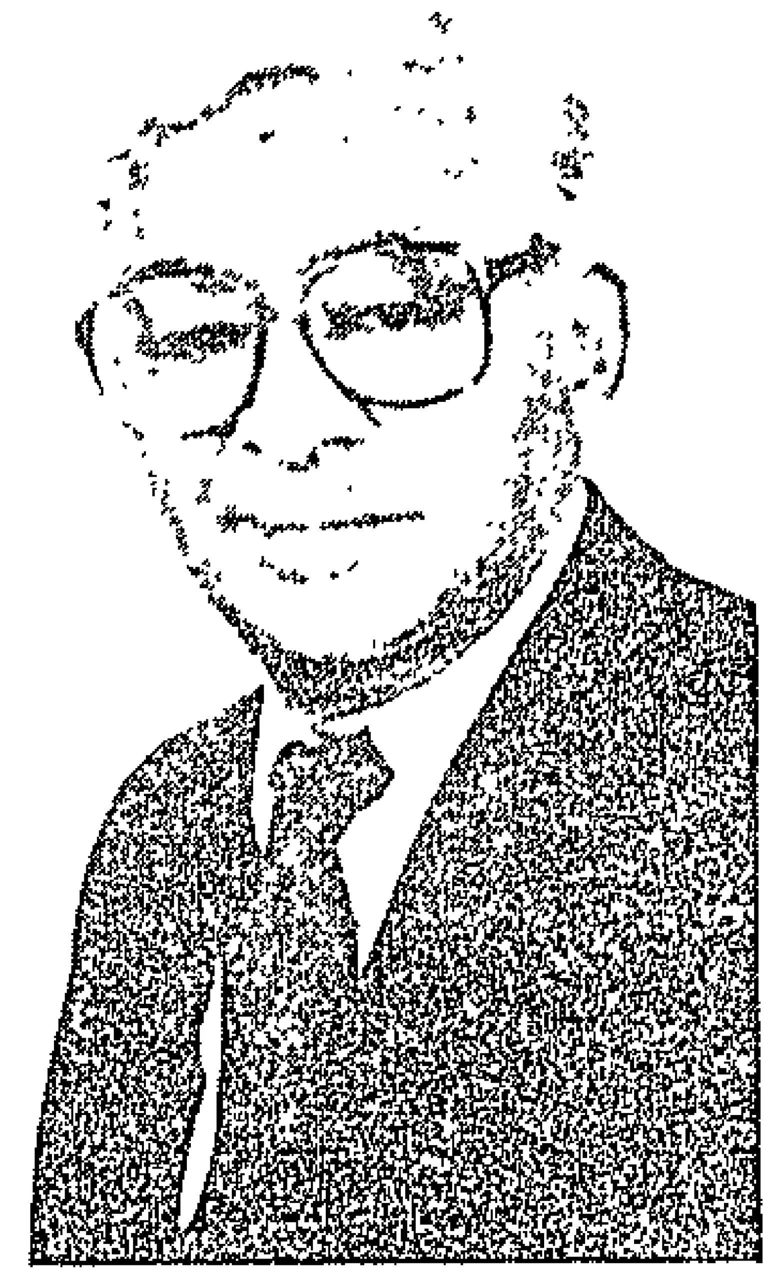
This in turn will make the workforce highly productive, he believes, and capable of supplying the needs of an expanding domestic market as a result of rising employment.

In a nutshell the ANC's economic policy boils down to the intention to "steer the economy towards a growth path which substantially improves employment and overall living standards".

"Here I have in mind the experiences of a number of other countries which have adopted similar policies in the past.

"Japanese business has a highly sophisticated form of consensus and social contract. Sweden, France and other countries have engaged in such planning in earlier phases of rapid industrialisation and economic development."

Pillay acknowledges a key problem will be how the proposals to achieve the ANC's aims will be fashioned.



ANC banking expert Vella Pillay ... state sector might have to become bigger

At the Islamic Bank seminar, Pillay says, he tried to concentrate on one area of possible economic policy "I attempted to discuss a series of proposals designed to secure the involvement and participation and active support for these objectives

"This included proposals for direction of credit to industries targeted as ones calling for expansion and development, increasing the availability of bank loans to black communities with a view to their increasing participation in productive activity.

"What we want is an end to banks' concentration on trade in money — the 'financial casino' — into playing a positive role as a conduit for flows of capital and credit into real productive economy.

"I proposed that insurance companies and building societies with abundant assets will have to play an equally significant role in meeting these objectives."

It is a matter of public interest, Pillay remarks, how the insurance companies, premier among financial institutions in mobilising the savings of the people of South Africa, deploy those savings.

At the Islamic Bank seminar Pillay noted the ANC had suggested to long-term assurers that five to 10 percent of the savings they administer be placed in social investments.

He says this could be done by negotiation or direct legislation.

"Such social investment could probably be investment in the form of home construction for the black population. and here a number of important initiatives are under discussion in various quarters."

Pillay says the building societies would be required to invest an adequate proportion of their mortgage finance in black home ownership.

"I have also called for crash programmes to address the problems facing the economy and in particular to make deep inroads into the problems of poverty and deprivation"

To achieve this he suggested a consensus between financial institutions, industry, mining companies, trade unions, and consumer interests, all led by democratic government into a set of obligations or planning agreements embodying commitments by each to achieve the objectives through the crash plan.

The commitments would involve targets on budgetary policy, and the setting up of a wage fund and social welfare fund, among others.

Other details have yet to be worked out, such as the role of monetary policy

He also mentions the creation of industrial development banks in which financial institutions may be forced to put funds.

Finally — and to the probable consternation of those who believe in less government — Pillay admits the government sector might have to be enlarged to achieve a new government's aims.

Now SA Property Foundation launches housing programme

MATTHEW CURTIN

THE SA Property Foundation launched a new housing programme at the weekend as the company joined Old Mutual, the SA Perm and the Urban Foundation in exploiting goverment's recent approval of exemptions to the 1956 Pension Funds Act and Usury Act. (58)

SAPF director Johan Cloete said the "innovative" scheme launched in association with Anrode Construction, a company specialising in low-cost housing, would release "millions of rands tied up in pension and other funds".

The SAPF scheme promised affordability for both the prospective house owner and the investor.

Cloete said the companies had devised a "carefully balanced financial instrument" which assured financial return for the investor and the provision of housing.

On November 8 a Cabinet committe approved the exemptions, presented to Financial Institutions Registrar Piet Badenhorst in May this year by the SAPF, Old Mutual, SA Perm and the Urban Foundation.

The initiative unlocked the use of SA's R170bn pool of retirement funds as leverage for widespread home ownership.

The SAPF estimated 127 000 houses needed to be built each year for the next 20 years effectively to address the housing backlog.

Cloete said its scheme would allow a single person earning R850 a month to increase his the housing bond he was able to service from the R12 200 possible under today's financial criteria to R20 000. Bond repayments were possible for as little as R200 a month, with home owners able to finance fixed-scale repayment increases on an annual wage increase of only 1,5%.

The SAPF intended to concentrate on a niche market, approaching prospective house buyers through their employers.

He said this strategy facilitated the settling of accounts as the SAPF would deal with employers rather than hundreds of individuals.

NEWS FOCUS

Securitisation of home loans the latest route

B Day 20/11/90

ROBERT GENTLE

MORTGAGE-backed securitisation — the converting of mortgages into negotiable securities — is emerging as a way of channelling part of the life assurers' billion-rand cash flows into low income housing.

This emerges from interviews with leading figures from the life assurers, chartered accountancy firms, merchant banks and the Reserve Bank.

Mortgage-backed securitisation would work as follows: a traditional lender like a building society would offer low value housing loans to low income earners. The resulting mortgages on the building society's book would be sold off to a company known in securitisation jargon as a special purpose vehicle (SPV).

The SPV would stand good for any default on the mortgages, thus providing the building society with the incentive to make the loan in the first place. As soon as the SPV had a sufficiently big pool of such mortgages, it would securitise them — turn them into interest-yielding marketable securities for life office investment.

The SPV would of course have to make the securities attractive investments. This is done by what is known "credit enhancement", which could take the form of more guarantees, or getting third parties like the government or say, the Urban Foundation, to top up the interest yield on the paper to make it more attractive.

There are few losers in this theoretical scenario. Firstly, the low income earner gets a loan the building society may not have been prepared to lend him (low value loans are low margin items, administratively costly and often just not worth the risk).

58

Contains risk

Secondly, the building society, in selling the mortgage to the SPV, gets the same amount of money back to use again and simultaneously shifts assets off its balance sheet. Key profitability parameters like the capital to asset ratio improve.

Thirdly, the SPV contains the risk in one place, and can use more effectively the billions various parties — from the government to the Urban Foundation — are pledging. The leverage effect is greater, because those billions go much further in guaranteeing a proportion of potential home owners against default, than they would in the building of houses for all potential homeowners.

Lastly, life institutions get negotiable, market-related paper their trustees are perfectly happy to invest in.

The bottom line in this chain of investment is that the money of the life offices on the one end is actually funding home owners at the other — even though neither may actually be aware of it. UBS did virtually the same thing earlier this year when it securitised R250m worth of its better class mortgages.

Deloitte Pim Goldby consultant Robin Marsden supports the securitisation option, saying the whole notion of a government-guaranteed SPV is nothing new. In the US, where more than two-thirds of citizens are home owners, it has been the practice for decades.

It is known as the Ginnie Mae (from GNMA, or Government National Mortgage Association). Ginnie Mae essentially guarantees all mortgages destined for securitisation with the "full faith and credit of the US government" — meaning they are as safe as US Treasury bonds.

There is no shortage of observers who think SA can evolve its own securitisation programme underpinned by its own Ginnie Mae. Andersen Consulting consultant Fiona Main says SA certainly has the expertise. A senior life industry source says a Ginnie Mae structure is the "most likely" outcome for SA.

Registrar of Banks Hennie van Greuning calls securitisation a practical and workable solution to the housing crisis as it addresses the peculiar concerns of all the parties involved.

Calling for a co-ordinated approach, he says: "People should start speaking to each other rather than past each other."

Van Greuning's point finds an echo in the industry, where complaints are heard about a lack of co-ordination as various parties apparently pursue their own solutions.

The Perm's Brian Peck is enthusiastic about securitisation as a lending mechanism, but cautions against the feeling that the problem ends once the money has been dished out. He raises the wider issues of the availability and affordability of the houses themselves.

Aiken & Peat senior consultant Des Hudgson worries about the administrative difficulties of a First World concept like securitisation in a Third World housing market.

Mathew Nell, MD of the Urban Foundation's residential development division, welcomes "any effective mobilisation of life office funding into areas of development need".

A widely expressed view is that because securitisation is a market-based solution understood by Western governments, it is a good candidate for foreign aid. The IMF would rather put money into a Ginnae Mae than fund say, the Perm's mortgage book.

Senior figures in the life industry say in private that securitisation is high on the agenda. Life Offices Association (LOA) chairman Mike Levett says: "We have a committee looking at it, but until a definite conclusion is reached, it is inappropriate to talk about it."

Securitisation is relatively new to SA. Financial institutions, life office and government all believe it may end their quest for a market-based solution to this country's serious housing crisis.

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Bid to protect home buyers

B Day 12/12/90

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THE drastic shortage of low-cost housing had resulted in "desperate" black consumers who were often exploited by unscrupulous developers, the Urban Foundation's housing policy director Jill Strelitz said yesterday.

"The foundation is currently working together with other organisations in thinking through possible initiatives and positive proposals that could be undertaken to help protect the consumer," she said.

Possibilities such as face-to-face talks with the buyer needed to be facilitated by financial institutions, and contracts needed to be checked so that they were not exclusively geared to the developer, she said.

An alternative was to draw up a standard contract, which would protect the developer and the consumer and would be enforced by the financial institutions. However, this was a difficult task and a way still had to be found to make it feasible.

Financial institutions set their own standards and requirements for housing structures but problems arose because of shoddy workmanship by the contractor.

PETER GALLI

The Urban Foundation residential dwellings division MD Matthew Nell said yesterday the foundation did not see any contradiction between affordability and quality. "We believe that with the reduction in specifications both as regards services and finishes, an adequate house can be provided ... which can be upgraded later to include ceilings, plastering, electricity and bathroom fittings when these can be afforded."

The SA Perm manager: housing division Ian Jones said when a loan was applied for, the Perm did a valuation and held face-to-face interview to try to explain what home ownership would entail.

However, often before the Perm was approached for advice, the contract had been signed, binding the person legally, he said.

The Perm also had minimum requirements as to the structural stability and habitability of the proposed dwelling, which were enforced, he said.

Protection for low-cost home buyers sought

MATTHEW CURTIN

TALKS aimed at entrenching consumer protection for low-cost home buyers, co-ordinated by the Legal Resources Centre (LRC) and the Urban Foundation (UF), are under way, the parties involved said yesterday.

LRC director Geoff Budlender said the centre, community support groups and other institutions were investigating effective consumer protection for the housing market.

While the parties were some way from agreeing on definitive proposals, there was progress towards addressing "the vast problem".

All six NRC offices in SA dealt with people "exploited and over-reached" by unscrupulous developers.

He said the major cause of the problem was the housing shortage itself, which produced "desperation buyers" particularly susceptible to exploitation.

The Foundation said yesterday it and the LRC were co-ordinating a forum of interested parties including support groups like the Legal Aid Bureau (LAB) which would devise a consumer protection strategy for implementation in 1991.

The foundation warned in its housing policy document released earlier this year that a serious constraint to "housing delivery" was "the negative perceptions that many low-income families have of the role of the private sector — specifically the extensive occurrence of exploitation and malpractice" by some developers.

LAB housing advice project director Brian Leveson said yesterday it was gratifying to know the foundation and other interested groups were collaborating to stamp out malpractice in the housing market.

Since the LAB began a pilot advice project this year, it had interviewed 1 200 clients who gave details of exploitation at the hands of developers.

The most common grievance was would-be home owners losing deposits, in one case R27 000, which they had given to developers who did not have fidelity certificates.

Leveson said the problem required a multi-disciplinary approach: legal support, consumer education and legislative amendments.

8-month boycott of bond payments ends

58

By KENOSI MODISANE

Sowetan 19/12/90

THE eight-month-old bond repayment boycott in the Western Cape will be lifted in February next year.

The ending of the boycott follows 10 months of negotiations between the Western Cape Civic Associations (WCCA) and the South African Housing Trust (SAHT), the SA Perm and the Natal and United Building Societies.

Mr Victor Mrawu of the WCCA said: "The boycott action would not have taken place if the developers listened earlier to the grievances of the people".

"They knew that the boycott would affect the financing institutions' position. But the lack of action by the developers left the committee with no alternative but to call for a bond repayment boycott," Mrawu said.

Influenced

SAHT general-manager, Mr Johan de Ridder said: "The key factor which influenced the termination of the boycott was a keener perception on both sides of the practical and legal issues and the realities surrounding the provision of housing in the area."

"Both parties took cognisance of the implications for the future housing delivery process in Khayelitsha should the boycott have continued," De Ridder said.

Other reasons mentioned by the WCCA for the boycott included: defective houses, densely packed houses, unacceptable responses to the homeowners' individual complaints, the high cost of houses offered under the banner of low-cost housing and the unequal subsidies offered to people by the Government.

A new-look Bankorp cleans out the stables

S/Times 11/11/90 (58)

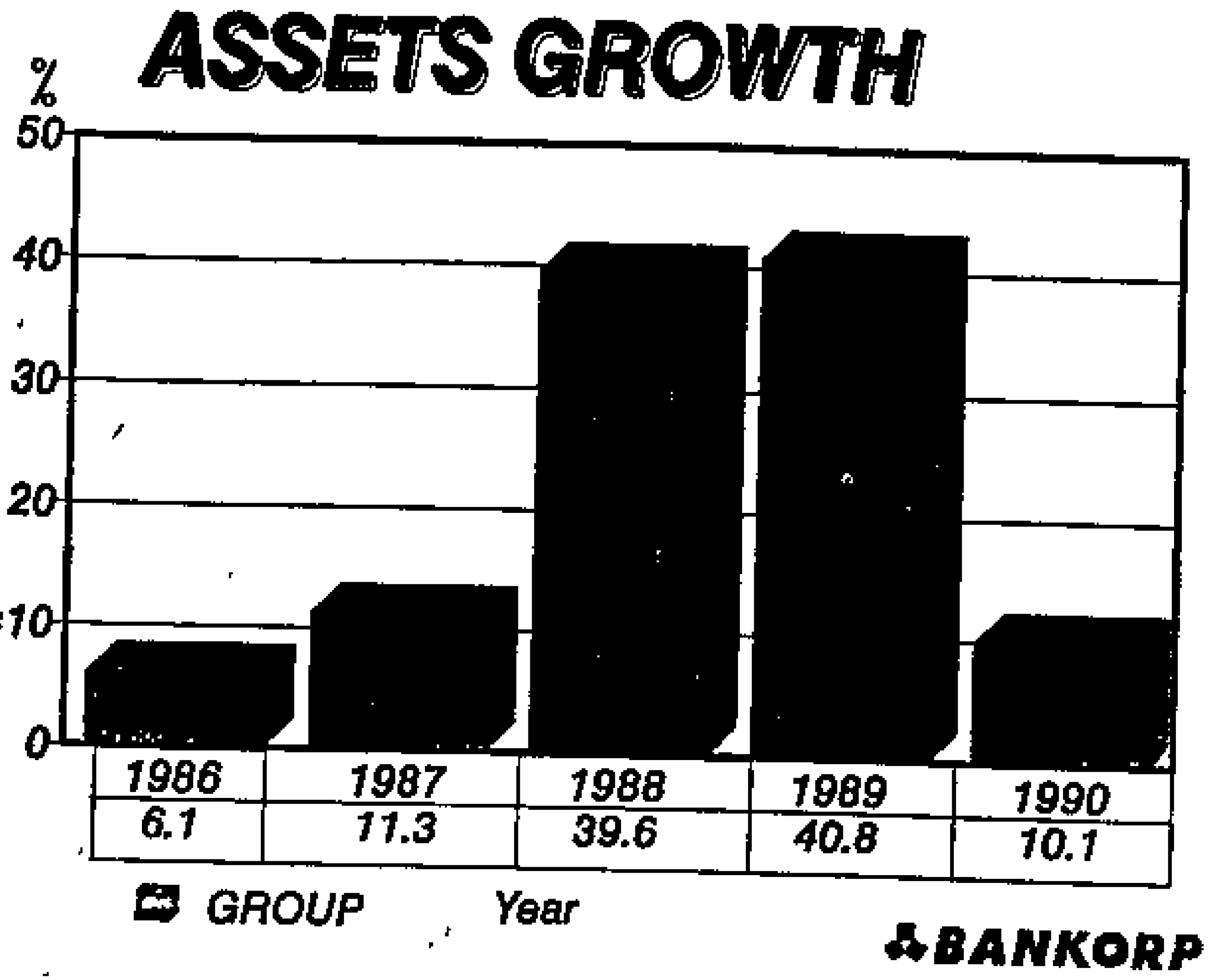
ANOTHER important man is to be retrenched after the Bankorp restructure. The man in question lost his hat several years ago. Now, Trust Bank's mannetjie is to be axed in favour of the new corporate logo.

The three-block theme will prevail throughout the group in a move initiated by Santam Insurance's request that Santambank's name be changed.

Group executive chairman Piet Liebenberg told the Investment Analysts Society this week that through natural attrition and "one or two people that were asked to leave", the staff complement would have fallen from 16 500 to 14 000 by December.

Mr Liebenberg said more than 70 bank branches had been closed, and the number of directors had fallen from 54 to 15.

About 1,2-million accounts would move to the correct part of the Bankorp group, which brought three banks together with a central treasury, a services and a risk management division. Total assets exceeded R30-billion.




PIET LIEBENBERG: No quick fix

Mr Liebenberg spoke of the concerns among the investment community about Bankorp's corporate image, management, bad debts, asset growth, profitability, capital base and communications with investors.

Mr Liebenberg had a good reply to a question about why investors should buy Bankorp shares and not those of another financial services group.

He said that if investors could be coaxed into accepting that the dividend would be 25c this year, and perhaps climb, the share price would discount that yield from the current 8,9% to the sector leaders' average of 4,5%.

That means a near doubling — more than the other groups can reasonably be expected to do in the same time frame.

But he impressed on analysts that there was no quick fix to Bankorp, and that two to three years would be required to restore returns to acceptable levels.

The strategies would involve the development of people, enhancing efficiency and service while reducing costs, increasing margins through the restoration of prudent banking principles, and strengthening the capital base.

Virtue could be made out of necessity by keeping asset growth within Reserve Bank guidelines of 1% a month.

Mr Liebenberg showed how asset growth had been almost 40% a year for two years before cooling to 10% this year. He said there was room for improvement internally without overly seeking new business.

After the current rights issue of one for one at 280c to raise R575-million, the capital ratio would be 5,2% of the assets — well within the Reserve Bank's 1991 requirements of 4,5%. By 1993, the requirement would be 6%, but Mr Liebenberg said no more rights issues were contemplated.

Sanlam and its wholly owned subsidiary Sankorp held 82% of Bankorp, and could have 90% if the rights issue was not fully taken up.

Mr Liebenberg said there were two ways to reduce that shareholding to the legally required 49% — either by placing shares with institutions or by making an acquisition. Someone mentioned a third — that it became a wholly owned subsidiary.

Grace has been granted by the authorities for Bankorp to get its house in order before attending to the share register. Mr Liebenberg's view is that by the time the matter resurfaces, the rules could have been changed.

He said that a bank's operation depended not on its shareholders but on its directors and management, a view only now being considered by the authorities.

The gradual improvement in disclosure showed new figures this year after 1989's announcement of deposit details, maturity periods, market values of investments, repurchase agreements and cash-flow statements. This year, doubtful debt provisions, tax, market values of stocks and repurchase agreements have been given.

Somebody asked about the group's exposure to Tollgate. He alleged it ran to R600-million.

Mr Liebenberg admitted to being in a dilemma: client confidentiality permitted him to say only, "No comment". He did say that the rumour was unfounded, bad for the group and for Tollgate. It was nowhere near that much, it had been receiving attention, and bad-debt provisions for the whole book were adequate.

Tax would be provided for at the notional rate, but none would be payable for at least three years.

Replies to other questions were that a share incentive scheme would be implemented from January to get the best out of the staff, and Bankfin would sponsor the Currie Cup for the next six years.

Only through performance will the group earn a rerating, but the full house of analysts must have left the presentation for snacks (courtesy of the JSE or the society — "Bankorp cannot afford them") with more confidence in the group than when they arrived.

The executive team's success at Nedbank will be fresh in the minds of optimists, but the more guarded will put their money on bank deposit rather than in Bankorp shares. Still, the price is cheap enough.

Nedbank goes green

Sowetan 1/11/90

By DON SEOKANE (58)

NEDBANK has launched a range of "green" banking services which will enable its existing clients and the public to contribute significantly to environmental conservation.

The new "green" banking services offer a distinctively designed green affinity credit card, Greensave Savings Account and Green Affinity cheques, which has been developed by Nedbank to provide an additional source of income for The Green Trust.

The Environmental Trust Fund has been set up to protect important natural environments, restore damaged areas and provide environmental education.

These "green" banking services are expected to contribute about R2,5 million and Nedbank has provided an initial amount of R5 million to the Trust over five years.

Clients have the option of using the standard Nedbank credit card, savings account and cheque facility or to contribute to The Green Trust at no extra cost, by using the Green Affinity Credit Cards and a percentage of the average balance on the Greensave savings account.

Syfrets launches an invesment boutique

B Day 1/11/90

(58)

GILLIAN HAYNE

IF you shop at Marianne Fassler or Peter Soldatos, you will certainly be a candidate for Syfrets's new-style investment boutique.

Adapted from the American system, Syfrets yesterday launched what is probably SA's first shopfront investment boutique designed to address the financial investment and planning needs of primarily affluent individuals.

The premises, strategically placed in the Rosebank Mall, are designed to create an upmarket, personalised atmosphere in strong contrast to traditional banking halls.

"The boutique aims at catering for the wide-ranging investment needs of the community, but in an environment where people can come in and be personally advised about some of their more important investment options in a relaxed atmosphere," explained Syfrets senior manager, investment advisory services, Lannie Verster.

"We believe that many existing and potential investors would prefer not to take serious investment decisions in a banking hall environment".

The intake of R22m in year one, and R33,7m in year two (1989/90), supports Verster's confidence in the need for such a service. He forecasts a further 66% increase in the financial year 1990/91.

Equipped

The "boutique", which was established as a Syfrets branch in 1988, naturally emerged in its present form with "state-of-the-art" technology constituting the final phase in the metamorphosis.

Boutique staff are equipped with a sophisticated computer resource facility to assist clients in tailoring investment packages that will best accommodate their needs.

The Wealth Creator software package, launched last year, was designed to be neutral in assessing the array of investment instruments available.

Libvest deal worth R206m

58

LIZ ROUSE

LIBERTY Investors (Libvest) has acquired the Rapp family interests in Liblife Controlling Corporation — holding company for the Liberty Life Group — in a deal worth R206,2m.

The transaction will be settled by exchange of shares.

The motivation behind the deal was to rationalise the Libvest Group's structure and focus Libvest's underlying interests.

The deal, effective from September 1, increases Libvest's holding in Liblife Controlling from 33,3% to 50%.

The 16,66% stake held by the Rapp family in Liblife Controlling through Annexe Investments has been acquired by Libvest partly in exchange for 15-million Libvest ordinary shares at 380c a share, with a total value of R57m.

It will also be paid for by the transfer of other securities owned by Libvest. These are mainly 6,2-million Liberty Life Association ordinary shares, worth R130,1m.

The balance, R19,1m, will be settled by the transfer of certain redeemable preference shares and an adjustment payment in cash. BDay 1 11 90

As a result of the deal Libvest and Standard Bank Investment Corporation (SBIC) will each own 50% of Liblife Controlling and 50% of the Liberty Life Group.

Liblife Controlling in turn has a 52,2% controlling interest (23,8-milllion shares) in Liberty Holdings, the listed holding company of Liberty Life.

Following the exchange of Libvest's shares, its only other significant investment will be its holding of 1-million SBIC ordinary shares.

Libvest's issued share capital will in-

☐ To Page 2

Libvest

BDay 1 11 90

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☐ From Page 1

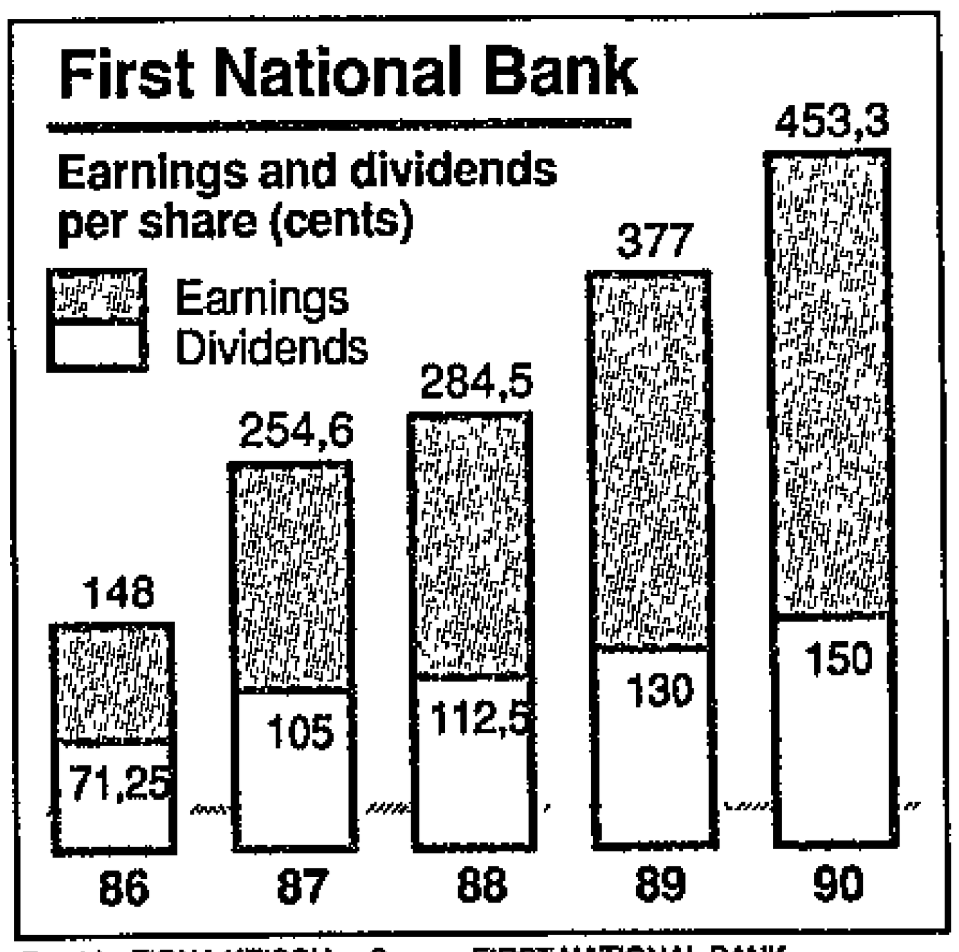
crease to more than 204,8-million ordinary shares, with Donald Gordon's family interests, including a charitable foundation and certain other family trusts, holding a 61,2% controlling interest.

Rapp will continue to be a non-executive director of Liberty Holdings, Liberty Life, First National Trust, TransAtlantic Holdings, Capital & Counties (where he will remain deputy chairman) and Sun Life Corporation. Rapp will be appointed to the Libvest board.

Gordon has been elected non-executive chairman of Capital & Counties, succeeding Dennis Marler, who has retired.

A statement yesterday said early indications from Thurrock Lakeside — Capital & Counties' regional shopping centre — were that pedestrian flow and turnover had significantly exceeded expectations.

The Lakeside development constituted by far the largest single unit in Capital & Counties' property portfolio and represented by value more than a third of the total property assets.



Graphic: FIONA KRISCH Source FIRST NATIONAL BANK

Sterling showing in FNB results

58

GRETA STEYN

FIRST National Bank (FNB) Group proved itself recession-proof by posting a 20% increase in earnings a share to 453,3c in the year to September in spite of a hefty increase in bad debts.

A cost-cutting drive, action to improve interest margins and a surge in non-interest income beat the bad debt blues. The bank has decisively averted the need for a rights issue — which threatened 18 months ago — and is sitting pretty in terms of capital.

BDay 1/11/90

The most striking feature of the FNB accounts is the way cutback in costs offset the huge increase in bad debts. The charge for bad and doubtful debts rose by 62% to slash more than R294m off the bottom line. But the increase in operating expenditure was about half the inflation rate at 7,5%.

The latter figure is in sharp contrast to the 20% rise in costs seen in 1988 and 15,6% in 1989. It reflects MD Barry Swart's rationalisation drive since he took the helm in March last year.

Swart said yesterday the staff complement had been cut by 1 200 through natural attrition and some early retirements. But there was scope for further rationalisation.

Analysts said yesterday they had expected a lower bad debt charge and a bigger increase in earnings a share. But Swart said the bank's new system of categorising all credits had probably pushed up the charge as potential problems were being identified earlier.

"If we had not implemented the new process, some potentially doubtful debts would only have surfaced later. We are

☐ To Page 2

FNB results

BDay 1/11/90

58

☐ From Page 1

taking it on the chin now. Identifying the problems earlier also means there is a better chance of recovery."

Another important feature of the figures is the marked improvement in FNB's capital position — it has now caught up with the Standard Bank Group. The ratio of capital (reserves, debentures and share capital) to assets rose from 4,8% to 5,6%.

Banks are phasing in to 8% in terms of new banking legislation and FNB is projecting a capital surplus during the period of the phase-in.

One of the reasons for the improvement in the capital-to-assets ratio is the slight decline in assets to R30,28bn because of tight control over lending.

Profitability was enhanced by improved interest margins — the increase in net interest income beat the inflation rate at 15,4%.

The market does not yet fully appreciate FNB's dramatic turnaround from '8 months ago, as is evident from its mediocre rating in its sector on the JSE.

Independent merchant bank Investec is rated more highly on a price-to-earnings ratio of 9 compared with FNB's 6,1%. UBS and NBS are also rated more or less on a par with Investec and Standard, Allied and Nedcor also enjoy more popularity, although there is a speculative element in the building societies' prices.

FNB gained 25c yesterday to close at 2 775c, well off its high of 3 050c earlier this year.

Special role for small banks

6 Day 1/11/90

LIZ ROUSE

(58)

THE rationalisation now taking place in the financial services industry will strengthen the position of smaller, independent, niche-type banks, such as Fidelity Bank, says chairman Rolf Lippstreu in his annual review.

The small Port Elizabeth-based bank, which came to the JSE in 1987, has shown it has a very definite role to play in the financial services industry, he says.

The bank's net income grew by 43% to R4m (R2,8m) in the year to September and the dividend was raised 25% to 20c (16c).

Liabilities to the public increased 35% to R351m (R258m), while total assets increased 35% to R377m (R280m). The return on average assets was 1,2%.

Lippstreu says it is essential for a smaller bank that reserves and provisions should exceed normal prudent requirements. In 1990 additional transfers have boosted the amount retained to about 36% above normal policy requirements.

One of Fidelity's strategic targets is that of providing growth capital from its own resources, he says.

FNB posts 20% boost in earnings

CapTimes 1/11/90

(58)

From GRETA STEYN

JOHANNESBURG. — First National Bank (FNB) Group proved itself recession-proof by posting a 20% increase in earnings a share to 453,3c in the year to September 1990 in spite of a hefty increase in bad debts.

A cost-cutting drive, action to improve interest margins and a surge in non-interest income beat the bad debt blues. The bank has decisively averted the need for a rights issue — which threatened 18 months ago — and is sitting pretty in terms of capital.

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"If we had not implemented the new process, some potentially doubtful debts would only have surfaced later. We are taking it on the chin now. Identifying the problems earlier also means there is a better chance of recovery."

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Banks are phasing in to 8% in terms of new banking legislation and FNB is projecting a capital surplus during the period of the phase-in.

One of the reasons for the improvement in the capital-to-assets ratio is the slight decline in assets to R30,28bn because of tight control over lending. Profitability was enhanced by improved interest margins — the increase in net interest income beat the inflation rate at 15,4%.

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FNB gained 25c yesterday to close at 2 775c, well off its high of 3 050c earlier this year.

African Bank opens new Jo'burg branch

58

Sowetan 7/11/90

MANY small black entrepreneurs have received financial loans and created jobs with the help of the African Bank's Small Business Unit which was started three years ago, the bank's executive manager, Mr Jack Theron, said this week.

He said that many others had made enquiries about loans at branches of the bank throughout the country, although he did not have the exact number of applications received this year.

Addressing guests when the bank opened its new branch in Johannesburg, he said "after the torrid times that we have experienced over the past few years, the bank is now on its feet and doing well." Many branches will be opened in the country in the future, he said.

He said that the small business people who obtained loans from the bank had not experienced any difficulty in repaying the bank despite the political unrest that took place in the townships over the past few months.

Theron said even those people who obtained housing loans never gave them problems with boycotts. Those who did not pay, he added, had financial problems which were eventually solved.

He was optimistic that South Africa's economy and investment opportunities would grow in the next years.

Special share offer closes tomorrow

58

Sowetan 1/11/90

THE preferential offer of two million shares in South Africa's fastest growing life assurer, African Life, closes tomorrow

The company has applied for a listing in the insurance section of the Johannesburg Stock Exchange as from November 15.

The offer is open to staff, existing shareholders, policy holders and selected business associates.

When listed, African Life will be one of the few companies on the JSE with a majority of black shareholders.

African Life's total income increased by 38 percent to R37,1 million, and earnings per share rose by 25 percent to six cents in the half-year to September 1990.

The company's managing director, Mr Jack Bill said: "The company services some 160 000 premium-paying life policies in the low monthly premium bracket.

"We have a network of 23 branches nationwide and a sales force of more than 600.

"One of the major strengths of the company is its market focus, which has enabled it to bring the benefits of life assurance to a relatively unsophisticated market while still giving value of money.

"We have concentrated our expertise on providing products that meet the up-to-date needs of our target market."

The company is forecasting a 20 percent increase in earnings a share for the year to March 31, 1991 and 20 percent in dividend a share to 9,5 cents over the same period.

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the JSE," Jack said.

58

70 employees retrenched in merger of stockbrokers

More than 70 people are to be retrenched when stockbrokers Frankel Kruger Vanderine merge with Max Pollak and Freemantle on December 1.

Dr Leslie Frankel, chairman of the joint venture said yesterday: "Although we have made every effort to keep retrenchments to a minimum, we have had to stabilise our staff complement at around 250 people.

"This has regrettably meant retrenching 70 people between the two firms."

The name of the new firm will be Frankel Max Pollak Vinderine (FMP).

Archie Shapiro, partner of Max Pollak, will retire after 57 years in the industry, but as a consultant will still play an active role in FMP.

All other partners in Max Pollak will become directors, along with existing FKV directors.

New joint MD David Shapiro says that wherever possible client handling staff have been retained. — Sapa.

ST 1/11/90 (58)

Afcol earnings in decline

The impact of high financing costs and the difficult trading conditions encountered by equity-accounted interests offset Afcol's increased turnover and trading profit, and attributable earnings for the six months to September were nine percent below those of the previous year.

Attributable earnings were R23,4 million (R25,8 million), which translates into earnings of 95,5c (105,4c) a share.

This was achieved on an increased turnover of R401,9 milion (R356,2 million) and a trading profit of R35,0 million (R30,9 million).

An interim dividend of 47,5c (52,5c) has been declared.

The directors say it will be difficult for Afcol to do better than match earnings of the previous year. —Sapa.

Star 1/11/90 (58)

Tighter management boosts FNB

By Ann Crotty

Despite a slowdown in second-half performance, First National Bank (FNB) managed to produce a sterling 20 percent increase in earnings a share — to 453,3c (377c) — in the 12 months to September.

A final divided of 110c has been declared, bringing the annual payout to 150c (130c) a share — 15,4 percent up on the previous year.

The full-year earnings figure is a little short of what the market was expecting.

After the release of the interim figures, which showed earnings up 31 percent, analysts were looking to full-year earnings of around 470c a share.

Given the general deterioration in trading conditions, analysts believe the earnings increase is excellent and should sustain the re-rating that the share has been enjoying since the interim.

Perhaps more important to the market's rating is the obvious progress that has been made in controlling asset growth, in curbing non-interest expenses, in improving liability management and in tightening the management of potential bad debts.

The progress that has been made on these fronts in the past two years should help ensure that FNB is well-positioned to ride out the tough times that seem to be on the cards for the next 12 to 18 months.

Looking to financial '91, MD Barry Swart says the increase in the petrol price will delay the recovery of the economy and will prevent any reduction in interest rates until the end of the first quarter of calendar '91.

Although he expects zero economic growth next year, he believes FNB will show some increase in advances — "I hope it will be more than financial '90's 2,2 percent increase."

Barry Swart . . . expects zero economic growth next year

This increase, combined with the generally tighter management, is expected to produce some improvement in earnings.

In financial '90 interest income was up 16,4 percent, interest expenditure rose 16,4 percent, leaving net interest income showing a 15,4 percent advance to R1,37 billion (R1,19 billion). The provision for doubtful debts shot up 62 percent to R294,3 million (R181,6 million) — at the half way stage doubtful debts were up 93 percent.

Mr Swart says the provision included a few debts over R10 million, but that most were under R250 000 and were across the board — in all industrial sectors and in agriculture.

Among the higher-profile bad debts was the R7,4 million exposure to Spareco and the R60 million ERPM loan, which analysts believe will be completely written off by the end of the current three-year government support programme for ERPM.

Other operating income was up 19,6 percent to R950,1 million (R794,2 million). The increase in other operating expenditure (non-interest expenses) was held at 7,5 percent — a commendable performance, given inflationary pressures.

Staff numbers have been reduced by about 1 500 over the past 18 months.

Mr Swart says there will be ongoing benefits from the change to a much more cost-conscious culture.

Pre-tax profit was up 31 percent to R510,4 million (R390 million). A higher tax rate and an unchanged contribution from associates meant the increase in net income was 20,2 percent to R329,8 million (R274,3 million).

Advances were up by only 2,2 percent to R23,2 billion and total assets were slightly lower at R30,3 billion (R30,5 billion). Return on total assets was 1,1 percent (0,9 percent).

Extensive changes to Sage boards

Star 2/11/90

58

By Ann Crotty

The Sage group has announced extensive changes in the membership of its three boards.

Ten non-executive directors are now common to the boards of Sage Holdings, Financial Services and Sage Property.

The ten non-executive directors are NVR Alborough (newly appointed), AJ Botes, ED Broomberg, GB Dickason, OD Gorven (new), RW Monthe (new), GS Muller (new), JP Rupert, G Steinmetz and, MH Visser.

Executive director, Mr Bernard Nacken explains that the objective of having the non-executive directors common to all the boards is to improve the efficiency of the boards and the board meetings.

Mr Alborough and Mr Monthe are the two new Allied appointees who replace D Paxton and A Tindall who are no longer executive directors of Allied.

Conservative stance at Boland Bank

Star 2/11/90

(58)

Boland Bank reported a 13 percent increase in profits to R7,23 million (R6,4 million) for the six months to September.

Earnings a share increased from 47,6 cents to 53,7 cents. The interim dividend has been increased a cent to 21 cents.

In its interim report released in Cape Town yesterday, managing director Gert Liebenberg said the profit increase of 13 percent after tax and transfer to internal reserves, must be viewed in the light of the monetary policy limiting the growth of credit granting to one percent a month; the continuing high interest rate levels which increased bad debts and a decrease in service-based income as a result of the adverse economic conditions.

He added that the statutory capital requirements set by the new Deposit-taking Institions Act, which is expected to come into effect from January 1, compelled the board to adopt a conservative dividend policy.

The board expected that the current level of profitability would be maintained for the current financial year, Mr Liebenberg said.— Sapa.

Mibsa management in buyout talks

LINDA ENSOR

NEGOTIATIONS between Mibsa management and majority stakeholder Syfrets over a management buyout of the insurance broking firm — the third largest in SA — are expected to be finalised at a meeting of the Mibsa board today. (58)

Industry sources said the step was initiated entirely by Mibsa management which felt constrained by corporate life in the Nedcor group. BDay 2/11/90

MD Dave Harper would not comment yesterday but said an announcement would be released today. Syfrets director Ashton Dominy also declined to comment or to confirm industry speculation that the deal would be worth between R10m and R15m.

Mibsa is ranked third in the insurance broking industry after PriceForbes Federale Volkskas and First Bowring.

The original majority owner of Mibsa was Minet of London, which sold out its 40% stake to Nedbank in 1980.

About 18 months ago Nedbank, through its wholly owned subsidiary Syfrets, increased its stake to 75% while that of the executive trust rose from 10% to 25%.

One leading industry source said the withdrawal of major backers could change what was regarded as Mibsa's price-cutting role in the insurance broking market as the manager/owners would have to become more concerned with profitability.

He also believed the move was a "brave and a highly risky one".

Policy cannot be relaxed yet

B/Day 2/11/90 (58)

CHRIS STALS
Reserve Bank Governor

THE Reserve Bank's contribution to the fight against inflation is not aimed directly at prices — it will obviously be senseless to attack the results and not the causes of the problem.

Our anti-inflation policy is therefore aimed at what we regard as one of the basic causes of inflation and over which the cental bank has control, and that is the money supply.

One should not oversimplify the very complex relationship between the money supply and the consumer price index. Somehow or other there is some truth in the quantity theory of money, somehow or other more inflation needs more money, and somehow or other more money contributes again to more inflation.

This money rule has many pitfalls, and there are many deficiencies in the application of the money rule in practice. What definition of the money supply is most appropriate? Is it M1, or M1A, or M2 or M3?

What role does the velocity of circulation play in this complex process of action and reaction? How should one accommodate intermediation and disintermediation? How will changes in the liquidity preference of money holders affect the formula?

What addition to the money supply is needed annually to cover normal growth in demand for transactions and cash balance purposes? When do we reach the point where any further increase in the money supply becomes inflationary?

It is understandable why the Reserve Bank is not for the rigid money rule and why it regards its annual money supply objectives as very important guidelines, but not as fixed targets

The art of central banking is not to follow a rigid money supply formula in the pursuance of the cental bank's mission, but to apply the necessary discretion based on changes in all the available monetary data, such as bank credit extension, interest and exchange rates, changes in the gold and foreign exchange reserves and in government finances.

Were it not for this broader approach, we would have been compelled to start relaxing on our restrictive monetary policy measures at this stage. Measured over a 12-month period, the M3 money supply increased by 13,3% in September, that is within the Reserve Bank's target range of 11% to 15% for calendar 1990.

The guidelines for 1990 are based on the average amount of M3 in the fourth quarter of 1989. Measured against this basis, the seasonally adjusted annual rate of M3 up to September 1990 was only 11,2% up On this basis, for the past four months M3 has remained within the target range of 11% to 15%.

The Reserve Bank is nevertheless of the opinion that this achievement does not yet justify any relaxation in policy.

In the broader perspective, we must also take into account the following facts

□ Bank credit extension to the private sector is still growing at a rate of about 19% per year;

□ The velocity of circulation of M3 has recently started to rise again and, at its present relatively low level it holds the potential to accommodate a substantial increase in total nominal spending in the economy, without any increase in the money supply;

□ The rate of inflation has recently been hoisted to a higher level by the oil price hikes and, in order to avoid any further escalation in prices, we have to be even more restrictive in our policy,

□ The prospects for the balance of payments have deteriorated recently and the level of the gold and foreign exchange reserves plus unutilised borrowing facilities of the Reserve Bank is perhaps now more comfortable, but still leaves us very vulnerable

Through its open market operations and the conditions attached to accommodation provided at the discount window, the Reserve Bank therefore continues to constrain the capacity of the banks to create more money.

The Reserve Bank has no specific interest rate target, except that the Bank holds the strong view that nominal interest rates should at all times remain above the rate of inflation. Most nominal interest rates in SA are at present at a reasonable level above the current rate of inflation of between 14% and 15%

Nominal rates can, of course, move up and down without any changes in the rate of inflation to reflect changes in the underlying demand and supply conditions. Such movements may lure the Reserve Bank to intervene in the market with open market operations should th Bank not be satisfied with the mo ments in the rates

The monetary authorities are sa isfied that the present level of inter est rates is in conformity with th overall monetary policy objectiv

There is still a surprisingly str demand for credit, as reflected in th relatively high rates of increase bank credit extension to the priv sector, and in the relatively lar amounts of the money market sh age.

A decline in interest rates wou most probably stimulate the deman for bank credit further, which mig have an expansionist effect on th total amount of new money creat through the banking system

The Reserve Bank therefore re mains reluctant to reduce its B rate, through either open market op erations or through the discount wi dow, to add to the liquidity base the banking system

A request to the Reserve Bank fo a lowering of its discount rate indeed a request to the Bank to pri more money In view of our relativ ly high rate of inflation, such actio at this stage surely cannot be in th interest of the economy

□ **This is an extract from Stals address to the Financial Mail in vestment conference in Johanne burg yesterday.**

LETTERS

Dear Sir,

Surely the person who conducts the

No money for ANC, warns CP

THE CP yesterday warned life assurance companies against complying with the ANC's proposals for diverting funds to reduce economic inequality. (SS)

In a statement the CP said financial institutions and assurance companies had no right to siphon off policyholders' money. B Day 2/11/90 (390)

By caving in on the principle of the redistribution of investors' wealth, the institutions would not be able to stop or draw the line.

LIFE ASSURANCE FM 2/11/90

SANLAM'S R10bn

58

Total income in the year to September 30 topped R10bn for the first time, just eight years after reaching R1bn. Yet it was a difficult year, says senior GM Desmond Smith, who does not expect easier conditions in the next few months.

Having decided to remain in Namibia, which involved opening a R50m Windhoek HQ and decentralising many SA operations for future efficiency, Sanlam did well to keep admin expenses under 4% of total income. It had some problems in areas hit worst by economic conditions, such as the East Rand and Welkom, where Sanlam has a traditional policyowner base among the mining communities. Smith says there was an increase in clients borrowing against policies but the actual lapse rate was contained.

The Bellville-based mutual has been energetically communicating with individual life clients to express, among other things, the alarming results of lapsing. But proactive communications has another side — the policy invites questions. Smith says he spends hours answering client concerns over Sanlam's troubled banking interests "but no one finds it necessary to write in about our success stories, such as Gencor."

Smith thinks the industry is heading for another year of uncertainty. It is essential to get the tax base and divergent political attitudes sorted out, he says. Yet it is unlikely that there will be a quick fix for either problem. Looming, also, are the recommendations expected to flow from the Mouton inquiry into pension structures and, the biggest imponderable of all, the ultimate effect of Aids.

MD Pierre Steyn believes "purposeful attempts" to enlarge Sanlam's English-speaking and black client bases have been successful. Recurring new premiums from English-speakers were up 39% on 1989 and now represent a third of new business.

Payments to policyowners and other beneficiaries increased by 59% to almost R3,9bn. New premium income was up by more than R1bn at R7,4bn. In addition, there was almost R3bn investment income. Assets held for policyowners grew 24% to a book value of R28bn. Sanlam also controls assets of more than R50bn through wholly owned Sankorp.

Aids has so far had only a trivial impact (except in its drain on management time). Confirmed cases were responsible for nine death and four disability claims, a total payment of less than R600 000. The illness remains a large potential problem, with a substantial increase in claims possible towards the end of the century, says Steyn. ■

LIQUID ASSETS F/M 2/11/90

BOUNCING BACK (58)

The slowing of the economy has reduced the number of transactions that generate bankers' acceptances (BAs). With expectations in recent months of lower interest rates, borrowers preferred to use overdraft facilities rather than commit themselves to a fixed rate. For the same reason, investors sought to lock themselves into the securities.

The resulting shortage has created a problem for some banks as the paper is a liquid asset, which can be discounted with the Reserve Bank in times of need for 18,3% — an effective rate of a little over 19%. This is well below the 22,75% daily rate on money lent against prescribed assets.

More important, perhaps, BAs are a substantial component of the liquid asset portfolio banks must hold against liabilities — calculated on the 21st of each month, based on the month's average. They are the only significant private-sector securities to qualify — while government securities, Treasury bills (discounted at 18%) and Land Bank bills (at 18,2%) are provided in limited quantities and at the dictates of monetary and fiscal policy.

Liquid BAs are used to finance the movement of goods. They are self-liquidating and must comply with an array of regulations under the Banks Act. By accepting a bill of trade, a bank creates a liquid acceptance eligible for rediscounting with the Reserve Bank when held by another bank. Problems have arisen over underlying transactions which are not necessarily self-liquidating within the statutory 91 days.

 F/M 2/11/90 (58)

These include sales of motor vehicles on instalment credit. Credit to motor dealers has been extended by small players and funded through a liquid BA, discounted eventually with the Central Bank. Initially the problem is not that of the bank which extends the credit to the motor dealer but of the bank with whom it exchanges the paper. In recent weeks, however, bigger banks have become wary of paper created by some of their smaller counterparts, because it has been rejected at the discount window.

So the problem has come back to those lenders who can no longer fund loans through liquid acceptances and are, moreover, in danger of finding themselves short of liquid assets. In this event, they are compelled to buy paper in the market at the going rate.

☐ The Reserve Bank hopes to simplify the rediscounting procedure. It has asked banks for comment and suggestions. They have until November 30 to respond. ■

Boland Bank's profits up

B Day 2/11/90

LIZ ROUSE

(58)

BOLAND Bank increased its profit 13% from R6,4m to R7,23m during the six months to September.

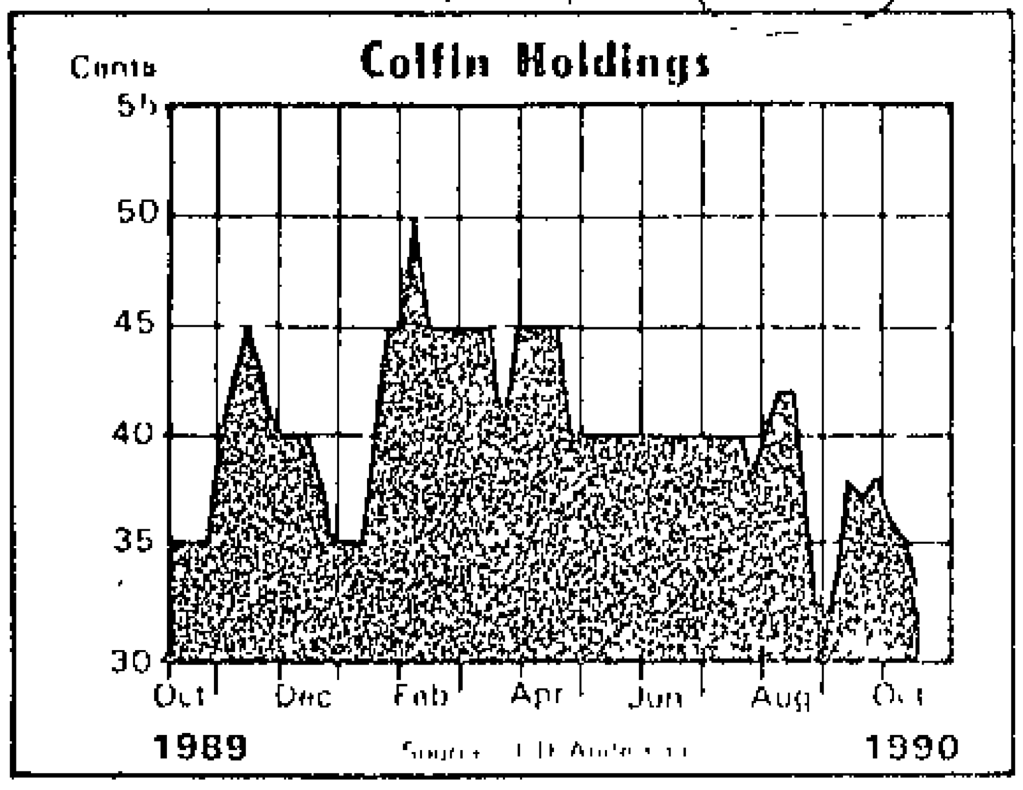
With earnings up from 47,6c to 53,7c a share, the interim dividend has been raised 1c to 21c.

In the bank's interim report, released from Cape Town, MD Gert Liebenberg said the profit rise had to be viewed in the light of the monetary policy limiting the growth of credit granting to 1% a month; continuing high interest rate levels, which increased debts; and a decrease in service-based income as a result of the adverse economic conditions.

The statutory capital requirements set by the new Deposit-Taking Institutions Act, expected to come into effect on January 1 1991, compelled the board to adopt a conservative dividend policy.

The board envisaged that the current level of profitability would be maintained for the balance of the year.

FM 2/11/90 (58)



COLFIN HOLDINGS FM 2/11/90

WHEELING AND DEALING

Activities: *Financial and management services, education and investment banking.* (58)
Control: *Directors 53,3%.*
Exec chairman: *H S Spain; MD: J M Wiggill.*
Capital structure: *15m ords. Market capitalisation: R4,95m.*
Share market: *Price: 33c. Yields: 18,2% on dividend; 58,5% on earnings; p:e ratio, 1,7; cover, 3,2. 12-month high, 50c; low, 30c. Trading volume last quarter, 567 000 shares.*

Year to April	'90
ST debt (Rm)	3,8
LT debt (Rm)	0,1
Debt:equity ratio	3,59
Shareholders' interest	0,09
Int & leasing cover	14,1
Return on cap (%)	42,4
Pre-int profit (Rm)	4,0
Earnings (c)	19,3
Dividends (c)	6
Net worth (c)	5,7

Since the publication of Colfin's first annual report, things have changed dramatically. The group has been restructured and has bought logistics company Logtek, which will contribute around a third of total earnings and bring the group some tangible assets.

The restructuring will turn Colfin Holdings into a pyramid company. Former cash-shell Furntech, to be renamed Colfin Investments, will acquire the operating subsidiaries, including Logtek. The price is R12,2m — R4,7m cash and R7,5m in the issue of 19,7m new Furntech shares at 38c. Colhold will hold 49,6% of Furntech's enlarged capital. Furntech outsiders, with a 52% shareholding, have been offered 40c a share should they want to sell.

Chairman and new Logtek MD Harry Spain says the group has focused on four areas: financial services; training; computer; and now logistics — the provision of systems which minimise running costs of a business or machine. MD Jeffery Wiggill says further acquisitions will fall into these areas — negotiations are under way for an acquisition in the financial services sector.

Without Logtek, last year's pre-interest profit was R3,7m. Comparisons with 1989 are meaningless, as the company was then the Cashworths shell. However, pro forma figures show 1989 pre-tax income was a slightly higher R3,8m.

If Logtek contributes a third of pre-tax profit in 1991, that would imply about R2m for Logtek and about R6m for the enlarged group. "Logtek will provide more stable earnings and cash flow because of its consistently high growth pattern," Wiggill says.

The logistics company will increase tangible asset value, which was just 6c in 1990. Wiggill argues that trademarks should not be excluded as they are a saleable entity. Including trademarks, net asset value comes to 37c. With Logtek, the figure rises to 24c without trademarks and goodwill and 56c without goodwill, mainly thanks to Logtek's Midrand head office, valued at R6,8m. However EPS would have been diluted had the transaction been effective last year.

Investors have been confused as to Colfin's purpose. Starting as a promoter of listings in the 1987 boom, the group has manoeuvred through various purchases and sales including Manserv and its operating companies, clothing manufacturer and retailer Cashworths and, most recently, Furntech.

It has managed to fund acquisitions and raise money by stripping assets and forming cash shells. But it has also picked up a lot of shareholders who invested in companies very different from what it is now. Wiggill believes this could be a reason for the rating. On a p:e of 1,8 and dividend yield of 17,1% it is one of the most poorly rated shares in the

COMPANIES

FM 2/11/90 (58)

banks and financial services sector.

The very nature of buying and selling assets — or wheeling and dealing — leaves the company open to risk. It has yet to prove to investors that it can provide returns which deserve their attention.

Heather Formby

FINANCIAL SERVICES FM 2/11/90 (58)

BETWEEN TWO ACTS

Conflicting interests of banks and life offices continue to create problems for legislators. The Deposit-taking Institutions Act due next year and two sets of insurance legislation still being drafted will provide a new framework for institutional supervision and are also intended to provide an equitable operating environment for the financial services industry.

But potential for problems is unending.

The latest relates to the wording of clauses in the Deposit-taking Institutions (DTI) Act which limit the holding of any single shareholder (and associate) in a bank and the holding of a bank in an insurer.

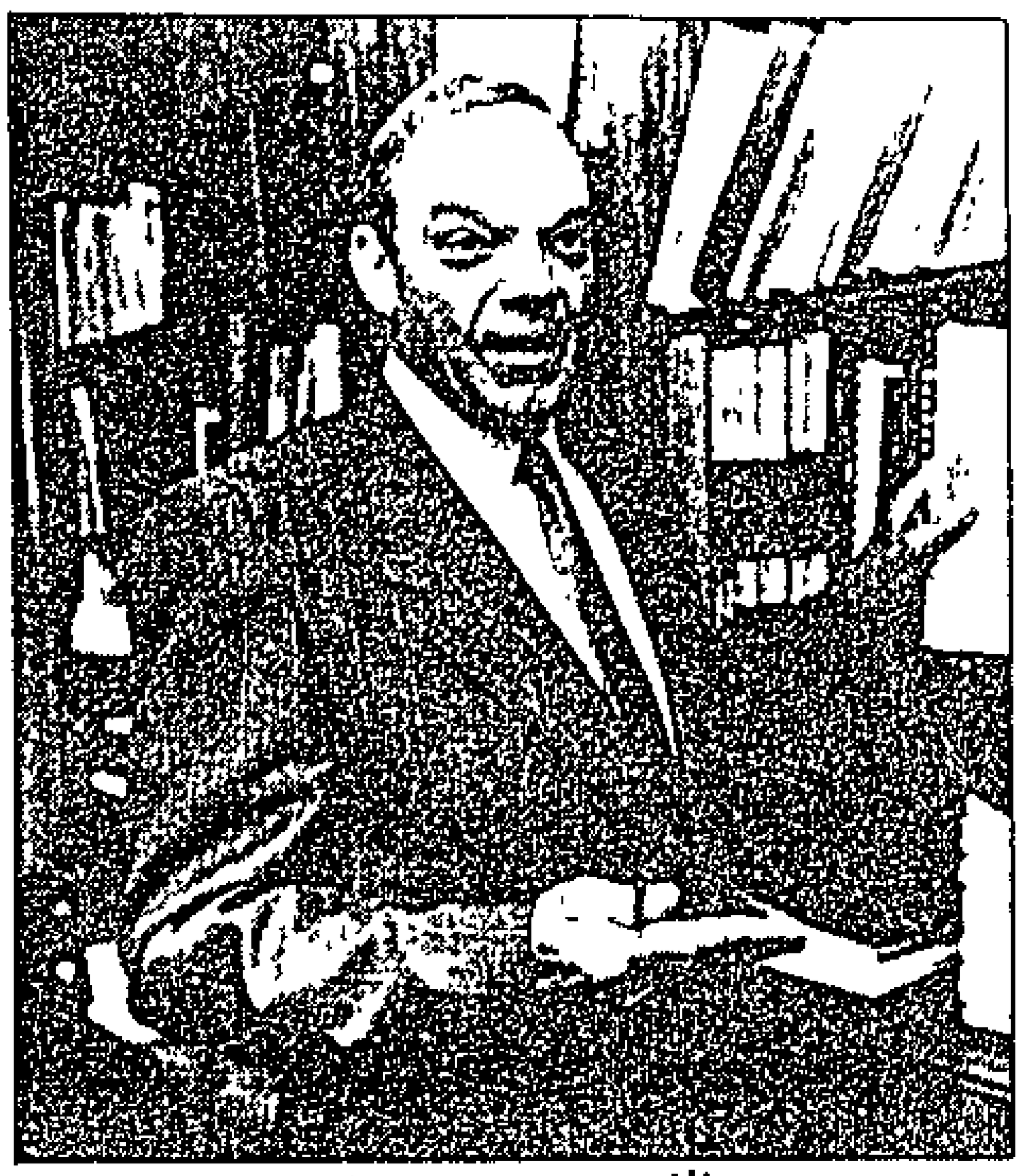
While the limitation is 49% in both cases, banks may be able to circumvent the restrictions by creating a sub-subsidiary. A subsidiary, as defined by the Companies Act, automatically includes a holding further down the line. But a loophole lies in the DTI definition of a bank's associate — it specifically excludes a sub-subsidiary. So, together with a sub-subsidiary, a shareholder may acquire a controlling stake in an insurer. No such exclusion is made in the case of shareholdings in deposit-takers.

Standard Bank's Henry Shaw, who helped draft the new Act, argues the exclusion is not significant. "The intention is to limit shareholding to 49%."

Another area where an uneven hand has apparently been applied is that, while an insurer is expected to reduce an excessive holding, a deposit-taker will not have to divest holdings in an insurer. This is for the benefit of building societies which, in some cases, own insurance companies outright.

Publication of the DTI Act on July 11 gave deposit-takers the opportunity to acquire holdings in insurance companies before the Act comes into force.

The situation is further complicated because the Insurance Act (due to be replaced by Short- and Long-term Acts by 1992) limits holdings in an insurer to less than 25% unless permission is given to exceed this



Jacobs ... *reconciling the Acts*

ratio. Nico Fourie of the Financial Institutions Office (FIO) says: "Provided other criteria such as public interest are met, the FIO has no objection to the size of any shareholding. We are concerned about the capital strength of shareholders."

The anomaly, then, is the restriction placed on investors in banks. Apart from the broader implications *(Economy* October 26) for the industry, this unnecessary limitation revives fears about uneven playing fields. It is the latest in a series of controversies over the impact of legislative changes.

In July, Deputy Finance Minister Org Marais proposed the replacement for individuals of income tax on interest with a much lower withholding tax. Excluding life offices from this benefit would put them at a disadvantage, diverting deposits to banks and building societies. Life offices argued the proposed tax would do more than redress the existing inequitable situation, in which inflation and tax have combined to encourage savings in inflation-beating life products. It would create an equally inequitable situation in which assurers would be the victims.

Another controversy related to the liquid assets which banks, but not insurers, must hold against liabilities to the public. In April, Reserve Bank Governor Chris Stals pre-empted the new Act, by compelling banks to bring previously off-balance sheet business on to the balance sheet. This increased liquid asset requirements. This does not apply to insurers because inflows of funds are contractual and because of the long-term nature of their liabilities.

Bankers argued that, by increasing their cost of funds relative to insurers, this disadvantaged them. Insurers argued the need to match term structure of assets and liabilities.

The latest round in the battle has still to be resolved. Japie Jacobs, special adviser to the minister of finance, says the issue will be considered by his committee — improbably named the "committee regarding the advancement of more equal competition for funds in financial markets."

Meanwhile, the institutions will operate under conflicting legislation. Jacobs says, if the issue should arise, the Insurance Act would be the overriding Act.

INTEREST UPTURN

With the month-end shortage building up to R3,38bn by Monday, key money market interest rates shot up sharply. Call rate rose from 18% on Monday to 18,5% on Tuesday. One-month deposits moved from 18% last week to 18,25% on Monday and two-month deposits from 17,75% to around 18,2%.

The rate on bankers' acceptances remained at 18,2%, below its recent high of 18,3%, thanks to demand for liquid paper by banks, which have to hold it against liabilities (see *Bouncing back*).

More fundamentally, interest rate expectations have become bearish with rates on six-month certificates of deposit moving from 18,4% on Friday to 18,55% on Monday and 18,65% on Tuesday.

LIQUID ASSETS FM 2/11/90

BOUNCING BACK (58)

The slowing of the economy has reduced the number of transactions that generate bankers' acceptances (BAs). With expectations in recent months of lower interest rates, borrowers preferred to use overdraft facilities rather than commit themselves to a fixed rate. For the same reason, investors sought to lock themselves into the securities.

The resulting shortage has created a problem for some banks as the paper is a liquid asset, which can be discounted with the Reserve Bank in times of need for 18,3% — an effective rate of a little over 19%. This is well below the 22,75% daily rate on money lent against prescribed assets.

More important, perhaps, BAs are a substantial component of the liquid asset portfolio banks must hold against liabilities — calculated on the 21st of each month, based on the month's average. They are the only significant private-sector securities to qualify — while government securities, Treasury bills (discounted at 18%) and Land Bank bills (at 18,2%) are provided in limited quantities and at the dictates of monetary and fiscal policy.

Liquid BAs are used to finance the movement of goods. They are self-liquidating and must comply with an array of regulations under the Banks Act. By accepting a bill of trade, a bank creates a liquid acceptance eligible for rediscounting with the Reserve Bank when held by another bank. Problems have arisen over underlying transactions which are not necessarily self-liquidating within the statutory 91 days.

BOARD OF EXECUTORS

WELL HELD! FM 2/11/90

(58)

On the face of it, shareholders can be well satisfied that they kept their shares in this small but blossoming Cape company. Preliminary results for the year to September 30 indicate that attributable earnings leapt by 105% to R9,2m. Fully diluted EPS rose by 42% while EPS on the ordinary shares alone reflect a more sobering but still creditable 28% gain, to 102c.

The year was marked by five significant events. First, there was the hostile bid from Investec. The all-out fight that ensued from September last year kept top management immersed until the beginning of this year. The Board then acquired Mercury Trust, issuing further shares. Liberty Life took a 20% stake, which finally stymied the Investec bid. Then discussions ensued with Pepkor, which had a close look at buying out BoE's control of the Specialty Store group. Apparently this deal was not consummated because Pepkor would not pay the price demanded. Finally, in June, BOE became the first non-bank or life-office controlled company to launch a unit trust.

Some of these activities were anything but income-producing. It bodes well that BoE could produce such growth in spite of distractions. Income before tax and loan stock interest, but after (that old bone of contention) transfers to internal reserves, rose 42% to R10,8m. Equity-accounted earnings of associates (Fidelity Bank, Storeco and Speciality Stores and unlisted Really Noble Investments) climbed 134% to R3,3m.

A 22c final dividend (17c) makes a total of 32c, up 28%. At 500c, the 6,4% dividend yield is almost identical to the average of the sector and may not fully appreciate the excellent record.

Gerald Hirshon

Why blood is flowing at the stock exchange

St 3/4/90 (58)

The slump could be the worst since the early '60s

DEREK TOMMEY

STOCKBROKERS laid off more than 70 people this week as the Johannesburg Stock Exchange experienced one of its most difficult times for decades.

For the past 2½ years the money flowing into the exchange has been insufficient to cover stockbrokers' rising costs and many have been operating at a loss.

Brokers say this investment depression could continue for some time, and the jobs of many other stockbroking employees could be threatened.

This week's layoffs came from two major stockbroking firms which are in the process of merging. But brokers say this is not the last of the mergers. Further blood-letting is likely.

Firms simply have to cut costs, a broker said. So when sales volumes drop, people who are not needed — such as administrative workers and dealers — are right in the firing line.

But it is not only the lowly-paid and junior workers who are being asked to leave. "Cutting the number of highly paid staff has a marked impact on the wage bill," a broker said.

However, he cautioned against reducing research staff. "If the institutions feel the quality of your work is falling off they will leave you."

Old-timers say the stock market slump could be the worst since the early 1960s, when turnover tumbled in the aftermath of the Sharpeville shootings and the resultant huge flight of capital from the country.

This time there is no Sharpeville to blame, which raises the question as to what has gone wrong this time?

Brokers cite many factors, including:

- The loss of confidence by many investors in the share market since the 1987 share market collapse;
- Poor economic prospects here and abroad;
- Political uncertainty;
- The Middle-East crisis;
- The US Budget fiasco, and so on.

Interest

But probably the most important factor has been the steep increase in interest rates in the past 2½ years.

For some time the stock exchange has not been getting enough investment or speculative money to keep it going at its pre-1987 levels. Examining the effects of these high interest rates make it is easy to understand why.

Between the end of 1987 and the end of 1989, the average mortgage rate rose from around 13,2 percent to 20,5 percent. In the same period the 32-day deposit rate doubled, rising from 9,75 percent to 19,5 percent.

This jump hit the ordinary house-buyer hard. House-buyers were paying back some R3,5 billion a year to the building societies in mortgage repayments in 1987. Last year the same people had to repay some R6 billion — a 70-percent increase.

If instalments on bank mortgages is included, house buyers probably have had to find an extra R3 billion a year since 1987.

This has been a major additional burden for most people. It has eaten sharply into their disposable incomes and, as the high interest rates persisted, probably into their savings as well.

Their resultant lack of money, together with the still-remembered shock, for many, of seeing their investments halve in value in the 1987 share market collapse, is keeping the ordinary person out of the share market.

Between September 1987 and February 1988, the market values of shares listed on the JSE fell more than 40 percent. At the end of September shares listed on the JSE were worth R357 billion.

By the end of February their worth had dropped almost R150 billion to around R209 billion. Part of this decline may have been "paper" losses for the big institutions. But many small investors lost their shirts.

Today the small investor clearly finds it more profitable and secure to invest in the money market at 19,5 percent.

The institutions have also been investing on a huge scale in the money market — and it is this which is probably the real reason for the share market's problem.

Reserve Bank figures show that between the end of 1987, when interest rates started to move up, and the end of June this year some R57 billion poured into commercial bank deposits to take advantage of the extremely attractive rates being offered.

Optimism

This was more than four times the R13 billion paid into the banks in the previous 2½ years.

Undoubtedly, if interest rates had remained low, at least some of this money would have flowed to the share market. Had even a quarter of this money been invested in shares, conditions on the JSE undoubtedly would have been much more prosperous.

However, the JSE has considerable cause for optimism for the future. Lower interest rates — and they must come down eventually — should enhance the attraction of share investment and reduce that of fixed deposits.

This should lead to a return of money to the share market — and possibly also to the re-hiring of some of those retrenched, say brokers.

Sanlam undeterred by market decline

S/Times 4/11/90.

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By DAVID CARTE

SANLAM has been an aggressive buyer of shares throughout the decline in the stock market,' says investment manager Ronnie Masson.

Sanlam's biggest purchase in the year to September was R400-million of De Beers shares at an average price of about R59. Next biggest were Impala Platinum, Iscor, Charter, Lonrho, SA Breweries, Anglo American, Kloof, Oryx and Driefontein.

Mr Masson says the next ix to nine months will be ough, but he is confident that in the longer run these purchases will be justified.

"We are confident that the country will solve its political problems. We are not all that worried about nationalisation either. No responsible government will nationalise. I have no doubt that whatever government comes out of the constitutional negotiations will be responsible."

Projects

Mr Masson says the Life Offices Association has formed a committee to investigate investing in socially desirable projects. Estimates of R2-billion a year are premature. Amounts have not been discussed.

Sanlam ended the year 10% liquid, which meant it had R3-billion cash.

"If we were bearish, we would be about 15% liquid and if we were very bullish we might run it down to 5%."

Mr Masson says that if Richemont's dividend yield and PE are removed from market averages, top-quality shares, such as Plate Glass, Sappi, Malhold, Murray & Roberts, are reasonably rated. He believes that FSI on a dividend yield of 7,5% is also cheap.

Sanlam and Sankorp are unlikely to take out minorities merely because shares might be underrated.

"If you take out the minority, you become 100% providers of capital. Listings encourage good management."

Investment income last year rose by 22% to nearly R3-billion. This is merely interest plus dividends. On the real measure of growth — interest, dividends plus capital gains, minus losses — Sanlam's investment return was about 10%.

Exposure

Mr Masson says most JSE indices rose during the year, but then fell to more or less their levels of a year ago.

"Obviously, our five-year return is a good deal better, more like 30% a year and that's why we look good in investment surveys."

Gold shares account for only 10% of the Sanlam portfolio.

"The metal seems to have lost its investment attractions, but we still have an exposure through mining financials, which constitute about 20% of the combined portfolios."

Mr Masson says equities account for an unchanged 50% to 60% of the Sanlam portfolios, gilts for 15% to 20% and properties 10% to 15%. Sanlam invested R600-million in new properties last year. Vacancies are rising and he expectes rent increases to moderate in the next year.

Sanlam's policy of controlling strategic investments is still in place. It stems from Sanlam's desire to invest in greenfields ventures.

RONNIE MASSON: Little chance of nationalisation

The Sankorp portfolio, which includes Gencor, Malbak, Nissan, Federale Volksbeleggings and numerous other controlled interests, listed and unlisted, did as well as the uncontrolled portfolios.

COMPANY ROUND-UP

Afrox full of gas and flying higher

By DAVID CARTE

AFROX consolidated its blue-chip rating this week with a 27% annual earnings increase — after allowing for inflation.

What's better is that chairman Peter Joubert expects further earnings improvement in 1991, recession notwithstanding.

The gases, welding and hospital group reports sales up 24% at R903,9-million, operating profit 25% better at R184,4-million and taxed attributable profit 29% higher at R66,8-million in spite of an interest bill that surged 84% to R30,7-million. A final dividend of 85c has been

State probing 450 overdraft allegations

SI Times 4/11/90 (58)

By DIRK TIEMANN

REGISTRAR of Financial Institutions Piet Badenhorst is investigating 450 cases of banks contravening the Usury Act.

Clients with overdrafts are often charged interest far above the agreed rate. Sometimes they pay more than allowed by the Usury Act.

Consultants say some individuals are overpaying hundreds of thousands of rands in interest.

Mr Badenhorst acts on complaints. He sends a report of his investigations to the institution involved for comment and another to the Attorney-General.

"We try to settle it with the bank, which must repay the difference. A report still goes to the Attorney-General."

Check

Wespro business consultant in Pretoria checks overdraft accounts, using an interest verification software program. Consultant Jaap Spelt investigated 80 accounts and only two were correct.

He says a Rosslyn, Pretoria, First National client was overcharged R5 334 in three years. The money was refunded.

A Pretoria TrustBank client was charged prime plus 12% — instead of prime plus 6,25%. The client was not told of any change.

A Nedbank client was charged 21% plus 4% on an overdraft of R46 000 from December 28, 1989, to January 26, 1990. Without notification his rate rose to 28%.

Adjusted

A Volkskas client with a R1,2-million overdraft was quoted prime, but Wespro calculated he had been overcharged R368 265 on the adjusted end-of-day balance for 10 years.

Mr Spelt says clients are told when they exceed their overdraft limits. But they are often not told that penalty rates are invoked when they exceed them. Penalties are also levied if the facility is underused.

A client's rate often does not fall in line with any drop in prime.

Mr Badenhorst does not believe overcharging is widespread or deliberate, but he has not investigated all banks. Many institutions comply with the rules.

"We find that there are problems with the complexity of the Usury Act. Bank officials and even attorneys battle with it."

Mr Badenhorst has only five chartered accountants in his inspectorate, but says the 70 other staff members have a BComm and an accounting background.

Mr Badenhorst confirms that a complaint from the Consumer Federation in Pretoria was received. The federation says billions of rands are involved, a figure which Mr Badenhorst describes as nonsense.

The federation and Wespro say overcharging on the overdraft rate has been happening at First National, TrustBank, Nedbank, Volkskas and Standard. The federation appeals to anyone who thinks he has been overcharged to get in touch with its Pretoria office (tel 012-21-2521).

First National managing director Barry Swart says overcharging would occur only through oversight or accident, but never through deliberate policy.

"We have hundreds of thousands of accounts and any overcharging would be exceptional."

Reaction

I read Mr Swart a copy of a letter addressed to him from the Registrar of Financial Institutions.

The writer claimed he had been charged 28% from September 1986 to December 1986 instead of the 16,5% originally agreed on. This rate exceeded the maximum prescribed rate of 23% annually. From January 1987 to October 1989, the rate applied exceeded the rate agreed on by one to five percentage points.

Mr Swart says: "I have not seen the letter, but is not our policy to break agreements with our clients, and we certainly would not break the law. I would suggest that as a policy this would not happen. Certainly, any client who is accidently overcharged would be refunded."

Is a bank general manager required to tell the client of a change in the overdraft rate? Mr Swart says: "I am not aware of such a requirement, but stand under correction."

Mr Swart says all overdrafts are reviewed annually with the client, and any changes discussed with him.

C/Press 4/11/96

Victims of crime also need help

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AT least 400 000 crimes are committed in South Africa every year, according to official statistics released this week by the Human Sciences Research Council. A serious assault is committed every four minutes, a car theft every nine, a robbery every 10 minutes, a break-in every three, a rape every 26 minutes and a murder every 45 minutes.

"Every victim has a story of physical, psychological and financial woe. Much is done for the offender, but the victim is often forgotten," the HSRC said.

"Victims, however, play an important part in the whole process of apprehending and prosecuting an offence.

Because little is provided for victims by way of services, the Council has arranged a seminar on trends of victimisation to be held on November 22 and 23.

Phone Laetitia Slabbert on (012) 202-2418 or Magriet Doorewaard on (012) 202-2219 for details. – Sapa.

(58)

Boycott of CP strongholds

By SOPHIE TEMA

CONSUMER boycotts are likely to hit several Conservative Party-controlled towns in the Free State from tomorrow.

The boycotts have been called to protest against the withdrawal of services from several townships in the province.

In Maokeng near Kroonstad, residents will embark on a consumer boycott tomorrow to highlight their dissatisfaction over water and electricity cuts.

At a meeting held in the township this week, a decision was reached that blacks will boycott all white shops in the area, including Kroonstad.

Maokeng residents say they are being supplied with water for only six hours a day – from 12 noon to 6pm – while other areas in the township are not supplied at all.

This week electricity was switched off and the entire township was plunged into darkness, which resulted in residents making a resolution not to pay service charges until their demands have been addressed.

Petsana township near Reitz has had water cut off and night-soil buckets have not been removed for five days.

Town clerk Japie Pienaar agreed at a meeting held with the Petsana Civic Association to have water supplied to the area daily between 6am and 4pm.

A meeting will be held by Petsana residents at 2pm today to decide on a plan of action.

An indefinite consumer boycott in Parys started at the end of September and targetted white and Indian businesses.

In Johannesburg, a plea has been made to the government to encourage town councils to negotiate with residents and address their grievances instead of cutting basic services.

Once the grievances of the people have been addressed, payment of services will be normalised.

This conclusion was reached at a meeting held between leaders of member churches of the South African Council of Churches recently.

Crisis deepens as electricity and water cuts cause chaos

The church leaders said: "For a considerable period of time, residents in a number of Reef townships have been expressing their grievances to councils about corruption in the administration of the councils and the poor quality of the service they provide.

"We are concerned about this inhumane action of depriving people of water and electricity, as this creates severe practical difficulties and is an obvious health risk, especially where people are living in cramped conditions.

"It is an affront by the South African Government that people be treated in such a disrespectful manner."

The leaders have warned that if government cannot encourage the councils to negotiate with residents, certain elements may exploit the unrest in the townships to help disrupt the negotiations process.

This week the Daveyton Town Council and Eskom reached an interim arrangement on the supply of electricity, which calls for a weekly review of service payments by residents.

The new arrangement has been motivated by a marked improvement in payments by Daveyton residents in recent weeks, said a council spokesman.

The spokesman said: "A number of interested parties, including civic associations, were engaged in a series of meetings aimed at finding long-term solutions to problems concerning the structure of local authorities plus residents' and councils' ability to afford payment of services."

Other areas where there are water and electricity cuts are Toekomsrus, Atteridgeville, Jouberton and Eldorado Park.

Profits rise at New Republic Bank

STAR 5/11/90

By David Canning

New Republic Bank has reported a 17 percent increase in attributable profits to R1,26 million (R1,07 million) for the six months to September.

Earnings per share were 21,9c (19,58c). The dividend has been maintained at 7c a share.

MD "Mac" Mia says interest rates remained high and economic activity declined during the year.

With this in mind, the bank has adopted a strategy that is relatively more conservative in approach towards asset growth, while maintaining an emphasis on profitability.

Total advances increased 15,4 percent (R38,4 million) to R287 million.

Provision for doubtful debt increased 17,9 percent to R2,4 million.

Mr Mia pinned tighter net interest margins to strict monetary controls by the authorities and increased competition.

He said the improvement in profitability was made possible by the continued application of sound control over operating expenditure and better utilisation of capital.

He said he expected a further decline in business activity in the second half.

However,attributable income for the full year should improve in real terms over the previous year.

Mr Mia said in an interview that official interest rates were not generally expected to ease before the first quarter of next year.

The Stanger branch had been relocated and more branches were likely to be relocated within the first quarter of 1991.

It was possible that two new branches would be opened in the next financial year.

He said the operations of new Islamic banks had not made an impact on New Republic Bank.

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Insurance giant rejects ANC plan

Political Staff

CAPE TOWN — Demands by the ANC that insurance companies invest some of their huge cash flow into housing and other "socially desirable" projects have been turned down by the Old Mutual.

ANC spokesmen have suggested that insurance companies and pension funds invest between five and 10 percent of the R2 billion-a-year cash flow in these projects instead of in the share market and commercial property.

These demands include suggestions that insurance companies lend money at low interest rates. A committee has been set up by the industry's Capital Life Offices Association to consider them as an alternative to nationaliation.

But Old Mutual chairman Mike Levett said in an interview: "Millions of policyholders have given us their money, and in terms of their contracts we are obliged to look after it and produce the best returns with security. It would be wrong of us to take action to reduce the return of that money.

"We spent many years to get the Government to do away with prescribed investments (that is, lending money cheaply). However, if a new government changed the law again, we would have to take cognisance of it," he said.

"Insurance companies should be allowed to invest in the manner that is best for their policyholders."

ANC spokesman Gill Marcus said today the equitable redistribution of wealth in the new South Africa was in the process of being discussed and Old Mutual's response was premature.

She said the ANC would meet insurance companies and business institutions to discuss ways of addressing apartheid's social and economic legacies.

"They are all concerned about nationalisation and we are asking them for alternatives. We know it is not something they will do gladly."

Asked if an ANC government would introduce legislation prescribing that insurance companies and pension funds invest a small percentage of their money in housing and "socially desirable" projects, Miss Marcus said the organisation had no intention of doing so unilaterally. It would consult with all groups and interested parties before any decision on the matter was taken.

Bank tackles credit growth

GRETA STEYN

58

THE Reserve Bank took action continuously in the money market to offset part of the money-creating effects of the high rate of credit expansion, Reserve Bank Governor Chris Stals said at the weekend.

Stals was asked to comment on the apparent anomaly in money supply growing at a satisfactory rate while credit growth was still too high. The money supply grew a provisional 13,3% in the year to September — well within the 11%-15% guidelines for the year — while credit was still growing at a faster annual rate than the Bank had hoped for this year at 19%.

The Bank had asked the banks to limit the growth of their lending to 1% a month, which amounts to about 16% over the year. This growth is compatible with 11%-15% growth in the money supply.

"Credit demand remains too important a factor in the money supply process. It means less leeway for government spending as a fall in the Exchequer's deposits with the Bank will increase the money supply. We also have to counteract the liquidity effects of an increase in foreign exchange reserves. The growth in credit leaves little room for other components of money supply to grow," he said.

The rates of growth in the money supply and credit extension had always diverged, he noted, with credit growth peaking at

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8/10/90

Credit growth

B Day 3/11/90 (58)

□ From Page 1

33% and money supply growth at 27%.

The continued rapid growth in credit reflected demand from companies to a greater extent than individuals, although distress borrowing was also an important factor. The demand for credit, as reflected by the relatively large money market shortage, was "surprisingly high", Stals said.

The continued rapid growth in credit to the private sector had compelled the Bank to take action. This was done through open market operations and the conditions attached to accommodation at the discount window. On October 30, the money market shortage was R3,4bn — of which R312m was advanced to the banks in the form of overnight loans at the punitive rate of 22,75%. The major part of the balance was at a relatively high 18,3%.

Global factors determine the bear phase

B Day 5/11/90

LIZ ROUSE

INTERNATIONAL factors are going to determine the duration of the bear market, according to the latest Quarterly Bulletin of Momentum Life.

(58)

In the meantime, investment portfolios are best structured on a defensive mode.

What is needed is a rising gold price. This will not happen until restrictive world monetary policy is relaxed. When it is, relief to world bond, equity and commodity markets will be given, Momemtum Life says.

Although tempted with large amounts of money, investor confidence is lacking as SA companies face a number of adverse factors, a major factor being international bear markets.

Also, earnings focus for more than 10 years has been inflation derived on the back of a collapsing currency.

Assets have been misallocated (through a debased currency). Political and new constitutional perceptions are in the beginning stage.

There are also the prospect of an appreciating financial rand and the mandate of prescription to invest in certain social assets.

Market-related returns required

Assurers balk at ANC plan on investment

B/Day 3/11/90

58

LESLEY LAMBERT

CAPE TOWN — SA life assurers will not voluntarily comply with ANC requests for prescribed investments which do not yield market-related returns and will resist any legal attempts to enforce compliance.

Responding to ANC suggestions that life offices invest 5% to 10% of their funds in "socially desirable" projects, industry leaders said they had met ANC officials on an ad hoc basis and had neither received nor submitted formal proposals.

Both Old Mutual chairman Mike Levett and Sanlam MD Pierre Steyn said that they would not voluntarily agree to invest policyholders' and pension fund members' funds in development projects which did not yield a market-related return.

Levett said he would consider such investments only if the instruments through which they were made were guaranteed, if they earned a market-related return and could be sold in a secondary market.

The debate, which had been heating up behind closed doors, became public last week when ANC economist Vella Pillay told delegates at a banking conference that the ANC and life assurers had been discussing the investment of 5% to 10% of life and pension funds in development projects.

If investments were prescribed in the way that investment in government stock had been, Levett said he would have to be forced by an Act of Parliament to comply and then he would expect the prescription to be applied to all savings institutions.

This was the only way in which he would be able to fulfil his responsibility of earning the best possible return for policyholders and pension fund members, he said.

● LEVETT

● STEYN

Steyn said if such investments were channelled through a reliable institution — like the type of development bank mooted by the ANC's economics department — he would invest without insisting on a government guarantee as long as they yielded a market-related return.

But, he said he would oppose attempts to legally enforce such investments. "Prescribed assets have been replaced by investment guidelines, but Sanlam and many other institutions continue to invest more than the required 10% in government stock, simply because it yields a good return. The same market principles should apply to development projects."

A spokesman for the Life Offices Association said most other assurers and pension funds supported these views.

One exception was Southern Life which

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P.T.O.

Loans for black farmers?

SOMERSET WEST. — There was nothing in the present Land Bank Act that prevented it from lending to black farmers, the chairman of the Development Bank of SA, Simon Brand, said in Somerset West yesterday.

Speaking at the University of the Western Cape, he said the myths that white agriculture was an efficient system and that black people were incapable of effective farming had to be eradicated first before discussing land distribution.

There were two key aspects of land reform — ensuring people's legal rights to own land and secondly, empowering them, possibly through affirmative action, to enable disadvantaged groups to use their rights.

Brand said SA was almost sufficient in agricultural production and, therefore, it could afford some sacrifices in the process of addressing the needs of redistribution.

In principle, land should be available on a willing-seller, willing-buyer basis.

Two million hectares of trust land held by the government had not yet been transferred to the homelands and this could form part of the initial move to allow black farmers onto the land.

Brand said it was also important a range of support services should be made available to people moving back to the land.

"As far as I am aware, there is nothing in the present Land Bank Act that prevents it from lending to black farmers," he said. — Sapa

They're playing Stals's song

B Day 5/11/90 (58)

HAROLD FRIDJHON

THE icy fingers of Reserve Bank Governor Chris Stals will probably reach into the money market this week and grab some of its "excess" liquidity — the difference between the actual market shortage and the level at which Stals deems desirable to hold the banks in thrall.

The pattern of the past suggests the Governor is relatively content when the private banking system is in his debt to the tune of R2,5bn. At that level he can play the piper with greater ease and keep the banks dancing.

In recent weeks cash has been flowing into the banks from overseas. This is apparent from the reported increase in the gold and foreign exchange reserves and last week's brief peaking of the end-of-month shortage at just below the R3,5bn level at a time when the banknote issue soared by R1bn to R9,8bn.

When some of those R10 and R20 notes are returned to the Reserve Bank during the next two to three weeks, and if the banks continue to reap the benefits of importers using offshore finance by repaying their debts to local banks, the crucial market shortage could drop to a level unacceptable to Stals's tight monetary policy.

The Governor doesn't want to bruise the banks; he just wants to make sure the straps on the straitjacket are holding firmly.

Meanwhile in the market, the key rates have been sliding. The Treasury bill (TB) rate eased 15 points on Friday to 17,80% and the rate for 90-day liquid bankers acceptances (BAs) has come down by 20 points to 18,05%. The linkage between the TBs and the BAs is twofold. First, the market overreacted the previous week by pushing up the rates, and secondly, the demand for three-months assets, particularly for liquids, is greater than supply.

Swap

Friday's TB tender for R120m bills was oversubscribed three-and-a-half times, and liquid BAs are as scarce as powder-puffs at an AWB rally.

Fewer are being created and fewer still are being released to the market by the banks which prefer to swap paper between each other. The lower BA rate which is designed to encourage paper into a market could ease still further this week.

For investors it would seem the salad days might be coming to an end, sooner than was expected. The overnight call market is not as attractive as it once was; peak rates are not as high, nor do they persist for as long as before. And the mid-month lows are becoming lower. The average interest received has certainly shed a few points. In three days rates have dropped from 19,5% to 17,75%-18%.

The banks should start weaning fund managers away from their easy life of rolling over their call funds or daringly edging into three-months assets by tempting them into nine- or 12-month CDs (negotiable certificates of deposit). Relatively small business is being done in these areas because the price — the rates — are unattractive.

Jerk up the 12-month rate to 18,4% with interest monthly. There is a good chance that prime will drop by two percentage points in the next 12 months. And in any event a 17% call rate costs them 18% after they have covered their statutory costs. They will be doing fund managers a good turn — if they are serious about money.

6/11/90 58

R500-m boost for 'capable' farmers

By George Nicholas

Additional State aid amounting to more than R500 million is to be extended between now and 1996 to about 12 000 farmers who are financially distressed but solvent and capable of recovery.

The aid is confined to farm ers in the summer rainfall cropping regions of South Africa.

It includes Northern Transvaal farmers who gatecrashed the recent South African Agricultural Union congress.

The financial aid, announced by Minister of Agricultural Development Dr Kraai van Niekerk in Pretoria yesterday, has been welcomed by the SAAU

Dr van Niekerk said the relevant areas included the service areas of the 28 major co-operatives participating in the existing five-year and 10-year carryover debt schemes.

Recovery

"The additional aid is intended to help farmers who are still solvent in spite of accumulated debts and have the ability to recover financially in the long-term, but who, due to serious short-term cash-flow problems, can no longer be helped by their co-ops and other financial institutions to obtain production credit again," he said.

The Minister said farmers applying for the additional State aid in future years would have to satisfy his department they were capable of meeting their commitments if assisted.

Commenting on the Minister's announcement, the presi dent of the SAAU, Nico Kotze, said the sympathetic response of the Government to the representations made by organised agriculture for relief aid in difficult circumstances was deeply appreciated by the farming community.

The generous gesture indicated the Government's understanding of the important role fulfilled in the economy by agriculture and the large workforce that depended on the industry for its livelihood.

COMPANIES

Saflife's interim dividend up 150%

B Day 6/11/90

LINDA ENSOR

SAFRICAN Life Investment Holdings (Saflife), the life assurance group in the IGI fold, has declared a 150% increase in its interim dividend for the six months to end-September on a 90,7% rise in earnings a share.

A dividend of 12,5c (5c) was declared on a reduced dividend cover of 1,8 (2,4) times.

Chairman Mike Lewis said the life assurer had managed to perform extremely well despite deteriorating economic conditions.

During the period the group had focused on consolidating its position within the market place. Cost increases were also curtailed.

Lewis said Saflife had increased its market share during the period.

The board had decided to reward shareholders with a significant dividend increase as it was confident the growth in premiums would continue in the second half. A further increase in the final dividend was likely.

Attributable profit for the six months to end-September rose 90,3% from R3,5m to R6,7m, generating earnings a share of 22,5c (11,8c).

Gross recurring premium income rose to R96,5m (R47,4m) and net recurring premium income to R93,8m (R44,6m). Gross and net premium income from single premium business fell from R23,3m to R200 000, giving total gross premium income of R96,7m (R70,6m) and total net premium income of R94m (R67,9m).

Lewis said Hosken Consolidated Investments' (HCI's) bid to take over Crendall Investments — formerly the R42m Arwa cash shell — was at an advanced stage, but approval still had to be obtained from the Registrar of Insurance. The deal would increase HCI's stake in Saflife from 11% to 75%. The deal would be ex Saflife's interim dividend.

B Day 6/11/90

Presmed income leaps by 96%

MARIETTE DU PLESSIS

IMPROVED occupancy levels at most of the hospitals and day clinics helped to boost President Medical Investments' attributable income by a whopping 96% to R1,15m (R587 000) in the six months to end August 1990.

Results released today show a 120% increase in operating income to R3,8m (R1,7m) while earnings rose 49% to 10c a share compared to 6,7c for the same period last year.

This followed Presmed's acquisitions of an 80% stake in the Cape-based Jan S Marais Clinic. The subsequent conversion of 2,82-million compulsorily convertible preference shares to ordinary shares on March 1 1990 increased Presmed's total issued share capital to 11,52 million shares.

MD Carl Grillenberger said improved occupancy levels, special attention to collection of debtors and strict cost control helped Presmed's performance. He was optimistic present margins would be maintained.

He said Presmed hospitals and day clinics would remain contracted in to medical aid schemes despite tariff increases.

Volkskas figures feel squeeze

B/Day 6/11/90 (58)

GRETA STEYN

SQUEEZED interest margins and a jump in bad debts kept Volkskas's earnings rise below the inflation rate in the six months to end-September compared with the same period last year.

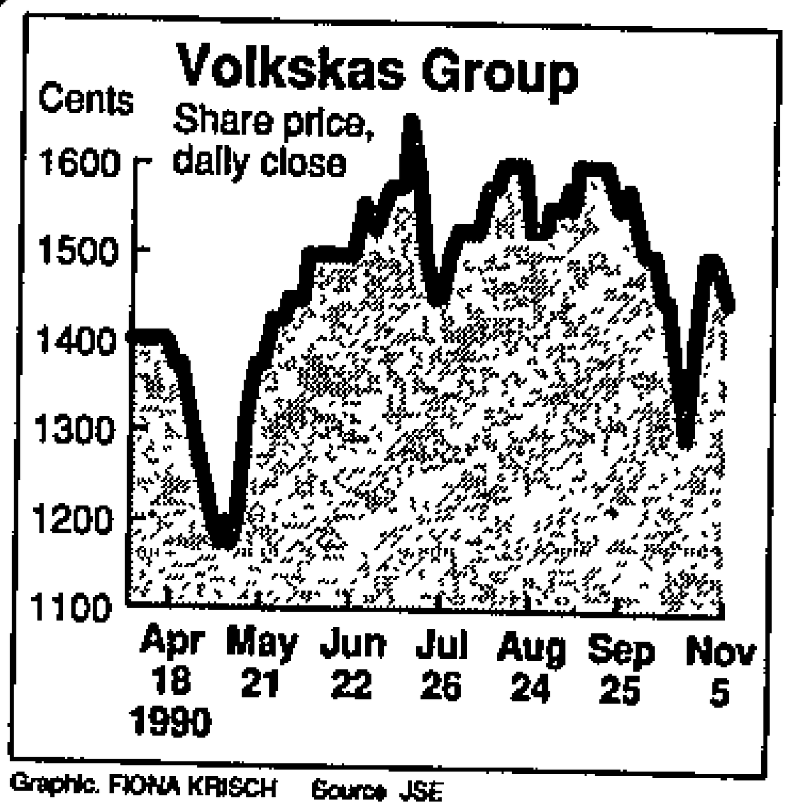
The banking group announced an increase of only 11% in earnings a share to 130,7c.

It failed to improve its financial disclosure after taking the first steps towards fuller disclosure last year. The accounts still lack information on the interest margin and on operating expenditure.

Group MD Danie Cronje said yesterday next year would see fuller disclosure, but Volkskas probably would be part of a greater financial services group. Major shareholder Rembrandt has initiated merger talks between Volkskas, Sage, Allied and the UBS.

Volkskas's sluggish performance follows a more impressive 26% growth in earnings a share in the year to end-March 1990. Its capital situation remains one of the worst in the sector.

Cronje said the Reserve Bank's policy to squeeze the banks had put margins under tremendous pressure for the greater part of the six months under review. There was also a 35,4% surge in the provision for bad debts but some relief in the form of a lower tax rate and curtailed operating expenditures.



Graphic: FIONA KRISCH Source: JSE

Advances rose by only 5,3% in the six months from March 1990 to R15,14bn.

In spite of the slow growth in the balance sheet, the group's capital position remains one of the worst in the sector. A crude measure of capital adequacy, shareholders' funds to total assets, stood at 4,3%.

First National Bank (FNB), which announced year-end results last week, has improved from a position comparable to Volkskas to more than 5%. Banks are phasing in to 8% in terms of the Deposit-Taking Institutions Act which comes into effect next year.

Two factors to help the profit performance in the second half of the financial year are expectations of improved interest margins and a cost-cutting exercise.

An interim dividend of 27,5c was declared (1989: 25c) with cover unchanged at 4,7 times.

CAPE TIMES 6/11/90

Housing stock mooted

Own Correspondent

JOHANNESBURG. — The life assurance industry is investigating a major new initiative which could release billions of rands for black housing projects.

The probe is considering the creation of a government housing stock which would be tradeable on the capital markets, as is Eskom and RSA stock.

Because of the political risks involved in black housing, the stock would be managed by a trust which would have access to further government or development funds, such as the R2bn "backlog" funds which were voted in this year's Budget.

These funds would serve to underwrite the trust and ensure the life industry received a market-related return on its investments. The trust would make direct loans to low-income black homebuyers.

Life Offices' Association (LOA) deputy director Jurie Wessels confirmed yesterday the LOA had set up a committee to look into "socially desirable" investments.

Star 6/11/90 (58)

Banks lead financial services in size of salary increases

By Derek Tommey

Banks led building societies and insurance companies in wage increases in the year to June, figures issued by Central Statistical Services show.

But insurance sector salaries, although its pay rises fell behind those in the other two sectors, remained marginally higher.

Figures show that the average bank salary rose 21,5 percent in the 12 months to June, the average building society salary 19,1 percent and the average insurance salary 13,7 percent.

The average white banking salary rose 22 percent from R2 185 a month to R2 655 a month, the average coloured salary 21,7 percent to R1 796, the average Asian salary 23,2 percent to R2 135 and the average black salary 22,3 percent to R1 429.

Building societies paid their white staff an average of R2 541 a month, an increase of 19,1 percent on a year ago.

Coloureds received an average of R1 592 a month, an increase of 19,8 percent.

Asians received an average of R1 827, an increase of 17,8 percent and blacks an average of R 1095, an increase of 18,8 percent.

Th average white salary in the insurance industry was R2 795 a month, an increase of 13,5 percent.

Coloureds were paid an average of R1 715, an increase of 21 percent. Asians received an average of R2 439, an increase of 12,5 parcent.

The average black salary was R1 623, a 14,6 percent increase on a year ago.

Labour officials warn that too much should not be read into the average wage figures.

They include salaries and wages paid to both men and women and to people with vastly different skills and abilities.

They also reflect regional variations in wage rates.

Star 6/11/90 (58)

Saflife close to doubling earnings

Safrican Life Investment Holdings (formerly IGI) has increased its attributable profit for the six months ended September by 90,3 percent and has announced a 150 percent increase in the interim dividend.

According to financial results released yesterday, attributable earnings increased from R3,5 million to R6,7 million, which translates into earnings a share of 22,5 cents compared with 11,8 cents for the previous period.

The interim dividend rose sharply to 12,5 cents from the previous five cents.

Gross recurring premium income rose to R96,5 million against the previous R47,4 million, an increase of 103,8 percent. Net recurring premium income amounted to R93,8 million (R44,6 million), an increase of 110,1 percent.

Commenting on the results, chairman Michael Lewis said the board was confident that this growth trend would continue in the second half of the financial year. Accordingly he decided to significantly increase the dividend.

"New business activity in the second six months of the year has commenced strongly, and all indications are that it will be possible to further increase the final dividend".— Sapa.

W & A expands UK interests

AAF Investment Corporation, the London-listed subsidiary of W&A Investment Corporation, has expanded its activities in the system building industry through the acquisition of the Unit-Span group in Britain. This will increase turnover from system building interests in the UK and US to more than £35 million a year.— Sapa.

Star 6/11/90 (58)

Volkskas follows lower credit trend

Diagonal Street

ANN CROTTY

Volkskas' MD Dr Danie Cronje estimates the increase in the group's advances for the full year to end-March '91 will be below 10 percent.

This is well down on the 30 percent achieved by Volkskas in financial '90 but is well ahead of the 2,2 percent reported by First National Bank for the 12 months to end-September.

Both are well below the 16 percent at which the Reserve Bank has asked the banks to limit their lending.

The low levels of lending were not achieved in deference to the Reserve Bank. They came about because of the low level of economic activity and by the desire of management to avoid an unprofitable chase for market share by lending at almost any cost.

As Dr Cronje points out, four factors determine a bank's profit: interest rate margins, bad debt experience, non-interest costs, and asset growth. Because these are inter-related management cannot emphasise one without influencing the others.

Unlike FNB, Volkskas does not break down its income statement into interest income and non-interest costs. According to Dr Cronje, interest margins were relatively squeezed but had improved in recent months.

Net operating income was up 12,6 percent to R156,8 million (R139,2 million). Provision for bad debt was up 35 percent to R76,5 million (R56,5 million). Dr Cronje said the much higher provision (for all categories of borrowers) was in line with the deterioration in the economy.

Taxed income was up 4,3 percent to R53 million (R50,8 million). Income from associates helped to lift this to a 12,4 percent increase at the attributable level — up to R56,2 million — equivalent to 130,7c (117,7c) a share from which an interim dividend of 27,5c (25c) a share has been declared.

On the balance sheet side, advances were up to R15,1 billion — 5,6 percent ahead of the end-March figure. The home loan book was up 26 percent on the six months, to an end-September figure of R1,8 billion.

Credit demand was generally very slow and according to Dr Cronje, the demand for bank acceptances — which serve the corporate market — was down about 20 percent on the year.

Management believes its capital levels will be adequate for the next two years. It is currently looking at the various alternatives available under the new legislation for meeting capital requirements.

It is unlikely that the market will take any position on Volkskas' interim results or to the forecast of increased earnings for the full year.

It will want to wait until some details are released about the proposed grouping of the interests of Volkskas, UBS, Allied and Sage into a "new diversified financial services group".

Analysts are expecting an announcement to be made by the end of this month.

Matona wins new Sanlam award

7/11/90

Mr Sam Matona, owner of Easy Loo, manufacturers of portable toilets, has won the first Sanlam/Sowetan Business Entrepeneur of the Year award.

Mr Matona's achievement earned him R5 000. He also qualified as a finalist for the national Sanlam/Small Business Development Corporation's most improved small business competition.

The runner-up was Ms Thandi Mathibela of Orlando East, who runs a kitchen and cupboard outlet. Third prize went to Mr Michael Maell. They collected R3 500 and R1 500 respectively.

Mr Johannes Mbhele received a special citation for his enterprise in the building construction and brick manufacturing business.

The Sanlam/Sowetan Business Entrepreneur of the Year award will become an annual institution.

COMPANIES

African Life offer 45,2% oversubscribed

LINDA ENSOR

THE offer of two-million shares at 130c each by African Life Assurance went down well in the market and was 45,2% oversubscribed. BiDay 7/11/90

Applications were made for about 2,9-million shares. All applications for up to 40 000 shares will be allocated in full; applications for between 40 000 and 200 000 shares will in addition receive 60% of the balance; and applications between 200 000 and 400 000 shares will in addition be allocated 28,84% of the balance. These are rounded off to the nearest 100 000 shares.

(58)

When listed on November 15, African Life will be one of the few companies listed on the JSE with a majority of black shareholders. About 90% of its customer base is black.

African Life MD Bill Jack said yesterday he was delighted with the outcome given the fact that the offer was targeted at a narrow market. The offer was restricted to existing shareholders, staff members, policyholders and a few business associates. The offer reduces Southern Life's stake to about 77%.

Currie hopes for the best

ACHMED KARIEM (58)

CURRIE Finance Corporation, which owns 51% of the listed SA Freight Corporation (Safcor) and has leasing and other property interests, expects to report a modest increase in profits for 1991. The group posted an 18% rise in earnings a share to 68,7c (58,1c) in the year to end-June.

Executive chairman Mackie Brodie said in the annual review it was difficult to predict the likely pace of economic development until political uncertainties were resolved, but the property and leasing divisions should show increased growth in the year ahead. BDay 7/11/90

Safcor has doubled its earnings in three years. They rose from 30,5c a share when it was listed in 1987, to 61,7c — representing profits of R13,5m for the year to end-June.

IGI believes profit slide has been arrested

BDay 7/11/90 58

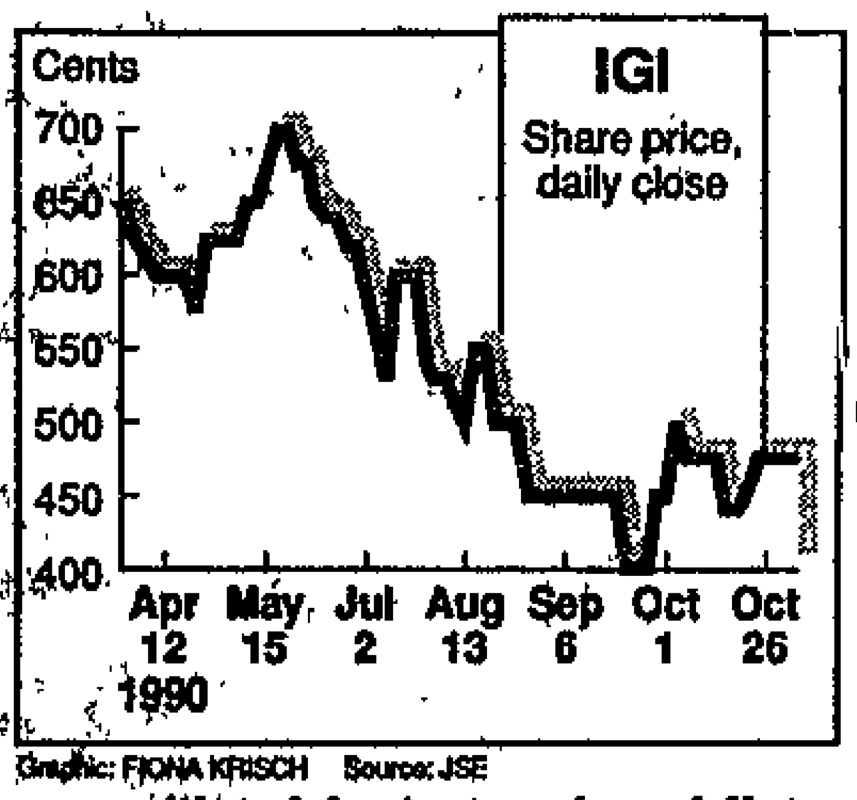
LINDA ENSOR

IGI INSURANCE suffered a 27,3% decline in attributable profit in the six months to end-September but chairman Mike Lewis said that compared with the last six months of the last financial year it appeared that the profit decline had been arrested.

Attributable profit fell to R12,9m from the previous interim figure of R17,7m but was slightly up on the final six month figure of R12,5m for the financial year to end-March.

Diluted earnings fell 44,3% to 65,3c a share from 117,2c but the dividend was maintained at 17c on a five times cover, reduced from 6,9 times.

The dividend cover and the dilution of the shares were based on the assumption that the convertible preference shares have been converted. On an undiluted basis, earnings fell to 85,9c from 118,9c.



Graphic: FIONA KRISCH Source: JSE

Gross premium income for short term business rose 21,7% to R295,5m from R242,7m while gross long term premium income increased to R90,7m from R70,6m.

Net premium income for the two categories of business was R228,9m (R187,4m) and R94m (R67,9m) respectively.

IGI has adopted the partial method of accounting for deferred taxation. Had the comprehensive method been used the tax bill would have increased by R354 000.

IGI has a 41% stake in Safrican Life which yesterday reported excellent results, with earnings increasing by 91%.

Lewis said rate increases in motor and personal lines would result in improved profitability.

However, rating for commercial classes of business were still under pressure mainly as a result of soft international reinsurance markets. He added that the underwriting losses experienced in Europe should result in a hardening of premium rating following the reinsurance renewal season which begins in January.

Sasfin confident it will keep growing

BDay 7/11/90 (58)

MARIETTE DU PLESSIS

WHILE the prevailing turbulent socio-economic environment in SA made forecasting difficult, trade and equipment financier Sasfin believed it would continue to achieve satisfactory growth in the year to end-June 1991.

In its latest annual report, chairman Martin Glatt said that despite adverse economic conditions and the costs associated with the continued upgrading of Sasfin's infrastructure, taxed earnings in the 1990 financial year increased by 25,7% to R2m (R1,6m).

Glatt said that earnings were up to 17,7c (14,1c) a share, without increasing gearing which at 2,1:1 was exceptionally low in relation to the industry's norm of 8:1.

Glatt said the group's proven ability to produce satisfactory earnings on a low gearing base had positioned it well to exploit opportunities when they would arise.

Although its relatively high borrowing costs in previous years had been reduced since its 1987 listing, the newly formed treasury department would further minimise borrowing costs, he said.

Glatt firmly believed that despite the recession, Sasfin had significant scope for expansion even though it had a relatively small market share in each of its areas of operation.

However, he added that although the steps taken towards the ending of apartheid were most encouraging for the long-term future of SA, the "vociferous forces on both the left and the right of the political mainstream were of concern".

Earnings take knock at IGI

Star 7/11/90 58

By Duma Gqubule

Incorporated General Insurance (IGI) has reported a 44 percent fall in diluted earnings a share to 65,3c (117,2c).

Undiluted earnings fell 28 percent to 85,9c (118,9c), but reduced dividend cover of five times (8,9 times) has resulted in an unchanged interim of 17c.

Chairman Michael Lewis says rate increases were implemented on motor and personal classes of insurance, which should result in increased profitability.

But the rating for commercial classes of insurance are still under pressure, mainly because of soft international reinsurance markets.

Gross premium income of short-term business rose 21,7 percent to R295,5 million (R242,7 million).

Long-term premiums rose 37 percent to R96,7 million (R70,6 million).

Net short-term premium income rose 22 percent to R228,9 million and net long-term premiums rose 38 percent to R94 million.

Taxed income was 15 percent lower and attributable income 27 percent down at R12,8 million.

Mr Lewis says taking into account the figure for attributable income for the year to March 1990 of R12,47 million, the decline would seem to have been arrested.

Cape Times 8/11/90

58

ANC call for socially responsible investments

DURBAN. — A warning to life insurers not to resist the initiatives of the ANC in requesting that "a fraction of pension and provident funds be directed to socially responsible projects", was sounded yesterday by Mr Don Mkhwananzi, convener of the ANC task force for economic policy for Natal.

Speaking at an economic development conference, Mr Mkhwanazi said a future government would be forced to intervene if current levels of deprivation among the black population were not addressed.

It was crucial that corporate South Africa invested in management and skills training.

Many millions had been poured into small business and the informal sector. But the growth of the informal sector was actually an indictment of big business for failing to create job opportunities. — Sapa

HCI's showing reflects tough market conditions

58

B/Day 8/11/90

LINDA ENSOR

HOSKEN Consolidated Investments suffered an 18% drop in earnings a share to 82,6c in the six months to end-September with the difficult conditions in the short-term insurance market the major reason for the performance.

The dividend was maintained at 15c.

Large contributors to earnings were IGI Insurance, which yesterday reported a 27,3% fall in earnings, and Safrican Life (Saflife), which earlier posted a 90% earnings growth.

Saflife's share made strong gains this week, rising 15c or 4,1% to 375c, at which price it was trading on a dividend yield of 7,63% and a price-to-earnings ratio of 8,27 times.

Chairman Mike Lewis said Safrican's contribution had stemmed the slide in profit growth, as did the performance of the group's overseas companies.

He said HCI's results were better than expected.

Net income before tax fell 22% to R18,5m and attributable profit fell by 16,5% to R9,1m.

The balance sheet is strong with little long-term debt, cash and bank assets of R206m and a bank overdraft of R20,8m.

The insurance fund grew to R707,8m from R669,9m, Lewis said.

Bankorp's chief tackled over bad debt rumours, ration

B/Day 8/11/90

GRETA STEYN

BANKORP executive chairman Piet Liebenberg faced JSE analysts yesterday on issues ranging from market rumours over potentially crippling bad debts to extensive rationalisation in the bank . . . and the disappearance of a well-known figure from the SA banking scene.

Ed Hern, Rudolph analyst Allan McConnochie told Liebenberg there was a feeling Bankorp's bad debt provisions and write-offs might have been inadequate given a rumour that the bank's involvement in Tollgate had left it with a R600m exposure that could go bad.

Liebenberg said the bank's exposure was "nowhere near this figure. It used to be high but management is managing the debt down. As a banker, I have to respect client confidentiality and can obviously not disclose the actual amount."

In the light of the Tollgate rights issue and other measures to reduce debt, as well as foreign institutional support and the fact that much of Bankorp's exposure was to companies in the group that had "no problem at all", Liebenberg believed Tollgate was not relevant to Bankorp's financial health. He was emphatic adequate bad debt provision had been made.

Asked about rationalisation, Liebenberg disclosed that the bank would have reduced staff numbers by 2 500 people by the end of December compared with February this year. This was achieved through natural attrition and retrenchments. The number of branches had been cut from 250 to 180.

"You say we need to rationalise more," he told an analyst, "but tell me where?"

Liebenberg also felt the bank had an image problem and a new logo was part of the drive to improve it. A uniform logo will be used for all Bankorp divisions, including TrustBank — which means the end of the familiar figure of the bank's "little man".

"We weren't enthusiastic about TrustBank's little man. We will give him a quiet but dignified corporate burial."

Liebenberg quipped that while they did not like the emblem of the little man, they still liked the "little man" as client.

A main factor behind Bankorp's negative image and its need to rationalise has been the lack of capital against a back-

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... massacre witnesses 'frightened of reprisals'

LINDEN BIRNS

HALF the people who witnessed the recent Jeppe station massacre had refused to attend an identification parade for fear of reprisals, a Johannesburg magistrate was told yesterday.

Of the who did attend, 75% had failed to identify the men, Det W/O Deon Wessels told Magistrate C J van Heerden during a bail application for the five Zulu accused. B/Day 4/11/90

At least 15 people died when armed men went on the rampage on a commuter train travelling between Jeppe and Benrose stations in September.

Counsel for the accused Ian Small-Smith said it was odd that the police had set up an identification parade this week, seven weeks after the incident.

Opposing the application, Wessels said he believed the accused would probably go to ground and be difficult to track down and re-arrest.

Small-Smith asked Wessels whether he or the police had been placed under any political pressure to solve the case quickly.

Wessels said: "The only pressure I'm aware of originated with ANC deputy-president Nelson Mandela who said he believed whites and police were involved in the train murders. I'm sure it's not whites or policemen and we'll go to great lengths to identify and trace all the guilty parties."

The accused are Martin Ngobo, Basi Nkosingondle, ...ngela Magubane, Solomon Khumalo and Mabin... Mandla Majozi, all from the Jeppe Men's Hostel in ...sburg.

ANC warns life insurers

DURBAN — Life insurers have been warned not to resist the ANC's initiatives in requesting that "a fraction of pension and provident funds be directed to socially responsible projects". (58)

Don Mkhwanazi, convenor of the ANC Task Force for Economic Policy for Natal, told the Economic Development Conference for the Durban functional region a future government would be forced to intervene if current levels of deprivation among the black population were not addressed. B/Day 8/11/90

He called for "socially responsible behaviour" on the part of financial institutions and big business, and asked why the voice of big business — which was often a major shareholder in financial institutions — had not been heard on the issue of raising funds.

"Big business should be insisting that pension fund managers invest a fraction of their funds in projects which assist disadvantaged communities," Mkhwanazi said.

"Sacrifices must be made by all in the interests of the long-term peace and stability of the country".

It was time for the private sector to meet its social obligations.

"There are still an endless number of companies which do not even have a housing policy.

"They believe that by donating funds to the Urban Foundation, they are fulfilling their obligations. But they must remember that charity begins at home," he said.

"If corporate SA does not begin at this late hour to invest in management and skills training, it will face the consequences of its actions further down the line," he said.

He also called for management approaches and philosophies to be changed. — Sapa.

Chants as Buthelezi fields hostile questions

LONDON — Anti-apartheid activists B/Day 8/11/90 chanted slogans and waved placards outside the Savoy Hotel in London yesterday as Inkatha leader Chief Mangosuthu Buthelezi fielded aggressive and hostile questions from journalists who packed a news conference he held to present his views on SA issues.

On his first visit to Europe since the Transvaal township violence which lead to nearly 800 deaths, he said the media was being caught up in the propaganda over who was to blame for the killings.

"The Inkatha Freedom Party is very aware that, as an absolute priority, violence as a political method will have to cease," he said. — Sapa.

379,25 | 958,66 | ...

Insurers urged to heed ANC

Sowetan 8/11/90

58

SA Press Association

LIFE insurers have been warned not to resist the initiatives of the ANC in requesting that "a fraction of pension and provident funds be directed to socially responsible projects".

The warning was sounded yesterday by Mr Don Mkhwananzi, convenor of the ANC task force for economic policy for Natal.

Speaking at the economic development conference in Durban, Mkhwanazi said a future South African government would be forced to intervene if current levels of deprivation among the black population were not addressed.

He called for "socially responsible behaviour" on the part of financial institutions and big business and asked why the voice of big business - which was often a major shareholder in financial institutions - had not been heard on the issue of raising funds.

Big business should be insisting that pension fund managers should invest a fraction of their funds in projects which assisted disadvantaged communities, he said.

"There are still an endless number of companies which do not even have a housing policy. They believe that by donating funds to the Urban Foundation, they are fulfilling their obligations. But they must remember that charity begins at home.

"If corporate South Africa does not begin at this late hour to invest in management and skills training, it will face the consequences of its actions further down the line," he warned.

Calling for management approaches and philosophies to be changed, Mkhwanazi said that to date, many millions had been poured into small business and the informal sector.

"But, in fact, black participation in the mainstream of the economy is essential. The growth of the informal sector is actually an indictment of big business for failing to create job opportunities." - *Sapa.*

Star 8/11/90 (58)

PPC paying out an 80c special dividend

By Ann Crotty

Barlows will receive just under R20 million from the special dividend of 80c a share that has been declared by its 60,8 percent-held subsidiary, Pretoria Portland Cement.

In addition, Barlows will pick up R36,45 million in the form of ordinary dividends.

PPC's largesse reflects the strength of its balance sheet and not its trading performance in financial '90.

For the 12 months to September it reported earnings of 266,2c (252,6c) a share and paid out a dividend of 150c (130c).

The dividend is in line with the statement in the financial '89 annual report that "every effort will be made to increase dividends, at least in line with inflation".

But the earnings figure is well down on the market's original expectations of 300c.

The relatively high dividend payout meant that dividend cover was reduced slightly from 1,9 times to 1,8 times.

The directors says: "As no major investment opportunities are immediately available to the group, and in view of the current and projected high level of cash availability and the inherent strength of the company's balance sheet, it has been decided to declare a one-off special dividend of 80c a share."

The special dividend will take up R32 million of the group's cash. The ordinary dividend will take up R60 million.

The balance sheet shows liquid funds down from R74,9 million at end-September '89 to R42 million in '90.

The income statement shows that the steady deterioration evident in the 18 months to end-March continued in the six months to end-September.

Turnover

At the interim stage turnover was up 14,7 percent, operating profit up 15,5 percent and earnings up 16 percent.

The full-year figures show turnover up seven percent to R740 million (R689,2 million), operating profit up five percent to R172,2 million (R164,4 million) and earnings up six percent to R106,7 million (R100,4 million).

The earnings figure was knocked by the 13 percent drop in investment income from R23,1 million to R20 million.

Allegro is to pay out 2,31c

LINDA ENSOR

AA Life's Allegro unit trust has declared an income distribution of 2,31c for the September quarter. B Day 8/11/90

The quarter saw a 5,5% decline in the unit purchase price compared with the 10,8% fall in the all share index. Since its launch on March 12 the purchase price has dropped 3,96% as against a 15,1% slide in the index. (58)

The quarterly report warns of the possibility of a premature world recession within the next six months.

The Gulf crisis and the erosion of confidence in world markets created further volatility in stock markets with the result that gold bullion showed some significant safe haven qualities by rising approximately 15% in dollar terms.

Fund managers say in the quarterly report that Allegro adopted an active investment policy in the quarter with liquidity almost doubling to 19% and a significant gold exposure being maintained.

"Together, cash and gold holdings will comprise a minimum of a third of the portfolio so as to serve as a hedge against a serious Middle East deterioration. This view has already been vindicated by the relative performance of the All Gold Index increasing by some 5,3% over the quarter whilst the All Share Index fell 10,8%," they say.

Major changes in the mining portfolio included the reduction of holdings in De Beers, Harties, Unisel, Johnnies and Southgo in favour of increased weightings in Knights, Mid Wits and Anglovaal.

"The gold share exposure is geared to low cost producers with significant defensive qualities should gold fall below the $380 to $420 range."

The fund managers believe the industrial counters in the portfolio should achieve earnings growth during the period of high real interest rates expected throughout 1991.

Exposure has been lightened by sales in W & A, Karos, Da Gama and reduced holdings in ABI, NBS, FIT and Lonrho. Sasol has been introduced to the portfolio as a beneficiary of the Gulf crisis while Richemont and Premier Foods have been included "for their defensive qualities in an uncertain environment".

Star 8/11/90

Earnings decline at HCI

58

By Jabulani Sikhakhane

Hosken Consolidated Investments (HCI) has reported a 18,1 percent decline in earnings to 82,6c (100,7c) a share for the six months to September.

The interim dividend has been maintained at 15c per share.

Directors attribute the results to problems in the short-term insurance industry. HCI subsidiary IGI (fire and accident) reported a 44 percent fall in diluted earnings to 65,3c per share (117,2c). Undiluted earnings fell 28 percent to 85,9c (118,9c).

Chairman Michael Lewis says there is a definite trend to the better for IGI and he is looking forward to a much enhanced perfomance in the near future.

He attributes the better-than-expected perfomance to the exceptional results of subsidiary Saflife, which reported a 90 percent increase in earnings per share, while the dividend was upped 150 percent.

"Taking account of current conditions, we can only say that even a marginal improvement in the business envirnoment will have a positive impact on our group," he says.

Group pre-tax income was down 21,7 percent to R18,468 million. But a lower tax charge at R2,657 million (R4,991 million) helped limit the loss in taxed income to 14,6 percent at R15,811 million.

Income attributable to ordinary shareholders fell 16,5 percent to R9,102 million (R10,907 million).

year.

Late gold

London: $387,25 ($380,25)
Frankfurt: $384,10 ($381,90)
Zurich: $386,50 ($379,50)
Hong Kong: $385,70 ($383,60)
New York: $387,90 ($388,10)

US golds

Amax: 18⅞ (19)
Asa Ltd: 45⅝ (45¾)
Homestake: 18⅞ (18¾)

Commodities

(Cash sellers)

Copper: £1 338,00 (£1 324,00)
Platinum fix: $423,00 ($426,00)
Antimony: $1 620 ($1 620)
Zinc: $1 273,0 ($1 280,0)
Nickel: $8 900,0 ($8 800,0)
Lead: £373,00 (£366,00)
Tin: $6 190,0 ($6 235,0)
Sugar: £132,80 (£130,30)

FTSE close: 2059,2 (2069,8)
DOW close: 2440,84 (2485,15)

Star 8/11/90 (58)

Gold, forex reserves reach three-year high

By Duma Gqubule

Despite a lower gold price and deteriorating terms of trade, South Africa's gold and foreign exchange reserves rose 6,6 percent in October to R6,218 billion — their highest level in almost three years — from R5,833 billion in September.

However, despite the improvement, the number of weeks of imports covered by reserves is still perilously low at seven weeks, and well below the Reserve Bank's target of three months.

Figures released by the Reserve Bank yesterday show that gold holdings slipped 2,7 percent to R3,241 billion from September's R3,332 billion.

On the positive side, gold holdings increased by 183 417 ounces to 3,78 million ounces, suggesting that reserves were used to buy gold.

On this assumption, reserves could have been R150 million higher had they not been used to raise gold holdings.

Foreign exchange holdings jumped 16 percent to R2,976 billion — an increase of R476,1 million on September's figure of R2,5 billion.

As a result, total gold and foreign exchange holdings improved R385,2 million to R6,218 billion.

Because terms of trade have been deteriorating recently — due to higher oil prices and weaker commodity prices — the higher foreign exchange holdings cannot reflect improvements on the current account.

More likely — as was confirmed last week by senior deputy Governor of the Reserve Bank Jan Lombard — the figures are evidence of a recovery on the capital account.

Professor Lombard said early indications were that for the first time in three years, the capital account achieved a considerable surplus in the third quarter.

Finance Minister Barend du Plesis said the capital inflow probably reflected the extension of foreign trade credits in SA's favour.

Economists expect further improvements in reserves over the rest of the year as the bulk of debt repayments were made in the first half.

Reserves could well increase next year because of the possibility of debt rollovers and the less onerous debt repayments required under the terms of the third interim debt arrangement.

Although the current account could come under pressure because of reduced demand for export commodities and higher oil import payments, the weakness of the economy should result in declining non-oil import volumes next year, they say.

Star 8/11/90 (58)

Bankorp pointing in a new direction

By Ann Crotty

Assuming that Volkskas, UBS, Allied and Sage do effect a merger, by early 1991 South Africa will have reached that much predicted stage where five giants dominate the financial sector — each one connected with an industrial and an insurance group.

Volkskas/UBS will be involved with the Rembrandt group, which might inject massive capital into building its insurance interests.

Three of the others are First National Bank, Standard Bank and Nedcor.

If the Volkskas/UBS deal goes ahead then, as Bankorp's executive chairman Piet Liebenberg says, Bankorp will not have a partner with which to merge.

So Bankorp will be on its own — with Sankorp and Sanlam.

Addressing the Investment Analysts Society yesterday, Mr Liebenberg said that after the R575 million rights issue, Sanlam/Sankorp's stake in Bankorp might be lifted from the current 82 percent to 90 percent, which is well ahead of the 49 percent limit imposed by the new banks Act that comes into force next year.

Responding to fears that this would result in a mass off-loading of Bankorp shares by Sanlam, Mr Liebenberg stressed that Bankorp would probably be given several years to get its shareholding in order.

So a massive overhang of Bankorp shares does not appear to be on the cards.

As he sees it: "The first priority is to get the business back into good shape and when this is achieved in two to three years' time, we will be able to deal with the question of shareholdings from a position of strength."

Mr Liebenberg had thought that two possible ways of addressing the issue would be for Bankorp shares to be placed with other institutional investors who "want an investment in a profitable bank", or to merge with another large financial player.

But possible developments with Volkskas/UBS appear to rule out both of these options.

However, Mr Liebenberg speculated that in two to three years the authorities might place less importance on the shareholding of banks and more on board memebership and management.

Star 8/11/90

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The income statement shows that the steady ...

Reserve Bank stalls fall in rates

GRETA STEYN

THE Reserve Bank is taking cash out of the money market in an effort to prevent market interest rates from falling too far, signalling its determination to keep rates high until next year.

(58)

Bankers said yesterday the Bank wanted to make sure their margins did not get too comfortable, which could lead to more aggressive lending. They added the Bank's action was also an effort to keep a tight lid on bullish sentiment.

B/Dm 9/11/90

The key three-month liquid BA rate has risen to 18,05% from 17,60% as a result of the Bank's firm stance on interest rates and its actions to keep liquidity tight. Capital market rates have gained about 30 points since the beginning of October as bullish sentiment evaporated.

The monetary authorities have told the banks they want to see the money market shortage — the amount of cash banks have to borrow from it — at R2,5bn-R3bn. At that level, it has more control over interest rates in the market as a result of the rates it charges the banks.

The shortage sank to its lowest level in more than a year this week to reach R1,75bn.

The Bank this week took liquidity out of the market through "dollar swaps" with the banks, which indicates that the improved liquidity could reflect continued strong foreign exchange inflows.

The Bank sells dollars to banks under an agreement to keep them on deposit and buy them back later.

Wage-related home loan scheme gets the go-ahead

WMail 9/11 - 15/11/90

58

By REG RUMNEY

A REVOLUTIONARY new form of affordable wage-related housing finance has been developed, which should stimulate the housing market and offer pension funds a new way of putting money into socially desirable investments.

The loan was developed by actuary Anthony Asher of the University of the Witwatersrand.

It is hoped the money for the scheme will come from pension and provident funds, a number of which have already expressed interest, Asher said this week.

He told the *The Weekly Mail* he had been working on the loan since 1982 and that the inspiration for such an "interest-free" loan came from the biblical injunction against usury.

In simple terms, instead of paying back interest, the borrower undertakes to pay back a percentage of his salary.

What it boils down to is that home owners pay back home loans least when they can least afford to, and most when they can best afford to.

At present, home-owners borrowing money from building societies and banks pay high amounts when they are young and are earning relatively low wages or salaries. So the percentage of their salaries dedicated to bond repayments is high.

By contrast, older people earning higher salaries pay a lower percentage of their salaries in bond repayments.

This week Asher's housing loan scheme was given the go-ahead in principle by the government. Asher, who is director of Actuarial Science at Wits, said government permission was needed because of certain technical contraventions of the Usury Act.

The Act, for instance, forbids hire purchase repayments which start off low and either climb gradually or jump sharply. The Act also requires disclosure of the interest rate charged.

Since no interest is charged, but the home buyer contracts himself to paying a percentage of his wage, there would have been a technical illegality. The amount of interest paid is worked out after the fact, not stated before.

Also, the Act doesn't allow for the capitalisation of interest.

Asher points out that one benefit of the scheme is that it will avoid the need for home buyers to trade up in the housing market as they become wealthier.

While the scheme promises to make home owning more affordable, it will also offer investors a reasonable return on their money, he reckons.

It should offer slightly lower returns than investments in shares in companies, but with less volatility.

For instance, should the return on investment in companies be nine percent, adjusted for inflation, the return for the investors in this scheme could be seven percent.

Both shares in companies and salaries are linked to growth in the economy.

"It will match the needs of investors with the needs of borrowers much more closely than present schemes," said Asher.

The official launch of the scheme is expected to be announced at the weekend by the SA Perm building society, which has been involved in developing the loan.

ADVERTISING F M 9/11/90

ANC INSURANCE (58)

Old Mutual is SA's largest single business enterprise but it has kept a lower profile, for example, than giants such as arch rival Sanlam and Anglo American.

But at a time when the ANC is making covetous noises about the assets of life assurers, Old Mutual has launched an advertising campaign to sharpen its image. Says Old Mutual ad manager Dave Hudson: "We're working a lot harder at communicating what we're about and the better we communicate the more all groups, including the ANC, will understand and appreciate our role."

One print ad, headlined "What it means to be a member of Old Mutual," portrays the business as a democratic organisation answering only to its members. The first line of the copy says: "Our members are two million men and women of all races." It continues later on: "Being a mutual society, Old Mutual exists solely to serve these people. All the profits we make are for the exclusive benefit of our members."

Old Mutual and other life assurers are feeling vulnerable because a simple vote of the members can decide to change control; there are no shareholders so a takeover would not cost a cent. In addition, the ANC wants life assurers to spend more of their investment funds on social development projects such as black business and housing. Old Mutual says it will consider such investments only if the returns are market-related.

Old Mutual's advertising has traditionally concentrated on its investment performance and usually features a mature man smiling to himself and saying: "Look what returns Old Mutual got me, and it's all tax-free."

Now Old Mutual has changed all that. A 90-second TV commercial (three times the length of the average commercial) launched last month features crocodiles, eagles, volcanoes and dramatic natural scenes, and just a cameo appearance from the mature man. The commercial will run 62 times in the first month of the R5m campaign.

The ads are designed to broaden the company's client profile from its traditional white, middle-class base into the broader community. The TV commercial features a young black man and even a mixed couple who kiss in one shot.

The ads will be run in Zulu, Xhosa and Sotho as well as English and Afrikaans. Print ads will appear in black newspapers such as *The Sowetan* and *Ilanga* and black magazines such as *Sales House Club, True Love, Tribute* and *Pace*, as well as the mainstream press.

The TV commercial has all the hallmarks of the ad agency concerned, Ogilvy & Mather RSTM, and particularly creative director Brian Searle-Tripp, who produced such visual extravaganzas as the Volkswagen corporate advertisements. They took over the account from J Walter Thompson on June 1.

P Fo

BUSINESS & TECHNOLOGY

ADVERTISING F M 9/11/90

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FIRST NATIONAL BANK FM 9/11/90

CHANGE OF GEAR (58)

First National Bank's curtailment of asset growth has positioned it to become more aggressive in the chase for market share. Potential victims are certain other banks suffering the indigestion of asset growth that has exceeded capital formation.

In the past FNB has found itself in a similar position: asset growth surging ahead of a limited capital base. Over the past two years management has purposely restricted asset growth to improve capital adequacy, which was below the industry average based on primary capital.

Restrictions continued for the 1990 financial year with advances remaining virtually static at September 30 compared to the same time last year.

Senior GM Viv Bartlett says some nominal growth in advances would have been preferred rather than no growth. But, he adds, the bank has been very selective about the type of new business brought on to its books and credit demand has slackened.

As a result of the conservative approach to asset growth, the capital:asset ratio — with capital incorporating subordinated debentures — has improved to 5,6 compared to Standard's 5,4, Volkskas's 5,5, Nedbank's 5,6 and Bankorp's 4,2. Bartlett says: "On current growth and retention policies, FNB will comfortably meet the 8% requirement of the new Deposit-taking Institutions Act by the 1995 deadline."

Return on assets rose from 0,9% to 1,1%, while return on equity rose to 23,1% from 22,7% — the best in the industry.

Bartlett says the 30,9% improvement in pre-tax income to R510,4m came mostly as a result of cost-cutting measures — operating expenditure rose by just 7,5% to R1,5bn — together with better asset/liability management. This maximised the interest rate turn — net interest income rose 15,4% to R1,4bn — and low exposure to costly marginal funds. This is despite a fall in demand for credit.

Profit would have improved further were it not for the 62% increase in the charge for bad and doubtful debts. Bartlett says this is because of a new system which categorises the advances portfolio and identifies potential bad debts sooner. "We have tightened the credit ethic and categorised risk with a different management focus applied to each risk category," he says. Bartlett expects continuous pressure in bad debt provisions, because of the declining economy, but the group is budgeting for a decline in the quantum of specific provisions this financial year.

MOVING AHEAD

(58)

Year to September 30	1989	1990
Net interest inc (Rbn)	1,2	1,4
Operating exp (Rbn)	1,4	1,5
Net income (Rm)	274,3	329,8
Advances (Rbn)	23,1	23,2
Total assets (Rbn)	30,6	30,3
Earnings (c)	377	453,3
Dividends (c)	130	150

FM 9/11/90 (58)

Income from associated companies remained flat. This was mostly a result of a decline in earnings from unlisted short-term insurer General Accident, which posted an interim loss. The amount is not disclosed. FNB has a 26% interest in the insurer. Income from its 29% shareholding in life assurer Southern Life increased by 21,3%.

The group does not normally release the contributions from the divisions — FNB Banking, Wesbank, FirstCorp and First Namib — with the preliminary figures, but Bartlett says contributions from Wesbank were particularly improved. Home loan growth was minimal. Bartlett says the bank intends becoming more aggressive in its search for new business in the current year.

FNB's rating has improved over the past year and the share stands on a p:e of 6,7 and dividend yield of 4,8%, compared with the sector averages of 9,3 and 4,9%.

Heather Formby

FIDELITY BANK FM 9/11/90

PLANNED GROWTH (58)

In the wake of the Alpha Bank fiasco, small banks have fallen under the spotlight. Risk management and, particularly, capital:asset ratios have come under scrutiny on growing scepticism of some of their financial standing. But not all small banks fall into this category. Port Elizabeth-based Fidelity Bank has a strict policy of holding asset growth to 30%-35% a year while growing profits by 40%.

"We could have doubled assets last year but our planned growth enables us to perform the same in recession or boom," says MD Jules Langenberg. The bank has sufficient growth capital to increase assets at its planned rate for the next three years.

Net income rose 43% to R4m while total assets grew 35% to R377m. Shareholders' funds rose 11% to R24,5m. The capital:asset ratio of 6,5% is nearly double the industry average of 3,5%, so it's well placed to meet the five-year phasing-in of the 8% required by the new Deposit-taking Institutions Act.

Fidelity has also decided to increase reserves to 36% over normal prudent levels because smaller banks are more vulnerable to market fluctuations.

The bank has strict asset-liability management criteria. "We limit exposure to individuals or groups to 10% of capital and dependency on any single deposit is restricted to 5% of total liabilities," he says. Return on assets measures a comfortable 1,2% compared to an industry average of 0,6%.

The bank trades mostly in the commercial and high-income individual markets. Langenberg says it can assess each risk carefully as most business is sought by the bank on a selected basis. High-risk instalment credit is the main income generator, contributing 75% to attributable profits. Participation bonds, insurance and treasury operations

FM 9/11/90 (58)

contribute the remaining 25%.

Langenberg says because of careful risk selection, bad debts have not exceeded 1% of average debtors in the past seven years.

On the negative side the share is tightly held — by Board of Executors (30%), EP Building Society (28,7%) and management and staff (20%). Just 16 000 shares traded in the past quarter, which may explain the rating. A p:e of 5,4 is below the sector average of 6,8 while a 6,5% dividend yield is above the 6,3% average.

Heather Formby

FM 9/11/90 (58)

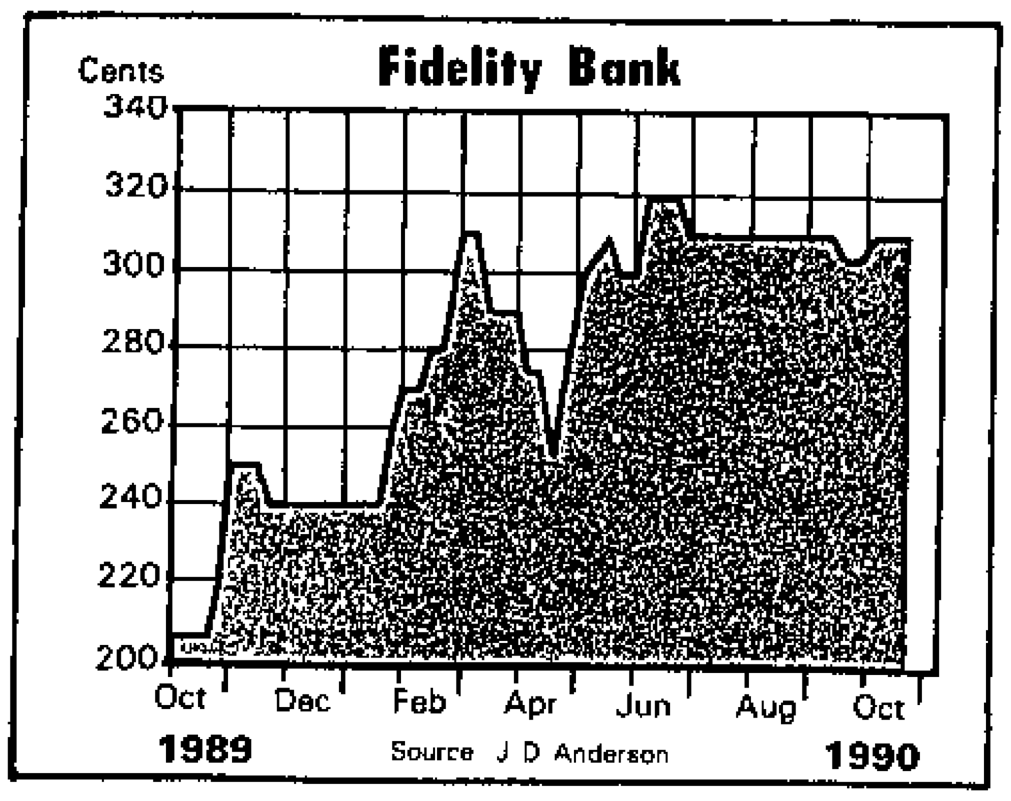
Activities: *General banking, insurance broking, trustee and participation mortgage bond services.*

Chairman: *R E Lippstreu; MD: J E A Langenberg.*

Capital structure: *7m ords. Market capitalisation: R21,7m.*

Share market: *Price: 310c. Yields: 6,5% on dividend; 18,4% on earnings; p:e ratio, 5,4; cover, 2,9. 12-month high, 320c; low, 240c. Trading volume last quarter, 16 000 shares.*

Year to September 30	'88	'89	'90
Total assets (Rm)	213	280	377
Advances (Rm)	192	268	355
Attributable income (Rm)	n/a	2,8	4
Earnings (c)	30	40	57,1
Dividends (c)	12	16	20



VOLKSKAS FM 9/11/90

STILL A STRUGGLE (58)

It is difficult to assess the future of a business when the outcome of wide-ranging negotiations currently under way remains unknown. Shareholders have been cautioned about dealing in Volkskas shares while it negotiates also with UBS, Sage and Allied. MD Danie Cronje was unable to be too specific about prospects, other than saying profit for the 1991 financial year is still expected to increase above that of the previous year.

If one looks at these clues, it seems Volkskas will remain as is until its year-end at least. The outcome of the negotiations is expected in the next few weeks, so investors will then be able to evaluate the effects.

FOX

FM 9/11/90

SNAIL'S PACE

Six months to	Sep 30 '89	Mar 31 '90	Sep 20 '90
Attributable (Rm) ..	2,7	2,9	2,5
Advances (Rbn)	12,1	13,9	15,1
Earnings (c)	117,7	152,3	130,7
Dividends (c)	25	65	27,5

Volkskas's role in what is seen as a Rembrandt banking giant is supposedly to add corporate banking business to a strong home loan base held by UBS. A drive to increase corporate banking business, which makes up around 22% of Volkskas's total business, is a major reason for moving the head office from Pretoria to Johannesburg. (58)

Volkskas has, however, continued to expand its participation in the home loan market. Cronje says business in that sector grew by 26% in the six months to end-September, despite a 0,25 percentage point hike in its home loan rate to existing borrowers, and an increase of 0,5-1,25 percentage points to new borrowers.

The growth of these two sectors can be judged in the context of the increase of only 5,3% in advances and acceptances. Cheque advances increased by 9,6% (46% of total advances), other advances by 5% and acceptances decreased by 20,5%. Compared to the first six months of last year, advances increased 24,8% because of the large increases in the second half of the previous financial year. Cronje says demand for credit tapered off in the face of the economic downswing, affecting profitability. Attributable income grew 12,4% on the year-ago interim.

Also affecting profitability were high interest rates, which caused the interest margin to tighten, particularly in the first four months of the financial year, and the 35,4% increase in provision for bad debts to R76,5m. The interest margin remains undisclosed, but Cronje claims it is improving.

Of the five major banking groups, Volkskas, on a p:e of 5,4 and dividend yield of 6,2%, has a rating better than Bankorp's but it lags the rest. *Heather Formby*

BUILDING SOCIETIES (58)

MORTGAGE NICHE

Registrar of Banks & Building Societies Hennie van Greuning says the distinction between banks and building societies is a relic of the past. FM 9/11/90

Under the Deposit-taking Institutions Act — planned to come into effect on January 2 — they will legally not differ at all: building societies will compete on an equal footing with banks. In fact that has already happened to a large degree. Building societies have created banking arms and diversified operations in anticipation of the legislation.

That does not mean all vestiges of the building society movement will be abandoned. Van Greuning told a banking seminar, hosted by the Islamic Bank last week, that building societies might be best off as niche banks specialising in mortgage loans. This option would keep at least some of the spirit intact.

Natal Building Society, controlled by NBS Holdings, plans to exploit this image. MD John Gafney says: "We do not want to be all things to all people. The cost of technology makes diversification into a full range of banking services prohibitive."

BANKING FM 9/11/90 (58)

DTI ACT TAKES SHAPE

When the Deposit-taking Institutions Act becomes effective, probably on January 2, liquid assets and cash which banks are required to hold against liabilities will be reduced. New requirements will be gazetted by the end of this month.

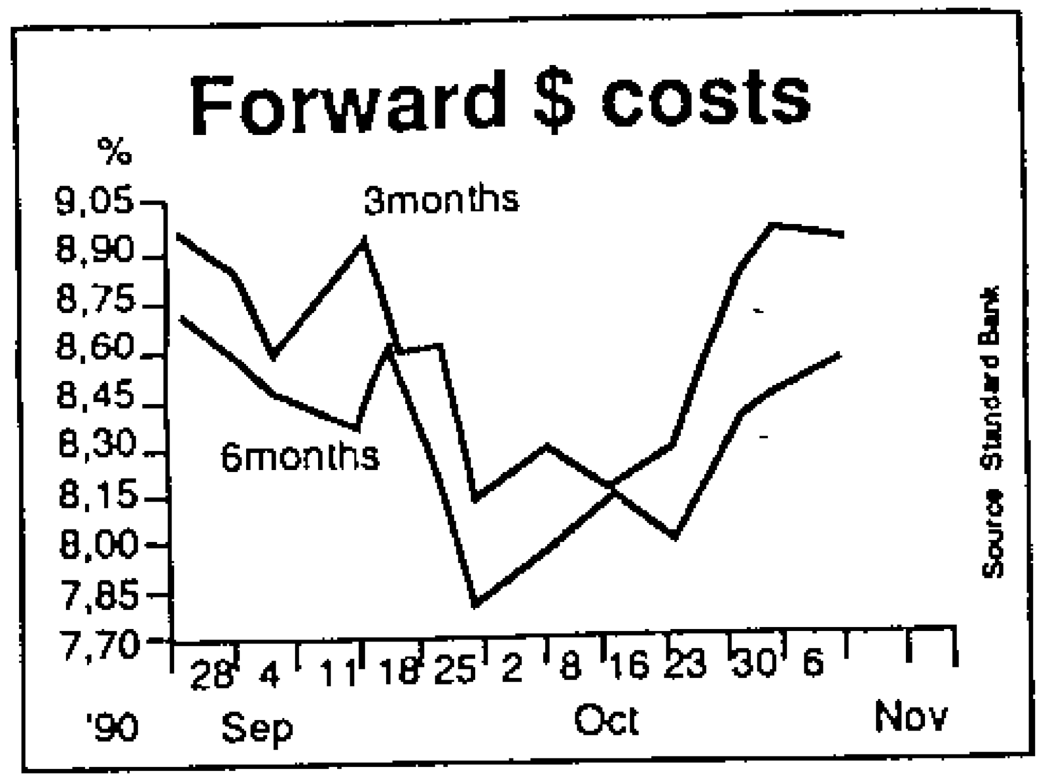
Now banks must hold liquid and cash reserves worth 20% of short-term liabilities to the public, 15% of medium and 5% of long. In future they will not have to hold any reserves against medium- and long-term while the 20% requirement against short-term liabilities — anything withdrawable within 32 days — will remain in place. (Cash reserves will be reduced from 5% to 4%.) Liquid assets will fall by an estimated R5bn to R17bn (cash reserves by R1bn to R3bn). These calculations are based on June's BA7 liabilities to the public.

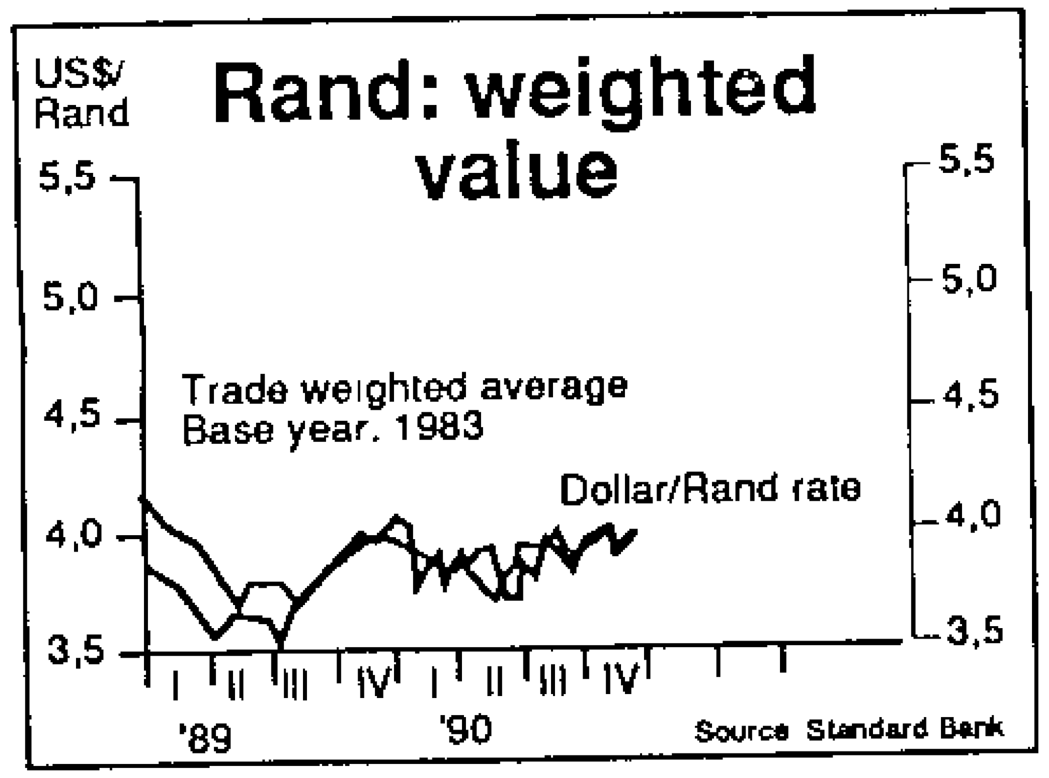
The statutory aspect of the requirements is now a secondary consideration. "We are trying to move to liquidity risk management and focus on the maturity ladder of each bank," says Registrar of Banks and Building Societies Hennie van Greuning.

Internationally, the cash reserve requirement has been viewed as a tool of monetary policy but, more recently, its prudential role has gained importance.

There is a technical problem with phasing in the new requirements. Reserves against December liabilities will fall under current legislation and determine the level to be held between January 21 to February 20. Once this has been resolved the phasing-in period is expected to be brief. ■

MARKET INDICATORS





RAND'S PRICE

Nov 6 1990	R1 equals	One foreign unit equals (R)
SDR	0,273	3,659
	0,298	3,361
ECU	0,287	3,486
	0,341	2 933
UK £	0,200	5,006
	0,239	4 179
US $	0,394	2,537
	0,379	2,638
Canada $	0,456	2,193
	0 444	2,252
Switzerland Fr	0,494	2,024
	0,613	1 631
France Fr	1,968	0,508
	2 370	0,422
Germany DM	0,586	1,706
	0 699	1,431
Japan Yen	50,050	0,020
	54 390	0 018
Italy Lira	440,185	0,002
	510,910	0,002
Zimbabwe $	1,003	0,997
	0,838	1,193
Austria Schil	4,120	0,243
	4 910	0 204
Holland Guilder	0,663	1,508
	0,788	1,269
US $ value of SDR	1,272	1,447
US $ value of ECU	1,109	1,377
Financial Rand		
Cost per US $	4,000	3,728
Discount (%)	34,037	31,980

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

FINANCIAL FUTURES

	Closing prices Nov 5 1990 Bid	Offer	M-t-M	Open interest contracts 26/10	2/11	Week's volume contracts 26/10	2/11	Value R000's 2/11
All share index: 2 624								
December	2 582	2 590	2 586	2 688	2745	5 282	2 381	61 746
March 1991	2 817	2 635	2 626	687	687	839	610	16 146
March 1992	2 830	2 855	2 842	1 400	1 100	160	760	21 969
All gold index: 1 362								
December	1 375	1 390	1 382	2 049	2 220	4 761	4 849	69 581
March 1991	1 400	1 415	1 408	504	508	489	640	9 222
Industrial index: 2 690								
December	2 575	2 650	2 612	322	310	600	40	346
March 1991	2 620	2 690	2 655	80	90	95	10	260
Dollar-Gold: 377,40								
December	379,00	381,00	380,00	240	259	228	291	11 105
March 1991	383,00	387,50	385,25	279	279	60	9	353
E168: 16,30%								
November		Expired		242	—	100	20	1 384
February 1991	16,25	16,23	16,24	130	130	0	0	0
May 1991	16,20	16,18	16,19	100	100	220	0	0
3 Month Liquid BA: 18,05%								
November	17,86	17,80	17,82	266	266	62	22	21 011
February 1991	17,20	17,14	17,17	246	291	74	64	51 685
May 1991	16,70	16,45	16,58	70	70	6	0	0
August 1991	16,10	15,50	15,80	10	24	0	4	3 844

Interest on Initial Margin = 17,27%

Source. SA Futures Exchange

BANKING FM 9/11/90 (58)

DTI ACT TAKES SHAPE

When the Deposit-taking Institutions Act becomes effective, probably on January 2, liquid assets and cash which banks are required to hold against liabilities will be reduced. New requirements will be gazetted by the end of this month.

Now banks must hold liquid and casl reserves worth 20% of short-term liabilitie to the public, 15% of medium and 5% of long In future they will not have to hold any reserves against medium- and long-term while the 20% requirement against short-term liabilities — anything withdrawabl within 32 days — will remain in place. (Casl reserves will be reduced from 5% to 4%.) Liquid assets will fall by an estimated R5br to R17bn (cash reserves by R1bn to R3bn) These calculations are based on June's BA liabilities to the public.

The statutory aspect of the requirement is now a secondary consideration. "We ar trying to move to liquidity risk managemen and focus on the maturity ladder of eacl bank," says Registrar of Banks and Buildin Societies Hennie van Greuning.

Internationally, the cash reserve require ment has been viewed as a tool of monetar policy but, more recently, its prudential rol has gained importance.

There is a technical problem with phasin in the new requirements. Reserves agains December liabilities will fall under curren legislation and determine the level to be hel between January 21 to February 20. Onc this has been resolved the phasing-in perio is expected to be brief. ■

FM 9/11/90 (58)

MONEY SUPPLY

MOPPING UP

Decelerating growth in the broad monetary aggregate M3 has been achieved despite stimulus from what Reserve Bank Governor Chris Stals says is a "surprisingly high 19%" growth in bank credit creation. This is well above the one percentage point monthly growth requested by the Bank and owing in part to finance required for Mossgas and the Lesotho Highlands Water Project.

It has also come despite higher net inflows of foreign exchange as offshore credit becomes more easily available.

The effect of high credit extension has been offset by money market transactions by the Bank, while forex inflows have been neutralised by dollar swaps. Under this arrangement, banks are asked to deposit forex with the Bank rather than trade it for rands. This kept a large number of rands out of circulation and hence out of the money supply figures. In lieu of interest depositors are later paid an agreed sum.

Thanks to these open market operations, September money supply growth (provisionally 13,28%) was below inflation (14,3%) for the first time since October 1987. This should indicate a long-term trend toward lower prices. Rand Merchant Bank economist Rudolph Gouws agrees: "I believe we have turned the corner. Monetary policy has slowed rises in money supply, so the present inflation run-up should be temporary."

But money supply growth has to be below inflation for at least three quarters before we can depend on this outcome. ■

INSURANCE — 2 FM 9/11/90

KEEPING CAPITAL (58)

A retirement instrument which addresses a need of the high-income earner has been introduced by UAL and Crusader Life.

A retirement annuity (RA) can be an efficient tax-saver when an executive is in a high-income period. But one drawback is that, should the contributor die soon after the maturity date, the true beneficiary will be the granter of the annuity. Underlying capital in the fund goes to the life office.

UAL Management director Peter Anschutz points out two other concerns about compulsory life annuities: the value of the annuity is based on fixed interest and, therefore, eroded by inflation and an annuity may be bought when interest rates are low.

RAs were first actively marketed in SA in the mid-Sixties and many have already reached maturity. Funds available from this source to purchase compulsory life annuities each year are estimated at R1bn.

Anschutz emphasises the UAL-Crusader scheme is not for the pensioner who will rely almost exclusively on an annuity. It is directed more at the saver who wishes to use current tax law to provide both ultimate capital and income protection.

Most RAs let the saver buy the compulsory annuity from any registered assurer. Anschutz proposes that two-thirds or more of the maturity value be paid to Crusader Life, which will undertake to invest it in UAL Equity-linked Life Portfolio. This results in at least 35% going into gilts, with the balance in equities. The annuitant may, at any time, decide the proportions of his fund allocated to various UAL equity portfolios.

Also, the annuitant may select a rate of return on the investment, from 2,5% to a maximum of 20%. This way, says Anschutz, the annuitant can choose between low income with high growth, or high income.

At death, the unamortised value of the annuity fund is paid to the annuitant's beneficiary as an accelerated annuity calculated to pay out the entire investment, including capital growth and income, over five years.

The Receiver of Revenue also benefits. At the death of the annuitant, the entire fund will ultimately be paid out and taxed, instead of reverting to the life company. ■

He adds: "Instead, the focus will be on mortgage loans, though we will have a retail division not unlike that of the old building society. There will also be corporate and treasury functions but certainly no cheque accounts or credit cards." The new trading name will most likely be NBS Bank.

Saambou has made a similar decision. Chairman Hendrik Sloet says its banking division will merge with the building society. "There will be some treasury, corporate and retail (excluding cheques) functions but mortgage loans will remain a major part of our business for quite some time. Diversification will be gradual and should eventually include securities trading."

Even large institutions are not prepared to tackle the big banks head on.

Allied MD Kevin De Villiers says his institution has diversified extensively in the past two years. "We have a full range of services, though we do not yet plan to be involved in futures, options and swaps."

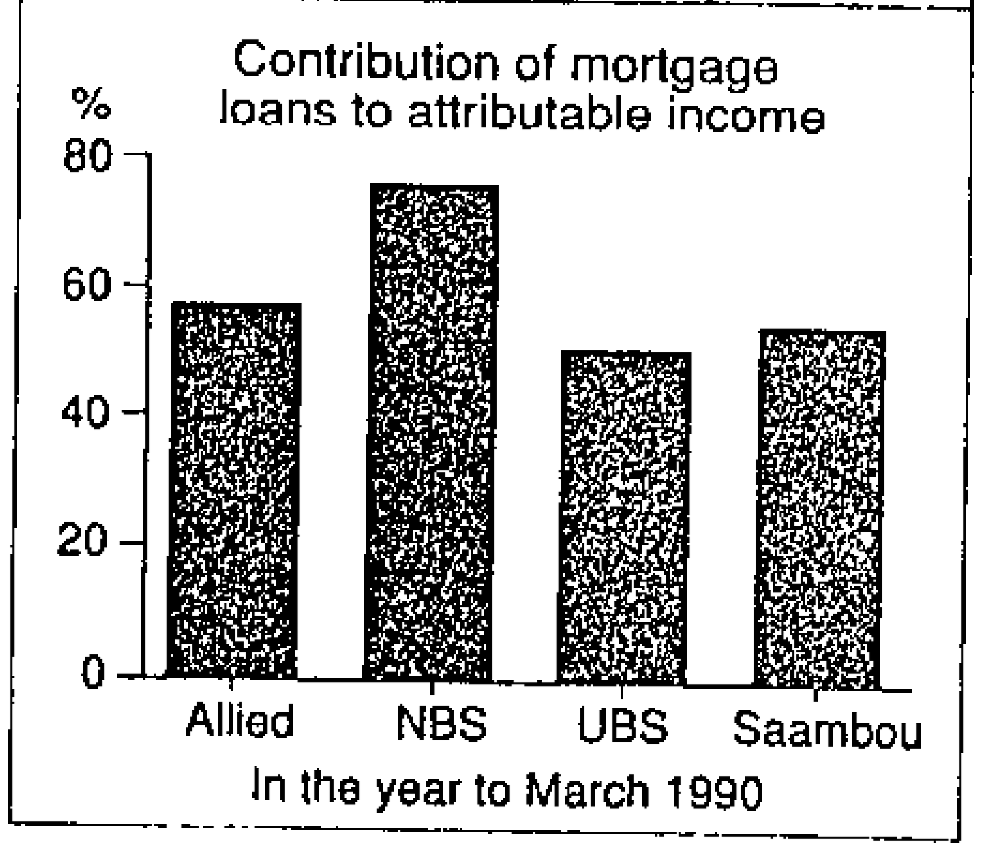
But he says Allied's image as a building society will remain substantially intact. "About 60% of our business is in home loans, which works out to 15% of the total mortgage business." He adds that high costs will slow the pace of further diversification.

Building societies generally seem happy with the legislation. UBS MD Mike De Blanche says: "No legislation will satisfy all parties but it is a vast improvement. I believe it is one of the most advanced in the world and the first to control both banks and building societies under one Act."

He's unwilling to comment on plans for the building society and the bank because "sensitive discussions" are taking place with various other institutions. In September discussions on a possible merger of Allied, Sage Financial Services, UBS and Volkskas were announced. Such a merger would form SA's largest financial services group with combined assets of around R50bn.

Despite diversification, building society operations still contributed the largest percentage (see graph) of UBS group earnings in the year to March 31. Banking contributed 18,5%, insurance 17,4%, and property development and other interests 13,3%.

Home focus



INSURANCE FM 9/11/90 (58)

INFANTS AT RISK

A spate of life policies designed for infants has flowed from the major assurers since parliament increased the benefit limits earlier this year. Though most life assurers acknowledge the risk — bluntly put — of infanticide, those who have entered the market insist their policies have clauses to protect babes and sucklings.

The ceiling on life cover on minors was raised from R250 to R10 000 on children up to six years and from R500 to R30 000 on children between six and 14 years.

The issue arises because the Sixth Schedule of the Income Tax Act requires a life component for a policy to be tax-effective. In effect, these policies are investments, used in many cases to cover education costs.

Life offices which have developed policies to take advantage of the changes include Old Mutual, Sanlam and Metropolitan Life. Major assurers which do not yet offer such policies include Southern and Liberty.

 (58) FM 9/11/90 (58)

Southern believes there was a loose understanding — not formal agreement — between major assurers that the new limits would not be exploited, to protect children from infanticide. Trailing Old Mutual and Sanlam in size by a long way, it was caught on the hop when the two market leaders went for this business. Southern is still undecided whether to be a reluctant and late debutant.

If there was an understanding, Old Mutual and Sanlam broke ranks. They released details of policies within hours of each other.

Old Mutual's John Bryant explains its children's policy is "standard" as defined in the Sixth Schedule. Before 1985, Old Mutual sold many policies without life cover. These were then declared non-standard. This, coupled with the old limits on life cover that could be taken out on children, made it impractical to market policies for infants.

Bryant believes the policy has sufficient safeguards against infanticide. If a child dies before age three, no life benefits will be paid. On a R50 a month premium, maximum life cover of eight times premiums (just enough to qualify in terms of the Sixth Schedule) is a rather unattractive R4 800. Before a child turns five, the accumulation account will have taken over the role of building the fund. "It becomes purely a savings policy and there can be no risk to the child."

Bryant argues that, with a little research and thought, a policy can be produced which does not put a child's life at risk yet provides meaningful savings for a specific purpose.

Metropolitan's "Future Builder" similarly in practice provides no life cover until a child is three. With premium from as low as R20 a month, it caters for lower-income customers. The low premium entry has been called "bad news" by one competitor but Metropolitan also applies the eight times premium limit, so the maximum temptation to a predatory parent would be a meagre R1 920.

Southern senior manager life marketing Dave Johnson says if the company does introduce a policy, it is likely to have a minimum premium of R80 a month, to place it outside the socio-economic bracket in which infanticide is a risk.

Johnson is not impressed by the three-year moratorium on life cover. "No one suggests people take out policies intending to commit infanticide. But three or four years down the line they could be in a tight financial corner: that's when a child may be at risk."

Liberty Life deputy GM product development Herschel Mayers is non-committal. Liberty does not have a policy for children, he says, "but we consider it a good product."

All life offices agree the cover offered is a compromise, dictated by the Sixth Schedule. Sanlam assistant GM product development Charl le Roux says Sanlam still offers old-style endowment policies in Namibia, where there is no Sixth Schedule. ■

US unlikely to back loan for SA

By David Braun
Star Bureau

WASHINGTON — The Bush administration will not support any application by South Africa from the International Monetary Fund unless the US Congress concurs, according to Capitol Hill sources.

Washington officials said Congress had been given private assurances that President Bush would not direct Treasury Secretary Nicholas Brady to support an IMF loan for South Africa without consulting the Senate and the House of Representatives.

This follows a furore in Congress a few weeks ago after remarks by US Assistant Secretary of State for African Affairs Hank Cohen that the Bush administration had no political objections to supporting an IMF loan for South Africa.

Mr Cohen said South Africa had to satisfy technical requirements to get US support for such a loan, and that any decision in that regard had to be made by Mr Brady.

His remarks sparked speculation in Washington that the Bush administration was getting ready to support an IMF loan for South Africa of up to R5 billion, most likely during the congressional recess when lawmakers would not be in Washington to block it.

More than 30 members of the House of Representatives sent letters to Mr Brady and Secretary of State James Baker warning against any attempt by the administration to support an IMF loan for South Africa.

They indicated that if the administration proceeded with such action, Congress would look unfavourably at a request, to be made next year by the Treasury, to replenish the IMF's reserves from American public funds.

Congressmen also made it clear that US support for South Africa getting IMF money at this stage would seriously hurt the Bush administration's initiatives to create bipartisan co-operation on the issue of South Africa.

Washington officials yesterday said the administration had assured Congress that no South African loan application was in the offing, and that in any case the US would not support one without consulting Congress.

"With the administration trying to maintain maximum bipartisan support for its handling of the Gulf crisis, this would not be the time to start a fight over South Africa," one official said.

Congress is not in favour of supporting an IMF loan for South Africa until the country has complied with legal requirements for the lifting of sanctions.

Hard times for Barlows

WK ARGUS 10/11/90

From CLAIRE GEBHARDT

JOHANNESBURG. — Barlows, the giant company whose economic health is generally regarded as a barometer of the country's, is widely expected to report a huge 20 percent earnings drop in the year to September.

Results are due out on Monday.

At the interim, Barlow's earnings were already down 9,3 percent in line with the generally grim outlook for the domestic economy and world commodity prices.

Further deterioration in economic activity to September has seen all but a handful of Barlow's subsidiaries report declines this week. This dispels any doubts that the country is in the grip of a painful recession.

Lowest level

With turnover equivalent to nearly 10 percent of GDP and interests stretching octopus like into almost every sector of the economy Barlow's results also give notice that 1991 will be a very tough year indeed.

Business profits are already at their lowest level in nearly 20 years, and with little prospect of a drop in interest rates early next year a long winter of redundancies could be in the offing.

In 1990 all five of Barlow's core divisions — mining and minerals, industrials, food, international and property — encountered difficult trading conditions.

Overcapacity in the base minerals market, domestic inflation, widespread labour problems and continued high interest rates on borrowing which rose along with the take-up of the group's Rand Mines rights offer allocation, weighed in negatively.

Results out this week revealed that Barlows has received very little support from the fixed investment side or from mining. Major offshore arm Bibby & Sons came right this time and Reunert held up reasonably well in the circumstances.

ICS Group presented the market with a shock with a 35 percent drop in earnings and Robor was not up to expectations.

However computer group TSI's 25 percent decline in earnings was no surprise after the 33 percent drop at the interim.

Rand Mines was on the retreat on virtually all fronts apart from coal.

Earnings a share were down 17,4 percent to 1592 from 1929c, because of an increased number of shares in issue following the 33-for-1000 rights issue in December 1989.

In a swift move, the group this week announced the closure of its loss-making vanadium pentoxide production at Vansa, the mothballing of the Kennedy's Vale platinum mine as well as a cut in operations at Harmony gold mine.

Cement group PPC, part of the non-industrial interests, unveiled a concrete performance in a weak market with a 5 percent increase in earnings to 266,2c (252,6c).

Middleburg Steel and Alloys (MSA), long the icing on the cake, is expected to come in with substantially lower-than-expected results.

With ferro-alloys and stainless steel plagued by tough world markets, the full-year contribution from MSA originally forecast to be stronger than at the interim, is now expected to be two-thirds down.

However J Bibby & Sons, lacklustre over the past two years with the degree of decline being hidden by the depreciation of the rand, saw a reverse with a 22,5 percent increase in earnings to 20,4p (16,6p) a share.

Tiger Oats' 16 percent earnings growth in a troubled year reflects the group's broad spread of interests across the food and pharmaceuticals sector.

CG Smith reported its sixth successive year of real profit growth despite the fact that Romatex had to contend with tougher competition from imports and Nampak was faced with major problems on the industrial relations front.

Exports

Reunert, helped along by exports reported a 15 percent increase in earnings to 234,1c (202,7c) having posted a 31 percent increase in earnings at the interim.

Unlisted industrials including earthmoving equipment, motor appliances, building materials, steel and paint, down 13 percent at the interim, are expected to continue to slide.

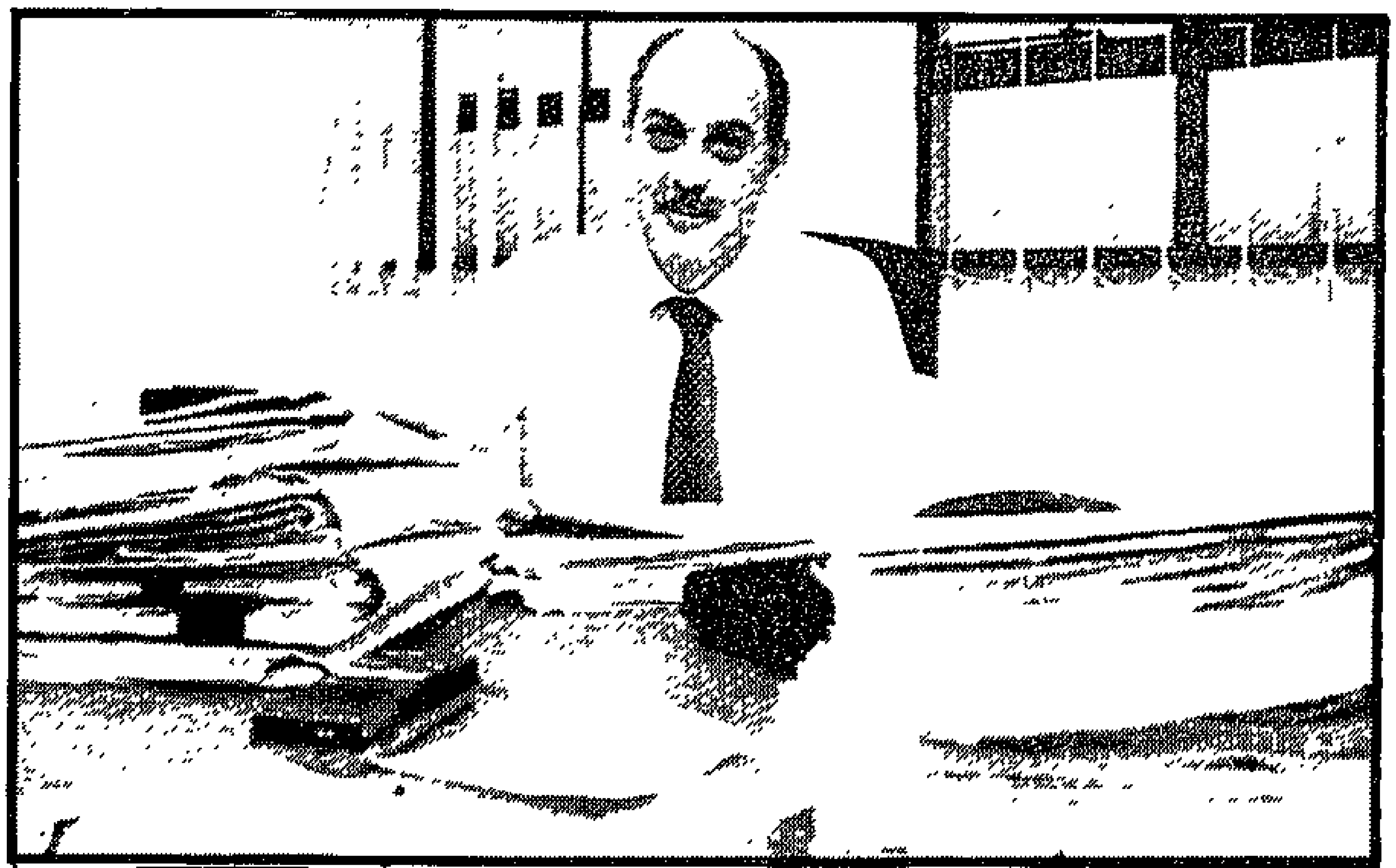
This week Barlows was trading at 3100c, well down from 3815c at the interim and a high of 5450c on February 5.

Loss adjuster takes up cudgels for claimants

S Times 11/11/90

(58)

By TERRY VAN DER WALT



LOSSES AND GAINES: Mike Gaines takes the fight to reluctant insurers Picture: JIMMY HUTTON

A REBEL loss adjuster has made history by becoming the first consultant in SA to represent the public in settling insurance claims.

Since opening shop in Durban at the beginning of the year, Mike Gaines has squeezed about R30-million in claims from insurers and they are starting to feel the pinch.

Before Public Adjusters was formed, the services of recognised loss adjusters were available only to insurers. The public was disadvantaged by being denied similar expertise, says Mr Gaines.

Without the know-how to calculate losses and prepare claims, company managers often accept settlements that are much lower than they are entitled to claim.

Mr Gaines breached the constitution of the Institute of Loss Adjusters of Southern Africa by representing an insured party against an insurer last year.

"It was shocking to me that the company was being prejudiced with the odds heavily stacked against it.

"It is unfair for the public not to have access to loss adjusters. Without expert help ordinary men and women often accept settlements that are way below what they are entitled to claim."

Mr Gaines was told by the institute that if he represented the "other side" again he would be kicked out. He resigned and formed his own company.

"Now the insurance companies are having to deal with me. That means people can fight insurers on an equal footing.

"It is costing the insurers millions and is burning them. The loss adjusters don't like my being on the other side because it highlights the happy position of the insurers — they have all the knowledge in settling a claim.

"Previously they had the winning hand, but now they have to argue the merits of the claim with me."

Mr Gaines gives an example of a dentist who was offered R50 000 for damages to his premises after a fire. He secured about R130 000 for the client. The insurer is prepared to pay R150 000 for the dental equipment, but Mr Gaines is negotiating for about R400 000.

A Natal Midlands sawmill's loss-of-profit claim was repudiated. But it was offered R5 000 after Mr Gaines was called in. The insurer has now paid R110 000.

Mr Gaines also made history when he took an insurance company to court after it repudiated a R2,5 million claim arising from a fire in Johannesburg.

History

It was the first time an insurance company had been subpoenaed to appear in an inquiry in terms of Section 415 of the Companies Act. It was called on to show why it had repudiated the claim on the grounds of arson.

"It blew things right open and the insurers first offered R250 000 then R550 000. But we want R2 million."

Mr Gaines is negotiating a settlement for the owner of the Royal Cruiser which burnt out in Durban harbour two months ago. He did his own investigation in the harbour and disproved the theory that it was arson. The insurance company has notified him that it is no longer "pursuing the repudiation on the grounds of arson".

By employing Public Adjusters to assess and compile a claim in the event of fire or flood, the company management is freed to concentrate on restoring operations as soon as possible.

Crocodiles

Peter Watson, whose crocodile farm on the Natal North Coast was forced to close a year ago when the reptiles died because of road blasting, has hired Mr Gaines to fight his battle against the blaster and its insurer.

Mr Gaines deals only with commerce and industry because of the huge workload and charges either R250 an hour plus expenses or "no cure, no pay".

Russ Whalley, chairman of ILASA, says that although loss adjusters are paid by insurance companies, their judgment is not affected. They have to arrive impartially at a fair settlement figure.

Futures, options errors 'cost firms R45m'

ROBERT GENTLE

FINANCIAL institutions in SA had lost about R45m in the past 12 months through mistakes associated with the use of futures and options, Rand Merchant Bank assistant GM Sias de Kock told the Futures Industry Conference in Sun City at the weekend.

58

While such instruments were used to offset risk — for example, by hedging portfolio value — they were very risky.

He quoted a case in which a company writing options treated the money raised on its sale — the premium — as income, instead of recognising the overall risk exposure on underlying assets.

Another involved bad communication between dealers within the same organisation, who ended up inadvertently dealing against one another's positions.

Unless participants used proper computer systems to monitor their overall risk on a real-time basis, these problems would continue, said De Kock.

Another delegate said it had been reported earlier in the year that a participant had foregone a sizeable profit after forgetting to exercise a batch of in-the-money gilt options. He was referring to TrustBank, which admitted the error though not the size of the loss — estimated in the market at between R2m and R5m.

BDay 12/11/90

Restructuring helps Pichold to reverse downward trend

B Day 12/11/90 (58)

MARIETTE DU PLESSIS

PIÇARDI Holdings (Pichold) and its subsidiaries had broken away from the downward trend in profits experienced during the year to end-June, with no losses being reported in the four months since then, MD Jan Picard said.

Group restructuring during financial 1990 and subsequent stock reduction in two of Pichold's subsidiaries — Picardi Appliances (Picapli) and Union Wine — have substantially reduced the group's gearing.

Stock was reduced by R104m to R73m during the four months since year-end, while short-term loans and bank overdrafts also came down — to R104m from R161m and to R1,9m (R25m) respectively, Picard said.

During 1990 Pichold's operating profit was halved, as turnover slid and the operating margin collapsed to 4,8% from the previous 9,8%.

The main problem was its household and appliance subsidiary, Picapli, whose operating profit plunged 61%. Picapli has since withdrawn from certain unprofitable sectors.

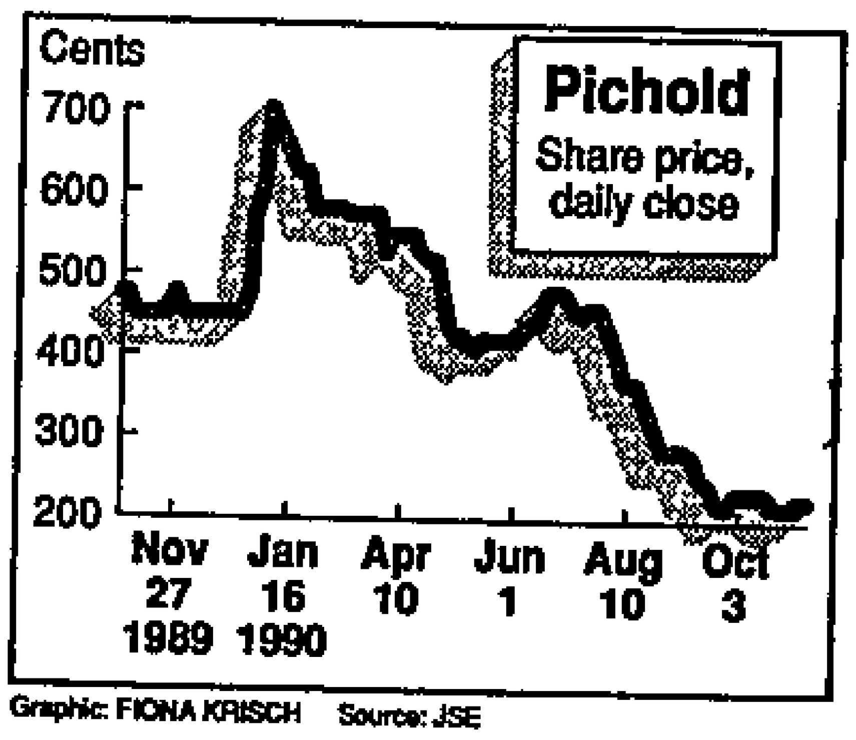
Union Wine — which was bought out by Kangra Holdings on September 24 — managed a meagre 10% improvement in sales but operating profit fell by a third.

Picardi Properties' (Picprop) profit improved, but it sold all its operating subsidiaries and currently holds R14,2m cash.

Following Picprop's 100% acquisition of the SA General Investment & Trust Company (Sagin), which has 30% of Cape Investment Bank Group (CIBG), the plan was to rename Picprop and transfer its listing from the property sector to the banks and financial sector.

However, Pichold, which owned 78% of Picprop, has since announced Picprop's proposed delisting, bringing to an end Pichold's planned expansionary phase into the banking and allied financial services market.

The group structure is to be rationalised to constitute Picprop as a wholly owned subsidiary of Pichold with a 213c a share offer to minority shareholders.



Graphic: FIONA KRISCH Source: JSE

Picard said the plan to transfer Picprop's listing was discarded as it would have resulted in the "duplication of the group's listed subsidiaries" since CIBG was already listed in the banks and financial sector.

He was confident that the group's strong performance over the past four months would be maintained to enable it to improve profitability and strengthen the balance sheet.

The Pichold share is trading at 225c from a high of 700c in January, slightly up from a low of 220c earlier in the month.

FINANCE

Rates suggest a spectrum change

(58)

BDay 12/11/90

HAROLD FRIDJHON

RATES at the shorter end of the money market stood stolidly firm last week, but at the longer end they shot up to heights last recorded at the end of June, suggesting that banks are widening the spectrum of their books.

The 90-day Treasury bill (TB) rate hardened from 17,80% to 17,82% in Friday's tender, which attracted bids of R251m for the R120m bills on offer. But the price for 90-day liquid bankers' acceptances (BA) passed the week without a ripple.

Lack of movement at the shorter end should not cause eyebrows to be raised, even ever so slightly. Most people in the market, investors as well as dealers, have finally accepted that the Reserve Bank governor means what he has consistently said during the past year: Bank rate will be allowed to drop only when the economy has sweated out all its fat.

Most crucial indicators suggest we are not yet down to bone and muscle. Popular market view is that next year will bring a breather, with a one percentage point cut during the first half and maybe another one in the second half.

With short-term rates firmly held in Stalsian chains — at least until February, and maybe to March, to coincide with the Budget — there's little life in short-term dealing. Push the investment horizon closer to mid-1991 and interest quickens ever so slightly. Investors are prepared to take a view on the 9-12 months negotiable certificates of deposit (NCDs) because issuers are making them attractive. Last week, banks jerked up their offers on one-year paper 30 points to a double price of 18,70/60%, and 35 points on 9-month NCDs to the same level as the 12-month NCDs.

They've acted boldly and sensibly. The banks' Treasury books are reputedly out of kilter, with too heavy an emphasis on the expensive short end, expensive after taking into account their statutory imposts. A wider spread will give a slightly better balance to their books.

Should the unimaginable happen and Bank rate drop more sharply and more suddenly than most of us expect, it will mean that "expensive" money won't be a drag on margins; the banks will put it to profitable use financing hire-purchase and leasing deals.

For investors, the higher NCD rates are a profitable hedge against a sudden Bank rate cut, which could trim their returns on call deposits.

Who might merge with whom in the tough decade ahead

(58)

BDay 12/11/90

MERVYN HARRIS

WHAT will the face of corporate SA look like at the turn of the century? In spite of calls from the ANC and others for a deconcentration of power in the corporate sector, the '90s might see exactly the opposite happening in certain key sectors of the economy — banking and mining.

The current concept of a mining house with its diverse industrial and other interests could disappear to make way for only two exclusive mining groups: an enlarged Anglo American mining arm which could include the mining interests of JCI and Barlow Rand, and a second mining group under the combined control of Sanlam and Rembrandt, encompassing the mining interests of Gencor, GFSA and Anglovaal.

These are some of the intriguing developments which stockbroker and former financial journalist David Meades of Meades, De Klerk Inc believes will result from the economic changes ahead.

His views are based on the assumption that the creation of the new SA will go ahead relatively smoothly, although negotiations will be slow and protracted, which in turn will inhibit economic growth in the early part of the decade.

This will put pressure on corporate growth, leading to the rationalisation of activities in many sectors in the form of mergers and acquisitions as companies seek to become more effective with the aim of surviving in the process of creating a new SA.

The slower growth rate will make any redistribution of wealth very difficult. Indeed, Meades says, a redistribution of poverty is more likely as living standards decline, especially among the more affluent.

By the year 2000 the Rembrandt Group could establish itself more firmly as one of the big power houses together with the Old Mutual, Anglo American and Sanlam, while groups like Sasol, Iscor and Eskom will strengthen their positions as giants in their own right.

Meades sees a healing of the rift between Anglo and the Old Mutual which was caused a couple of years ago when Premier gained effective control of SA Breweries He expects the Old Mutual to regain representation on the board of Anglo, which ceased when Jan van der Horst resigned in protest after the SA Breweries move.

The restoration of a closer relationship between Anglo and the Old Mutual could lead to the amalgamation of the banking interests of the two groups — First National and Nedbank "One can perhaps also see the NBS joining such a combination," Meades says.

SA will need bigger and stronger banking groups to help finance the sort of growth which will be attainable in the second half of the '90s as the economy moves into the "high road" scenario, he says

Bankorp should be in a position to attract suitors or make its own overtures if Piet Liebenberg succeeds in his aim of bringing it back to the investment scene as a sound and profitable banking group.

This could lead to Bankorp amalgamating with UBS/Volkskas/Allied/Sage if negotiations are consummated Meades says such a move will signal a closer relationship between Sanlam and Rembrandt, which in turn could lead to the two pooling their mining interests at a later stage

Rembrandt could then very well be prepared to allow Sanlam effectively to control the new banking group, which will still leave Rembrandt with a possible partnership control position at Standard Bank.

This takes into account the growing relationship between Rembrandt and Liberty. The two already effectively control GFSA, while in the UK Rembrandt's offshoot in Europe, Richemont, is a partner of Liberty's First Investment Trust (FIT) in the TransAtlantic group.

MEADES

Meades says the impetus for change in the mining scene could come from the possibility of a severe world recession, a prolonged depression in international commodity prices would come against a background of rising local costs.

There is also the possibility of the discovery elsewhere in the world of vast new deposits of metals and mineral which SA exports. This could well follow a new "colonisation" of Africa at the request of Africa itself.

Meades says these sort of developments will necessitate the formation of much stronger mining groups Unbundling Gencor, if it comes to fruition, would facilitate such moves, enabling Gencor's mining interests to be combined with others outside the Gencor stable. This would enable SA to compete more effectively in the international arena.

A slump in the price of energy in the wake of a long recession, or the discovery of extensive new oil fields, will put the local chemical industry under immense pressure. Meades believes that under pressure from intense competition from Sasol, AECI and Sentrachem could well amalgamate or Sentrachem become part of Engen.

Because of the sheer size of Sasol and the enormous cash flow it generates, Meades sees the oil-from-coal group also diversifying into the international energy scene to become a bona fide member of the big league Locally Sasol could expand its retail network by perhaps linking up with Caltex or Shell

In agriculture, the '90s could well see the demise of the co-operative movement in SA Most of the smaller co-ops could disappear while the bigger ones could amalgamate with the big food groups in much the same manner as Tiger Oats gained control of Langeberg Candidates for mergers or privatised public companies include NCD, Sasko, and Vleissentraal

Meades says there could also be an amalgamation of Tongaat and Premier in the Anglo group, and Imhym, Crown Foods and Fedfood in the Sankorp group The third big player would be the food empire of Barlows which encompasses ICS, Tiger Oats and C G Smith.

Meade expects the retail field to be dominated by two large groups SA Breweries and Sanlam's Tradegro empire — which will get together with Pepkor, with Pick 'n Pay possibly joining the Sanlam fold at a later stage

There will also be many smaller groups while the explosion during the '90s of the informal sector will by the turn of the century, result in the creation of thousands of more formal black businesses

Meades also foresees a major change in the motor industry He expects that rationalisation in the wake of a sharp drop in the living standards of whites will see fewer luxury vehicles on the roads, this could lead to Mercedes-Benz, BMW and possibly VW pulling out of SA

Meades says Toyota and Samcor could get together, which would leave Nissan as the only other local motor vehicle manufacturer

The new SA would not be able to afford the local manufacture of luxury vehicles "SA is a poor country with a couple of rich patches rather than a rich country with a few poor spots," Meades says

His forecast is not all pessimistic the restructuring process of the first half of the '90s could send SA into the 21st century able to develop from a regional economic power into an effective international competitor

LETTERS

Star 12/11/90 (58)

Little prospect of festive cheer for share market

By Ann Crotty

With six weeks to go before Christmas, there seems little hope of activity or prices on the JSE picking up in the next two months.

Analysts agree only a significant and sustainable improvement in the gold price, or a major advance on the local political front, would lure investors back as aggressive buyers.

Most of the relatively low volumes of buying are of blue-chip industrials, with institutions topping up strategic investments in hope of a longer-term economic recovery.

Looking to calendar 1991 there is little reason for investors to take cheer.

Although the past week has seen some fairly solid corporate results for the six and 12 months to end-September (including ABI, Adcock-Ingram, Afrox, Edgars, FNB, Gencor and SAB), feeling is that these are the exceptions.

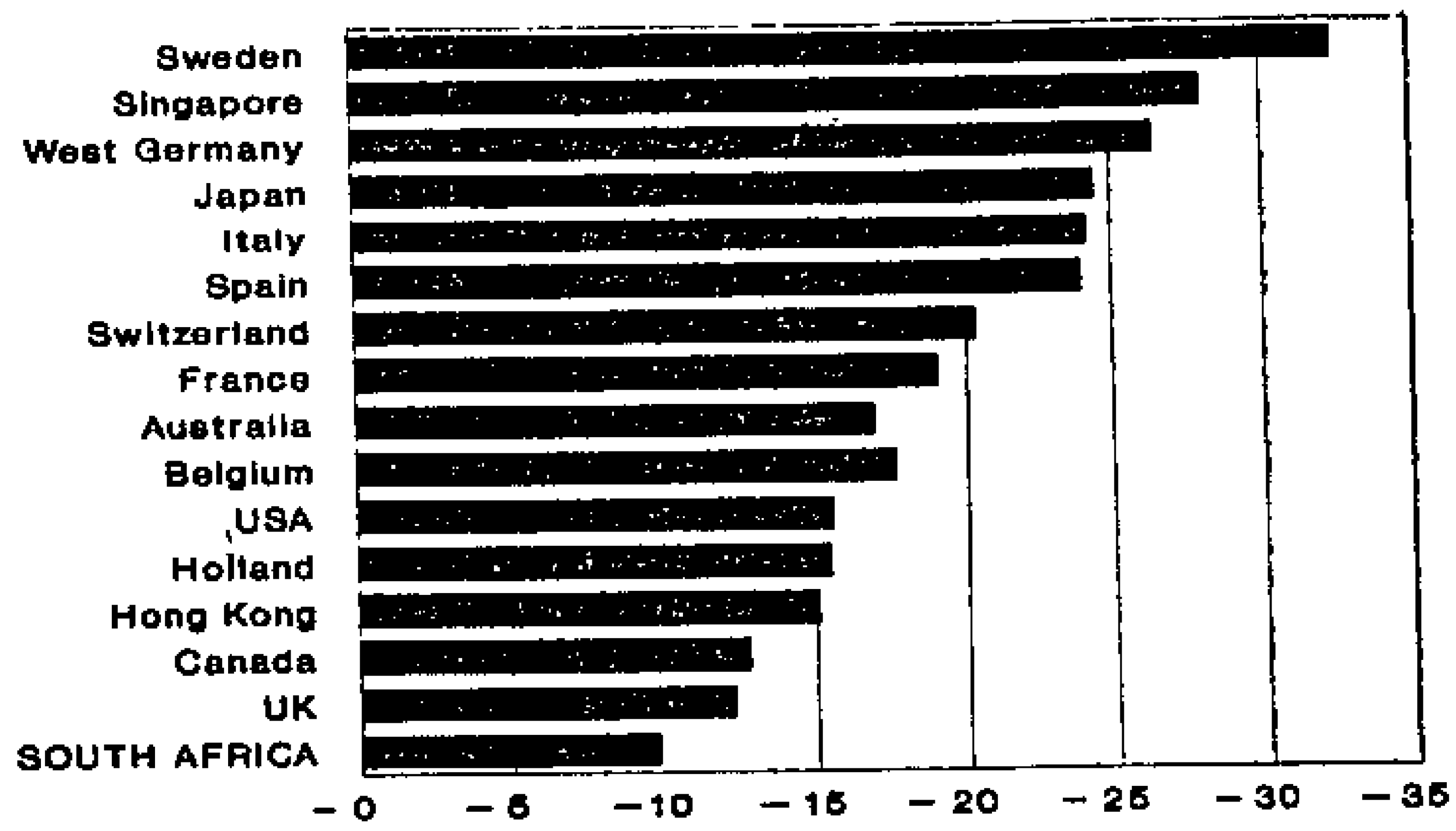
Companies such as Romatex, Nampak, Tomkor and Da Gama are providing a more accurate reflection of underlying economic weakness.

This sentiment is expected to be underlined with the release of Barlows' results tomorrow.

Few chief executives who have already reported are looking to an improvement in conditions over the next 12 months. Six months ago there seemed to be reasonable prospects of a decline in inflation and therefore in interest rates in the last quarter of calendar '90.

Latest indications are that industrial companies will be hard pressed to maintain earnings.

Assuming that money and gilt market rates continue to offer the attractive yields they are now providing, it looks as though dividend yields on the JSE will have to move higher if they are to be attractive. With flat earnings likely, this means sustained downward pressure on prices.



South African investors might not be happy with the way share prices on the Johannesburg Stock Exchange have behaved since Iraq invaded Kuwait, but they have one consolation — their losses have been less than those of investors on the world's other major stock exchanges. Since July 24, a week before the invasion, the Swedish share market has fallen 32,3 percent — three times the 9,8 percent decline in the JSE. A comparision of share price indices compiled by The Economist magazine shows that share-price losses in France, Switzerland, Spain, Italy, Japan, West Germany and Singapore have been double or more the South African figure. Britain's position as a petro-power helped limit its share market drop to 12,3 percent.

Financial stability is the priority

Upturn might not arrive in 1991 — Stals

BIDay 13/11/90

(58)

ANDREW GILL

THE next expansionary phase in the economy might not start until late 1991, or even 1992, Reserve Bank Governor Chris Stals said in London yesterday.

Speaking at the Smith New Court/Frankel Kruger Vinderine conference on investment in a post-apartheid SA, he said restrictive monetary and fiscal policies should be retained for the time being, with the first priority being to reduce the rate of inflation before moving into a new phase of growth and development.

Although results in the general financial situation were gratifying, they were not yet satisfactory, he said.

At the same conference, Finance Minister Barend du Plessis said government was determined to set firm bounds on the public sector and was seeking an average real annual growth in Budget expenditure of no more than 1%.

"We are unequivocally committed . . . to a containment or even reduction of the public sector vis-à-vis the total economy."

Also, government would restrict the fiscal deficit to the capital component of the Budget, currently less than 2% of gross domestic product. This was in line with the view that the private sector was "the only viable engine of economic growth".

Stals said financial stability, or inflation, had gained preference over economic growth in this "transition period" because in the longer term it was a precondition for economic growth.

As a minimum "we want the new SA to start off with a money supply that is well under control, a banking system that is sound and not over-lent and a low and declining rate of inflation".

Other requirements were that government finances be well under control and not making excessive demands on the scarce financial resources of the country, a good balance of payments situation with a stable exchange rate, and a "reasonable amount of foreign reserves in the kitty".

In this period of transition new doors were being opened economically, he said. In order for the production potential of the new SA to be used to its full extent, and in order to entice investors and entrepreneurs to enter these doors, the new government would have to do various things.

It would have to convince participants inside and outside the country that SA would pursue sound economic policies with a firm commitment to private initiative and a market-orientated economy.

Also, the support of the international community would have to be sought. The IMF and the World Bank could play major roles in assisting the new SA while private investors would be indispensable, he said.

KIN BENTLEY reports from London that ANC foreign affairs spokesman Thabo Mbeki told the conference that the ANC would review sanctions during its consultative conference next month.

"The ANC is concerned that sanctions should be lifted as quickly as possible," he said. But before this could happen, SA would need to be transformed into a non-racial democracy.

He said the ANC was aware of "a responsibility to create a situation of peace and stability".

● Reports: Page 15

Merger into giant bank appears to be off

BDay 13/11/90

ZILLA EFRAT

58

THE mooted merger of Allied, UBS, Volkskas and Sage Financial Services into a single banking giant appears to be off.

According to normally reliable sources close to the negotiations, planning is believed to have swung towards the formation of a holding company that will control UBS, Volkskas and Allied, with each maintaining its own individuality and identity.

Sage, it seems, will be left largely in the cold as a possible future asset strip.

In addition, a services company will be formed to take care of the three banks' data processing and service needs. It is expected to result in huge savings.

The sources say additional cross shareholdings between the three banks are unlikely. While Volkskas and UBS have held each other's shares for some time, nothing has been done to develop the relationship between the two. In addition, Allied's experience with Sage has not been easy.

The sources believe if the planned restructuring is accompanied by offers for Allied shares, counterbids are likely from Standard Bank Investment Corporation or First National Bank, which considered deals to acquire control of Allied last year.

Attempts to obtain official information on the state of negotiations proved fruitless yesterday. Business Day's sources said this was because members of the committees formed to negotiate the merger were obliged to sign secrecy agreements believed to carry penalties of R250 000 for unauthorised disclosure.

Volkskas group MD Danie Cronje and UBS Building Society MD Mike de Blanche would not comment on negotiations, saying they were bound by a secrecy agreement. Allied chairman Norman Alborough said the information was "all news to me".

Finrand to stop soon?

Cpt Tms 13/11/90 58

Own Correspondent

LONDON. — The financial rand could soon be a thing of the past, the Minister of Finance, Mr Barend du Plessis, told an investment conference here yesterday.

The finrand is South Africa's foreign investment unit that has enabled outside investors to buy local properties at a significantly cheaper rate than the commercial rand.

Answering a question on the future of the finrand, after delivering his address at the conference, Mr Du Plessis said it was "a consequence of the debt standstill".

"And I would very much like to see its demise as soon as possible — maybe not in terms of its existence, but at least in terms of the disparity.

"And I believe that the moment we get adequate access to international funding, particularly the IMF (International Monetary Fund), from my point of view, it will be a top priority to take the necessary steps to get out of it."

In his address, Mr Du Plessis also indicated that the government was prepared to accept, in principle, some form of redistribution of wealth.

At the same conference ANC foreign affairs spokesman Mr Thabo Mbeki said the ANC would review its sanctions policy next month.

The government, the ANC and big business leaders from Britain and Europe appeared together at the conference, on investment in post-apartheid South Africa

Mr Du Plessis said he did not believe in a totally unfettered free market economy. Both men agreed it was possible for capitalism to have an "ugly face"

Mr Mbeki said the success of a new economic policy would be measured, in part, by the extent to which it succeeded in addressing the issue of black impoverishment, as well as the disparity of wealth and economic power between black and white.

"What we have been arguing for is a dynamic process of levelling upwards rather than downwards, in the context of a rapidly growing economy. As everyone accepts, this cannot be done without sustained large inflows of foreign capital."

He said the ANC was concerned that sanctions should be lifted as quickly as possible. "For this and other obvious reasons, we are interested that the political process towards the democratic transformation of South Africa should move forward as rapidly as possible to enable sanctions to be lifted

To page 2

Anglo boss: Black statesmen soon

Cpt Tms 13/11/90

Own Correspondent

LONDON. — Anglo American chairman ~~Mr~~ Julian Ogilvie Thomson hopes South Africa will have a new constitution, with blacks in the government, by next Christmas.

Interviwed on British television, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black director on the board in about three years.

Mr Ogilvie Thomson was speaking on Sunday evening on Channel Four's "Answering Back" programme in a series of interviews with leading international business and political figures.

Asked by presenter Mary Golding when he foresees blacks in governemnt in South Africa and a new constitution in operation, he replied: "I personally would hope that it would be next Christmas. But it may well be 1992."

He went on to indicate that while he is prepared to see partial nationalisation of Anglo American, he believed the chances of full nationalisation by a future ANC-led government were receding as the ANC "are beginning to see that this is not a sensible route to go down".

From page 1

Finrand to go

Cpt Tms 13/11/90 58

"More significantly perhaps, we are conscious of the fact that . . . we have a responsibility to create a situation of peace and stability resulting in the reduction of concern about the level of risk that would be entailed in any decision to invest in South Africa. Once again, the sine qua non for this is the transformation of South Africa into a non-racial democracy."

Mr Du Plessis said that while the government remained "staunch believers in the efficiency and efficacy of market forces", they were "not doctrinally fixated on unfettered free enterprise: There is, after all, an unacceptable face of capitalism. We simply know, and recent world experience has amply borne this out, that a market economy (and I am quite ready to use the term 'social market economy' as a valid description of what is meant), is the surest and most sustainable vehicle for the wealth creation we so urgently need".

The government's major task was to "enhance the capacity of the modern sector to deliver in terms of jobs and incomes that are needed if the aspirations of our people are to be met".

In every civilised country today, Mr Du Plessis said, there was some measure of redistribution of income and opportunities "on the path to a more just and more stable society".

Thus, the government differed with the ANC and other players only on a matter of degree. "Whereas the government is mindful of the goose, the broad opposition more to its left — in whose ranks rather diverse standpoints are found — would on balance at this stage, and clearly in response to constituency pressure, seem to be more mindful of the golden eggs."

But, he added, he was "confident of an eventual pragmatic accommodation on the issue", adding that much progress had already been made "with the emergence of a somewhat wider consciousness of the perils of goose-slaying".

● More Reports — Page 14

Banks deny ripping off clients with overdrafts

Down the hatch . . . US Marine Corps Staff Sergeant Edmundo Uy of San Diego, California, is silhouetted against the setting sun as he drinks from his canteen somewhere in Saudi Arabia. Temperatures have dropped but it remains hot late into the night.
Picture: Reuter.

By Stan Hlophe

Three leading financial institutions yesterday strongly denied accusations by a national consumer body that they were exploiting clients by charging them illegal fees on overdraft accounts.

The Consumer Federation had accused financial insitutions of exploiting "clients to the limit" by charging them illegal fees on overdraft accounts.

The federation said the illegal practices by banks ran into hundreds of thousands of rands, and in some cases led to liquidation or left businesses and individuals fighting for survival.

Interest rates were deliberately being charged in excess of the Usury Act limitations and were often adjusted without notification, it claimed.

Violate

Replying to the accusations, Standard Bank managing director Hugh Peatling said: "We are operating within the confined perimeters of the Usury Act. Whatever rates we charge are regulated and we don't abuse it.

"I strongly deny the accusations. Our charges are within the limitations of the Usury Act, which allows banks to charge up to 28 percent. That is determined by the Government and Reserve Bank, and nobody can violate it."

Andre Latre, Allied's administrative general manager, said: "Allied has just moved to the overdraft field. Our policy is not to overcharge, and we follow the Usury Act limitations. We also disclose our interest rate to the client.

"Allied is definitely not guilty of that."

A Volkskas spokesman retorted: "Definitely not us — and I don't think it's true. We don't overcharge anybody."

Finrand goes when IMF resumes loans, says Stals

Star 13/11/90 58

By Neil Behrmann

LONDON — The Reserve Bank will phase out the financial rand when SA is allowed to borrow from the International Monetary Fund (IMF) again.

When it decides to end the dual exchange rate system, the Reserve Bank is likely to enter the market to buy financial rands, says Governor Dr Chris Stals.

He was speaking yesterday at a conference organised by London brokers Smith New Court.

The eventual aim would be to eliminate the financial rand's discount to the commercial rand, he said. In the end the two currencies would become one.

It would be a gradual process, he stressed.

If foreign nations agreed to abandon sanctions and the IMF began lending again, the Reserve Bank would be in a position to enter the market to buy financial rands, Dr Stals said.

The financial rand, currently trading at about R3,66 to the dollar is at a discount of 31 percent to the commercial rand.

In practice, the Reserve Bank would refrain from buying financial rands aggressively, said Dr Stals. If there were large-scale sellers, it would buy the currency from them.

Dr Chris Stals . . . a gradual process

If, for example, the financial rand rallied by 10 percent to R3,30 to the dollar, and holders wished to take profits, the Reserve Bank would allow the currency to fall back to its market level.

The Bank might then decide to increase purchases again and the gap between the two currencies would narrow over a period of time.

The dual exchange rate system was scrapped by former Reserve Bank Governor Dr Gerhard de Kock in 1983, but reintroduced in 1985 when SA declared a debt moratorium.

Foreign investors held about $12 billion of SA shares and bonds, Dr Stals estimated. Since a proportion of these securities were in firm hands, it followed that the financial rand was traded in tiny volumes.

It was thus an extremely volatile currency and the spread between buying and selling prices was one to two percent, he said, depending on the amount traded.

This was a far wider spread than that of the commercial rand. The currency was at the mercy of the gold share market, which changed from one of euphoria to gloom on relatively minor percentage changes in the gold price.

South Africa's borrowing potential had improved markedly this year, said Dr Stals.

Since the foreign debt moratorium in 1985, its international borrowings had fallen to $20 billion from $24 billion.

The nation had been able to roll over 40 percent of the $13 billion in loans outside the net of the international debt rescheduling agreement.

By 1993 SA aimed at repaying $1,5 billion of the $7 billion caught within the moratorium net.

Yet this did not imply that total debt would decline by then, said Dr Stals.

In the interim period, SA would try and borrow more from abroad. It desperately needed foreign funds, he said.

After a net outflow of R6,2 billion in 1988 and R4,3 billion in 1989, the capital outflow amounted to about R1,5 billion in the first nine months of 1990.

"SA actually had a net inflow of capital of about R1 billion — the first quarterly inflow registered since the first quarter of 1987," said Dr Stals.

Foreign debt only accounted for 70 percent of exports, against more than 300 percent for other developing countries, he said.

Following repayments over the past five years, total foreign indebtedness would also have been lower, had there been less borrowing in hard currencies such as Deutschemarks and Swiss francs.

Both currencies had appreciated substantially against the rand and added to the overall debt burden, he said.

Investment income helps TML profits

Star 13/11/90 (58)

By Ann Crotty

A 70 percent surge in investment income helped Times Media to counter a squeeze on operating margins and report a 10,4 percent increase in attributable earnings — to R15,1 million (R13,7 million) for the six months to end-September.

The improvement at share level was diluted due to an increase in shares in issue. EPS for the interim was up 7,7 percent to 70c (65c) from which a dividend of 20c (18c) will be paid.

Turnover was up 16 percent to R136,4 million (R118 million). The directors attributed the increase to "recent acquisitions, improved circulation of most publications and increased advertising tariffs and cover prices."

But lower advertising volumes generally and staff vacancy advertisements in particular, squeezed margins from 19,7 percent to 17,1 percent. This resulted in operating profit being virtually unchanged at R23,3 million.

Higher interest rates helped to lift investment income by 70 percent to R7,4 million (R4,4 million). The balance sheet at end-September shows surplus funds of R40,8 million — down from R44 million at the end of the previous interim period.

Interest payments were up to R806 000 (R646 000). The tax rate was virtually unchanged at 48,8 percent.

Second half performance is traditionally weaker than first half. The directors note: "This disparity is expected to be even more pronounced in the current year due to the progressive slowdown in the economy which is having an increasingly negative effect on advertising volumes."

Property association is mooted

B/Day 14/11/90

CHARLOTTE MATHEWS

A GROUP of property institutions including BOE Properties, Seeff Financial Services, Metboard, Masterprop and Fairheads was discussing forming a property syndication association, Seeff MD Michael Flax said yesterday.

The purpose of the Property Investment Syndication Association (Pisa) would be to regulate a resale market in syndication units and develop an awareness of property syndication as a means of investment for individuals. The association would also monitor its members.

Under a property syndication, members of the public are offered units, generally with a minimum and maximum investment, in a specific property.

It is intended to be a long term investment.

Of the other companies, Fairheads said they would be joining. Masterprop was not available for comment.

Saambou expects slow showing in second half

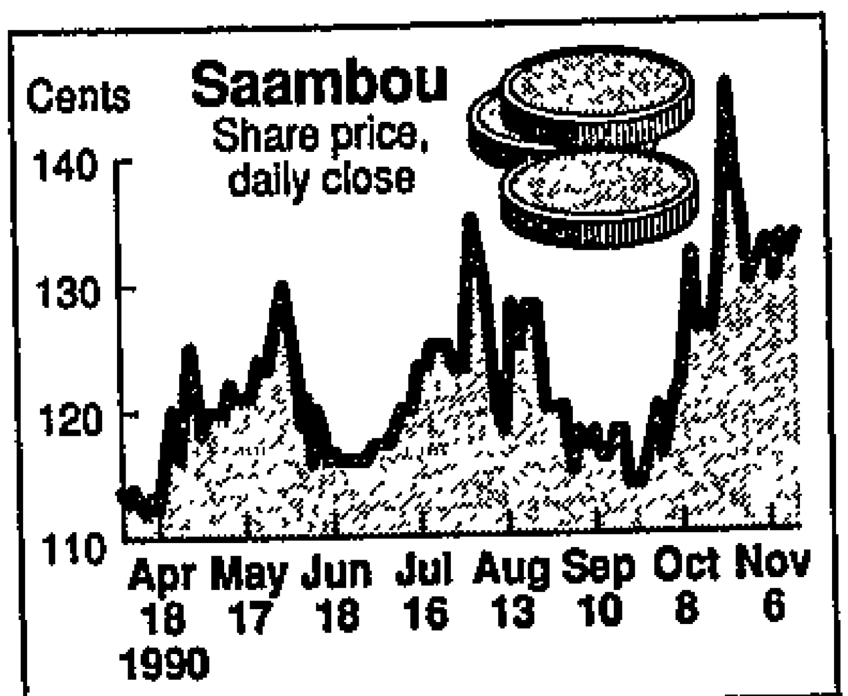
BDay 14/11/90 (58)

BRENT MELVILLE

BANKING and small building society group Saambou, around which talk of a possible merger has recently revolved, managed to shrug off difficult economic conditions to turn in a relatively strong performance for the half-year to September.

On an 11% improvement in attributable profits to R9,3m, earnings moved up 10% to 10,9c a share and the dividend was left unchanged at 5,5c. Chairman Hendrik Sloet said directors were expecting a more conservative second half of the financial year.

Last month Sloet said Saambou would be interested in discussing proposals about a deal with a bigger financial institution, but denied the group was yet involved in any negotiations.



Graphic: FIONA KRISCH Source: JSE

While banking analysts and industry players are also of the opinion that Saambou is rife for a merger or take-over — giving it the support of a "big brother" in a market which is becoming increasingly manipulated by the big financials — it is uncertain who the potential suitor is.

Meanwhile, Sloet admitted the last six months and international and local conditions had instilled uncertainty in the group. He blamed consistently high interest rates and a significant decrease in economic activity to the increase in arrears on advances as well as a rise in the number of properties in possession.

The group's capital structure was broadened during the period under review with the issue of R20m preference shares in its banking subsidiary. Sloet said the broadening of capital, relative to the its established infrastructure, created an attractive profit potential for the group.

Further planning had already been done to deploy existing capital assets more productivety. Fixed assets, investments and other assets of the group amounted to R1,2bn compared to R1,1bn at March, 1990. Advances however increased to R2,8bn from R2,6bn for the same period.

Deposits and loans for the group amounts to R3,6bn from R3,3bn in March.

58

Share price plunge feared if financial rand goes

From DEREK TOMMEY

JOHANNESBURG. — Government proposals to phase out the financial rand could seriously affect the share market.

In theory South African investors holding gold and other financial rand related shares such as De Beers, Richemont and Barlows could be in for a rough ride in the next 18 months to two years.

The intention to phase out the financial rand will cause a significant drop in share values — unless there is a foreign-inspired share market boom.

Investors in gold and broadly based unit trusts could also be affected.

However several stockbrokers believe this will not happen unless investment sentiment overseas toward South Africa improves significantly.

Were this to happen, share prices on the JSE would be more likely to rise than to fall.

Governor of the Reserve Bank Dr Chris Stals said in London on Monday it was the Bank's intention to phase out the financial rand when South Africa was allowed to borrow money again from the International Monetary Fund (IMF).

He gave no schedule for the development, which would depend on the US Congress withdrawing its direction to the American governor on the IMF board to oppose loans to South Africa.

But guesstimates are that this could happen any time in the next six months to two years.

The financial rand protects South African investors from price falls in South African shares overseas. It keeps up the price of South African shares on the JSE and depresses their prices on foreign exchanges.

The financial rand discount to the commercial rand is just below 30 percent. This means South African share prices in London are 30 percent below their South African prices. It also means that if the financial rand were abolished by edict, the price of financial rand related shares could drop by 30 percent.

But some brokers say it cannot happen in this way because the Government could not afford it.

Financial rands are created when South African shares held overseas are sold into the Johannesburg market.

It would be too expensive for the Reserve Bank to try and mop up these rands with its scarce foreign currency holdings, a broker said yesterday.

If the authorities wanted to see the financial rand phased out, it must create conditions leading to an end of foreign selling of South African shares and to foreign buying instead.

The need for the financial rand would end and it would simply disappear, without any decline in local share prices.

Greater confidence was required to end the financial rand, he said.

However, Dr Stals's comments are expected to lead to some reduction in the financial rand discount.

In this situation, investors should buy shares that have no London listing, such as Wooltru and Tiger Oats, as their prices would not be affected by a drop in the financial rand discount, said Mr Richard Jesse of brokers Martin and Company.

His firm had been drawing the attention of clients for some time to the possible repercussions of a lower financial rand discount.

But while South African industrial shares offered good protection against a lower financial rand discount, he said most South African industrial shares were tightly held.

Should Dr Stals's statement trigger heavy foreign investment in South African industrial shares in the hope of making a financial rand profit, the industrial market would become extremely tight, he said.

Dr Stals is no doubt well aware of the need to increase confidence.

He made an important contribution to this by announcing in London that in the September quarter South Africa had experienced its first capital inflow since the first quarter of 1987.

Saambou weathers storm

Finance Staff Star 14/11/90 (58)

Saambou Holdings produced relatively satisfactory results in the six months to September, despite difficult circumstances, says chairman Hendrik Sloet.

Attributable profit rose 11 percent to R9,3 million (R8,4 million) and the earnings per ordinary share 10 percent to 10,9c (9,9c).

An interim dividend of 5,5c per share (5,5c) has been declared.

"Consistently high interest rates and a significant decrease in economic activity are contributing to an increase in arrears on advances, as well as a rise in the number of properties in possession", Mr Sloet says, "but the group has sufficient provision for possible losses.

"The group has a conservative approach and provisions for losses have been extended and actual losses are accounted against income."

Advances rose 9,57 percent in very competitive conditions. The moderate demand for housing financing was because of high rates of interest and the concomitant levelling off of economic activity.

The banking subsidiary issued R20 million in preference shares, broadening capital structure.

"This broadening of capital, relative to the already established infrastructure, creates an attractive profit potential," Mr Sloet says.

Further planning has been done to deploy existing capital assets more productively.

Saambou's board believes the long-awaited turning point in the economy could be postponed further because of volatile international political circumstances.

"This uncertainty leads the board to adopt a more conservative outlook for the second half of the financial year.

"The board is, nevertheless, still of the opinion that, provided no fundamental changes occur in the market in the remainder of the financial year, and taking into consideration the steps to create a higher return on the total assets, the group will maintain its predetermined year-end results," Mr Sloet says.

State probe into finance charges

MBcd 15/11/90

58

By SHARON SOROUR
Staff Reporter

THE government is investigating 450 contraventions of the Usury Act by major banks.

This was disclosed by Registrar of Financial Insitutions Mr P J Badenhorst following claims by the Consumer Federation that banks were exploiting customers by illegally charging excessive punitive overdraft fees which ran into thousands of rands.

The 450 cases referred to all types of transactions, not only to bank overdraft fees, Mr Badenhorst confirmed.

Unnecessary

Unscrupulous practices by banks had led to possibly unnecessary liquidations and resulted in various social and domestic problems, the federation claimed.

"It is clear that very few banks, if any, comply with the rules," said federation executive director, Mr Karel Gevers.

The federation claimed the Department of Finance was aware of Usury Act contraventions — which included charging interest rates in excess of the Act's limitations; the adjustment of interest rates without notification; illegal practices running into hundreds of thousands if not billions of rands — but "it seems that nothing is being done about the problem".

But Mr Badenhorst said all complaints connected to alleged contraventions of the Act from members of the public were investigated.

All contraventions of the Act were submitted to AttorneysGeneral for prosecution purposes in terms of the Criminal Procedure Act, he said.

He said the Usury Act "aimed at ensuring the disclosure of all applicable information in connection with principle debt and finance charges in respect of moneylending, credit and leasing transactions to the consumer of those services."

Correction

Mr Badenhorst said if an over-recovery of finance charges had taken place, the necessary correction and repayment was made.

At a recent meeting, all bank chief executive officers had been handed a list of contraventions of the Act common in the banking industry "with the request that their organisations avoid such practices in future".

Routine and special inspections of moneylenders, credit grantors and lessors were carried out "from time to time" and inspection reports were given to relevant parties for comment, Mr Badenhorst said.

Banks are accused of charging 'punitive' illegal overdraft fees

58

By SHARON SOROUR
Staff Reporter

MBcd 15/11/90

ALL market sectors are being exploited "to the limit" by banks charging illegal and punitive overdraft fees, the Consumer Federation alleges.

Research by the private consumer body had clearly shown that private, business and farming sectors were exploited by banks, the executive director of the federation, Mr Karel Gevers, said.

Excessive interest charges had probably led to farmers losing their land, which could have been saved if interest was charged correctly.

"A Volkskas client with an overdraft which grew from R100 000 to R1,2-million was overcharged R368 265 over a 10-year period," Mr Gevers said.

While a First National Bank spokesman said it was "virtually impossible" for the bank to charge more that the limitations of the Usury Act because "modern technology" was used to check overdraft interest rates, which were kept within the provisions of the Act, the bank is named by the federation as one of the alleged offenders.

"According to statements taken within a 18-month period from a First National account with an overdraft of R180 000, the client was overcharged R21 403.

"Another First National client with an overdraft varying between R44 000 and R89 000, whose statements from 1987 to 1989 were checked, had been overcharged by R14 975," Mr Gevers said.

Trust Bank communications manager Mr Louis de Villiers said the bank was "comfortable" that it did not transgress the limitations of the Usury Act regarding overdraft account interest fees.

But the federation claims that Trust Bank overcharged one client R116 260 on an overdraft which fluctuated between R30 000 and R100 000, according to statements checked between 1984 and 1990.

"In another example, a prime Trust Bank client with an overdraft which varied from R18 000 to R25 000 was overcharged R10 846 according to bank statements from 1986 to 1989," Mr Gevers said.

Volkskas also fell under the spotlight. A client with an overdraft of about R250 000 was allegedly overcharged R31 463, according to bank statements from 1985 to 1989.

"In many cases, the more people trust their banks the greater the exploitation."

Examples of exploitation in the business sector included:

- A business being overcharged R14 000 in seven months by a bank.
- Companies inquiring about their interest charges often being threatened with "calling up their facilities", thus facing ruin.

STAR 16/11/90 58

Financial Mail may appeal

The Financial Mail was yesterday granted leave to appeal to the Appellate Division against a judgment which blocked the magazine from printing an article on a financial institution.

On September 25 Mr Justice M M Joffe ruled in favour of Sage Holdings Ltd, who had launched an urgent application against, among others, Financial Mail (Pty) Ltd and Times Media Ltd.

It had been argued that the order — which prohibited disclosure of information that was allegedly obtained unlawfully — had important consequences for the press.

Bank rate 'not about to be cut'

HAROLD FRIDJHON (58)

THE 10-percentage point drop in the BA rate to 17,95% from 18,05% was the result of a shortage of liquid assets, together with a nudge from yesterday's close-out in the November BA options market, analysts said yesterday.

It should not be regarded as an indication that a Bank rate cut was imminent. B Day 16/11/90

The close-out price for the options was 17,86%, dealing some players in the option market a blow after being over-bullish in a spot market which had moved with caution and circumspect.

An indication that a shortage in liquid assets had been building up was last Monday's eight-point easing in the liquid Land Bank bills rate to 17,84% from 17,92%. On Wednesday, the BA rate fell from 18,05% to 18%, followed by yesterday's further five-percentage point cut.

A money market analyst said yesterday that until early January the shortage of liquids in the market was expected to worsen — with further reduction in the rates of liquids, including perhaps that for Treasury bills.

The banks were not creating new BAs but, exacerbating the supply; fewer BAs were not being rolled over. One factor was seasonal, another the general slowdown in the economy.

ANCE

Insurers look at costs of global warming in SA

GILLIAN HAYNE

THE insurance industry has begun an evaluation of the impact global warming will have on insurance claims in SA.

Local industry spokesmen believe the global warming will affect SA, especially through storms, floods and unusually high tides. They say possible examples include the Natal floods and cyclone Demoina. B/Day 16/11/90

Natural disasters have followed a two-year cycle in SA and their severity is set to increase, they say.

In Europe insurers have paid out US$10bn this year alone for damage caused by the severe winter storms. By comparison only $2,1bn was paid out in 1987, which shows the increasing exposure insurers face from meteorological changes, experts say.

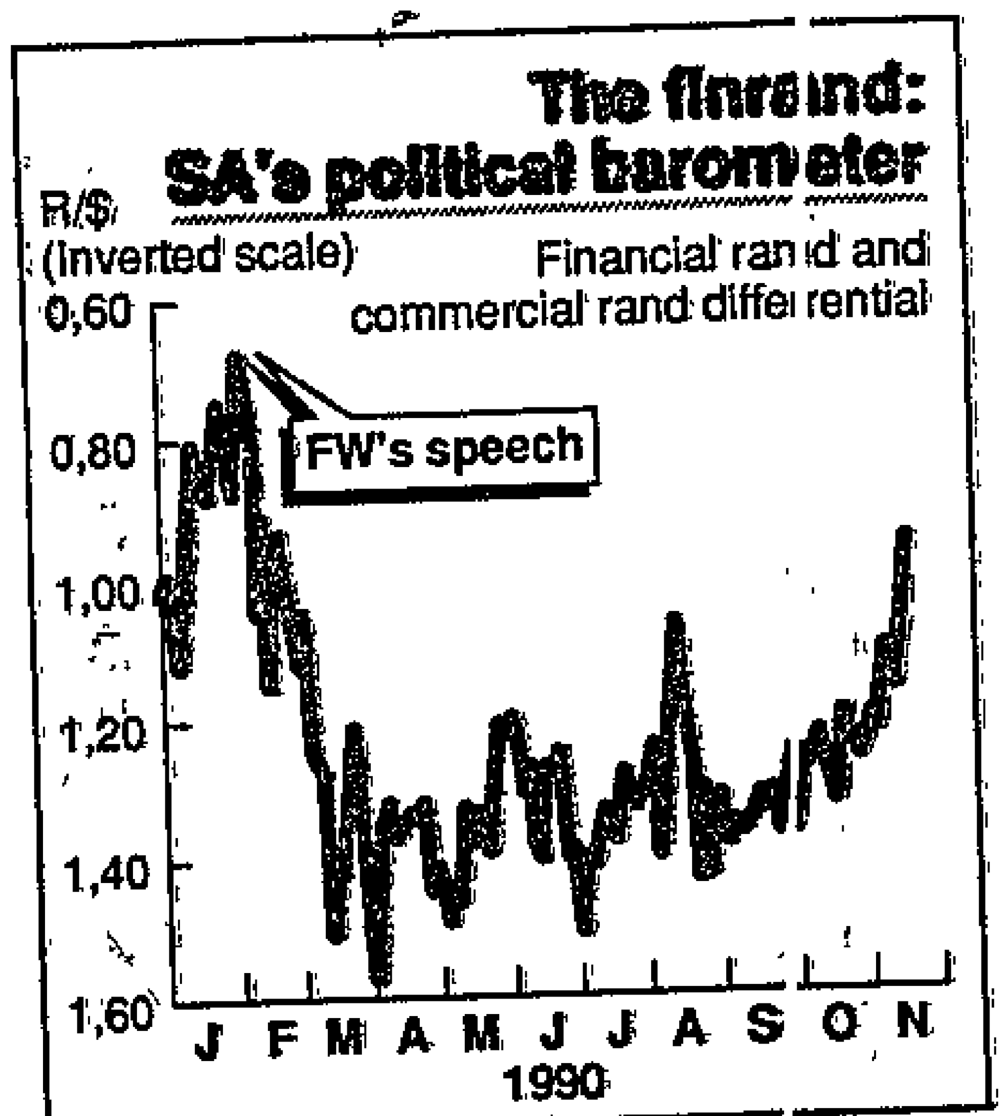
Munich Reinsurance MD Ernst Kahle said: "Events in Europe and other areas of the world have given us a clear indication of our increasing exposure to catastrophic risk, and we will have to adjust to it by increasing premiums."

However, the problem of being the first to do so is that the company could lose market share. 58

Swiss SA Reinsurance assistant GM Gareth Bradburn said the attempt to adjust cover to incorporate the greater risks was thwarted by the "softness" of the SA market.

Any changes would depend on the measures taken by competitors, he said. There was little point in being prepared for catastrophic disasters if one lost customers.

Aegis Insurance group MD Brian Seach said although Aegis was approached by companies for environmentally related cover, it was for problems such as river pollution, spreading fire risk and sea pollution, which had been covered "for years".



Graphic: FIONA KRISCH Source: I-NET

16/11/90

Finrand surges to nine-month high

ANDREW GILL and MERVYN HARRIS

THE financial rand surged to its strongest level in nine months yesterday, knocking currency-linked stocks on the JSE and pushing the all gold index to a year low.

It ended 7c stronger at R3,48, a climb of 6% since Monday when Finance Minister Barend du Plessis indicated the merging of the commercial and financial rand was on the cards in the long term.

58

Although investors realised the abolition would not be immediate it had brought about a new mind-set, said First National Bank treasury economist Simon Willson.

Another factor influencing its strength was the lack of finrand creation on the JSE which had resulted in excess demand.

One dealer called it "Mandela revisited", referring to the surge in February in the wake of President F W de Klerk's speech and Nelson Mandela's release.

At that stage, the unit climbed to R3,15 and slashed the differential between the commercial and financial rand to under 70c. Yesterday the differential fell to 95c, the first time it has gone below R1 since March.

On the JSE, the all gold index plunged 4,6% to a new year low, while Minorco lost 4,4% to a new year low of R53,50. De Beers lost 2% and Anglos 2,7%.

In industrials, the major loser was Richemont, which shed 3,2% to close at R19,55. The overall index closed 1,5% off at 2 547 points.

The uneasy relationship between insurance companies and their clients

Searching for the 'assessor's' heart

W/Mail 16/11 – 22/11/90

58

CRITICAL CONSUMER

Pat Sidley

IF your house has been burgled or your office burnt down, almost invariably a "loss adjuster" will turn up at the premises to "adjust" the estimate of the loss and make a recommendation to the relevant insurance company.

On the basis of what the adjuster reports, the insured householder will receive a payment from the company which is often less than expected.

The loss adjuster, who is (incorrectly) known by the public as an assessor, might behave in a way which suggests to the householder that his or her interests are not paramount in his heart, or worse still, that he has no heart at all.

In one case, an adjuster arrived at a very ordinary, austere home in Bez Valley, armed with an aggressive manner, a camera and a gun in a holster to deal with unforeseen problems.

He turned the austere house and its equally austere contents upside down and inside out, took photographs of the inside of cupboards and bookcases and generally made the occupant feel as though she had been accused of defrauding the insurance company of millions of rands.

Her neighbour, who had also been burgled in the same crime spate, suffered the same fate from a different loss adjuster. His experience was so unpleasant that he concluded that adjusters earn their living by cutting down insurance claims — and that it is in their interest to behave in an intimidatory manner.

One adjuster told the occupant to buy all her replacement goods at shops he nominated — leading her to believe he has a deal with those stores.

The Bez Valley neighbours complain that it seems that intimidation, arrogance, and an attempt to send business to certain shops seem to be the way things are done in the industry.

Not so, says one representative of the industry who did not want to be named.

There is a very strict code of conduct governing what adjusters can and can't do — particularly if they belong to the Institute of Loss Adjusters of Southern Africa.

However loss adjusters — who charge by the hour — may not work on behalf of the public. If they do, they may not join in the institute.

"I don't believe any of us has the guts to work against an insurance company," he said. He said the term "assessors", which the public used, referred to people who worked for the public, and he did not know of any who did.

He did not interpret his job as "cutting down the size of the claims to the insurance company which was paying him". He believed he was fairly and objectively interpreting the policy and the claim in the best manner for all concerned, even to the extent of biting the hand that fed him.

A spokesman for the institute confirmed this position and said all the institute's members charged fees by the hour and could only accept instructions from an insurer, a corporate body or an attorney.

There is apparently only one assessor in the country who works on behalf of the public, and he is in Durban. His membership of the Institute ended because he worked for members of the public — "the other side" — and he cannot, according to the Institute, call himself a "loss adjuster" any longer.

The code of practice of the institute enshrines this relationship along with several other points that the two adjusters in Bez Valley should note.

The code says adjusting "demands the highest standard of professional skill and etiquette".

It also demands "good faith" and says "the adjuster is not appointed to act for or against any interest and must at all times preserve complete impartiality, independence and integrity".

The code then seems to contradict this sentence by stating that "an adjuster may only accept instructions from an insurer, a corporate body or an attorney".

The code also ensures that "all persons are made aware of (the adjuster's) identity, the interests he represents and (he should) make all persons aware of their own rights as well as their obligations". And it ensures that adjustors will not in any way gain any unfair advantage out of the work they do.

According to the loss adjuster consulted: rudeness, inappropriate behaviour, bullying or the like should be taken up with the insurance company concerned. The client has a right to ask for another adjuster to be sent out.

But this is difficult when your R3 000 — or whatever — claim hangs in the balance and will be decided by the opinion of the assessor — who is paid by your insurance company.

In the end, this is another industry in which consumers have a great deal to lose and few rights to protect them. The dice are loaded.

If an insured consumer is burgled, the only way to have the damage assessed by somebody on the householder's side is to hire an attorney, who can then hire a loss adjuster. In most cases, this could up the stakes to the point where it might not be financially worth while.

Perhaps the good people in the government who are looking at bad business practices should take a look at this one.

Sage: Financial Mail wins right to appeal

SUSAN RUSSELL

THE Financial Mail (FM) was yesterday given leave to appeal against a Supreme Court order prohibiting it from publishing an article on Sage Life containing information from a confidential document and unlawfully taped telephone conversations obtained from a third party.

On September 11, hours before the FM edition containing the article was due to be printed, Sage and its chairman Louis Shill launched an urgent application for an interdict halting publication.

Mr Justice Joffe granted an order on September 25 interdicting the FM, its publisher Times Media Ltd and journalist Jim Jones, now Business Day editor, from using or disseminating the disputed material.

The hearing was heard in camera and the judge ruled the court documents, with the exception of the judgment, could not be made public. B/Day 16/11/90

Yesterday's application for leave to appeal was opposed by Sage.

Mr Justice Joffe, in referring the matter to the Appellate Division said, however,

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Financial Mail B/Day 16/11/90

☐ From Page 1

the case was a novel one and the appeal had a reasonable prospect of success.

In granting the original order, the judge found that publication of the article, using the disputed information, would amount to unlawful competition.

While unlawful competition would in most cases be at the hands of a trade competitor, any person's conduct which interfered with a trader's right to carry on his lawful business might constitute unlawful competition.

In applying for leave to appeal yesterday, FM counsel R Levin SC argued the FM was not in competition with Sage and the doctrine of unlawful competition was therefore not appropriate to the case.

It was also submitted that Sage's application was based on confidentiality.

FM counsel argued that the extension of the doctrine of unlawful competition to the FM, which was not a Sage competitor, constituted a novel development in SA law and deserved a full investigation by a higher court.

It was also argued that the matter needed the Appellate Division's view on the role of the Press in society today, and the conflict between the need for a free Press and the rights of the individual.

Levin argued that insofar as the judgment prohibited publication, disclosure or dissemination of information allegedly unlawfully obtained, and precluded reliance on allegedly confidential or illegally obtained material, it had important consequences not only for the FM and TML, but for the Press generally.

BUSINESS

W Mail 16/11 - 22/11/90

'Don't resist calls for redirection of insurance funds'

DURBAN: A warning to life assurers not to resist the initiatives of the ANC in requesting that "a fraction of pension and provident funds be directed to socially responsible projects", was sounded recently by Don Mkhwanazi, convenor of the ANC Task Force for Economic Policy for Natal.

Speaking at the Economic Development Conference for the Durban functional region, Mkhwanazi said a future South African government would be forced to intervene if current levels of deprivation among the black population were not addressed.

He called for "socially responsible behaviour" on the part of financial institutions and big business, and asked why the voice of big business — which was often a major shareholder in financial institutions — had not been heard on the issue of raising funds.

"Big business should be insisting that pension fund managers invest a fraction of their funds in projects which assist disadvantaged communities."

"Sacrifices must be made by all in the interests of the long-term peace and stability of the country."

Mkhwanazi said it was time for the private sector to meet its social obligations. "There is still an endless number of companies which do not even have a housing policy. They believe that by donating funds to the Urban Foundation, they are fulfilling their obligations," he said. 58

If corporate South Africa does not begin at this late hour to invest in management and skills training, it will face the consequences of its actions further down the line," he warned.

"Black participation in the mainstream of the economy is essential. The growth of the informal sector is an indictment of big business failing to create job opportunities.

He warned that any initiative was bound to fail if there was not intensive community participation from the concept stage. — Sapa

Nedcor fails to match expectations

(58)

B/Day 16/11/90

ANDREW GILL

NEDCOR yesterday posted results below expectation for the year ended September with a 12% rise in bottom-line earnings, well down from the expected growth of between 17% and 20%.

A sharply higher bad debt provision and increased expenses resulted in the banking group achieving an 11% growth in earnings a share to 154c from 138,5c last year. A dividend of 51c was paid, 11% up on the previous 46c.

Consolidated net income was up R30m (11,7%) to R287m.

Analysts expected higher growth of between 17% and 20% but CE Chris Liebenberg felt the performance was not bad after taking unusual items into account. Bottom-line profits were hit by a R29m write-off by subsidiary UAL for a counterparty failure on a forward transaction.

The real crunch came in the second half of the year, as could be seen by the interim results for the six months ended March which showed an 18,8% rise in earnings.

And, said Liebenberg, next year was not likely to get any better as a result of the recession. A drop in Bank rate was unlikely, inflationary pressures were set to continue and liquidations were likely to rise.

Asset growth was the most encouraging aspect of the results, climbing 18% to R35,08bn with advances accounting for a large part of the rise. Advances showed an annual annual increase of 18%, translating into a monthly rise of 1,5%.

This was well above Reserve Bank Governor Chris Stals's aim of a monthly 1%

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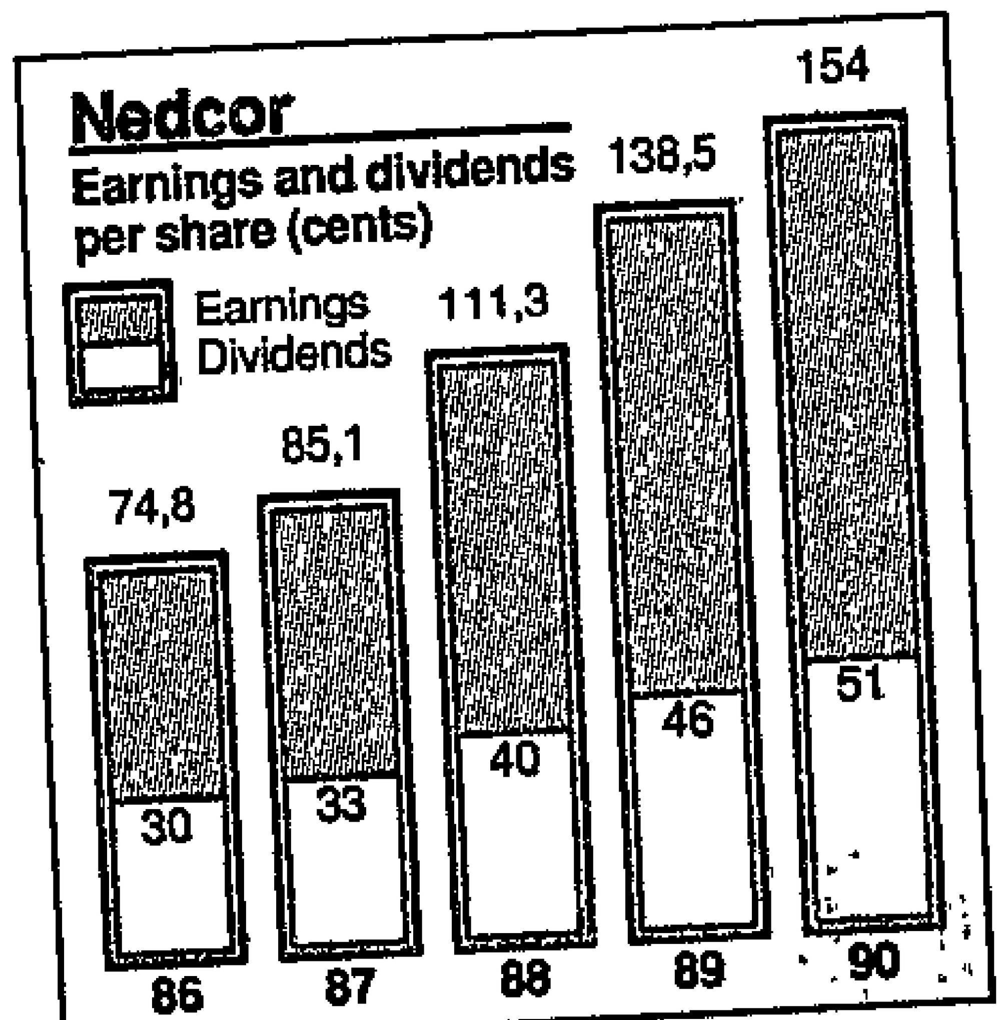


Graphic: FIONA KRISCH Source: NEDCOR

Old Mutual housing scheme receives support

Cape Times 16/11/90 58

BY ARI JACOBSON

BANKS and building societies have demonstrated overwhelming support for the housing scheme pioneered by Old Mutual — the idea of using pension funds as collateral to finance low-cost houses.

Those financial institutions canvassed said the pension-linked mortgage repayment concept would increase the security of such loans.

"The risk of default on unsecured low-cost structures has been a major obstacle in the financing of these ventures," said an industry source.

He added that partial recovery from the Urban Foundation Loan guarantee fund provided some relief from default.

An off-shoot mentioned was the likelihood of boosting economic activity and creating badly needed jobs from greater housing activity at the lower end of the economic scale.

Old Mutual's assistant general manager Mr Henk Beets (who devised the scheme) said that from an economic perspective rising demand which would be countered by growing supply should have little impact on the price of low-cost houses.

He stressed further that withdrawals from funds to finance such housing would impact only on the individual's pension contribution.

"We have had several queries from policyholders who fear their contributions will be used to boost socially oriented projects. This will not happen," he said.

Mr Beets saw the temporary redirecting of funds from one market (the stock exchange) into another (the housing market) as an effective way of maximising the value the individual obtained from his membership of his pension or provident fund.

Steyn's trust seeks channels for investment

B Day 16/11/90

LESLEY LAMBERT

CAPE TOWN — The R2bn Independent Development Trust is identifying institutions through which to invest funds and route some of its social upliftment responsibilities, chairman Jan Steyn said yesterday.

Addressing Cape Chamber of Commerce members, Steyn said the Loan Guarantee Fund established by the Urban Foundation and the Mortgage Lenders' Association to encourage lending to the lower end of the home loan market, was one institution in which the trust would consider investing some of the funds.

Others under consideration were the two new home loan financing schemes announced by the Old Mutual, in conjunction with the Urban Foundation, and the Perm.

He urged firms to assist the trust with ideas for investment.

"We face remarkable opportunities during the next three or four years of identifying ways in which our own organisations can make a contribution to the development needs of SA," he said.

The help of the church would be enlisted in rural areas where there were no organisational structures through which the trust could work.

But, responding to pressure for detail on how the trust planned to spend its funds, Steyn reiterated that it would not rush into projects and would resist pleas for handouts.

See Page 8

Star 16/11/90 (58)

Nedcor fails to meet market expectations

By Ann Crotty

Nedcor has reported an earnings increase of 11,6 percent to 154c (138c) a share for the 12 months to September and a full-year dividend of 51c (46c).

This is significantly below market expectations of a full-year increase of around 18 percent — in line with the advance at the interim.

The second-half performance was knocked by a hike in bad debt provision and an apparent squeeze on margins.

Group chief executive Chris Liebenberg says the major reason for the extent of the hike in bad debt provision was UAL's loss from counter-party failure on a forward exchange contract.

This loss was originally taken at the interim stage through the commercial rand, but it seems that subsequently the Reserve Bank decided the loss should be taken through the financial rand.

"This meant that the loss was almost doubled from R18 million at the pre-tax level to R29 million," he says. The taxed loss taken was R15 million.

Mr Liebenberg says: "A decision was taken by the Reserve Bank that the UAL losses should not impact on the country's reserves." It therefore had to be taken through the finrand.

"This unfortunate transaction, together with an increase in bad debt provisions anticipated at the interim stage and prudent contemplation of the economic environment in 1991, resulted in an 84 percent rise in the transfer to the bad and doubtful debt provisions" — up from R86 million to R158 million.

Chris Liebenberg . . . loss had to be taken through the finrand

But even before the change in bad debt provision, it looks as though Nedcor was slowing down significantly in the second half.

At the interim, operating profit was up 60 percent, compared with an year-end increase of 35 percent.

It is likely that this reflects a squeeze on interest margins in the second half.

Net interest income was up 27,5 percent to R1,1 billion (R890 million), other income was up 25 percent to R805 million (R642 million).

Expenses increased 23 percent to R1,27 billion (R1 billion) to produce net operating income of R664 million (R493 million).

After provision for bad and doubtful debt, pre-tax income was up 24 percent to R506 million (R407 million).

Tax took R51 million (R20 million) and tax equalisation took an additional R168 million (R130 million).

The combined effect was equivalent to a total tax rate of 43 percent, which was considerably up on the previous year's 36,8 percent.

Net income was up 11,6 percent to R287 million (R257 million).

A divisional breakdown shows that Nedbank provided R144 million (R126 million) of the group total, the Perm R63 million (R54 million), Finansbank R18 million (R15 million), Nedfin unchanged at R17 million, Syfrets R20 million (R18 million) and UAL R25 million (R27 million).

Given that UAL's contribution came after a R15 million write-off, its performance, apart from the forex transaction, must have been exceptionally strong.

Mr Liebenberg says apart from UAL and Nedfin, all other divisions were in line with expectations.

Performance at Nedfin was constrained by economic conditions and the application of strict credit controls.

The balance sheet shows advances were up 21 percent to R24,4 billion (R20,2 billion).

This looks considerably out of line with the growth reported by other major banks.

For the same period First National reported a 2,2 percent increase and for the six months to end-September Volkskas' advances were up 5,6 percent.

In view of the Reserve Bank's guidelines on credit growth, this sort of increase must be of concern to Nedcor management.

Mr Liebenberg points out that the home-loan book grew 26 percent to an end-September figure of R10,5 billion and that a number of major corporate projects came on stream to boost corporate advances.

He adds that advances on normal consumer financing were very sluggish.

Despite this rapid asset growth, the group's capital position looks comfortable at 5,2 percent of total assets.

Senior analyst Alan McConnochie at Ed Hern, Rudolph says the results are slightly lower than expected.

He feels management is being conservative about its treatment of debt provision, tax equalisation and the dividend payment.

But he adds that this conservatism is understandable in the current climate and given the possible squeeze on interest margins at the Perm in calendar 1991 if interest rates are reduced in line with expectations.

ANC scaring off capital — banker

CAPE TIMES 17/4/90

Own Correspondent

58

LONDON. — Another prominent South African businessman has warned that as long as the ANC continues to advocate nationalisation and wealth redistribution, overseas investors will avoid the country.

In a wide-ranging interview, published as an advertisement in yesterday's Financial Times, Mr Barry Swart, managing director of First National Bank, also expressed optimism that a future government, composed of "a series of alliances", would be beneficial to South Africa.

While he did not foresee new IMF loans in the near future, he was optimistic that fresh investment from the UK, Germany and Switzerland would be forthcoming in the "not-too-distant future".

"In order to attract foreign capital, South Africa must create an environment conducive to foreign investment. There are many ways of doing so. And there are many traps to avoid.

"Overseas investors will avoid South Africa for as long as the ANC continues to advocate nationalisation and wealth redistribution.

Mr Swart said the ANC was "trying to dominate other black parties".

Call for interest rates to be cut

Star 17/11/90 (58)

MAGNUS HEYSTEK

BANKERS, economists and stockbrokers are unanimous in calling for an immediate cut in interest rates following this week's shock news that the South African economy has recorded its fourth consecutive quarter of negative growth.

Economists now widely expect the economy to decline by between 1 and 2 percent this year with the prospects for any growth next year remote.

According to the Central Statistical Services (CSS) the country's gross domestic product (GDP) declined by 2,1 percent in the September quarter, largely as a result of a shock fall of 38 percent in the contribution by the agricultural sector.

Standard Bank's economic team says the following about the current state of the economy: "The impact of the slowdown is beginning to be felt across all sectors of the economy, lay-offs are increasing, bankruptcies and judgments for debt have soared and concern is mounting that a really painful recession may lay ahead."

Major banks have made sharp increases in debt provisions.

Even stockbroking firms, normally unscathed by cyclical movements in the broad economy, have been laying off highly-specialised staff across the board as turnover volumes and profits plunge.

Says senior stockbroker David Shapiro of newly-merged stockbroking firm Frankel Max Pollak Vinderine: "Financial markets are utterly devastated and could remain in the doldrums for several years."

Bank charges under scrutiny

(58) Star 17/11/90

MAGNUS HEYSTEK

THE question of interest rates and bank charges has again come into the open following a report that banks are "deliberately overcharging clients and changing overdraft rates without notifying clients of the changes".

Spokesmen for leading banks have vehemently denied these charges made by a relatively-unknown consumer body.

"There is no way that we set out to deliberately overcharge our clients," said Barry Swart, managing director of First National Bank. He added that the bank's sophisticated computer has been programmed to notify the bank immediately if clients are charged rates in excess of the maximum rates laid down in the Usury Act.

The allegations were made by an organisation calling itself the Consumer Federation, run by a Mr Karl Gevers from a flat in Pretoria. He is the only person connected with this organisation, which has no links with other public consumer bodies.

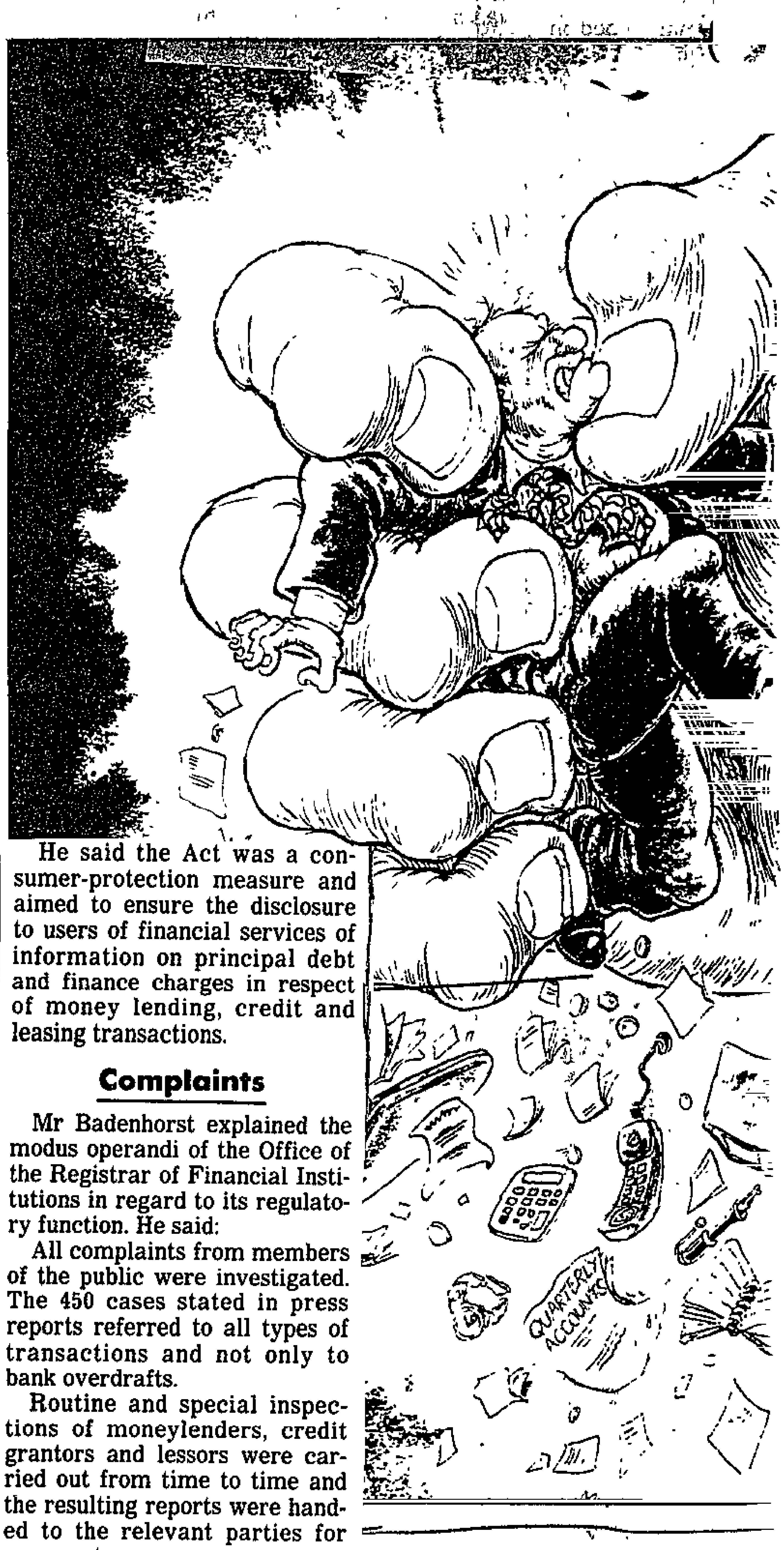
Among the allegations made by Mr Gevers were that:

- Banks are deliberately overcharging their clients, sometimes contravening the Usury Act in the process.
- Banks often change the interest rates charged on overdraft accounts without informing the client.
- The Department of Finance, he says, is turning a blind eye to these practices as a result of staff shortages.

Major commercial banks have denied they were transgressing the provisions of the Usury Act.

The Registrar of Financial Institutions, Mr Piet Badenhorst, no doubt stung into action by these claims, hastily convened a meeting with the chief executives of the country's largest banks after newspaper reports.

Mr Badenhorst said press reports on this matter created the impression that "this office is inefficient with regard to the execution of its duties in terms of the Act".



He said the Act was a consumer-protection measure and aimed to ensure the disclosure to users of financial services of information on principal debt and finance charges in respect of money lending, credit and leasing transactions.

Complaints

Mr Badenhorst explained the modus operandi of the Office of the Registrar of Financial Institutions in regard to its regulatory function. He said:

All complaints from members of the public were investigated. The 450 cases stated in press reports referred to all types of transactions and not only to bank overdrafts.

Routine and special inspections of moneylenders, credit grantors and lessors were carried out from time to time and the resulting reports were handed to the relevant parties for comment.

All contraventions were submitted to the Attorney-Generals for prosecution in terms of the Criminal Procedure Act of 1977.

If after investigating a complaint it was found an over-recovery of finance charges had taken place, his office endeavoured on behalf of the complainant to arrange the necessary correction and repayment.

Where malpractices or defaults took place on a wide basis in contravention of the provisions of the Act, discussions were held with the relevant institutions with a view to curbing the practices concerned.

Doubts about the motives and credibility of the Consumer Federation aside, the allegations nevertheless raises an important point: just how open are the communication lines between banks and the public?

One particular issue that tends to surface all-too frequently is the interest rates charged on overdraft accounts. Nedbank this week announced that it is to publish the actual rate levied on overdrafts on every bank statement.

This is to be welcomed, and judging from the public's feelings about this issue, one can safely assume that most major banks will soon follow this lead.

Risk-profile

Banks, however, have defended the practice of changing interest rates on overdrawn accounts at short notice, saying that in most instances this is done at the discretion of bank managers who make value-judgements based on the risk-profile of clients.

"This is in line with modern banking practice all over the world and serves to protect the bank and its shareholders," one source said.

Spokesmen for several banks have indicated that they are considering publishing overdraft rates on every bank statement.

16 die as rent dispute flares into fighting

By SANDILE MEMELA

AT least 16 people died in Zonkizizwe, Katlehong, this week when a dispute over a rent boycott exploded into violence.

Now the violence threatens to grow into a new ANC-Inkatha war, according to residents.

Residents have expressed concern over the renewed fighting in the area.

"We thought peace had returned to the people and are disappointed that this has to take place just before Christmas," said Agnes Khumalo, 65.

Already a wave of panic has spread through the area with residents fleeing their homes after a series of dusk attacks by assailants armed with AK-47 s.

Stunned survivors of the new wave of violence described the past week as a "living hell" and have sought refuge in surrounding areas of Palm Ridge, Natalspruit Hospital and nearby police stations.

Scores of others have escaped into houses of relatives and friends in Thokoza, Sebokeng and Natalspruit.

Residents flee strife-torn Zonkizizwe clutching the few possessions they could carry. The violence seems set to escalate into another ANC-Inkatha war. Pic: [illegible]

Zonkizizwe – which means "all nations" – was tense this week as residents returned to the area in daytime to salvage whatever possessions they had left behind.

The outbreak of violence followed a community gathering last Sunday which ended abruptly after alleged Zulu-speaking men attacked residents.

This follows a dispute over joining the rent boycott.

East Rand TPA spokesman Tom Botha said a faction in the community wanted to engage in a rent boycott and not pay for water and sewage services.

"Apparently some of the residents were unwilling and said they did not want to be part of self-serving political groups in the area," said Botha.

Water-tanker drivers were intimidated and could not go into the area.

"It was impossible for us to move in and things only got better under police escort."

Residents said a rent-office employee, Khehla Petros Maduna, was shot and killed after he had defied the call from a faction not to pay rent.

But Botha said Maduna's killing could have been a personal issue.

Residents said the rent dispute was being overtaken by tribal prejudice and Zulu-speaking men had pledged to attack non-Zulus in the area.

A Swazi-speaking man who asked not to be identified told *City Press* he spent a night on his shack roof on Tuesday after groups of Zulu-speaking men went on the rampage.

"I heard sounds of gunfire and saw them shoot randomly at men who were not Zulus. I only escaped because it was dark and I could not be spotted."

He said he was living in fear of his life and could not return to his shack until the fighting subsided.

Late this week it was tense in Zonkizizwe and hundreds of shacks had their curtains drawn and windows shut.

Zonkizizwe was established last August and has a population of about 80 000. Many of the residents escaped the recent Reef war that claimed 800 lives in Katlehong and Thokoza.

Sct 14/11/90

Property giant is born with Investec merger

58

Finance Staff

Investec Bank has merged its property interests to form the Investec Property Group (IPG), a giant with a property management portfolio of R2 billion that operates across the full spectrum of the property market in Southern Africa.

The two major interests are property management company I Kuper (Pty), which Investec acquired in 1989, and Incity Real Estate (Pty), the bank's property arm, which in the last eight years has built a reputation for aggressive property trading, sectional title conversions and investment syndication.

Incity is responsible for the day-to-day management of the listed R150 million Metprop Property Trust and the R160 million Growthpoint Variable Loan Stock company.

IPG chairman is David Kuper, chief executive of I Kuper, which was founded more than 60 years ago.

Incity Real Estate chief executive Marc Wainer has been appointed managing director.

The I Kuper and Incity Real Estate divisions within the Investec Property Group will, where necessary, each retain their trading identities in their respective niche markets.

David Kuper says: "The merger of two powerful property companies under one umbrella demonstrates the dedication Investec Bank has towards its property interests."

Marc Wainer says: "The strengths of Incity, traditionally property traders, and I Kuper, traditionally property management specialists, together with the financial muscle of Investec Bank, have made the new group a major player in the property market, offering a service that covers everything from multi-million rand turn-key development to small private investment syndications."

In addition to the group's core activities of property management, sectional-title conversion, shopping centre development and commercial and industrial property broking and trading, it is the group's intention to further develop its broking division into a major force in the market.

Wily investors learn to adapt to Pretoria's big chill

58

Biowy 19/11/90

HAROLD FRIDJHON

LIFE is returning to the money market after a too-long hibernation induced by chill winds gusting from Pretoria.

Not that the climate is warming up — far from it — but more and more investors, particularly the large institutions, are learning to adapt to the climatic change by buying assets to keep their portfolios warm.

The money market is a real market only when assets are bought and sold, and dealers are dealing; it certainly is not a market when dealers are money shovellers, only directing funds into call deposits.

Pronounced

The bidding for assets, from short to long with a growing emphasis on longer maturities, has been building up in recent weeks.

It was even more pronounced last week.

Starting at the shorter end, the rate for 90-day liquid bankers' acceptances (BAs) switched direction about five weeks ago, after a prolonged period of bullishness based on what the market hoped Reserve Bank Governor Chris Stals would do. Last week it penetrated that he wasn't going to do anything for at least the next few months.

The banks, and particularly building societies, set about replenishing their stocks of liquid assets, bidding the rate — a discount rate — down at a time when BAs are becoming more scarce.

One report was that the banks were not creating as many BAs as in the past because of the business slowdown. And the BAs they are issuing are being swapped with other banks, so little is coming into the market.

Building societies can't make BAs, so they are compelled to bid for them.

The BA rate dropped 10 basic points last week — a total of 30 basic points in three weeks — to 17,95%.

That other golden asset, the Treasury bill (TB), had its rate sharply cut 13 basic points last Friday from 17,82% to 17,69% in a four-times oversubscribed tender for R120m bills. The yield on the TB was a satisfactory 18,5%; on the BAs it was marginally higher.

They are reasonable investments, but dated into the first weeks of February, that's a little soon for a Bank rate spec.

But NCDs (negotiable certificates of deposit), reaching at least into the six-month area, are looking good as basic investments and as assets which could produce a profit if Bank rate comes down one full percentage point in the first half of 1991, with a possible further drop during the second half.

Demand for NCDs appeared to have quickened last week to the extent that banks have been able to trim rates marginally.

The previous week 12-month NCDs were being quoted 18,70/60%; last Friday banks were offering the same at 18,50/40%.

Store

Bankers reported that the larger institutions, including assurers, were edging away from parking their cash in call deposits which are no longer yielding high returns — call was 17% on Friday.

They were looking at longer-term assets in which they could store their cash flow until stock exchange investment became attractive again.

NCD rates are almost the same for all periods from six months to a year, but the emphasis is on 12-month paper.

One bank tells me it has been writing satisfactory business for three years at 17,15%, with these deposits earmarked for its hire-purchase subsidiary.

Getting an estimate of the volume transacted in NCD business is impossible, but it must be considerable because the banks' liquidity position — as measured by the market shortage, their debt to the Reserve Bank — appears to be comfortable.

On Friday the shortage dropped to R1,5bn, a 17-month low.

Of course the inflow of banknotes is a big help in the banks' settlements with Pretoria. The banknote issue at November 2 amounted to R9,5bn; on Friday it was R8,4bn. But from the end of this month until the first week in December the note issue will soar, possibly to R10,5bn, for which banks must find the money.

The Reserve Bank doesn't issue its finely printed paper on tick.

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Sponsoring Brokers

Davis Borkum Hare

Surge in unrest claims — Sasria

MARITZBURG — Unrest-related insurance claims have increased tenfold over the past two years to more than R200m in 1990, figures released by SA Special Risks Insurance Association (Sasria) show.

Insurance claims paid and outstanding totalled R260m during 1989 and 1990, up from R12m in 1987 and R16m in 1988, Sasria MD Rodney Schneeberger said.

B/Day 19/11/90 58

Reef

"Parties in Natal put in the second-biggest total claim of R51m this year and last year, exceeded only by Ciskei with R86m.

"Claims for R32m came from the Reef, R35m from Port Elizabeth and R5m from Bophuthatswana," he said.

"Pending strike-related claims amount to an additional R50m," Schneeberger said.

It has been estimated that violence has cost SA more than R3bn this year.

Latest claims figures show that less than 10% of the damage was covered by Sasria. — Sapa.

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Public support is crucial to central bank independence

BDay 19/11/90 (58)

JAN LOMBARD

SHOULD a central bank be independent of the government of the day in its function as protector of the value of the national currency and supervisor of the soundness of the banking system?

Research abroad suggests that countries with relatively more independent central banks enjoy lower rates of inflation, less volatile swings in interest rates and declining budget deficits. There is also some empirical evidence that countries with low inflation enjoy higher economic growth rates than those with high inflation rates. Similar correlations exist between relatively low inflation and relatively low tax burdens.

It would be a mistake to view these relationships too mechanically, as if a simple decision to enact a charter of independence for the central bank will in any community set in train all the healthy outcomes mentioned above. Moreover, the exceptions to the general impression are too important to ignore.

The need for a central bank in a system of private competitive banking arose from the fact that the bank with the monopoly to create bank notes as legal tender, and which in consequence acted as repository of the private banks' cash reserves, had the responsibility to act as "lender of last resort". And it had to do this in the public intrest, rather than as a matter of profit maximisation.

One reason why completely free banking, ie without the intervention of a central bank, turned out to be impractical is the complicated nature of the risks involved in taking money on deposit from the public, which invariably involves some maturity mismatches between deposits and advances. Another was the abolition of the gold standard with its automatic discipline on the financial conduct of banks and government treasuries. The third complicating factor was that the system of private banks taken together could simply create new deposits *from* the public by making advances *to* the public: "every loan creates a deposit".

As a result the nominal liquidity of the system (in local currency) became divorced from the "true" liquidity of the system (ie transferability into real commodities or foreign currency). These circumstances made the private banking system vulnerable to financial crises.

The central bank, which has to provide the paper money supply, hold and conserve the gold and foreign currency reserves, and act as lender of last resort in times of stress, also has to introduce as much of the old gold standard discipline as feasible through its intervention in the money and forex markets. The essence of mondern central banking in this respect is discretion.

Central banking is thus not a matter of private enterprise, but of public regulation of private enterprise. Why then should this not be undertaken by the Finance Department under the Minister's guidance. Why must it be done by a separate institution organised as a bank?

One reason is that proper accounts must be held available to the public of central banking liabilities and matching assets. The second is that management of market operations requires banking expertise. The third is that, even if such accounts are set up in the Treasury and banking expertise is recruited in the department, direct political governance of the system would too easily allow considerations of financial discipline to be subordinated to political expediency.

On the other hand, are the objectives of the central bank and the nature of its operations not too important and closely interrelated with the general economic objectives of government to decentralise them to an independent public corporation?

Monetary stability matters a great deal. There has been considerable difference of opinion about the way in which monetary stability is relevant to the achievement of other political objectives such as economic growth redistribution.

For about three decades until the early 1980s, the neo-Keynesian perception of some "trade-off" between monetary stability and economic growth was generally accepted. If this idea were valid, the decision as to how much stability should be sacrificed for growth, or vice versa, had to be centrally taken by the political executive. This Keynesian idea proved a fallacy. Inflation could produce only a temporary boost to real output, and then only if it came as an unexpected shock to the system. Once inflation is expected, it not only loses any positive effect on output, but continues to undermine productivity and confidence.

Removing such expectations from the system then turns out to be much more painful and costly than the temporary advantages of the initial surprise shock. During the 1980s practically all industrial countries accepted this and introduced adjustments to rid their structures of inflationary expectations.

Monetary stability is now understood to be a precondition for, rather than a constraint on, sustained economic growth. If that is correct, there is no reason why responsibility for the maintenance of monetary stability should rest with the central political executive rather than an independent central bank accountable directly to the country's legislature and to the democracy behind it.

The final word in this matter belongs to public opinion. That is why the most independent central banks — in Germany, Switzerland and the US — appear in countries with federal constitutions and a public preference for the decentralisation of political power in general.

The importance of the quality of the democracy is illustrated by the lectures of two famous chairman of the US Federal Reserve System. The first was Arthur Burns speaking in 1979 on "The anguish of central banking" and their failure to prevent the high inflation since 1964. The second was Paul Volcker speaking in 1990 on "The triumph of central banking" and the successes of the same institutions during the 1980s.

In 1979 Burns lamented that although the Fed had the power to abort inflation at any time, it did not do so because the Fed "was itself caught up in the philosophic and political currents that were transforming American life and culture". Congress was intent on a welfare spree financed by selling the dollar short.

Burns added the following important statement: "One of the characteristic features of a democracy is that it encourages learning from experience."

Eleven years later, Volcker was able to announce the success of political conservatism in monetary matters with a kind of toast to central banks. Victory over inflation was indeed due to the ability of industrial democracies to learn from experience and to accept the disciplines needed to maintain stability. This was the necessary, and perhaps also the sufficient, condition for success.

Looking ahead with concern to the increasing complexity of international financial sophistication, and the more difficult task of monetary authorities to maintain control over the system, Volcker had little advice except to say: "One moral of that story seems to me to be amply clear: procrastination in dealing with inflationary pressures is twice damned."

For that reason he concluded that "an effective central bank must be a strong central bank", but at the same time "a central bank operating in an open democratic society will need to develop and sustain its basic policies within some broad range of public understanding and acceptability".

To this matter of public understanding, Volcker devoted more space in his lecture than to most other problems. It is a most important pointer to central banks in developing countries such as SA.

☐ **Lombard is Senior Deputy Governor of the Reserve Bank. He has adapted a speech to the Pretoria Economic Society last month.**

LETTERS

Sanlam results reflect trust

(58)

Sowetan 19/11/90

THE vital role which the life assurance industry plays in creating prosperity in South Africa and distributing it among all its people was demonstrated once again when Sanlam announced its operating results.

The results also reflect increasing trust by black people in Sanlam for their long term personal financial planning and the figures show the company remains the country's leading underwriter of provident and pension funds.

During its past financial year an amount of R3 880 million, or on average more than R15 million every working day, was paid by Sanlam to policy-owners and other beneficiaries.

Taking only individual life assurance policies, an average amount of almost R20 000 was paid to somebody every minutes of each working day.

The most important features of the audited results for the financial year ended 30 September 1990 are:

* Sanlam remains the largest payer of death and disability claims in the country. Payments to policy-owners and other beneficiaries increased by 59 per cent to almost R3,9 billion.

* More than R7,4 billion was entrusted to Sanlam this year in premiums - an increase of more than R1 billion.

* Almost R3 billion was earned in investment income for the policy-owners and pension or provident fund clients - 22 percent up on the previous financial year.

* Sanlam's total income (which represents the ordinary man's savings) exceeded R10 billion for the first time.

Life assurers agree on AIDS model

58

GILLIAN HAYNE

LIFE assurers, whose financial exposure to the AIDS crisis is greater than that of other sectors, have agreed on a future scenario for the disease which is less pessimistic in its forecasts than most other models. BDay 20\11\90

Some predictions have estimated that 50% of the adult population will be infected with AIDS by the year 2000.

Sanlam chief actuary Chris Swanepoel said the new model predicted figures well below those suggested by other models, although he stressed the projected figure was still alarmingly high.

At a recent seminar on AIDS in SA, organised by the Actuarial Society of SA, life assurers agreed on the framework of a new model which traced the likely future development of the disease. This model could provide the basis of a unified approach by life offices in the future.

Details of the model have not been fully worked out yet, but are expected to be known early next year.

The model, developed by Metropolitan Life actuary Peter Doyle, is based on the prevalence of the HIV virus.

It gathers data from four sets of people — those who donate blood, those who attend antenatal clinics, family planning clinics and sexually transmitted diseases clinics.

Talk of pension funds' pullout from Sage Holdings discounted

58

JIM JONES

TALK that the Mine Officials' and Mine Employees' pension funds have ditched their interests in Sage Holdings are not correct, despite apparent evidence to the contrary.

On October 5, the Mine Employees' fund transferred its entire 11,01% interest in Sage to Standard Bank Nominees and was followed three weeks later by the Mine Officials' fund which moved its 18,57% interest. Shares worth more than R40m were transferred.

Initially some stockbrokers assumed the transfer represented a sale or at least a repositioning ahead of any change in the relationship between Sage, Allied, Volkskas and UBS.

The rumours gained ground when Sage employees started to tell brokers that Sage founder Louis Shill, 60, had been dropping hints of early retirement.

Also, people close to Sage believe Shill is not happy about loosening his tight control of Sage if it is to be part of the merger.

Through his secretary, Shill yesterday denied any retirement plans, while pension fund investment manager Graham Dickason poured cold water on the share transfer story. Apparently the pension funds decided at the start of this year to transfer all of their share investments to Standard Bank Nominees to facilitate settlement procedures.

Dickason believes the nominee company is better equipped to manage the funds' investment portfolios.

Some brokers are not convinced. "What happens if the Mines Pension Funds sell and ownership of the shares remains registered in the nominee name? How will we know there's been a transfer?" they ask.

20/11/90

SAB, Nedcor join in services giant

B/Day 20/11/90 (58) (182)

ROBERT GENTLE

SA BREWERIES and the Nedcor banking group have formed a jointly controlled company, Advantage Investment Corporation, to provide financial products and services to SAB's vast consumer base.

The alliance announced yesterday will make use of Nedcor's banking resources, including Syfrets, UAL and Finansbank, to tap into SAB's consumer retail base which includes Edgars, OK Bazaars and Amrel.

● BREWER

"The potential for the new venture is enormous," said Advantage chairman Kevin Brewer, former group financial director of Edgars. "We're putting one and one together and hope it makes three."

He estimated that clothing giant Edgars, merchandise retailer OK Bazaars and specialist retailer Amrel between them had about 3,5-million customers.

A relationship of trust had developed over the years, resulting in a loyal client base, Brewer said.

Advantage would offer the "whole gamut" of products from insurance and specialist packages to loans and unit trusts, tailored to suit clients' requirements.

Brewer said while the concept was not new — Marks & Spencer in the UK had a banking license and sold unit trusts while Sears in the US offers financial services — it appeared to be the first ever tie-up between a major consumer group and a major financial institution.

The fact that Nedcor was already an established banking group meant that, unlike Marks & Spencer, Advantage did not require a banking license or permission from the Reserve Bank to operate.

SAB group MD and Nedcor CE Piet Liebenberg — both of whom would be on the board of the new company — were "very excited" by the potential and were committing significant resources, Brewer said.

He declined to mention a figure.

Emphasising the importance of SAB and

☐ To Page 2

Services

B/Day 20/11/90 (58) (182)

☐ From Page 1

Nedcor making use of available infrastructure and technology, Brewer said there would be no duplication. "This is how you get the benefits of scale and added value from technology."

Advantage is also aiming to be the specialised vehicle through which many retail and other consumer oriented companies will be able to offer their customers access to appropriate financial products.

Asked which other retail groups could be prompted into forming tie-ups with banks, Brewer mentioned Tradegro (which includes Checkers, Makro and Topics) and Wooltru (Woolworths, Metro and Stuttafords).

Brewer said a listing was a possibility in the longer-term, but Advantage would start out with its existing partners.

A First National Bank spokesman said: "This is an important development and introduces a new element of competition in the banking sector."

Union plan for housing

Cape Times 20/11/90

Own Correspondent

JOHANNESBURG. — The National Union of Metalworkers of SA (Numsa) has proposed a R4 billion joint Cosatu/ANC/SACP/government plan to replace urban single-sex hostels with housing units integrated into surrounding communities.

Numsa general secretary Moses Mayekiso disclosed yesterday that the proposal was being discussed within Cosatu, which had approved the plan in principle although many key details still had to be finalised.

It is understood the plan has also been put to Seifsa which, together with Numsa and other unions administers the Metal Industries Group Pension Fund (MIGPF), whose assets amount to nearly R4 billion. Numsa has proposed that pension funds, primarily the MIGPF, provide up to a quarter (R600m to R1 billion) of the total project budget.

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STAR 20/11/90 (58)

Debt defaults reach crisis level

By Derek Tommey

A lot of people have stopped paying their bills. And Credit Guarantee, a major financial organisation which provides insurance against financial defaulters and bad debts, has some pretty horrendous figures in its latest report to prove this.

It reports that in the 12 months ended June it had to pay out R28,4 million to meet claims of clients who had not been paid by their debtors. This was almost double the R15,2 million paid out a year ago.

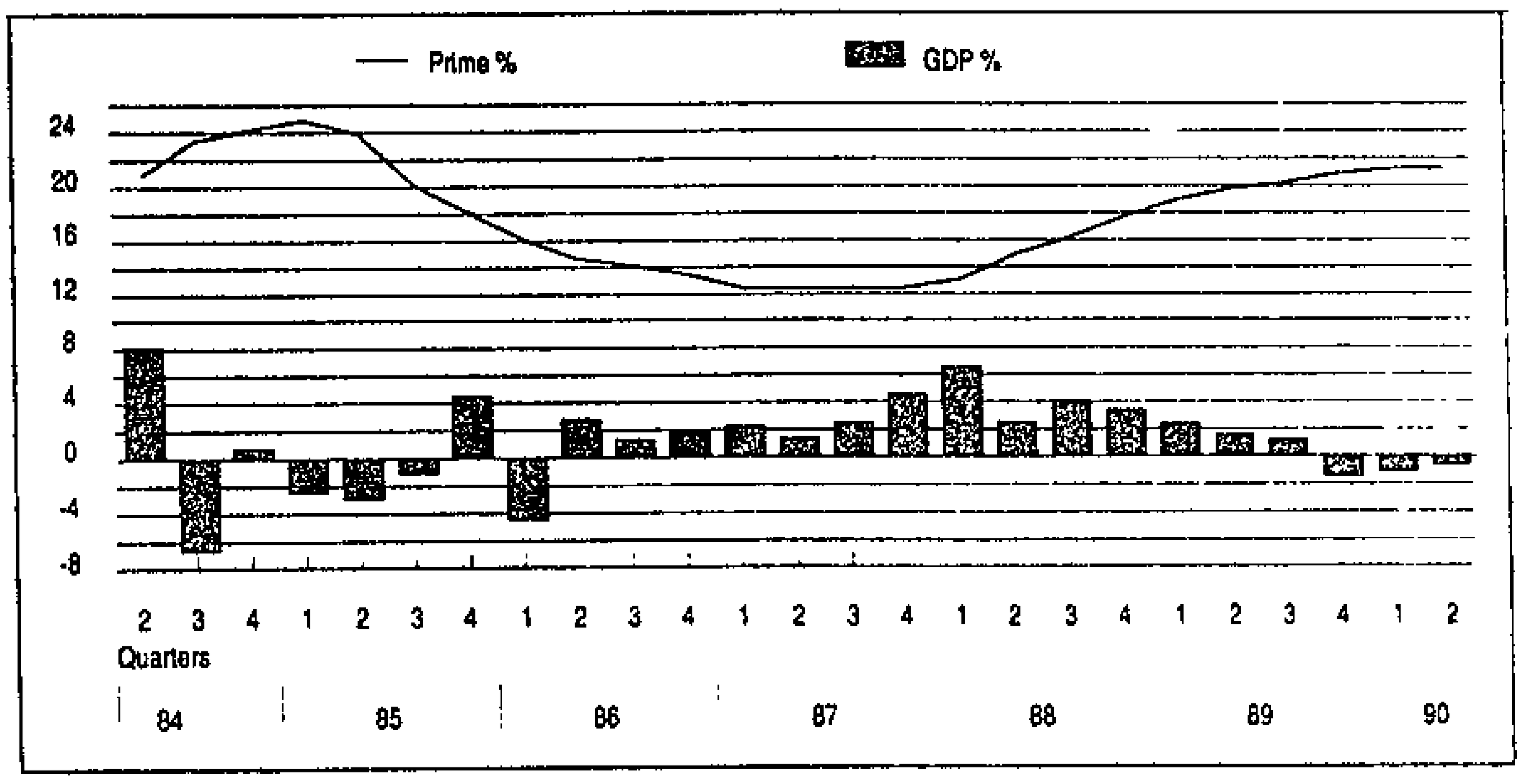
Credit Guarantee expects the bad times to continue. The company's chief excutive, Mr CTL Leisewitz, says that until the domestic economy breaks out of its present depressed state, the increasing trend of business failures and resultant claims will continue.

He expects a satisfactory premium income in the current financial year, but with an exceptionally high domestic claims ratio.

Mr Leisewitz makes a point which investors might care to ponder .He says more JSE companies (or their wholly-owned subsidiaries) were experiencing difficulties in the earlier part of this recession than in previous ones.

His conclusion is that the "blue chip" status often accorded by credit managers to all listed companies is no longer justified.

Meanwhile, Credit Guarantee's economist, Mr Louis Doig, has also produced some hair-raising figures on the non-pay ment of bills.



Ups and downs . . . When interest rates are high, the GDP falls, reflecting the hard times faced by companies.

The value of default and consent judgments in the first eight months of the year was up 53,9 percent on last year, while the incidence of judgments increased by 22,9 percent, he says.

This shows that much larger amounts are involved this year than during January to August in 1989.

Civil cases for debt increased by 13,8 percent and debt summonses issued to business enterprises by 8,5 percent.

Mr Doig says the delay in lowering interest rates and the possiblity that the business cycle will not bottom out until the last quarter of next year indicates that the rate of business failures could well beome worse.

However, Credit Guarantee has not only bad news to report. Its other main business, insuring exporters against non-payment, reflects a major achievement by exporters and by the company itself.

The value of insured exports financed by short-term credits rose 28,3 percent last year, with the value of fruit, vegetables and foodstuffs rising 48 percent to R2,0 billion, metals and minerals up 41,2 percent to R4,1 billion, and "other manufactured products" rising 28,3 percent to R2,0 billion.

Exports

The value of insured exports going to Western Europe rose 34 percent to R4,2 billion, to Africa by 52 percent to R1,1 billion and to the Far East by 22,5 percent to R2,8 billion.

However, South African exporters have been active in supplying machinery on long-term contracts and also arranging turnkey projects. And as the political climate towards South Africa has improved, so has this type of business increased.

The value of turnkey projects insured by Credit Guarantee rose 4,5 fold in 1989-90 from R118,7 million to R534,1 million. Machinery and equipment insured rose almost fourfold from R51,9 million to R201,8 million.

It is interesting to note that a significant portion of this project business was done with Western Europe — the amount involved rising from R35,7 million in 1988-89 to R208,5 million in the year just ended.

But in cash terms, the greatest expansion was in Africa where the value of projects insured rose from R80 million in 1988-89 to R476,1 million in the year ended June.

This increase in the value of insured exports together with local suppliers seeking more cover, resulted in Credit Guarantee's premium income rising from R100 million to R135 million in the year ended June.

The underwriting profit (for the 1987-88 financial year) increased to R3,7 million (previous, R2,7 million), while investment income rose from R7 million in 1988-89 to R10 million in the year just ended.

The after tax profit was R7,7 million (R5,8 million). An amount of R6 million was transferred to reserves and an increased dividend of 68c (53c) has been declared.

Credit Guarantee is owned by a consortium of leading insurance companies, banks and financial institutions.

No rates cut seen before late next year

B/Day 20/11/90

SYLVIA DU PLESSIS

IT will probably be impossible to reduce the Bank rate and prime lending rates before the second quarter of 1991, Bankorp economists say in their November economic review.

This is because negative changes in the inflation and balance of payments picture imply maintaining tight monetary policy.

Economists say the rise in the consumer price index (CPI) inflation rate from 13,3% in July to 14,3% in September and the direct and indirect effects of the fuel price rise now point to a CPI inflation rate for December of about 14,5%.

"Although a downward trend is still expected next year — especially if fuel prices were to decline — to around 11,5% by the end of 1991, the average rate of inflation for the year will probably be about 13%."

Negative trends in oil and precious metals prices in recent weeks could also have a particularly unfavourable effect on SA's balance of payments.

"SA's terms of trade — the ratio of export to import prices — are at present probably at their lowest in 20 years.

"Unless SA could sell part of its accumulated oil reserves in the course of 1991/92, it would take longer than previously expected to build up the country's foreign reserves."

Star 21/11/90

JSE suspends Norvic, Osprey and Lanchem

By Ann Crotty

Three listed companies were suspended by the JSE yesterday in the interests of investors following alleged foreign exchange irregularities.

They are Norvic Manufacturing, Lanchem, and Osprey Gold Mine.

These companies have undergone significant reorganisation in recent months but the shares have shown a sharp decline.

Ahead of its suspension Lanchem, now listed on the DCM, was trading at 3c — down from a 12 month high of 70c.

Norvic, which was listed on the DCM in January, was trading at 11c compared with an issue price of 50c.

Back in August, control of Osprey switched from Golden Osprey to Garditex International Finance at 10c a share.

Garditex subsequently sold on 6,2 million Osprey shares to an unnamed foreign investor and a further 2,3 million were sold to Garditex's own Swiss holding company.

Ahead of the suspension Garditex was trading at 26c compared to a 12-month high of 82c.

Former Mercabank MD Dr Charles Ferreira is executive chairman of Lanchem and a director of Norvic.

The only apparent connection between all three companies was the speculation a few months ago that holdings in Osprey, Lanchem and Norvic might be injected into the Manserv cash shell which was acquired from Colfin in February.

A company called Financial Ltd, which is headed by Mr Naas Ferreira, was behind the Manserv acquisition.

Mr Ferreira was not available for comment yesterday.

Minority shareholders in Manserv, which is already suspended from the JSE, were given an undertaking by Financial Ltd in February that they would be paid out. They have yet to receive payment.

Land Bank to expand lending to blacks

B Day 21/11/90

KEVIN DAVIE

THE Land Bank is expected to begin granting loans to black farmers for the first time on a widespread basis next year.

Land Bank MD Fanie Hugo confirmed yesterday that the Land Bank Act did not discriminate against black farmers. He said the bank did make loans to Indians and coloureds and some blacks, "but not many".

This is expected to change next year when the racially discriminatory Land Acts are abolished. Black farmers will be able to buy farms in what is now "white" SA.

So long as the bank was convinced the farm was good security, it would make loans to black farmers, Hugo said. The bank had the resources to make loans to these farmers.

Development Bank of Southern Africa (DBSA) chairman Simon Brand said yesterday programmes had shown that black farmers could farm successfully where they had the same access to finance and support structures as white farmers.

As a contribution to the debate on land reform the DBSA had considered a number of options including land confiscation, ~~and~~ had proposed in a recent report a market-based system which would make vacant land available to black farmers.

Publication of the report produced a storm of protest from some white farmers who were concerned that their farms would be given to blacks.

Brand stressed that the intention was not to hand land over — black farmers would use finance facilities such as those provided by the Land Bank to buy land. Support financing arrangements currently available to white farmers would also be necessary.

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The DBSA report identified two key types of land which might be made available for purchase by black farmers — 2-million hectares appropriated by government, but not yet allocated for use, and land owned by 1 000 white farmers who were in financial difficulty and might want to sell.

Land Bank loans might be used to finance the former, while the government might consider writing off some of the debt in the latter case to be able to sell the farm at a marketable price.

The report said this affirmative action approach could immediately make at least 8-million hectares available at a cost to the state of between R1bn and R2bn. At least 50% of the land should be arable, implying that between 15% and 25% of the arable land could be transferred to black farmers.

This could give 500 000 blacks land rights.

"If all proposed models are implemented it is conservatively estimated that 25% to 40% of all arable land could be transferred to black farmers in a relatively short period and at comparatively affordable levels to the fiscus," the report stated.

The move is toward provident funds

(58)

B/Day 21/11/90

THE popularity of provident funds in relation to pension funds is gathering momentum not only among the lower income groups but also among executive and white collar workers.

In 1989, there were 855 first-time registrations of provident funds compared with 414 pension funds, says the Mouton committee's draft situation analysis.

Liberty Life group benefits marketing manager Alan McCulloch says the attractiveness of having cash at retirement applies to two strata of society — the lower income group and the executive class.

The latter, he says, believe it can do a better job investing retirement proceeds than anyone else.

However, Hoskens Employee Benefits MD Rob Davey says the drive for provident funds is based on a misconception that they can provide better benefits, better returns, instant housing finance, instant personal loans and a return of all contributions plus interest on withdrawal.

He says if this happened the fund would be depleted, leaving many without pensions on retirement.

Jeopardy

In mergers and acquisitions, workers are being encouraged to take cash rather than transfer their benefits to a new fund, placing their pension provision in jeopardy, he says.

Davey says that, under trade union pressure, "substantial pension funds are being dissolved, benefits cast aside and the individual's concerned prejudiced."

There should be one form of retirement fund and the state needs to legislatively prescribe minimum benefit requirements to scrap the differences between pension and provident funds so the choice between cash as opposed to part cash and pension at retirement is no longer part of the debate, he says.

KPMG Aiken & Peat partner Patrick McGurk says he prefers a provident fund as it gives freedom of choice on how to use the lump sum.

It is also flexible, as one can establish a provident fund to top up benefits from the pension fund.

"Most of our clients have pension schemes and the last thing we would do is advise them to wind them up.

"But what we often do is create a provident fund in addition to a pension fund to allow people at particular income levels to contribute an additional amount so they get a bigger lump sum.

"However, for clients without any schemes we advise a provident fund because of the lump sum payout."

New types of provident fund to cater for specific needs are mushrooming.

For example, there are funds consituted on the basis that, instead of paying out a lump sum payment on retirement, the payment is made in the form of an in..rance policy which is taken out in the beneficiary's name when he joins the fund.

Lower

When the person retires or leaves he can take cession of the policy.

While tax will be paid on the surrender value of the policy, this is generally much lower than the cash value and when the final payment is made it will be tax free as it will be payment of a standard insurance policy.

Specialists help to boost the profits

B Day 21/11/90

THERE has been a trend in recent years for private pension funds to farm out the management of the fund's assets to merchant bankers, insurance companies or specialised investment managers.

Giving impetus to the trend is a comparison of the performance of the different funds, in which private funds showed up poorly.

Alexander Forbes Shepley & Fitchett director Peter Theunissen says the reason is the greater skill exercised by professional fund managers.

"Today, the number of funds which manage their own assets can be numbered on one hand.

"There is a problem in managing the assets in-house as the firm has to spend a lot of time on what is essentially a peripheral business.

"There is also a lot of expertise out there which doesn't come cheaply and, perhaps most importantly, a lot of small funds which bounced along the bottom in terms of performance have achieved vastly better returns since contracting out."

He says further specialisation will take place in future so that funds will, for example, farm out the fixed-interest portion of their portfolio to one specialist manager, the equity portion to another and the property portion to yet another.

"The trend is towards specialisation because of the new instruments coming out and the new knowledge and skills required.

"Trustees will decide on the breakdown of the fund into the various categories."

An added incentive to contract out says Sanlam GM, group benefits, Francois Marais is that fund managers are trying to add more value to funds in addition to acting as investment managers and administrators by, for example, providing training for trustees, giving advice to members on retirement and assisting with their retirement planning.

Returns discrepancy of concern

Bloom 21/11/90 (58)

A WIDE discrepancy exists in the returns generated by pension funds.

A survey on investment performance conducted by J A Carson & Partners, Malan & Partners and Alexander Forbes Shepley & Fitchett shows the highest return on total assets was 51,5% and the lowest 15,5%.

The survey covered 153 funds with a market value of R53bn. The funds had a median return for 1989 of 38,5%, broken down into a return on fixed interest of 20,5%, shares and Krugerrands 55,8%, fixed property 26,4% and managed funds 38,5%.

Returns on total fixed interest assets ranged between 50,8% and 5,3%, while the returns on equities ranged between 77,8% and 35,9%.

Says Alexander Forbes Shepley & Fitchett director Peter Theunissen: "The wide discrepancy in fixed interest returns caused us a lot of concern.

"We found it is symptomatic of the current market and reflects the use of futures and options. The funds which achieved the high marks on fixed interest were active in the derivatives market.

"They geared themselves to that extent. The low performers may have done their own investing and followed a static policy."

As the average for fixed interest was about 20,7%, the number of funds that did achieve 50,8% were few and tended to be invested with investment fund managers who specialise in fixed interest investing.

Pension fund investments in futures and options is limited by law as they fall in the category of other investments, which are limited to 2,5%.

But Theunissen says this limit is not too low.

"The gearing up with futures and options can be enormous even if you used it to the full extent, as the deposit premiums are small and you can gear your portfolio enormously. "By using futures and options you can commit up to 10-15% of your portfolio."

In the six months to end-June the return for funds managed by insurers averaged 6,2%, failing to meet inflation for the first time in a long while.

Theunissen says that on a yearly basis they matched inflation because returns in the last half of 1989 were good, but it is unlikely, given the state of the market, that they will match inflation for calendar 1990.

In the Alexander Forbes managed fund survey, Metropolitan was the highest performer in this period, with a return of 11,9%.

The average return for merchant bank funds was better at 8,5%, with Securities Portfolio Managers coming in first at 13,4%.

Theunissen says merchant banks have generally performed much better than insurance companies on a five-year basis.

One reason for this, he says, is they have not invested so much in fixed property portfolios.

Probe into the rights of employers' usage

B/Day 21/11/90

EMPLOYERS are prohibited from withdrawing pension fund surpluses.

In terms of present legislation, a surplus cannot be paid to the employer as it belongs to the fund.

Former Pension Institute executive director Snowy van Niekerk says the Mouton committee of inquiry into the pension industry is investigating the issue. (58)

The institute has prepared an extensive report at the request of the the committee and has recommended that employers be permitted to withdraw surpluses under certain defined circumstances.

But several people in the industry have taken issue with this view.

Chemical Workers Industrial Union general secretary Rod Crompton says to lobby for employer use of surpluses is "highly irresponsible" and would "border on theft".

Sanlam GM, group benefits, Francois Marais says surpluses should be retained in the fund for the day when investment returns don't meet expectations.

Liberty Life group benefits marketing manager Alan McCulloch says the issue is "highly emotive".

Surpluses belong to members of pension funds and contributions should be reserved exclusively for their benefit.

However, there could be a case for employer use of surpluses where the business is in dire financial straits to keep it afloat and jobs in existence, he says.

Looming tax changes could be 'drastic'

B Day 21/11/90

58

SEVERAL changes to the taxation of pension fund contributions are either in the pipeline or being discussed by the authorities.

One possible change about which the industry has been asked to comment is the exclusion from the 7,5% tax deduction on contributions of those whose annual salary exceeds, for example, R80 000.

Sanlam GM, group benefits, Francois Marais says such a change would be "drastic" if introduced.

"It will alter the face of the pension industry as all companies will have to decide whether they want to continue making that kind of contribution without the tax deduction.

"If introduced, it may require a change in the way the pension benefit is funded."

The law will have to be carefully thought out to seal the manifold loopholes which potentially exist.

Former Pensions Institute executive director Snowy van Niekerk says there is also the question of the taxation of a retirement fund's investment income, which would have wide ramifications.

Preserving

"Pension funds are concerned about preserving their assets in order to meet their long-term liabilities.

"If they swing their assets to equities, the income will be tax free so the income which could accrue to the state may evaporate.

"One cannot simply say that if funds are taxed the state will gain a significant amount in revenue."

The Mouton committee's draft situation analysis of the state of the pension industry estimated the cost to the state of granting income tax concessions on retirement provision was between R5bn and R8bn in fiscal 1990.

"This is equivalent to some 55% to 90% of the inflow to funds and is a considerable indirect subsidy."

Liberty Life group benefits marketing manager Alan McCulloch says while government may be "shooting itself in the foot" by giving tax relief on contributions, this is also a motivation for having retirement funds.

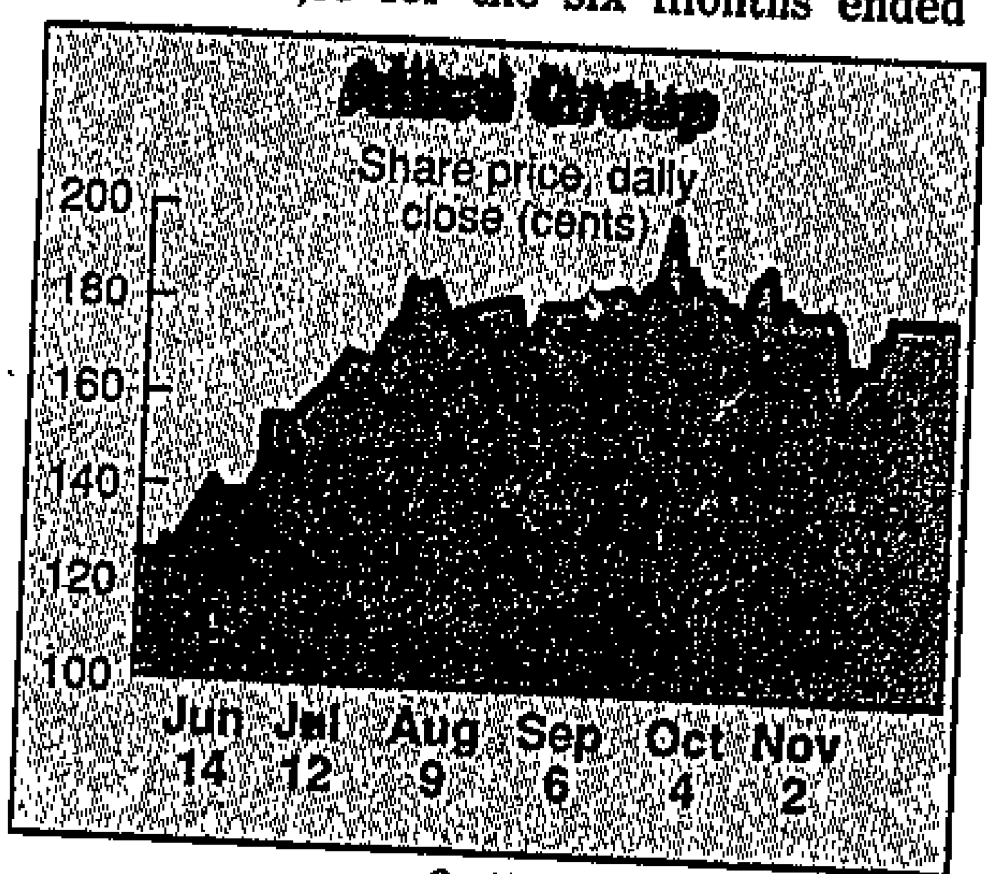
"It will be a demotivator to employers and employees if investment yields are taxed, raising the possibility of less private provision for retirement and more reliance on the state."

Allied results top inflation

BDay 21/11/90.

GRETA STEYN

THE Allied emerged unscathed from a period of squeezed margins and high operating expenditures to announce an inflation-beating 15% increase in earnings a share to 12,3c for the six months ended



Graphic: LEE EMERTON Source: JSE

September 30 1990. 58

Following the trend in the sector, the Allied — which is involved in merger talks with other financial institutions in the Rembrandt fold — also experienced high specific debt provisions, but its disclosure policy prevented it disclosing the extent of the bad debt charge.

Operating expenditures surged by more than 24% during the period, ascribed to the cost of diversification needed to evolve from a building society into a fully-fledged bank. But all major product diversification was completed with the introduction of cheque accounts two months ago.

In a statement yesterday the Allied said the "substantial costs" relating to the introduction of the cheque accounts had been

□ To Page 2

Allied

BDay 21/11/90.

□ From Page 1

conservatively born in the current half-year.

MD Kevin de Villiers said the high operating expenditures should be netted off against the impressive increase in non-interest revenues of 52%. The rise in non-interest incomes partly reflected improvements in the sale of home insurance.

Net interest income rose at a sluggish rate of about 10%, reflecting the squeeze on margins. De Villiers noted that the April-June period had been especially tough.

On the balance sheet, advances grew by about 15% — more or less in line with the Reserve Bank's monetary policy objectives. De Villiers noted the former building society had in recent months notched up record volumes in mortgage lending.

"Our capital position is comfortable enough to allow healthy growth in the balance sheet," he said.

Crime wave knocks Santam figures

B\Day 21\11\90 (58)

Business Day Reporter

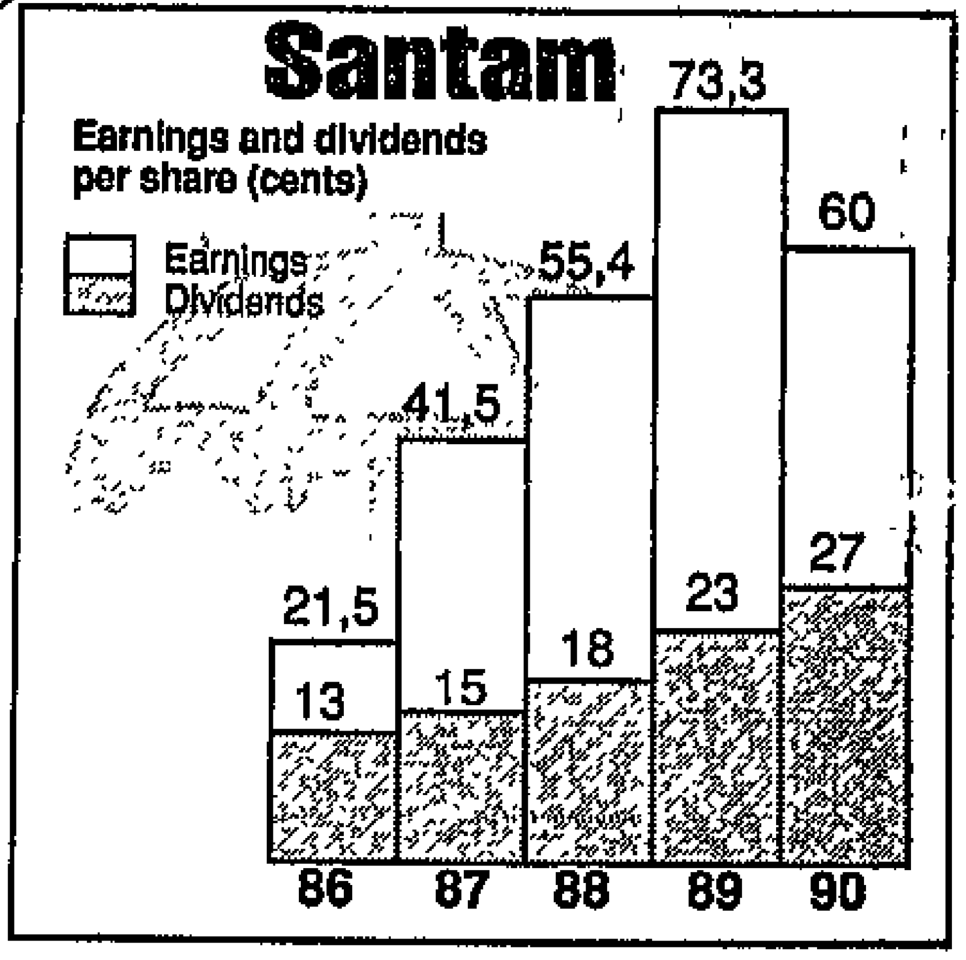
SHORT-term insurer Santam Insurance suffered a decline in earnings a share in the year to end-September to 60c from 73,3c, but the dividend was increased to 27c (23c).

Dividend cover was reduced to 2,2 times from last year's 3,2 times.

MD Oosie Oosthuizen said the year had been a bad one because of the sharp escalation in the incidence of crime-related claims, especially in the motor account to which Santam was heavily exposed.

The increase in motor premiums in April had not had the desired effect and the company had been forced to increase pre-

☐ To Page 2



Graphic: LEE EMERTON Source: SANTAM

Santam

B\Day 21\11\90 (58)

☐ From Page 1

miums on personal lines policies at the beginning of November.

An underwriting profit plummeted to R2,1m (R26,1m), with the bottom line gaining from the 11,2% increase in investment income of R67,3m (R60,5m). The slower rate of growth in investment income reflected the poor underwriting cash flow and the deterioration of economic conditions generally.

Net after-tax profit totalled R42,7m (R51,3m). Gross premium income rose to R849,5m (R748,3m) and net premium income to R771,4m (R657m).

At year-end the insurance funds including contingency reserves stood at R399,7m (R388,6m).

COMPANIES

Safegro nets 49% of Mercantile Bank

RIAAN SMIT

SAFEGRO had acquired a 49% holding in Mercantile Bank, Safegro executive director Kevin Cockcroft said yesterday.

The involvement of Safegro in the bank was in line with his company's objective of establishing itself in corporate and project finance, merchant banking and treasury management, he said.

In addition to Safegro's holding, Momentum Life Assurers would have a 14,9% stake while the management and staff of Mercantile would hold the balance.

No financial details were disclosed.

Mercantile Bank started operations in March last year and its original shareholders were National Discount House, New Bernica Investments, and management and staff. B/Day 21/11/90

A spokesman for the bank said the deal meant substantial institutional support for the bank, and carried the added benefit of indirect backing by IGI through Safegro.

Cockcroft's announcement yesterday said Mercantile was now held, subject to the approval of the Registrar of Banks, to the extent of 63,9% by financial institutions. This meant a considerable improvement of the profile of the bank in the financial arena.

Star 21/11/90

Govt doubts ANC sincere over peace

By Peter Fabricius
Political Correspondent

Negotiations have reached a critical point as the Government expresses growing doubts about the African National Congress's real commitment to a peaceful political settlement.

The ANC's determination to continue and even intensify its strategy of mass mobilisation and its refusal to stop training and recruiting for its military wing Umkhonto we Sizwe, are causing concern.

In two hard-hitting speeches yesterday, Constitutional Development Minister Gerrit Viljoen and Foreign Minister Pik Botha both cast severe doubts on the ANC's desire to seek a constitutional solution through peaceful means.

And it is understood that the concern in Government goes right up to President de Klerk, who is expected to take it up with ANC deputy president Nelson Mandela when they meet on Tuesday.

The ANC and Government will also try to thrash out their differences over the ANC's mass mobilisation campaign in the joint working group on ANC armed actions which meets tomorrow and on Friday in Pretoria.

Dr Viljoen said last night the ANC's failure to distance itself from mass mobilisation, boycotts, intimidation and the building up of military power called into question its stated commitment to peace and had created a great obstacle to negotiations.

Mr Botha, addressing the Hans Seidel Foundation in Munich, said it was "a matter of serious concern" that the ANC could not say it was ready to implement its commitments.

He said that at the Pretoria Minute, agreement was reached on a plan for the release of ANC prisoners and the return of exiles while the ANC agreed to suspend all armed actions and related activities.

Mr Botha said that apart from internal dissent, the ANC was also "burdened" by its close alliance with the South African Communist Party.

● Pik's plea — Page 11.

Star 21/11/90

Forex fraud probe follows suspensions

By Michael Chester

Police confirmed today that investigations had been launched into a suspected multimillion-rand new foreign exchange fraud following the suspension of three listed companies on the Johannesburg Stock Exchange.

A police spokesman said the probe was triggered by the Foreign Exchange Division of the SA Reserve Bank.

It was suspected that at least five private sector companies had broken forex control regulations on the movement of overseas currencies in and out of commercial and financial rand business accounts.

Shock waves were caused when the JSE ordered the suspension of three listed companies — the shopfitting firm of Norvic, the Lanchem door manufacturing company and the Osprey gold mine. It is understood the Reserve Bank has also ordered investigations into the affairs of two more companies suspended by the JSE earlier in the year.

● See Page 18.

Call for a greater freedom of choice

(58) (BD)

B Day 21/11/90

A CHANGE in the prudential investment guidelines for pension funds is in the pipeline.

In August 1989, the statutory prescribed investment requirements for retirement funds were scrapped and investment guidelines were published in the form of Regulation 28 under the Pension Funds Act.

In terms of these guidelines, retirement funds are permitted to hold 65% of their assets in market value in equities and 30% (also in market value) in fixed property.

Former Pensions Institute executive director Snowy van Niekerk says: "The industry would like to see more freedom in investment decisions.

"We have made representations to the Registrar of Pensions indicating that we think pension funds should be allowed to invest up to 75% of their funds in equities and up to 90% of assets in equities and properties jointly."

Sanlam GM, group benefits, Francois Marais says the guidelines do not reflect the possibilities that exist in the market.

"If one compares the equity market with the property market there is not R30 of property for R65 of shares.

"This has created an artificial demand for property and increased the prices of property unit trusts — and to some extent properties — unrealistically. The apportionment needs to be more balanced."

Business Day SURVEY

With assets approaching R200bn, it is likely the pension fund industry will be expected to play a role in mobilising funds for economic development. Already, innovative mechanisms devised by Old Mutual and the Perm will give millions of low-income people access to home ownership. ***LINDA ENSOR*** *reports.*

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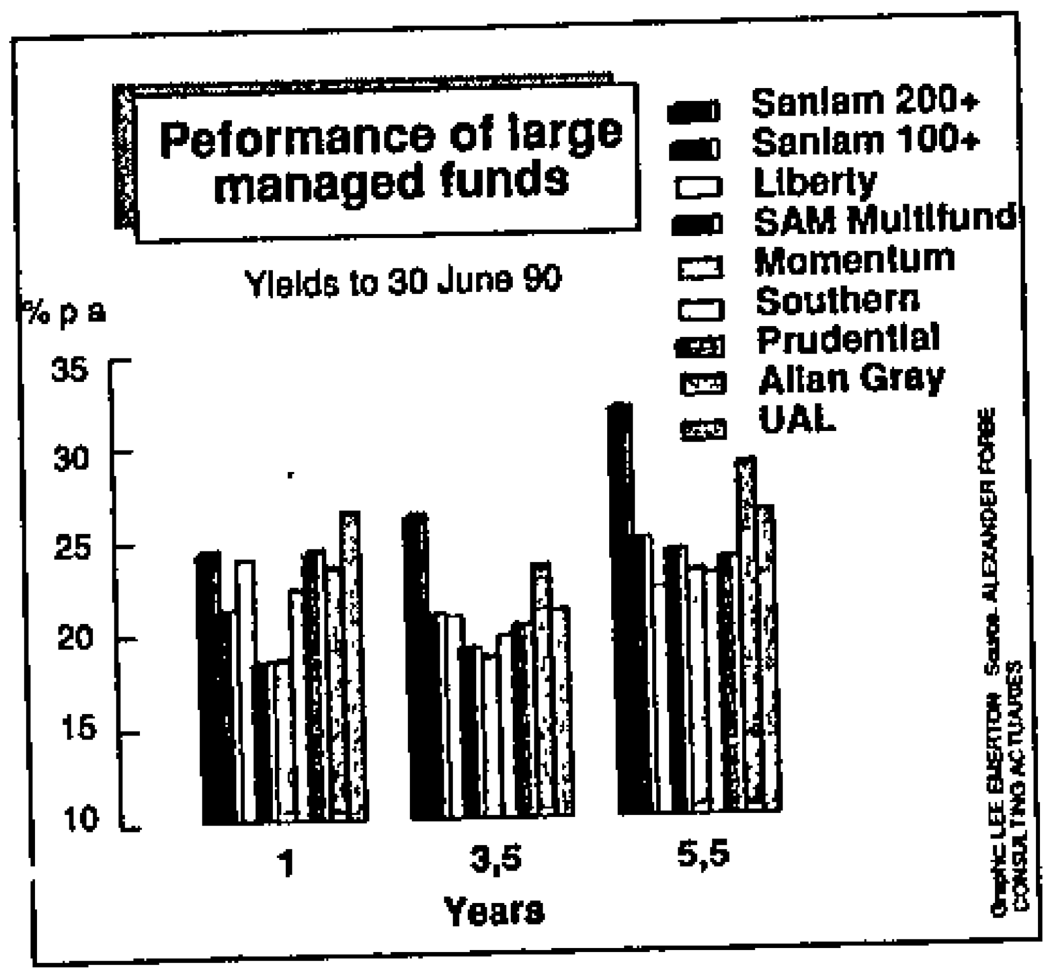

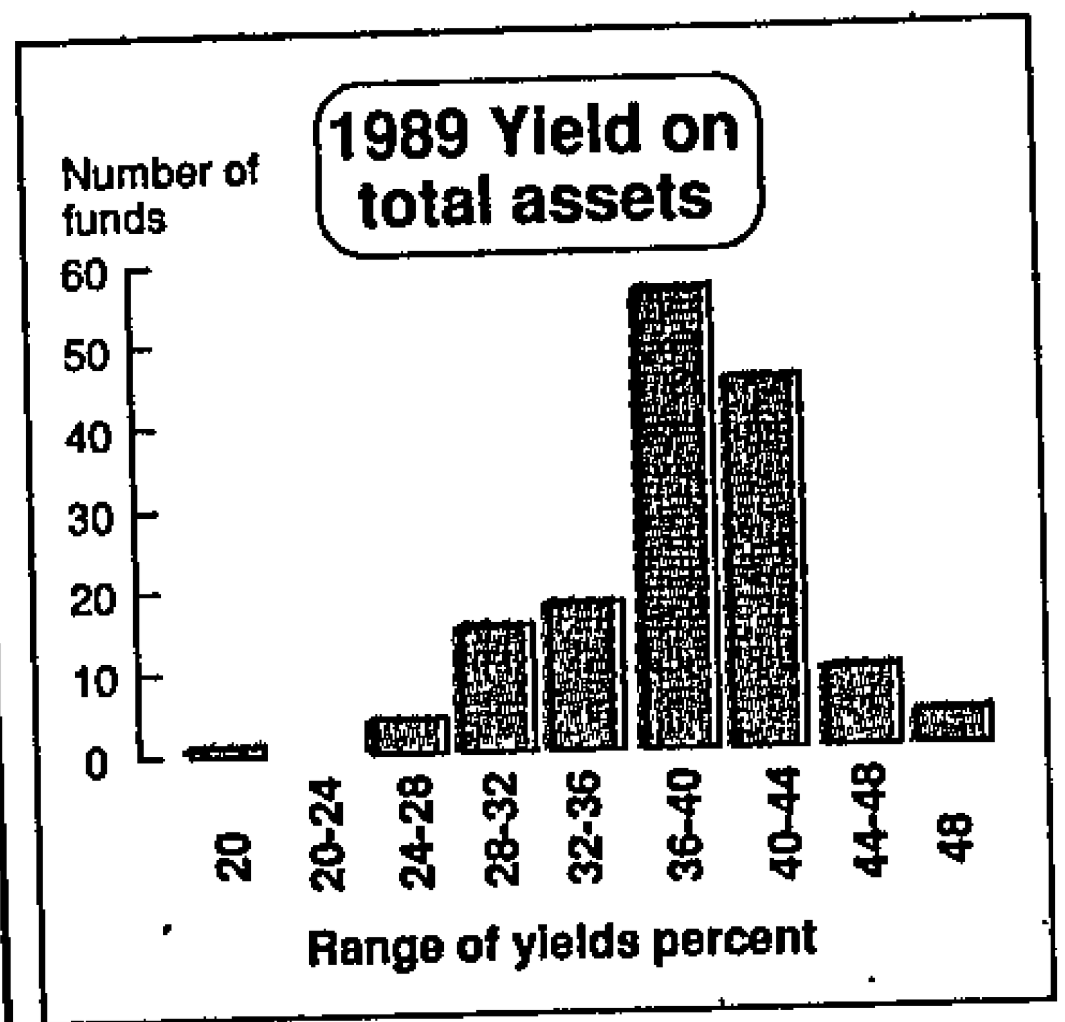

Graphic: LEE EMERTON Source: ALEXANDER FORBES SHEPLEY & FITCHETT

Critical fundin

B.Day

THE pensions industry is expected to play a critical role in the mobilisation of funds for economic development in the evolving SA.

With the assets of the approximately 12 000 funds approaching R200bn it is likely there will be an enforced or voluntary channelling of funds into projects to meet the economic and political needs of a developing economy.

Already, innovative mechanisms devised by Old Mutual and the Perm for the use of pension and provident funds to finance housing loans of members have been approved by Cabinet. These schemes will give access to homeownership to millions of low-income people.

Other life assurers and the trade unions are also looking at what have become known as "socially responsible" investments and the possibility of the reintroduction of pre-

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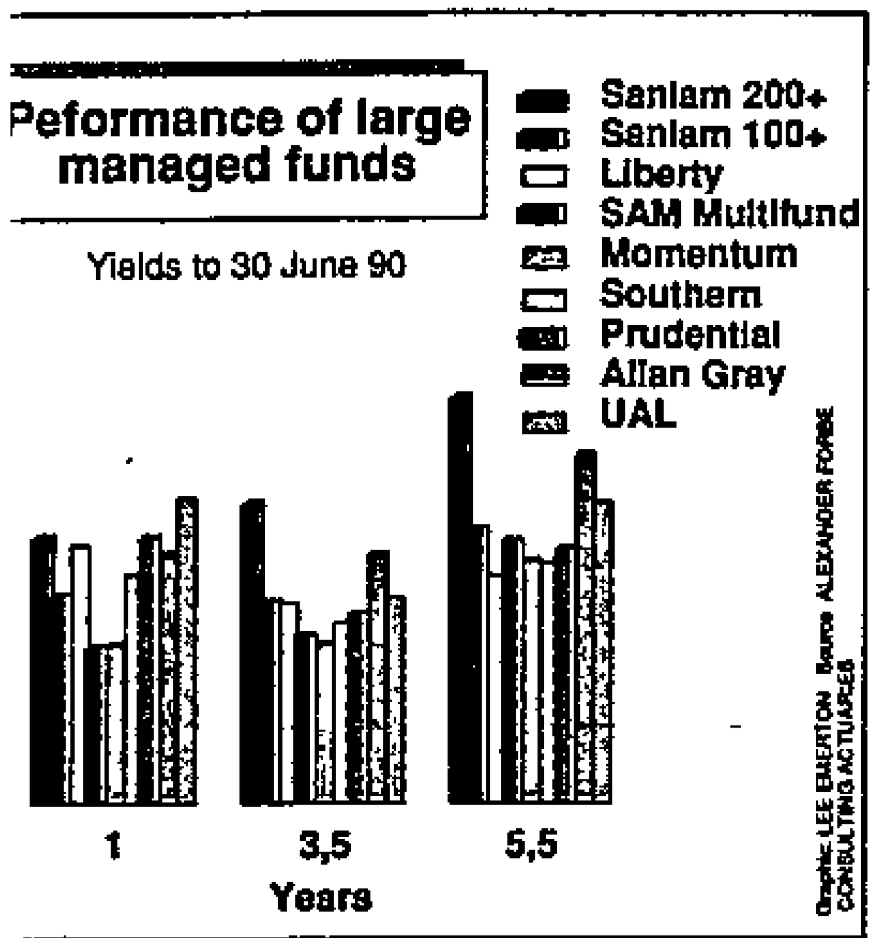
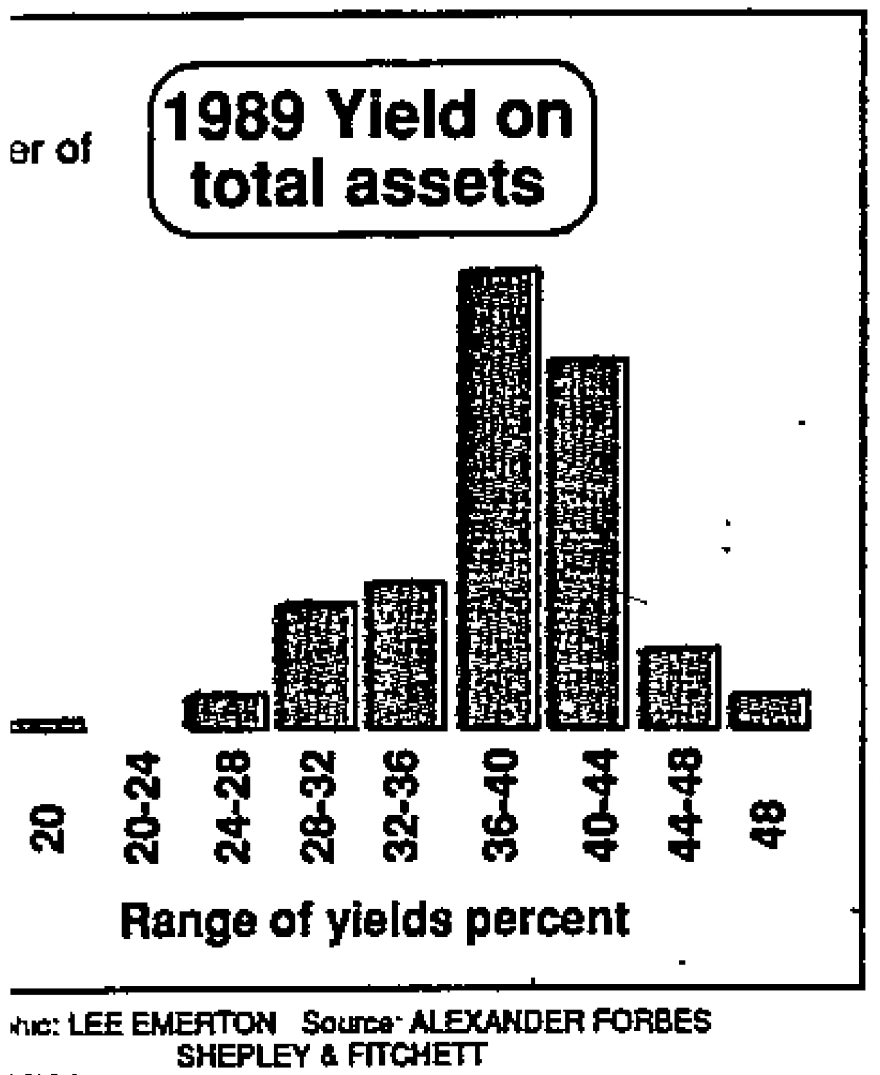




Critical role to play in funding the evolving SA

B.Day 21/11/90 (58)

THE pensions industry is expected to play a critical role in the mobilisation of funds for economic development in the evolving SA.

With the assets of the approximately 12 000 funds approaching R200bn it is likely there will be an enforced or voluntary channelling of funds into projects to meet the economic and political needs of a developing economy.

Already, innovative mechanisms devised by Old Mutual and the Perm for the use of pension and provident funds to finance housing loans of members have been approved by Cabinet. These schemes will give access to homeownership to millions of low-income people.

Other life assurers and the trade unions are also looking at what have become known as "socially responsible" investments and the possibility of the reintroduction of prescribed assets for this purpose has been mooted.

There has also been talk of an increase in GST earmarked for the funding of a state pension fund.

Another issue likely to generate heated debate is the question of an employer's use of contribution surpluses, an issue under investigation by the Mouton committee of inquiry into a pension system for SA.

Impact

The structure of the industry is in the process of change under the galvanising impact of trade union pressure, which has highlighted the benefits of provident funds over pension funds, even to those in the executive bracket.

Also, the unilateral way in which funds were managed in the past has come under attack by the trade unions, which are pushing for greater control.

Chemical Workers' Industrial Union general secretary Rod Crompton says

FRANCOIS MARAIS

the next stage is to get insurance companies to devise benefits more in line with workers' needs.

"The insurance industry has mainly catered for the needs of the white middle class and it has never designed benefits appropriate to the working class. We hope with time and effort to persuade and influence insurance companies to redesign benefits which are more appropriate."

Examples are an insurance product to cover housing bonds during periods of unemployment, to cover a loan against the fund in the event of death and a wider variety of ill-health cover. He says there is a need for insurance cover for retraining partially disabled people.

But there has been a general improvement in benefits in the industry.

Sanlam GM, group benefits, Francois Marais says Sanlam's latest annual survey of the pension fund industry shows a positive trend since 1980 in improved benefits without a corresponding increase in contributions.

Funded

"The improvement in benefits — both in terms of amounts and the variety of benefits — has been funded by higher investment returns."

Marais says there has also been a trend towards increased benefits after retirement. The average pension increase as a percentage of the inflation rate has improved to about 70-75%.

Pension funds are also making higher provisions for future increases. More than half of funds are planning for increases of more than 75% of CPI, Marais says.

Reduction

There has been a reduction in the retirement age of males and an increase in that of females to bring them into line.

The pension scale is also undergoing change, with a number of funds adopting a pension scale of higher than 2%, which used to be the norm. The scale multiplied by the number of years service gives the amount of the final pension.

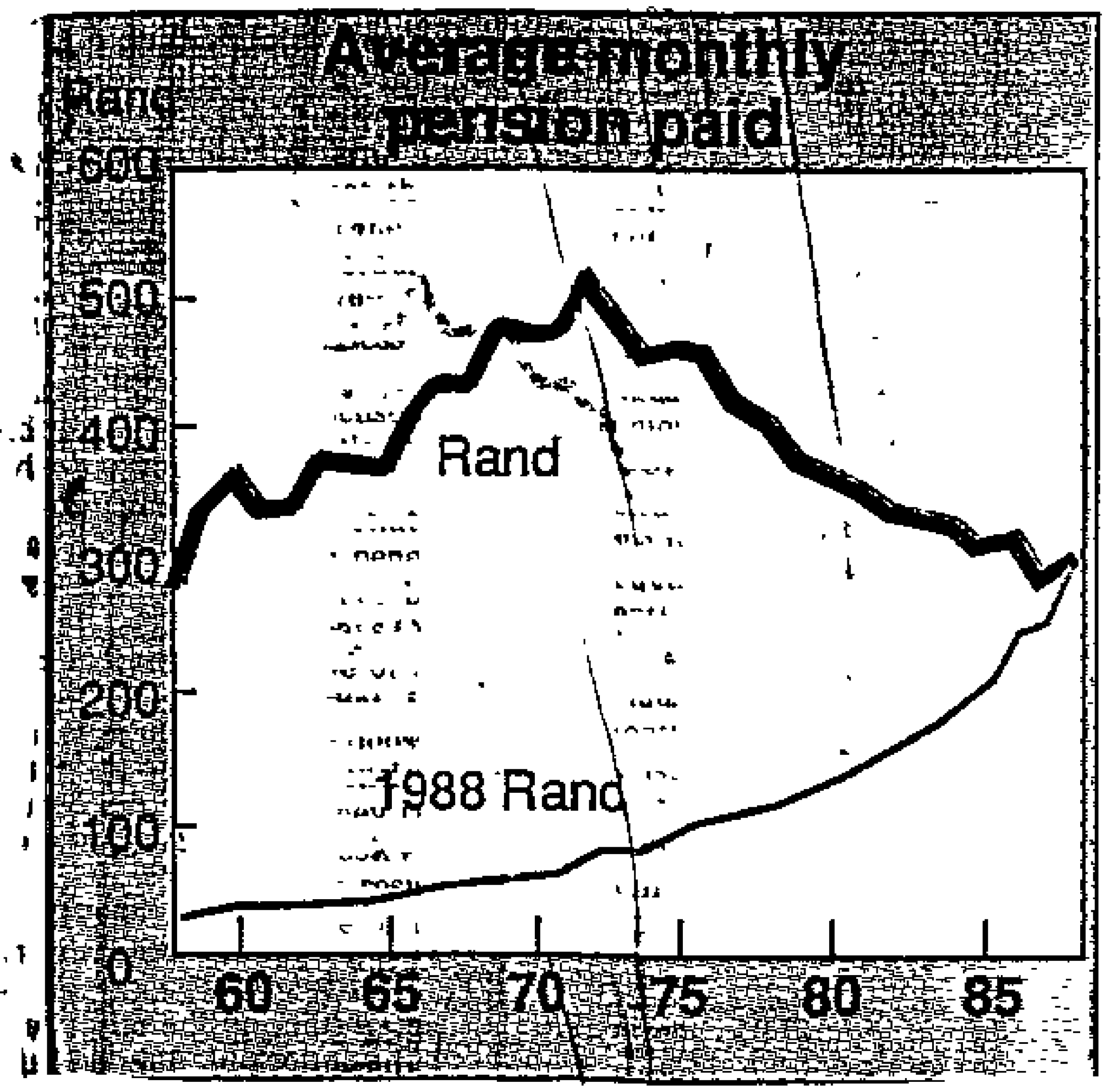
Marais says there has also been a change in withdrawal benefits. Traditionally, most pension funds only gave the member's own contribution and a rate of interest of 4% on withdrawal.

Many, however, have adopted a more market related interest rate with about half of the funds giving over 6% which, he says, is better, but not sufficient.

There is also a trend to give a part of company contributions as well, but Marais says this is not at an advanced stage.

Liberty Life GM group benefits (sales and marketing) Mike Garbutt says a different approach to pension fund management will be required in the '90s.

"Faced with the volatility of the country, both politically and economically, the Middle East crisis and the vulnerability of overseas markets, trustees must take cognisance of the fact that the successful investment criteria of the 80s may no longer apply," he says.



10

Star 21/11/90 (58)

Improving Allied poised for growth

By Derek Tommey

Allied Group earned R36,3 million, equal to 12,3c a share, in the six months to September.

This was an increase of 14,5 percent on the R31,7 million, equal to 10,7c a share, earned in the same six months last year.

An interim dividend of 6c has been declared, which is an increase of nine percent on last year's 5,5c.

Although these figures are not particularly exciting, a close analysis suggests that the group is poised for a substantial improvement in profits in the near future.

This is confirmed by the directors' forcast.

They say profits increased moderately in the face of severe pressure on interest margins, significant development costs, high specific debt provisions and a declining economy.

In addition, substantial costs wre incurred in introducing cheque accounts.

However, the group's insurance company increased its earnings, and all planned major diversification has been completed.

Kevin de Villiers . . . satisfactory results

The group is now able to offer a full range of domstic and international banking services.

Looking ahead, the tight monetary policy indicates a further difficult six months, say the directors.

However, a possible easing of money market rates, together with the steps taken to improve interest rate margins to contain costs, and the benefits of diversifcation could ensure an improved second half.

In the six months under review, net interest receipts rose R15,5 million to R174,1 million, while non-interest income increased by R24,1 million to R70,4 million — a net increase of R36,9 million.

However, non-interest expenditure, which included R6 million to R7 million spent on introducing cheque accounts, rose R37,6 million to R191,4 million.

Pre-tax income was R53,1 million (R51,1 million) and taxed income R36,3 million (R31,7 million).

Deposits increased by 17 percent to R10,0 billion, while "other" accounts rose R67,4 million to R234,9 million.

Cash and short-term funds rose by more than R400 million to R957,8 million.

Investments increased marginally by 5,3 percent to R1,2 billion. Advances rose 14,7 percent to R8,5 billion.

Allied managing director Kevin de Villiers said yesterday the results were satisfactory in the difficult circumstances encountered.

The period saw the Allied complete its transition from a building society into a bank, and the costs of this move were now behind it, he said.

Cut interest rates now — Malbak chief

(58)

Star 21/11/90

**By Magnus Heystek
Finance Editor**

One of SA's foremost businessmen has called on the Government to reduce interest rates.

"While I'm fully supportive of the fight against inflation, I think our biggest problem in the long term is unemployment," says Grant Thomas, executive chairman of Malbak.

"I'm not speaking on behalf of the conglomerates of this world, but on behalf of the countless small businesses that are going under on a daily basis," he said in an interview yesterday.

"It is very unlikely that they will ever return, especially emerging black businesses which are experiencing capitalism for the first time," he said.

"I definitely think the current dosage of punitive high interest rates and a brake on the growth in money supply is much too high.

"The Government is also inconsistent in the way it is applying monetary policy.

Grant Thomas . . . small businesses are going under

"When the inflation rate was 16 percent, we had real interest rates of five percent, if prime overdraft rates of 21 were taken into consideration.

"However, there was no reduction in interest rates when inflation declined to below 14 percent. Long-term business planning would be enhanced if the Government stuck to a consistent real interest rate policy," he said.

Mr Thomas cautioned that the Government's austerity measures, while laudable in intent, were in danger of becoming excessive in execution.

There was undoubtedly a need to reduce inflation, maintain a disciplined montary policy and keep a firm hand on spending.

"Ultimately, however, SA's overriding need is for growth, and its major problem will not be inflation, but unemployment.

"Its unique social problems require special solutions and a balanced approach.

"Goals need to be striven for continously, based on a long-term plan that is applied consistently and progressively, modifications to which are signalled well in advance so that society and business can adapt without undue disruption," he said.

Where Malbak was concerned, Mr Thomas said the coming year was likely to be extremely difficult, with the downturn still accelerating, and indications that the recession would deepen before levelling out.

At their current level of seven percent, real interest rates would further depress consumer spending, and hence an economy also being buffeted by dearer oil.

In the circumstances, Malbak was expecting a reduction in earnings, but the extent would depend on factors difficult to predict, such as the timing of measures to ease fiscal and monetary policy, gold and oil prices and the extent of labour disruptions

"It is fortunate that Malbak's nature and history have provided the group with a highly developed adaptive capability.

"The record shows that our subsidiary company managements are quick in responding to change and deft at managing it.

"We are also fortunate that the greater part of our investment is in strong, soundly positioned, well-structured businesses," he said.

Mr Thomas said the inherent strength of Malbak had been evident in the past year, when the group had succeeded in increasing sales and operating profit and more or less maintaining pre-tax profit, despite the ravages of a harsh economic climate.

Had it not been for the effect of increased taxes in a number of companies, he said, the group would have maintained earnings per share.

The five major divisions which Malbak had created through the consolidation and rationalisation of its various interests had held up well.

Accounting for 98 per cent of total earnings, they had collectively increased profits at the pre-tax level by two percent, while taxed earnings had decreased by only five percent, he said.

Star 21/11/90

58

Union angrily rejects Development Bank plan for land transfer

Own Correspondent

The Transvaal Agricultural Union (TAU) has angrily condemned the plan proposed by the Development Bank for the transfer of almost eight million hectares of farmland to blacks.

Objecting in strong terms to statements by non-agricultural organisations on the farming matter of white land ownership, the union said it questioned the motives.

"It seems as if an orchestrated action has been launched to force white farmers off their land," said TAU president Dries Bruwer.

"The Development Bank statement follows closely on the heels of similar pronouncements made by the Urban Foundation and the ANC on white land ownership.

"The implementation of such plans will cost enormous amounts of money and we would like to know the sources expected to finance them.

"The Development Bank is partly financed by the taxpayer from State funds. Its function is the development of blacks and we would be interested to know details of its performance to date."

Mr Bruwer said the TAU would also like to know the number of financially sound and independent black farmers applying the agricultural production standards of white farmers.

"The TAU takes the strongest exception to statements and plans about land ownership without consulting organised agriculture, the representative body of white agricultural producers and land owners."

58

Nationalisation of farm land impractical – bank

The Development Bank of Southern Africa does not support the taking of land from present white owners and handing it over to black farmers, the DBSA said yesterday, following statements accredited to the bank.

The DBSA said it did not support nationalisation and transfer of land, which it found "neither practical nor desirable".

The South African Agricultural Union (SAAU) yesterday again entered the debate on a land policy in a new South Africa with a call for urgent discussions with the DBSA.

The SAAU also made an "urgent appeal to parties outside agriculture to desist from issuing statements on the ownership and utilisation of farming land which may create confusion and uncertainty".

Last week the SAAU severely criticised a summary report of last month's African National Congress Land Commission Workshop, which made an urgent appeal for a major redistribution of land in South Africa as part of a State-run affirmative action programme, using nationalisation selectively.

Yesterday's Development Bank statement, issued by its chairman, Dr Simon Brand, follows prominent media reports quoting a recent DBSA study on possible options for land transfer to black farmers.

According to the reports, the DBSA suggested that nearly 8 million hectares of farmland be transferred to blacks – "in line with one of the basic negotiation demands of the African National Congress".

Ongoing

In an apparent attempt to clarify the bank's position yesterday, Dr Brand said:

"While the Development Bank has no mandate to determine policy, it is its normal practice to bring to the attention of those who take part in the ongoing policy debate insights gained from its research and operational experience in activities such as rural and agricultural development.

"The (DBSA) proposals are therefore not a blueprint for future agricultural land policy.

"Some of the issues highlighted by the media need to be put in perspective: the proposals do not suggest that land be taken from present owners and handed over to black farmers.

"On the contrary, it is suggested that the approach be based on a market mechanism to provide options for black ownership of land.

"The nationalisation and the transfer of land is not proposed, but is argued to be neither practical nor desirable.

"It is also not argued that all farmers in debt should relinquish their land to black farmers, but rather that some such land could become available for purchase by blacks who can obtain the financing to do so.

"The extent of this land is a guestimate," Dr Brand said.

According to SAAU president Nico Kotze, "various organisations and individuals have recently posed as self-appointed 'spokesmen' on the ownership and utilisation of farming land, which is totally unacceptable to the SAAU". – Sapa.

Star 22/11/90 (53)

Mystery piled upon mystery

Diagonal Street

ANN CROTTY

Myriads of transactions — some possibly fraudulent and some involving foreign exchange irregularities — lie behind the JSE's decision on Tuesday to suspend Norvic, Lanchem and Osprey.

Indications from the Reserve Bank are that an extensive audit trail (that could take weeks) will need to be done to unravel the complicated series of deals relating to a foreign exchange fraud of at least R25 million.

It is to be hoped that long before that the position of parties such as Norvic and its directors will be clarified.

Norvic's involvement in the case appears to stem from its relationship with Lanchem.

Lanchem has a 19 percent stake in Norvic, which it acquired when the shopfitter was listed in January.

As a result of the investigations Norvic has not only been suspended, but its bank account has been frozen.

Norvic MD Jock Flemmer and the company's financial advisers (including bank manager) are meeting with the Reserve Bank today to clarify the situation.

In a letter to the Bank the directors of Norvic yesterday pointed out that the company had had no financial rand transactions.

"The only relationship which the company has is that certain of the parties subject to your investigation are shareholders. This is beyond the control of the company."

Norvic, which was established in 1947, was a wholly owned subsidiary of Tradegro until July 1986 when there was a management buyout.

Apart from Norvic, Lanchem and Osprey, it seems that the investigation could also involve two cash shells — Meter Systems Ltd and Manserv — as well as several unlisted companies.

Lanchem has previously been linked to a number of unlisted companies such as The House of Investments, The Equity Participation Investments, Montrose Mining and Multi Gold Holdings.

At this stage the only apparent connection between the five listed entities is the speculation that (following the sale of control of Manserv to Financial Ltd), Manserv would be used to house investments in Meter Systems, Norvic, Lanchem and Osprey.

The investments involved were held by Financial Ltd and/or an associate company, Garditex International.

Naas Ferreira, who was acting for Financial Ltd in the acquistion of the Manserv cash shell, was yesterday released on bail of R5 000 after being held in connection with an alleged R24 million forex fraud.

The case was postponed to March 4 pending further investigations.

Analysts are puzzled about the nature of the alleged forex irregularities.

It does not appear to relate to share dealings in the three quoted companies as there has been relatively little trade in these shares.

But they point out that the situation is complicated by the numerous transactions involving cash shells, unlisted companies and the existence of overseas shareholders.

ANC man, Investec in new investment trust

LESLEY LAMBERT (58)

CAPE TOWN — Investec Bank has joined a group of black business leaders, including a senior ANC member, to create a new retirement investment trust aimed at "economically empowering" the mass black market. BDay 22/11/90

The National Investment Co-operative Trust (Nico) was designed by former Sanlam manager David Geary and is negotiating to manage major corporate and trade union retirement funds.

Investec subsidiary Metboard Asset Management (MAM) will manage the funds it attracts, while broader policy decisions will be made by a board of trustees dominated by black business leaders such as Black Management Forum president and head of the ANC's Natal economic task force, Don Mkhwanazi, and Nafcoc vice-president Max Tlakula.

Investec chairman Bas Kardol and PG Bison director and Consultative Business Movement co-chairman Christo Nel have also been appointed as trustees, while Geary will act as managing trustee.

Geary and Nel said yesterday the trust would aim to economically empower the black market by giving it more direct control of the assets in which its retirement funds were invested. This would be achieved through a board of trustees more representative of the target market.

An important but potentially controversial part of the process would be to build up

☐ To Page 2

New trust

BDay 22\11\90

influential stakes in smaller listed companies, they said.

"Up to now, the funds invested by this market have been used for the economic empowerment of the massive life assurance companies," said Geary.

"By establishing a black-controlled board of trustees who will be able to exercise the voting rights attached to shares in the portfolios ... we will make retirement investment a more democratic process."

Geary said that while negotiations with some funds had reached an advanced stage, the corporate sector had expressed

(58)

☐ From Page 1

concern about responsible trusteeship and investment performance. Trade unions, on the other hand, had wanted assurances that greater worker participation in companies would not undermine their collective bargaining position by shifting bargaining into the boardrooms.

Other trustees are: Transkei University principal and Independent Development Trust trustee Wiseman Nkuhlu; Hulett Refineries personnel director J B Magwaza; UCT Commercial Law professor Dennis Davis; and Association of Black Accountants of SA head Willie Ramoshaba.

Star 22/11/90

African Bank fires 50 after illegal strike

The African Bank has dismissed 50 staff members from four branches after an illegal wage strike, the bank's chief executive J C Theron said yesterday.

Workers, mainly messengers, labourers and clerks went on strike on Monday demanding a minimum wage of R800 a month.

(58)

The branches affected by the strike were Johannesburg, Ga-Rankuwa, Soshanguwe, Diepkloof and Mamelodi.

Mr Theron said workers were welcome to negotiate individually about their reappointment. — Staff Reporter.

Star 22/11/90 (53)

Police probe forex fraud

By Michael Chester

Police confirmed yesterday that investigations had been launched into a suspected multimillion-rand foreign exchange fraud following the suspension of three listed companies on the Johannesburg Stock Exchange.

The probe had been triggered by the Foreign Exchange Division of the SA Reserve Bank, a police spokesman said.

Reserve Bank general manager John Postmus said the suspected scam had been uncovered in a joint operation between the inspectorate and investigation divisions.

It was suspected that at least five private-sector companies had broken forex control regulations on the movement of overseas currencies in and out of commercial and financial rand business accounts.

He believed the first arrests of suspects was imminent.

It was possible that the probe would spread to still more companies in a complex web of international transactions.

Shockwaves were caused when the JSE on Tuesday ordered the suspension of three listed companies — the shopfitter firm of Norvic, the Lanchem door-manufacturing company and the Osprey gold mine.

JSE general manager of listings and equity markets Richard Connellan was quoted as saying the suspensions had been ordered following discussions with Reserve Bank exchange control officials.

It is understood the Reserve Bank has also ordered investigations into the affairs of two more companies — Meter Systems and the Management Services Corporation, which were both suspended by the JSE earlier in the year.

● **Mystery piled upon mystery - Page 34**

Deflation risk looms as growth in money supply decelerates

Star 22/11/90

58

By Derek Tommey

Money supply figures issued last night show that business could be heading for serious difficulties.

They show that the economy is moving into a deflationary situation and that business will either have to trim prices or experience a serious loss of business.

This has led a top economist, who while expressing satisfaction with the achievement, to warn that the situation has to be watched closely, failing which SA ran the risk of overkill.

The Reserve Bank reports that in the 12 months to October, the broad M3 measure of money supply grew by 10,02 percent — the lowest increase for three years and four percentage points below the inflation rate of 14 percent — a highly deflationary situation.

The Governor of the Reserve Bank Dr Chris Stals said last night the drop in the growth rate was highly satisfactory and that he hoped to maintain the rate.

He said the monetary authorities were still aiming for the big prize — reducing inflation.

Dr Stals said the rise in gold and foreign exchange reserves was pleasing, though he would like to see them even higher.

This had been a big help in fighting inflation because the Reserve Bank had been able to hold the exchange rate.

He said the Reserve Bank was doing all it could to fight inflation and that the monetary policy contribution was now in place.

He expected the inflation rate to start declining.

"If it doesn't, employment could be affected," he warned.

Dr Jan Hupkes, professor of business management at Unisa's School of Business Leadership, said the shrinkage in money supply could be sharply deflationary.

In this situation, any downward pressure on interest rates would be nullified and that there could even be more upward pressure on rates.

The drop in money supply might further curb economic growth, he said.

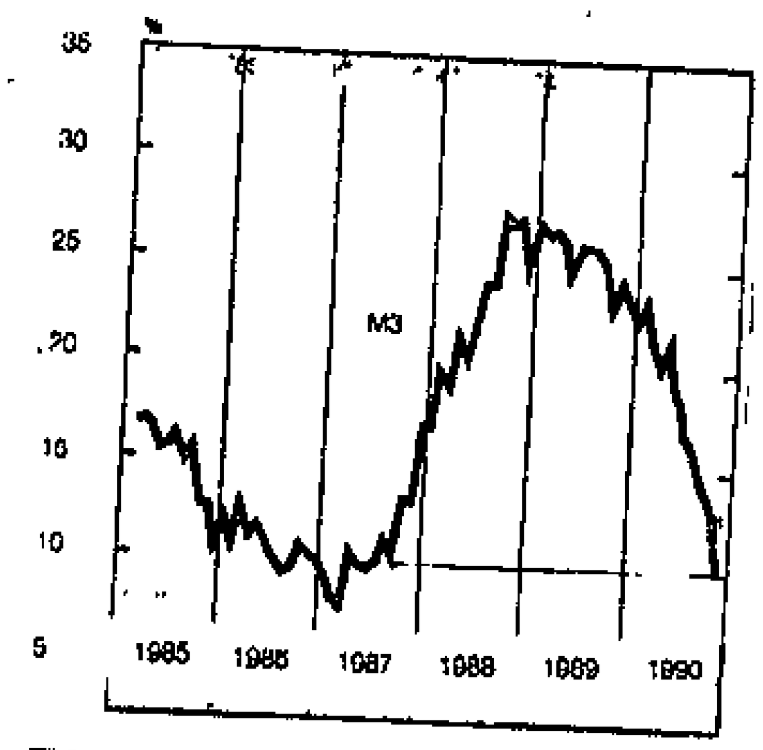
This might be slightly offset by an increase in the velocity of money (the rate at which money changes hands), but the man in the street had no way of turning over his money faster.

Professor Hupkes had some reservations about whether the authorities should continue their tough monetary policies.

"We don't want to undo all the good work that has been done," he said.

"But there are certain warning signals, which suggest it would be possible to move into an overkill situation."

The economy would need to be closely monitored, he said.



The declining trend in money supply growth

HOME LOANS FM 23/11/90

BOND BAIT (58)

The Perm's role in the new home finance scheme, which draws on corporate pension fund money and ties loan repayments to the borrower's income, will be a departure from the traditional provision of finance. The former building society, now part of Nedbank, will act as agent only, taking a commission for administering the funds and collecting and channeling instalments.

The mortgage bond will be in favour of a separate vehicle (whose structure is still being discussed with the Reserve Bank) and

(58) FM 23/11/90 (58)

not taken on the Perm's balance sheet. This vehicle will set up a number of investment funds in which the corporate pension fund will invest by pledging the amount of money to be used in return for a specified number of units (recorded on a central register).

The advantage to the homeowner is that he will need no deposit and can get a much larger loan, insulated from interest rate changes. The advantage to the Perm is that the business is fee-based, so escapes the capital requirement which flows from asset-based interest income. The advantage to the investor is that the return on the investment will stay ahead of salary inflation.

Conditional on a string of requirements including complete disclosure to the borrower, the scheme will be exempted from the Usury Act, which doesn't allow for escalating repayments and capitalisation of interest charges, says Deputy Registrar of Financial Institutions, Chris Mostert. The amendment is expected to be gazetted by mid-December.

There are two variant repayment levels: a level plan (a constant 15% of salary throughout the period), or a reducing plan starting at 25% but averaging the constant 15%.

A conventional home loan takes roughly 30% of salary in the first year, reducing to 20% after five years, 2% after 20 years and probably averaging 9% over the full period.

With a standard mortgage bond, capital redemption starts immediately. Under the new scheme, redemption will not begin until year 10 or 14, depending on whether the fixed or reducing level payments are made.

An applicant can only get a loan through his employer. At present, only members with sufficient collateral in the company pension fund qualify. The pension fund will enter into an agreement with the Perm, salary information will be provided and deductions will be made from the employee's pay.

The onus will be on the company to put forward stable employees, though Perm will have the final word. As the scheme is available only to pension fund members, the Perm's Brian Peck concedes it falls short of meeting the informal sector's need. However it will increase the market because "it will enable the first-time buyer with a R1 000-R4 000 salary to own a conventional home."

Holders of existing bonds will be able to switch to the new scheme. The top 100 listed companies have about 1,5m employees, and Peck estimates that if only 1% turn out to be suitable that could still help 150 000 people. Public authorities employ about 1,6m employees, some of whom would also qualify.

Young companies with an acceptable pay scheme but unable to provide pension money will not benefit until general funds become available in the investment vehicle. No provision has been made for a person who contributes to a general pension fund scheme.

Peck reckons that the investor return should beat average salary inflation by a couple of percent, based on the assumption that average salary inflation includes the older and younger employee. "However, it is the 25-40 year age group that tends to get the merit increases so the return will come from that segment," says Peck.

The Perm aims to start granting loans in the second half of 1991 when documentation has already had some response.

The vulnerable time would be early in the loan period where, if the borrower defaults, he may be faced with foreclosure before the property has appreciated. In a forced sale, the borrower would forfeit that part of his pension contribution needed to make up any shortfall.

Later in the process, arrangements could be made to defer payments or temporarily adjust the percentage paid.

Perm intends to re-invest cash flow to grow the portfolios. It aims to set up a number of investment funds, similar to unit trusts. A large organisation wanting to benefit from its own salary policy could have its own fund. ■

INSURANCE FM 23/11/90

MEASURING HIV

At last, life offices can make a realistic assessment of the HIV (Aids) infection rate. The picture, while sobering, is far from the doomsday scenarios painted previously.

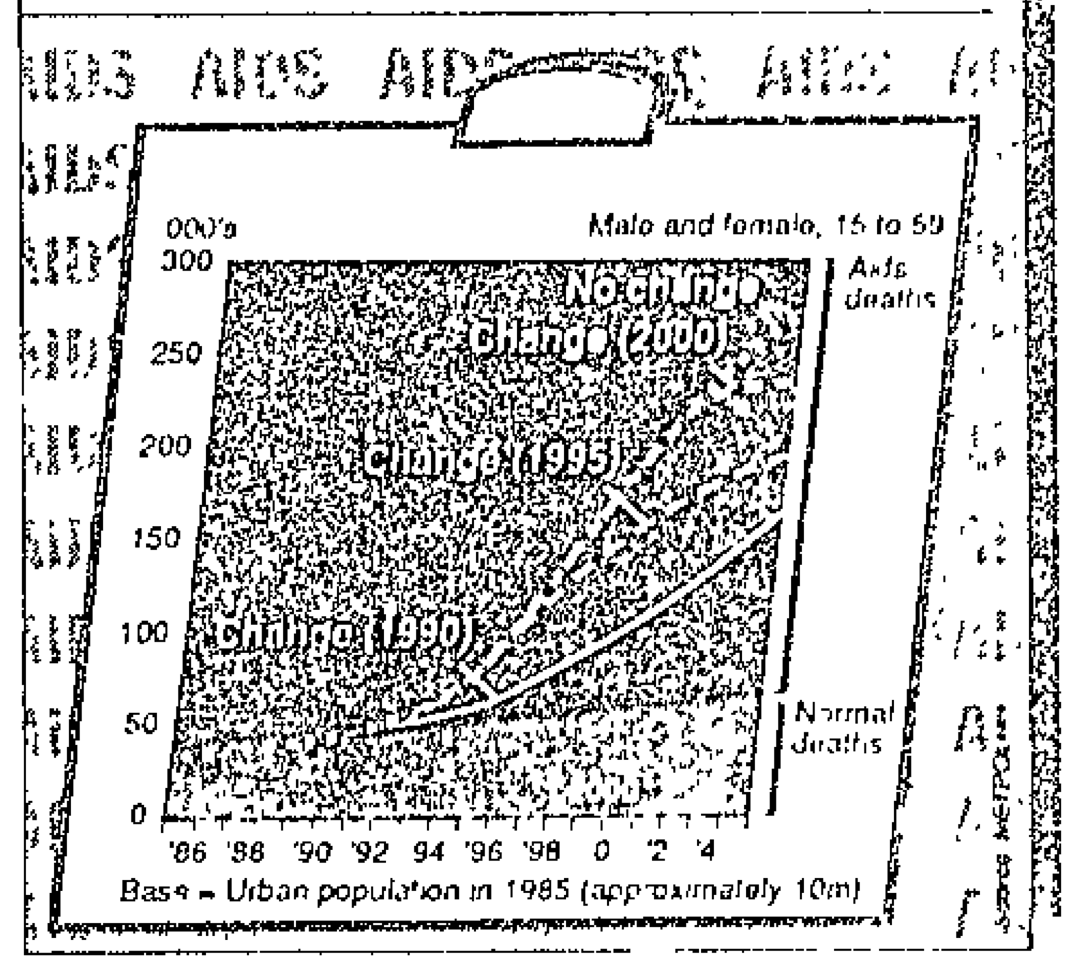
An actuarial model designed by Metropolitan Life's Peter Doyle has been accepted by the Actuarial Society of SA. With the data base now available on HIV infection, the model suggests that if there is no change before 1995 in sex habits, 27% of the population will be HIV-positive by the year 2005. To "normal" deaths will then be added four times as many from Aids-related causes.

FM 23/11/90

Though actuaries in other countries have achieved satisfactory models, none could be imported because of SA's special demographics. Doyle and co-author Donald Millar created several scenarios, using different statistical inputs. The one presented to the Actuarial Society was considered the most realistic.

Deathly prognosis

Changes in mortality predictions will depend on changes in SA's sexual habits



The value of the model is the ability to evaluate different scenarios and Aids prevention strategies. It plots the rate of HIV infection, assuming that meaningful changes in sex habits come about by 1995, or by 2000, or not at all. If such a change can be effected by 1995, the number of infections 10 years on would be cut by about a third.

Doyle's results explode the myth that HIV will spread exponentially until there is a zero number of HIV negatives. The epidemic grows exponentially in the early years, then tapers off as risk groups become saturated. Also, some people in risk groups will move into safer groups as they age.

Effects on population growth are likely to be twofold. As HIV education makes impact, there will be a natural decrease in birth rates. This will be exacerbated by infant mortality: Doyle's data leads to the assumption that 40% of infants born to HIV positive mothers will contract Aids immediately.

There was discussion among the 200 actuaries who saw Doyle's presentation about the options open to life offices — that is, excluding Aids-related deaths from policy benefits, or insisting on policyholders undergoing tests every five years. There was no unanimity.

B Day 23/11/90 (58)

Southern Life ups dividend by 21,6%

CHARLOTTE MATHEWS

LIFE assurance group Southern Life increased its dividend by 21,6% to 22,5c a share in the six months to September in line with its policy of setting the interim dividend and earnings figures at half the totals of the previous year.

Chairman Neal Chapman said the group's outlook was reflected in the fact that policy had not been changed, although it had not been an easy year.

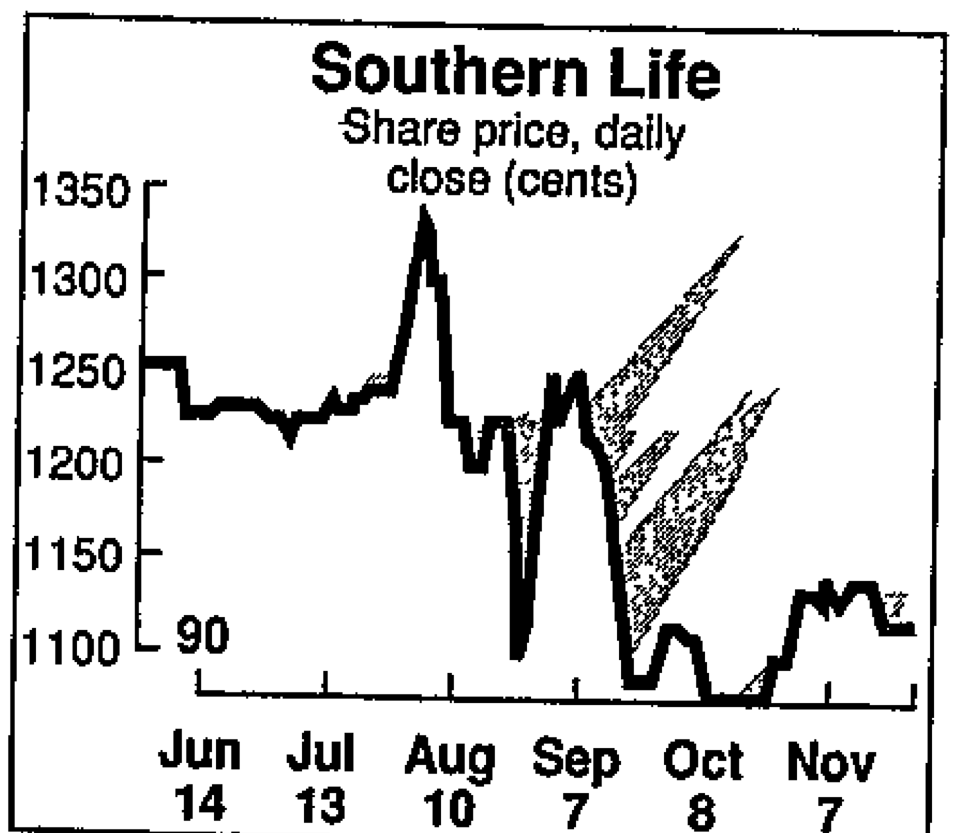
Disclosed earnings rose 20% to 33,8c a share on an attributable taxed surplus of R56,95m.

Total income for the period rose 19% to R1,4bn, of which 65% or R898,54m was derived from net premium income and 35% or R488,91m from investment income.

New business climbed 27% to R410m of which single premium business contributed R244m and recurring new business by R166m.

Chapman said that although assets had fallen 4% to R13bn between March and September, reflecting the performance of the JSE, the broker division had turned in "a very fine performance.

"People are still buying insurance. Our bread and butter business reflects the fact that even in these economic conditions there is a growing number of people in the emergent new markets who are buying insurance for the first time."



Graphic: LEE EMERTON Source: JSE

On investment policy, Chapman said this was not a time to be selling shares.

"While we are not investors in equities at present , we are not sellers. New cash flows are moving in to improve liquidity."

He added Southern had made some significant property investments in the last few months.

"In the absence of unforeseen factors arising during the remainder of the financial year the taxed surplus and dividends a share are expected to show satisfactory increases over those of the previous year."

Southern's shares closed at 1 130c yesterday, having dropped 16% from their year's high of 1 350c in August.

Chapman said the shares were lower than they should be, reflecting the equity market.

alterations rose by 8,5%.

The total value of residential buildings completed in the nine-month period fell by 15,4%, but non-residential buildings and additions and alterations rose by 9,3% and 2% respectively.

Building Industries Federation of SA (Bifsa) economist Charles Martin said the figures reflected the continuing downward

would rather stay in a townhouse than a detached dwelling.

"That market will also start to turn down now. A saturation level is coming up there as the initial fright has petered out."

"People in the industry are still busy but their order books are very thin for next year. By June next year there will be quite a decline in their work volumes."

Pension-linked housing plan welcomed

B.Day 23/11/90

LESLEY LAMBERT

OLD Mutual's new pension-linked housing scheme has received strong support from major pension and provident fund clients. Nearly 100 major funds responded positively to the scheme at a briefing in Johannesburg yesterday. 58

Their response was significant as widespread implementation of the scheme would depend on the approval of the trustees of each individual retirement fund, a spokesman said.

Assistant general manager, Henk Beets, stressed that:

☐ Only the withdrawal benefits and contributions of members who took up the housing option would be used to provide loans to those members. Fund members could use their own accumulated withdrawal benefits to assist in financing the deposit and repayment of a home loan.

☐ The pension benefits of members not taking advantage of the scheme would not be subsidising those who did as the financing was linked only to a member's withdrawal benefit. Nor would the money of individual insurance policy holders be used to provide financing for the scheme.

☐ Members who used the scheme would retain the full value of their retirement benefits.

NEDCOR FM 23/11/90

A CAPITAL PLAN (58)

Nedcor's focus on capital adequacy and better disclosure, rather than income and dividend growth, is aimed at bringing the group into line with international standards. This is in preparation for the day the debt standstill is lifted and SA banks can again

(58) FM 23/11/90 (58)

GETTING AHEAD

Year to September 30	1989	1990
Net interest income (Rm)	890	1 135
Operating income (Rm)	493	664
Net income (Rm)	257	287
Total assets (Rbn)	29,7	35,1
Earnings (c)	138	154
Dividends (c)	46	51

raise money in overseas markets.

CE Chris Liebenberg says a five-year strategic plan for a sanction-and-standstill-free scenario will be ready soon. "This scenario will decide where we use our capital and how we grow our balance sheet." He believes the performance for the year to end-September has geared the bank for the broader-based risk of an international market.

But 1990's profits were dampened by — among other things — a conservative provision for bad and doubtful debts. This has been increased by 84% to R158m. It includes R13m added to the general provision for bad debts and a R29m loss taken by UAL on a forward exchange contract and paid for in finrands.

Also, R100m was transferred from the distributable reserve to a newly categorised general risk provision. As a disclosed reserve, net of deferred tax benefits, this reserve ranks as secondary capital and amounts to R251m after tax. Liebenberg says that in case of disaster, R500m will have to be lost before the capital is touched. "This makes us one of the best-capitalised banks in SA."

The board has taken this conservative approach and held the increase in the dividend to 11% — with the cover, as promised, at three times — so it will be less likely the bank will have to turn to shareholders to raise additional capital. But Liebenberg says it is difficult to predict whether additional capital will be needed to reach the 8% risk-weighted capital:asset ratio by 1995. "It depends on balance-sheet growth and profitability," he adds.

Net income grew by a pedestrian 12% to R287m — though Liebenberg points out this is after bad debt provisions and tax equalisation reserves. Net operating income rose by 35% to R664m.

Balance sheet growth was pushed by a 21% increase in advances, way above the 1%/month requirement requested by Reserve Bank Governor Chris Stals. Liebenberg says home loans increased 26%, to R10,5bn, and Nedbank financed some large corporate projects. Because of the 24% increase in capital and reserves to R1,8bn, the capital:asset ratio improved from 5% to 5,2%.

Conservative bad debt provisions are all

FM 23/11/90 (58)

very well. But what is ~~worrying~~ is the large increase in expenses, when other banks such as First National are curtailing expenses. FNB's expenses rose 7,5% and Nedcor's rose 23% to R1,3m. Liebenberg says this jump was largely a result of an increase in staff costs, bunched advertising expenditure and computer expenses. He says the expense ratios need to be addressed.

Interest margins were under pressure, though interest received and interest paid is not specified. This is because of high interest rates and Nedcor's exposure to the wholesale market, especially through Nedbank and the merchant banks, Finansbank and UAL. Of some benefit is the 25% increase in income not related to capital or margins.

The wholesale business will benefit once interest rates fall but there will be a negative impact for the home loan side. "Lower rates should have a marginal negative effect overall," Liebenberg says. Improving asset/liability management will be an area of focus this year. Other areas are credit and expense control, balance sheet growth and capital adequacy. Nedcor will also be addressing its position in the consumer market where it is not yet up to critical mass levels.

After an 18,6% advance in the first half, the full year's earnings were up by 11,6%. If this is indicative of a trend, it does not augur well for the banking sector's performance next year. At 980c, Nedcor's p:e has risen to 6,8 with a slightly higher yield of 4,9%.

The share has a better rating than FNB but lags SBIC. *Heather Formby*

MUTUAL & FEDERAL FM 23/11/90

SOFT MARKET

58

Increasing costs of claims and relatively low premiums are pushing more short-term insurers into an underwriting loss.

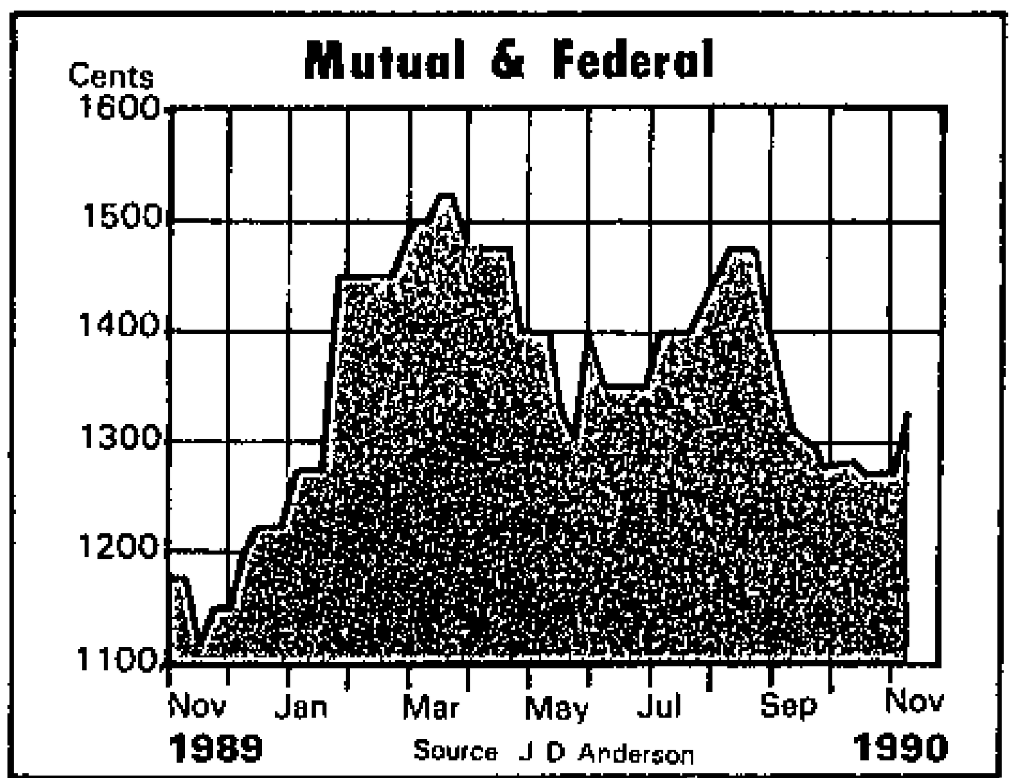
Mutual & Federal managed to escape this syndrome in the year to end-June, by posting an underwriting surplus of R11,6m, but this was 79% below the 1989 surplus and the short-term industry's outlook for the current year is not encouraging.

COMPANIES

FM 23/11/90 58

Activities: *Short-term insurance.*
Control: *Ultimately held by Old Mutual.*
Chairman: *G A Macmillan; MD: K T M Saggers.*
Capital structure: *46,5m ords. Market capitalisation: R616m.*
Share market: *Price: 1 325c. Yields: 3,0% on dividend; 14,3% on earnings; p:e ratio, 7,0; cover, 4,8. 12-month high, 1 525c; low, 1 120c. Trading volume last quarter, 151 000 shares.*

Year to June 30	'87	'88	'89	'90
Total assets (Rbn) ...	0,81	0,90	1,37	1,76
Net premiums (Rm) .	424	593	681	748
Underwriting profit (Rm)	13,6	45,4	54,0	11,6
Investment income (Rm)	39,2	58,3	91,1	109,7
Pre-tax profit (Rm) ..	52,8	102,6	143,8	121,3
Earnings (c)	17	22,5	30	40
Dividends (c)	39,2	58,3	91,1	109,7



FM 23/11/90 58

MD Ken Saggers says the market is still extremely soft and the cost of claims is increasing all the time. He adds that in the first quarter of the 1991 financial year, M&F's claims costs rose 30%. This comes on top of a 30% increase in the previous financial year. "In the past six to eight weeks motor repair costs increased by around R300 a claim," he says.

Saggers says there have been some moves in the industry to get domestic premiums into line with costs, and motor premiums, which have already risen, are set to move higher. But Saggers believes premiums are still insufficient to pay for losses.

Rising costs are worsened by increases in the number of claims. These rose 10% in the year to June for M&F and Saggers sees these increasing as the economy slackens, unemployment rises and fraud, arson and theft become even more common.

Even investment income will be under pressure this year. In the 1990 year M&F's investment income rose 21% to R110m. The R105,6m purchase of National Employers' General in June had no effect on figures for the 1990 financial year. Saggers expects the purchase to lift M&F's market share by one of two percentage points.

M&F is one of the short-term insurers best able to cope with losses which might dig into reserves. Others are not so lucky but the Registrar of Financial Institutions should be aware of problems because insurers are now required to provide him with trading returns every three months.

M&F already has the full 10% of net premium requirement for the contingency reserve introduced in 1989, though this is required only by 1993. Its solvency margin — the ratio of net assets to net premiums — is one of the highest in the industry at 125%.

The share, at 1 350c, is the best rated of the short-term assurers, based on the 3% yield and 7 times p:e. But the price has fallen 12% below the 12-month high to reflect investors' concerns about the 2,6% dip in EPS and the unpromising outlook.

Heather Formby

the 12-month high of 2 375c. *Gerhard Slabber*

ALLIED FM 23/11/90 (58)

HEAVY COSTS BURDEN

For the Allied group, the six months to end-September represent something of a watershed: September 3 saw the introduction of a cheque account facility and with this the end of an extensive product development programme.

The significance is that, from the time of the listing, results have been depressed by heavy product development costs. With these out of the way, shareholders will be watching to see if expansion of the product base is finally going to generate a better match between profits and asset growth.

It is not hard to define the basic problem with Allied. Taking the last two complete financial years, the group has achieved a highly satisfactory 39% increase in advances. But while this was almost matched by a 33% increase in net interest earned over the two-year period, the growth in EPS was only 13% — despite a significant drop in the tax rate.

That the market has found this unacceptable is shown in the dividend yield which, at 6,7% (after taking into account the increase in the interim distribution), is the third-highest among the nine listed banking-building society majors. The two with higher yields are Bankorp (8,9%) and Saambou (8,8%), the sort of company which Allied would probably prefer not to keep.

The reason for the difference between growth in net interest earned and the increase in EPS lies in the fact that what Allied calls non-interest expenditure has ballooned 68% since 1988. This includes product development costs, a computer upgrade (one of the factors mentioned as having depressed 1989 results) and the more usual banking items such as bad debt provisions.

The effect was to *reduce* 1990 pre-tax profits by 12% compared with 1988, despite the one-third improvement in net interest earned. That EPS advanced at all over this period was attributable to a smaller tax charge.

Viewed against this background, the latest results contain some encouraging features. For one, the 15% improvement in EPS, while not particularly impressive in itself, at least kept pace with the growth in advances. Secondly, the increase in net non-interest expenditure was, by recent standards, fairly modest at 12,5% and was consequently less of a drag on the bottom line than has been the case in the past.

This despite the fact that costs relating to the start-up of the cheque account facility have been written off during the review period and that, in line with the general trend of the economy, it has been necessary to make larger provisions for bad debts. These costs were, however, partly offset by buoyant profit from the insurance subsidiary which, though not quantified, contributed to a 52% increase in non-interest income.

Against these positive aspects, growth at pre-tax level was under 4%. So the major part of the 15% earnings advance again came from lower tax. The tax rate is now down to 31,6%. One must conclude that this rate now has more upside than downside potential — a factor that could dilute future earnings growth even if the situation improves further up the income statement.

Something else that could inhibit any upward rating of the share is that Allied is now taking steps to implement its three times dividend cover policy. Average cover over the past three years has been 1,9, with the 1990 figure not much different at 2. So there is quite a long way to go and, particularly while the economy remains in its present state, this makes remote the prospect of dividends keeping pace with inflation.

Clouding the whole issue of rating the share, however, are the continuous discussions with UBS, Volkskas and Sage. The possible permutations here are so wide that any view on the company needs to be qualified to a degree that makes it largely meaningless. *Brian Thompson*

ALLIED'S HALVES

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '89
Net interest (Rm)	158,6	164,9	174,1
Non-interest inc (Rm)	46,3	48,3	70,4
Non-interest exp (Rm)	153,8	174,7	191,4
Net income (Rm)	31,7	37,0	42,5
Earnings (c)	10,7	12,6	12,3
Dividends (c)	5,5	6,0	6,0

FOX FM 23/11/90 (58)

RECESSION FIM 23/11/90 (58)

GOOD-TIMES, BAD-TIMES SURVIVAL

More fortunes, it is said, are made in property in bad times than in good. That maxim may have a ring of truth about it but offers scant comfort to the many recession-hit developers who have their backs to the wall now.

It happens every time. Each time the economy sinks into a recession, you can, with some certainty, add a few more property developers' names to the growing list of business casualties.

In the Sixties and Seventies it was Corlett Drive Estates, Glen Anil and Hoffman Bros which went west. In the Eighties, Natal-based TDH Holdings earned the distinction of being the first building company to list on the JSE's development capital market — only to end up as the DCM's first real failure.

More recently, names like Pretoria-based developers Debruynplan and Greenfield Properties have been added to the list of developer fatalities. But with office vacancies rising countrywide and rental income being squeezed, other spectacular crashes are bound to follow.

John Rayner, of stockbroker Max Pollak & Freemantle, says that in most instances cash flow seems to be at the root of the problem. "Property developers tend to be over-optimistic and, instead of building contra-cyclically, they build with the cycles with the result that too much space comes on stream in recessionary times."

For confirmation of that, look no further than the rising office vacancies in Sandton where vacancy levels are rapidly climbing into their upper teens. There must be more than a few developers hurting as a consequence.

But Rayner does add a word of encouragement. He says developers are slowly learning the lessons of the past and space excesses today are not nearly as serious as they were in the mid-Eighties.

"Developers are paying greater attention to pre-letting schemes and getting a feel of market needs," he says.

Not that business failures during downturns — especially in the case of property developers — are a specifically SA malady. Meridien's Errol Friedmann points out that SA is simply emulating the US and Britain where "the blood is flowing in real estate."

Office vacancies in most big US cities, he says, are running at around 30%. "The Chase Manhattan Bank has allocated a budget of $650m to cover this year's real estate losses. Another large US banker posted a $44m third quarter loss, largely because of 'sour loans' to developers. And London office rentals have dropped by 25% in a year," he says.

E G Chapman's David Avery concurs: "As with London," he says "things will get pretty ugly for SA developers before they get better. The recession has a long way to run and I doubt that even a drop in interest rates will help many of the companies that are down."

Sapoa president and M&R Properties CE Eric Field, however, puts great store in running the business wisely and responsibly in these tight times. "There are several problem firms in the industry. These potential crashes were the high fliers of a year or two ago, and perhaps there is something to be gathered from that.

"I disagree with the axiom that there are only three fundamentals to property: location, location and location. There is only one and that's timing. Location is meaningless if a development is brought on in the right place at the wrong time."

Like Rayner, Field believes over-gearing is the scourge of the property industry. However, he believes institutional lenders must carry some responsibility for over-development and the over-gearing of development companies. The pressure to lend funds means they aren't always sufficiently careful when appraising a developer's ability to meet his obligations

"Then, unfortunately, when financiers burn their fingers they overreact and won't back viable schemes when times get tough," he says.

Property economist Erwin Rode, of Real Estate Surveys, laments the fact that too many developers rely on gut feel rather than sound business principles "It amazes me just how little medium-range forecasting is done by developers. Planning is the most difficult thing to perfect in property because of the long gestation period for schemes. Medium-term forecasts of critical property variables are of crucial importance in terms of getting development timing right," he says

Another critical aspect, according to NBS Developments MD David Gorvan, is the relationship between total capital employed (all borrowings, equities and retained earnings) and turnover. "Companies which drop below a 1:1 ratio in terms of sales divided by total capital employed are in for trouble," he warns.

There are, however, several "golden rules" which developers should follow, particularly in these difficult times They include:

☐ Avoid being greedy; one cannot be too conservative when contemplating a development. The size of a project should be strictly related to the size of a developer's asset base;

☐ Avoid under-capitalisation and high gearing;

☐ Aim to have a minimum of 50% of a

FIM 23/11/90 (58)

scheme pre-let before proceeding;

☐ Developers should seek equity partnerships with institutions in the case of large schemes which they cannot comfortably finance themselves;

☐ They should avoid offering unrealistically low rentals in order to fill vacant space at any cost;

☐ Conduct medium range forecasts with best and worst case scenarios to try to anticipate the economic environment their schemes will be launched in; and

☐ Maintain a strict balance between income and total capital employed.

The bottom line is that the fundamentals must be right if a developer is to survive in the hard times. The good times will take care of themselves. ■

LLET

%, from 311 to 385, and by nearly
n value from R9,7m to R19m. The
r of flats approved went up by
rom 229 to 362, and by 180% in
from R5m to R14m.
decline in plans approved is the
uation of a trend evident last year
now reflected in fewer dwellings
completed.
RSC says the number of houses
eted in the first half fell by 22% —
108 to 4 006 — compared with the
is year.
nhouse completions fell 46%, from
188, but the number of flats com-
rose by 60% from 98 to 157.
value of plans approved for indus-
nd warehouse developments in-
l by 16%, from R20,7m to R24m,
r offices and shops by 143%, from
n to R60m. The improvement in

and 16% in value from R143m to R120m. Prospective homeowners apparently opted for cheaper flats and townhouses. Plans approved for townhouses increased

these two sectors helped to limit the drop in the overall value of building plans approved to only 1%, from R347m to R344m. ■

FM 23/11/90

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HOME LOANS FM 23/11/90

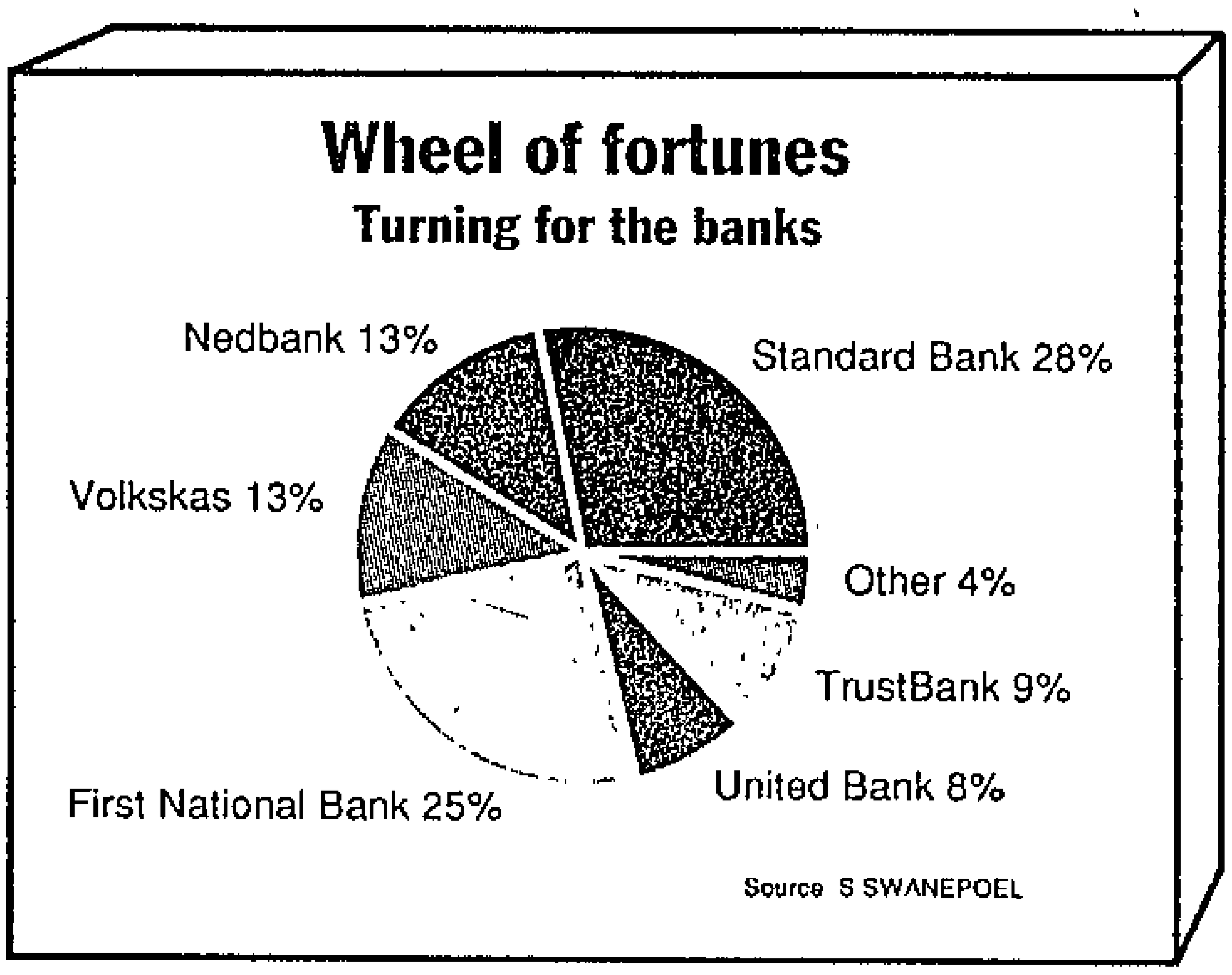
TIT FOR TAT (58)

In contrast to the aggressive, high-profile thrust by banks into the home loans market, the counterattack by building societies into traditional banking domains has received scant attention.

All this could be changing, however, with imaginative initiatives, such as the Perm's new income related bond initiative launched last week.

On balance, though, the net result of the competition has been casualties on both sides, with the bigger organisations seemingly faring the best.

On the banking side, a survey of 500 estate agents shows that while most still keep their current accounts with the big banking institutions, some of the newcomers, notably United, have made significant inroads into this market (see diagram).



Real estate consultant Stefan Swanepoel, MD of Swanepoel Van der Vyver & Associates, whose organisation conducted the investigation during the second quarter of the year, says the findings point to Standard and First National Bank between them still con-

FM 23/11/90 (58)

trolling more than 50% of the current account market.

"Standard, as an aggressive mortgage lender during the past three years, has the edge with 28% of estate agents' current accounts while FNB is on 25%. Volkskas and Nedbank each have a 13% market share."

He says United has done remarkably well in the relatively short time since the launch of United Bank. In two years as a bank, United has climbed to sixth place, just behind the troubled TrustBank. It holds 8% of estate agents' current accounts, compared with 9% by TrustBank. This is twice as much as the balance of the small fry banks in the current account market.

United, it appears, is also still the leader in the R15bn new home loans market. Nevertheless, the big banks are doing an impressive job of chiselling away at the building societies' market share.

In spite of Reserve Bank statistics (*Property* October 12), which hint that some banks may be faltering in their quest for home loans market share, the bigger institutions maintain they are as determined as ever to cultivate this side of the business.

Terry Power, of Standard's home loans division, confirms this by comparing his organisation's share of the mortgage finance market in the second quarter of this year with a year earlier. According to Power, Standard's share of new bonds in the April-June quarter was 11,9%, compared with 9,8% in the same quarter last year.

"That's a 2,1 percentage point gain in a year which, I believe, is a bigger jump than any other institution in the period."

Furthermore, he adds, August was Standard's busiest month in home loans since February. Most of this activity was in the A-B income group, which has shown greater resilience to recession than other sectors. September, he says, was also a good month, considering market conditions.

"Standard's bond book now stands at about R5,5bn with mortgages in the pipeline pushing it over R6bn. So we are definitely one of the stronger players," he says. Even so, he concedes the bank still lags behind three other institutions in terms of the total share of the bond market.

This fits in with Swanepoel's extrapolations. He believes United and Standard are joint frontrunners in the chase for new bond business. Each, he maintains, is signing up about R330m a month in new mortgages.

In total mortgages being serviced, Swanepoel says United leads the field with a 22% share of the market, followed by Nedperm at

FM 23/11/90

19,4%, Allied at 13,6% and then Standard at 12,1%. (58)

However, he believes there could be a significant shift if, as is rumoured, Allied teams up with a major institutional partner.

An Allied marriage with United would certainly entrench United's leadership. However, a more synergistic tie-up between FNB (which has 9,2% of the market) and Allied (because FNB is strong in banking and Allied in mortgages) would create a new market leader. ■

BANK TO BANK

African Bank has bought the African Bank Centre, Marshall Street, Johannesburg from French Bank for an undisclosed sum. African Bank has occupied part of the nine-storey building as a tenant for five years. The purchase was financed through the bank's own resources.

REDEVELOPMENT

SEA POINT ISLE?

An 11 ha site owned by Sanlam on Cape Town's Sea Point beachfront has been earmarked for a major sectional title development.

The site is made up, in part, of the five-star President Hotel which is leased and managed by Southern Sun. The lease expires early in 1992.

Sanlam assistant GM properties Danie van den Berg confirms that development plans are being considered. He says the prime property, with uninterrupted sea views, is regarded as underdeveloped.

Nothing, however, has been finalised and five development options are apparently being considered. Van den Berg says Sanlam regards the site as suitable for sectional title development and possibly a new luxury hotel. However, he points out that hotels are not regarded as good investments at present.

He categorically denies Sea Point rumours that Sanlam is negotiating to build a Beacon Island-type hotel on the rocks in front of the site, or that it plans a highrise office block on the property.

He says there was a suggestion — not by Sanlam — that an hotel on the rocks might be considered but it was rejected because of the cost and probability that such a scheme would cause a massive public outcry.

He says height restrictions are about seven floors at the rear of the site and nine at the front It seems unlikely, however, that any development will make use of the full bulk.

The only commercial development, he says, will be within the hotel itself — if one is built.

Van den Berg says Sanlam hopes to decide in the next few weeks. If the development proceeds it will be in stages. ■

Star 23/11/90

Southern expecting another good year

58

By Derek Tommey

Southern Life is expecting another good year, in spite of more difficult trading conditions.

Southern taxed attributable earnings for the six months ended September increased by 20 percent to 33,8c a share while the interim dividend has been increased by 21,6 percent to 22,5c a share.

These figures are not a precise reflection of Southern's progress. This is because it is group policy to set interim figures at 50 percent of the previous year's totals.

However, the fact that the company's directors are prepared to continue with this policy suggests that on the evidence available to them Southern should show something in the region of a 20 percent profit increase this year.

The chairman, Mr Neal Chapman says the taxed surplus and dividends a share are expected to show satisfactory increases.

Net premium income grew by 24,5 percent from R721,8 million to R898,5 million in the six months to September.

New business totalled R410 million, an increase of 27 percent on the corresponding period last year. This was made up of single premium business of R244 million, and recurring new business production of R166 million.

Investment income rose 10,6 percent from R441,9 million to R488,9 million.

However, the drop in JSE prices reduced the value of investments from R13,2 billion at the end of March to R12,5 billion at the end of September.

Southern is neither a buyer nor seller of listed shares at the present, preferring to build up liquidity. However, it had been active in the property market, says Mr Chapman.

Star 23/11/90 (58)

Consumer debts soar

Judgments against consumers for debt increased by 48,7 percent in August this year compared with August 1989.

Judgments against businesses for debt increased 9,7 percent in the same period, according to figures released by the credit information company, Kreditinform reports the SABC.

In August this year the value of judgments against consumers reached R177 million as opposed to R119 million in August last year. Judgments against businesses totalled just more than R17 million rands in August compared to R15,6 million in the same month last year.

Kreditinform managing director, Mr Ivor Jones, said high interest rates had taken their toll of businesses as well as individuals who had over-extended their credit.— Sapa.

New ball game for the banks

Star 23/11/90 (58)

Diagonal Street

ANN CROTTY

Home loan activity and equity investments seem set to become more attractive to banks following the implementation of the new Deposit Taking Institutions Act (DTI).

The new Act, which will be phased in from January 1, will put little pressure on the banks (in terms of capital adequacy ratios) in the first two years. But in 1993 and 1994 as the banks move from a capital base of approximately 6 percent of assets to approximately 8 percent, the pressure will be on.

Building societies such as the Allied and NBS — which are not yet tied to any of the five major banks — will become attractive takeover targets as their home loans will carry less onerous capital requirements.

Standard Bank's Andrew Fleming estimates that the capital requirements attached to home loan activity should be well below 4 percent after the complete phasing in of the new act.

At present, the figures from the major banking groups show that their capital is equivalent to about 5 percent of total assets. This compares with the capital requirement ratio of 8 percent under the new act.

But strict comparison overstates the burden facing the banks because the definition of capital under the new act is far wider. In addition the assets and contingent liabilities on a bank's balance sheet will be "risk-weighted" according to the nature of the risk to which the bank is exposed.

According to Mr Fleming, risk weightings vary from zero (in the case of cash and investments in RSA securities), to 20 percent for inter-bank exposures and 100 percent for unsecured loans and advances. Off balance sheet exposures are weighted in a similar way.

"Thus the amount of capital required becomes a function of the mix of a bank's assets and exposures, weighted according to their underlying risk."

On the capital side, banks will in future be able to use secondary as well as primary capital. Primary capital includes ordinary share capital, non-redeemable preference shares, share premiums and, distributable reserves.

Secondary capital includes redeemable prefs, 50 percent of any surplus resulting from a revaluation of assets (usually investments and properties), general debt provisions less any related deferred tax and, inner reserves.

The ability to include secondary capital means that before resorting to shareholders for additional equity banks will have much wider access to internal sources such as general debt provisions, asset surpluses and debentures.

Equity investments will get much more favourable treatment under the new act.

Mr Fleming indicates that at a later stage this might encourage banks to take a more active role in venture capital projects. But he stressed that in relation to the more favourable treatment of both equity investments and home loans, bank activity in both these fields will be determined by the banks' own risk management principles — of which capital adequacy is only one part.

New deal for banks on home loans

W/L ARGUS (58) 24/11/90

From ANN CROTTY

JOHANNESBURG. — Home loan activity and equity investments seem set to become more attractive to banks following the implementation of the new Deposit Taking Institutions Act (DTI).

The new Act, which will be phased in from January 1, will put little pressure on the banks (in terms of capital adequacy ratios) in the first two years. But in 1993 and 1994 as the banks move from a capital base of approximately 6 percent of assets to approximately 8 percent, the pressure will be on.

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Wider defenition

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More active role

Secondary capital includes redeemable prefs, 50 percent of any surplus resulting from a revaluation of assets (usually investments and properties), general debt provisions less any related deferred tax and, inner reserves.

The ability to include secondary capital means that before resorting to shareholders for additional equity banks will have much wider access to internal sources such as general debt provisions, asset surpluses and debentures.

Equity investments will get much more favourable treatment under the new act. Previously equity investments had to be matched equally with capital. Under DTI, banks will only have to match 8 percent of the equity investment with capital.

Mr Fleming indicates that at a later stage this might encourage banks to take a more active role in venture capital projects. But he emphasised that in relation to the more favourable treatment of both equity investments and home loans, bank activity in both these fields will be determined by the banks' own risk management principles — of which capital adequacy is only one part.

Southern Life flashes warning for assurers

S Times 25/11/90 (58)

By DAVID CARTE

FIRST signs of more difficult conditions for assurers are contained in the interim results of Southern Life.

The evidence comes not in the form of slower earnings growth, but in a R700-million diminution of the investment portfolio.

Even though there was a net inflow of R1,4-billion in the six months to September, investments were R12,4-billion, down from R13,2-billion in March.

Investment chief Jan Calitz acknowledges that the lower stock market played a part in the portfolio's uncharacteristic decline.

"Ever since the Persian Gulf crisis started, investment conditions have been harrowing. I think the Middle East situation will be extremely negative for sentiment in the short term. Other negatives are tight monetary policy and the stronger financial rand."

Mr Calitz does not believe there will be a unitary rand in any hurry, suggesting potential for the finrand to weaken again and for affected shares to receive a small boost.

He recalls that last time there was a unitary rand, the gold and foreign-currency reserves were rising, the gold price was increasing and the discount between the two rands was small. Those are not the conditions of today.

Failing shocks from the Persian Gulf, Mr Calitz does not expect the stock market to decline much further. He believes resolution of the gulf crisis and the easing of tight monetary policy, first in the US, then in other Organisation for Economic Co-operation and Development countries and eventually SA could well turn markets in the medium term.

He does not expect the Reserve Bank to loosen the screws too soon.

"If I'm bearish, it's very short term, for perhaps the next couple of months. But I am aware that institutional cash continues to flow in and that it is hard to get quality scrip.

"There could well be a sudden upturn and nobody is going to ring a bell. The low volumes being traded at the moment could indicate that we are close to the bottom."

Southern's largest purchases in the last half-year were Sasol, Anglo American, Impala, Lonrho, Minorco and Barlows. Southern bought R50-million of Lonrho in the six months, not because it is building a strategic stake but purely on the company's investment merits.

Half of Southern's total portfolio is in equities, 17% in property and 33% in fixed-interest securities of varying maturities. Mr Calitz says total liquidity is about 10%. Were he exceedingly bearish, he might permit liquidity to rise to 20%. If he were bullish, he would be prepared to run it down to zero.

Anxiety

Southern claims its investment performance matches the best. In the latest Alexander Forbes survey, one of its pensions portfolios came second out of 17 over one year and first of 13 portfolios over 10 years.

Chairman Neal Chapman says the 24% rise in net premiums indicates that policy sales are going well in spite of recession and political uncertainty. While anxiety about the future places doubt in some sophisticated First World minds, thanks to union-induced pay increases, thousands of others are moving up into middle-class First World circumstances — and these people are becoming active buyers of assurance products.

Chief actuary Adrian Arnott says positive real interest rates have made banking savings products more competitive. But he doubts that over the long term any investment product will compete with equities and properties.

Southern's sales drive is focused equally on the field force and brokers. It spends R3-million on advertising, mainly to raise awareness of its name.

To celebrate its centenary, it is offering existing policyholders a 15-year endowment, which is expected to pay out R100 000 for a premium of R100 a month and R200 000 for R200. The premium rises 15% annually and in calculating the return, a 15% annual return is assumed.

Because no actuarial valuation is made in September, the earnings number published by the Southern at the half-year is merely half of the previous year's earnings. It is thus meaningless and one wonders why Southern even publishes it.

Reliable

The only "real" number in the income statements are net premium growth, which was up 24% to R899-million, and investment income (dividends plus interest received), which rose by 19% to R1 387-million.

With a historic yield of 4,1% against Liberty's 3%, Southern seems underrated. Earnings and dividend growth of 20% is almost as reliable as sunrise. That suggests earnings of 82c and a dividend of 55c a share.

At 1 120c, the share is thus 13,6 times projected earnings and yields a prospective 4,9%.

Tiger Wheels rolls faster

TIGER WHEELS is set for further growth in the current year after increasing its retail effort and doubled production capacity at its wheel factory in Babalegi, north of Pretoria. S Times 25/11/90

In the year to June, exports grew for the fourth consecutive year. Tiger's alloy wheels are sold in seven countries in the main regions of the world.

Chairman and chief executive Eddie Keizan says most divisions are budgeting for increased earnings, although he is aware that rising fuel prices could depress the motor industry worldwide. (119)

Tiger Wheels intends to open three company-owned stores this year. The company owns six stores and supplies seven franchised ones.

In the past year, turnover rose by 26% to R52-million and attributable profit by 17% to R3,4-million.

Now FNB joins a retail bedfellow

S Times 25/11/90 (58)

By DAVID CARTE

FIRST National Bank and Prefcor, a privately owned retail group, have set up a joint venture, further narrowing the gap between retailing and banking.

In a move similar to Wesbank's placing of outlets on car dealers' floors, they have established FirstPref, a free-standing company that will take over the entire financial function of the retailer's credit business.

The company will advance consumer credit, manage the debtors' book — without recourse — and finance stocks.

FNB managing director Barry Swart says: "Prefcor can get on with trading while FirstPref looks after the credit and the financing."

Terry Rosenberg, controller and managing director of Prefcor, which comprises Beares and other furniture chains, Garlicks and Game, says: "The arrangement sets us free to grow without worrying about stocks and debtors."

Vague

The deal comes hard on the heels of an arrangement between Nedcor and SA Breweries' huge retail subsidiaries. Nedcor is expected to place banking outlets in Edgars, OK Bazaars and Amrel and to market aggressively to their 3,5-million credit clients.

It is not known whether Nedcor will help with debtors and funding of stocks.

SA Brews managing director Meyer Kahn says: "We have been deliberately vague. There are many opportunities."

These deals are expected to result in a flurry of further deals between banks and retailers.

Geoff Austin, chairman of independent Rusfurn, which is so far unaffected, says: "In my annual report I said this type of thing would happen. There is R5-billion of consumer credit at stake.

Plum

"We have a debtors' book of R1-billion and have spoken to two banks — not FNB or Nedcor. We expect to make an announcement in January."

With SA Brews committed to Nedcor, Tradegro is the biggest retail plum available. Being part of the Sanlam group, Tradegro is expected to ally itself with Bankorp.

Bill Chambers, financial director of the R7-billion-a-year Tradegro group, says his group has been talking to banks.

Mr Swart says the advantage to the bank in FirstPref is that it cements a relationship with a major retailer and gives access to higher-margin consumer credit. It also puts the bank in touch with a million account holders in Beares.

It permits securitisation in the future. The bank has flexibility in deciding whether or not to put these assets on its balance sheet.

Initially, only the R600-million debtors' book for furniture will be affected. Garlicks could be involved later.

Mr Swart says the bank is eager to do similar deals with other retailers. He warns, however, that it is not easy.

•Standard Bank managing director Mike Vosloo was aware of both deals before they happened.

He says: "I'm humble enough not to believe you can teach a market manners — so even though I don't see a lot of appeal in these deals for us, if we see them as a competitive threat, we will react."

Two (58)

in one

NBS HOLDINGS is to combine the operations of its building society and its bank into one company. It will trade as NBS Bank Limited.

Group managing director John Gafney says the move comes in anticipation of the Deposit Taking Institutions (DTI) Bill to be introduced early next year. S[Times 25/11/90

Two new executive directors have joined the board of NBS Holdings. Mark Farrer will be director of management services and John Smale will head the operational division.

Star 26/11/90 (58)

Two property funds to merge

By Derek Tommey

Two property funds are planning to merge — CBD Property Fund (CBD) and Federated Property Trust (Fedfund).

The merger will create one of SA's larget property trusts, with a market value exceeding R300 million.

It is proposed that CBD will acquire the Fedfund property portfolio by issuing 84 new CBD units for the every 100 Fedfund units.

The effective date of the amalgamation of the two trusts will be January 1 1991.

Sge Property Trust Managers, which operates the two funds, sees substantial benefits arising from the merger.

It says the trusts will be able to invest in significantly larger proprty developments than either can now contemplate.

The larger capital base will ensure that no single property has an excessive weighting in the portfolio. It will also lead to a lower risk profile.

There will be considerable savings in administrative costs and it will enable joint participation in new developments.

Sage Property Trust Managers forcasts that CBD's earnings for the year to December will be not less than 30,69c a unit. It forecasts 27,10c for each Fedfund units.

If the amalgamation had already been in force, earnings on CBD units would have been 31,47c and earnings on Fedfund units would have been 26,43c.

Equities market to 'bottom out soon'

B/Day 26/11/90. (58)

LESLEY LAMBERT

CAPE TOWN — Old Mutual's new assistant investment GM, Rowland Chute, is confident the equities market will bottom out next year and become more buoyant in the longer term, even though the odds are stacked heavily against it now.

Chute is replacing current assistant GM Rob Lee in an equities-unfriendly environment of high interest rates, economic decline and uncertainty over future changes in investment tax.

On international markets, the prevailing view seems to be that the equities decade — fuelled by liquidity, economic growth and political stability — is over and that fixed interest or other investment markets will come to the fore in the '90s.

But Chute believes that factors unique to SA will keep its equities buoyant in the medium to long term.

● CHUTE

Apart from the inevitable boost from a decline in interest rates next year, he argues that inflation will help sustain the market in the longer term.

"We may not see the tremendous re-rating of the past decade, but if investors buy some of the equities which have already discounted the bad news, and take a three-year view on the market, they should see relatively good returns.

"There will be a lot of cash looking for new opportunities when interest rates are brought down next year and as long as exchange control is in place the choice of growth assets to beat inflation will remain limited to equities and property," he argues.

Chute believes that in spite of current austerity measures, double-digit inflation is likely to remain a characteristic of the SA economy for the next five to 10 years.

"A change in government will bring with it greater expectations, and inflation is unlikely to remain the priority it is now when new infrastructure has to be built and new jobs created," he says.

Inflation

He does concede, though, that the future possibilities of an increase in corporate tax and a fixed low-rated withholding tax on bank deposits could have an effect on investment in equities.

"Withholding tax would make interest-bearing investments more attractive to investors.

"But, again, they would be taking a short-term view, particularly in an environment where real interest rates may not be sustained in the longer term," he says.

Finansbank assets up by more than 42%

B/Day 26/11/90

GRETA STEYN

FINANSBANK has notched up profit growth for the 19th year out of the 20 that it has been in existence, with taxed profit growing 24% in the year to September 1990.

58

The merchant bank in the Nedcor fold also pushed up assets by a hefty 42,6%. This is surprising, as merchant banks do not focus on normal bank lending to the extent that commercial banks do and hence usually do not experience dramatic growth in assets.

The surge in business experienced by wholly-owned Cape of Good Hope Bank, which focuses on lending, probably accounted for rapid expansion in the balance sheet. As banks have to keep capital against their assets, surging asset growth is not always desirable. However, the capital-to-assets position remains healthy.

MD Johannes Hamman said capital and reserves amounted to 5% of total assets (including repurchase agreements, which used to be off-balance sheet.) Capital and reserves grew by 20% to R79m and the return on average shareholders' funds was 25%.

Hamman said Cape of Good Hope Bank had been a major source of income for Finansbank.

"It is in the nature of merchant banking to have a large proportion of unpredictable and non-recurring income and one of our objectives is to increase the contribution of solid, recurring sources of income. The Cape of Good Hope Bank has been a major contributor in this drive."

EXECUTIVE SUITI

Bankorp minority shareholders in 'no' vote

58

GRETA STEYN

BANKORP's minority shareholders overwhelmingly voted against following their rights in the one-for-one offer at R2,80 a share to raise R575m in new capital.

Bankorp, whose annual report shows that it is 82% held by Sanlam's investment holding company Sankorp, reported an 85% subscription of the ordinary shares. This implies that only a small percentage of the minorities elected to buy new equity in the troubled bank.

As underwriter, Sankorp will pick up the balance of the offered shares.

Analysts said the offer price had not been pitched at minorities and the result, therefore, was in line with expectations.

The capital raised in the issue will bring Bankorp's capital-to-assets ratio up to 5,2%, exceeding the 4,5% requirement of the Deposit-Taking Institutions Act.

Banking costs 'up' in 1991

GRETA STEYN

BANKING costs are set to rise next year when new legislation comes into effect, bankers say.

Extra charges will be levied on customers with irrevocable overdraft facilities — adding almost one percentage point to the cost of credit for major corporations with credit lines — as banks pass on the cost of the new capital requirements contained in the Deposit-Taking Institutions Act, which replaces the Banks Act next year.

The regulations of the Act, circulating among bankers and due to be published in the Government Gazette this week, accord specific risk weightings to banks' assets. These determine the amount of capital banks have to hold against their assets.

The risk weightings accorded to irrevocable credit facilities imply more stringent capital requirements. Standard Bank chief accountant Henry Shaw and senior GM Andrew Fleming speculate that these stricter capital requirements will result in commitment fees, based on a reasonable return on capital of, say, 20%.

First National's Ian Anderson said commitment fees had been quite common about eight years ago. "But fierce competition has seen them virtually disappear. One could see a situation where people try to avoid irrevocable commitments, although this would, of course, be difficult for big companies who need project finance facilities."

The capital requirements of the new Act have different implications for banks and building societies, depending on their mix of assets. In general, building societies are favoured as their capital requirement is well below 4% of the assets on balance sheet. The weightings vary from zero (for cash) to 8% for unsecured loans and advances.

Fleming said it was an anomaly that the risk weighting for loans against residential property should be half that of a normal commercial or personal loan. Shaw added that it was "a socio-political issue".

Another feature of the new Act is that equity investment will be easier for banks.

FINANCE

Rumours fly after TB rate is cut

B Day 26/11/90 (58)

HAROLD FRIDJHON

THE Treasury bill (TB) rate was cut on Friday by 10 basis points to 17,59%, its lowest level since October 6 1989 — the week before Bank rate was hoisted from 17% to 18%. This was enough to get rumour-mongers mongering.

The more sober traders in the money market sincerely believe that this abnormal demand for liquid assets — Friday's tender for R120m bills attracted bids amounting to R671m — does not indicate that Bank rate will fall like the walls of Jericho. They have learnt to take Governor Chris Stals at his word, more particularly since he has indicated (vaguely) a time for a Bank rate cut: "We cannot expect a change of gears until early in the new year."

Stals evidently wants to get the November CPI figures out of the way, and the expected December fuel price reduction into the statistical records before he makes his move.

Conservative dealers are not prepared to shout hallelujah, because the easing of rates is confined to the short end of the spectrum. Rates at the longer end have been frozen for two weeks as demand for negotiable certificates of deposit (NCDs) has all but dried up.

If investors really regarded the drop in the TB rate as a star in the east, they would have spread their largesse across the board and grabbed NCDs as fast as financial institutions could issue them.

Return

Dealers stand firm in their conviction that pure market forces, the demand for liquid assets, have brought down the price for TBs, and that the same demand will pull down the BA (bankers' acceptances) rate to 17,85%, and possibly lower for really prime paper. On Friday a banker said he had seen trade at 17,80%, which shocked a discount house dealer.

From an investor's point of view, a three-month NCD which earns 18,75% gives a better return than a BA rate of 17,80% which yields 18,60%, but an NCD is merely a market asset, while the BA is the finest of fine commercial paper. Current NCD trading rates are: six months 18,65%; nine months 18,55%; and 12 months 18,45.

The market shortage — the banks' debt to the Reserve Bank — has begun its month-end ascent, topping R2,4bn on Thursday, up about R750m during the week. It will certainly surpass last month's R3,4bn this week in spite of the banks being relatively more liquid than they were a couple of months ago. Cash has flowed in from the more favourable terms of trade and the increase in the reserves.

The overnight call rate, too, is moving up; it was 18-18,25% on Friday. It will probably reach the 19%-20% range by Friday. But the banks are more comfortable than they were; they are now resting on a coir mattress compared with sleeping on the floor boards. But they're still a long way from a Posturepedic.

STAR 26/11/90 (58)

Sanlam sees no early relaxation of curbs

Finance Staff

CAPE TOWN — Sanlam says economic and monetary policy will not be relaxed until the second quarter of 1991.

In its Economic Survey it says this assumes an average gold price of $395 for 1991, that sanctions will possibly be relaxed and that combating inflation will still be a major government priority.

Sanlam's chief economist Johan Louw says significant tax reductions, except for adjustments to personal tax rates to compensate for the effect of inflation, appear unlikely.

Until at least the first quarter of 1991, government policy will be aimed at reducing the inflation rate and protecting the balance of payments.

"From the middle of 1991, the emphasis should gradually shift to the promotion of economic growth," he says.

Mr Louw says real gross domestic spending will probably decline further in 1990 and that it will eventually be 3,5 percent less than total expenditure in 1989.

Argus to split shares on 20-for-one basis

Star 26/11/90 58

By Ann Crotty

The proposal to split the Argus share — on a 20-for-one basis — is likely to sustain the recent strengthening in the share price despite the fairly pedestrian performance reported for the six months to end-September.

For the financial 1991 interim, earnings were up by just 2,2 percent to R13,66 a share (R13,36) and the interim dividend is unchanged at 275c.

The share price has moved against the generally weaker market conditions, advancing 25 percent so far this year to a current level of R215. Much of the appreciation was done on the back of speculation of a share split.

The move has been on the cards for some years but analysts expressed some surprise at the timing of the announcement.

This view assumes that part of the reason for splitting the share was to make it more attractive to the smaller investor who is now almost completely out of direct investment in the equity market.

Doug Band

One analyst speculated that the move may have been taken in order to facilitate an employee share incentive scheme at some later stage.

Chief executive Doug Band would not comment on this speculation.

Whatever the reason behind the decision and despite the recent strengthening of the share price, market feeling is that if the 20-for-one split is effected, the share price could advance to as much as R12-R15 after the split.

This is on the basis of previous experience with share splits and reflects the fact that the net asset value of the Argus was around R220 at end-March.

This valuation did not include a value for trade marks which in Argus' case would be significant. A share split is expected to unlock some of this additional value.

Looking at the interim figures Mr Band (who says he is very pleased with the way the group has performed in tough times), notes that performances from CNA Gallo and CTP were strong and helped to counter the impact of the 8,4 percent drop in pre-tax profit contribution from Argus Newspapers.

Associates — which includes TML, Maisters and the associates of CNA Gallo and CTP — lifted their contribution by a sterling 28,8 percent to R7,4 million (R5,7 million).

Group turnover was up 12,6 percent to R816,2 million (R725,1 million), trading income rose 3,7 percent to R58,9 million (R56,8 million) reflecting a squeeze on margins — down from 7,8 percent to 7,2 percent.

The interest bill was cut by a third — down from R3,3 million to R2,1 million. This was in line with the reduced level of borrowings that resulted from generally tighter working capital management.

In addition the group benefited from the proceeds from the sale of Argus properties in Durban.

Income from investments was down to R4 million (R4,3 million). The tax rate, which shot up sharply in the second half of financial '90 because of the need to provide for deferred tax at Hortors, was up to 44,7 percent — from 41,6 percent.

The combined effect saw a 3,3 percent drop in attributable earnings before associates to R20,7 million (R21,4 million). The contribution from associates swung this around to a 3,5 percent advance in attributable earnings — to R28,2 million (R27,2 million).

Looking to the rest of the year, Mr Band says trading conditions will continue to be tough, especially for the newspaper interests, but performances from CNA Gallo and CTP may again help to counter the full impact from the weaker areas.

De Pontes is found guilty on six charges

STar 27/11/90

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PORT ELIZABETH — A former MP for East London City, Petro de Pontes, was convicted yesterday on six of nine charges in Port Elizabeth Regional Court.

The trial has been postponed to January 14 for evidence in mitigation and sentence. De Pontes was granted bail of R1 000.

The charges arose out of his dealings with Swiss banker and director of companies Vito Roberto Palazzolo, who had fallen foul of the law in Europe when some of his financing was allegedly connected with the drug trade.

Mr Palazzolo had already been tried and convicted in Switzerland, and faced charges in Italy. The court said it was common cause he wanted asylum in a country from which he could not be extradited.

It was accepted that after visiting Mr Palazzolo three times in jail during 1986, De Pontes agreed he would represent him as an attorney for a fee of R125 000 (R130 000 according to De Pontes) to obtain Mr Palazzolo a residence permit and to register a family trust.

The president of the regional court, Mr G Steyn, found De Pontes guilty of:

- Fraudulently concealing Mr Palazzolo's illegal entry and preparing false information
- Bribing an official of the Department of Inland Affairs, Johan Scheffer, to alter the illegal entry to permanent residence.
- Stealing department files on Mr Palazzolo to hide the irregularities.
- Forging documents in his attorney's file to give the appearance that the application for permanent residence was legal and above board.
- Uttering the documents.
- Fraudulently through misrepresentation getting the shareholding in Papillon International transferred from the Palazzolo family trust to his own name.

He was acquitted of theft and two counts of fraud relating to his dealings with Palazzolo money after the court found the State had failed to prove these counts beyond reasonable doubt. — Sapa.

BANKING

Argus 27/11/90 58

More bank mergers lie ahead — UBS

By BLAISE HOPKINSON, Business Staff

RATIONALISATION in the banking and financial services industries will continue into the 1990s due to capital scarcity and squeezed margins, United group chief executive, Mr Piet Badenhorst said in Cape Town today.

Addressing the Euromoney conference on South Africa's Economic and Financial Prospects, Mr Badenhorst said while there would always be room for small, niche players in the financial services field, rationalisation would continue.

"Because of scarce capital and squeezed margins, financial institutions will be forced to rely on economies of scale to contain costs. The smaller banks who are already experiencing serious capital problems will disappear," he said.

He added the formidable costs of new technology meant mergers and takeovers among financial insitutions would become inescapable.

Mr Badenhorst also said the development of fully automated trading systems meant it was no longer necessary to enforce single capacity trading on the JSE. This could pave the way for corporate membership on the JSE.

JSE President, Mr Tony Norton, said in his address to the conference this would be "dangerous if not disastrous" in the specific South African context.

Mr Norton referred to the "Big Bang" trend which permits a broker to act as a principal with his client instead of only acting as an agent as he does at present.

"Dual capacity involves the market intermediaries becoming capital intensive as they have to finance a book of stock, whereas a pure agency broker needs only nominal capital," Mr Norton said.

He said the "evolutionary" nature of the JSE had worked to date and the introduction of dual capacity was unwarranted.

Bank rate cut 'closer' as credit growth slows

58

b \Day 27|11|90

ANDREW GILL

BANKERS are counting on a continuation of the slowdown in credit growth after Reserve Bank Governor Chris Stals apparently told a meeting of bankers last week that credit growth would have to be below the inflation rate for a Bank rate cut.

Economists say this is likely early in 1991 with estimates of credit growth around 10% in January and inflation at least four percentage points above that. Markets are also expecting a Bank rate cut early in 1991 after Stals gave a strong indication that monetary policy might be eased early in the new year.

One market sure to regain some interest, say analysts, is equities, which has been in the doldrums for months as high interest rates squeeze company profits and put a brake on earnings growth.

Investors have instead taken the high-yield money market route which has seen nominal returns of around 18% for the past year (Bank rate was upped to 18% in October 1989).

Bankorp economist Johan Els said credit growth of around 10% in January and inflation at 14,2% was a likely scenario. An early one percentage point drop in January could see another three percentage points off Bank rate, one in April, one in August and one in December, he said.

Econometrix economist Michiel Bester said gilts were also likely to benefit, with longer-term money market stock also finding interest.

The demand for longer-term money market instruments surfaced yesterday with nine-month NCDs slipping to 18,40% from Friday's 18,50%.

Stals has cited performance from four major indicators before an easing of policy can occur: growth in the Bank's holding of gold and foreign exchange reserves; control of money supply growth; curbing of credit growth; and a strong downward trend in inflaton. Reserves have grown appreciably during the year; money supply growth dipped below the Bank's recommended 11%-15% growth range in October and could reach single digits this month; and credit growth fell in September to just above current rate of inflation.

Foreign debt position seen as comfortable

Star 27/11/90 (58)

By Duma Gqubule
and Blaise Hopkinson

South Africa was now more relaxed about its foreign debt position than it had been for years, Dr Chris Stals, governor of the Reserve Bank, said in Cape Town yesterday.

At a Euromoney conference on Economic and Financial Prospects, Dr Stals said the balance of payments position was comfortable and should, for the time being, present no serious problems.

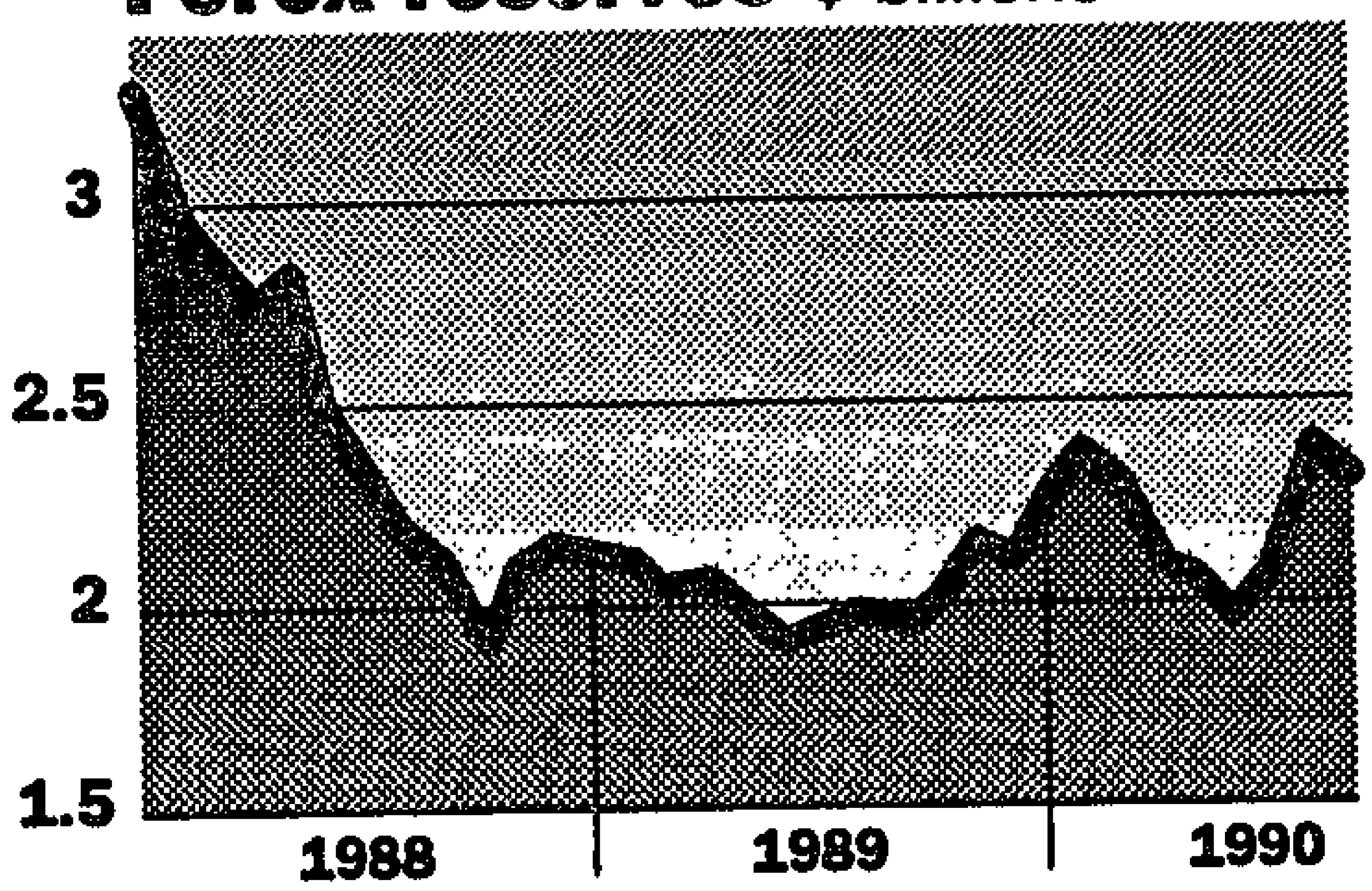
"We remain cautious, however, not to relax existing restrictive policies like the financial rand system too soon," he said.

Last month's record R2,3 billion trade surplus on the current account of the balance of payments can be expected to yield a surplus of about R5 billion for the year, say economists.

Bankorp's Nick Barnadt says: "After the oil price increases and the recent declines in world bullion and platinum prices we were expecting a surplus of about R4,5 billion.

"Although a surplus of R5 billion would be below the R6 billion that was being forecast at the beginning of the year, it would nevertheless still be an improvement on last year's surplus of R3,1 billion."

Forex reserves $ billions



Martin & Co economist Carmen Maynaard says: "A surplus of R5 billion would be a considerable achievement, given that the forecasts at the beginning of the year were made when Namibia was still included in the accounts.

"Namibia, which last year contributed about R1 billion to our current account surplus has been removed from the balance of payments accounts," she says.

Since 1985 South Africa has been compelled to run massive current account surpluses to generate the foreign exchange needed to meet foreign debt obligations.

This has forced the country to restrict growth in order to hold imports down.

However, this year has seen a dramatic reduction in capital outflows, while the estimated net capital inflow of R1,5 billion in the third quarter of this year was the largest since the last quarter of 1982.

In his speech in Cape Town yesterday Dr Stals said: "The total net capital outflow in the first three quarters of 1990 has been reduced by the inflow in the third quarter to only R1,1 billion, which compares very favourably with an estimated total outflow of more than R5 billion expected at the beginning of the year."

Despite the recovery on the capital account this year economists say it will nonetheless be imperative for South Africa to continue to mantain considerable surpluses on the current account of the balance of payments for the foreseeable future.

Even if we have lower capital outflows next year, there will still be the need to increase reserves by R2 billion.

Also, in 1991 some $440 million of foreign debt will have to be repaid in terms of the Third Interim Debt Arrangement, while a considerable amount — about $1,3 billion — of the debt outside the net will also become payable next year.

Therefore the authorities could still be forced to maintain stringent monetary policies to curb domestic demand and imports.

At this stage most economists estimate the current account will show a surplus of more than R5 billion next year as imports decline further in response to the downturn in economic activity.

Other economists are talking of a surplus of R6 billion should sanctions be lifted.

UBS acquires 29% stake in JH Isaacs

(58)

MARC HASENFUSS

UNITED Building Society (UBS) has acquired a 29,2% stake in the J H Isaacs (JHI) property group from Grovewalk Holdings for R7,7m, a joint UBS/JHI statement said yesterday. B\Day 28\11\90

The move follows close on the heels of UBS's acquisition of 25% of JSE-listed estate agency Aida and 33% of SA's largest independent real estate group Multi Listing Services (MLS).

These acquisitions caused tension among market players and many financial institutions expressed support for the independence of estate agents.

Property analysts believe banks and building societies are keen to move into the property selling market as the buying of large estate agency groups guarantees a building society a source of mortgage loan applications.

Yesterday's move cements a longstanding relationship between JHI and UBS, who with Volkskas, are equal partners in Combined Participation Bond Managers.

JHI executive chairman Les Weil said the move would provide substantial opportunities for industrial and commercial property specialist JHI and its clients.

Besides ensuring the availability of bond finance for JHI clients, UBS and JHI envisage co-operation in several areas related to commercial and industrial property.

JHI recently announced that it would include black housing in its residential property marketing activities.

Rationalisation in banking to continue

Star 28/11/90 (58)

By Blaise Hopkinson

CAPE TOWN — Rationalisation in the banking and financial services industries would continue into the 1990s due to capital scarcity and squeezed margins, United group chief executive Piet Badenhorst said in Cape Town today.

He told the Euromoney conference on South Africa's economic and financial prospects that there would, however, always be room for small, niche players in the financial services field.

"Financial institutions will be forced to rely on economies of scale to contain costs. The smaller banks who are already experiencing serious capital problems will disappear."

The formidable costs of new technology meant mergers and takeovers among financial insitutions would become inescapable.

The development of fully automated trading systems meant it was no longer necessary to enforce single capacity trading on the JSE. This could pave the way for corporate membership on the JSE.

JSE president Tony Norton said in his address to the conference this would be "dangerous if not disastrous" in the specific South African context.

He referred to the "Big Bang" trend which permitted a broker to act as a principal with his client instead of acting only as an agent as he did at present.

"Dual capacity involves the market intermediaries becoming capital intensive as they have to finance a book of stock, whereas a pure agency broker needs only nominal capital," he said.

Top businessmen call for easing of monetary policy

Star 28/11/90 (53)

By Derek Tommey

Several of the country's top businessmen have told the Minister of Finance Barend du Plessis that South Africa "is in the grip of a full-blown recession of serious proportions" with possibly five million people unemployed.

They have urged him to ease monetary policy and cut interest rates early in the New Year, arguing that the current policy is as stringent as the one six months ago when an early cut in interest rates was expected.

The businessmen, comprising a 10-man delegation from the South African Chamber of Business (Sacob) led by its president John Hall met Mr du Plessis in Pretoria yesterday.

The delegation told Mr du Plessis that Sacob remained supportive of broad monetary policy but it hoped this would be eased and interest rates reduced.

It said that in present circumstances the recession could last well into 1991, delaying the next upturn until 1992.

The position was being aggravated by external factors such as the Gulf crisis and the down-

John Hall . . . Sacob president

turn in the economies of SA's main trading partners.

A number of internal factors were also affecting the economy. These included the drought and some politically inspired events which were influencing employment, labour productivity, business confidence and investments.

The delegation pointed out that unemployment was increasing and the present rate could be as high as 40 percent among blacks, which meant that more than five million people could be described as unemployed.

Unlike workers in the wealthy nations, the average South African worker did not have the reserves of previously accumulated wealth or assistance from sophisticated unemployment insurance to cushion his unemployment.

While aggregate gross domestic expenditure rose in the second and third quarters, outlays on both fixed investment and inventories showed no sign of recovery. This endorsed the impression that the recession might last well into 1991.

Monetary policy was being applied as strictly as it was six months ago when most commentators expected the downturn to end in a soft landing.

The delegation said it was doubtful whether continued real benefits could still be derived from prolonging the present level of economic control.

While a one percent cut in bank rate could have a psychological effect, it was doubtful whether consumers or investors would rush to the market place, said the delegation.

But it could reduce the need for stress borrowing, have a benefical influence on cost structures in the private sector and reduce the interest element in government expenditure.

The Sacob delegation put forward to Mr du Plessis its views on next year's Budget.

The delegation repeated its view that the tax base of VAT must be as broad as possible, covering all goods and services with a minimum of exemptions, exclusions and zero ratings.

It favoured the inclusion of all foodstuffs, rents paid for private dwellings and a large range of goods and services not included in the GST base.

To facilitate this broadening of the VAT tax base, the delegation emphasised the necessity for keeping the rate low — not more than 10 percent.

However, Sacob called for the exclusion of capital goods and all inputs from the tax base by allowing VAT paid on all business purchases as tax credits against output tax.

Specific matters to be addressed included the surcharge on imports, which was contributing to the high cost of capital imports, the minimum tax on companies, which penalised some companies, and the introduction of group tax for companies.

Soviet Union Council of Ministers member Andrei Chernuchin, left, and Trade and Industry Minister Kent Durr addressing the media in Pretoria yesterday. Chernuchin said official ties between SA and the Soviet Union could be established in the next few months.

Picture. ROBERT BOTHA

Volkskas sets up banking ties with the Soviet Union

ZILLA EFRAT (58)

VOLKSKAS Merchant Bank (VMB) is believed to be SA's first bank to establish direct correspondent banking relations with the Soviet Union.

Trade and Industry Minister Kent Durr said yesterday at a briefing for a high-level Soviet delegation in Pretoria that this a relationship had been conluded last week.

VMB senior GM Izak Botha yesterday confirmed his bank had established correspondent banking relations with the Soviet Union, but declined to provide details as the issue was "sensitive".

B Day 29/11/90

Capability

Botha, who visited the Soviet Union with Durr in August, said as SA improved its contact with the Soviets, it was becoming necessary for banks to develop direct financial relations to facilitate trade with SA.

Both Nedbank and First National Bank (FNB) said yesterday they did not have direct correspondent banking relations with the Soviet Union.

But Volkskas, Nedbank and FNB have established correspondent relations with central Europe.

FNB international division head Peter Scaife added that FNB, and possibly other SA banks, had the capability to facilitate foreign transactions with the Soviet Union.

The countries in central Europe where SA banks have got correspondent banking relations include Romania, Bulgaria, Yugoslavia, Czechoslovakia and Poland.

Professionals account for most AIDS claims

(58)

TANIA LEVY

THE fact that professional people accounted for the majority of AIDS-related disability claims during the past year was far more disturbing than the amount of money involved, Sanlam GM Francois Marais said yesterday. B/Day 29/11/90

Sanlam had created a R200m reserve specifically to deal with AIDS claims, he said, but it was distressing to see that most claims came from people who had spent many years training and studying for careers.

A World Health Organisation (WHO) statement said about 45% of SA's workforce could be infected with HIV if nothing effective was done to prevent the epidemic's spread.

Sanlam yesterday donated its second R50 000 to the SA Institute of Medical Research (SAIMR).

Marais said by the year 2000, AIDS could be expected to kill more people in SA than all other diseases on a yearly basis.

At least one HIV-infected baby was born in SA every day and most mothers were too scared to tell the fathers, he said.

At Soweto's Baragwanath Hospital alone, 300 HIV-infected mothers had given birth this year, representing a three-fold increase on last year.

There were an estimated 3-million women around the world believed to be HIV-infected, social workers at a SAIMR symposium were told yesterday.

Emphasising the theme of World AIDS Day, Women and AIDS, the SAIMR said women were more vulnerable to the disease because of their subordinate role in families and society.

By 1992, more than 4-million children would have been born to infected mothers and an additional 10-million children would be orphaned as their parents died of the disease.

WHO estimated between 8- and 10-million people were HIV-positive and about 1,2-million men, women and children already had AIDS.

Statistics 'blur' the true picture

B/Day 29/11/90.

TANIA LEVY

THERE was too much emphasis on statistics in predictions of the impending disaster AIDS spelled for SA, Johannesburg deputy medical officer of health Dr Clive Evian said in an interview yesterday.

Four components of the disease "screamed out", far louder than any statistics, that the epidemic was unstoppable, said Evian.

Firstly, AIDS was sexually transmitted and experience with other sexually transmitted diseases (STDs) showed little success in getting people to change their behaviour. "We are dealing with human lust and passion," he said.

About 5% of black people attending STD clinics in Johannesburg and Soweto tested positive for the human immunodeficiency virus (HIV). About 1,3% of family planning attenders tested positive.

HIV's long incubation period was the second component to be considered, he said. AIDS could take up to 10 years after the person was infected to develop.

During that time there were no symptoms, yet the person could infect others.

Thirdly, AIDS attacked the immune system, so unlike other diseases, no antibodies were built up in the population. Thus its deep penetration into society was unstemmed.

Lastly, HIV was transmitted from mother to child, he said. With the black population there had been as many AIDS cases reported among women as men.

Considering these four facts, nobody needed statistics to see that the epidemic would be terrible.

In addition, there were the social conditions which promoted poverty and family instability among most of SA's population. Unless the state, private sector and liberation movements saturated the public with information, SA would face disaster.

Education

The ANC and other organisations needed to tell supporters, at every rally and in all publications, that AIDS was not a government plot to control the masses and had to be taken seriously.

Evian said adverts and panel discussions should be broadcast on TV and radio every day, condoms should be made available at every government building, education about the disease should be a high priority at every school and increased funds needed to be given to local authorities for AIDS programmes.

Government had given a R210 000 subsidy to the Johannesburg City Council's AIDS Information and Counselling Unit, the council heard yesterday.

Events have 'overtaken' the

Poor prog

Problem areas seen in new deposit-taking Act

(58)

B/Day 29/11/90

ROBERT GENTLE

THE soon-to-be-enacted Deposit-Taking Institutions (DTI) Act had "severe implications" for the treasury operations of SA corporate entities, Deloitte Pim Goldby partner Tim Store said yesterday.

The DTI Act, which comes into effect on January 1 next year, will replace the current Banks and Building Societies Acts and bring the activities of all deposit-taking institutions under one legislative roof.

Speaking during a two-day Corporate Treasury seminar which ended in Johannesburg yesterday, Store highlighted a number of potential problem areas.

The most obvious was that certain funding activities undertaken by corporates could fall within the definition of "deposit" or "the business" of a deposit-taking institution.

"In these circumstances, the corporate would either have to alter or cease such activities, or seek registration as a deposit-taking institution," Store said.

Those corporates that operated treasuries would have to ensure their activities did not fall within the ambit of the Act.

Among the criteria the Act would look for were the amounts and nature of monies received, whether they were from the general public, whether they were a regular feature of the business, whether they were solicited or advertised for and whether they were used for lending, investment or financing.

Store highlighted the dramatic changes the Act could cause in SA financial markets.

For example, it was designed to restrict "grey market" activities like inter-corporate lending and channel more funds into the banking sector.

Store quoted evidence claiming that any harsh move to force corporates to deal through banks rather than directly among themselves — known as disintermediation — had the potential of harming the development of a corporate debt market in SA.

He said that a noted feature of the Act was its flexibility.

Insurance plan unveiled

B/Day 29/11/90 58

GILLIAN HAYNE

A SHORT-term insurance and investment package was launched by ProfGroup and Sanlam this week in response to the increased incidence and cost of claims.

ProfGroup MD Arnold van der Linde said at the launch the increased cost of claims had put insurers and insured under pressure because of crippling payout costs and spiralling premiums.

The product, Selfplan, allows individuals to discount their premiums while putting the difference between the original cost and the discount into investment projects, administered by ProfGroup.

The plan would provide insurance cover for the home, valuables, cars and the like while allowing the individual to pay for small claims from savings accummulated through no claim discounts.

Van der Linde said: "The savings are then invested in a Sanlam Investment Policy or Sanlam Unit Trusts, which enables you to build your own insurance fund."

Huge increases in new lending

Bond war hots up as banks enter the fray

B Day 29/11/90

(58)

GRETA STEYN

THE banks fell back in the bond war this year as building societies streaked ahead in the race for mortgage market share, with huge increases in new lending.

But some banks, with Nedbank and First National at the forefront, have re-entered the home loan battle with a strong marketing effort to lure away building society customers.

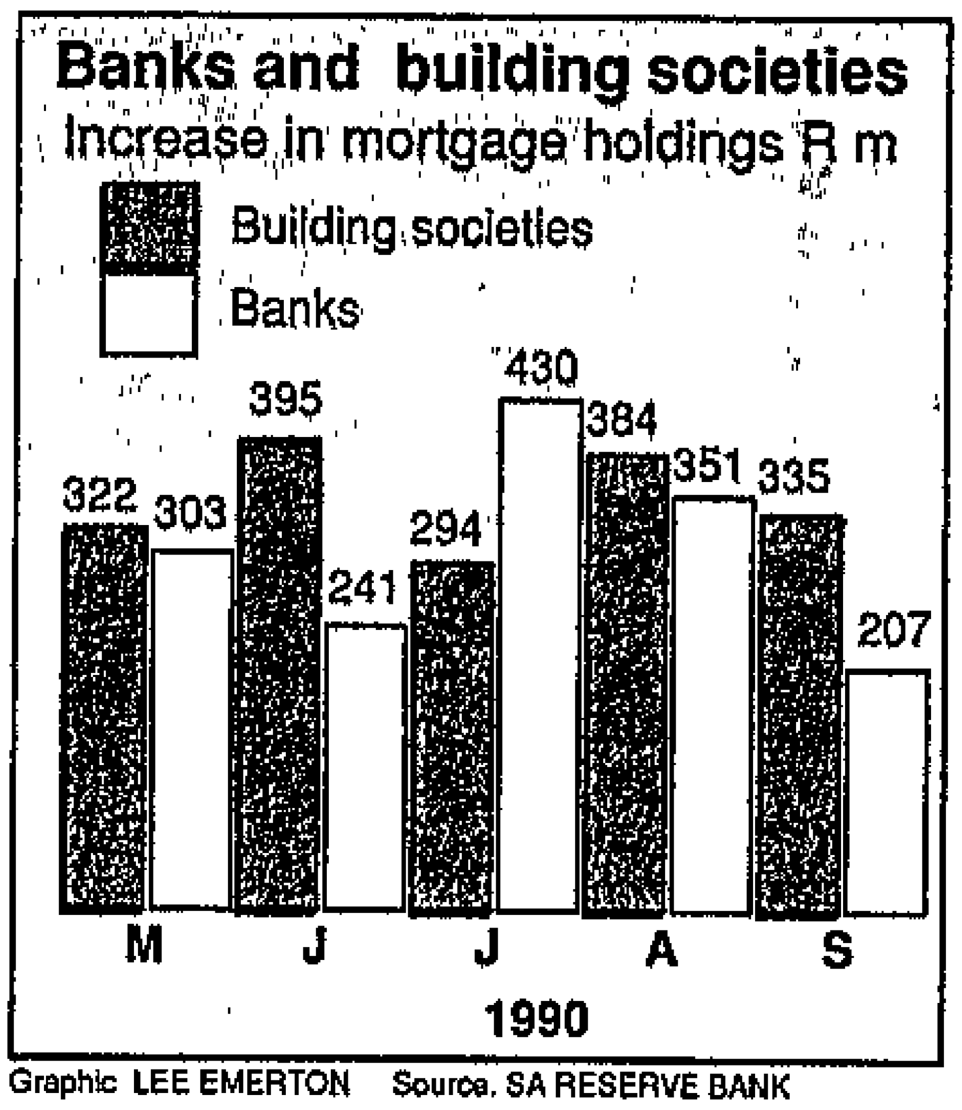
Reserve Bank figures show the societies' mortgage holdings rose by R1,73bn from the beginning of May to the end of September this year — a massive 75% higher than last year's growth over the same period. The banks' mortgage books grew by less than the societies' and their growth was almost 17% down on last year's at R1,53bn.

Allied home loans manager Geoff Bowker said the society was doing record business in spite of high interest rates and a recession.

"There has been no lowering of lending standards. The demand is there," he said. The society's gross new lending had exceeded R200m in recent months.

NBS's Trevor Olivier said the Durban-based society's increase in new lendings was 26% in October from a year ago. The recent pick-up in purchases took place in anticipation of a fall in interest rates.

"The recession has fuelled the belief that property prices will rise when the upswing starts again. More people want to get in and secure their assets now while they believe prices are still reasonable. Another important factor is the perception that the scrapping of the Group Areas Act will give the property market a boost."



Graphic LEE EMERTON Source SA RESERVE BANK

The increase in mortgage holdings for banks and societies was R2,83bn from May to September — 15,3% up on last year's increase, indicating the recession's effects on home loan demand had been minimal. An analysis of the full year is complicated by Nedcor's takeover of the Perm.

First National Bank's (FNB) Pat Lamont described the bank's lending performance in recent months as "satisfactory", preferring not to provide figures. But FNB toned down its marketing of all loans considerably when Barry Swart took over as MD in an effort to avert a looming capital adequacy problem.

□ To Page 2

Bond war

B Day, 29/11/90. (58)

□ From Page 1

Now that the capital situation is strong, FNB is ready to fight in the bond war again.

"We offer the cheapest home loans in the market, provided the bulk of a customer's banking is done with us. The change in pricing policy tells you that we aim to get bond business," he said.

FNB offers 0,5 percentage points below the prevailing rate of 20,75% on home loans for customers with more than one account at the bank.

Nedcor's campaign is focusing on a tailoring a package to the customer's needs rather than on price. It recently sent letters on the product to its "target market", including customers of other institutions, a spokesman said.

The Bank's figures for societies reflect the business of the UBS, the Allied, NBS and Saambou. The UBS declined to provide figures on new lending. The Perm, in the Nedcor fold, now counts among the banks and was the reason why Nedcor notched up 26% growth in its home loan book in the year to September.

The societies' boom in lending has taken place in spite of lending problems in certain townships. Spokesmen for the societies are reluctant to talk about their exposure to the black housing market. Although it is believed that one major society prefers to focus on the "upmarket" client at the expense of black housing, a large chunk of two societies' new business is believed to be in the black market.

Rembrandt Group lifts half-year income 13,1 pc

Star 29/11/90 (58)

Rembrandt Group lifted net income 13,1 percent to R392,2 million (R346,6 million) in the six months to September and its interim dividend to 10,5c (8,75c).

Rembrandt Controlling Investments' net income was R200,3 m (R177 m) and the dividend 7,78c (6,48c).

Technical Investment Corporation's net income was R81,2 m (R71,8 m) and the dividend 6,82c (5,68c).

Technical and Industrial Investments' net income was R68,2 m (R60,4 m) and the dividend 7,23c (6,02c).

Iscor looks to beneficiation for enhancing future profits

Star 29/11/90 (53)

By Roy Cokayne

Iscor's board has approved capital expenditure totalling R1,26 billion for the current financial year.

But none of it will go towards increasing basic iron and steelmaking capacity.

Managing director Mr Willem van Wyk, writing in the company's latest annual report, said approval had been given for a further R973 million in 1991/92 and R644 million the following year.

This amounted to an anticipated total of R2,87 billion, using December 1990 as a price basis, over the three years of the company's planning horizon for Iscor centres, subsidiary mines and Cisco, he said.

Replacement

Mr van Wyk said R1,04 billion of the total would be for replacement of assets and maintenance of existing plant and equipment.

"The R1,83 billion balance will be invested in expansion, and in further beneficiation of products in line with our policy of enhancing profits through steadily increasing the value-added com-

Iscor chairman Marius de Waal . . . explains failure to meet target.

ponent of our turnover.

Mr van Wyk added that the build-up in Iscor's capital investment involved a net cash outflow and depressed earnings in the short term but was designed to enhance margins and profits in the medium and long term.

Iscor expected to sell a higher tonnage of steel products with much of the increase flowing to exports where dollar denominated prices were starting to show a recovery from the lower level of recent months, he added.

He said the exchange rate would also have a material impact on export earnings in rand terms.

However, Iscor chairman Mr Marius de Waal said the company's earnings in the current financial year were expected to be somewhat lower.

"Change in Eastern Europe, the tension in the Middle East, the depressed local market and the unsettled economic conditions in some of our major international markets will affect our prospects," Mr de Waal wrote in the report.

Mr de Waal also provided an explanation in the report of the reasons for Iscor not meeting the 20 percent growth in earnings forecast made in its prospectus. It reported a 14,1 percent growth in earnings in the 1990 financial year and for

He said the earnings forecast was made by management and endorsed as realistic by the board in the light of results for the first two months of the financial year and utilising budgeting processes that had been developed and refined over many years.

Mr de Waal said throughout the first half of the financial year turnover and earnings a share were in line with expectations but pressures that had been building up in world economies and in political situations during the second half of the year led to a deterioration in steel prices on world markets.

Softening

"Domestic demand had been softening during the second six months of the financial year, following the general slowdown in the economy, yet for the year as a whole the domestic sales volume was spot-on in accordance with management expectations at the outset of the period.

"These external events would not on their own have reduced our growth below 20 percent. We were, however, unable to resist the combination of these pressures with an internal problem — a breakdown during December 1989 in one of six blast furnaces, which left us with lower output, an under-recovery of fixed costs, unbudgeted repair bills and reduced revenue for some months," he said.

Building societies eclipse banks in bond war

58

CM 7.1.8.
29/11/90

From GRETA STEYN

JOHANNESBURG. — The banks fell back in the home loan race this year as the building societies streaked ahead in the race for mortgage market share with huge increases in new lending.

But some banks, with Nedbank and First National at the forefront, have entered the bond war again with a strong marketing effort to lure away building society customers.

Reserve Bank figures disclosed the societies' mortgage holdings rose by R1,73bn from the beginning of May to the end of September this year — a massive 75% higher than last year's growth over the same period. The banks' mortgage books grew by less than the societies' and their growth was almost 17% down on last year's at R1,53bn.

Allied home loans manager Geoff Bowker said the society was doing record business in spite of high interest rates and a recession.

"There has been no lowering of lending standards. The demand is there," he said. The society's gross new lending had exceeded R200m in recent months.

NBS's Trevor Olivier said the Durban-based society's increase in new lendings was 26% in October from a year ago. The recent pick-up in purchases took place in anticipation of a fall in interest rates.

"The recession has fuelled the belief that property prices will rise when the upswing starts again. More people want to get in and secure their assets now while they believe prices are still reasonable. Another important factor is the perception that the scrapping of the Group Areas Act will give the property market a boost."

The increase in mortgage holdings for banks and societies was R2,83bn from May to September — 15,3% up on last year's increase, indicating the effects of the recession on the demand for home loans had been minimal. An analysis of the full year is complicated by Nedcor's takeover of the Perm.

First National Bank's (FNB) Pat Lamont described the bank's lending performance in recent months as "satisfactory", preferring not to provide figures. But FNB toned down its marketing of all loans considerably when Barry Swart took over as MD in an effort to avert a looming capital adequacy problem. Now that the capital situation was strong, FNB was ready to fight in the bond war again.

"We offer the cheapest home loans in the market, provided the bulk of a customer's banking is done with us. The change in pricing policy tells you that we aim to get bond business," he said. FNB offers 0,5 percentage points below the prevailing rate of 20,75% on home loans for customers with more than one account at the bank.

Nedcor's campaign is focusing on tailoring a package to the customer's needs rather than on price. It recently sent letters on the product to its "target market", including customers of other institutions, a spokesman said.

The Bank's figures for societies reflect the business of the four main players — UBS, the Allied, NBS and Saambou. The UBS declined to provide figures on their new lending. The Perm, in the Nedcor fold, now counts among the banks and was the reason why Nedcor notched up 26% growth in its home loan book in the year to September.

High interest rates attacked as unjustified

Star 29/11/90 (58)

By Derek Tommey

The Government's view that the increase in the petrol price justifies its decision to maintain interest rates at a high level has been challenged by a leading economist, Dr Jan Hupkes, Professor of Management Economics at Unisa's School of Business Leadership.

Positive

Dr Hupkes said last night SA had positive real interest rates. In the light of this and the recent fall in money supply growth to under the targeted figure, one would have expected Bank rate to be lowered before the present situation severely damaged domestic demand, he said.

The increase in the oil price had apparently clouded the issue, said Dr Hupkes.

But he questioned the validity of the argument that interest rates should be kept high because of oil price inflation.

An increase in the oil price was much more deflationary than an increase in, say, GST, he said.

In the case of a once-only rise in either the oil price or GST, the inflationary effects would be more or less comparable.

Statistically speaking, the effects of both would pass out of the system after a year, and both would, in the first round, be taking money out of the economy.

"We must ask what happens to this disappearing purchasing power?" said Dr Hupkes.

The increased money spent on oil left the country, thereby deflating overall demand.

But the increased GST payments generally re-entered the economy.

It was only when the money was sterilised that this did not happen. But this was rarely the case, he said.

Increased tax receipts usually resulted in correspondingly larger increases in government expenditure, so that tax money found its way back into the income stream.

One could only conclude that the deflationary effect on overall domestic demand would be much larger in the case of an oil-price increase than an increase in GST.

Demand

There seemed little reason, therefore, why interest rates should remain high for a longer time because of dearer oil, said Dr Hupkes.

"On the contrary, leaving them as they are will have a severely damaging effect on our domestic demand.

"With unemployment and insolvencies increasing, a strong case now exists for changing gear on interest-rate policy, always provided the foreign exchange reserves are not endangered. But the latest news on this front is extremely encouraging," he said.

Disappear

He contended that SA could maintain positive real interest rates without keeping them at current levels.

One reason was that the once-only oil price shock would eventually disappear from the inflation rate.

Secondly, if the intention was to give savers a real after-tax return, the gap could be considerably widened by a flat tax rate for individuals on income accruing from savings.

Volkskas negative on growth prospects

Star 29/11/90 (58)

By Magnus Heystek

Volkskas has joined the gloomy band of forecasters who do not see a revival in the economy before the end of next year, and possibly only in 1992.

Volkskas's Adam Jacobs, who has a better track record than most, expects gross domestic product (GDP) to decline by one percent this year, with little chance of growth next year.

The primary reason is that the growth performances of SA's trading partners are "already tending lower and will probably fare even worse in 1991".

Firstly, he says, Western economies have been experiencing favourable business conditions for a fair length of time and the normal decelaration of the business cycle is now taking effect.

Furthermore, this tendency has been intensified by events in the Middle East, which will undoubtedly cause economic performance to be even less favourable.

Weaker growth among its trading partners has always been to SA's detriment in the past because export performance tends to weaken in such a climate.

Apart from the fact that local export production is adversely affected, the terms of trade (the ratio of export prices to import prices) weaken in a climate of weakening world growth.

In addition, one cannot take a positive view of the gold price as high interest rates normally depresses interest in gold.

Another factor that must militate against any sudden upturn in economic activity is the financial position of the average consumer.

Reserve Bank figures show clearly that there is little room for an increase in domestic spending, which constitutes 60 percent of gross domestic spending and 55 percent of gross domestic product.

Mr Jacobs says the real taxed income of individuals has dropped by more than seven percent over the past decade.

This has caused wealth per capita to decline. At the same time it has reduced the average propensity to save.

The personal savings ratio is now down to an unhealthy 0,8 percent and is set to decline further.

Given the rise in population, this means that the wealth per capita after tax and inflation is forecast to decline by three percent this year, with little progress expected in 1991.

Against this background of lower international economic growth and a continuation of high interest rates, Mr Jacobs sees little prospect for growth this year or next.

Star 29/11/90 (58)

Argus share split sets posers

Diagonal Street

ANN CROTTY

Although the decision to split the Argus share has been on the cards for at least a year, the actual timing has taken a few analysts by surprise and has encouraged the view that splitting the share may be done with a view to developing an employee share incentive scheme.

The Argus share price has moved ahead strongly in the past 12 to 18 months (from R130 in October '89 to a current record level of R212), reflecting the combined impact of good operating performances, expectations of a share split and a bullish attitude towards the new CE.

Although all believe that an employee share incentive scheme is a consideration in the decision to split the share, analysts are divided about whether or not there is further scope for an advance in the share price.

Some believe that following the 20-for-one share split, the share could ease back below R10.

Others feel that in the wake of a tougher trading environment, splitting the share will be sufficient to support the appreciation that the share price has enjoyed over the past 12 months.

Still more believe that the split share could go as high as R15 (despite tougher trading conditions) because the relatively lower price will allow more scope for underlying asset value to reflect in the share price — particularly if some of the assets are unbundled through a subsequent separate listing of Argus Newspapers.

The bears argue that, in line with the weak economic projections, earnings prospects for the group are looking fairly dismal in the short-to-medium term and that some institutional shareholders may be tempted to use the opportunity of the split to lighten their load until conditions pick up.

The moderate bulls believe that although there is little hope for earnings growth in the next 12 to 18 months, the share has obvious blue-chip status and is a definite long-term hold.

Because of this, any shares that are offloaded by small private investors (who will still hold an exposure to a cheaper Argus share) will be quickly picked up. (If this is the case, the split could see a reduction in tradeability).

The enthusiastic bulls point to previous experience of share splits and the blue-chip quality of the underlying assets, which warrant a premium rating rather than a discount.

In addition, they point out that although short- and medium-term prospects may look tough for the newspaper operations, in the longer -term these and the other interests such as CNA Gallo and CTP stand to benefit from any pick-up in consumer demand and resurgence of confidence.

At this stage, management's only comments on the plan for a separate listing for Argus Newspapers is that "it's on the back burner".

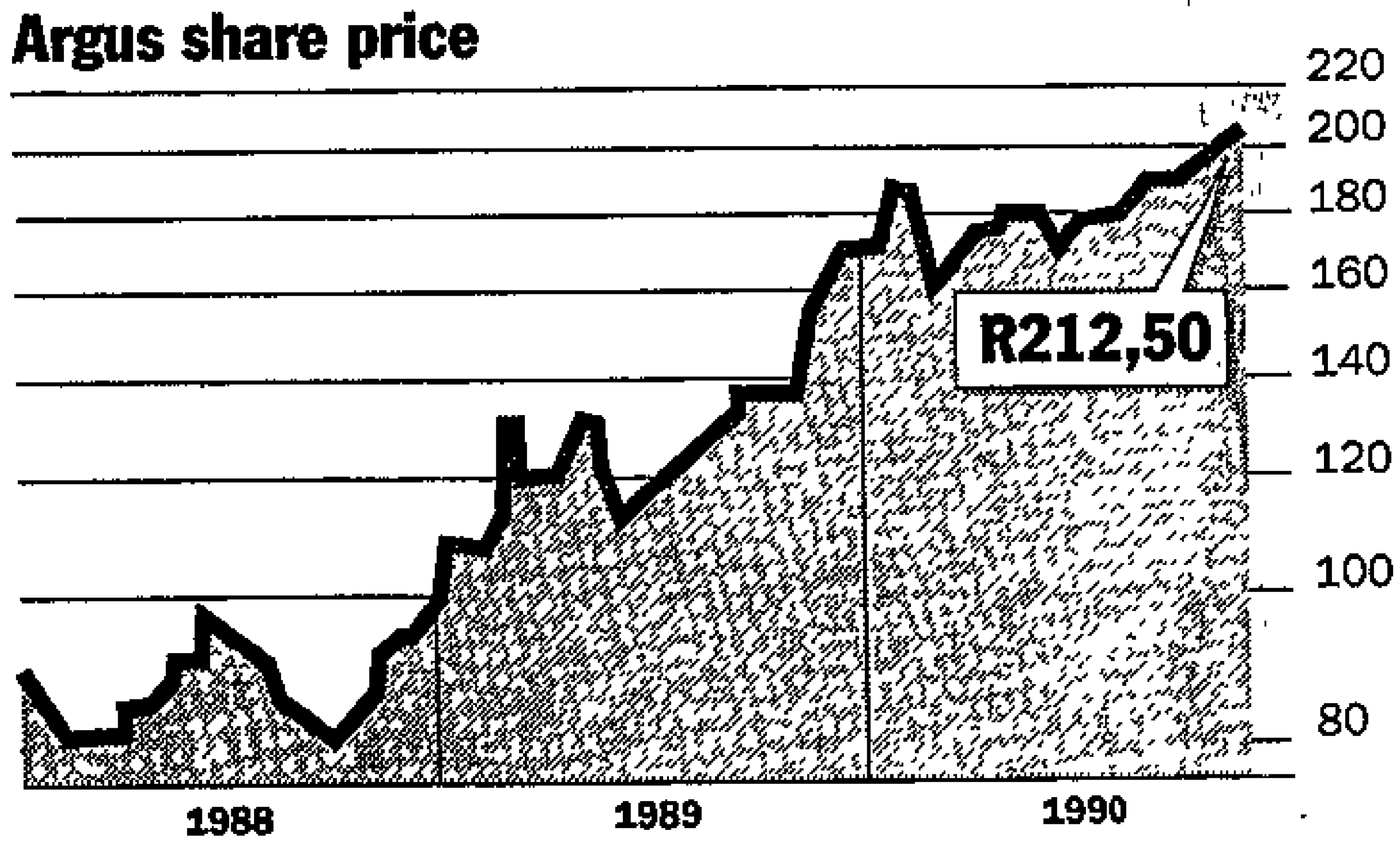
Traditionally this sort of unbundling of assets has led to a higher equity market valuation of the assets — compared with the "bundled" valuation. But it is unlikely that this would be the major motivation for a separate listing.

More urgent is likely to be the need to address the ownership profile of the Argus while Anglo/JCI are still in a position to do so.

At this stage the ground could be set to avoid a head-on clash with an alternative government that may want to see a dispersion of control of the press.

To an extent this could be achieved by getting a separate listing for Argus Newspapers — in which Argus employees would have a reasonable stake.

Argus share price



Bank unveils policy on corporate debt

B Day 30/11/90 58

ROBERT GENTLE

CORPORATE treasurers have expressed deep concern over the Reserve Bank's draft policy on a regulated corporate debt market insofar as it prevents companies from competing with banks on short-term funding.

The policy was unveiled yesterday by Reserve Bank researcher Nico Marais, in an address to the Association of Corporate Treasurers of SA (Actsa).

A corporate debt market permits companies to effectively borrow and lend from each other through the issue of marketable commercial paper without having to go through a bank — a process known as disintermediation.

SA corporates, facing a lack of appropriate funding methods, are keen on disintermediation because they say it costs too much to obtain certain forms of short- to medium-term funding from the banks.

Marais said disintermediation at the short end of the market — under two years — would hurt banks' competitive position.

He said the Reserve Bank was "not comfortable" with it because there was already strong competition in the banking sector. "We would rather give the banks protection in this area."

A banking representative said he did not think banks needed this protection, a point endorsed by First National Bank group treasurer Ken Russell, who said he thought two years was "a long time".

Derek Ross, a London partner of chartered accountant Touche Ross, said he could not see the rationale for protecting the banks in this way.

Ross, who spoke on the UK's £6bn commercial paper market prior to Marais' presentation, said the Bank of England had also unsuccessfully tried to keep corporates out of the short end of the market.

"The UK commercial paper market only really took off once this restriction was removed. Apart from this key point, I think the Reserve Bank's position paper is an admirable initial discussion document."

This was endorsed by Actsa technical

☐ To Page 2

Debt policy

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☐ From Page 1

committee chairman Tom Makinson.

He estimated that a commercial paper market could be worth as much as R5bn, based on a likely market of 100 companies each having a net worth of R100m and 50% gearing.

The Bank's draft position paper, or an amended version of it, will be incorporated into regulations falling under the Deposit Taking Institutions (DTI) Act.

Besides the controversial point that commercial paper and debentures issued may not be for an initial period shorter than 24 months or any renewal period shorter than 12 months, the draft policy highlights other key areas.

These include the requirement that issuers be listed JSE companies with a minimum net worth of R100m, that investors be JSE-listed or, if unlisted, registered financial institutions. Minimum issue sizes range from units of R500 000 to R2m.,

"The idea is to limit the market to triple-A players," said Marais "We wouldn't want the public to be involved."

INSURANCE — 2 FM 30/11/90

DIY POLICIES (58)

Self-insurance, already an established strategy at many large corporates, is now being promoted to high-income individuals. Several types of health self-insurance are either available or in the pre-launch phase; now Prestasi Broking subsidiary Progroup, through a link to Sanlam, has produced a scheme to cover all personal lines.

Progroup MD Arnold van der Linde says Selfplan is prompted partly by the need to make more financial sense of rapidly rising short-term premiums and partly because of a tendency towards amateur or do-it-yourself insurance. "You find groups of half a dozen professional friends agreeing to put, say, R1 000 monthly into a pool, meeting claims and sharing out profits."

Progroup wants that market. Van der Linde argues a professional person can take a modest loss, up to R5 000. By accepting this excess, the insured earns a discount, typically 30%, on insurance premiums. The discount portion is invested with Sanlam, in either a unit trust or investment policy, to build a fund from which, in time, all or part of the annual premiums can be paid.

One aim is to peg insurance premiums around today's levels while producing capital growth. As the insured chooses his own excess he effectively insures for catastrophes while self-insuring minor losses.

There is the normal access to the investment funds though, Van der Linde insists, "this should be strongly discouraged."

MONEY MARKET FM 30/11/90

LIQUIDITY LEAP (58)

The impact of net forex inflows on the money market was compounded by government spending and a decline of about R1bn in notes in circulation in the first three weeks of November. The result was a fall in the money market shortage to R1,5bn last Saturday — the smallest since R1,4bn in June 1989.

To keep control the Bank supplemented dollar swaps with two special Treasury bill tenders (the first since June) last week:

☐ On Monday November 19, R500m four-day bills drew subscriptions worth R2,7bn and a rate of 18,02%; and

☐ A roll-over the following Thursday of R500m six-day bills drew R2,6bn and a rate of 18,02%.

The effect of the issues may be mainly cosmetic, as the bills give banks the wherewithal to borrow money from the Bank at 18%, instead of the penal 22,75% against prescribed investments. So the money soon works its way back into the market.

The issues certainly did not keep up rates on normal Treasury and Land Bank bills:

☐ Last Friday's Treasury bill rate was 17,59% (17,69% the week before); and

☐ Monday's Land Bank bill rate was 17,61% (17,71%). ■

MICOR FM 30/11/90

FOGGY VIEW

58

Activities: *Subsidiaries engage in freight, travel, insurance broking and the sale of industrial equipment.*
Control: *Directors 47,4%.*
Chairman: *C B Kaplan; MD: M J Kaplan.*
Capital structure: *16,5m ords. Market capitalisation: R14,9m.*
Share market: *Price: 90c. Yields: 13,3% on dividend; 34,1% on earnings; p:e ratio, 2,9, cover, 2,6. 12-month high, 150c; low, 90c. Trading volume last quarter, 47 000 shares.*

Year to June 30	'87	'88	'89	'90
ST debt (Rm)	22,3	12,3	18,3	20,5
LT debt (Rm)	2,8	2,8	2,5	2,5
Debt:equity ratio	1,09	0,49	0,56	0,55
Shareholders' interest	0,30	0,38	0,33	0,35
Int & leasing cover .	1,38	2,02	2,21	2,50
Return on cap (%) ..	8,3	10,3	10,4	10,5
Turnover (Rm)	336,5	369,5	425,1	492,3
Pre-int profit (Rm) ...	5,9	5,7	8,3	9,2
Pre-int margin (%) ..	1,8	1,6	2,0	1,9
Earnings (c)*	9,6	17,2	29,6	30,7
Dividends (c)*	4,6	5,5	9,8	12
Net worth (c)*	115	135	166	170

*Adjusted for five-way share split

Micor Holdings shares do not trade much. This may partly reflect the lack of information about the business. More than a third of earnings originate abroad but management won't say what these operations are

Restructuring last year was meant to focus local and foreign operations more clearly and allow equity-financed acquisitions without the controlling shareholders risking loss of control. Ninety-two per cent of cash shell Adco was acquired, its name changed to Micor Industrial, and the freight, travel, industrial, management and information service interests sold it for R20m. Foreign, finance and insurance operations remain separate operating subsidiaries of the holding company. Finally, there was a five-way share split.

Chairman Cecil Kaplan says foreign interests performed better than local operations Transport and travel remain the major profit contributors by accounting for 90% of pre-tax profit. Kaplan says the reduction in imports hit air and sea freight operations; turnover rose but margins came under pressure. The depressed economy and soft rand affected the travel business.

There were some bright spots. The incoming tours division produced "excellent results." Micor owns Wilson Collins Travel (Pty) and Travamarkt (Pty)

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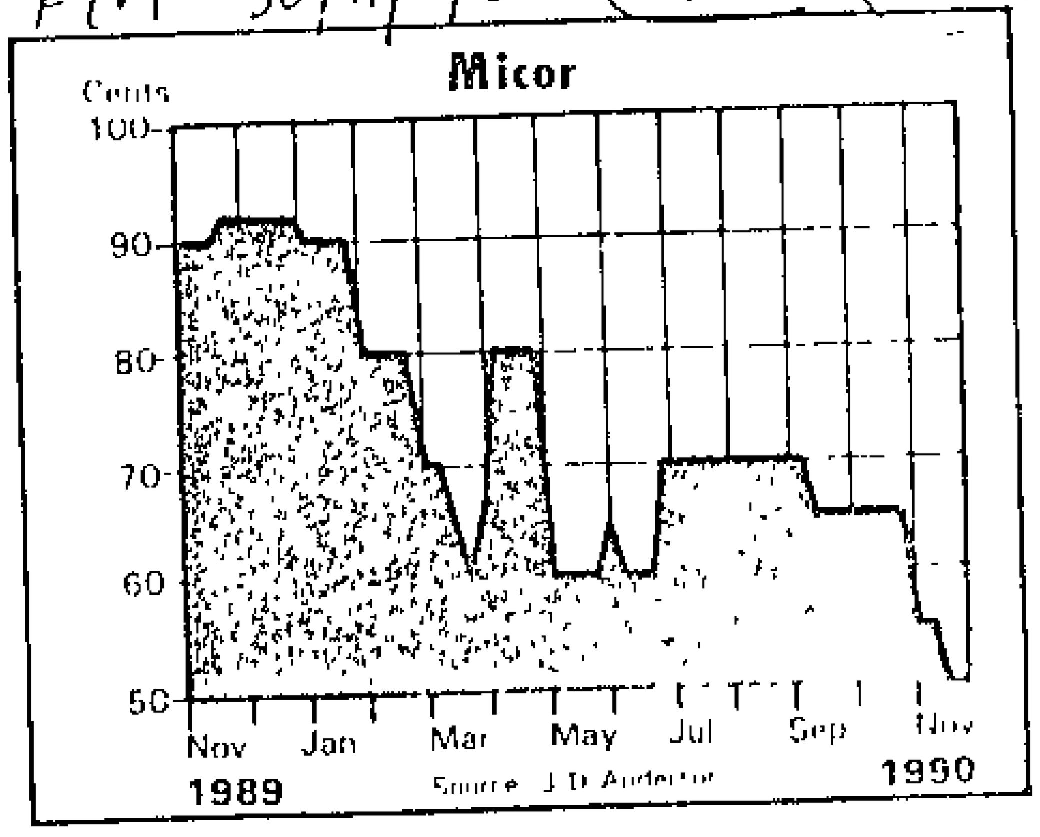


Trade finance, factoring, leasing and broking contributed 3% of pre-tax profits. These seem to benefit from weak economic conditions. Loss-making parts of the industrial division have been discontinued and it now consists mainly of Bandsawing Services, which improved earnings by 31%.

Overall pre-tax profit rose 21,4%. A low tax rate — thanks to export earnings concessions and assessed losses — improved this at the taxed level, but an increase in the amount attributable to outside shareholders left ordinary earnings up only 11,3%.

Continued weakness of the local economy will militate against real growth this year but Micor is investing with a view to stronger growth in the future. Emphasis will be on developing operations abroad where economic conditions are more favourable

Freight operations are being expanded geographically — into Africa and the Indian Ocean islands — and in terms of product. Entry into a computer-related operation also seems on the cards and the travel operation will be vertically integrated.

Despite a fairly consistent performance, strong balance sheet and rand hedge qualities, Micor has the fourth lowest earnings multiple on the industrial board. There could be greater interest in the shares if investors were given better insight into operations

Pam Buskind

MONEY SUPPLY (58) (49)

RANGE FREE

FM 30/11/90

(58) (49) FM 30/11/90 (49) (58)

The guideline range for growth in money supply in the target year starting this month will be based on average growth in the fourth quarter of calendar 1990. Reserve Bank Governor Chris Stals's confidence in the declining trend is reflected in his recent statement at the *FM* Investment Conference that the next guideline range for the broad monetary aggregate M3 will be lower than the existing 11%-15%.

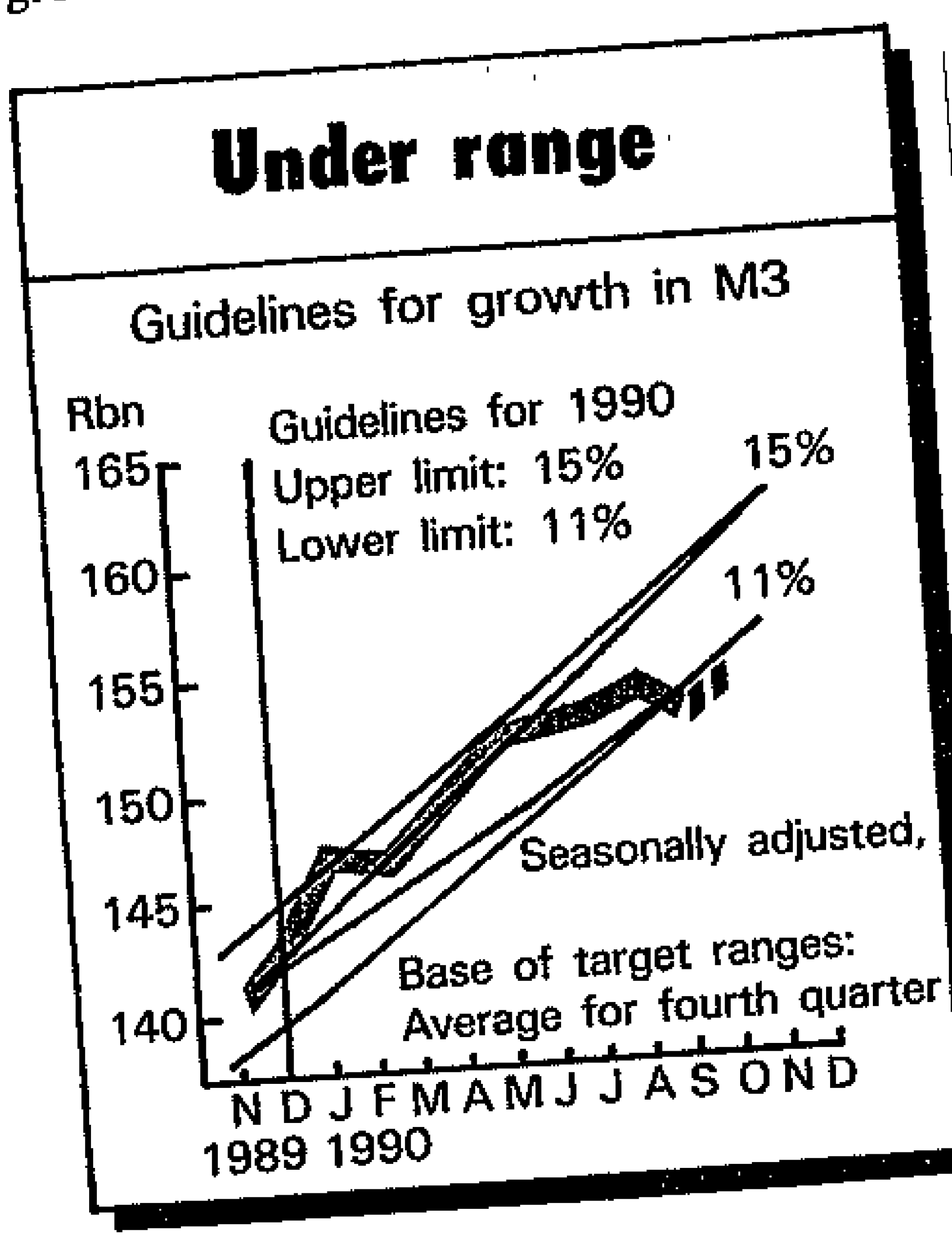
New guidelines will be announced in March when revised fourth-quarter statistics are available and there will be some indication of the direction of the Budget. (In 1986, the targets were only set after the Budget speech.) They will apply retroactively.

So far, Stals's confidence is justified, with estimated M3 growth in October, the first month of the quarter, below the guideline. From the base of the target year to end-October, it rose an estimated 10,38% to a seasonally adjusted R154,2bn and, in the 12 months to October, 10,02% to R154,9bn.

September's seasonally adjusted annualised estimated growth (from the base of the target year) has been revised down to 10,75% (from 11,21%), or a seasonally adjusted R153,4bn.

Though markets tend to react to the 12-month measure of M3, the Reserve Bank finds the seasonally adjusted statistic more reliable. It is influenced less by developments in the latter part of the previous year. In 1988, for example, money supply jumped sharply, so most 12-month readings in 1989 were off a high base and did not fully reflect developments that year. This does not apply to developed countries (such as West Germany) where 12-month and seasonally adjusted figures are much the same.

Much of the slowdown in year-on-year growth can be attributed to slowing of the non-M1A part of M3 — that is, the reduced growth in money held as an asset. An indication of the trend can be seen in the performance of the various aggregates.



Growth in M1A (coins and notes in circulation and cheque and transmission deposits) slowed to 9,69% for 12 months to September, compared to 10,34% in August and 13,59% in July. Other demand deposits grew 3,46% which created an increase in M1 of 6,80% Other short- and medium-term deposits increased 17,97%, which nudged M2 growth up to 13,49%. Long-term deposits increased by 10,46%, which was responsible for the annual rise in M3.

First National Bank economist Cees Bruggemans says the next set of figures should show year-on-year M3 growth falling into single digits — as it did at the same stage of the previous downturn.

"M3 on a monthly compound basis for the past five to six months is moving at 7%-8%. This is a replay of cyclical conditions in previous recessions," says Bruggemans. M3 growth fell from an annual high of 29,2% in April 1981 to a low of 9,3% in May 1982; and from a high of 19,5% in November 1984 to a low of 7,6% in February 1987.

The latest high was 28,7% in August 1988.

Bruggemans says the Bank should be satisfied. "The money supply has slowed just as the doctor ordered." ■

'No ANC pressure' behind life industry's move to aid the poor

W/mail Suppl 29/11 - 6/12/90 (58)

The Life Offices Association is concerned about the high profile its plans to seek ways to aid the disadvantaged has assumed.

REG RUMNEY reports

JURIE WESSELS, deputy director of the Life Offices Association (LOA), the industry body of pension and life insurance companies, says over the years life assurers and pension funds have been accused by the government, unions and other financial institutions of pouring money into the Johannesburg Stock Exchange pushing up prices of shares in a "paper chase", without benefiting economic growth.

This was the reason for the life offices setting up a committee in May this year to investigate whether they could do more to help the poor.

He stresses that the committee was set up before suggestions were made by the African National Congress that a portion of the huge amounts administered by the life assurance industry be channelled into socially desirable investments. The LOA is concerned about the high profile its plans to seek ways to help the disadvantaged has assumed.

Wessels points out the LOA has not spoken as a body to the ANC, and it is unlikely it would do so. "The LOA does not negotiate with political parties, and we will not want to change that." Policy holders of certain assurers might be upset by the LOA talking to political parties, he asserts.

Wessels explains the thinking behind forming the committee: "The life assurers react to the signals the economy sends them. But the thought was that the signals may be incomplete or that there could be something structurally wrong with the economy."

The committee's broad brief was to put its mind to coming up with some way of benefiting the disadvantaged without prejudicing investors.

Among the questions facing the committee is what to put money into and how. (The committee must make recommendations on getting feedback from disadvantaged communities.)

Wessels points out the main avenue for aiding the disadvantaged is low-cost housing. By definition, he believes, this means making loans to those who cannot afford permanent housing. "That ultimately means the direct yield on investments will be lower than the market return."

The gap between what the poor can afford and what the life assurers make available is a subsidy. Neither pension fund members nor policy holders should shoulder this burden. The state, Wessels advocates, should make up the difference and provide guarantees for the money advanced.

After all, the life industry would argue that its investors had postponed gratification by their investments. It would be unfair to tax them to relieve a national problem.

Wessels says there have been no final decisions on what direction the committee has decided, or what investment vehicles may be used.

A fund, for example, could be set up for low-cost housing.

"But even if a fund is set up, only part of the problem is solved. The sort of money people are talking about will build an enormous number of houses. One will have to find land available for development, get people who can manage large housing developments, arrange the financing and rent or repayment contributions of prospective occupants, and so on."

The fund would merely make the money available, not get involved in housing provision, since there are already organisations in this field with the available expertise.

The LOA, says Wessels, will make an announcement soon — possibly by mid-December.

Bank liquidity drain linked to capital inflows

8 Bus Day 20/11/90

ANDREW GILL 58

LARGE capital inflows may be the reason behind the Reserve Bank's third liquidity drain in two weeks and one of the most unusual Treasury Bill (TB) issues the money market has seen, say analysts.

The Bank moved to roll over the R500m TB issue that expired yesterday, by issuing another R500m in special 14-day TBs, thus holding the market shortage (banks' debt to the Reserve Bank) at a level of around R2,5bn.

A meeting between bankers and the Bank next week called by Bank governor Chris Stals might have increased the underlying bullishness in anticipation of an announcement of an easing in policy by Stals.

Month-end issues are a rarity in a market that normally struggles for capital at that time and sometimes faces penal call rates of 22%. Call is now at a comfortable 18,5% to 18,75%.

Nedbank economist Edward Osborn said it could be an indication that no announcement would be made next week and monetary policy would remain intact for the time being.

He said it was likely further capital inflows had occurred in October and November, and this could be creating the excess liquidity. There had been a continuing injection of rands from dollar sales by the banks to the Reserve Bank. December might show a turnaround because most of the fourth quarter's R900m foreign dept payments should happen then.

Regulations governing banks to be gazetted

B'Day 30/11/90 58

GRETA STEYN

WIDE-ranging regulations are to be gazetted today covering every aspect of banks' operations, from speculation in the markets to the cash they have to keep.

The regulations are the flesh to the bones of the new Deposit Taking Institutions Act which comes into effect next year. The implementation of the Act will be phased to avoid major disruptions to the money and capital markets.

Bankers yesterday said the regulations took with the one hand and gave with the other. The major benefit to banks was the easing of the required cash and liquid assets they have to hold against deposits. The immediate relaxation of the requirements would inject R5bn worth of liquidity into the money market — a development which would encourage rapid credit extension.

Because the Reserve Bank wants to avoid disrupting the money market and encouraging excessive credit growth, it has indicated to bankers that the old cash and liquid asset requirements would be phased out over a period. The authorities have still to decide on the period and the speed of the phase-out. Bankers hope it will be quick.

Another reason for a phased implementation is that banks do not yet have the systems in place that they need to provide the Bank with all the information it needs.

The regulations will also contain the risk weightings accorded to banks' assets, which consist mainly of different forms of loans and advances. They have to keep capital against these assets and the amount of capital is specified by the risk weightings.

Building societies stand to be better off than the banks and than what they are under the present dispensation, as the regulations accord a low-risk weighting for loans against residential property. A Standard Bank analysis showed societies would end up with a capital requirement of below 4% of assets while the average of banks is likely to be in the range of 6-7%.

For banks that do not specialise in home loans, the capital requirements are more onerous than in the current Act. However, a generous phase-in period will obviate the necessity to raise new capital.

The regulations will also reveal that the new Act favours equity investment by banks, whereas the previous one did not. Where market value of banks' equity investments exceed book value, the surplus will count as capital.

The Standard's analysis showed that the need for an increase in capital would vary according to the nature of the different banks' activities, especially in the equity investment and lending fields.

Securitisation issues nudging R1,5bn

B Day 30/11/90

ROBERT GENTLE

DISCOUNT House of SA said yesterday it was working on three securitisation issues worth about R500m that would be coming to the market during the first half of next year.

It brings to five the known number of securitisation issues in the SA pipeline. Their estimated worth is R1,5bn.

Securitisation is the repackaging of a company's assets — from mortgages to trade receivables — into negotiable securities.

It allows a company to lighten its balance sheet, gain extra cash and improve financial performance while providing investors with high grade paper.

Discount House manager Julian Knopf said the three securitisation issues would involve a variety of assets not necessarily limited to mortgages.

"Each is a homogeneous pool of assets."

Knopf was reluctant to give a precise value for the three issues, saying only that R500m was a "reasonable ballpark figure".

Discount House pioneered what is still SA's only securitisation issue in November 1989 when it engineered the converting of R250m of mortgages belonging to United Building Society into negotiable securities.

The resulting R250m mortgage-backed issue — known as MS 101 — was placed with institutions and subsequently listed on the JSE in February this year.

Last month, chartered accountancy firm Arthur Andersen said it was working on two new issues, one of which was "major". Market sources put a value of R1bn on the two issues.

Knopf said: "There are a lot more securitisation issues to come from different sectors of the market."

All the basic infrastructure — from a rating agency to prudential guidelines — was already in place, he said.

"Probably the major obstacle now is a degree of inertia from certain companies."

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Certain industry analysts expect that the Deposit Taking Institutions (DTI) Act, which comes into effect on January 1 next year, will see a spate of securitisation issues among banks.

The motivation would be the need to improve financial performance and raise extra funds in the face of the increased capital adequacy requirements provided for in the Act.

PRIMA BANK FM 30/11/90

WHO SAID WHAT? (58)

Some stockbrokers are indignant about events surrounding two recent ads placed by the JSE in *Business Day*. Both dealt with rumours concerning Prima Bank. The first denied the JSE was the source and recorded that it attached no value to the "unsubstantiated rumour." The second conceded that the rumour had emanated in its offices and "unreservedly" apologised.

JSE members complain at how the situation was handled rather than the sentiment. The incident is an embarrassment to the broking community, one comments. "If it felt strongly enough to publish an ad, it should have got it right first time."

Speculation is that a clerk in the inspectorate confused Prima with Alpha Bank, which has a R6m exposure to auto parts company Spareco. Her comments spread rapidly round the market — and round SA — says Prima MD Johan Bellingan, who adds he was inundated with telephone calls last Thursday.

The upheaval comes a month after the bank, which opened for business in May 1988, was granted a permanent licence. It operates largely in the money and capital markets and has expanded into futures, options and swaps. It also provides corporate and project finance and instalment credit "on a small scale," says Bellingan.

Bellingan ... *a third force*

"The rumour has affected business," he adds. He won't say whether he's satisfied with the JSE's apology nor if the bank may take any further action. "Maybe a third force is trying to put us out of business," he says. He suggests subsequent uncertainty in the market has hit not only small banks but medium-sized institutions as well.

INSURANCE — 1 (58)

COVER AT A PRICE

F.M 30/11/90

Being uninsurable has acquired a new shade of meaning. Cape-based Protea Assurance has a plan for those who cannot buy a universal life-type policy. They are now admitted to endowment policies which contain minimal life cover but have shown attractive invest-

(58) F.M 30/11/90 (58)

ment returns.

To comply with the Income Tax Act there must be an element of life cover, even in an investment-type policy. Protea's "modified death policy" limits this to eight times annual premiums. The proposer must also agree to waive life cover benefits for the first three years. If death from natural causes occurs before three years the estate gets back only premiums paid plus interest. If death is accidental the whole sum assured is paid.

Protea says there is considerable interest in the plan. This suggests there are many technically uninsurable people. Marketing actuary Geoff London explains that when a proposer has a dubious health condition he is often asked to defer his application until the condition improves. For a proposer to be rated totally uninsurable, "usually he or she will be several times the standard mortality risk and may be suffering from two or even more different conditions."

To qualify for "modified death cover" the proposer must prove uninsurability.

After that there are only two conditions — an upper age limit and no life cover if Aids-related death ensues. Protea is holding down its potential exposure: maximum policy value is R150 000. On a typical premium of R100 a month the life cover element on a 10-year endowment policy is only R9 600.

Uninsurables do pay more than healthy proposers. At age 35 the premium is about 7% higher. At 55 it is likely to be loaded by about 15%. ■

R50 000 boost for fight against Aids

By Carina le Grange
Medical Reporter

The growth rate of HIV infection, which leads to Aids, is probably more than 100 percent a year, Sanlam general manager Francois Marais said in Johannesburg yesterday.

Mr Marais was speaking at a function at the South African Institute for Medical Research (SAIMR) at which he donated R50 000 on behalf of Sanlam to the director, Professor Hendrik Koornhof, for use by the Aids Centre.

Doubling rate

This donation brings Sanlam's contribution to fight Aids to R200 000.

Mr Marais said that with the incidence of HIV infection now having a doubling rate of less than nine months, South Africa was not winning the war against Aids.

"At least one Aids-infected baby is born in South Africa every day — and most mothers are too afraid to tell the fathers. At Soweto's Baragwanath Hospital alone, 300 HIV-infected mothers gave birth this year," he said.

Incorrect

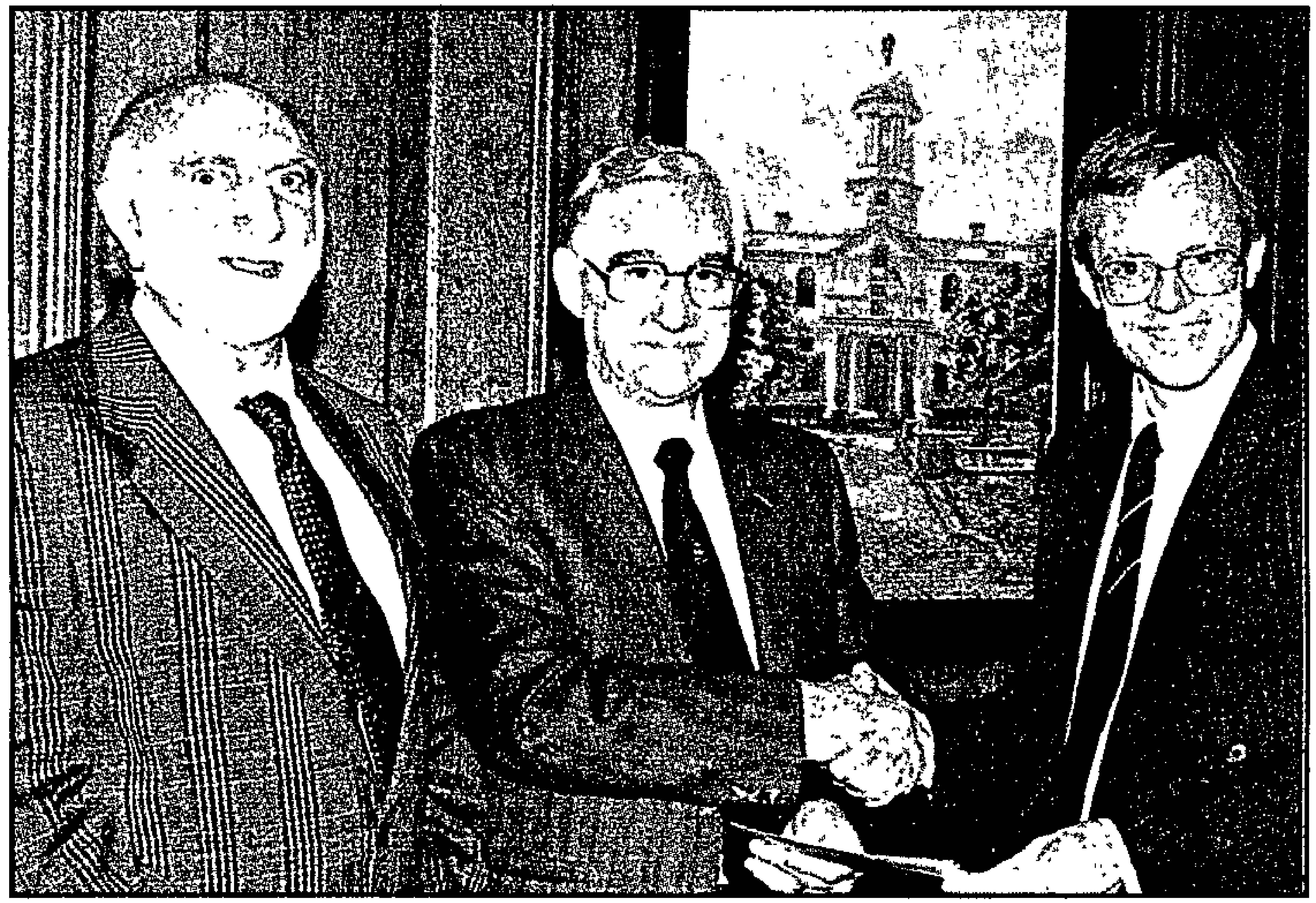
His company had created a reserve of R200 million specifically to cope with Aids claims, but the most disturbing fact was that the majority of claims came from professional people.

This was a "tragedy for South Africa, with its shortage of trained people".

He urged the authorities and all other parties in the negotiations process to make active attempts to obtain the co-operation of all South Africans in the fight against Aids, in the light of the new spirit prevailing in the country.

Sapa reports that Dr Altus van der Merwe said the current estimate of 150 000 HIV-positive cases in South Africa could be incorrect by as much as 50 percent either way.

He said the screening of blood donors indicated that the number of HIV-infected people in South Africa was increasing, but it was difficult to predict accurately what the prevalence rate of the epidemic would be in five or 10 years' time.

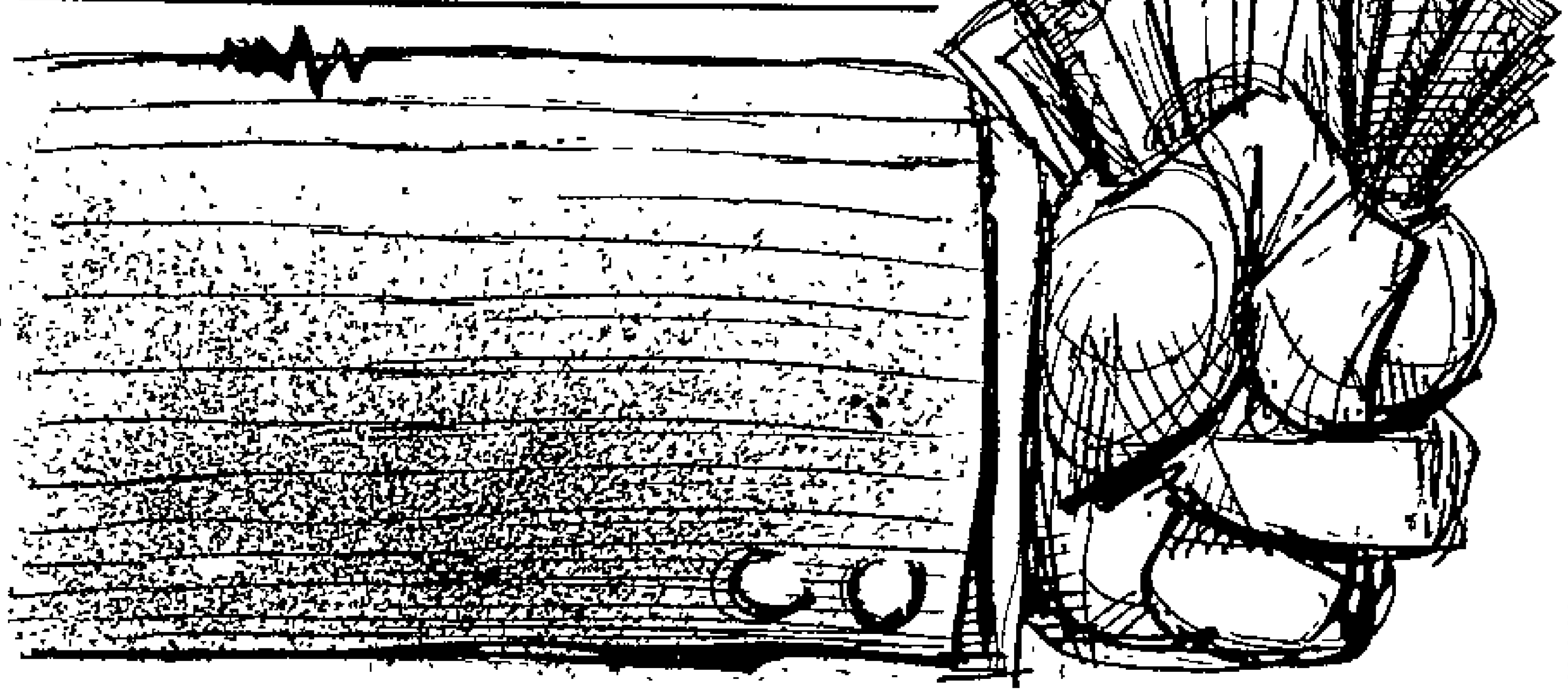


Cash for Aids . . . Dr Ruben Sher (left) of the South African Institute for Medical Research was present when Francois Marais of Sanlam (right) handed a cheque for R50 000 to Institute director Professor Hendrik Koornhof.

Getting assurance giants to cough: Key players divided

W/Mail Supp 30/11 - 6/12/90 (58)

The only point of economics on which the government and the ANC really agree is that money should be channelled from the life assurers into development.
REG RUMNEY reports



AMONG the feelings the government and the African National Congress seem to share is an uneasiness about the huge money power of the life assurers.

There are two interlocking issues.

One is that the concentration of savings in the life assurers is undesirable in that the money is merely funnelled into the Johannesburg Stock Exchange in a paper chase which does little to foster growth in the real economy.

Following from this is the feeling that the funds held by the life assurers should be unlocked for development.

The ANC Department of Economic Planning's Don Mkhwanazi has suggested that "a fraction of pension and provident funds be directed to socially responsible projects".

What this boils down to is a return to prescribed asset requirements. This required life assurers to devote a small percentage of their funds to investment in government stock, such as that issued by parastatal Eskom.

A form of prescribed asset requirements would be introduced to fund "socially desirable investments". This seems to mean mainly housing. How much housing? Given the huge assets of the life assurance industry the number of houses provided could be around one million.

Sanlam MD Pierre Steyn recently put the assets of life assurance and pension funds at R130-billion. "It is expected that this amount will increase to as much as R180-billion by the year 2000. Of the R24-billion which is estimated to be needed in the next 10 years for housing, R15-billion can be mobilised by the banks and building societies from further sources. This leaves a balance of about R9-billion, which can be provided by the pension funds and life assurance companies. This amount will represent about five percent of these institutions' assets by the year 2000."

Five to 10 percent of the assurers' assets is the range being bandied about, and it tallies with what used to be the prescribed asset requirement percentage.

Life Offices Association director June Wessels reckons the difference between the prescribeds, as they are known, and what is being proposed, is that while the returns from prescribed asset requirements in the past were generally low, they weren't always. For instance, the assurers now have amounts invested in stock which used to be prescribed. These amounts far exceed the minimum investment required in terms of the new regulations, which are less onerous than the prescribed asset requirements. The returns on such stock are excellent now.

"However, over the years the prescribed asset requirements have meant a loss to policy holders and pension fund members."

Wessels warns that too zealous an attempt to unlock funds would mean investors would put no money into the funds in the first place.

However, pension funds have always been able to decide to use some of the money invested in particular projects, such as housing. The fund members must accept that this might mean a lower return.

Sanlam chief economist Johan Louw reckons a more acceptable way of funding socially desirable investments would be, say, a two percent levy on the profits of all companies. This would spread the burden fairly.

Louw notes that the two biggest insurers, Sanlam and Old Mutual, have both set their faces against willingly putting money into low-yielding social investments. Any government would have to legislate for this to happen, and the ANC has mentioned this as a possible course of action.

"If it is limited to five percent it's not that serious," he reckons. More could have an effect on the assurers. And it will affect the returns of the policy holders and pension fund members.

"It's important the ANC sees the private sector is doing something. It could help a lot with the negotiation process."

What are socially desirable investments? So far, the only obvious answer is housing.

Sanlam senior GM Walter Scheffler believes that from a purely economic point of view housing is not productive. But it would be more unproductive in terms of the social environment if something was not done about housing.

That pension fund money is to be used for housing — for example in the scheme announced by the Perm — is not new, says Scheffler. "Quite a few pension funds have been making loans for housing for years. It's the decision of the pension fund. Sometimes they used the money as security for a loan, sometimes they used the money."

At the end of the day, someone must pay. And if the returns are not market related, the pension fund members effectively pay for their money being used for housing.

Another option is to securitise ... and let the public invest in them ... home loans subsidised by the government or Jan Steyn Independent Development Trust.

Scheffler remarks that it isn't viable for everyone to have a house unless everyone has a job. And having a job usually means membership of a pension fund, and being a member of a pension fund means funds could be made available.

What of the idea that the life assurers have got more than their share of the savings of the man in the street through favourable tax treatment?

There is no doubt that the institutions have a big slice of the savings of South...

●To PAGE 20

W/Mail Supp 30/11 - 6/12/90

Should assurers divert funds?

● From PAGE 19

There is no doubt that the institutions have a big slice of the savings of South Africa.

By introducing a limited tax on the life assurers, the government has taken another tack. This is to "level the playing fields" between the life assurers and the banks and building societies in attracting savings.

Together with a low withholding tax which would cut the tax payable on savings with banks, the idea is to switch the flow of funds to the banks and away from the life assurers.

The life assurers have argued they are merely custodians of the money of their investors, who have in some instances already paid tax on the money invested. Where they have not paid tax, the money invested is there to provide for private old age pensions and so lessen the burden of the state in providing public pensions.

Sanlam's Louw believes rather that the total savings effort should be increased. The financial institutions are, after all, not in the short-term savings market. Banks are. (Building societies, it could be argued, are in the medium-term market.)

Old Mutual chief economist Dave Mohr differs from the ANC in believing that the problem does not lie with a more efficient direction of savings towards development. "South Africa does not have a savings problem but a foreign exchange problem," says Mohr. Even if, say, 20 percent of the life offices cash flow were channelled into the area the ANC deems significant, the domestic manufacturing of basic goods for the majority of the population, this would entail imports.

Even the most basic goods have an import component and this is generally higher than expected, he says. Moreover, the multiplier effect of a boom in particular sectors will have a knock-on effect on imports. The suppliers of the basic goods would be enriched and would buy goods with a high imported component, such as cars and electronic goods.

Indeed the foreign exchange constraint will restrict any potential increase in growth in South Africa.

Star 30/11/90

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Old Mutual merging its exploration companies

By Derek Tommey

The Old Mutual is merging its two mineral exploration companies. However, it might be a little early to say that the Old Mutual is on the way to becoming a mining house. This will have to wait until the new enlarged company starts developing its own mines.

Lydenburg Exploration (Lydex) announced today that it is making an offer for the entire issued share capital of Potchefstroom Gold Areas (PGA).

Lydex is offering 115 of its own shares for every 100 PGA shares. With Lydex shares standing at 130c this makes the offer worth 149,50c for each PGA share, which are currently trading at around 125c.

Earlier this year The Old Mutual, according to McGregor's Quick Reference to the JSE, had a 16,3 percent direct stake in Lydex and also a 38 percent indirect stake. This was through its 60,2 percent owned subsidiary, Lydenburg Platinum.

The Old Mutual also had a 38,5 percent direct interest in PGA.

However, its stake in both these companies was probably increased in September when they issued shares to East Daggafontein in exchange for rights to sands and slimes dumps previously owned by ERPM. The Old Mutual is the biggest single shareholder in East Daggafontein with a 20,8 percent interest.

According to a PGA official the Old Mutual will own more than 50 percent of the new Lydex, which will have a market capitalisation of around R187 million.

Mr Chris von Christierson, a director of both companies, said the merger would enable greater benefits to be derived from the aquisition of the 44 million tons of high grade gold and uranium bearing sand and slimes from ERPM.

UBS looks comfortable

ANN CROTTY

(58)

UBS Holdings has reported a 14 percent increase in advances and a 20 percent hike in earnings per share for the six months to end-September.

Earnings per share were lifted to 39,4c (32,7c) and an interim dividend of 14c a share has been declared.

Reflecting attractive interest margins, the group's net interest income shot up 23 percent. This and other operating income rose by a combined 21 percent to R423,7 million.

The interest income position represents a significant improvement on the situation reported for financial '90. For that year net interest income was up by only 4,6 percent.

The group had to allow for a fairly hefty increase (from R4,4 million to R14,8 million) in the bad and doubtful debt provision.

According to chairman Mr Herc Hefer, the difficult economic environment coupled with prolonged high interest rates "caused substantial increases in defaults by borrowers and properties taken into possession."

S|Star 1/12/90

Expansion

Operating expenditure shot up by 31 percent to R299 million. This increase is in line with management's projections to meet planned expansion of the group's activities. (The financial '90 annual report states that expenditure on fixed property, computer and other equipment and furnishings during financial '91 is expected to amount to R120 million.)

Attributable income was up 21 percent to R95 million.

On the balance sheet side, total assets were up 17,8 percent to R16,87 billion. Deposits grew by 17 percent to R14,7 billion.

Mr Hefer states that the group is well positioned to operate within the framework of the Deposit-Taking Institutions Act when it comes into effect on January 1.

The end-September balance sheet shows shareholders' funds equivalent to 8,7 percent of the group's total assets.

Given that the DTI Act allows some scope for using investments and general bad debt provisions as part of the capital adequacy calculation and, given that lending for house buying will attract a relatively lower capital requirement, the UBS looks extremely comfortable.

Segregated toilets causing anguish

By MATHATHA TSEDU

Black employees and customers of a Pietersburg based insurance company have to use separate toilets situated three floors away and accessible only through the fire escape.

Customers and workers of Aidec Insurance, a parastatal with over 50 percent of its shares owned by the state sponsored Corporation for Economic Development (CED), said the ground floor toilets cannot be used during rainy days as the fire escape is exposed to rain.

The manager of Aidec, Mr John Keen, said in response to inquiries that the situation had "always been like this". Keen said the toilets on the third floor, where offices are situated, are shared with other white tenants who have refused that they be opened for all races.

More than ninety percent of Aidec's customers are black people. Asked why the company had not moved to other areas where they would not force their workers and customers to use segregated facilities, Keen said the question was political.

"You must realise that this thing has a history behind it," he said. "We as a company cannot do anything about it but we are negotiating and we hope to resolve the matter soon."

The owners of the building, Saambou, said the use of facilities on each floor was left to the tenants to decide. Assistant manager, Mr A M Truter, said he was aware that toilets on the third floor were segregated. He said other floors were not segregated. Sowetan 31/12/90

A woman who went to the offices on Friday and was refused to use the third floor toilets said she was withdrawing her patronage of the company.

"I cannot do business with people who think I am a half person who is not fit to use the same toilets with them," she said.

A worker said during rainy days they got wet as they went to the ground floor toilets.

"Aidec occupies over 80 percent of the floor and they allow the other whites to stop us from using these toilets shows that the white management of Aidec is also racist and agreeing to the segregation," the worker said.

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Life assurers build up huge equity stakes

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S Times 2/12/90

THE TABLE tells the story of the life offices' success.

Their total income grew from R2,5-billion in 1979 to R28-billion last year, a compound rate of 27% a year.

In the same decade, their assets have expanded from R9,2-billion to R113,8-billion (and that's with Sanlam's numbers at cost not market value).

The most dramatic trend is that the proportion of equities of the combined Life Offices Association portfolio has grown from 21% to 49% and the proportion of prescribed assets has fallen from 43% to 32%.

Stockbroker Richard Stuart of Martin & Co predicts an acute shortage of equities to meet institutional cash flows.

RICHARD STUART: Good-quality industrials are hard to come by

Deals

He estimates that total cash flows of institutions this year topped R30-billion and he believes 38% or R11-billion will be spent on equities compared with R12-billion last year.

Demand for scrip last year, he says, was satisfied by disinvestment by foreigners (R3,4-billion on the JSE and R4,4-billion off the JSE in deals such as Hanson's disposal of Cons Gold's assets), rights issues totalling R5,5-billion and the privatisation of Iscor, which absorbed R3-billion.

This year these sources of scrip have amounted to only R7,7-billion, less than half of last year's R16,3-billion. Foreign sales this year total R4,5-billion and rights issues R3,2-billion. The cash continues to flow at a rate of R28-billion a year.

Mr Stuart says: "At current cash flow rates and assuming 38% (the average for the last five years) goes into equities, R10,5-billion of new investment is potentially available for investment in the equity market annually.

"The industrial sector represents 43% of the total market capitalisation of the JSE — R157-billion out of R365-billion. Eliminating double counting takes the market cap of industrials down to about R100-million.

"If portfolio weightings in industrials are merely to be maintained in line with its proportion of total market capitalisation, R4,5-billion will need to find a home in the industrial market.

"Where is the supply? Privatisation has been put on ice indefinitely, balance sheets are generally strong enough and ratings too low to attract rights issues ... nobody wants the over-geared ones that need additional capital and foreigners have no industrials left to sell...

"Overall the supply situation of good-quality industrials is tight."

With this argument in place, it is hard to see high-quality industrials on PEs of four or five a year from now.

Assurer warns on retail link-ups

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Business Times Reporter ST Times 2/12/90

ASSURANCE executive Jim Brayson has warned against moves to sell financial services through retail stores.

A survey in the US by Andersen Consulting and the Life Office Management Association found that there was little probability of success if life companies tried to implement one-stop shopping.

The survey also found that retailers, as a group, had little chance of making the strategy work.

Mr Brayson, chief executive Protea Assurance's life division, was referring to joint ventures formed in the past two weeks by banks and big retail groups to market a wide range of goods and services.

He said: "The life-assurance market is highly competitive with a bewildering array of products for widely differing needs.

"Potential buyers need the help of an impartial expert."

Independent brokers with access to the whole industry can help ensure that the right policy is sold.

Insurers taking another caning

St Times 2/12/90

(58)

By CAREY CURVENGEN HARRIS, director, Quest Insurance Advisory Service

LIKE most industries, insurance is affected by the economic and political environment.

The years 1980 to 1986 were barren and were consequently marked by the demise of an insurance giant, the short-term arm of AA Mutual. Not since the 1960s had the market been rocked by failures and, as the public have such short memories, that one came as a shock.

The dust settled and the lean years turned to plenty through premium increases as insurers capitalised on the AA's collapse which was attributed to inferior rates. Solvency margins became buzz words in the market. The economy took a turn for the worse and the rand's value dropped almost daily.

Cuts

In spite of the huge rise in the price of replacement goods and of repairs, the insurance market once again entered into a debilitating rate war in which nobody is a winner.

Instead of premiums rising at least in line with costs, many corporate clients enjoyed huge premium cuts. The result has been negative.

Although 1989 figures reflect an overall profit of R113-million (R193-million in 1988), all is not well.

The prospect of a united Europe by 1992 has caused a jockeying for power and dominance. Many SA companies have foreign parents, so mergers and takeovers there could result in the same thing here with an unexpected outcome.

INCOME STATEMENT

QUOTED SHORT-TERM INSURERS — 1989

AMOUNTS EXPRESSED IN R000

	COMMERCIAL UNION	GUARDIAN NATIONAL	IGI INSURANCE	MUTUAL & FEDERAL	PROTEA ASSURANCE	SANTAM INSURANCE	SA EAGLE INSURANCE
Financial Year End	Dec 89	Dec 89	March 89	June 89	Dec 89	Oct 89	Dec 89
	R	R	R	R	R	R	R
Gross Premium (Worldwide)	391 819	423 240	400 226	830 053	200 053	752 601	634 889
Less: Reinsurance Ceded	133 199	153 294	62 156	149 452	49 332	95 624	133 542
Net Premium	258 620	269 946	338 070	680 601	150 721	656 977	501 347
Increase in Premium Reserves	22 485	32 874	13 569	16 931	8 892	25 846	18 636
Net Premium Earned	236 135	237 072	324 501	663 670	141 829	631 131	482 711
Claims Incurred	168 056	164 865	202 600	443 307	92 993	454 914	339 942
Expenses	29 529	28 813	71 844	81 669	28 062	82 842	58 402
Commission	33 304	34 153	30 836	84 691	22 413	81 890	64 462
Other U/W Income	0	0	0	0	0	0	375
Underwriting Result	5 246	9 241	19 221	54 003	-1639	11 485	20 280
Investment Income	35 073	35 689	24 003	91 046	18 180	60 260	51 371
Net Realised Gains	1 613	0	0	0	0	0	0
Other Income	0	-6 272	-1 515	0	431	1 418	8 165
Pre-Tax Profit (Loss)	41 932	38 658	41 709	145 049	16 972	73 163	79 816
Earnings per share — cents	387,3	301,2	200,3	195,0	172,0	73,3	392,0
Dividend per share — cents	95,0	110,0	38,0	30,0	53,0	23,0	190,0

NOTES:

1) The Commercial Union figures exclude contribution to group income of life operations.

2) Under the heading Other Income the following companies have the various explanations.

Guardian National — Includes an extraordinary item.

IGI Insurance — Consists mainly of loss of investments

Protea — Includes Shareholders' life profits.

SA Eagle Insurance — Includes a Prior Year Adjustment.

Growing unemployment encourages crime, unrest and a general uncertainty about the future. Numerous newspaper reports reflect this.

To quote: "The deterioration in the underwriting result was mainly caused by a sharp increase in the incidence and cost of motor-vehicle accidents, theft, the ongoing hijacking of vehicles and cost escalations in spares and labour."

Healthy

Companies are also finding that premiums are inadequate to meet the increased cost of claims, which have risen more than inflation.

Contrary to the general state of the market, the seven short-term insurance companies quoted on the JSE returned healthy pre-tax profits in 1989. Their interim figures for 1990 again show good returns, with dividends up slightly from those of the same time last year. However, none showed an increase in operating profits from the previous year.

CAREY CURVENGEN HARRIS: Rising claims and higher premiums

This can be attributed to the poor underwriting results of these companies, all showing a loss — except for Mutual & Federal, which had a R11 581-million profit in 1990 (R54 003-million in 1989).

Although underwriting results have been disastrous, an increase in insurers' investment income helped to produce the overall operating profits.

There was a small underwriting profit in 1989, but with the adverse crime rate and rising costs, companies will find it hard to maintain acceptable levels of profitability especially in the motor and miscellaneous portfolios which then make up 78,7% of the market.

Many think that it is only the motor portfolio that has taken a beating. But that is not so. South Africa notched up a staggering R339-million in fire claims for the period ending June 1990.

In percentage terms, it is a 52,5% increase on the same time last year. Householders' insurance is a cause for concern, claims rocketing because of the high crime rate.

Another criterion is natural catastrophe, which can be devastating to both insurers and reinsurers. In March 1990 Welkom was struck by a tornado and estimated damage of R100-million is a major contributor to the poor results being experienced.

Trend

This year will be marked by the return of deteriorating results and once again the insured will be faced with large premium increases.

A new trend is emerging. The ordinary person is tired of increases in premiums and is opting to self-insure.

Although one can understand this attitude, it must be said that self-insurance is a dangerous game. One need only look back to the Free State floods in which many people lost heavily because of inadequate cover and self-insurance.

These are the trends facing insurance. In view of the deterioration in results, premiums have been raised by about 35% to counter adverse claims experience.

Time will tell whether these premium increases are adequate for possible future losses, and whether they will to be monitored by insurers and the Registrar.

It will take at least 18 months for these increases to take effect and it will be a while before the industry experiences the bountiful years of 1987 and 1988.

Sadly, in our experience, that old insurance principle, "In utmost good faith", is conveniently overlooked by many participants in the business, not least by many insured.

Pressure mounts on rich assurers

S/Times 2/12/90

TOP 100 COMPANIES

(58)

By DAVID CARTE

FOR 20 years, life companies have had a licence to print money. Their peace, tranquillity and possibly their long-term prosperity were shattered by several extraneous bombs this year.

- First, there was AIDS.
- Second, there were antipathetic noises and actions from officialdom.
- Third, there were envious noises from the ANC.
- Fourth, recession and real interest rates made it harder to sell policies and retirement annuities.
- Fifth, gold shares went backwards and the JSE sideways for most of the year.

The main reason life offices have done so well in the past couple of decades has been inflation, accompanied by negative real interest rates.

Short- and medium-term deposits offered by banks and building societies have yielded less than inflation — before tax. Tax has seen to it that savings have provided decidedly negative returns. As a result, private savings have all but dried up.

Life companies and pension funds, by contrast, have been able to invest in shares and property, which have shown phenomenal long-term growth.

Dominance

To some extent, their buying has been self-fulfilling, pushing blue-chip shares higher and higher. Because of exchange control and their inability to invest offshore, the life companies have been compelled to invest at home, adding to their dominance.

Companies have been important savers in the past decade as well, depreciating assets as fast as they can and keeping dividend cover as high as possible.

Since most the big companies are owned by life assurers and pension funds, these retentions are effectively for the account of the big assurers.

Government is known to believe the playing field is tilted in the favour of the life offices and this year several steps were being contemplated to level it.

In this year's Budget, tax on dividends to individuals was abolished, making it easier for them to run their own portfolios.

The next step is expected to be aboltion of tax on savings. Banks will levy a 10% withholding tax. That would make returns on savings positive after inflation and tax for the first time in many years.

SA is short of greenfields investment and it is a source of irritation to the Government and the ANC that the life companies have become the repositories of most of the nation's investment capital — and that it is tied up in existing assets instead of going into new projects.

The frustration of the authorities is understandable but misguided.

The reason new projects are not being developed is that the operating environment for business is so hostile.

Labour is increasingly impossible, demanding wages that far outstrip productivity or market rates. Tax and interest rates are high. Domestic markets are subdued and foreign markets are competitive and inaccessible because of sanctions.

Unwise

The truth is that if anyone has a great investment project, he can get the money from life offices, as Anglovaal, Gencor and many other companies have demonstrated with large rights issues.

It seems unwise to tilt the playing field in favour of banks, which do not inspire long-term saving. On the contrary, banks are in the business of lending and money creation. They encourage high consumer living.

If anyone needs proof, consider Standard's Access Bond, which encourages people to borrow against the equity in their house to pay for big-ticket consumer goods.

ANC rhetoric on nationalisation was originally aimed at mining houses and banks. Recently, as the ANC has come to realise that the life companies are the real financial power houses, it has talked about nationalising them.

STATISTICAL REVIEW — SELECTED ITEMS	1989 Rm	1988 Rm	1987 Rm	1986 Rm	1985 Rm	1984 Rm	1983 Rm	1982 Rm	1981 Rm	1980 Rm	1979 Rm	Average Annual Growth 1 yr %	5 yrs %	10 yrs %
INCOME	**27,956**	**22,303**	**18,475**	**12,927**	**9,889**	**8,240**	**6,495**	**5,246**	**4,104**	**3,109**	**2,496**	**25,35**	**27,68**	**27,33**
Total individual premiums	12,068	10,290	9,044	5,233	3,621	3,038	2,415	1,902	1,585	1,236	941	17,28	31,77	29,06
Group schemes and pension funds	6,687	5,483	4,514	3,456	2,619	2,386	1,869	1,549	1,160	888	764	21,96	22,89	24,23
Total premium income	18,755	15,773	13,558	8,689	6,240	5,424	4,284	3,451	2,745	2,124	1,705	18,91	28,16	27,10
Investment income	9,201	6,530	4,917	4,238	3,649	2,816	2,211	1,795	1,359	985	791	40,90	26,72	27,81
BENEFITS PAID	**9,692**	**7,327**	**5,328**	**3,996**	**2,848**	**2,173**	**1,569**	**1,208**	**935**	**730**	**616**	**32,27**	**34,86**	**31,73**
Death and disability claims	2,046	1,647	1,323	1,028	859	730	554	466	383	295	240	24,23	22,89	23,90
Maturities	1,174	958	828	724	538	449	343	240	194	160	138	22,55	21,19	23,87
Annuities	2,547	1,971	999	537	353	240	174	128	94	69	55	29,22	60,38	46,75
Pension surrenders and withdrawals	2,951	1,712	1,648	1,251	751	540	326	241	171	117	94	72,35	40,45	41,15
Individual surrenders	974	1,039	530	456	347	214	172	133	93	89	89	-6,26	35,40	27,03
EXPENSES	**3,260**	**2,650**	**2,015**	**1,499**	**1,237**	**1,073**	**864**	**716**	**587**	**453**	**340**	**23,02**	**24,89**	**25,36**
TAX	**594**	**575**	**256**	**236**	**288**	**169**	**131**	**130**	**60**	**46**	**43**	**3,30**	**28,58**	**30,03**
REGIONAL SERVICES LEVIES	**11**	**8**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**37,50**	**—**	**—**
												Percentage of Total 1989	1984	1979
ASSETS	**113,823**	**83,255**	**65,844**	**54,541**	**36,621**	**28,726**	**23,386**	**18,028**	**14,540**	**11,559**	**9,199**	**100**	**100**	**100**
Public sector securities	36,791	34,058	25,679	19,411	14,408	11,833	9,804	7,990	6,349	4,819	3,918	32,32	41,19	42,59
Other fixed interest securities	1,573	1,390	1,456	1,210	1,362	1,485	814	807	992	1,053	650	1,38	5,17	9,24
Mortgage and other loans	1,351	1,066	1,004	877	914	719	748	697	714	478	417	1,19	2,50	4,53
Fixed property	13,100	11,241	8,429	8,762	7,309	5,475	4,232	3,174	2,279	1,822	1,385	11,51	19,06	15,06
Shares and units	55,457	31,386	26,105	21,911	10,241	7,212	6,127	4,038	3,171	2,575	1,912	48,72	25,11	20,78
Policy loans	947	777	655	582	572	461	373	327	287	265	251	0,83	1,60	2,73
Other assets	4,604	3,337	2,516	1,788	1,815	1,541	1,288	995	748	547	466	4,04	5,36	5,07

SOURCE: LIFE OFFICES ASSOCIATION.

Being mutuals and therefore lacking shareholders in the normal sense, Old Mutual and Sanlam are tempting targets.

Mutual effectively controls Barlows, Safren and Nedbank.

Sanlam brings Gencor and Bankorp with it.

These are the "commanding heights", as the ANC likes to put it.

To the relief of all in the private sector, the ANC has talked less of nationalisation in the past two months and more of redistribution.

It has said that the life offices should be investing some of their assets in social projects.

Return

Mike Levett, managing director of the Old Mutual, has said that as custodian of policyholders' money, his society will not invest unless there is a market-related return.

Old Mutual has worked hard on the new SA and now calls itself a "people's co-operative".

Its Bridgebuilder pension and provident scheme gives trades unions the right to influence pension policy. It also enables members to use their pension and provident fund savings to buy houses, or for other projects.

In November, Old Mutual announced a scheme to make pension money even more accessible to members wishing to borrow to build.

The Perm came up with a scheme in terms of which pension funds buy a slice of an employee's salary for 20 years for a large capital amount, which can be used to buy a house. This scheme permits a member to borrow 2,5 times more than under a conventional mortgage scheme. Payments are less than 20% of salary compared with 25% now and are not subject to escalation if interest rates rise. Established members of pension schemes do not need a deposit for a house.

Neither Old Mutual nor the Perm has a patent on its scheme. If successful, they are bound to be copied and billions more could become available for black housing.

These products are not the complete answer to the ANC's demands, however, because they look after the "insiders" — the minority of blacks with jobs paying close to R1 000 a month.

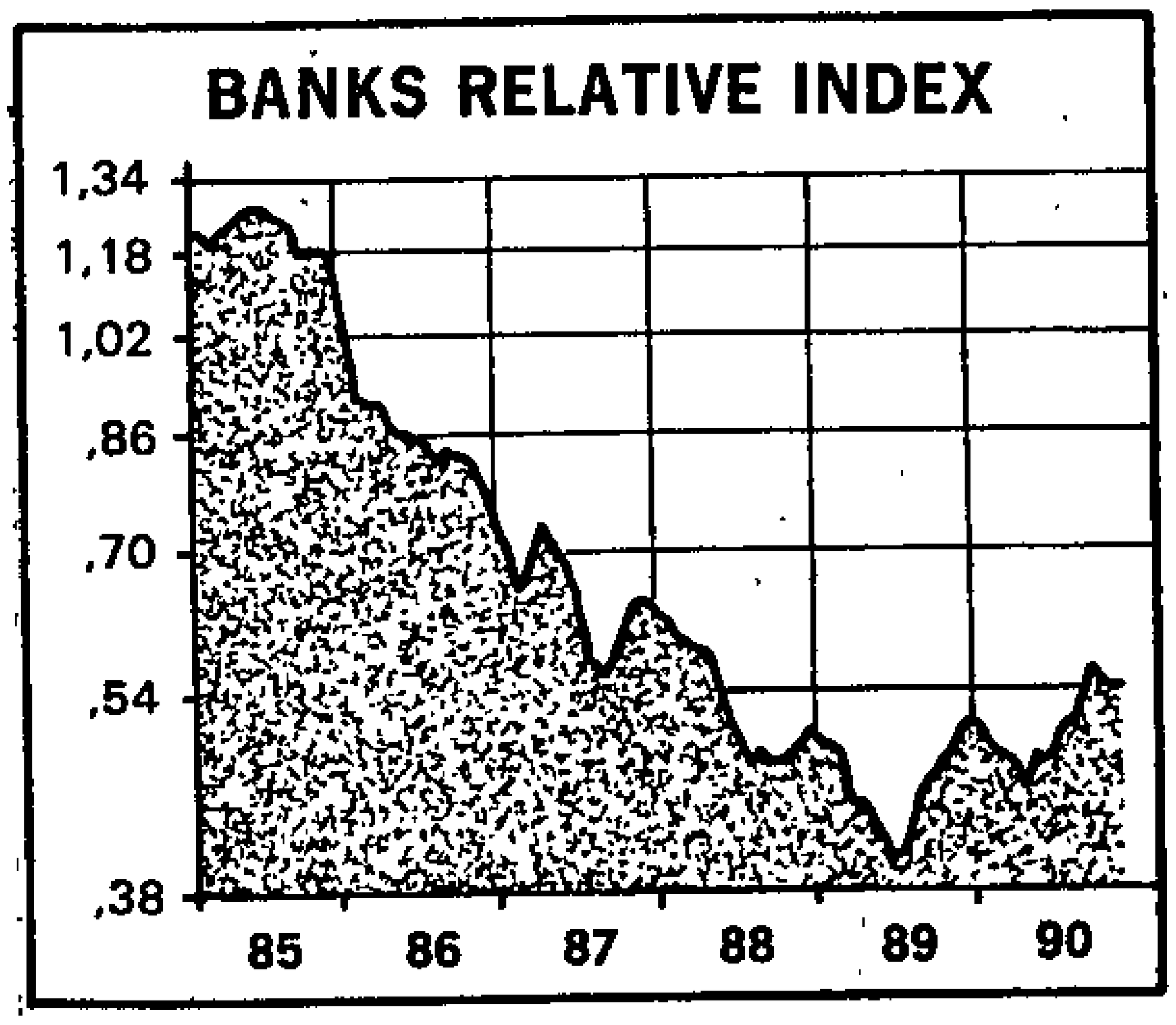
As the squatter and unemployment problems intensify, so housing the truly needy will come into focus.

RICHARD JESSE: The ANC losing its appetite for nationalisation of the economy's big financial guns

More bank shake-ups and bad debts worse

S1 Times 2/12/90 (58)

RICHARD JESSE, director of stockbroker Martin & Co, looks at the main events in the banking sector in the past year and concludes with some guesses about the year ahead. The chart shows that bank shares have done better than the financial and industrial market since about the middle of 1989.



THE PAST year has been eventful.

In the final quarter of 1989 Bankorp, under new chairman Derek Keys, completed a heavy one-for-one issue of new equity capital to raise R349-million and bought out the outside shareholders in Trust Bank.

The new funds were needed "to restore Bankorp's capital position to an acceptable level".

About six months earlier the interim statement said that the group "does not at this point of time have to consider a rights issue".

First National Bank, under new chief executive Barry Swart, came through strongly in its year to September 1989 with the highest return on assets (0,91%) for several years.

Cost controls in the second six months were particularly good. The share price rose by more than 30% between the end of September and late December.

In the first three months of this year, the emergence of the ANC into the light of day shortly after President De Klerk's historic February 2 speech soon raised the issue of nationalistion of banks.

Veteran ANC member Walter Sisulu said: "We are talking about bringing the major monopolies, financial institutions and mines under State control."

Except in the most enthusiastic Marxist corners of the ANC, nationalising the banks now seems to be viewed as less attractive (it would cost money) than imposing some form of prescribed asset investment system on all financial institutions.

Nedcor chief executive Piet Liebenberg — a crucial appointment in 1986 — accepted Derek Keys' invitation to become executive chairman of the embattled Bankorp group.

In the second quarter of 1990 the Deposit-taking Institutions Bill was presented to Parliament. This historic document (gazetted as an Act on July 11) abolished the previous distinctions between banks, building societies and discount houses, levelling these playing fields.

Among other things, it changed previous shareholding restrictions to allow ownership of deposit-taking institutions by non-deposit-taking institutions to increase from 30% to 49%.

Loss

Regulations under the Act will bring SA institutions in line with the internationally prescribed capital requirements of the Bank for International Settlements by January 1995.

Between July and September Bankorp was in the news again with a huge loss of R379-million for its year to June 1990 and another one-for-one rights issue, this time to raise R575-million, underwritten by parent company Sankorp.

Confirming the validity of persistent rationalistion-merger rumours in the sector, a warning was issued in late September about UBS Holdings, Volkskas, Allied and Sage Financial Services.

Rembrandt, a key shareholder of Volkskas, UBS and Sage, said it supported "rationalisation of the financial services industry" in principle.

Rationalisation talks among the parties have continued for the past three months.

First National Bank announced earnings growth of 20% for its year to September 1990 accompanied by an impressively low increase in non-interest costs of only 7%.

The year ahead will be marked by merger-rationalisations concluded not only between Volkskas-UBS etc, but probably between others as well.

Bad-debt experience will worsen, but reported earnings growth should be above average.

M&F beats the short-term woes

SITimes 2/12/90

(58)

By IAN SMITH

No 7
1985
R10 000
1990
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TOP 100 COMPANIES

MUTUAL & FEDERAL managing director Ken Saggers forecast 12 months year ago that the short-term insurance industry was in a for another tough year

He was right. Competition for business has intensified, claims have increased and the cost of losses has climbed steeply.

But M&F, the short-term arm of Old Mutual, has moved up two places to No 7 in the Top 10 list. The all-in compound return over five years is 54,5%.

Although M&F did better than many competitors it did not entirely escape the woes of the sector in the year to June 30.

In spite of heavier claims, the group kept its underwriting account in surplus for the fourth successive year. Higher claims did, however, cut the surplus by R42,2-million to R11,6-million — a mere 1,6% of premiums earned.

Concerned

Investment income made up for some of the disappointment by growing 20% to R109,7-million. But the taxed profit fell from R90,6-million to R88,3-million, a 3% decline.

Earnings fell from 195c a share to 190c, but the dividend increased 33% to 40c a share. The payout has more that doubled in the past three years.

Mr Saggers says there is no secret recipe for M&F's good performance.

"It's obvious our investments in the past are standing us in good stead, and I believe that we have a good handle to our business."

But he is still deeply concerned about the health of the short-term insurance business.

"Urgent corrective action is required to improve underwriting results in the domestic, commercial and industrial markets because present premium levels are inadequate to meet soaring claims costs.

"Any further deterioration in underwriting standards will have serious consequences for the short term industry," says Mr Saggers.

Claims

His company's underwriting experience, spelt out in the annual report, points to the dangers.

The average cost of a claim increased by 30% last year and there was a "considerable increase" in the incidence of crime, motor theft and storm losses.

Water-related losses increased from R17-million to R57-million. This includes R26-million for claims arising from the Welkom tornado.

Mr Saggers says: "A substantial portion of this catastrophe was recovered as a result of the prudent reinsurance arrangements of the company."

The cost of losses is still rising

Mr Saggers says that in the current year they are running about 25% to 30% higher than last year.

Unemployment is increasing and that carries the danger of malicious damage, arson and a general increase in crime.

Even a drought is often broken by extremely heavy storms, causing damage and floods.

"What worries me is that the vicious rate war has not left the industry in the best shape to meet more big losses," says Mr Saggers.

Contained

He is, however, happier about the shape of M&F.

In spite of the severe competition the group increased gross premiums by 7% to R882,9-million and net premium income by 10% to R748-million.

Expenses of R56,1-million were contained, the ratio to net premiums falling from 8,5% to 7,5% last year.

The market value of assets at the end of the year increased by 29% to R1,7-billion

The solvency margin — the ratio of net assets to net premiums — was about 125% at the year-end.

"In the difficult times being experienced by the short-term insurance industry, the group's financial strength is of considerable importance to insured clients, shareholders and others who have dealings with it," says Mr Saggers.

The group's acquisition of National Employers General for R105,6-million will have "distinct benefits". The two companies have directly compatible business portfolios and NEG has brought valuable new skills and systems into M&F.

One of the most important strengths of M&F, as Mr Saggers sees it, is that it has been able to avoid going for growth for the sake it.

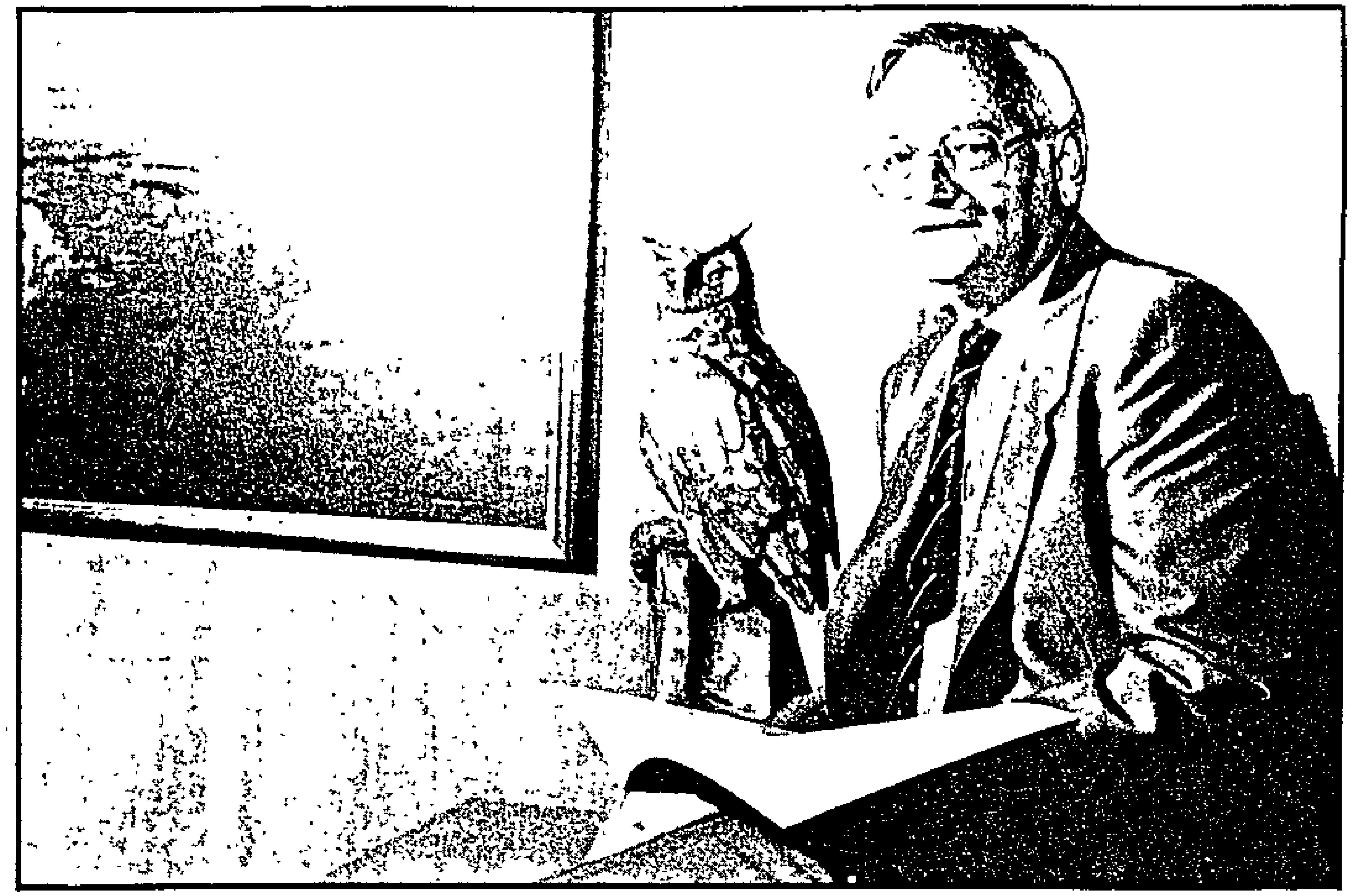
"We have looked after our underwriting and we have tried to ensure that we have got the right premium for the risk," he says.

The group handles about 1 000 claims a day. Mr Saggers says: "But that is our business. We aim to settle with a minimum of difficulty for the client.

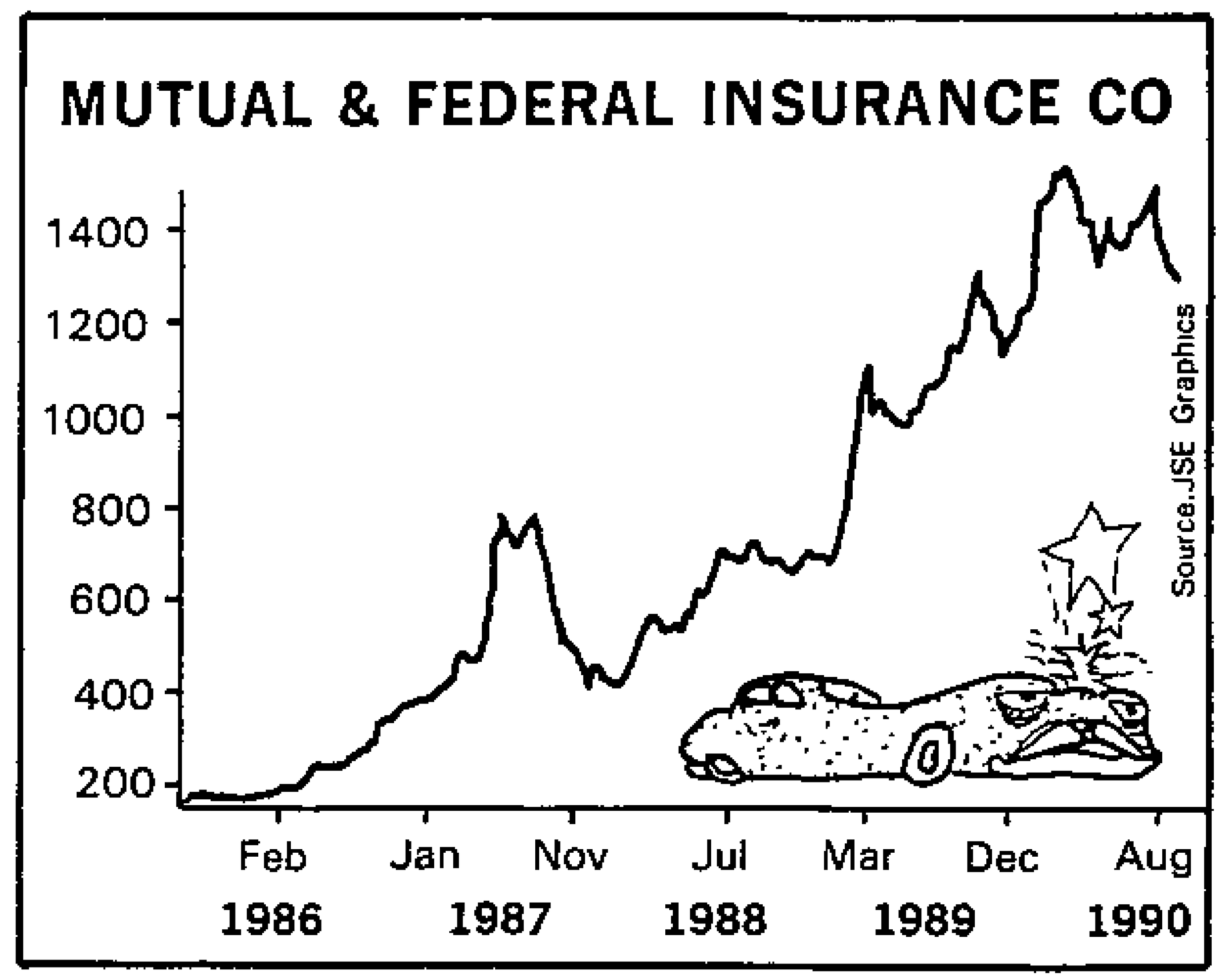
"Our claims department is our shop window, and if it has a good reputation we will get the business."

Heavy investment in staff training and modern computer technology helps the group to meet its targets.

M&F was formed in 1970 by a merger between SA Mutual Fire and Royal Insurance.



KEN SAGGERS A thousand claims claims a day — we aim to settle with a minimum of difficulty for the client. Our claims department is a shop window for business



A roller-coaster ride for JSE and everyone feels the pinch

SITimes 2/12/90

By JULIE WALKER

FOR THE first time since P W Botha's disastrous Rubicon speech in 1985, political factors played a hugely influential role on the JSE this year.

The stock market started the year on a roll, spurted to a crest in

ten into badly by lenders' requirements. The JSE overall index was down by more than 500 points by

as AECI forecast a downturn in profitability. Sasol shares climbed from R11 a year ago to R15,75 before retreating below R14.

The banking sector also featured with a steady performance. There was plenty of speculation about take-

FINANCE

The straitjacket will remain

BDay 3/12/90 . (58)

HAROLD FRIDJHON

THE two markets — money and bond — are a study in contrasts.

The bond market is listless and dispirited; the money market has come alive. Yields on bonds are all but static; rates, particularly at the longer end of the money market, tumbled for most of last week.

The reasons for this positive dichotomy between two markets — which should be sympathetically linked through the yield curve — are that the one, the money market, trades in fundamental investment realities, while the other has been sustained by speculative hunches and rumours. Players in the money market are genuine investors; those in the bond market are largely professional punters.

Activity in the money market has quickened because all signs point to a thaw in the rates freeze. All market participants are agreed that a cut in Bank rate is coming; the differences of opinion are over how soon. And in dealing and trading, opposing views make markets.

There are those who firmly believe that Reserve Bank governor Chris Stals will announce a lower Bank rate before the Christmas bells start jingling.

They argue that economic barometers point to "fair" while the political weather glass signals "stormy weather".

Those who fancy a pruning in Bank rate early in 1991 take the line that a pre-Christmas lowering of rates could give an unhealthy credit-driven thrust to seasonal buying, and that Stals will wait until the gifts have been wrapped and delivered.

Conservative observers believe Stals will use his secateurs only after all the end-of-December data are in and analysed, balance of payments, balance of trade, bank advances, money supply, CPI. If they come in a suitable package Bank rate might be reduced from 18% to 17%.

And then?

A further one percentage point drop could be expected in about August. A tumble of rates, such as occurred between May 1985 and May 1986 when Bank rate was slashed from 20,75% to 11%, is highly improbable. That lesson cost all of us dearly.

Reflected

The imponderables which make a nonsense of all this reasoning are war or peace in the Gulf and the price of oil.

Last week's trading in the money market reflected the spread of investors' views.

At the short end, the Treasury bill (TB) tender again responded to demand for three-month assets, although some of the demand could be attributed to banks and building societies scratching for liquids. The TB rate shed nine more basis points from 17,59% to 17,50% as R452m was bid for the R120m bills on offer. In contrast, the rate for 90-day bankers' acceptances moved more modestly, from 17,90% to 17,85%.

The real action was focused on the long end, where demand for 12-month negotiable certificates of deposit (NCDs) brought down the middle rate from the previous Friday's 18,45% to last Friday's 17,85%. It came down with the banks cutting their rates in steps and still finding takers, in large amounts.

The seven-month rate was lowered 40 basis points to 18%.

These rates are prognostic in that most investors appear to see Bank rate lower but not plummeting, with the Reserve Bank loosening straps but not removing the straitjacket.

December is seasonally a tight month for the banks, with heavy foreign payments to square end-of-year accounts, dividends, and interest, apart from Christmas-swollen GST collections for the Treasury. The 14-day TBs, which siphoned excess liquidity — a result of high export earnings and lower import spending — from the banks, will mature mid-month, restoring funds to the banks when they will be most needed.

Rating of banks in the pipeline

(58)

B/Day 3/12/90

ROBERT GENTLE

RATING agency Republic Ratings said yesterday it was working on a comprehensive bank industry profile in anticipation of a move by banks to get themselves rated.

Republic executive director Gideon van Rhyn said in an interview that European banks had informed Republic of their concern about a lack of information on individual banks and the local sector.

"Some of them prefer to deal directly with our large corporations rather than through banks," he said.

Bank ratings would replace the subjective views on the country's banks — particularly the so-called "big five" — and provide both foreign and local investors and lenders with an independent benchmark.

The banking industry profile Republic was undertaking was "a first step" towards rating the banks.

Republic has already rated Eskom, the Post Office, transport concern Transnet and local water authority Umgeni Water.

Van Rhyn said Republic had undergone an expansion drive to cope with the increased ratings activity. Ratings in the pipeline included both public and private sector companies and a number of securitisation issues.

Republic's findings are released monthly and are available on subscription.

UBS unscathed by jump in defaults

B/Day 3/12/90 . (58)

UBS Holdings emerged unscathed from a surge in operating expenditure and a jump in defaults and arrears to post a 20,5% increase in earnings to 39,4c a share for the six months to end-September.

Operating expenditures surged by 31% to R299m, but the growth was not unexpected given the building society group's expansion into banking.

The Allied's interims reflected a jump in expenditure for the same reason, albeit at a slower rate. By contrast, First National Bank managed to cut its spending to a single-figure growth rate.

However, UBS's interest margin management, combined with buoyant fee-based income, offset the knock. Net interest and other operating income rose 21% to R423m. Total assets were up almost 18% to R16,87bn. Its 14% growth in advances was close to levels the Reserve Bank regarded as desirable.

Chairman Herc Hefer says the difficult economic environment, coupled with prolonged high interest rates, caused substantial increases in defaults and reposessions.

He expects conditions to remain difficult in the second half of the financial year, but anticipates that the group's rate of increase in earnings will be maintained.

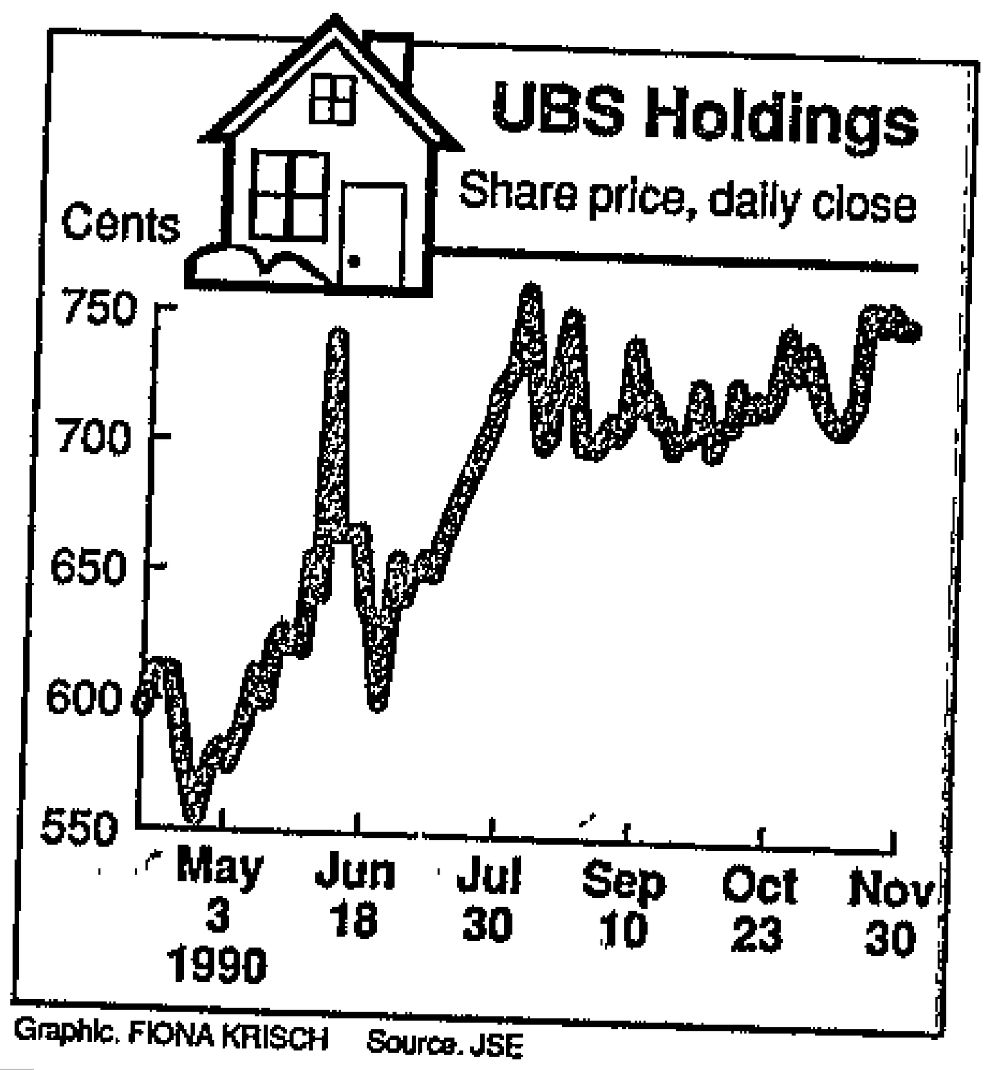
United is the best-capitalised institution in the banking sector, which is about to

GRETA STEYN

start phasing in more stringent capital requirements in terms of the Deposit-Taking Institutions (DTI) Act.

"The group is well positioned to operate within the framework of the DTI when it comes into effect," Hefer says.

An interim dividend of 14c a share (12,5c) on increased cover of 2,8 (2,6) was declared.



Graphic. FIONA KRISCH Source. JSE

Bond boycotters seen to frighten off financiers

B/Day 3/12/90

THEO BAWANA

BOND repayment boycotts were scaring financiers away from the low-cost housing market, SA Housing Trust (development) GM J de Ridder said in Johannesburg at the weekend.

At the launch of the African Builders' Association (ABA), De Ridder said financiers were also to blame for not ensuring their clients fully understood the legal intricacies of buying, building and financial contracts.

58

Consequences

Political opportunism had "played an important role" in most instances involving such boycotts.

He said most boycotters did not understand the consequences of their actions.

"Typically, the situations are approached within the framework of the wage negotiation process associated with the labour union movement."

Many boycotters believed they could approach renegotiation of their loans to suit altered circumstances in the same way wage disputes were approached in industry.

De Ridder said financial institutions did not take enough care to ensure their clients fully understood their contracts.

Builders were also guilty of neglecting these responsibilities.

There was evidence that builders used "undesirable selling practices".

There had been a significant breakdown in clients' confidence in financiers.

"This was especially caused by construction quality defects," said De Ridder.

"In my humble opinion, bond boycotts are therefore a symptom of badly managed risk."

ABA president Joas Mogale said his association, an affiliate of the Foundation for African Business and Consumer Services (Fabcos), had affiliates in the Transvaal, Natal, eastern Cape and Ciskei.

Bank rate policy stays tight — Stals

(58)

BDay 4/12/90

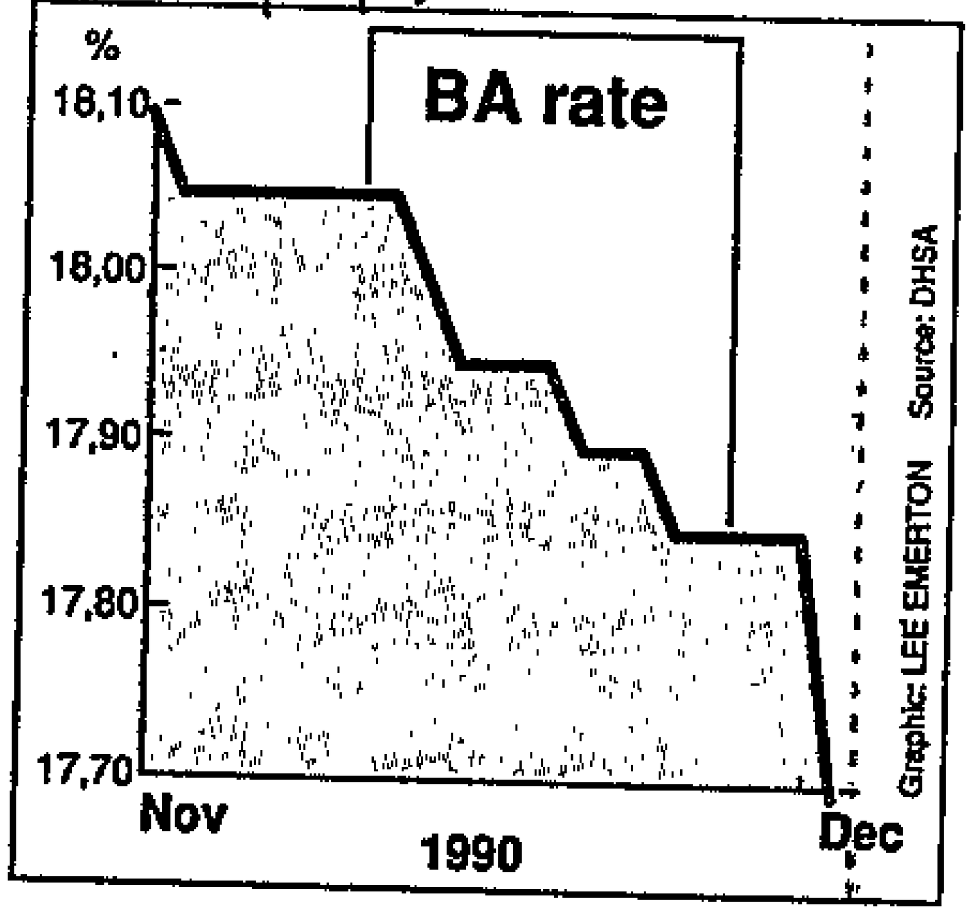
GRETA STEYN

AS bullish sentiment on interest rates swept through SA financial markets yesterday, Reserve Bank Governor Chris Stals warned that the imminent cut in Bank rate would not signal a tumble.

Stals told financial journalists in Pretoria that there would soon be scope for a one percentage point cut in interest rates. But this should not be seen as a move towards a more expansionary policy, he warned.

He had already given some thought to formulating a Bank rate statement and had decided to emphasise that monetary policy would remain relatively tight.

It was imperative that real rates of interest be maintained.



Stals's recent softening of his iron stance on interest rates gave the bulls a field day in the markets yesterday. On the JSE, leading industrials took off in what some dealers believed could signal the beginning of a new bull run, reports MERVYN HARRIS.

The rally came in afternoon trading and boosted the industrial index by 33 points to 2 825. The overall index was up 17 points aided by a spill-over from buoyant global equities on the back of Gulf peace moves.

In the money market, rates have already almost discounted a Bank rate cut. The key 90-day liquid BA rate started the day at 17,80% from last week's 17,85% and was

☐ To Page 2

Stals

BDay 4/12/90

(58)

☐ From Page 1

quoted by one discount house at 17,70%. Reuters reported short NCD yields fell about 20 points.

The gilts market followed the trend with the benchmark Eskom Loan E168 falling nine points to 16,02%. Volumes were thin.

Stals said that if banks' prime overdraft rates were cut to 20% from 21% in response to a Bank rate cut to 17%, it would not make much difference to the economy. He noted the "mistaken belief" that the Reserve not only had the power, but also the duty, to generate economic growth.

In the past year his "ultimate disappointment" was the fact that inflation was still high. The Gulf situation had been a major setback.

The most positive development had been the balance of payments. He noted that November's gold and foreign exchange reserves, to be announced later this week, had shown another increase of about R450m.

● Comment: Page 10

Metpol outshines industry average

B Day 5/12/90 (58)

LESLEY LAMBERT

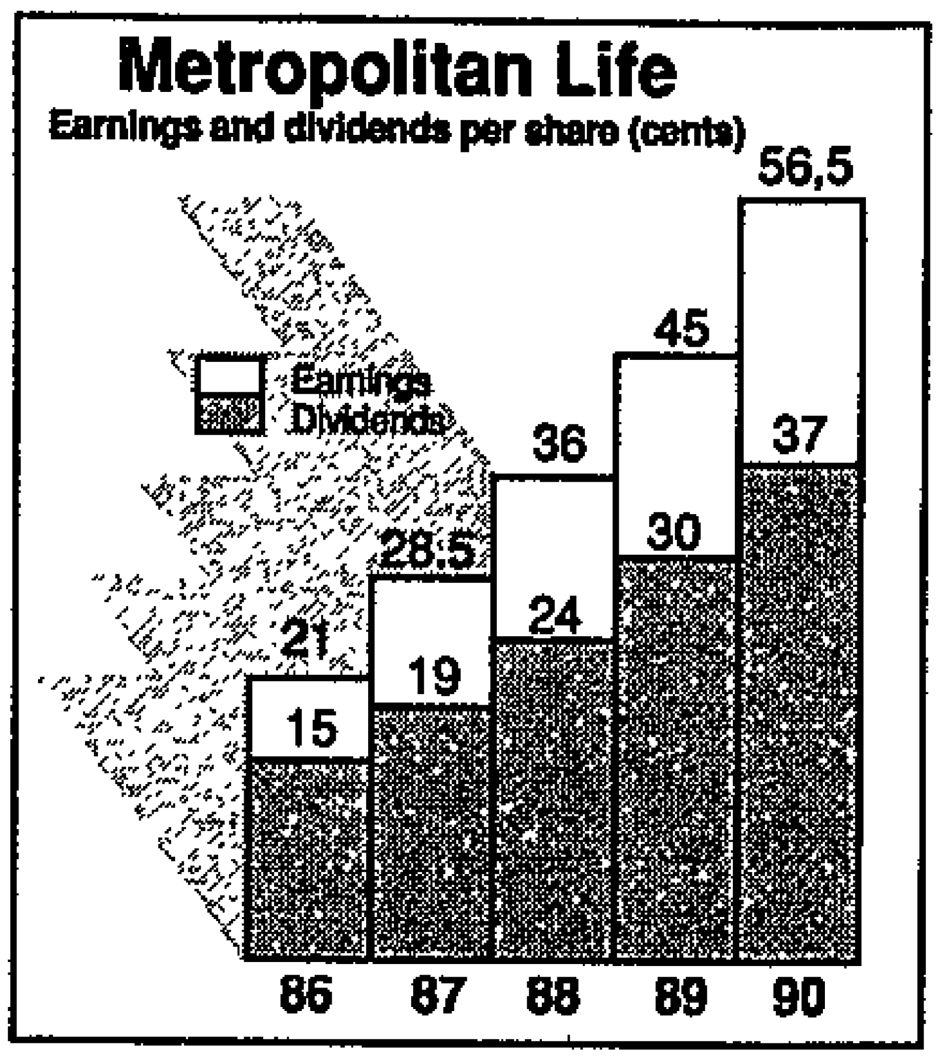
CAPE TOWN — Metropolitan Life (Metpol) has reported another set of impressive results for the year to end-September, in spite of economic and political conditions which made it increasingly difficult to write new business in black townships, the group's target market.

Total income grew by 25%, reflecting similar growth in both premium and investment income.

Total premium income grew by 25% to R546m, with recurring premiums representing the lion's share of income. Comparative figures for growth in recurring premiums showed that Metpol outperformed the industry average of 24,7% by achieving growth of 27,4% for the year to June.

MD designate Marius Smith, who takes over as CE of the group in January, said he regarded the growth as very satisfactory in a political environment of unrest and boycotts.

Investment income grew by 26% to R273m, reflecting a decision early in the year to invest new income into more liquid instruments and reduce the exposure to the equity market on the basis that it would not perform satisfactorily. As a result, the group's return on total assets was among the best in the industry, Smith said.



Graphic: LEE EMERTON Source: METROPOLITAN LIFE

On a disclosed surplus of R25m, which was 26% up on the previous year, attributable earnings translated into 56,5c a share. A final dividend of 23,5c was declared, bringing the total payout to 37c a share — 23% more than last year's dividend.

The book value of investment assets rose by 22% to R1,9bn, while the market value increased by 15% to R2,8bn. Total investment in property was R400m at book value, or 21% of the investment portfolio.

New rules on bank monitoring

B Day 5/12/90

(58)

GRETA STEYN

MONITORING the risk and return of banks is the main focus of the regulations relating to the new Deposit-Taking Institutions Act (DTI) gazetted on Friday.

The importance of both bank and the Reserve Bank monitoring risk was illustrated by Tru-Bank's options book triggering a major capital market loss last year.

Other banks, notably small merchant banks, have also suffered from rumours that they are over-exposed in some markets — leading to queries by the Reserve Bank. Banking supervision will now ensure that banks and the registrar know the true position.

Rules

The regulations represent an overhaul of banking practice – for the first time banks are legally compelled to provide information on identifying, measuring and managing their risks.

The rules of the game have also changed, tightening up in some areas but easing in others.

The new rules and the extensive risk information required monthly by the Bank were not imposed on the market by Registrar of Banks Hennie van Greuning. They were a collective effort as 14 banks worked with the Bank.

"The information required by us is nothing more than the information that senior management would want monthly anyway," says Van Greuning. "The monthly forms hopefully represent best market practice. What we have developed is a comprehensive set of management accounts."

Banks now have to provide the registrar with a monthly profit-and-loss account.

They still have to provide a balance sheet, this time incorporating the risk weightings accorded to its assets.

The capital they have to hold against their assets is weighted according to risk. Mortgage loans carry only a 50% risk weighting, reflecting an international trend to encourage home ownership.

Some banks challenged this ruling, which favours the former building societies.

Although banks do not have to keep capital against unrealised profits or losses on investments, for instance gilts, they have to keep the Bank informed of these.

"This is a move towards current value accounting," says Van Greuning.

Capital also takes on a broader meaning in the DTI Act. Primary capital comprises ordinary share capital and non-redeemable preference ~~shares~~, share premiums and distributable reserves.

Secondary capital — including hidden reserves, 50% of any surplus resulting from the revaluation of assets, and general debt provisions — cannot make up more than half the required capital.

Since a surplus resulting from the revaluation of assets now counts as capital, banks could be encouraged to invest in equities and would make investment banking more attractive.

Onerous

The extent to which the DTI Act will make capital adequacy more onerous for banks depends on the nature of a bank's business — for example home loans or off-balance sheet activities — and whether it benefits from the broader definition of capital.

Changes to cash and liquid asset reserve requirements should benefit the banking sector as a whole to the tune of R5bn.

But since off-balance sheet activities are once again targeted, some banks might find they are paying more to fund themselves.

Banks used to hold 5% of short-term deposits in cash and 2% of medium-term — now they need only hold 4% against short-term. Liquid asset requirements have also been eased.

● VAN GREUNING

The bottom line is that the money market will be less short of cash, taking pressure off bank margins.

Risk information required by the Bank includes the exposure to interest rate movements, price risk and credit risk which includes an item on the profitability of different assets.

The mismatch between assets and liabilities, large exposures to clients and currency risk are also monitored.

Metropolitan Life: 26% lift in earnings

CAPE TIMES 5/12/90

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By PIETER COETZEE
Financial Editor

METROPOLITAN LIFE overcame tough trading conditions in the financial year to end-September and posted an increase of 26% in earnings a share and 25% in total income.

Total premium income rose 25% from R438m to R546m and investment income 26% from R217m to R273m, pushing total income to R820m from the previous year's R655m. Total assets rose from R1,7 billion to R2,1 billion.

MD designate Marius Smith, who takes over the reins as chief executive in January, said at a press conference yesterday this performance is in line with expectations, and is satisfactory in view of the more difficult economic conditions prevailing in the country.

"Conditions were exacerbated by less favourable socio-political conditions, with the ongoing unrest and school boycotts making it extremely difficult to write new business in Metropolitans main target market — the black community," he said.

He said the result of the strong growth in total income, together with the considerable success achieved in holding operating costs within acceptable limits, has led to an improvement of 26% in earnings a share from 45c to 56,5c.

This enabled the group to lift the final dividend from 19,0c to 23,5c a share, bringing the total dividend for the year to 37c against the previous year's total dividend of 30c a share.

Smith said the healthy growth in premium income can in part be attributable to Metropolitan's strategy to focus on recurring premium income, which rose from R414,8m to R519,5m. This accounted for more than 95% of total premium income. Single premium income rose from R22,9m to R26,7m.

R32-m forfeited to the State

By Roy Cokayne

More than R21,75 million in cash, plus property, shares, life insurance and annuity policies, cars, motorcycles, shares and other goods worth more than R10,5 million have been declared forfeit to the State in one of the final chapters of the African Bank foreign exchange scam. Star 5/12/90

Forfeiture

South African Reserve Bank Deputy Governor Dr Pierre Groenewald said the forfeiture to the State, published in Friday's Government Gazette, was the final instalment to be paid as a result of the case.

He said this was not the first occasion money and assets had been declared forfeit.

An amount of about R63 million had been declared forfeit in May, part of it from the African Bank and some from the individuals involved, he said.

Dr Groenewald stressed the Reserve Bank was only recouping the total amount of money that had been lost because of the illegal transactions, but had to agree with the parties concerned on how to get that money.

He said November 30 was the deadline for obtaining this money after a six-month extension was granted in May this year.

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Reserve Bank officials uncovered the scam in May 1986, which led to three former managers each being convicted in April 1988 of 99 counts of fraud and 12 contraventions of the foreign exchange regulations.

The African Bank itself was acquitted of all charges against it.

Division

Alan Young, general manager of the foreign exchange division; Henry Harper, general manager of the money market division and Arthur Ferreira assistant manager of the foreign exchange division, were sentenced to an effective 14 years' imprisonment each.

In the Rand Supreme Court hearing, the court heard the three made a profit of R100 million by exporting $119 million, buying R353 million in financial rands and converting the money into commercial rands.

The major amounts just declared forfeit to the State in the latest Government Gazette included R3 235 912,70 from Afsek cc;amounts of R5 817 158,06, R1 781 435,74 and R2 172 500,00 from Young & Harper Investments cc; R3 843 825,84 from Arthur Edward Ferreira; R964 834,92 from Henry Alexander Harper and R932 685,10 from Alan Young.

Metlife lifts premium income 25%

(58) Stew 5/12/90

Metropolitan Life has produced a good set of results the financial year to September 30, despite the more difficult economic conditions experienced during the review period.

Total premium income rose to R546 million (R438 million), reflecting a healthy increase of 25 percent over the year.

Investment income increased by 26 percent to R273 million (R217 million), helping boost total income by 25 percent to R820 million (R655 million).

The result of this strong growth has led to an improvement of 26 percent in Metropolitan's attributable earnings from 45c to 56,50c a share.

As a result of this performance the company has declared a final dividend of 23,5c, which is 24 percent up on 1989's final of 19c a share.

Together with the interim of 13,5c the total pay-out to shareholders amounts to 37c a share, which is 23 percent up on last year's 30c.

The group says the healthy growth in premium income in these difficult times can in part be attributable to Metropolitan's strategy to focus on recurring premium income.

Income from this source amounted to R519 million over the past financial year, an increase of 25 percent, and accounted for more than 95 percent of total premium income.

The book or balance sheet value of investment assets rose by 22 percent, or R345 million, to R1,94 billion. The market value of these assets increased by 15 percent (R375 million) to R2,80 billion.

The company's investment strategy, which early on took a view that the equity market was unlikely to perform in a satisfactory manner has reaped benefits.

Total property investment at book value currently amounts to R400 million - and constitutes some 21 percent of the group's total investment portfolio. The market value of the property portfolio is some R600 million.— Sapa.

— *Comparative banking* —

New legislation will bring about fierce competition

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BI094 6/12/90

BANKS and building societies are bracing themselves for fierce competition once new banking legislation, embracing all deposit taking institutions, becomes effective in 1991.

The Banks Act of 1965, which was amended in 1985, defined a commercial bank as: "A person who carries on a business of which a substantial part consists of the acceptance of deposits of money withdrawable by cheque."

But the pace of change in this industry, due to massive technological investment and deregulation, has made it necessary to redefine what a bank is.

The Deposit Taking Financial Intermediaries Act, which takes effect in January 1991, will consolidate the Banks Act of 1965 and the Building Societies Act of 1986.

The new Act will cover all deposit taking institutions, placing banks and building societies on an even footing.

The main changes under the new Act (although individual regulations may be subject to change) are:

□ The restriction limiting the maximum shareholding in a bank to 30% will be lifted to 49% — this implies an even greater consolidation in an industry already considered "top heavy".

The Registrar of Banks has indicated he will permit an even greater shareholding in certain circumstances (eg. Sanlam already owns more than the statutory 30% in Bankorp, as does Old Mutual in Nedcor);

□ The restriction on a building society that requires 70% of its operating capital to be in mortgage loans is likely to be removed. Building societies may henceforth be allowed to grant 100% bonds (like banks) instead of 90% bonds.

Another building society restriction to be removed is the rule that limits the maximum shareholding to 10%. Discount houses will no longer be considered as separate financial institutions;

Lifted

□ The key capital adequacy ratio (shareholders' funds to total assets), currently at a minimum of 4,5% for SA banks, is to be lifted to 8% over a phased-in period in line with overseas bank capital requirements. This will ensure stronger capital structures for the industry.

Furthermore, the definition of "capital" is to be changed to ensure wider disclosure — particularly of reserve accounts and bad debt provisions.

Many SA banks have come under attack for limited disclosure in their financial statements;

□ It has been speculated that cash and liquid asset requirements are to become a monetary policy tool (ie the Reserve Bank will be able to expand and contract money supply by regulation of the cash and liquid asset requirements of the banking sector).

Currently, these requirements are stipulated in the Banks Act (amended in 1985).

Some analysts say the Reserve Bank will not use the banks' prudential requirements (ie cash and liquid asset requirements) as a monetary policy tool, but will continue to intervene in the market through interest rates;

□ Overseas banks and investors will be able to participate in the banking sector on the same footing as locals;

□ Unregistered individuals or companies accepting deposits will no longer be able to do so.

This will eliminate the "grey" market for funds (or disintermediation) where borrowers can obtain funds outside the banking system, often at cheaper rates due to the lack of regulation of this market;

□ A withholding tax on interest has been suggested, but this does not fall under the new Deposit Taking Financial Intermediaries Act (as this will require an amendment to the Income Tax Act).

Currently, depositors are allowed R2 000 interest a year free of tax, the remaining interest earned being taxed at the top marginal rate. This new tax, if introduced, may be levied at the rate of 10% (still to be decided).

Standard Bank chief accountant Henry Shaw says if the new tax comes into effect it will stimulate savings, provided the tax is low and rates of interest — where interest earned on deposits is higher than the rate of inflation — are earned on deposits.

"Such a tax will encourage saving and this means banks will be able to place less reliance on the wholesale market (mainly money market) as a source of funding.

"But it does not mean the banks are going to be flooded with money. If there is a surplus of funds, market rates are going to drop and this will allow banks to match their assets and liabilities more effectively."

If the demand for credit is high, banks traditionally obtain funds from the money market (other banks with surpluses) or, as a last resort, the Reserve Bank.

Encourage

This market will become less important as a source of funding once the new tax is implemented, as it will encourage the expansion of the retail market.

A potential disadvantage of the new tax is that the Receiver may decide to lift it from time to time so its benefits may be short-lived.

A JSE banking analyst says banks are unlikely to lower credit acceptance criteria because of an initial increase in savings.

"Banks are going to find the market competitive. They will compete not only on price, but on range of products, service, electronic facilities and so on," he says.

Comparative banking

MERGED UBS, VOLKSKAS WOULD TAKE UP 25% OF SAVINGS MARKET

BDay 6/12/90

A MERGER between Volkskas and UBS — mooted in recent weeks — would put 25% of the total savings of all banks and building societies in the hands of the enlarged group.

Standard Bank Investment Corporation (SBIC) had 19% of the savings market (compared to 19,1% the previous year), First National Bank (FNB) 15% (15,1%), Nedcor — including the figures for the Perm — 20,8% (19,7%) and Bankorp 9,3% (9,6%).

Natal Building Society (NBS) had 3,5% (3,5%) and Allied 6,2% (7,5%).

SBIC had the lion's share of deposits — 23,4% (20,9%) — followed by Bankorp 16,5% (18%), Nedcor 16,3% (15,8%) and FNB 16,2% (18,5%).

Using the June figures, a merged Volkskas and UBS would take 17,5% of the deposits market, with Volkskas kicking in 9,8% (8,9%) and UBS 7,7% (8,2%). These figures together are smaller than SBIC's total deposits for the period.

Of the total lending market, SBIC had 23,3% in June 1990 (20,1%), FNB 18,7% (21,9%), Bankorp 15,2% (15,7%), Nedcor 14,6% (15%) and an enlarged Volkskas/UBS would have taken 16,5% of the market.

Allied has 4,9% (5,1%) of the lending market and NBS 1,7% (1,8%).

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Inroads

The BA9 returns show the inroads made by SBIC and Nedcor into lending and deposit taking, while FNB and Bankorp lost market share.

Volkskas registered some overall growth in lending and deposit taking, but UBS experienced a slight decline in some market areas.

Of the liabilities to the public, SBIC had 22,8% (20,1%), FNB 18,7% (21,9%) and Bankorp 15,2% (15,7%), while an enlarged Volkskas/UBS would have accounted for 18% of the total liabilities of the banking market (counting only the larger banks and building societies).

Nedcor had 14,6% (15%) of the liabilities to the public, Allied 5,1% (5,5%) and NBS 3,5% (3,2%).

SBIC accounted for 20,6% (19,1%) of advances and discounts, Nedcor 17,8% (17%), which was ahead of FNB at 14,9% (17,3%) and Bankorp 12,7% (13,8%).

An enlarged Volkskas/-UBS would have taken 20,5% of the advances and discounts market, while Allied declined slightly from 7,1% to 6,9%. NBS had 4,9% (4,2%).

Bankorp — now under the management of ex-Nedcor chief Piet Liebenberg — was frequently accused of buying market share on an under-capitalised balance sheet.

These figures show the trend is reversing and the new management has given the group some stiff medicine to swallow.

Fighting it out in the home loans market

BDay 6/12/90

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DANIE CRONJE

DESPITE tightening margins, banks and building societies are fighting it out in the home loans market, which is seen as an area of stable asset growth.

First National Bank (FNB), which announced a 20% increase in earnings a share to 453,3c earlier this month, reduced its mortgage rates by 0,25% to 20,75% in April this year and a further 0,25% to 20,5% if the client uses two or more other FNB products.

Standard has announced it is going into the lower end of the home loans market — an area traditionally worked by the Perm — providing loans as low as R12 500 to first-time home buyers.

Reducing

Only Volkskas appears to be reducing its exposure to this market. It raised its mortgage rate for new clients to 21,75%, a full 1% above competitors, in September, citing the need to comply more closely with Reserve Bank credit growth restrictions.

Group MD Danie Cronje says the money will be better deployed in overdraft or instalment credit advances.

However, First National senior GM Jimmy MacKenzie says home loans is a growth area for the bank.

"We fell behind the other banks in the growth in our home loans book, so we decided to recover lost market share by offering cheaper rates.

"Our mortgage rates are low because we believe we can recover what we lose in mortgage repayments by cross-selling our other services."

FNB has a mortgage book of R4,5bn, with another R450m in the pipeline.

Standard has a book of R5,5bn, says GM in charge of home loans Terry Power.

The Perm's book is close to R10bn. Allied has a book of about R7bn.

But competitors says FNB's reduction in mortgage rates merely brought it into line with the rest of the market.

Grown

For example, Standard offers its PrestigePlan clients a bond rate of 20,25%, a reduction of 0,5% on its normal rate.

Since Standard's entry into the home loans market four years ago, its net book has grown by about R1,25bn a year. It processes applications for bonds totalling R250m a month.

There has been widespread speculation that a merger between UBS and Volkskas is on the cards and one JSE banking analyst says if this is the case, UBS will take over Volkskas' consumer market (including home loans) and Volkskas will concentrate on the corporate market.

The Perm's contribution to Nedcor's profitability is startling, with an 86% increase in net income at the interim stage to March 1990.

MD Bob Tucker says the Perm has "provided the sparkle in Nedcor's results" and, while this growth is unlikely to be repeated, the Perm will continue to "add sparkle".

Business Day
SURVEY

Technological innovation and deregulation are changing the face of banking. On the eve of new legislation, banks and building societies are gearing up for fierce competition in what is already a highly competitive environment. ***CIARAN RYAN*** *reports.*

B Day 6/12/90

(58)

Interest rates are expected to fall in the next year

CEES BRUGGEMANS

ONCE the Reserve Bank sees evidence of a reduction in bank credit growth and a resolution of the Middle East crisis is imminent, there is likely to be a reduction in interest rates, says FNB group economist Cees Bruggemans.

The reduction in M3 money supply growth has fallen from a peak of 27% in mid-1988 to 13,2% in recent weeks, but bank credit growth is still running at between 17% and 18%, although this is also well off its 1988 peak.

Bruggemans says the first reduction in interest rates will be at the end of the first quarter of 1991.

"Until there is evidence of a further reduction in bank credit and some stability in the Middle East, interest rates are likely to remain high.

"Inflation for September was 14,3%. We expect a rise to 15,5% between October and December because of the petrol price rise, with a peak of about 16% in January/February.

"After this, inflation will drop once the petrol price increase has filtered through the system. By the beginning of 1992 we expect inflation to reach 12%."

Although there is a perception that the country is in the throes of a recession, things are healthier than they were in 1985/6, says Bruggemans.

Avoid

The retail industry has managed to avoid recession so far (judging by exceptional results being reported in the furniture sector, particularly Rusfurn and Ellerines), new car sales over the last year are down only 5% — which is well below that of previous economic downturns — while the clothing and semi-durables market (non-motor) is still showing some growth.

This points toward a better than expected Christmas season.

The rate of savings is still low, indicating people are inclined to spend rather than save despite positive interest rates.

Another factor pointing towards an economic downturn is the scale of destocking in the economy, which indicates the high cost of holding stocks (because of high interest rates) and a low business confidence indicator.

There is also a reduction in overtime throughout the economy.

Thawing relations are opening doors

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BDay 6/12/90

THAWING relations between SA and the rest of the world, coupled with a weak rand, have given SA banks their biggest break yet in generating overseas business under the SA Export Credit Scheme.

Standard Merchant Bank recently financed the refurbishing of the Polana Hotel in Maputo, Mozambique, on behalf of Karos Hotels, to the tune of R25,5m.

The Sua Pan soda ash plant in Botswana is another project, costing a total of R920m, which was partly financed under the scheme by a consortium of mainly SA banks, of which FNB was a major contributor.

TrustBank and UAL have also been active in recent years in financing exports under the Export Credit Scheme.

Standard Merchant Bank GM of international services Johan Smit says the last two years have seen an increase in foreign business under the scheme.

"We have about 26 projects at various stages of completion, from application through to draw-down.

"Another factor which makes SA an attractive market for the export of capital goods and services for overseas clients is the weak rand."

Insured

Export deals under the scheme are insured against commercial and political loss by Credit Guarantee Insurance Corporation (CGIC).

Under the Export Credit Scheme, the definition of "capital goods and services" is relatively wide, but does not include the export of commodities.

CGIC projects manager Johan Oelofse says there has been an upswing in the capital export market.

"Before insuring a deal we insist on a minimum SA content of 70%. We insure the exporter against payment risk, political and commercial."

Export deals denominated in US dollars are financed at 7,5%, and at 17% if they are denominated in rands, but these rates are subject to review.

The Industrial Development Corporation (IDC) was the first financial institution to finance deals under the scheme and only in the last two years have the commercial banks started to play a major part.

IDC international finance GM Louis Kingma says the banks did not have the expertise to operate the scheme until recently.

"The IDC has a book of about R400m under the export credit scheme, but we no longer pursue this business.

"We only get involved if existing clients come back to us. As a result, the commercial banks have taken business away from us."

Meeting halfway on the corporate debt issue

(58)

BDay 6/12/90

ROBERT GENTLE

THE Reserve Bank has thrown its weight behind a new corporate debt market which would save SA corporates millions of rands in finance charges, create a new range of assets for investors to hold, and result in a more efficient allocation of capital in the economy.

It would enable triple-A corporates to borrow or lend from one another without going through a bank — a process known as disintermediation. They would simply issue marketable commercial paper to one another, which ideally would end up on the JSE or the Bond Market Association (BMA) and trade like any other listed security.

SAB retail subsidiary Amrel's financial director Bruce Sinclair says: "It would open up opportunities for competitive funding and give us greater flexibility."

He foresees Amrel being able to issue paper according to distinct peak needs — say a 50-day issue prior to stocking ahead of Christmas.

Gencor GM treasury Marius Ferreira, echoing a similar view by Anglo American, says: "Commercial paper would enable investors to better diversify their risk."

Barlows group treasurer Bill Tate estimates that such funding could see savings in finance charges of up to 1% — or R10m — on its short-term borrowing book of about R1bn.

While disintermediation is good news for corporates, it is not necessarily so for banks, which may lose a slice of their lending business.

What the Reserve Bank appears to have done in its position statement is to meet the parties halfway.

Certain corporates will be able to issue commercial paper, but the maturity of such paper is being kept above 24 months because of the Bank's desire to protect banks from competition in the short-term lending market.

Therein lies the rub, for corporates' greatest funding needs are precisely in the crucial two-year window from which they are being excluded.

Corporate treasurers at last week's position paper presentation asked the Bank to consider the issue from a need rather than a competition point of view. Unexpectedly, this found a degree of support from two leading banking representatives.

Lending ammunition to the pro-disintermediation lobby was Derek Ross, London partner from chartered accountants Touche Ross.

Noting that he could not understand the rationale for limiting issues to the longer end of the market, he said the Bank of England had tried the same thing — but this had been unsuccessful.

"The UK commercial paper market only really took off once this restriction was removed."

Ross rebutted the view that disintermediation was necessarily bad for the banks, and said they, like their UK counterparts, could make a very profitable business by acting as commercial paper dealerships.

This would involve setting up the commercial paper programme, offering back-up credit lines, placing the paper in the market and keeping issuers and investors informed of market conditions and acting as issuing and paying agent.

Moreover, Ross said, the commercial paper market would complement other instruments like Bankers Acceptances (BAs), and provide the banks with a wider range of liquid assets to hold.

This risk diversification was crucial in SA where banks, not being able to hold overseas assets, all tended to hold BAs — which themselves are claims on other banks.

"It is all rather incestuous," Ross said.

The other advantage a limited disintermediation would have for banks was that it would remove corporate debt from their balance sheets and allow them to lend it to those sectors of the economy — like small business — that really needed it.

"Triple-A corporate debt should not be on banks' balance sheets in the first place," Ross said.

"That space should be freed up to allow a more efficient allocation of capital in the economy."

Lastly, he dismissed fears — said to exist in Pretoria — that disintermediation would lead to a loss of control over the money supply by the monetary authorities because huge amounts of funds would pass outside the banking system.

Ross said UK corporates were required to report regularly to the Bank of England about existing and impending commercial paper issues.

The answer to the disintermediation dilemma will be known after the Reserve Bank considers market reaction to its position paper.

At the end of the day, disintermediation is just a fancy word for bringing two parties in a business transaction closer together by eliminating costly intermediaries.

Few people would have a problem with that in the corporate debt market as long as the integrity of the banking system was maintained.

It remains to be seen whether Pretoria does.

LETTERS

Standard offers low bonds

B Day 6/12/90

STANDARD Bank, which in the past has provided home loans in excess of R40 000, has entered the low cost housing market offering bonds of as low as R12 500.

Traditionally considered high risk, the low cost housing market requires a considerable infrastructure to administer.

Standard GM of the home loans division Terry Power says: "Low cost housing is less sophisticated than the conventional home loans market and will require more infrastructural support on the part of the lender in the initial stages.

"We are teaming up with the Urban Foundation, which first promoted the low cost housing initiative, and will be working with its utility companies in the initial stages."

Rembrandt restructure will produce a giant

B Day 6/12/90

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THE restructuring of Rembrandt financial interests will lead to to rationalisation in an industry considered "over-banked" and open the way to the creation of a banking giant.

Banking analysts say there is unlikely to be an early conclusion to the negotiations, but the first prize, says one JSE analyst, will be an enlarged financial empire in which Rembrandt has a 30% stake.

Rembrandt's portfolio includes 30% of Volkskas, 10% of UBS, 27% of Sage, 10% of SBIC and 10% of Boland Bank, as well as 30% of Momentum and an effective 15% in Allied through Sage subsidiary SFS and the Sage unit trusts.

Sage and its subsidiary SFS also hold 26% of unlisted Rand Merchant Bank, in which Allied has a 14% stake.

There are rationalisation benefits which will accrue as a result of a merger.

UBS can stand alone but it would like Volkskas, in which it has a 30% stake, under its wing.

Edey Rodgers banking analyst David Southey says the economies of scale which will be brought to bear by a merger between these two giants (UBS has assets of R15,7bn and Volkskas R20,5bn) will be of benefit to both.

Volkskas has lagged its competitors in terms of computer technology. UBS has a 30% stake in Volkskas and Volkskas a 10% crossholding in UBS.

In terms of the new banking legislation, banks will have to raise their capital:assets ratios to 8% from the current 4,5%, but the requirements will be phased in over the next five years.

UBS has the strongest capital ratio in the industry, at 9,5%.

Southey says Allied is the cherry everyone wants to get their hands on.

"It has a good client base and excess computer capacity, but is thin on middle management.

"It needs to lease out its computer capacity at market-related rates."

Another JSE analyst suggests Volkskas and UBS may take a sizeable stake in Allied and Sage will then be split up.

The consensus is that Allied will not be swallowed up and will be allowed to stand alone, although in a larger financial group.

It is capital rich, with a capital:assets ratio of 6,5%.

Southey says Allied will need to raise its dividend cover from 2,2 to 3 over time in order to capitalise adequately, although its capital is sufficient for the present.

Its net asset value is 212c and any settlement will have to price it around this level.

Most analysts say Sage Life will be slotted into Momentum (and perhaps the life interests of UBS and Allied) and the other Sage Holdings interests will be merged with other group companies.

Old Mutual's total assets soar 25 percent to R52,5billion

58

Arc'd 6/12/90

By TOM HOOD, Business Editor

SOUTH AFRICA'S largest non-mining concern, Old Mutual, is now worth R52,5 billion, with total assets jumping by 25 percent to this figure in the year ended June.

The insurer paid out a record R15 million a day to beneficiaries, raising by 50 percent the total payout of R3 778 million in benefits for the year.

The chairman, Mr Mike Levett, announcing the figures today at the annual meeting in Pinelands, also reported:

- Total premium income rose by 26 percent to a new high of R7 131 million. "Market share has increased by more than 4 percent in the past four years."
- Income from recurring premiums, the foundation of Old Mutual's business, grew to R4 707 million.
- Investment income increased by 27 percent to R3 567 million. This, with substantial growth in assets, enabled Old Mutual to once again declare excellent bonus additions to with-profit policies, said Mr Levett.
- More than 686 000 new individual policies were issued and showed the confidence the public had in Old Mutual's ability to deliver value for money and help them make the best of their lives.

"Mutual today employs more than 17 000 people in Southern Africa and is proud of its role in enriching the pool of human resources," added Mr Levett.

"In the past four years, more than half the increase in sales management was black people."

- Professor W Mouton expressed his appreciation to Old Mutual for its pioneering home loan scheme, which could unlock the door to home ownership for many more South Africans.

Professor Mouton, chairman of the Mouton Commission appointed by the government to study South Africa's retirement benefit arrangements, was seconding the chairman's address at Old Mutual's annual general meeting.

Old Mutual's recent efforts to give pension and provident fund members finance for housing were of vital importance.

There were still many people who needed to be drawn into retirement funds. In 1985, for example, only 6,3 million of the approximately 20 million people of working age were members of retirement funds.

"If Aids strikes the way many expect, it will be difficult for the diminishing younger generation to maintain assistance for the elderly."

Besides the State's basic provision, it was the responsibility of individuals to make further provision for themselves.

There was a "long way to go" as far as preservation and tranferability of individuals' retirement assets were concerned. Many funds were providing these facilities, but without much success.

Too many retirement funds still provided members leaving a fund before retirement with low rates of return for their contributions.

Many funds were granting pension increases to offset the impact of inflation, but many of these increases were too low.

Levett calls for tax consistency

ARGUS 6/12/90

Business Staff 58

LEVEL playing fields for institutions competing for peoples' savings can be achieved only if the principle of taxation is applied consistently, says Old Mutual chairman Mr Mike Levett.

He said in his address to members and policyholders at the annual meeting today the life insurer's business was fundamentally different from that of banks and building societies.

"Our contracts are long — usually for 10 years or more — and are very clearly not deposits."

DEFINITION WIDE

"It is unfortunate that the definition of deposits in the Deposit Taking Institutions Act is so wide. This classifies life insurance, unit trusts, provident funds, medical schemes and many other activities as the taking of deposits, even though they are governed under other acts."

Statutory controls for life insurers should recognise the nature of their business, as was done in the Insurance Act. "It is completely inappropriate to talk of applying controls formulated for banks to life insurers, simply for the sake of uniformity."

Mr Levett said by far the major part of the funds were held on behalf of policyholders. These funds should be taxed at a rate and using principles in keeping with those applying to the policy holders as individuals.

"If one does not recognise and apply this tenet, sometimes called the trustee principle, one cannot achieve the level playing field we are talking about."

On a proposed final withholding tax on interest payable to individuals he said the introduction of such a tax was fraught with difficulties.

"There is the likelihood that loopholes could be created, loopholes that would inevitably be exploited. It is important the whole taxation framework be carefully studied to ensure loopholes are not created before any such tax is introduced."

A further concern was that the concept was not founded on taxation principles. This could lead to a raising of the tax rate to fund excess government expenditure, something that had happened to the life insurance industry over the past 10 years.

HISTORY REPEATED

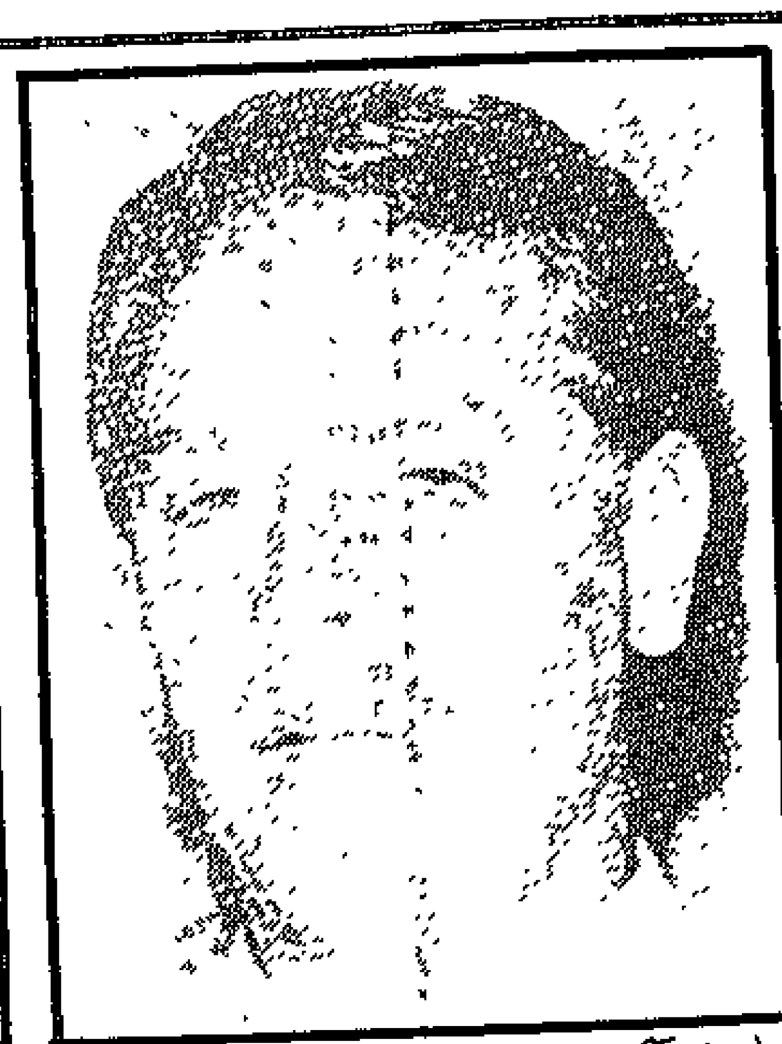
"I would not like to see history repeated," Mr Levett said.

Two issues related to life insurance business, should a withholding tax on interest be introduced:

"In terms of the trustee principle, interest received by life insurers in respect of policy holders' funds should be taxed at a rate equal to the withholding tax rate.

Secondly, life insurers issue voluntary immediate annuity business. The income portion of this business should also be taxed at the withholding tax rate."

TIENIE VAN DER BERG



BOB TUCKER

B/Day 6/12/90 (58)

United buying into estate agencies to boost business

UNITED Building Society has embarked on a drive to expand its mortgage business through estate agencies.

UBS has bought a 25% stake in JSE-listed estate agency Aida and 33% of SA's largest independent real estate group Multi Listing Services. More recently it has acquired a 29% stake in J H Isaacs for R7,7m.

Senior GM group marketing Tienie van der Berg says the battle to expand mortgage business will be decided by who can identify new ways of attracting business.

"In this competitive home loans environment, who wins market share will not necessarily be decided by the institution which offers the cheapest rates and better products, because no single institution can break ranks for any length of time.

"The estate agent is part of the financial services chain.

"He is involved in buying and selling properties. We are linking up with selected estate agents and providing them with an online computer system which enables them to get instant mortgage loan approval while also taking care of the paper work."

At the March year-end, the United Group had assets of R15,7bn and a mortgage book of R12bn, the largest in the home loans market.

Van der Berg says United was the first institution to form a strategy centring on estate agents in a rapidly changing home loan market.

But other banks and building societies are also planning strategies with estate agencies in mind.

Standard will not comment on its plans but market sources say it is unlikely to ignore steps taken by competitors to integrate vertically (become involved in the estate agent profession).

Perm MD Bob Tucker says: "We have no alternative but to look at ways of protecting our mortgage business, and that of course includes vertical expansion into estate agencies."

Investec issues cautionary

58

B'Day 7/12/90

GRETA STEYN

MARKET speculation is that Investec is on the acquisition trail again after it issued a cautionary announcement this week saying it was involved in negotiations which could affect the value of its shares.

The banking group declined to confirm or deny it was planning to take over another financial services group. However, market speculation is that trade finance house Reichmans, in the FSI stable, could be the likely target as it has also issued a cautionary. Reichmans, which has seen its share price slump to a low of 100c from 245c, has been battered by bad debts and barely made a profit in its last year of reporting. FSI has a 36,7% stake in the company, which has assets of R58m.

Other possibilities mentioned are Cape Investment Bank (CIB) and the unlisted International Bank of Johannesburg (IBJ).

Bankorp is said to be looking for a buyer for its majority stake in IBJ as part of its rationalisation.

Investec Holdings chairman Ian Kantor hinted in his annual review that the group would be on the acquisition trail. He said Inhold would increasingly be "in a strong position to identify, evaluate and capitalise" on acquisition opportunities in the financial services field.

Investec launched an unsuccessful bid last year to gain control of Board of Executors (BOE), but backed off when Liberty Asset Management came to BOE's rescue by buying a 33% stake in BOE from Mercury. BOE last night denied the possibility of any link-up with Investec.

Investec Holdings shares hit a new high yesterday, rising almost 7% to 460c. Investec has already taken over two smaller merchant banks — Duros Merchant Bank in 1989 went smoothly unlike Corbank.

FM 7/12/90 (58)

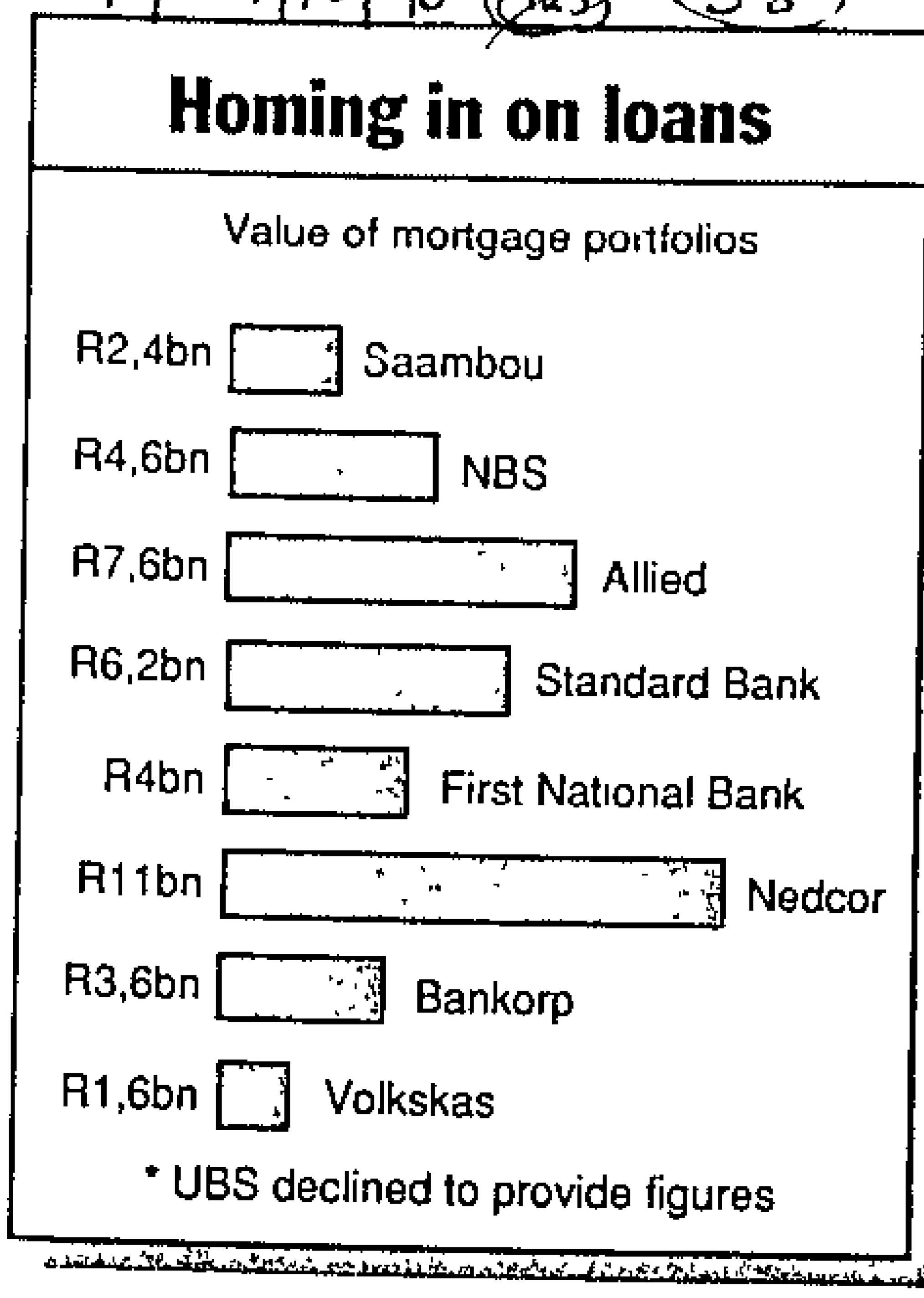
MORTGAGE LOANS

SAFE AS HOUSES

(58)

Home loans have always been considered good business because they are secured against immovable property. When the new Deposit-taking Institutions Act comes into effect on January 1 they will be even better business. The Act sets the ratio of capital banks must hold against this category of asset at half that required for other advances. FM 7/12/90

At present capital is based on the risk profile of assets. The average requirement for banking assets is about 5,5%. The principle will remain but the method of calculation has changed: assets will first be risk-weighted and a ratio of 8% then applied.



Mortgages score with a risk weighting of only 50% (against 100% on other loans); applying 8% to this reduces capital needed for these loans from the present 5% to 4%.

The requirements are to be phased in over four years, starting at 4,5% in January and reaching the full 8% recommended by the Bank for International Settlements early in 1995. So the capital requirement on mortgage loans will be only 2,25% next year.

Building societies will have no trouble meeting the guidelines because most of their advances are already in home loans. This relative freedom to manoeuvre could tempt them to take the initiative and move even more into traditional banking areas, such as cheques and credit cards. Says Allied manager of mortgage lending Len Greenfield: "It is likely we will move toward fee services, where the income potential is much higher."

Societies are also bracing themselves for increased incursions by banks into their traditional mortgage market — for good reason. Says FNB's Pat Lamont: "With the new capital requirements, there is little doubt banks will move more vigorously into home loans." As competition has already been intense for years, it is not clear how effective such a move will be. Standard Bank's Terry Power says: "The market is small, so even highly aggressive marketing will not make all that much difference — especially in the present state of the economy."

Greenfield suggests an alternative strategy would be to acquire home loan portfolios through mergers and acquisitions. Such an arrangement has worked well for Nedcor, which greatly increased its home loan book with the acquisition of the second largest building society, the Perm, and will reap the benefit of lower capital requirements.

To make the most of the advantage conferred by home loan portfolios, Bankorp has restructured. A spokesman says: "It will enable us to use a capital surplus in one division

FM 7/12/90 (58)

to make up a shortfall in another area."

Meanwhile, financial institutions are aware that larger home loan portfolios come at a price. NBS assistant GM Trevor Olivier says: "Other forms of investment offer higher interest rate returns, as well as fee income, so institutions will be careful to strike a balance between lower capital-asset requirements and higher income potential."

Lamont is more bullish. "Banks have been in the home loan market for a couple of years, and have found the business profitable. Lower capital requirements will make mortgages even more attractive." ■

Plan would 'buy peaceful survival'

Trust fund urged for mass housing

Cape Times 7/12/90

By AUDREY D'ANGELO
Business Editor

THE life offices could avert "anarchy and chaos" in this country by putting only 2,5% of their net income into a trust fund to provide cheap mass housing, the chairman of the Shareholders Association of SA, Issy Goldberg, said yesterday.

He told the annual general meeting of Old Mutual that there was a pressing need to provide homes, jobs, education and medical services for the majority of people in SA.

The SA insurance industry had about "R20bn to spend as it thinks fit" after deductions.

He did not believe the millions Old Mutual had invested in the equity market were helping to provide what was needed. "But we will not argue about that," he told chairman Mike Levett.

He thought putting 2,5% of the industry's net income into a trust to provide cheap mass housing would be comparable to taking out riot insurance. "It is essential to provide homes to avoid complete anarchy," he told the meeting.

But this would be something the entire life insurance industry would have to do. It would not be possible for some companies to do it while competitors stayed out.

Goldberg said he knew the Life Offices Association was working on a scheme. But it was a long time preparing it, "like Nero fiddling while Rome burns."

He claimed that putting 2,5% into the trust would mean that policyholders would, over 20 years, lose only R25 in every R1 000. And they would be "buying peaceful survival" with this money.

Goldberg said that if the insurance industry contributed half a billion rands to such a scheme the other deposit taking institutions should also be asked to do so.

He said a major construction company in this country was able to supply prefabricated concrete homes, which could be fitted together by labourers, for as little as R4 000 each.

After the meeting, Goldberg said that it could cost the policyholders little or nothing to put this scheme into operation. He was certain that the government could be persuaded to reduce tax as an encouragement to life offices and other institutions to take part in the scheme.

It would provide work as well as housing.

"I am not proposing that we should give these homes away," he continued. "The people in need of housing should be asked to pay a deposit that they could afford — something like R100 or R200."

● The executive director of the Building Industries Federation of SA (Bifsa), D N Fraser, calls in its annual report for the government to consider the re-introduction of mass housing schemes to "eradicate the ever-growing housing backlog and increasing unemployment level".

BANKING — 2 FM 7/12/90

BIGGER BROTHERS (58)

Implementation of the new Deposit-taking Institutions Act in January is likely to encourage greater concentration of ownership in the banking sector. Raising the ceiling on the maximum single shareholding from 10% (30% for a financial institution) to 49% will allow investors to build a powerful stake, while simultaneous increases in capital adequacy requirements provide a motive for banks to seek a powerful stakeholder.

The problem in SA's small economy is that only a few large institutions are willing and able to mount a rescue operation. The two big life offices' large stakes in two banks came about for precisely this reason.

Bankorp is the bank controlling company with the biggest single shareholder. A rights issue last December pushed Sanlam's stake from 70% to 81%; another recent rights issue boosted this further to a massive 89,56%.

Sanlam's two cash injections extend a pattern which started when the assurer took over TrustBank (now part of Bankorp) in 1977. Mutual's holding in Nedcor dates from 1986, when Nedbank's excessive exposure in the forex market and a R310m bad debt created a crisis of confidence. A rights offer attracted little interest among minority shareholders so Mutual increased its stake from 29% to 51,2%. FM 7/12/90 (58)

Holdings in the other three major banking groups are more widely distributed.

Anglo American and its associates (including De Beers) hold 29,9% of First National Bank and Southern Life 24,9%. Anglo has a further indirect stake through its 33,1% of Southern (in which FNB holds 29,2%). Liberty Group's holding has fallen from 10% to 4,08% and the Engineering Industries Pension Fund now has 3,03%.

Since 1985, Liberty's stake in Standard Bank Investment Corp (SBIC) has grown considerably from 8%. The first increase followed partial disinvestment by offshore parent Standard Chartered, which cut its stake from 50,3% to 41,9%. Liberty increased its holding from 8% to 22%. In 1987, Standard Chartered disinvested entirely and, with permission of the minister of finance, Liberty pushed its holdings over the stipulated maximum 30% to 32,3%.

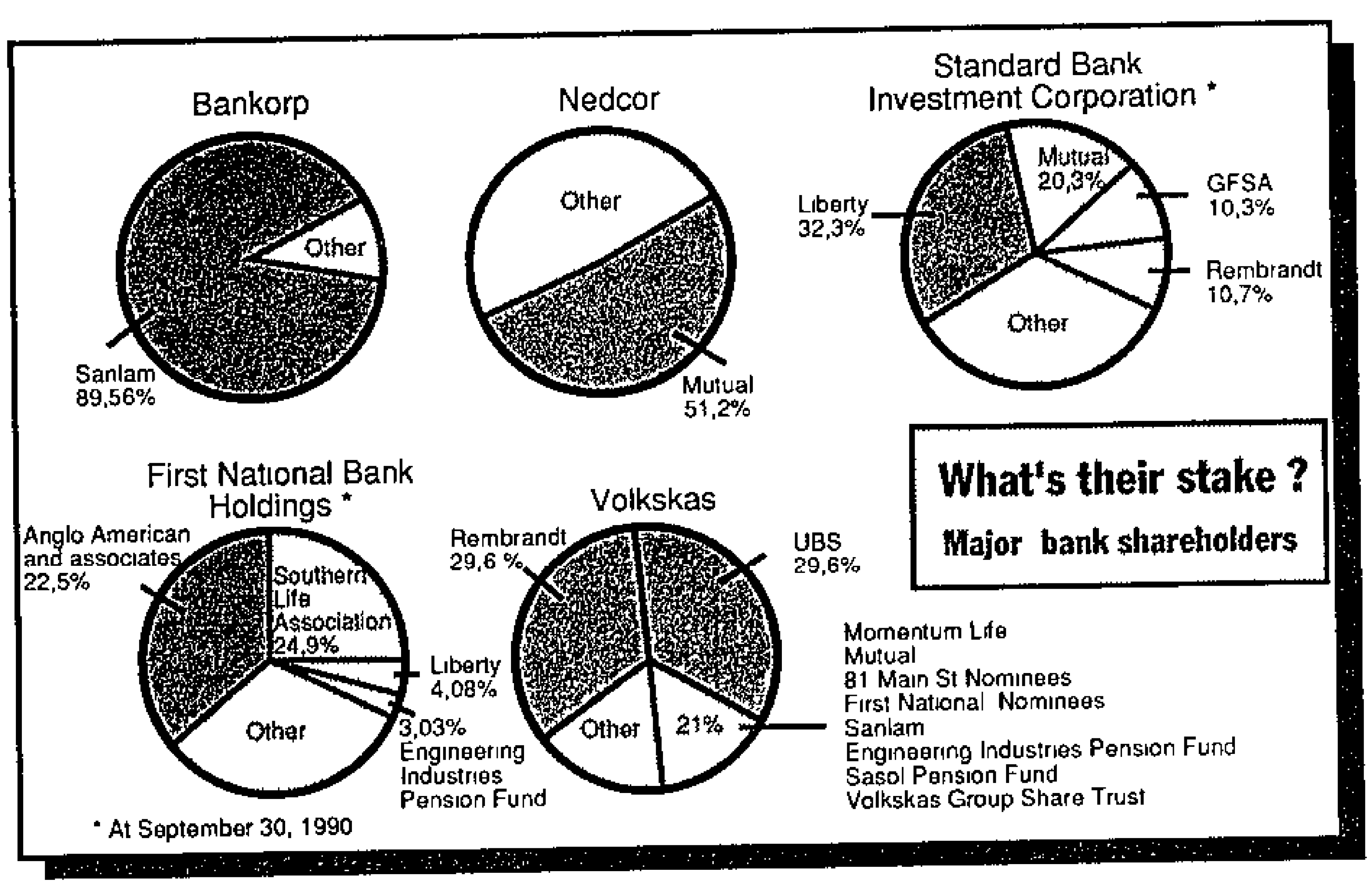
Volkskas has no controlling shareholder. Financial Security, a wholly owned subsidiary of Rembrandt, has held 29,6% since 1985 and UBS 29,6% since 1987. Another eight hold 21%: Momentum Life, Mutual, 81 Main St Nominees (a wholly owned subsidiary of Nedcor), First National Nominees, Sanlam, Engineering Industries Pension Fund, Sasol Pension Fund and Volkskas Group Share Trust.

However, failing a crisis of confidence, any increase in holdings will have to take place over a period. FM 7/12/90

Despite the relaxation on maximum holdings, permission will have to be sought from the Registrar to exceed 10% (including existing holdings) of all issued shares and, thereafter, to exceed 17,5% and 25%. To exceed 30%, the minister's approval will be needed.

This phasing-in with permission is intended to ensure the calibre of the large shareholder is acceptable to the authorities.

A shareholder must hold the shares for 12 months (unless the Registrar allows a lesser period) before it may increase its holding and must stay in each range for 12 months before moving up again. ■



SHORT-TERM INSURANCE FM 7/12/90 (58)

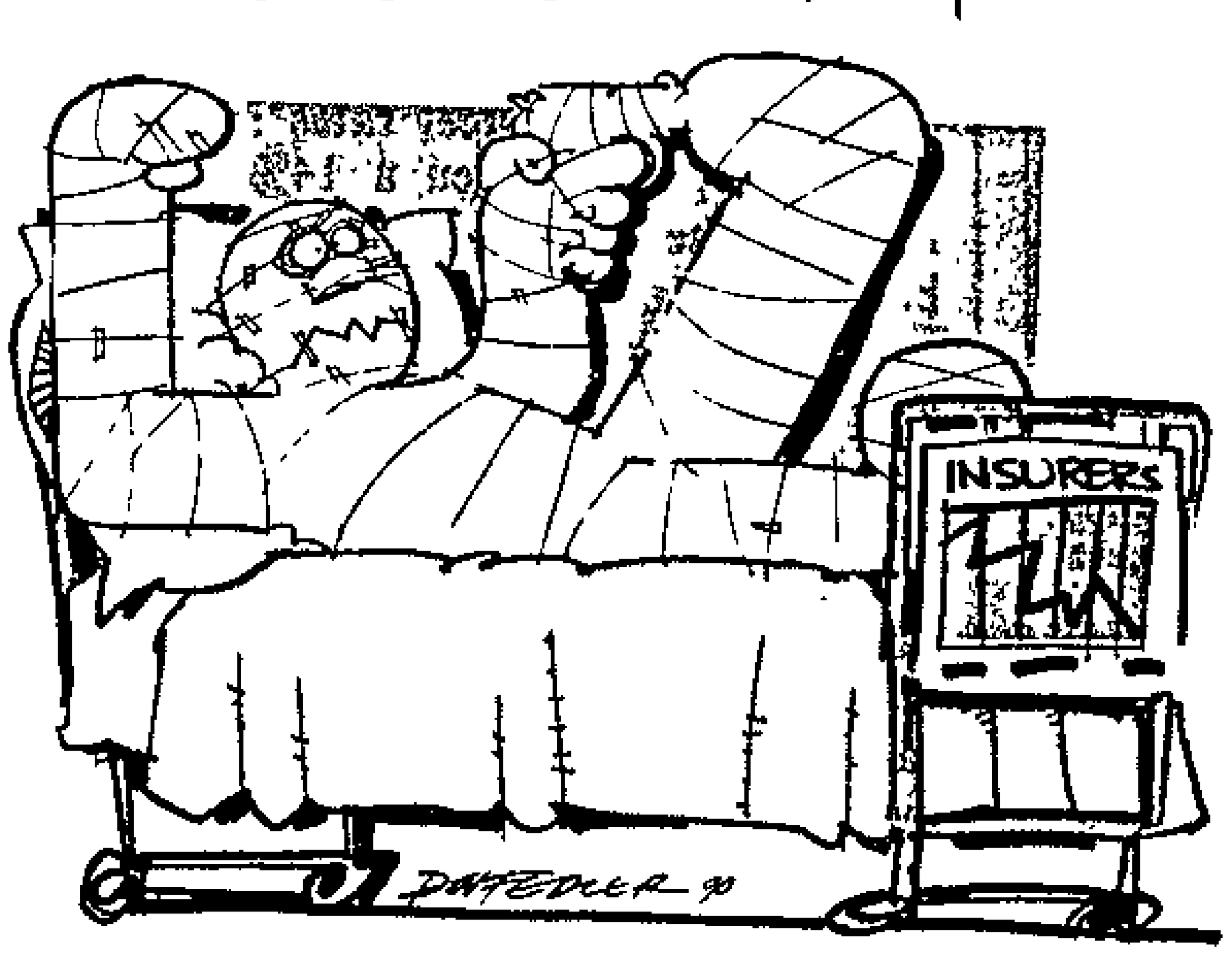
RATES WAR'S FIRST CASUALTIES

Short-term insurers are bleeding, certainly, and one is in intensive care. Hit by a rates war which resulted in subeconomic premium levels, the next crop of results is expected to make sad reading.

General Accident (GA) has in the past few days laid off 39 staff from a total of 714. President Insurance, a far smaller company in the Rentmeester Group, has been having merger talks. These have been broken off. Instead, says President MD Johan Wasserfall, the company will change direction from a general to a niche insurer.

These two incidents are probably a reflection of conditions throughout the industry.

A profitable period in the short-term industry always leads to a cycle of rate cutting. The latest upswing was generated by the collapse of AA Mutual in 1986. This flooded the market with R420m worth of premium income overnight.



Then last year the inevitable rate cutting started and by the halfway reporting stage in 1990, only one major insurer was still making an underwriting profit.

GA is too strong to be in serious trouble. It is controlled by the influential General Accident Fire & Life of Perth, Scotland, with about 48% held by FNB and Southern Life.

The redundancies, according to CEO Clive Dean, involve junior staff, none of whom had worked more than two years for GA. The cuts follow a decision to eliminate losses caused by GA's unwieldy dependence on motor business generated through HP banks.

"That business was 10% of our premium income and caused half our underwriting losses." Inevitably, he agrees, GA will report underwriting losses "but getting rid of poor risks should soon rectify the position."

GA's underlying base is sound. The solvency margin is 42,9%, according to third quarter returns, which compares with 15% required by the Insurance Act and 25% which the Registrar, Piet Badenhorst, has said he feels is comfortable.

The financial base (assets surplus plus technical reserves as a percentage of net premium income) is 107,6% — below the industry average but not low enough for concern.

President's problem is size. Gross premium income last year was about R30m, against GA's R220m and R825m at market leader Mutual & Federal.

The rate cutting period generally hits smaller companies hardest. When big players fight for market share, they can handle subeconomic rates for a while without noticeably affecting solvency margins; but bad underwriting has an almost immediate impact on the returns of smaller companies.

When Badenhorst earlier this year called for special returns so that he could monitor solvency margins, five companies were said to be under his spotlight.

One was President. When the second quarter returns were in, President had climbed above 25%. It has since fallen, to 16%-17% according to one informed estimate, but Wasserfall is adamant it is higher. And, he adds, with remedial action now being taken, President will be above 25% again early next year.

Wasserfall confirms that being both small and a general insurer compounded the problem. Attempts to grow through mergers were contemplated but "now our shareholders (Rentmeester) have declared they will support us in the next phase." This will involve becoming a specialised short-term underwriter. President will clarify its new directions within a few weeks.

The short-term industry seems overdue for rationalisation.

Badenhorst told a recent Sarima (SA Risk Management Association) conference: "It appears a major restructuring of the short-term industry is likely. This will take a variety of forms: mergers, acquisitions, joint ventures, partnerships and other business links. The result could be a reduction in the number of independent licence holders."

Rationalisation may not be easy. Most insurers are linked to powerful institutions.

Wasserfall this week identified Atlantic & Continental (ACA), a subsidiary of the large French group AGF, as the partner in President's abortive merger talks. Oddly, when asked for confirmation, ACA responded with a denial and a threat to sue the *FM*. Later, Wasserfall again confirmed talks had taken place: once, informally and later with Standard Merchant Bank as the formal intermediary.


Dean

Though tiny in industry terms, ACA is said to be on the acquisition trail but is likely to be interested in bigger fish than President.

If so, one opportunity has already been missed — when AGF bought most of National Employers Group, NEG SA was excluded from the deal.

Meanwhile, Badenhorst says two insurers have asked for extensions for third quarter returns.

Among the rest, there is a noticeable deterioration in solvency margins after the second quarter improvement. But no company, he adds, has so far failed to comply with statutory requirements. *Bryan Deans*

INTEREST RATES FM 7/12/90

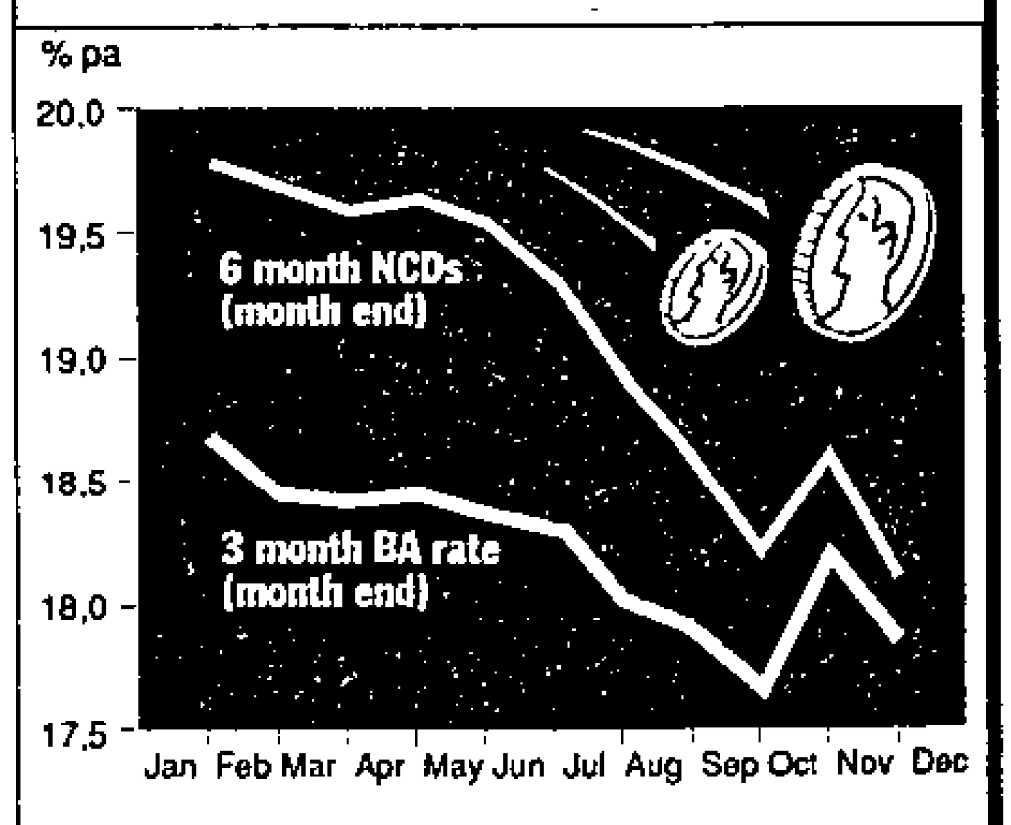
THROWING THE BONES

For the first time since he took office last year, Reserve Bank Governor Chris Stals is making encouraging sounds about interest rates. At a meeting of the Afrikaanse Sakekamer at White River last week, he suggested that a downward adjustment in the official rediscount rate "need, hopefully, not be too long delayed."

He cautioned that this should not be seen as an easing of monetary policy: "It is simply a technical recognition of the underlying improvement in the balance of payments and domestic financial circumstances."

A combination of positive financial indicators (*Economy* November 30) and an increase in gold and foreign reserves, which

Down again



INTEREST RATES f/m 7/12/90 (58)

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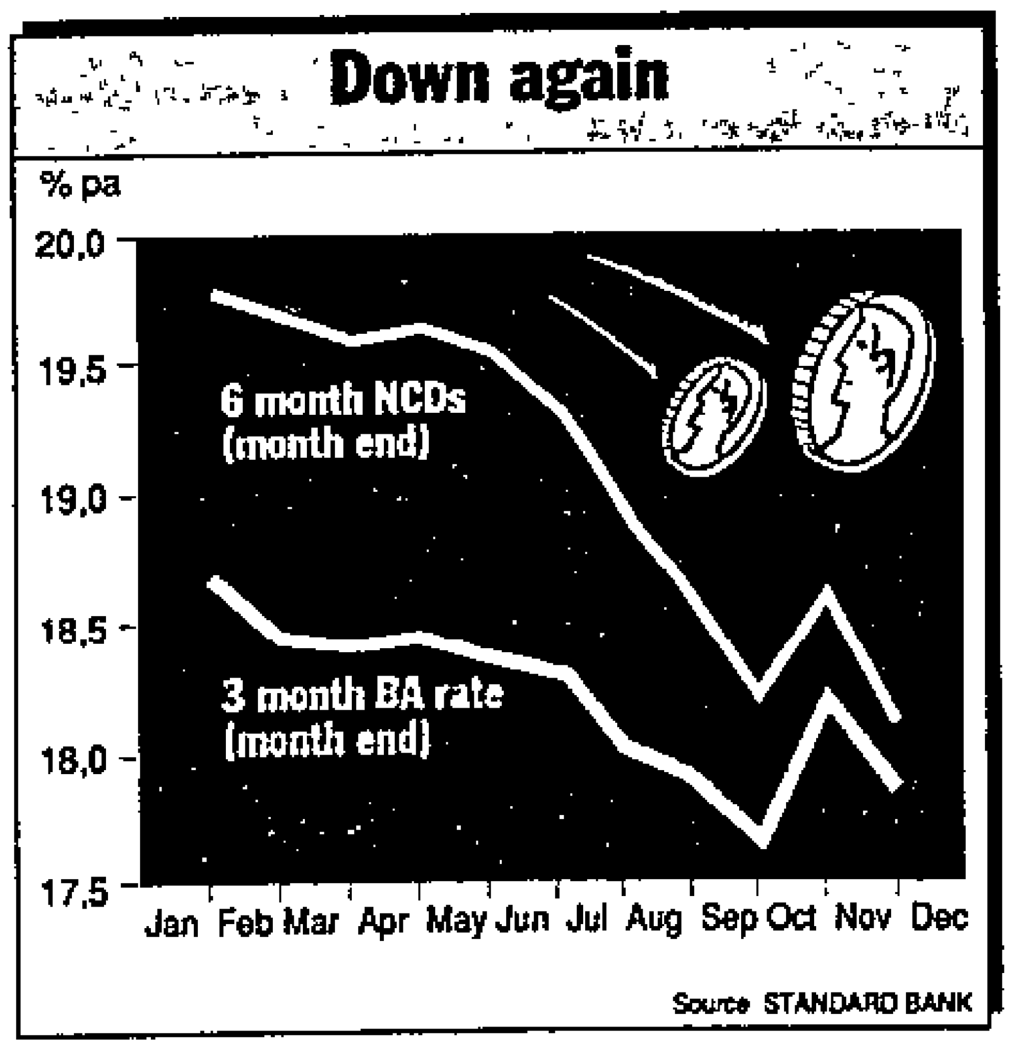


P.T.O.

BANKING — 2 FM 7/12/90

REPOS REVISITED (58)

Regulations relating to the Deposit-taking Institutions Act, gazetted last week, give banks some opportunity to fund their books

FM 7/12/90 (58)

through repurchase agreements (repos). Covered repos (transactions backed by a deal with a counterparty, which is the mirror image of the first deal) are exempted from statutory liquid asset reserve requirements.

The reason for this is that the liquidity risk is eliminated.

Repos were the centre of a major controversy earlier this year, in the run-up to new banking legislation. The authorities were concerned at the extent — over R11bn worth in February — of this type of funding. Below the line, the deals escaped cash and other liquid asset reserve requirements.

In April, Reserve Bank Governor Chris Stals pre-empted the Act. He told banks, discount houses and building societies to bring repos on to the balance sheet, forcing them to curtail these transactions.

The latest move is not without controversy, as bankers argue the asset leg of a deal is subject to price risks when interest rates move. Some add that the liquidity risk is not entirely eliminated. They argue that exemption opens the way to future abuses. ■

costs. Unless revenues can outpace cost increases, the profit margins will worsen next year. On present trends, the rationalisation now taking place at many mines will generally mean a reprieve rather than a turnaround.

Andrew McNulty

UBS FIM 7/12/90 58

POSITIONING THE BOOK

In the past, building societies would have been worried about impending lower interest rates. They have benefited from a rising

FOX FIM 7/12/90 58

Total assets increased 18% to R16,9bn, with nearly R12bn or 70% in mortgages. The rise in mortgages is notable, as United lost around R160m in balances when Eskom decided to finance its own home loan book from April. United still does the administration.

Noëth says United Bank's growth and profitability is "more than satisfactory." The number of cheque accounts has increased to 123 000 from 70 000 in September 1989.

He believes the advances and earnings growth momentum will be maintained for the rest of the year.

EPS grew 21% for the half year. The price has reached a 12-month high at 770c. It is still rated in the top three in the banking sector: its p:e of 9,4 is beaten only by Investec's 10 and its dividend yield of 4,2% is bettered only by SBIC's 3,9%. *Heather Formby*

Old Mutual now worth R52,5-bn

Star 7/12/90

(58)

By Tom Hood

CAPE TOWN — South Africa's largest non-mining company, Old Mutual, is now worth R52,5 billion.

Total assets jumped by 25 percent to this figure in the year to June.

It paid out a record R15 million a day to beneficiaries, raising by 50 percent the total payout of R3,78 billion in benefits for the year.

Chairman Mike Levett, disclosing the figures at the annual meeting in Pinelands yesterday, also reported total premium income rose by 26 percent to a new high of R7,13 billion.

Market share had increased by more than four percent in the past four years.

Income from recurring premiums — the foundation of Old Mutual's business — grew to R4,71 billion.

Investment income increased by 27 percent to R3,57 billion.

This, with substantial growth in assets, enabled Old Mutual to once again declare excellent bonus additions to with-profit policies, said Mr Levett.

More than 686 000 new individual policies were issued.

"Mutual today employs more than 17 000 people in southern Africa and is proud of its role in enriching the pool of human resources," Mr Levett said.

"In the past four years, more than half the increase in sales management were black people."

When rates fall, bondholders should look at unit trusts

Star 8/12/90

(58)

FRANK JEANS

CLIVE FOX . . . try the unit trust way.

THE homeowner, constantly in search of relief from high bond rates and lengthy commitment to his biggest asset, might well look at the unit trust market.

Even if it hurts initially, a little extra monthly payment into a trust will help considerably to shorten the life of a bond.

Clive Fox, managing director of Consolidated Fund Managers, says: "Because of the superior performance of unit trusts over other bond-busting mechanisms, a regular monthly investment in this sector is one of the best methods to achieve early repayment of bonds."

While not a unit trust management company, Consolidated Fund Managers fills the important role of advising people impartially on when to invest and into which unit trust fund.

Over the past 10 years, general equity unit trusts have shown an average annual compound return of more than 20 percent. This compares with an inflation rate of 14,6 percent over the same period.

The question might be asked: Would a bondholder achieve the same objective in reducing bond capital by paying a little more each month directly to his lending institution?

Mr Fox says:"The overriding advantage of investing an extra R100 in a unit trust as opposed to paying the same amount directly to the bond is the fact that unit trusts have outperformed the bond interest rate substatially over the past 10 years, thus enabling the bondholder to repay his bond that much quicker.

"Depending on economic circumstances, there is no reason why unit trusts should not continue to perform well over the next 10 to 15 years.

"So long as the long-term rate of return of unit trust investment remains higher than the average bond rate over the same period, an investment in unit trusts would significantly reduce the time period to pay off a bond."

Currently, interest rates are higher than unit trust returns but this is likely to be a "temporary phenomenon".

Bondholders might well be advised to commit regular investment to units when the share market is low as they are then likely to achieve far better long-term returns and therefore attain significantly quicker bond redemption.

The first unit trust linked bond-busting scheme was launched by Nedbank using monthly investment into the UAL Unit Trust. CFM offers a similar facility but does not restrict the investment to any one unit trust.

"We aim to maximise unit trust investment returns by investing only when favourable conditions exist and into top-performing funds," says Mr Fox.

"A few percentage points additional growth every year over a 10-year period will make an enormous and positive contribution to the end result."

Investec set to control Reichmans

58

S Times 9/12/90.

By DAVID CARTE

INVESTEC BANK is about to buy control of clearing, forwarding and trade finance company Reichmans.

The deal will add another R300-million of assets to its R1,7-billion balance sheet, lifting Investec's total assets above R2-billion for the first time.

Investec and Reichmans issued warnings in the past week. Provided negotiations succeed, they are expected to announce a get-together soon. Talks were still in progress on Friday.

The companies have not yet acknowledged they are talking, but executives of the two groups have been seen together.

Core

The seller of 37% of Reichmans is W&A Investments, which believes trade finance is not one of its core businesses of manufacturing and distribution.

The benefit for W&A of holding a stake in a trade finance house falls away now that trade sanctions appear to be ending.

Chairman Bas Kardol confirms that trade finance is Investec's business.

An acquisition along these lines would be Investec's style. In the past its has entered new areas of financial services in a small way itself, then bolstered its activities through acquisitions.

It is not clear whether this is a cash deal or for shares. If it is cash and the deal is done at 140c, Reichmans will be valued at R50-million and W&A could receive about R19-million.

W&A seems unlikely to hold a minority stake in Investec.

Reichmans did well until December last year. Taxed profit in the year to December 1989 was R13-million — up from R3-million in 1986.

Because of a R12-million exposure to a liquidated client, the half-year taxed profit was R6-million — down from R7,4-million. An extraordinary loss of R5,25-million in respect of a disputed fire claim was also recorded.

Associate company Van Renen & Nichols recorded a R5-million loss, of which R1-million was attributable to Reichmans. Another problem debtor owing R12-million is Grarich, which makes TV sets.

These setbacks sent the share reeling from 240c to 105c before the warning. It has since rallied to 120c. The cost of Reichman to W&A was 140c a share and it seems unlikely that W&A will accept a loss.

There is considerable complementarity between Reichmans and Investec. Both have strong foreign connections. Integrating these would save vast amounts of money.

BDay 10/12/90 (58)

Easy does it, as bulls take a breather

HAROLD FRIDJHON

EVEN in markets, bulls have to slow down to husband their resources and rebuild their vigour after a period of some activity. Last week in the money market the bulls were still dominant, but they were quieter, inclined to restraint.

Rates across the spectrum were harder, nudged upwards rather than rushed up as they had been the previous week. The bidding for assets was calmer, more rational. Perhaps the older bulls had been counselling the young bulls that slowly does more.

Interest rates have been pushed back, half-discounting the expected reduction of Bank rate by one full point during the first quarter of 1991. On three-month paper this is a fair way down the lane.

If Reserve Bank Governor Chris Stals acts at the end of January, interest lost will be offset by interest gained, with the possibility of a small profit if the Governor delays his move to mid-February.

On Friday the Treasury bill (TB) rate eased to 17,41% (discount) from the previous week's 17,54%. This is almost midway between the present re-discount rate of 18% and the hoped-for 17%. Similarly the BA rate of 17,75% is neatly poised between its current re-discount rate of 18,30% and the expected 17,30%. On a yield basis the current TB rate returns a positive 18,2% and a liquid BA yields 18,5%.

These yields line up with the 18,5% interest currently offered on a three-month negotiable certificate of deposit (CD), bearing in mind that a TB is the premier short-term asset. Longer-dated CDs, too, had their rates pruned, but only mildly, with 12-month paper dropping to 17,65% from the previous week's 17,85%.

Demand for CDs has fallen off, possibly because corporate treasurers and fund managers, having made their investment dispositions, have cleared their desks to go on holiday without a care, other than the Gulf. Bank treasurers are expecting their easiest December close in the past three years. They estimate the month-end shortage — the banks' total debt to the Reserve Bank — to be about R3bn in spite of the note issue reaching R11,5bn. Last year the shortage reached R4,5bn in the first week of January with notes in circulation peaking at R9,8bn just before Christmas, and dropping to R8,7bn at the year's end.

The banks are more liquid than they have been at any time this year, and for the larger part of 1989. On Friday morning the shortage had come down to R1,7bn, comfortably financed by liquid assets. And on Thursday R500m will come back to the banks when the special TBs are redeemed.

But the heavy flow of cash from the banks will start later this week when the builders and other tradesmen get their holiday payouts, followed by the business sector yielding its GST collections to the Treasury.

Fairness of portfolio survey defended

B/Day 11/12/90 (58)

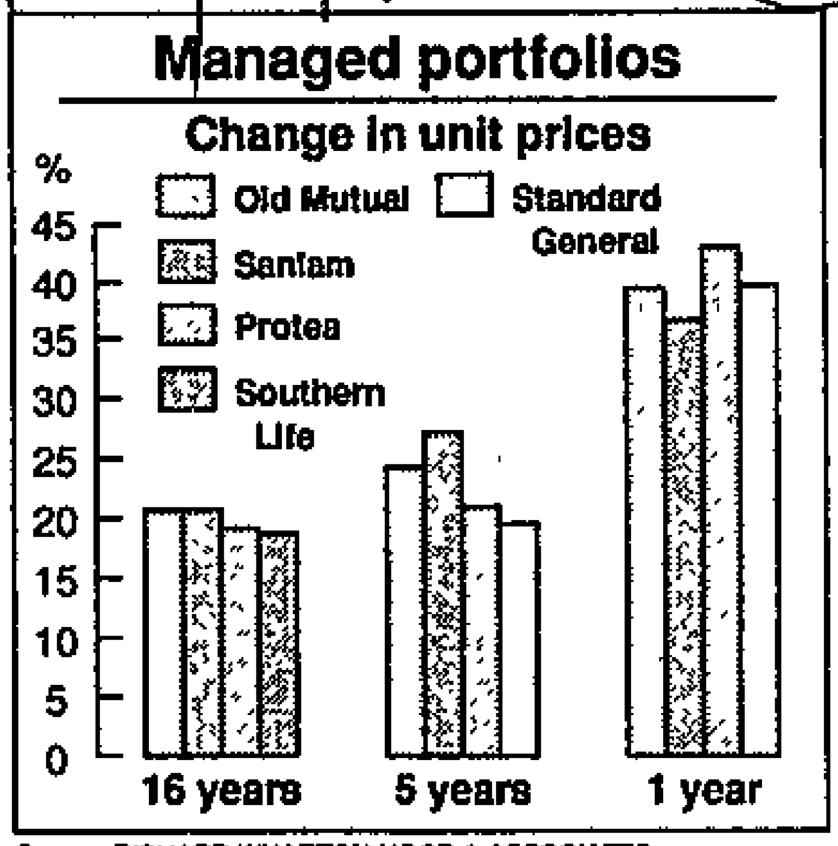
GILLIAN HAYNE

LIFE offices that believed the returns of managed portfolios were not comparable were probably hiding poor performances, Richard Wharton-Hood said on the release of his Annual Investment Performance Survey for 1989.

"Criticism regarding the fact that the asset composition of the different balanced portfolios differs widely and that my survey thus compares 'apples and oranges' is not acceptable. This survey is as much a measure of the relative investment returns achieved by the different life offices as a measure of the relative performance of their portfolio managers."

The survey compares the performance of life assurers' market-related portfolios to December 31 1989.

Over the 16-year period to end-December 1989, the after-tax return on managed unit trust portfolios paid by monthly premiums of R100 put Old Mutual on top of the charts with a change in unit price of 20,7% and an excess over inflation of R57 214. Sanlam came second with the same unit price change translating into a R56 622 excess over inflation.



Source RICHARD WHARTON-HOOD & ASSOCIATES
Graphic: FIONA KRISCH

Over 10 years, however, Sanlam came first achieving an annual 22,9% change in unit price compared to Old Mutual's 21,6%. And over five years, Old Mutual dropped to third place with a unit price change of 24,2% a year, behind Protea Assurance's 25,0% and Sanlam's 27,1%.

Short-term performances — for 1989 — resulted in a reshuffle with Protea on top with a 43,0% change in unit prices, compared with Standard General's 39,8% change, Old Mutual's 39,5% and Sanlam's 36,5%.

AA Life, Liberty Life, Momentum and Sage declined to participate in the survey.

AA Life MD Rob Williams said his company did not take part because the survey did not compare all portfolios, thus giving the large companies the opportunity to submit only their best performer each year.

"Also, some companies used the figures for their own marketing campaigns at the expense of other lower performers who had participated in good faith," he said.

Momentum Life MD Neil Krige said he was in favour of the survey, but Momentum had not participated because of its takeover of Lifegro earlier in the year. Momentum started unit-linked portfolios only after the takeover and therefore did not have a performance history to submit, he said.

Liberty Life deputy GM Herschel Meyers criticised the survey for not comparing portfolios that had the same risk/reward profiles. Some companies showed portfolios that represented only a "miniscule percentage" of their assets.

"We also believe the survey is not showing value for money," he said.

COMPANIES

Challenge for banking sector in 1991

B Day 11/12/90. (58)

Business Day Reporter

BUSINESSES operating in the financial and particularly in the banking sector will require considerable adaptability and flexibility in 1991, Finansbank chairman Chris Liebenberg says in the group's 1990 annual report.

"The Deposit-Taking Institutions Act, which will come into effect from January 1991, introduces a new era in banking," Liebenberg said.

The result would be the promotion of a new, more comprehensive and responsible approach to banking.

"Unavoidable short-term adjustments and disruptions will ultimately be offset by undeniable long-term benefits," he said.

In the year to end-September Finansbank's profits after tax rose by 24% to R18,3m and the return on average shareholders' funds was 25,3%.

He said Finansbank was until recently a typical merchant bank, characterised by non-recurring and unstable income.

But the bank's income flow had been smoothed as less risky, more stable sources of income had been pursued. The major contributor to this policy had been Cape of Good Hope Bank.

MD Johannes Hamman said: "We are also growing our operations closer to each other and Cape of Good Hope Bank has initiated strategic diversification in corporate finance services and investment banking."

Finansbank's planning for the current year was, as far as possible, conservative, Liebenberg said.

"Despite this, Finansbank anticipates a year of steady growth on most fronts."

Finansbank profits soar 58

Finance Reporter 449

Finansbank increased its profits by 24 percent in the year ended Septmber to R18,3 million from R14,75 million last year. Capital and reserves rose from R65,7 million to R79,0 million while total assets rose from R1,2 billion to R1,7 billion.

The chairman, Mr Chris Liebenberg, says the Deposit-taking Institutions Act which comes into effect on January 1 introduces a new era in banking. Star 11/12/90

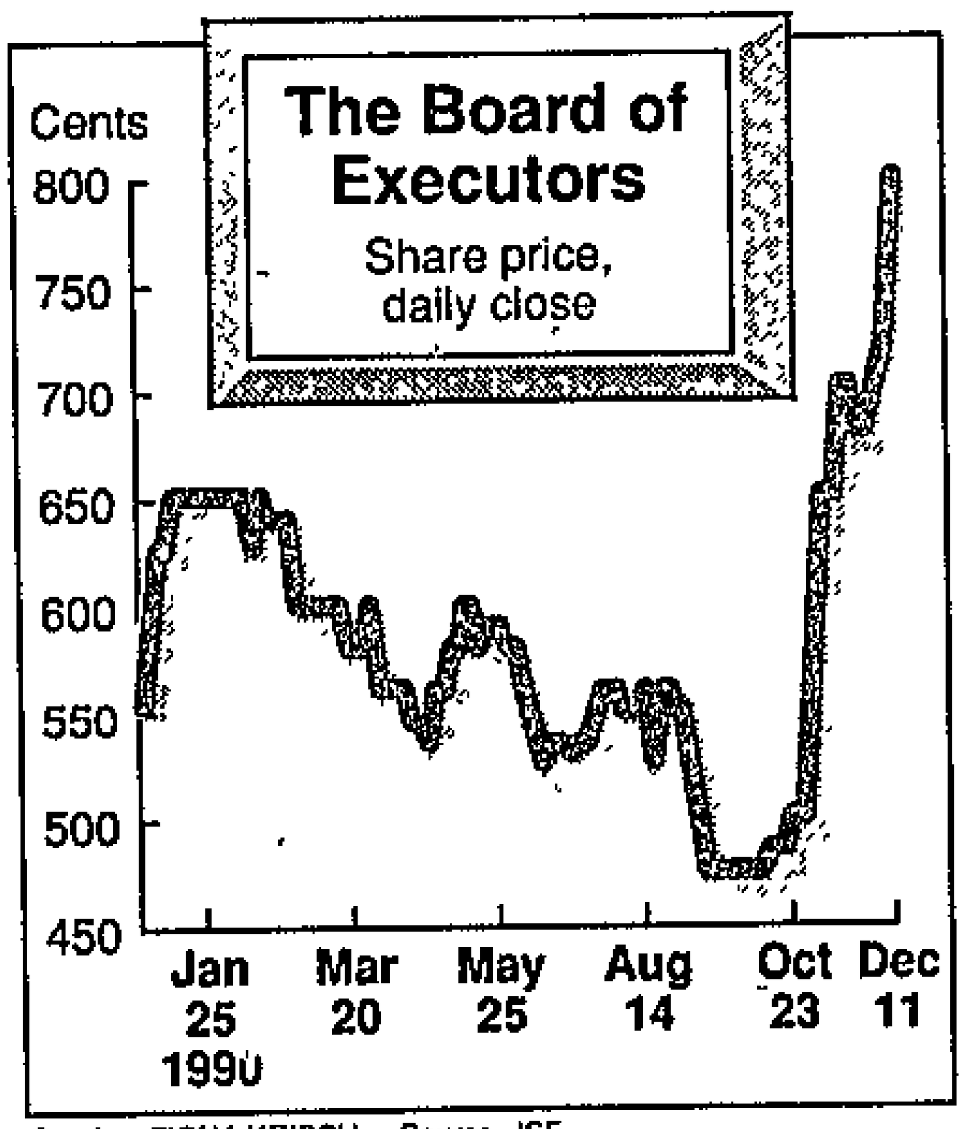
A new more comprehensive and responsive approach to banking will be promoted.

Unavoidable short-term adjustments and disruptions will ultimately be offset by undeniable long-term benefits.

BoE focus of acquisition talk

B/Day 12/12/90 (58)

LESLEY LAMBERT



Graphic FIONA KRISCH Source JSE

CAPE TOWN — The share price of Board of Executors (BoE) rose by 11% to 800c yesterday on the back of rumours, prompted by a cautionary notice, that the financial services group was negotiating an acquisition.

BoE chairman Paddy Wilson said at the group's AGM yesterday that he could not comment on the cautionary notice, but that shareholders would be given information as soon as it was appropriate to do so.

In interviews after the AGM, both BoE MD Bill McAdam and Picardi Holdings chairman Jan Pickard scotched rumours that Picardi property subsidiary Picprop was the subject of negotiations.

Pickard said he had received inquiries about Picprop, but not from BoE. He de-

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BoE rumours

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clined to comment further.

MERVYN HARRIS reports that there is speculation that BoE could be after troubled CIB (Cape Investment Bank). Credence was given to this speculation yesterday as the CIB share price, which slumped from a May high of 250c to 80c in November, firmed 5c to 110c and was bid at that level.

BoE, which defended itself against a hostile takeover by Investec Bank last year, has been on the lookout for acquisitions for some time.

When its results for the financial year to September were released, McAdam said the group had the necessary financial resources at hand and was waiting for new opportunities to emerge from the current state of flux in the financial services industry.

Questioned about BoE's future plans yesterday, McAdam said the group intended to become a mainstream player in financial services and was structuring itself for that purpose. "We do not want to become big for the sake of bigness, but to enhance our fields of endeavour," he said.

Banking analysts said the group had signalled its intention to become more proactive when it employed Old Mutual assistant investments GM Rob Lee to assist senior GM John Winship in the growing fund management division.

BOE plans to acquire bank?

Cape Times 12/12/90

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By AUDREY D'ANGELO
Business Editor

THE fast-growing Board of Executors (BOE) — known mainly for asset management — seems on the point of expanding into banking.

Chairman Paddy Wilson and MD Bill McAdam would give no details of a planned acquisition at the annual general meeting yesterday.

Referring to a cautionary announcement that morning, Wilson said negotiations were taking place and they would communicate with shareholders "as soon as we have something to say".

Earlier in the meeting Wilson told shareholders: "We are confident that we can minimise any unfavourable financial effects which might have materialised from the implementation early next year of the regulations arising from the Deposit Taking Institutions Act of 1990."

After the meeting McAdam said: "We have a pretty clear idea of how we intend to position ourselves. We have had a number of meetings with the Registrar of Banks."

McAdam said the only area of BOE's business which would be affected by the Deposit Taking Institutions Act was the money market. The BOE acted as an agent for other institutions.

There would have to be a restructuring of this area of BOE's business "which might take a little time".

Asked if BOE intended to acquire a banking licence, McAdam said: "I can't give a definite answer. It lies on the route we want to go.

"But that lies in the lap of the Registrar of Banks. He may think we are in the 'banking business'. That could be one of the things we are discussing."

BOE already owns 30% of Fidelity Bank through its wholly owned subsidiary, the former Mercury Trust, which has been renamed BOE Securities.

McAdam said he was "excited" about BOE's prospects for the current year. "We have budgeted for growth in excess of the inflation rate.

He said one of the areas in which BOE intended to expand was pension fund management. This was why Rob Lee was joining the company from Old Mutual.

Drop in policies reflects the squeeze

B/Day 13/12/90

GERALD REILLY

PRETORIA — Financially stressed farmers have taken out substantially less insurance this year compared with last year, according to Sentraoes GM Lorenz Schutte.

Sentraoes's number of policies had dropped by more than 7 000 to 12 700.

Agricultural economists said that in addition to farmers not having the funds to insure their operations comprehensively, government had also withdrawn the subsidy previously paid on insurance premiums.

Cover granted by Sentraoes this year was R260m less than last year's R1,210bn.

(58)

Premiums paid totalled R66m — R3m less than last year. However, the value of claims decreased sharply from R57m to R13m. This, Schutte explained, was because this year hail had not been a serious problem.

Had it not been for the increased maximum insured value per ton and the increase in fruit and vegetable insurance, Sentraoes would have had far less in premium income than the current R63m.

Schutte said demands for compensation so far this year amounted to about R12m, compared with R50m at the same time last year.

BOE still stalking . . . who?

Cape Times 13/12/91

By ARI JACOBSON

SPECULATION continued yesterday about the identity of the acquisition the Board of Executors is trying to make — which will almost certainly increase its exposure to banking.

A cautionary announcement appeared earlier this week and chairman Paddy Wilson confirmed that negotiations were in progress.

MD Bill McAdam conceded after the AGM on Tuesday that a banking licence was an area of interest to the asset management group.

The shake up in the industry comes as a prelude to the new banking bill in January.

Searching for synergies and suitable cultural matches resulted in a perfect fit when Investec took over Reichmans at the turn of the week.

For a R50m payout Investec received solid exposure to the foreign market, through Reichman's trade finance arm, and strengthened its merchant banking section.

Top personnel 'captured'

But more importantly Investec captured top flight banking personnel, the dearth of which is a cause for grave concern to the industry.

Add to this booming technology costs which rule out (in most cases) the viability of small independent financial institutions, and the search for allegiances becomes paramount.

Troubled CIB has two collector's items for the BOE group — a banking licence and strong exposure into the foreign exchange market. This link could be a formidable mix except for what market sources describe as irreconcilable cultural differences.

But rumours persist that CIB has an ongoing interest in Fidelity Bank — in which BOE has a 30% stake.

A Fidelity spokesman squashed any link between any of these groups. "The bank is correctly positioned for the new Deposit Taking Institutions Act with sufficient capital to avoid market support."

Loose links will be tied up in the near term — which means possibilities exist with, among others Natal Building Society (NBS), Saambou, International Bank of Johannesburg (IBJ) and Boland Bank.

JSE activity in BOE and CIB shares tapered off yesterday after both institutions had recorded solid gains the previous day. But the synchronised market interest matched only by the hive of managerial activity at both organisations has heightened expectations of an exciting outcome.

Hostile takeover bids 'rare in SA'

CHARLOTTE MATHEWS

THE negotiations between property companies DPF Investments and Grovewalk on DPF's offer to shareholders to take control of Grovewalk have been described as a hostile takeover.

Merchant bankers say that existing legislation on share control, shortly to be amended, makes it difficult to apply the term "hostile takeover" to SA, and the concentration of shareholdings made this a rare occurrence.

The most recent bid in SA described as hostile was the September 1989 offer by Investec Bank to take control of Mercury Trust, which held 80% of Board of Executors (BoE). BoE, which held 40% of Mercury, had previously made an offer to acquire 100% of Mercury.

Investec withdrew its bid as "not commercially viable" after Liberty Asset Management (Libam) bought a significant stake in BoE.

A hostile takeover, one merchant banker says, occurs when directors of the "victim company" express the view that proposals being put forward are not in shareholders' best interests. A looming change of management following the takeover could influence their views.

"The term 'hostile bid' has usually been used overseas and not in SA because until now there has been no restriction on the amount of shares that can be bought up. The new securities regulation code which will come into force next year lays down similar restrictions to those in the UK."

According to the draft regulations published in September, if 5% of the relevant securities of a company are held, dealings of these securities have to be disclosed. If more than 30% of the voting rights are acquired, an offer has to be made to any class of equity holder.

"Usually in SA control of a company vests in an easily identifiable group of shareholders and they own sufficient shares to block any takeover," a merchant banker says.

The merchant bankers spoken to say SA tends to have shares in a few hands mainly for historical reasons.

BDay 13/12/90

Pass bid

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Some of the strategies to avert a hostile bid include dealing in the companies' shares to suppress their value or selling off assets to make the victim company look less desirable.

Another example bankers mention of a takeover that could be described as hostile is the recent move by Metal Closures of the UK (MCUK) to make Metal Closures of SA (MCSA) a wholly owned subsidiary of the British company.

In this case the 77% of MCSA held by MCUK enabled it to pass the bid and expropriate MCSA minorities' shares although brokers said the offer was unfair.

Liquidators get bids for Greenfield assets

CHARLOTTE MATHEWS

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THE liquidators of listed Greenfield Property Holdings have received offers for the group's property assets and are preparing information for potential buyers to assess the situation, Westrust liquidator Les Cohen said yesterday.

He said to date Greenfield Property Holdings, its wholly owned subsidiary Greenfield Investments, and the latter company's wholly owned subsidiaries The Terminus (Klerksdorp), Greenfield Nelspruit 404 and Greenfield Property Services had been placed in provisional liquidation.

Greenfield Property Developments, a wholly owned subsidiary of Greenfield Investments, was in final liquidation.

Cohen said the liquidators were investigating the full extent of the group's liabilities, but the balance sheet at June 1989 showed total debts of about R86m.

Logaro director Gary Perlman said Logaro had effective control over Greenfield Property Holdings and was formulating proposals to the banks for its subsidiaries.

Sanlam, which earlier expressed some interest in Greenfield's Woodlands development — owned by Greenfield Commercial, which is not in liquidation — said this week it was not involved in negotiations.

Protea Assurance outpaces its rivals

Star 13.12.90

Returns generated by Protea Assurance since the fall in the equities market in 1987 have outpaced those achieved by other life assurers. 58

The annual investment performance survey of the life assurance industry, published by Richard Wharton-Hood, shows that Protea's investor portfolio provided returns of 40,2 percent a year for the two years to December 1989.

The figure compares with the 36,7 percent a year attained by the second-best performing fund. — Finance Staff.

Nedfin's Rundle to take reins at SA's oldest bank

B/DAY 14/12/90 NEIL YORKE SMITH (58)

NEDFIN Bank MD Ron Rundle will retire at the end of March 1991 to take over the reins of Cape of Good Hope Bank (CGH), SA's oldest bank.

"I'm looking forward to the challenge. My new job will be to sort out succession planning, improve the technology base and enlarge the CGH product line," Rundle said in an interview yesterday.

"CGH is already performing well so really I will be fine-tuning the business," Rundle said.

Nedcor will, however, still be retaining Rundle's services because through subsidiary Finansbank, CGH is a Nedcor group company.

Rundle becomes MD of CGH (he has been a non-executive director for four years) and has been appointed a director of Nedcor subsidiary Finansbank. He remains president of the Association of General Banks until the end of March 1991.

● RUNDLE

He said CGH would probably increase its non-margin business by expanding merchant and investment banking services.

"We will be assisted by Finansbank and will aim at the middle corporate market."

CGH was established 160 years ago. Focused on the western Cape market, it has 11 branches and employs 275 people.

To date it has concentrated on home loan finance and industrial and commercial mortgages as well as instalment credit and leasing. CGH is also active in property development.

It has total assets of R725m and earned after-tax profits of about R9m in the last financial year.

Rundle's successor at Nedfin has not yet been named.

Given the size of Nedfin's assets — more than R2bn — and its sophisticated product range which includes vehicle finance, and complex asset based financing, the position is an important one.

"The board will probably choose someone from within the Nedcor group," said Rundle.

Insurance premiums could soar by 50%

B Day 14/12/90 (58)

GILLIAN HAYNE

SHORT-TERM insurance premiums could increase by between 50% and 60% in 1991, some industry experts predict.

The industry expects a gloomy year for insurers and insured unless the runaway crime rate is controlled.

Despite most companies increasing premiums twice in 1990, some managements say that without a doubt premiums will have to go up again. In fact, most companies are targeting increases for March or April.

Aegis Insurance MD Brian Seach says: "At the moment claims, especially on vehicles, exceed premiums to a staggering degree. The crime trends are horrifying with the number and size of claims, increasing car prices and rising finance charges all contributing to the burden."

The increases will make insurance increasingly unaffordable for many. Seach suggests families move towards insuring for only major loss — anything above, say, R5 000.

Major problems

Similarly families could leave out of their policies certain general household items suchs as books, thus bringing down the premiums.

SA Insurance Association's Rodney Schneeberger confirms that the major problems facing the industry are crime and motor accidents.

"Regrettably crime is on the increase — car thefts specifically have risen from 60 000 to 72 000 in 1990 — and the cost of motor accidents continues to rise. Exchange rates with SA's major trading partners are still unfavourable which means cars and imported parts continue to be expensive."

Schneeburger says companies are well aware that insurance is becoming unaffordable for many. The association and companies are studying all feasible ways of reducing costs, he notes.

SA Eagle MD Peter Martin says that "with the violence in the townships placing a burden on an already understaffed police force, other crime cannot be given adequate attention. The continuing influx of people into the urban areas and growing unemployment has also led to burgeoning crime."

INVESTEC/REICHMANS (58)

AHEAD OF THE ACT

The latest takeover in the financial services industry is said to be just the start. Trade finance house Reichmans, not registered as a deposit-taking institution, is being sold to Investec. FM 14/12/90

Now, as part of a financial institution with combined net capital and disclosed reserves of more than R150m (Investec Bank and Investec Merchant Bank) it will have greater clout with local and overseas clients and banking institutions.

It could also have access to lower cost of borrowings if it borrows directly from Investec and wouldn't have to pay a premium to other banks. The trade finance group will be able to piggyback on Investec's credit granting procedures. "Investec will be involved in passing credit and looking at exposure limits," says Investec chairman Bas Kardol.

Without the tie-up with Investec, Reichmans might contravene the Deposit-taking Institutions Act when it takes effect next month. Though it does not take deposits from the public, it does take deposits pledged by debtors as security — something which may be problematic under the new Act.

Investec will benefit from its R50m purchase by strengthening its trade finance and foreign exchange departments at a time when trade opportunities for SA are opening up and sanctions are expected to disappear. It will gain access to the Reichmans offices in London, New York, Geneva and Hong Kong and Reichmans' international banking contacts.

Though Reichmans will now be part of Investec and no longer listed on the JSE, it will keep its identity and operate separately. This was an important criterion in the deal,

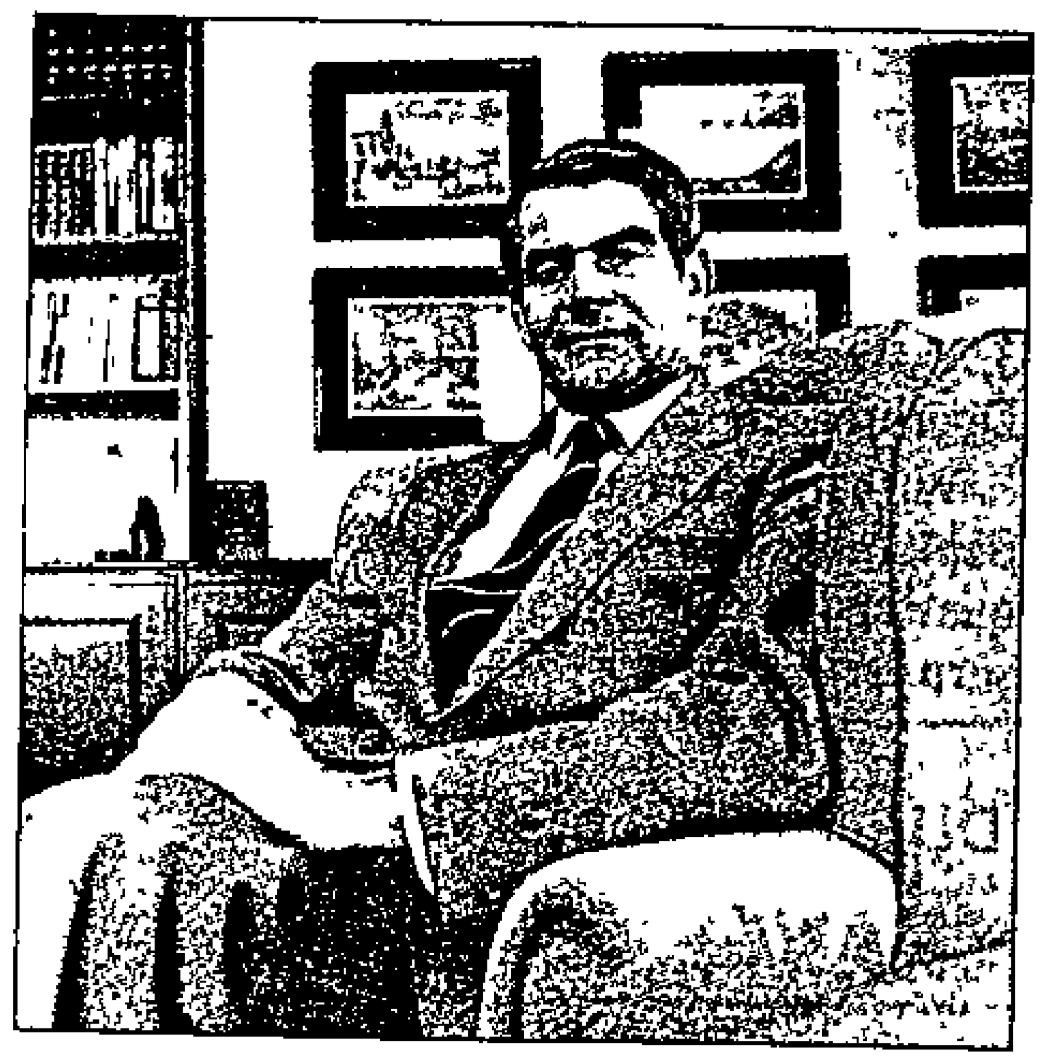
FM 14/12/90 (58).

as Reichmans feel they will then be able to continue offering personal service.

No staff changes will be made at Reichmans. The trade finance house will continue to operate from its Killarney, Johannesburg, offices though Cape Town and Durban offices may be merged with Investec.

Reichmans was hit by two R12m bad debts and losses from one of its investments. But the R24m bad debts have been written off and a substantial provision for loss has been provided against Reichmans 20% investment in steel merchant Van Reenen & Nicholls, which lost R5m in the first half of its financial year.

Shareholders have been offered one Reichmans redeemable preference share



Investec's Kardol ... *seeking synergies*

carrying a 13,5% coupon on 140c for every Reichmans ordinary share. The preference shares are redeemable in December 1995. The alternative for shareholders is to take the cash offer of 105c a share.

W&A, with a 37% share in Reichmans, sold its stake and opted for the redeemable preference shares as have management. A quarter of shareholders are still to vote. W&A decided to sell to concentrate on its core activities: manufacturing; retailing and distribution. It originally bought into Reichmans to open up trade links for W&A's overseas operations.

The deal looks sound as cultures are similar and there are benefits for both parties, including access to each other's client bases.

Heather Formby

Grovewalk: JHI sale gauged sentiment

NEIL YORKE SMITH

SHAREHOLDERS in Grovewalk Holdings — the Durban property company defending a hostile takeover bid by DPF Investments — yesterday voted in favour of Grovewalk's R7,7m sale of its 29,2% interest in J H Isaacs (JHI) to UBS.

The decision was seen as critical in gauging shareholder sentiment regarding the DPF bid, Grovewalk MD Gerard de Rauville said in an interview yesterday.

"That shareholders supported management's decision to sell the interest reflects their confidence in us and in our ability to deliver the goods over the long term."

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Our Durban correspondent reports that a large shareholder, DPF MD Paddy Delaney, whose interests are making the bid, was represented by lawyer David Gordon and stockbroker Simon Oliver.

Delaney said afterwards the DPF bid for Grovewalk would continue.

About 93% of shareholders voted at the special meeting. The resolution to sell the JHI stake was favoured by 74,8%.

DPF is offering Grovewalk shareholders

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Grovewalk

BD 14/11/90

100 new DPF combined units for every 100 Grovewalk units held.b

Grovewalk has attacked the DPF offer on the grounds that it contains no cash element and is being made by a DCM-listed company with a short track record.

DPF claims shareholders will earn better returns by accepting the DPF offer, and that it will improve the performance of Grovewalk which announced a R1,9m loss for the six months to August.

De Rauville said "periphery issues" had

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also been discussed at the meeting. These included the R500 000 restraint of trade payment UBS made to him personally and the R300 000 paid to Grovewalk.

Grovewalk directors had also proved conclusively that the JHI sale was no "poison pill" designed to deter the bidders.

"We proved that the JHI deal had been considered long before the bid was made."

It was disclosed during the meeting that Grovewalk might, in the future, consider a rights issue to raise further capital.

OVERTIME

FM 14/12/90

Japie Jacobs, special adviser to Finance Minister Barend du Plessis, will spend the holiday drafting his overdue report on rationalising the tax base of financial institutions. The report was scheduled to be in Du Plessis' hands this month but Jacobs says his committee, after drafting some recommendations, hit snags. He now aims to have a report ready towards the end of January.

That will hardly allow a major overhaul of tax legislation in time for the Budget. The Tax Advisory Committee (TAC) is not due to meet again until late in January. Consensus, then, may be elusive; there are recommendations coming from Jacobs which the TAC still finds "debatable."

Jacobs' brief is to level the tax playing fields between banks and building societies on the one hand and life assurers on the other. When Deputy Finance Minister Org Marais began earlier this year to plan a withholding tax on individuals' interest income, this was to have been a quick and simple fix, designed to divert savings to banks and building societies. The Life Offices Association (LOA) was, however,

FM 14/12/90

quick to point out that its members also receive interest income on behalf of policyholders — who are also individuals.

All organisations making representations to Jacobs have been held to secrecy. Some life assurance sources now suggest total reconstruction of the tax base will be impracticable. Some amendments could be drafted for the Budget as a trade-off. It is suggested there will be a withholding tax — but broadly based. Since this would be little gain for banks/building societies, a *quid pro quo* is needed. It is now widely expected by assurers that this will mean a tax on trading gains in their investment portfolios.

Since the rapid growth of assurers' funds has been partly due to their success as share traders, the gains are an obvious tax target. The irony is that if policyholders had invested as individuals, only in extreme cases would they be classed as traders and their gains subjected to tax. So, if these predictions materialise, it will create yet another crack in the tax wall assurers have built. The principle that they are simply trustees for a large number of individuals will again be on the table for discussion.

One assurer said this week that, because the composition of banks' and building societies' funds precludes them from large-scale JSE trading, to tax assurers gains would significantly redistribute the tax base. The question then would be, what rate of gains tax would be bearable. Among the submissions has been a veiled warning that if assurers' gains attract swingeing taxes, they will tend to lock shares away — with disastrous effects on JSE turnover. ■

Banks get major Lesotho contracts

58 B/Day 14/12/90

NEIL YORKE SMITH
and ANDREW GILL

MAJOR financing contracts for the Lesotho Highlands Water Project have been awarded to Nedbank and a consortium consisting of Volkskas Bank, Volkskas Merchant Bank and Rand Merchant Bank, it was disclosed yesterday.

Nedbank confirmed it had won contracts of R375m and that the consortium had won R370m worth of financing business for the second phase of the Lesotho project.

"The package is very flexible and will be renegotiated at the end of 1992," Nedbank executive GM Mike Leeming said.

The contracts are to be signed at a ceremony in Maseru today, simultaneously with the announcement of the names of the consortiums awarded the construction contracts for a dam and tunnels.

Phase two of the project includes the building of a 182m high concrete arch dam on the Malibamatso River, a 55km transfer tunnel, a 72mW underground hydropower complex at Muela, a 15km delivery tunnel, and associated infrastructure including the building and upgrading of roads, bridges and communication facilities.

The Volkskas consortium won a financing contract worth R135m — for adminis-

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Lesotho

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trative and general costs — in June this year so that its involvement in the R4,8bn project now totals about R485m.

Government has agreed to guarantee loans by SA banks. This will limit risk exposure and make it easier for the banks to take the assets off their balance sheets and issue them onto the capital market.

"If possible we would prefer to take the loans off our books and securitise the debt," Volkskas corporate banking assistant GM Gerrit van den Berg said in an interview yesterday.

Discussions regarding financing of the third phase of the project had already begun although at this stage no details could be released, Van den Berg said.

SA construction firms Group Five, LTA and Concor are due to be named when two major contracts for the construction of a dam and tunnels (worth R2bn) are awarded to two consortiums today.

Prima scoops up Pickard's stake in CIB

58

Cape Times 14/12/90

By ARI JACOBSON
and Own Correspondents

ANOTHER wave of uncertainty rippled through the banking sector last night when the Pickard family off-loaded their controlling stake in Cape Investment Bank (CIB) to Prima Bank.

Linked to this deal was the departure from the CIB Group (CIBG) of CE Andy Swartz because of what market sources described as "dissatisfaction over the sale."

Pichold chairman and CIBG GM Jan Pickard Jnr replaces Swartz with immediate effect.

Market speculation was that Swartz left after a disagreement with the management of Pichold, CIBG's parent company.

Prima Bank came under JSE scrutiny last month for alleged liquidity problems, but the exchange later retracted this claim unreservedly.

Prima — a privately owned bank — grew out of Rand Securities and was started by merchant bankers Johan Bellingan and Herman Haman about five years ago.

CIB has also undergone problems — especially concerning the R15m default by Davis, Ralph & Sadleir (DRS) in the futures market.

Jan Pickard Snr said last night that the sale had been triggered by the need for rationalisation (fewer banks) and not by the difficulties experienced in the trading arena.

The announcement says Prima Bank will make an offer to CIBG minority shareholders and will assume management control on December 18, the effective date of the transaction. The CIBG board will be reconstituted to include Prima directors.

Both banking institutions are leading players in specialised markets which expected to unlock substantial synergies. They will have a combined capital base of about R45m.

It is understood that Swartz plans to establish a financial consultancy business.

● Pichold minority shareholders are likely to take directors to task at today's AGM for the rejection of Tuesday's 600c a share acquisition offer by Urquhart & Co.

It is believed Urquhart will make another offer of 625c today. Jan Pickard Jnr said on Wednesday the 600c offer was "ludicrous".

However sources said while the offer may be was below the company's net asset value, it was more than double the current market value.

Another question which might be raised at the AGM today is the sale of Union Wine, which sources said displeased minorities.

Pichold shares closed at 375c yesterday after trading at a high of 700c in January and reaching a low of 220c in August.

Sources said Pichold — which reported a R13,4m loss and was in R114m in debt to the tune of R114m at the June year-end — had not been performing for some years and was operating from a low capital base and high gearing.

Rand softens in dull trading

Pay-linked loan could replace home subsidies

58

W/Mail 14/12/-19/12/90

A new home loan scheme to replace traditional methods of financing has been devised by the SA Perm. **REG RUMNEY** looks at what it offers

WHEN the perk of subsidised home loans is finally phased out in March next year it would pay employees with those loans to take up the SA Perm's new salary-linked home loan.

This selling point, adopted by home loans marketing manager Dave Wright, underlines that the Perm's loan is not exclusively for low-income housing.

Wright points out subsidised company home loans will continue, but will no longer have a tax benefit.

The Perm's scheme, says Wright, will offer benefits not only to the bottom end of the housing market but to other groups as well.

Even at managerial level it may be advantageous to switch.

With the removal of the fringe benefit apparently cheap housing is just redistributing individuals' income from the affordability of living to housing.

"Our point of view is that one should have enough for normal living expenses as well as housing."

What the loan promises to do is allow a homebuyer to get a more expensive house now rather than trading up, or to stay with a house he can now afford, but pay a lower monthly instalment.

However, the Perm's scheme may also make homes more affordable for the poor. The minimum wage level of many medium to large companies is R800 to R1 000 a month. Assuming 30 percent of income goes on instalment payments, those people can afford a loan of R17 000. But a house and a stand in a black township can go for around R42 000.

Using the loan, a homebuyer could afford a house equivalent to 42 times his monthly salary. Building societies and banks now limit the amount one can borrow to a bond repayment of 30 percent of one's monthly salary.

The salary-linked home loan is posited on house prices continuing to rise. The outstanding balance of the loan rises over time. "As long as there is not a massive collapse in the property market the outstanding balance should not come near the value of the property," says Perm salary-linked home loans manager Brian Peck. Property values have only to rise 10 percent a year to match the outstanding balance.

The idea was sparked by the idea of a no-interest loan. But what the loan amounts to, says Wright, is a real rate of four percent. The original idea was of a fixed percentage, say 17 percent, of salary, to repay a home loan over a 20-year period. Wright says a reducing percentage might be adopted.

With a conventional home loan and inflation of say 15 percent in the first year a homeowner is paying 30 percent of his salary. After five years this drops to 20 percent, and after 20 years to one percent of a salary.

Borrowers tend to overcommit themselves to get over the initial payment hump, says Wright. An analysis of a batch of loan applications for houses on the East Rand, for instance, showed gross misrepresentation of income in more than 58 percent of cases.

The attempt is to even out the borrower's commitment. Over 20 years the borrower normally pays nine percent of his salary. With the Perm's loan, the average should be about 17 percent.

One advantage is that the loan is linked to individual salary increases. Inflation will tend to push those up.

What if the homebuyer becomes unemployed?

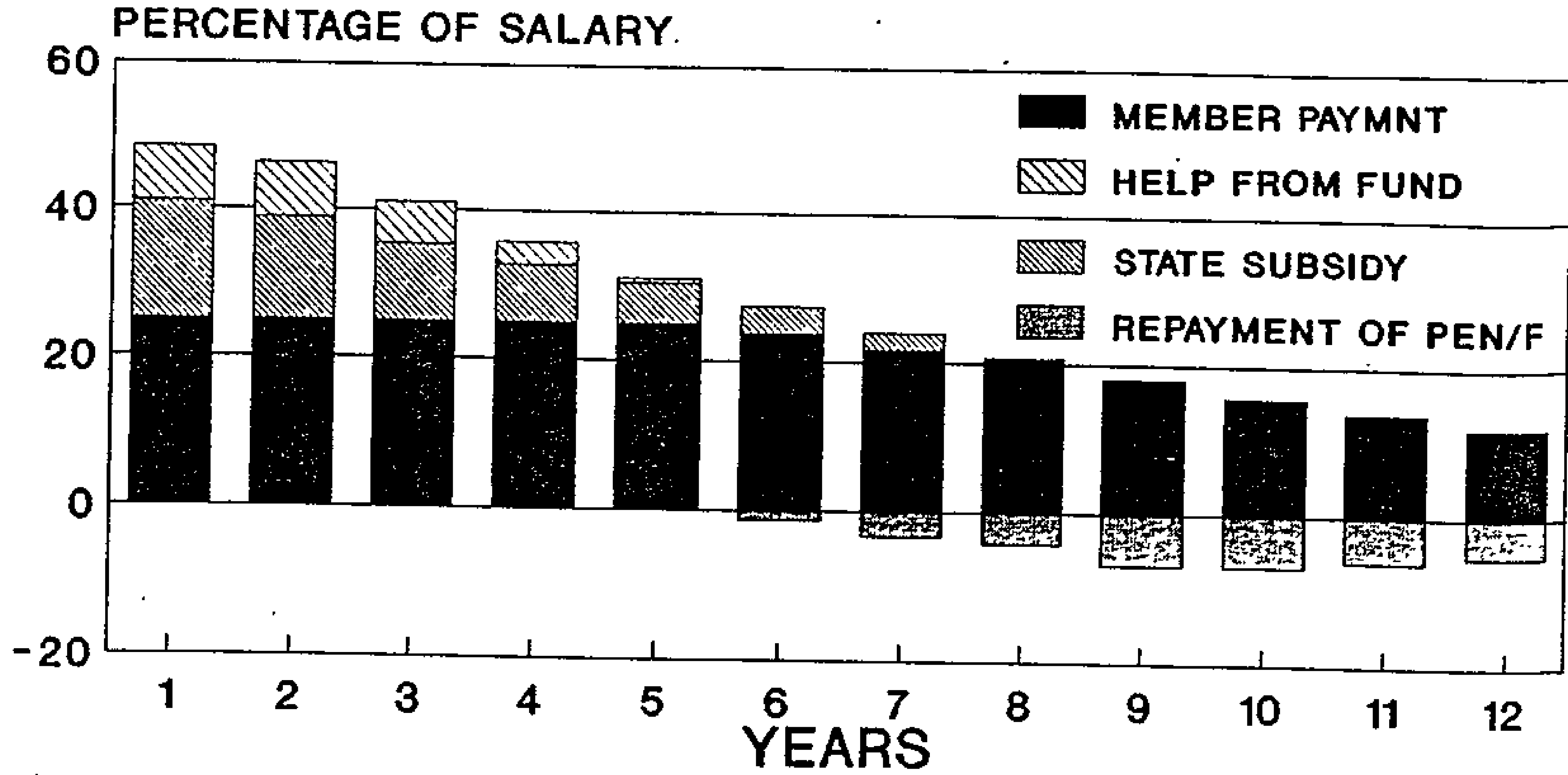
Wright says that because there are two sources of return for the investor (the pension fund) the loan is more flexible than normal home loans. "It could give a greater breathing space."

The returns are from the cash flow and the revaluation of the book debt. If the cash flow is suspended for a while, the book debt rises, so the investor's ultimate return is not affected. However, the normal repossession rules would apply if no payment is forthcoming for a long period.

What about the return to the pension fund? Wright admits the returns will not be high, but they will be adequate and should match the returns on fixed interest securities. They would be part of any fund's investment mix, he reckons, and could be five to 10 percent.

The Perm is starting to gear up for selling the new home loan product, but while government has given approval in principle certain technical aspects have still to be ironed out.

Participation of pension funds who provide the investment must also be secured. Also, the loan must be secured by a pledge of the fund member's withdrawal benefit.



In the Old Mutual/Urban Foundation housing loan scheme, the portion to be paid back to the pension fund increases over the years while the subsidy falls away quite quickly

Plan to unleash the pension funds' millions

W/Mail 14/12 – 19/12.90

By REG RUMNEY (58)

PROBABLY because they were announced simultaneously the SA Perm's salary-linked mortgage scheme and Old Mutual's direct loan scheme have been confused. They differ in most respects.

What they do have in common is that they both mobilise pension funds for housing.

The Perm's salary-linked mortgage scheme offers a complete alternative to conventional finance. Government approval of the Old Mutual's new loan scheme means millions in pension and provident fund money can be unlocked for housing without sacrificing market-related returns, according to the giant life assurer.

The Old Mutual's direct loan scheme mobilises pension funds by making loans to the individuals who will eventually be paid out by those pension funds. These loans are additional and supplement conventional loan finance.

Pension funds lend directly to members an amount equal to their accumulated pension benefits from time to time. Those members can then buy houses which they could not otherwise afford. The loans are secured by a pledge by those members of their accumulated pension benefits.

Pension funds or employers will directly administer the loans. The cumulative loan balance of any particular fund loan will not be more than a member's withdrawal benefit at any time.

To focus the initiative on low-cost housing, the loans will probably only be granted to first-time home buyers.

Once a member has accumulated enough of a pension benefit to cover a five percent deposit on a house the fund loans him this. He then gets conventional loan finance at prevailing interest rates to finance the balance.

So that he can repay the larger loan the fund loans him additional amounts as his pension fund accumulation increases. The amounts loaned bear interest at conventional rates.

Once the borrower's mortgage loan instalments fall below 25 percent of his monthly salary the need for the additional loan from the pension fund falls away. The borrower must then begin to repay the money lent to him. Effectively he continues to meet his bond instalment and repays to the pension fund the difference between his instalment amount and a sum equivalent to 25 percent of his salary.

The borrower is not precluded from applying for any subsidy.

In the end, the borrower will receive a normal retirement benefit as well.

In sum, salient facts of the plan are:

- It avoids cross-subsidisation by those members of pension and provident funds who do not use the scheme
- Participating members keep their retirement benefits in full
- The pension funds involved don't suffer low-yield investment penalties the suggestion that a percentage of funds be directed to housing as a form of "prescribed assets" would incur.

Old Mutual employee benefits GM Henk Beets, instrumental in developing the plan, says one of the first steps in implementation will be consultation with pension and provident fund trustees and unions.

Fundraisers try new methods

W/Mail 14/12 – 19/12/90

By MONDLI MAKHANYA

FUNDRAISING is a big business in South Africa generating up to R10-billion a year. However, a significant portion doesn't see its way to the desired recipients as it is siphoned off to meet administration needs.

Of the more than 43 000 fundraising structures (this figure includes school and church fund raising committees) in the country, only 4 000 are registered under the Fundraising Act.

According to David Cuthbert, President of the South African Institute of Fundraising, there is unnecessary duplication of fundraising activities and therefore a great need for streamlining.

"For instance Johannnesburg has several groups fundraising for children. If these were merged much more work could be done in this regard. Apartheid legislation has also resulted in duplication along racial lines."

By far the biggest fundraiser is the Urban Foundation, which has raised about R400-million a year. Operation Hunger follows with a budget of R20-million for the current financial year.

Cuthbert said the average cost of administration was about 25 percent of total cost. The maximum allowed is 40 percent. Operation Hunger — hard-pressed by poverty exacerbated by Mozambican refugees streaming over the border — keeps costs to the minimum of eight percent.

There is also a move to upgrade fundraising methods. Among these is the direct mail appeal method, whereby companies use their data bases to contact people personally and ask for donations.

"Operation Hunger strongly believes in appealing directly to people's compassion, hence our tendency to raise money at functions and also using the direct mail appeal," said director Ina Perlman.

Brokers dream of a 'black Sanlam'

WM 14/12 - 19/12/90 (58)

Black insurance brokers are banding together to form broking houses, which they hope will some day form the base for a new giant insurance company, reports MONDLI MAKHANYA

BLACK insurance brokers — long a rarity in the industry — are beginning to pool their resources to create institutions which they hope will challenge the Old Mutuals and Sanlams in the "new" South Africa.

Although blacks have been in insurance broking for many years they have mostly run one-man operations — and concentrated on life assurance.

It is only recently that moves have been made to form companies, and few venture into short-term insurance.

The latest company to join the non-life brokers is the seven-man XB Brokers, formed three weeks ago. The company is chaired by former National African Chamber of Commerce and Industry deputy chairman Moss Nxumalo, who prides the company for being the first nationally based independent black brokerage in South Africa.

Saying "blacks were capitalists without capital", Nxumalo compares his company to Sanlam, which provided backing for many Afrikaner-owned companies at a time when the business world was dominated by English-speakers. He sees the same role for black brokerages, which he says should provide safety nets for black entrepreneurs.

The companies are designing new products to sell to the black market which has for so many years been neglected by white insurers. Commenting on the dearth of successful black brokers, Nxumalo says this was due to the high requirements of underwriters.

"For a long time the idea of an independent black insurance broking house has been circulating among black businessmen but the Financial Registrar always required you to have a capital base of about R10-million — which at that stage we had no hope of obtaining. We then decided to seek an underwriter and Prestasi was prepared to do this."

XB Brokers follows in the footsteps of African Bank Brokers, Afsure and Business Challenge.

Afsure, an affiliate of the Foundation for African Business and Consumer Services, has already clinched deals worth R200-million and R180-million with the Daveyton and the Dobsonville councils respectively. The company also handles the Southern African Black Taxi Association's insurance, worth R25-million, and handles part of the National Soccer League's finances. It has also worked out a funeral scheme worth R8-million with the National Stokvels Association.

Afsure has four divisions dealing in short-term insurance, life cover, group funeral schemes and pension and provident funds for small business.

Managing director Khehla Mthembu blames the shortage of black insurance brokers on the socio-economic deprivation of blacks and the "lack of commitment" on the part of white assurers.

African Bank Brokers chairman Johann van Zyl says the shortage was due to the fact that big assurers had not created opportunities for black brokers and also to a poor perception of insurance in the black communities.

He says, however, that this perception has changed markedly — hence the need for black brokers.

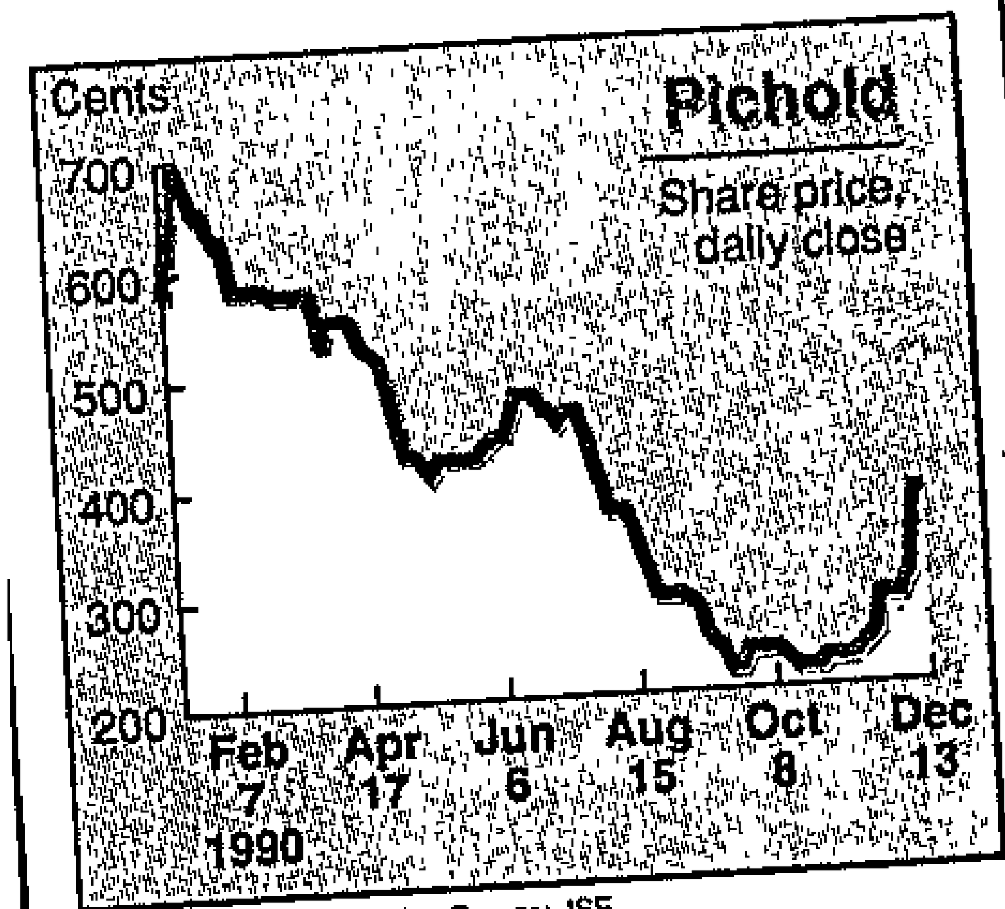
Poor education standards also played a major role in preventing blacks from entering this profession, according to Martin Sweet, senior manager of Liberty Life subsidiary Chartered Life.

Sweet says if the big companies give assistance to black brokers, there will be a "mushrooming" of black insurance broking firms in the next three years, leading to the formation of a insurance giant.

"The scenario of a one man-one vote post-apartheid South Africa should also be accompanied by a one man-one policy situation. I believe the goal of insurance brokers at this stage should be to see to it that every South African has an insurance policy."

Nxumalo sees short-term insurance as more important to black society than life policies.

While welcoming the new insurance brokerages as vehicles to make blacks aware of insurance and bring them into the mainstream of business, he cautioned against emphasising quantity above quality.



Graphic FIONA KRISCH Source: JSE

Pichold sells CIBG to Prima Bank (58)

B/Day 14/12/90 LESLEY LAMBERT

CAPE TOWN — Prima Bank Holdings has acquired the majority stake in troubled Cape Investment Bank Group (CIBG), whose MD Andy Swartz has resigned — apparently after a dispute over the sale.

CIBG has been sold by Picardi Holdings (Pichold) and other major shareholders.

Today's announcement of the acquisition follows a shake-up at CIBG yesterday, in which Pichold GM and CIBG chairman Jan Pickard jnr announced that Swartz had resigned and that he would replace him with immediate effect.

Market speculation was that Swartz left after a disagreement with the management of Pichold, CIBG's parent company.

CIBG has also been the subject of persistent market rumours of financial difficulty in the past few months.

The announcement says Prima Bank will make an offer to CIBG minority shareholders and will assume management control on December 18, the effective date of the transaction. The CIBG board will be reconstituted to include Prima directors.

Both banking institutions are leading players in specialised markets. They will have a combined capital base of about R45m. Prima's acquisition comes at a time when institutions are positioning themselves ahead of the implementation of the new Deposit Taking Institutions Act.

Pickard denied rumours yesterday that CIB was heavily exposed to risk in the financial markets and that the recent provisional liquidation of futures broker Davis, Ralph and Sadleir, whose futures trade

☐ To Page 2

Pichold

B/Day 14/12/90.

(58) ☐ From Page 1

CIBG cleared, had affected the group.

"We are not exposed to any significant degree on the financial markets and the default of DRS has not affected us."

It is understood that Swartz plans to establish a financial consultancy business.

MARCIA KLEIN reports that Pichold minority shareholders are likely to take directors to task at today's AGM for the rejection of Tuesday's 600c a share acquisition offer by Urquhart & Co.

It is believed Urquhart will make another offer of 625c today.

Pichold director Jan Pickard jnr said on Wednesday the 600c offer was "ludicrous".

But sources said although the offer was below the company's net asset value, it was more than double the market value.

Pichold share closed at 375c yesterday after trading at a high of 700c in January and reaching a low of 220c in August.

Industry sources said Pichold — which reported a R13,4m loss and was R114m in debt at the June year-end — was operating from a low capital base and high gearing.

The interest bill stood at R40m at the year-end and Pickard said the group had cash resources of the same amount. He also said Pichold subsidiary Picardi Appliances — the company Urquhart is interested in — was worth more than R60m.

Another question which might be raised at the AGM today is the sale of Union Wine, which sources said displeased minorities.

FINANCE

Flat rentals are holding up in recession

B/Day 14/12/90

CHARLOTTE MATHEWS

THE only sector of the property market that has so far remained untouched by the recession is flats, says Rode's Report on the SA property market for the third quarter of 1990.

Research director Erwin Rode says flat rentals rose by 12,6% in Johannesburg during the six months to end-August, by 23,2% in the Cape Peninsula and by 4,5% in Durban.

He says flat rentals are driven by low vacancies, rising house prices and resilient disposable incomes. He expects flat rentals to grow by about 15% in 1991 compared with 1990.

House prices for 1990 are expected to be about 20% higher than in 1989.

Until the first quarter of 1990 houses were becoming less affordable but mortgage rates are expected to start a mild decline in the first half of 1991.

Office rentals have now "stalled completely" in almost all areas with the exception of Sandton CBD, which showed rental growth of 6,5% in the third quarter compared with the second quarter.

Rode forecasts no growth in office rentals in 1991, and even a drop of 10% in the Durban CBD.

Industrial rentals are also unlikely to rise in 1991, but vacancies are low and this could mean that an upturn in the economy would have an immediate effect on rental growth.

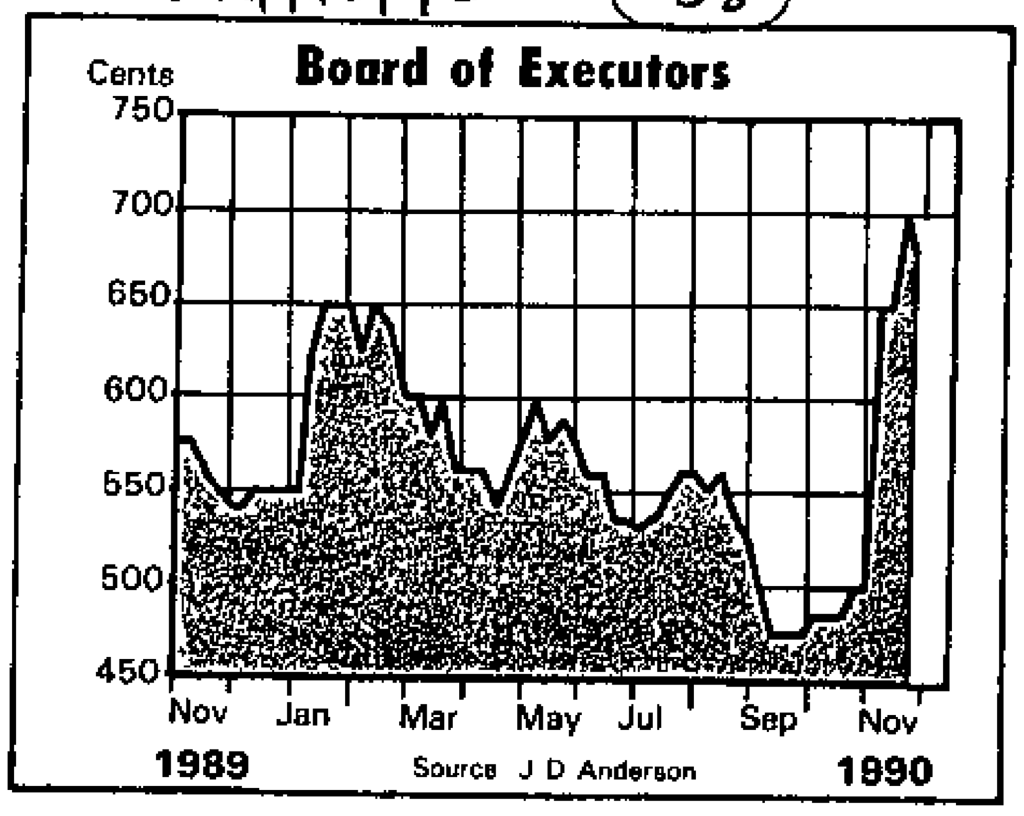
Retail rentals have been static in 1990, with the exception of a brief surge in Port Elizabeth in the second quarter and a small decline in the Johannesburg CBD.

Rode says capitalisation rates are moving sideways but an exception is C-grade office buildings where capitalisation rates dropped on average by 0,35 percentage points in the third quarter.

The capitalisation rate is the first year's pre-tax and pre-interest income of the building, assuming it is fully let, divided by its purchase price.

Rode says property unit trusts are a good investment compared with directly-held property or industrial and financial shares.

FM 14/12/90 (58)



BOARD OF EXECUTORS (58)

REGISTRATION PLAN?

Activities: *Provides financial services.*
Control: *Management & staff 24%, Libam 20%.* FM 14/12/90.
Chairman: *P W Wilson; MD: W J McAdam.*
Capital structure: *9m ords. Market capitalisation: R64,8m.*
Share market: *Price: 720c. Yields: 4,4% on dividend; 14,2% on earnings; p:e ratio, 7,1; cover, 3,2. 12-month high, 720c; low, 465c. Trading volume last quarter, 76 000 shares.*

Year to Sep 30	'87	'88	'89	'90
Assets under admin (Rm)	1 529	1 614	2 101	2 903
Attributable prof (Rm)	1,7	2,1	4,5	9,2
Earnings (c)	30	37,5	80,4	102
Dividends (c)	15	18,8	25	32

Could the Board of Executors (BOE) be working up for registration under the new Deposit-taking Institutions Act? MD Bill McAdam would not say but confirms the group has had discussions on the Act with the Registrar of Banks. A bank registration would enable it to take deposits and lend funds. BOE now operates its money market business as an agency.

Income from BOE's client base is split almost 50/50 between private individuals and corporate clients, both of which could benefit from BOE becoming a deposit-taking institution. BOE also has a 30% stake in Fidelity Bank through its 100% holding in what was Mercury Trust (now BOE Selections). Fidelity Bank has a branch network in most major centres.

Interest from banking business would increase the already big contribution from recurring income. At present, more than 70% of total income comes from recurring income (assets under administration) as opposed to transactional income, according to McAdam. Figures to September 30 show assets under administration rose 38% to R2,9bn compared to a year ago. Recurring income comes from areas such as the BOE unit trust, property syndications, the participation mortgage scheme, pension fund management and management of private client portfolios.

If BOE were to be registered as a deposit-taking institution it could provide clients with a fuller service and thereby increase its growth rate. In the 1990 financial year, the group increased its ordinary shareholders' funds by more than 100% — to improve its capital:assets ratio — and has strengthened its balance sheet.

The group has grown mostly organically though in the past year it acquired 100% of Mercury Trust. In addition to its stake in Fidelity Bank, it has a 30% stake in Really Noble Investments, which gives it a holding in listed Commercial Finance Corp and 29% in Specialty Stores.

The Mercury Trust transaction, which included a payment of 3,3m shares, lifted issued capital to 9m from 5,6m. EPS rose 27% to 102c, mainly as a result of the 105% increase in attributable income to R9,2m. If the compulsory convertible loan stock is taken into account, EPS rose 42% to 75c. BOE aims for "consistent growth in fully diluted EPS, well in excess of the underlying inflation rate."

The share price rose early last month from 500c to 720c. It is rated favourably in the banking sector on a p:e of 7,1 and yield of 4,4%.

Heather Formby

BANKING FM 14/12/90 (58)

OUT OF THE CLOSET

Banks have traditionally been wary of financial disclosure. In varying degrees, they have taken advantage of the exemption allowed banks and insurers by Part 5 of Schedule 4 of the Companies Act from the level of disclosure required of other listed companies.

The exception is First National, which for some years has complied with the disclosure requirements of Generally Accepted Accounting Practices (GAAP). Others are likely to follow soon — if not voluntarily, then by force of circumstance.

FM 14/12/90 (58)

The SA Institute of Chartered Accountants has made specific recommendations on this score, in a draft exposure of a proposed accounting guideline. The guideline has been circulated among and debated by bankers. A further draft is now to be circulated among accountants and finally submitted to the Accounting Practices Committee. "The objective," says Saica's Monica Singer, "is to make the guideline part of GAAP."

Also, the Standing Advisory Committee on Company Law has circulated an amendment to the Fourth Schedule among interested parties. Comments will be incorporated in a further draft. If the committee accepts the final version, it will advise the Registrar of Companies to scrap the exemption. Schedule 4 would then be amended by regulation.

The move is in line with the new approach to banking supervision. The Deposit-taking Institutions Act, expected to be operative next year, places great emphasis on information. New quarterly returns are designed to provide the Registrar of Banks with the information which management itself would require to operate profitably. However, as the guideline points out, information supplied to regulatory authorities is not always available to the public.

It argues that "users of financial statements need relevant, reliable and comparable information to evaluate financial position and performance." This includes information on policies and procedures relating to risk management and also the nature and extent of risks — such as matching and controlled mismatching of maturities and interest rates of assets and liabilities.

The guideline suggests recognition of principal types of revenue (interest earned, fees, commissions and dealing results) and expenses. It recommends that income and expense should not be offset in the income statement, except items relating to hedges or for which there's a legal right of set-off.

It suggests further that financial statements should explain accounting policies so users can understand the basis of preparation and specifies items which should be dealt with in the notes, including:

- ☐ Valuation of investment in securities and financial derivative instruments and distinguishing between dealing securities, investment securities and other investments;
- ☐ The distinction between transactions which result in assets and liabilities on the balance sheet and those that give rise to contingencies and commitments; and
- ☐ The basis for determining losses on loans and advances and writing off uncollectable loans and advances.

Introduction is expected to be phased in from January 1992, with two years allowed for disclosure of "hidden" reserves.

Underlying this move is the realisation that no amount of supervisory regulation can ensure the profitability of a business. The best protection investors can have is reliable information on which to base decisions. ■

Bewildering variety of credit on offer

58

Star 15/12/90

LAST week we examined the origin of credit and the way in which it has become an integral part of modern living.

As credit has evolved, however, it has tended to become more complex so that today consumers are faced with a bewildering variety of credit facilities by which goods and services can be financed.

It is vital that consumers understand the various types of credit that are on offer in order to judge which one is appropriate and most cost-effective.

But while credit may differ in form there are some aspects that are always present:

- There is an agreement as to which goods or services are to be bought.
- There is a period of time by which they have to be fully paid for.
- There is an agreed interest rate.

In addition there are the legal rights of the buyer and the seller that need to be understood, since these may vary according to the type of credit facility being used.

In every credit transaction there is an element of risk — the risk that the goods or services provided on credit will not be paid for.

For this reason credit granters will carefully assess what are commonly known as the three Cs — CAPITAL, being the amount of credit granted; CHARACTER, which implies the willingness of the borrower to repay the debt, and CAPACITY, which relates to the ability of the borrower to earn sufficient money to be able to meet his credit commitments.

Third in a 12-part series on credit and how it affects the consumer, by PAUL EDWARDS, chairman of Information Trust Company, the country's largest credit information bureau, assisted by KEN MILLS.

The way in which credit granters establish credit-worthiness will be examined in more detail in a later article.

Mortgage bonds

For most families the largest debt obligation is the mortgage bond on their home. This type of credit arises when a buyer of a property seeks financing from a building society or a bank.

The distinguishing factor of mortgage bond credit is the long period that it takes to pay off the debt, which is often 20 to 25 years (although today it may even be possible to obtain a 30-year mortgage bond).

This is obviously due to the large sum of money that is usually involved in such a transaction.

When a mortgage bond is applied for, the lending institution will first want to establish whether the property has sufficient value to justify the loan. This is to protect the lender in the event that the borrower defaults, resulting in the lender having to sell the property to recover its money.

The valuation is done by a professional valuator and a fee is charged for this service, regardless of whether the bond is granted (on average this will be about R400, but it may vary depending on the size of the bond).

Usually the lending institution requires a cash deposit of 10 to 20 percent of the agreed purchase price of the property.

Owing to keen competition between the banks and building societies it has been common for 100 percent bonds to be granted, but the high level of bond defaults in recent times has discouraged this practice.

Assuming that the lending institution is prepared to advance the required amount of capital on the property, it will now want to establish the credit-worthiness of the borrower and his ability to meet the monthly payments.

With regard to the latter, most institutions will ensure that the monthly payment is not more than 25 percent of the salary of a single person or 30 percent in the case of joint income where both husband and wife work.

Once the bond has been registered the lender has a first claim on the property should the borrower default. The property cannot be sold to another party while the bond is still in existence in order to protect the lender's rights.

The deed to the property will be returned only when the total debt has been extinguished.

When applying for a bond remember that there are conveyancing fees that have to be paid to your attorney which cover the legal fees in registering the bond at the Deeds Office.

There is also a transfer duty to be paid — the exact amount being dependent on the purchase price of the property. These amounts can be quite high and care should be taken to budget accordingly.

It is usual for the lending institution to insist on insurance being taken out on the property to protect against loss due to fire, floods, etc.

It is also wise to take out life assurance so that in the event of your death the proceeds from the insurance policy will cover the outstanding amount owing on the bond so that your heirs will have full title to the property.

Don't forget that owing to increased competition between banks and building societies the interest rates on home loans may vary from institution to institution.

Often they will offer better rates to their own customers, but it is still worth shopping around to ensure that you get the best deal.

Next week we will consider how a mortgage bond may be used as a further source of credit as well as being a tax-effective means of saving.

sion."

CG Smith's capital expenditure for 1990 was about R400-million with a further R400m for replacement.

Investec shuffle

58

NOW THAT the Reichmans deal has been put to bed, Investec is reshuffling its top management.

Metboard head Barry Kalkhoven has been put in charge of Investec's Cape Town office and Errol Richa, previously head of Investec Bank, will take over Mr Kalkhoven's position at Metboard.

Investec Bank will be run by George Kontominas. Mr Kalkhoven ran Investec's professional banking department, took over treasury and then Metboard. STimes 16/12/90

Investec chairman Bas Kardol says Metboard chief Barry Kalkhoven did excellently in his present position and was a key man in growth plans in the Cape.

"Barry wanted a new challenge."

Present head of Investec's Cape Town office, Julian Leibman, will set up and run a property operation there on behalf of Investec Property Group.

RIES
G

Banking merger

58 S/Times 16/12/90

PRIMA and Cape Investment Bank (CIB) are to merge their banking operations by June 1991.

Prima acquired a controlling interest in CIB this week and an offer will be made to minorities. Details have not been disclosed.

CIB was 30% owned by Picardi Holdings, which has been on a drive to bring borrowings under control. Earlier this year it sold its 90% stake in Union Wine to entrepreneur Graham Beck's Kangra Holdings for R19,5-million, less than half of its net asset value.

Net debt has been reduced to R80-million from R207-million as a result of large-scale selling of assets. Pichold's 30% stake in CIB is worth a little under R3,5-million at a current share price of 110c and therefore will not significantly lower its total debt.

Prima is a specialised merchant bank dealing in corporate banking, derivatives, futures, swops, options, equities and risk management. Ironically, Prima is the merchant bank involved in the hostile DPF bid for Grovewalk.

About 40% of Prima's income is from its dealing room. It employs 50 compared with CIB's 150. Prima's deposit base is small at about R40-million compared with R350-million for CIB, which is more heavily involved in corporate lending.

There was talk that CIB was in financial difficulty because of a default by a futures broker who cleared deals through it.

Prima managing director Johan Bellingan says the problems are over. They stemmed from CIB's overtrading on the capital market, not the default by the broker.

CIB managing director Andy Swartz resigned on Thursday because of a dispute over the sale.

The rand's world value

	R1 equals		One foreign unit equals (R)	
	14/12/90	14/12/89	14/12/90	14/12/89
US $	0,3974	0,3897	2,5163	2,5658
UK £	0,2043	0,2434	4,8954	4,1091
Deutschemark	0,5891	0,6723	1,6975	1,4874
Japanese yen	52,55	56,16	0,0190	0,0178
Swiss franc	0,5038	0,6073	1,9847	1,6466
French franc	2,0007	2,2986	0,4998	0,4351
Canadian $	0,4613	0,4622	2,1678	2,2114
Italian lira	443,98	502,99	0,9838	1,1321
Zimbabwean $	0,0165	0,8833	0,9838	1,1321
Australian $	0,5244	0,4962	1,9069	2,0153

Trade weighted value of rand, % change against 1974 base ..39,53 –

Domestic interest rates

MONEY MARKET

	Friday 14/12/90 %	Friday 7/12/90 %	Friday 30/11/90 %
SARB accommodation: rediscount rate TBs	18,00	18,00	18,00
Treasury bill tender rate	17,37	17,41	17,50
Basic call of discount houses	18,00	17,75	18,00
Three-month banker acceptances	17,75	17,80	17,90
Three-month NCDs	18,40	18,40	18,69
Three-year RSA stock	16,05	16,60	16,34
Prime overdraft rate	21,00	21,00	21,00
All-in yield of finest acceptance credits	18,78	18,84	18,85

CAPITAL MARKET

SECONDARY MARKET — RATES ON MOST TRADED STOCKS

	Average Previous Month	As on Friday
Long-term RSA stocks	16,45	15,51
Long-term Escom stocks	16,21	15,72

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Fishing	4,8+	7,2	11,8
Transportation	4,3+	7,0	22,6
Investment Trusts	4,3+	4,1	6,2
Food	4,0+	4,9	13,3
Development Capital	3,3+	3,6	17,0

Overall market this week

(Ordinary Shares Only)

Mining	Non-Min	Total

London gold

0,0	0,0	[illegible]	4	[illegible]		2—	39
0,0	0,0	NCI	6	15	5		
0,0	0,0	RICO	28	28	6		
3,2	0,0	TECFIN					
0,8	0,0	—AVERAGE					

St Times 16/12/90 58

Safegro gets 49%

SAFEGRO, financial services arm of the IGI Group, has acquired a 49% interest in Mercantile Bank Holdings, a registered bank-controlling company.

The deal is subject to ministerial approval.

The acquisition has been made in view of the Deposit Taking Institutions Act which is expected to come into effect in January. Safegro operates the treasury activities of IGI parent Hoskens Consolidated Investments and without its holding in Mercantile it may have been prevented from continuing this function.

It will also strengthen and enlarge the range of services offered by Safegro, especially for corporate financing and merchant banking.

Prima bolsters confidence

LESLEY LAMBERT

CAPE TOWN — Prima Bank, which said at the weekend it had acquired Cape Investment Bank (CIB), moved swiftly to restore institutional confidence in the troubled bank with which it plans to merge.

In an attempt to quell rumours that CIB was dangerously exposed to risk in the financial markets and that its commercial paper was not being accepted, Prima directors immediately secured the Reserve Bank's public approval of the proposed merger and set about restoring institutional confidence. BDay 17/12/90

Prima MD Johan Bellingan said: "We must have made about 100 calls to assure other financial institutions that CIB's R38m capital base is intact. After the deal was announced on Friday morning, I sat at the trading desk and we got facilities from banks CIB had never done business with before."

He said there were likely to be write-offs of certain liabilities in the future but CIB's exposure to liquidated futures broker Davis, Ralph & ~~Sadleir~~ would not exceed R250 000. (58)

Bellingan, ~~who will~~ take over CIB's reins from former chairman, Picardi Holdings GM Jan Pickard jnr, said the bank would be merged into Johannesburg-based Prima but that a rationalised Cape Town division would be maintained.

"We will make good use of the specialist skills in CIB. No one will be retrenched this year, but we will probably rationalise the operation next year," he said.

The merged operation was expected to have an enlarged capital base of about R45m. It would continue to specialise in

□ To Page 2

Prima BDay 17/12/90

(58)

□ From Page 1

financial trading and corporate finance activities — areas in which both institutions had expertise.

Bellingan said Prima Holdings, the holding company of Prima Bank, would issue preference shares in exchange for Picardi Holdings' controlling stake in CIB.

The announcement of the acquisition was preceded by the sudden resignation of CIB MD Andy Swartz, after an apparent dispute with management over the sale of the bank.

In an announcement issued later during the day, the Reserve Bank said Finance Minister Barend Du Plessis had approved the merger in principle. It expressed its approval of the transaction on the basis that the new merged operation would command an enlarged capital base and promote rationalisation in the banking sector.

CIB's share price gained 10c on Friday, closing at 110c.

The holiday feeling invades the market

HAROLD FRIDJHON 58

WITH five full trading days to go before Christmas, interest is ebbing out of the money market. Asset trading has come almost to a standstill; the focus is on balancing the books and keeping out of the Reserve Bank's clutches. b Day 17/12/90

For the smaller banks this is a bone-crunching exercise with the institutions tightening the screws. Call rates were topping at 19% on Friday with the possibility that they might be poised to go higher today when the market shortage — the banks' combined debt to the central bank — is expected to touch R3bn.

The larger banks claim that their positions are comfortable and that they are getting their overnight cash at rates well below those extorted from the many smaller banks. Be that as it may, some of the majors may not be too comfortable when the banknotes start pouring out from their cash dispensers this week.

On Thursday the note issue reached R10,6bn and like the mercury in the thermometer, could continue to rise.

But rising rates are confined to the shortest end of the market; elsewhere the bullish mood prevails. The Treasury bill (TB) rate shed another four basis points on Friday to 17,37% (discount) from 17,41% in a singularly ill-supported tender; only R163m was bid for the R120m bills on offer. This surely is an indication of the fading interest in the market.

The BA rate, too, was cut to 17,65% from 17,75%, possibly in an effort to drum up trade. The rate for 12-month CDs (negotiable certificates of deposit) was trimmed five points to a middle price of 17,60%, probably for the same reason; bankers say that the demand for paper has dried up.

The shutters are up!

Insolvencies take their toll

b Day 17/12/90 GERALD REILLY

PRETORIA — The number of insolvencies among private individuals and partnerships has shown a sharply increasing trend since the beginning of the year, according to Central Statistical Services.

In July-September the insolvency toll increased by 14,1% to 834 compared with the same period last year.

And compared with the previous three months — April-June — the increase was 13%. However, the number of company liquidations dipped sharply in August-October by 22,1% to 371, compared with the same three months a year ago. Compared with the previous three months — May-July — they decreased by 4,6%.

CSS says the continued downward trend in liquidations is largely a result of a big decline in the number of voluntary liquidations.

However, compulsory liquidations — normally two-thirds of the total — show hardly any change in the trend apparent since the beginning of the year.

Giant financing contract to Volkskas consortium

Star 17/12/90.

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Finance Staff

A consortium comprising the two largest subsidiaries in the Volkskas Group (Volkskas Bank and Volkskas Merchant Bank) and Rand Merchant Bank has signed contracts to provide financing instruments worth R370 million for the second phase of the Lesotho Highlands Water Project.

Financing contracts worth R760 million have been awarded to the banks.

A financing contract worth R135 million was awarded to the same consortium in June, taking its involvement in the R4,8 billion project to R485 million.

Of the R4,8 billion in today's curency, R3 billion must be obtained from the Common Monetary Area, dominated by South Africa.

Apart from the financing contracts, tenders for building a dam and constructing tunnels have also been.

The loans supplied by South African financial institutions are being underwritten by the SA Government.

Gerrit van den Berg, an assistant general manager of Volkskas Bank, says the R760 million is the second commercial loan for the project and represents the largest single loan facility yet obtained by a borrower in Lesotho.

Mr van den Berg, who has been involved in the project from the beginning, says the loan facility will bring further financial short-term paper into circulation in SA financial markets and that financial institutions will have many opportunities to get involved in long-term financing of about R3 billion.

Safegro acquires 49 pc of Mercantile

(58)

Star 17/12/90

By Jabulani Sikhakhane

In a further rationalisation of the financial services sector ahead of the implementation of the Deposit-Taking Institutions Act (DTIA), Safegro has formally acquired 49 percent of Mercantile Bank Holdings.

Safegro is the investment and financial services arm of Incorporated General Insurance (IGI), which is in turn controlled by Hosken Consolidated Investment (HCI).

Mercantile, a specialised merchant and corporate bank, was formed in early 1989 by a group of former Trust Bank senior and general managers.

Momentum Life owns 14,9 percent of Mercantile. Taken together with Safegro's 49 percent stake, it means institutions control 63,9 percent of Mercantile's issued share capital.

As this is above the DTIA's requirement of a legal or natural person (and associates) to hold up to 49 percent of a bank's issued share capital, ministerial permission will have to be sought.

Safegro executive director Kevin Cockcroft said yesterday the investment in Mercantile would benefit Safegro, which operates the treasury activities of HCI.

Without Mercantile, Safegro might have been prevented from undertaking this function because the DTIA will also regulate certain treasury functions of financial institutions.

Mr Cockcroft said emphasis would be given to finance and merchant banking for corporate clients.

However, he said it would be possible, through Mercantile, to offer a facility on call deposits to private clients.

An important advantage of the deal is that Mercantile owns Unidev Securities, which gives Safegro access to 350 000 listed shareholders.

"The investment is also important because it brings a large corporate market to Safegro, mainly because Mercantile's clients are in the corporate sector," he said.

Safegro investment in Mercantile is part of an attempt by financial institutions to position themselves ahead of the implementation of the DTIA.

On Friday, Prima Bank Holdings bought a controlling interest in the Cape Investment Bank Group from Picardi Holdings.

Prima said the transaction had been concluded because of the impending implementation of the DTIA.

Saambou Holdings postpones listing of property subsidiary

By Roy Cokayne Star 17/12/90 (58)

Saambou Holdings has postponed until next year the separate listing on the JSE of its property portfolio, valued at R80 million.

Chairman and chief executive Hendrik Sloet says the listing of a new group subsidiary company Saampro (Saambou Properties) will take place in the first week of next February.

He says a rights offer will be made to current Saambou Holdings shareholders.

Full details of the rights offer and the listing will be in the prospectus, to be published early in January.

Saambou was initially hoping to list the company on Friday.

Saambou Holdings was listed on the JSE in 1987. The new company will be the first subsidiary in the group to be listed.

Mr Sloet says delays were experienced with the auditors and attorneys, and in obtaining permission from the JSE.

"We could have listed the company a week later, but that is just before Christmas, which is not a good time."

The reasoning behind the listing is that the total value of Saambou's property assets, on a percentage basis, is much higher than that of other financial institutions.

"We will be putting these properties into a separate company and will retain 51 percent of the shareholding of that company, so that we will still control the properties.

"Saambou will be reducing its holding in these properties and making a profit, while getting capital at a much lower rate than if we went to the open market to raise funds," he says.

Saambou, Prestasi join up via agency agreement

B\Day 18\12\90 GILLIAN HAYNE (58)

FINANCIAL and banking organisation Saambou Holdings and short-term insurance broker Prestasie Holdings have entered into an agency agreement, Saambou chairman Hendrik Sloet announced yesterday.

The agreement allows the companies to make use of each other's client bases, and provides a channel whereby clients have access to both insurance and banking packages, Prestasi MD Gys Steyn confirmed.

Steyn emphasised the companies would work at "arm's length" with commission received for any business undertaken on behalf of the other.

Prestasi chairman Jan Erasmus said: "Access to the Prestasie client base offers Saambou a considerable broadening of its market for its financial and related products as well as a greater variety of products and services.

"The agreement will also bring about a more productive use of Saambou's infrastructure and branch network and result in bigger income."

The companies do not anticipate a closer financial link.

However, the reciprocal servicing of both client bases would reduce the unit cost of short-term insurance for the existing Prestasie clients, Erasmus noted.

"Prestasie clients will also have entree to Saambou's advanced range of personal financial services products, with the promise of the reduction in banking charges," he said.

BOE to link up with Anglo-Vaal?

Cap-Times 18/12/90

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By ARI JACOBSON

RUMOURS circulating in banking circles claim The Board of Executors (BOE) is negotiating a link-up with Anglo-Vaal (AV) as the new in-house bank for the giant mining financial empire.

The flow of the vast pension funds from the mines to the BOE, would be reciprocated with The Board acting as "corporate treasurer" to AV.

At present the BOE lacks a banking licence, but with 150 years of solid service in the industry this should be easy to obtain.

The restructured Anglo-Vaal has consolidated its insurance divisions — Crusader Life and AA Life Group — into the Anglo-Vaal Insurance Holdings (Avins) and is looking to latch-on a treasury division.

Further information obtained is that Liberty Life — who acted as a "white knight" in helping BOE thwart the hostile bid by Investec in 1989 — would relinquish its stake to the Hersov/Menell family controlled group.

An added incentive for financial intermediaries such as the BOE is a year's exemption from the harsh capital requirements due to be enforced under the new banking bill next year.

BOE GM Tom Boardman declined to comment on the Anglo-Vaal position, but said more information would be forthcoming (hopefully) today.

"The idea of having our shares suspended for so long is unappealing — we are working flat out to complete negotiations," he said.

Comment from the mining house was unavailable last night.

● Safegro fund managers has acquired a 49% stake in Mercantile Bank Holdings to fulfil the requirements of the Deposit-Taking Institutions (DTI) Act.

Safegro acted as corporate treasurer to Hosken's Consolidated investments (HCI) and the IGI group. The DTI Act requires an institution with a banking licence to control these activities.

Saambou, Prestasi join forces (58)

Star 18/12/90

Saambou Holdings and Prestasi Holdings (Pty) have entered into an agency agreement, Saambou chairman Hendrik Sloet has announced.

He says the agreement will bring about greater synergy in serving Saambou and Prestasi clients, without affecting the two organisations' independence.

Advantages of the agreement include access to advanced computer technology for managing personal short-term insurance and the availability of established personal short-term insurance products.

"Access to the Prestasie client base offers Saambou a considerable broadening of its market for its financial and related products as well as a greater variety of products and services.

"The agreement will also bring about a more productive use of Saambou's infrastructure and branch network and result in bigger income."

The agreement also has advantages for Prestasi, says Prestasi chairman Jan Erasmus.

"Reciprocal servicing of the two organisations' clients, as well as products suited to the requirements of the individual, will be available." — Sapa.

Banks and life assurers need different treatment — Levett

B/Day 20/12/90

GILLIAN HAYNE

IT IS inappropriate to lump life assurers in the same category as banks and building societies, because their businesses are fundamentally different, Old Mutual chairman Mike Levett says in his 1990 chairman's address.

Commenting on the debate concerning the "so-called 'level playing fields' on which various institutions are competing for the savings of the public", Levett says it is important to remember life assurers are not restricted to the provision of risk cover.

In fact, many products are not associated with the provision of life cover or maturity guarantees.

"It is important that the right of life assurers to market purely long-term savings contracts be fully recognised," he says.

Similarly, he says, the liabilities of banks and building societies are essentially short-term deposits which can be withdrawn either immediately or after a short notice period.

"Our contracts are very clearly not deposits. It is unfortunate, and in my view completely inappropriate, that the definition of deposit in the Deposit-Taking Institutions Act is so wide that it classifies life assurance, unit trusts, provident funds, medical schemes and many other activities

"It is completely inappropriate to talk of applying controls that have been formulated for banks to life assurers, simply for the sake of uniformity."

However, Levett stresses that tax principles should be consistently applied across the different institutions.

Most of the funds held by life assurers are held on behalf of policyholders and "must be taxed at a rate and using principles in keeping with those applying to the policyholders as individuals.

"If one does not recognise and apply this tenet, which is sometimes called the trustee principle, one cannot achieve the level playing field we are talking about."

Syfrets increases funds under its control by 20%

(58)

B Day 28/12/90

Business Day Reporter

THE Syfrets group increased the value of funds under its administration by 20% to R8,5bn (R7,1bn) in its 1990 financial year.

This enabled the group to strengthen its resources, lifting net profit by 11% to R20m (R18m).

In his maiden annual review, new Syfrets CE John Cragg said the group's lending division had an exceptionally good year.

In Natal R20m was granted for the development of the Rockford Properties shopping centre, representing Syfrets' biggest loan in this region.

In the Cape, Syfrets extended its traditional role as property financier to that of property developer. With various partners, it became involved in the R115m first phase of the 62 ha N1 city mixed-use development in Goodwood and the R75m atrium shopping and office complex in Claremont.

Syfrets' investment management company, Syfrets Managed Assets, increased the total assets under its administration to R3,4bn.

Syfrets Income Fund ended the year with a 188% improvement in annual sales. Syfrets Growth Fund rewarded investors with an 18,99% (income reinvested) return in the year to end-September.

The SG International Fund grew to more than R22,5m over the year.

Syfrets' Disa Income Fund, launched last December to provide foreign investors with a vehicle to invest in fixed interest SA gilts, had already attracted more than R15m in foreign capital, Cragg said.

Prima sets about dismantling CIB

58

LESLEY LAMBERT

CAPE TOWN — Prima Bank is dismantling its recently acquired Cape Investment Bank — it has confirmed the retrenchment of at least 37 CIB employees and is negotiating the sale of two CIB subsidiaries. BDay 20/12/90.

But Prima MD Johan Bellinghan denied market rumours yesterday that entire trading divisions in Cape Town and Johannesburg had been axed this week. He confirmed that 24 of the 53 people employed in CIB's Cape Town head office and 13 of the 25 employed in the Johannesburg trading division, had been laid off.

The corporate finance division in Johannesburg would be addressed tomorrow.

Bellinghan also confirmed that the sale of two CIB subsidiaries, computer systems company Top Edge and computer software company Digitracks were being negotiated. Between them, they are understood to employ about 20 people, the majority of whom are likely to remain employed by the new owners.

Suggesting that more retrenchments were likely, Bellinghan said that from January 1 all financial trade done by the merged operation would be done in the name of Prima Bank.

President looks for niche

SHORT-TERM insurer President Insurance is going through extensive rationalisation and has closed many unprofitable branches. b\day 20\12\90

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GILLIAN HAYNE

MD Johan Wasserfall is resigning with effect from December 31 1990. No decision has been made on the appointment of a successor.

However, Wasserfall denied rumours that President was on the verge of liquidation and said they had "absolutely no foundation". The company was financially sound.

President's solvency margin dropped from 25% at the end of June to 16% in September — marginally above the 15% statutory requirement — but was currently between 18% and 20%.

"We also hold the statutory level of reserves and have been assured by the Registrar that our method of reserving is adequate."

Wasserfall said that recent talks about mergers, which fell through, could have fuelled the rumours.

Deputy Registrar of Insurance Nico Fourie noted that over the years there had been much speculation about President, but the facts were that the company continued to fulfil all statutory requirements.

"It is a good thing for the insuring public to be aware of problems within insurance companies, but they must look at the whole

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President b\day 20\12\90

☐ From Page 1

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picture," he said.

He emphasised that a drop in a company's solvency margin did not necessarily mean it was in trouble. Its reserving policies and management skills also played a vital role in any company's success.

Industry sources believed President's main problem was its size. To be successful, especially in the current market, insurers needed to be large or to concentrate on niche markets, they said.

Wasserfall said President was now working on becoming a niche market insurer and an announcement giving further details could be expected in the new year.

Fourie welcomed this decision as very good news which made sense for President.

Priceforbes Federale Volkskas (PFV) MD Mike Hofmeyr confirmed that some PFV clients were insured through President but said no policy decision would be taken until President issued a definitive statement.

COMPANIES

Growthpoint lives up to its name

B Day 20/12/90 (58)

PETER GALLI

PROPERTY holding company Growthpoint has posted a 27% increase in turnover to R17,47m (previous period: R13,73m) for the year to end-October.

However, a net income of R16,21m (R12,34m) less debenture interest of R16,17m (R12,31m) left a pre-tax income of R32 000 (R24 000).

Taxation of R16 000 resulted in a net income 33% higher at R16 000 (R12 000), all of which was paid out in dividends.

A final dividend of 0,0329c a share and a debenture interest payment of 32,967c per unit of 10 debentures were declared.

Linked unit earnings were 5% higher at 64c (61c).

Management said these were marginally affected by the acquisitions of York Park, George and Goodwood Mall, which were acquired at a lower yield than that of the portfolio as a whole.

However, the directors believed that notwithstanding this marginal effect on earnings, the properties acquired would be of long-term benefit to the company.

They also reported that occupancy levels had fallen during the last quarter of the year.

The portfolio was 97,65% let, which was 1,9% lower than last year's 99,5% figure.

Anglovaal to take 35% stake in BoE

BDay 20/12/90 (58)

LESLEY LAMBERT

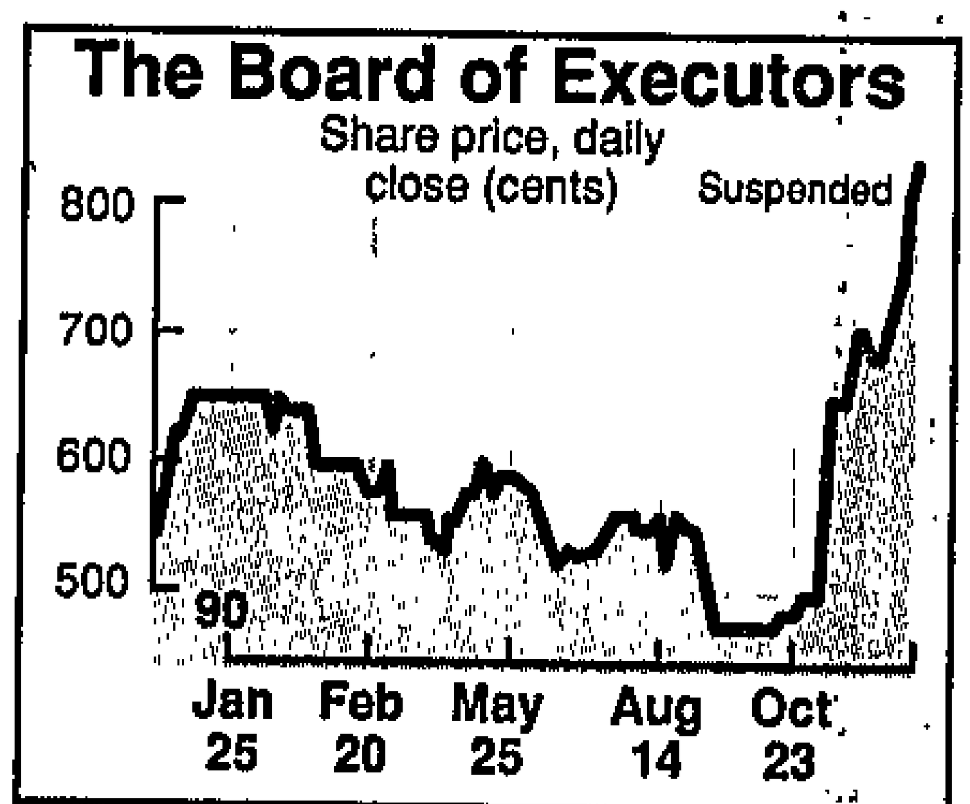
CAPE TOWN — Anglovaal's financial services arm, AVF Group, is to acquire a 35% stake in the Cape-based Board of Executors (BoE) for R57,2m.

BoE's listing will be reinstated as from today.

The investment, by which AVF will replace Liberty Asset Management (Libam) as BoE's major shareholder, signals the expansion of Anglovaal's interest in financial services and opens up massive in-house fund management and banking opportunities for BoE.

To facilitate AVF's investment, Libam has agreed to sell 50% of the 3-million shares (20,7%) it holds in BoE for 1 125c a share. The price represents a significant premium on the current market price of 830c and an investment return of over 100% for Libam, which bought the shares for 525c in its bid last year to rescue BoE from Investec.

Furthermore, Anglovaal has agreed to underpin the remainder of Libam's holding at 1 125c a share for two years, in return for the right of first refusal should Libam wish to offload the rest.



Graphic: LEE EMERTON Source: JSE

To bring the stake up to 35%, AVF will also make an unconditional offer to the holders of ordinary BoE shares and convertible loan stock of the same price in cash or five AVF shares, which are currently trading at 225c a share. BoE subsidiary, Really Noble Investments, will be excluded from the offer, retaining its 8,9%

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Stake in BoE

BDay 20/12/90 (58)

☐ From Page 1

holding in BoE.

The investment will provide BoE with access to the management of Anglovaal's R6bn assets as well as the estimated R2bn pension funds it administers and the R500m of life assurance business on its books. BoE currently manages assets worth R2,9bn.

Anglovaal's corporate finance and planning manager David Barber said yesterday he believed the offer represented "a fair price for a long-term investment in BoE's solid asset base, excellent management team and track record".

BoE MD Bill McAdam said BoE had applied to the Registrar of Banks for a banking licence, which would enable it to compete for Anglovaal's corporate banking business, and hinted that application for permission to deal in foreign exchange markets was also under way.

He said BoE would continue to operate independently and that its head office would remain in Cape Town.

Senior executives of BoE have undertaken to accept AVF's offer for a portion of their holdings, which together with Libam's disposal, will amount to almost 20% of the investment. They have also agreed to sell additional holdings in convertable loan stock if the response of ordinary shareholders is not adequate.

Profit boost helps Bank of Lisbon toast 25 years

Bicon 28/12/90 (58)

NEIL YORKE SMITH

BANK of Lisbon celebrated its 25th anniversary by almost doubling pre-tax profits to R8,1m during the year to end-September.

Of net after tax income of R5,5m (R3m), R3,5m will be transferred to the general reserve and a dividend totalling R2m has been proposed.

The past financial year was the fourth in succession in which the bank almost doubled profits which were just R0,5m in 1985, MD Durval Marques said in the annual report.

This was especially impressive considering that total assets, currently more diversified and better managed than in previous years, had grown by an average of 23,9% during the last four years, he said.

Total assets stood at R642,7m at end-September. At 1,25% of total assets, profits were in line with those earned by major banking groups, he added.

The bank's issued capital was increased by R8m to R18m via a capitalisation issue in July. Further cash issues were likely to be considered to raise funds to meet expected capex and lending increases, Marques said.

In his chairman's review, Mr Justice Cecil Margo said improving prospects for trade with former Portuguese colonies and increased interest in the development of a southern African economic bloc would strengthen the bank's position.

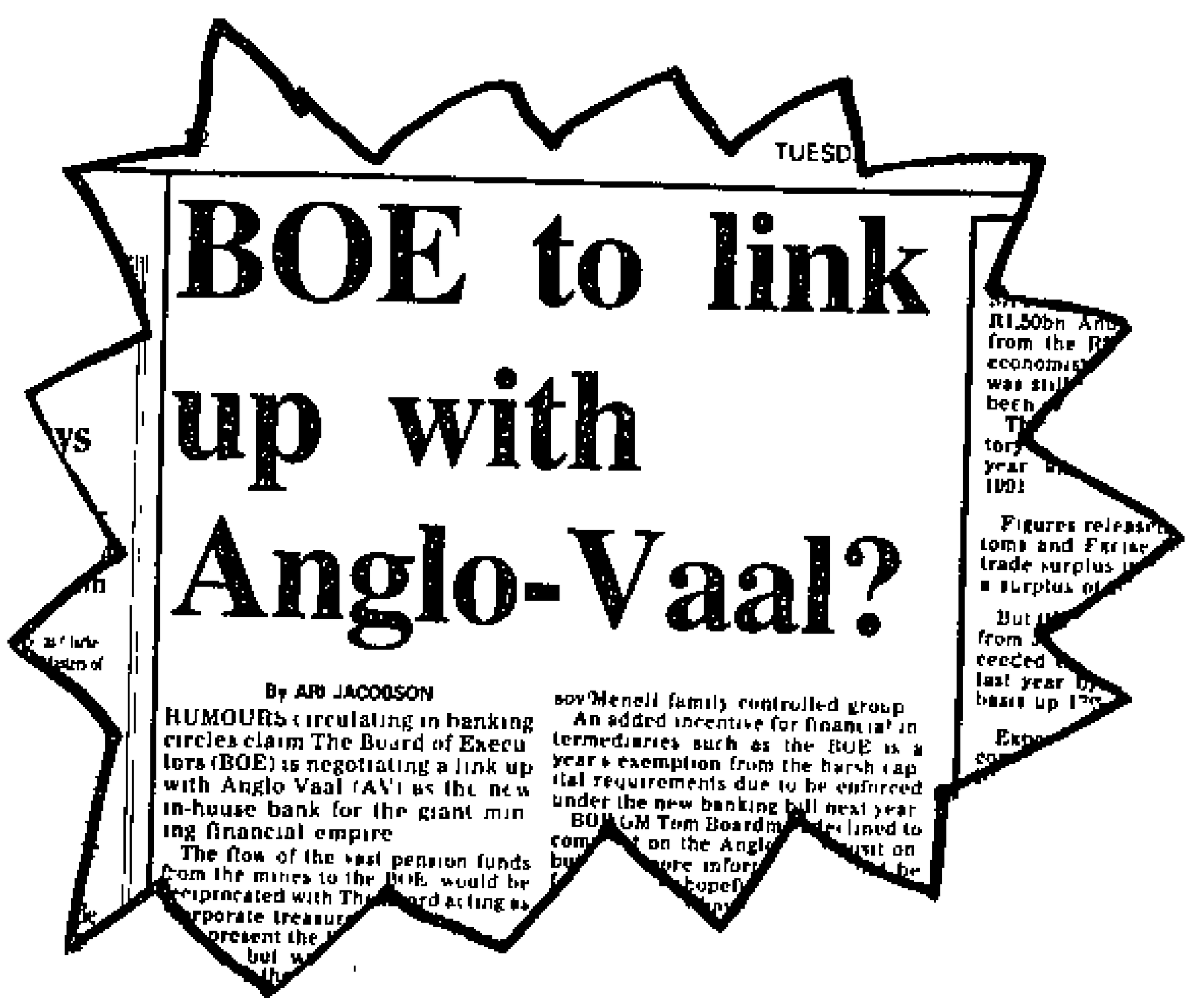
This would enable the bank to play the part for which it was founded, namely to foster trade between SA, Mozambique and Angola and between them and Portugal, he added.

Mr Justice Margo stressed the importance of private enterprise in maximising wealth for a broad community.

CAPE TIMES 20/12/90

Anglo-Vaal, BOE in link-up deal

ARI JACOBSON



BOE to link up with Anglo-Vaal?

By ARI JACOBSON

HUMOURS circulating in banking circles claim The Board of Executors (BOE) is negotiating a link up with Anglo Vaal (AV) as the new in-house bank for the giant mining financial empire.

An added incentive for financial intermediaries such as the BOE is a year's exemption from the harsh capital requirements due to be enforced under the new banking bill next year.

Ari Jacobson's forecast in the Cape Times on Tuesday, that there would be a link-up between the Board of Executors and Anglo-Vaal Industries, was proved right yesterday.

THE BOARD of Executors (BOE) stepped into the limelight yesterday — shedding its minnow status — in a R57,2m deal which gave mining financial giant Anglo-Vaal Group (AVF) a 35% stake in The Board.

Liberty Asset Management (Libam), BOE's protectors when Investec intruded in October 1989, relinquishes half of its 1,5m shares or a 10,4% holding, with the rest being built out of an unconditional offer to ordinary and loan stock holders.

BOE's MD Bill McAdam said the offer price of R11,25 — the share was suspended at R8,30 — provides some indication of AVF's prospective valuation of the organisation.

"While the onus is on The Board to fulfil such expectations — AVF by pitching the price at a R3 premium has a vested interest in making this work."

The AVF transaction gives BOE the opportunity of reaching blue chip status while shrugging off the threat of capitulating into the Standard Bank fold under Liberty's influence.

"While AVF made the initial advances, BOE's strategic positioning for the '90s focused on an allegiance with a powerful diversified group. Independently we sought each other."

Synergies — the essence of any valued partnership — sees Cape-based BOE strengthen AVF's presence at the coast ably supported by fishing and frozen food company I & J.

The Board has R2,9bn worth of assets under administration, conducting top flight transactions in the property, corporate and private client arena.

McAdam said a banking licence application would be lodged with the Registrar of Banks and hinted that "a blue chip bank would be the outcome if successful."

Really Noble Investments (RNI) which holds an 8,9% stake in BOE, provides some exposure in Durban.

The might of AVF is well-documented in the Transvaal and McAdam hoped the group would "be fed so it could grow".

AVF has adequate energisers — R2bn worth of pension fund monies backed up by R500m in life assurance assets.

An AVF spokesman said inter-group co-operation was encouraged — but a company was required to win the business. Otherwise inefficiency, "a recipe for disaster", would ensue.

He said the coastal bond and the quality of management and assets under BOE's control had been the prime motivators in the link-up.

He dismissed the possiblity of further acquisitions in the rapidly rationalising financial services industry although AA Life (a large part of AVF's insurance arm) holds a 30% stake in Prima Bank.

Prima Bank dismantles CIB

Cape Times 20/12/90

From LESLEY LAMBERT

PRIMA BANK is dismantling its recently acquired Cape Investment Bank — it has confirmed the retrenchment of at least 37 CIB employees and is negotiating the sale of two CIB subsidiaries.

But Prima MD Johan Bellinghan denied market rumours yesterday that entire trading divisions in Cape Town and Johannesburg had been axed this week. Heconfirmed that 24 of the 53 people employed in CIB's Cape Town head office and 13 of the 25 employed in the Johannesburg trading division, had been laid off.

The corporate finance division in Johannesburg would be addressed tomorrow.

Bellinghan also confirmed that the sale of two CIB subsidiaries, computer systems company Top Edge and computer software company Digitracks were being negotiated. Between them, they are understood to employ about 20 people, the majority of whom are likely to remain employed by the new owners.

Suggesting that more retrenchments were likely, Bellinghan said that from January 1 all financial trade done by the merged operation would be done in the name of Prima Bank.

"The only CIB dealing room operations to remain will be funding operations and the bank's unprofitable advances book will be run down. But we will maintain a smaller Cape Town office as a branch of Prima," he said.

Bellinghan said the retrenchments were an unfortunate but necessary part of a radical rationalisation process to restore troubled CIB to profitability.

HCI turns around to end year with peak share price of 800c

(58)

B Day 20/12/90.

LIZ ROUSE

HOSKEN Consolidated Investments (HCI) is ending the year on a high note with the share price at a peak of 800c after bottoming at 500c in October.

A more diverse and focused group has emerged in the past year, making it less dependent on the vagaries to which short-term insurer IGI Insurance (54% owned by HCI) is subjected from time to time.

In March this year HCI and its subsidiaries, IGI and Safrican Life Investment Holdings (Saflife) announced the formation of a R1bn investment management group, Safegro Holdings.

Safegro, with three divisions to deal with institutional fund management, property management and personal asset management, is owned 51% by Saflife, 44% by IGI and 5% by HCI.

In October, HCI chairman Michael Lewis announced that it was substantially increasing its stake in the highly successful Saflife to 74% from 11% by buying Crendell Investment Corporation (formerly the R42m Arwa cash shell), which had a block of Saflife shares.

Earlier this month HCI announced details of this deal.

HCI bought from Tollgate Holdings 16,6-million shares in Crendell which constitutes 71,58% of the issued share capital of Crendell.

The acquisition will be at a purchase price of 183c a Crendell share, to be implemented by HCI issuing one new HCI share to Tollgate for every five Crendell ordinary shares held.

Crendell bought about 24% of Saflife's ordinary share capital at 400c a share and 4% of HCI's ordinary share capital at 950c a share for a total consideration of about R33m. That leaves a residual cash balance of R9m in Crendell.

The deal increases HCI's net asset value by 43c to 768c a share but decreases HCI's earnings by 20,5c to 145,7c a share, based on HCI's accouts for the year to end-March 1990.

However, despite the short-term negative effect on HCI's earnings, directors are confident that there will be material long-term benefits to shareholders.

Finally, HCI has tied up the future of its treasury activities, operated by Safegro, through Safegro acquiring a 49% interest in Mercantile Bank Holdings, a registered bank controlling company.

The acquisition has been made in view of the Deposit Institutions Act which is expected to come into effect in January. Without its holding in Mercantile, Safegro may have been prevented from continuing its treasury activities.

BoE finds a big brother

(58)

Star 20/12/90

By Blaise Hopkinson

Board of Executors shareholders stand to make handsome profits with the announcement that Johannesburg-based mining house Anglovaal is to attain effective control.

In a deal announced yesterday Anglovaal has offered R11,25 a share for BoE against a pre-suspension price of 830c and a pre-year end level of 500c.

The R57 million takeover by AVF Group has been under negotiation since July when the Board was approached.

Terms include the acquisition from Liberty Asset Management (Libam) of 1,5 million of the 3 million shares it acquired in BoE last year for 525c a share at the height of the hostile takeover bid by Investec Bank.

This amounts to 10 percent control of the Board. The executive committee of BoE has agreed to sell six percent while the remaining 19 percent required to achieve the desired 35 percent interest will be purchased from staff and the general body of shareholders.

Senior executives have agreed to sell a further maximum of 15 percent of their aggregate shareholdings if required.

Anglovaal has given Libam the right to sell the remainder of its shareholding in BoE to Anglovaal or its nominee for a two year period commencing in April, 1992, at R11,25 a share — a move which underlines its confidence in BoE's growth and performance potential.

BoE managing director, Mr Bill McAdam, said the Board had been in the market for a big brother and had pinpointed Anglovaal for talks.

"They came knocking on our door. I intended calling on them a week later," he said at a press briefing.

"This is a watershed transaction. We crossed the Rubicon when we listed in 1897 and for three years have had a reasonable run in the marketplace. We had a little test case last year and this is another logical step in our development."

Banking licence

He disclosed BoE was in search of a banking licence and was negotiating with the Registrar of Banks as a prelude to creating an exclusive corporate banking concern with a possible capitalisation of R50 million.

Anglovaal's corporate finance and planning manager, Mr Dave Barber, said the deal did not guarantee BoE access to the mining house's billions invested in pension funds and life offices.

"We don't automatically give business to in-house companies. If the company is competitive there is every chance they will gain the business. The Board must win the money," Mr Barber, who also joins the directorate of BoE, said.

He said Anglovaal had achieved three out of three in its thrust into the financial services and life industries. In April last year it bought 41 percent of AA Life and followed that this year by buying control of Crusader Life. This led to the creation of Anglovaal Insurance Holdings.

A press statement said Libam were "reluctant sellers" but believed the transaction to be in the best interests of BoE in which it retains a 10,3 percent stake.

Mr McAdam said there was no threat of BoE losing its Cape Town seat. He added the link with Anglovaal would greatly strengthen its national foothold but the control would be a hands-off affair.

BoE shares will return to the JSE boards today.

PRIMA/CIBG FM 21/12/90

MORE CAPITAL (58)

Johannesburg-based Prima Bank Holdings is funding its purchase of Cape Investment Bank Group (CIBG) through issue of preference shares. Prima has bought Pichold's 40% stake in CIBG.

The offer document will be sent out in January. Though he will not reveal the amount paid at this stage, Prima Bank MD Johan Bellingan says the stake was bought at a "good price."

For Prima, the main advantage is the expansion of its capital base of R5m to around R43m. Bellingan says the move also offers synergy in areas where Prima was previously not involved and expects this to make a significant contribution to profits.

The change of operations will take effect on January 1. CIBG's dealing activities have ceased in Johannesburg and Cape Town and its dealers are working their positions through Prima. The plan is that CIBG's

FM 21/12/90 (58)

Cape Town operation — its head office — will become a branch of Prima Bank and only the profitable subsidiaries will be retained. CIBG's activities that Prima did not offer previously and will retain, are portfolio trading for clients on the capital market and trading in physical gold, certain bonds and equities, which involves seven people.

Market sources reckon that about half of CIBG's 65 Cape Town staff have been retrenched since the move, effective from end-December.

Prima has taken over CIBG's interest in Helderberg Retirement Village in Somerset West. CIBG had jointly offered, with property developer Equikor, to complete the village at a cost of R40m over several years. However, Bellingan says there is a possible total exposure of R5m. He says Prima won't fund any construction. "We are making a R5m investment and acquiring the balance of the ground and a number of unbuilt units." Prima regards this as an asset.

In banking circles it was thought for a while that CIBG, as a dealer and market maker in futures and options markets where round trip trade frequently exceeds R100m, was exposing itself to too much risk.

Former CIBG chairman Jan Pickard (jnr) reckons these perceptions were founded on rumour rather than on fact. Even so, after the demise of Davis, Ralph & Sadleir (DRS), a small firm of futures and options dealers, and the curatorship of Alpha Bank, the big banks ultimately refused to clear the gilt settlement for CIBG. The Reserve Bank then had to step in.

Uncertainty arising from the DRS case lingered, because of a legal dispute between CIBG. The liquidator of DRS insisted that, though CIBG had complied with the rules of the SA Futures Exchange (Safex), it should deposit in his care certain funds, including those of DRS's closed positions held by CIBG. CIBG objected and preferred to place the matter in the hands of the court.

This year, CIBG was handling large volumes and clearing weekly settlements of R1bn-R3bn — substantial amounts for a bank with only R38m capital. Hence the talk in the market. Eventually Pickard approached a number of organisations to try to strike a deal. *Jacquie Bullard and Gerald Hirshon*

INSURANCE F|M 21|12|90

TIME SAVING (58)

With a little financial discipline, a home-owner can pay off a bond within 10 years, have a small nest-egg of cash, a tax shelter and some life cover. This is the set of inducements Timelife Assurance is offering endowment plan investors.

The accelerator effect when a home-owner pays more than the regular bond instalment is well-known. Interest savings can eventually run to tens of thousands of rand. Timelife

F|M 21|12|90 (58)

and IPC Insurance Brokers argue that most people don't pay more in a planned way and *ad hoc* payments do not attract major benefits. A regular commitment, says Timelife GM marketing Tony de Munnik, is more effective. He adds that linking endowment proceeds to regular bond capital repayments will achieve the goal, typically at a cost of about R300 monthly.

A R70 000 bond at the current rate of 20,75%, taken out for 20 years, will be fully paid in 10 years if an additional R294,33 is paid monthly to an endowment policy. An underlying assumption is that the investment goes to a managed portfolio yielding at least 15% annually. At the end of the first year and then at six-monthly intervals, the insurer automatically pays a cash amount directly to the relevant bond account.

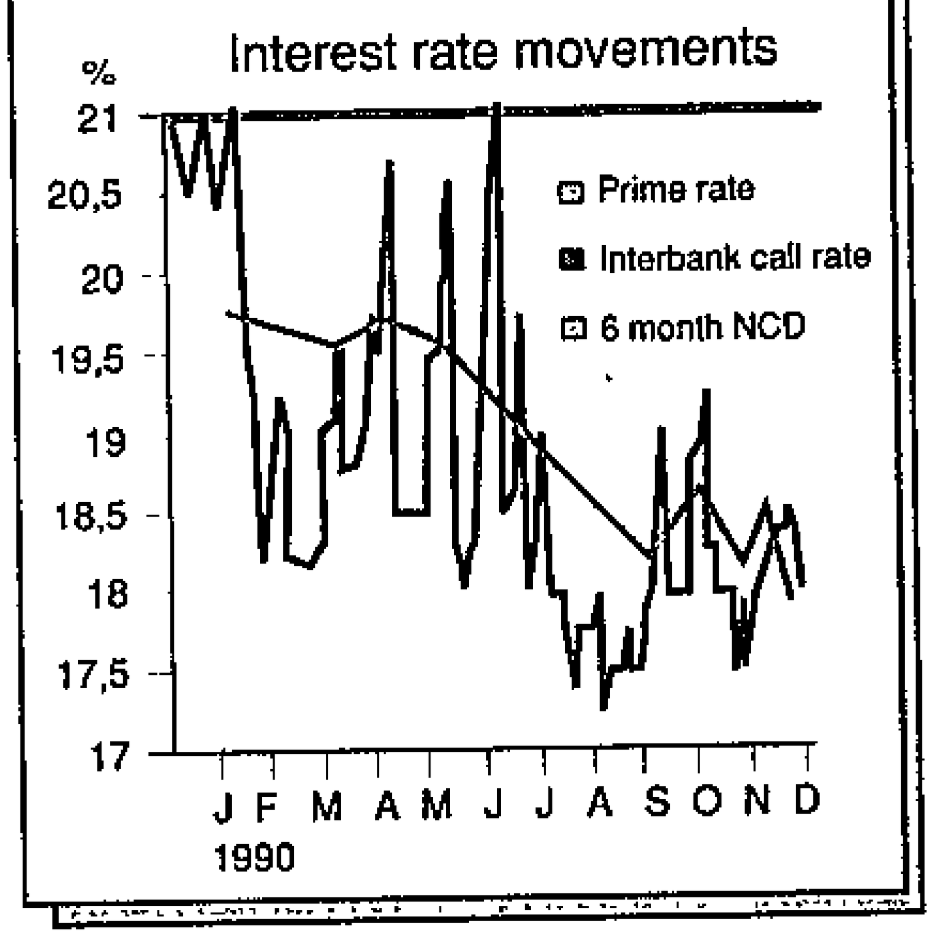
A home-owner might do better to pay the same extra sum direct to the bond account.

Perm manager, salary-linked mortgages, Brian Peck calculates the IPC-Timelife programme extinguishes the bond in 108 months. If the same sum were paid direct, the bond would be eliminated in 86 months. The calculations arc not immutable. The 15% projection now used by life assurers is a gentlemen's agreement in the industry and, by historical performance, is on the low side. The 20,75% bond rate could be considered a high projection for the medium to long term.

A decision on the best route to accelerated home ownership must take into account three factors: whether a few hundred rand monthly is affordable; taking a view on interest rates; and, says De Munnik, whether there is enough self-discipline to pay extra on the bond without entering a contract. ■

FM 21/12/90 (58)

Rundown



INTEREST RATES FM 21/12/90

CUTTING LOOSE (58)

A negative yield curve for most of this year has signalled the market's expectation of a fall in the pattern of interest rates. Since January, when the rate offered on three-month deposits stood at 20% against 19,3% for 12-month certificates of deposit (NCDs), until last week, when these rates were 18,4% and 17,55%, short-term funds attracted higher interest rates than long-term.

The message was underlined by a downward shift in key market rates.

The rate on six-month NCDs fell steadily — with two interruptions. One was in April, when banks overreacted to Reserve Bank Governor Chris Stals's instruction to bring off-balance sheet business (in excess of a certain level) on to balance sheets — increasing the liquid assets they must hold. The second, in October, was prompted by a rise in the price of crude oil to over US$40/barrel.


Lloyd

The rate on call deposits shows a similar tendency. Though monthly liquidity patterns cause huge swings, a trend line reflects downward pressure from a June-end high of 21,25%. Since then, it has remained well below the prime rate of interest which, traditionally, sets the tone in the market.

But throughout this period prime, which is linked to Bank rate — the official rate at which the central bank lends to the market — held steady at 21%.

The widening gap between prime and more market-related rates (see graph) is a reflection of Stals's refusal to let Bank rate fall below 18%. In the face of stubborn strength in expenditure and fears that higher fuel prices would support inflation, he maintained his stance long after the market believed the time was ripe for a relaxation.

"An inverse yield curve is common," says Standard Bank Treasury head John Lloyd, "when monetary authorities attempt to tackle inflation." The reverse situation occurred, he points out, on the other leg of the cycle, in 1989, when the central bank failed to contain surging demand for credit by putting up the rediscount rate adequately. Then the gap between the officially determined prime and other rates closed.

This period ended in late 1989, when Stals moved to cut growth in money supply. This took the money market shortage to a high of R4,8bn in January. The squeeze that month, says Lloyd, would have sent a market-related prime soaring to 24%-25%. Instead it remained at 21%.

Politicisation has eroded prime's importance to monetary policy. Rather than cut demand for credit by allowing prime and other rates to rise, Stals pushed up the cost of bank funding by draining liquidity, which forced banks to borrow at the penalty rate of 22,75% (against prescribed assets) rather than Bank rate (18%) against liquid assets.

Bank rate was thus sidelined. Its significance was largely psychological: his refusal to let it fall was simply a symbol of his determination to fight inflation. ■

Buyers go on a spending spree

Sowetan 21/12/90

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More cash for cars

A HIRE PURCHASE spending spree has been reported by the country's banks.

Consumers have bought R1 154 million of furniture, cars and other goods on HP and rentals in the September quarter - the highest amount since the last quarter of 1989, which included Christmas shopping.

A total of R27 080 million was owing to banks from HP on September 30, up from R25 926 million at July 31 in spite of Reserve Bank restraints to stop banking institutions extending their lending, says a report by Nedfin.

"The banks involved in consumer lending appear to have increased their portfolios, particularly for motor vehicles.

Building societies who are now into instalment credit have made inroads into this market, mainly by reducing interest rates to the borrowers," says Nedfin.

Upswing

Latest industry figures indicate that the furniture industry is enjoying an upswing in the volume of sales.

Most banking institutions have report a downturn in the demand for credit facilities, but this is not reflected in the September quarterly figures.

According to bank executives, this low demand has continued into the December quarter.

"Consumer bad-debt write-offs have increased progressively during the year, and there is the further possibility that February and March could see an upsurge, which is traditional after the Christmas spending spree, says Nedfin.

Current high interest rates are also having an effect on small businesses and other commercial organisations.

High-geared companies are struggling to meet their interest commitments and business insolvency is expected to increase in the New Year.

Violence costs Sanlam millions

Finance Staff

With an average of more than 1 000 death claims a month, Sanlam paid out R157,3 million on claims arising from violence in the year to September — 19,2 percent more than the R132 million of 1988-89.

The company paid out R583,8 million on 13 500 death claims. About R344 million was on 8 500 claims on individual policies and R240 million on group and pension scheme claims.

Violence included car and other vehicle accidents, on which itpaid out R91,8 million, against R81,7 million in the previous year.

Maans Olivier, chief claims consultant of Sanlam, says: "This means that Sanlam paid out an average of R369 000 every working day of the year."

An analysis of the company's death claim statistics shows the surprising figure of R30,5 million in payments arising from suicide and murder in 1989-90.

Suicide costs the company considerably more than murder.

On individual life claims, Sanlam paid out R9,9 million because of suicides, compared with R5,1 million due to murders.

Payments on deaths caused by cancer and other tumours showed an increase of 28,6 percent to R81,4 million.

Sanlam had only two death claims for Aids victims, paying out R240 180.

Syfrets' funds growing fast

By Tom Hood (58)

CAPE TOWN — Against an uncertain economic background, Syfrets Group had proved itself to be a consistent performer, lifting net profit by 11 percent from R18 million to R20 million in its financial year, chief executive John Cragg says in his annual review.

The market value of clients' funds under administration rose by almost 20 percent to R8,5 billion.

Syfrets Managed Assets had a highly successful year, putting on billing of R1,2 billion to bring its total assets under administration to R3,4 billion from R2,2 billion last year.

Star 21/12/90

Syfrets' units trusts both performed exceptionally well, with the Income Fund ending the year 198 percent up on annual sales to become the largest income fund in the country after its launch only two years ago.

In the three years since its launch to June this year, Syfrets Growth Fund topped the unit trust charts for the 12-month and three-year performance cycles, rewarding investors with a 34 percent (income reinvested) return in the 12 months to June.

New focus for Prima, CIB link

CAPE TIMES 22/12/90

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ARI JACOBSON

THE world of risk management will be the focus area for the merchant bank shaped out of Prima and Cape Investment Bank (CIB).

But first, said Prima's MD Johann Belignan, CIB will have to be turned into a profit-making institution.

Bellignan said he "moved quickly to realise this by emphasising the banking aspect and disposing of the non-related (computer) divisions, in CIB."

Lean and mean are the operative words — weeding out some subsidiaries that had monthly overheads of R200 000 while generating not a cent in income.

Over-exposure in the derivative markets had also been a reason for the loss-making formula at the bank.

By practical example, CIB's capital market registered turnover five times that of Prima Bank, said Bellignan. "In this type of game that's hefty risk even with a capital base of R38m (Prima's is R5m)."

CIB's Johannesburg-based operations have been shut down "except for a woman manning the switchboard" — with retribution equally swift at the larger Cape Town branch.

The funding side (deposit-taking part) of the business remains intact but scaled down to provide work for some 10 skilled personnel in capital, money, equity and derivative markets. Hazarding a guess that means farewell to some 90 Cape personnel.

Bellignan said he expected the project and corporate finance parts of CIB to play an important role in the future growth of Prima.

"Before setting the synergies in motion its important to rid ourselves of the loss-making units."

Next year the rationalisation process should be complete with the reversal of Prima into CIB. "Then the planned focus on the derivative markets follows."

An interesting aside is the 25% stake AA Life (part of Anglo-Vaal's insurance arm) holds in Prima Bank. Anglo-Vaal, in turn, is to build a 35% stake in The Board of Executors (BOE).

On the possibility of a linkage Bellignan said "at present nothing has come about but we willing to talk".

Your bond as a source of credit

IN this article we will continue our discussion on the mortgage bond as a source of credit.

This type of credit normally represents the largest single debt obligation for most families, hence it is vital that a great deal of care be taken when committing yourself to a bond.

Of course, it is the dream of every family to own their house. The problem is that the cost of houses has risen drastically over the past decade, mainly as a result of inflation.

Unfortunately, salary increases have generally not kept pace, coupled with the fact that the percentage of income paid into tax by individuals has increased substantially.

A symptom of declining standards of living of the white sector of the population (the black sector has generally seen its standards rise over the past decade) is that homes are starting to get smaller while it is common for wives to work in order to supplement the husband's income.

It is often wise, therefore to start with a smaller home and then trade up to a larger home when you are able to service a larger bond. Remember though, that for several years of the bond you are paying mainly interest and very little capital.

In other words, you will find that the balance of the bond outstanding after the first few years has decreased very little.

Also, when selling your home what appears to be a substantial profit may in fact be an illusion due to inflation and the various costs of buying and selling a house.

Assume that you bought a home in 1988 for R100 000. The legal and transfer fees will add approximately another 4,5 percent or R4 500 to your total

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The Fourth article in our series on debt, by PAUL EDWARDS, chairman of the Information Trust Company.

costs.

Assuming also that inflation has averaged 16 percent over the two-year period, you will now need to sell your house for R146 000 just to get the same amount of money back in real terms of inflation-adjusted terms.

But this excludes agent's commission, which currently runs at 7 percent (although this can be negotiated down to a lower ratio), which indicates that you have to sell for at least R151 000 just to break even.

Trading up

Remember also that other properties have probably also increased in value due to inflation — an important consideration in "trading up".

Having said that, mortgage bonds represent a good way of leveraging your investment since you are really using the lending institutions money to buy the property — supposing you make any real profit on the sale of the house.

Buying a home should therefore be considered to be a long-term investment unless you are lucky enough to buy into a strongly rising market or add value through renovations or additions.

Assuming that you now own a home this may, in some instances, be used as a further source of credit.

Since the banks entered the home loans market in a big way there has been a trend towards more innovative home loan products from both building societies and banks.

One of these products allows you to use your bond as a savings account since you can invest your excess cash in the bond, thereby reducing the balance outstanding.

Let's imagine that you have R100 000 outstanding on your bond and that you decide to invest your Christmas bonus of R5 000 into your home loan account.

If the interest rate on your home loan is, say 21 percent, you are effectively saving the 21 percent you would have paid on the portion of your loan.

Now if you had invested the R5 000 in a normal savings account you would have paid tax on the interest earned (depending on your marginal rate of tax and whether you exceed the R2 000 limit for tax-free investments).

Thus, by investing in your bond you are achieving an effective tax-free return of 21 percent, which is considerably better than for most other investments.

Another way of using your home as a source of credit is to register a second bond over your house.

Let's assume again that you have a bond of R100 000 on your home but you wish to borrow a furter R20 000 against the security of your home. As with the first bond, the building society or bank will value the property to ensure that it is worth more than R120 000.

If so, and assuming that you are till a good risk and have paid your first bond instalments regularly, they will grant a second bond.

Don't forget though, that you will again be liable for conveyancing and bond registration costs. Second bonds should therefore be used for financing long-term investments, such as an addition to your home rather than a short-term finance.

Retirement aim

Before using your home as a source of credit remember that your goal should be to own your house fully before the time you retire.

Regrettably, many consumers use the equity in their bond to maintain or improve their standards of living and therefore never manage to reduce their bond to satisfacotory levels.

The result is that homes often have to be sold because retirement funds are insufficient to maintain bond repayments.

The tragedy is that 75 percent of South Africans retire on insufficient funds to fully enjoy their golden years.

● **Next week: Instalment credit agreements.**

Property listing for Saambou

CHARLOTTE MATHEWS (58)

SAAMBOU Holdings will list its R80m property portfolio on the JSE in the first week in February, chairman Hendrik Sloet said yesterday.

Details of the rights issue to Saambou shareholders giving them the option to take up shares in the property company will be announced in the first week in January.

The property company will be a variable rate debenture company. Saambou intends to retain control through a 51% holding.

"We own a number of city properties and found that we had a large amount of capital tied up — a far larger portion of our capital in percentage terms than other financial institutions," Sloet said. "But we wanted to retain control of the properties".

"By listing in this way we realise the cash value but retain control."

According to the 1990 annual report, Saambou's total assets were R3,7bn. It will underwrite the offer and shares not taken up by Saambou shareholders will be sold to other purchasers.

Insurers see threat to their wealth pile

STimes 23/12/90 (58)

Business Times Reporter

CONCERN about the future of insurance is shown in a survey by Andersen Consulting and the Insurance Institute of SA

The possibility of nationalisation and changes in regulatory laws pose threats to the rich asset bases of the main insurers and assurers.

Some are jittery about the future, according to early findings of the Delphi study, due to be completed early next year.

Wally Strickland, managing partner of Andersen Consulting in Cape Town, is part of the team studying the forecasts and opinions of more than 100 executives from the life and short-term sectors, reinsurers and intermediaries.

Mr Strickland says: "The first round of questions gauging the feelings and predictions of a broad base of players in the insurance industry has come back and there seems to be a lot of uncertainty about the future."

The replies are being analysed and a questionnaire will be sent out to verify them.

Mr Strickland says the Delphi study hopes to find solutions to problems and to detail strategies needed to survive and remain competitive.

"We want to identify aspects threatening insurers' profitability.

"We will also look at trends like the move to self-insurance, new-product diversification, new services and the like."

A similar study of insurance in Europe — undertaken by Andersen Consulting's British operation — polled 420 senior executives in 15 countries.

It found the European insurance was in for a major shakeout. It predicted that by 1995 the number of life and pension companies accounting for 80% of premiums in the UK would fall from 50 to 29.

Bankfin chases FML

STimes 23/12/98 By DON ROBERTSON (58)

BANKFIN, formerly Santambank, is set to bid for Budget Autolease.

Bankfin, one of the top three in wheels finance, needs a full maintenance lease (FML) operation. Because of the difficult economic climate, Budget Autolease needs help from a bank.

Dawie Botha, senior general manager at Bankfin, says his group has talked to Budget Autolease about taking an interest.

Budget Autolease, a subsidiary of Tollgate Holdings, is the second-largest operator in the growing FML industry. It has about 5 000 cars worth R200-million, says managing director Sarel Rudd.

Other banks also have an interest in FML groups.

Syfrets assets rise to R1,4bn

LIZ ROUSE (58)

THE Syfrets Group's total assets rose to R1,4bn (R926,4m) in the year to September, while net profit increased by 11% to R20m (R18m). BDay 24/12/90

Chairman John Cragg reveals in his annual review that the market value of clients' funds was up by almost 20% to R8,5bn from last year's R7,1bn.

Syfrets Managed Assets had an exciting and successful year, boosting its total assets under administration from R2,2bn last year to R3,4bn.

The Wealth Creator Plan, launched last year, drew up more than 1 000 individual investment plans and generated more than R80m in business in the year to September.

Syfrets unit trusts both performed exceptionally well with the Income Fund ending the year 198% up on annual sales. Syfrets Growth Fund topped the unit trust charts for the 12-month and three-year performance cycles, rewarding investors with a 34,1% return in the 12 months to June 1990. At September 30, the growth fund again took the 12-month performance honours, beating its nearest rival by a full 5%.

The SG International Fund's offshore assets grew to R22,5m during the year. The Disa Income Fund attracted almost R15m in foreign investment.

Foreign cash boost for SA

Cape Times 24/12/90

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Own Correspondent

JOHANNESBURG. — South Africa's foreign-exchange market turnovers are soaring and long-term capital is flowing in — reflecting the dramatic recovery in the country's international financial relations.

Turnover on the local forex market has increased recently to levels not seen since the early 1980s, before the debt standstill and dual currency were imposed in 1985

Foreign investors are again committing sizeable amounts of long-term funds to South Africa The third quarter saw a net inflow of more than R820m in long-term capital, most of it finance for the public and private sectors, says the Reserve Bank Quarterly Bulletin

A further R700m in short-term finance, mainly trade-related, also boosted the capital account of the balance of payments (BoP)

Forex market activity now dwarfs other market turnovers Analysts say this partly reflects SA's increasing international acceptability, and declining volumes in other markets like the gilt market

Reserve Bank figures show that average net daily turnover for local customers in October was 22,6% higher at a record $1,91bn, compared with October 1989 Net turnover, which excludes interbank dealing, was running at $3,68bn a day in October, compared with $1,58bn in 1987

'Bridging finance'

First National Bank group treasurer Mr Ken Russell said "After the implementation of the debt standstill in August 1985, turnovers dropped considerably and have slowly been building up again"

But SA's return to "the real world" would be complete only once exchange control was scrapped — an unlikely move in the foreseeable future Despite the domestic market's mammoth size, it accounted for only 0,5% of global turnover, which in April 1989 stood at a net $640bn a day

Improved international financial relations have seen SA rely less heavily on short-term foreign "bridging finance", which is much like overdraft facilities The Reserve Bank and banks drew heavily on these facilities when SA had to pay foreign debt and there was no new capital forthcoming But the banking sector's short-term foreign liabilities have more than halved to R3,7bn from R8bn in mid-1989.

Gross daily turnover on the forex market in October of $5,3bn was at its second-highest average level since early 1985, beaten only by June's $5,4bn

This translates into a daily turnover of R13,45bn at October's average rate of R2,5445 to the dollar

Mr Russell explained that the figures included some duplication because banks offset their positions with other banks However, the figures represented only commercial rand transactions and not financial rand or third currency dealings

Third currency dealings, such as $/DM transactions, apparently accounted for a large proportion of the market and are reflected in other countries' forex books

GOOD SAMARITAN . Mr Mu[illegible]ene James gets a hug from Mrs Leonie Hartz after he had helped Mrs Hartz and her husband Wryno when their minibus broke down on a lonely stretch of road in the Karoo. Mrs Hartz was in a coma tose state at the time of the breakdown

● Report — Page 3

Black indaba threatened

Cape Times 24/12/90

By ANTHONY JOHNSON
Political Correspondent

GOVERNMENT plans for a major pre-negotiation conference of all political parties early next year are posing a serious threat to a proposed unity indaba among black anti-apartheid organisations

News of the confidential night-time meeting last week between President F W de Klerk and ANC leaders Mr Oliver Tambo and Mr Nelson Mandela to discuss ways of getting broad-based agreement on the agenda for constitutional talks places a plan by liberation movements to forge their own common strategy against the government in the balance

ture with the government it would amount to "a betrayal" of the ANC's commitment to other liberation movements to join a consultative conference early in the new year

The PAC, the Workers' Organisation for Socialist Action (Wosa) and the New Unity Movement all expressed themselves strongly in favour of an Azapo proposal to forge a united black front to oppose the government

However, the ANC, which was also invited to attend Azapo's national congress in Langa at the weekend, did not send any observers or messages of support

At a press conference last night,

Consumers to share banks' load

GRETA STEYN (58)

CONSUMERS face higher bank charges next year as banks hit by tax changes to be introduced in 1991 will pass them on to customers. B|Day 24|12|90

First National Bank chairman Basil Hersov's annual statement said the introduction of VAT, the withholding tax on interest and changes to tax allowances on suspensive sales would put upward pressure on bank costs.

"These changes will inevitably have to be passed on in the form of increased financing costs," he said.

With some financial services exempt from VAT, banks might not get full credit for VAT paid on inputs and with the VAT tax base broader than the current GST base, the bank's tax profile would be higher. The impact would be felt as a "slight addition" to costs across the group.

"The proposed withholding tax, which may be introduced at a low rate on interest payable to individuals, will impose an additional burden on the group's administration and systems," Hersov said.

He also noted that changes to Section 24 tax allowances on goods sold under suspensive sale agreements would have a negative impact on costs.

Hersov noted that the bank would maintain strict control over non-interest costs. In First National's previous financial year, the rise in operating expenditure was contained to 7,5%. The need to restrain costs was more important in view of continued pressure on asset growth, he said. But he addded that asset growth should be higher than in the past financial year.

New development bank proposed for subcontinent

TIM COHEN

THE Development Bank of SA is discussing the creation of a regional development bank to realise the opportunities of a wider co-operation in the southern African region.

A discussion paper produced by Development Bank official Johan van Zyl says a regional development bank, which would include an SA which had normalised its relations with the rest of the world, could play a valuable role in enhancing the mobilisation of financial and human resources from outside the subcontinent.

Internally it could also assist by financing investment projects, rendering technical assistance and supplementing institutions like the World Bank and the African Development Bank.

The discussion paper also proposes that specific funds could be created within the bank to receive and manage aid from donors on a separate basis.

The document argues that the international economy and political order is at present caught up in a process of fundamental transition towards new global structures.

The acceleration of technology-driven economic progress has created enormous pressures for economic reform, and this has resulted in the formation of regional blocs, especially amoung developed nations.

But the document questions whether these forms of economic co-operation would be appropriate in southern Africa because they are concerned with the gains that could be derived from existing patterns of trade.

By contrast, regional integration among developing countries is based largely on the gains from rationalising among the countries from emergent structures, rather than those that already exist.

The document argues for a less formal, decentralised and consultative type of institutional arrangement, assisted by a regional development bank.

Van Zyl writes that SA has a lot to offer. It has a record of successful foreign investment, established institutions for handling legal contracts, internationally accepted accountancy practices, efficient communication and transport networks and a culture of doing business within a framework of economic freedom of choice.

SA also has a good international financial standing and therefore has the ability to take the lead in mobilising resources from abroad.

But Van Zyl argues that care will have to be taken to ensure that SA does not dominate the area. This can only be achieved by concerted planning and early action, he says.

● See Page 7

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Bus Day 24/12/90

Societies among top performers

BDay 27/12/90

NEIL YORKE SMITH

BUILDING society shares were among the JSE's top performers this year as investors sought defensive stocks and saw potential in proposed mergers and diversifications.

By the end of last week Allied had risen by 24% since the start of the year and closed at 186c in the last trading day before Christmas. Over the same period NBS had risen by 22,8% to 710c, or 22,8% higher. UBS had gained 26,6% to 785c and Saambou had put on 43,6% to close at 133c.

Stockbroking analysts attributed the rises to merger and acquisition speculation and the relative attractivenesss of financial shares during an economic slowdown.

Reflected

(58)

Building society shares were felt to be particularly attractive when interest rates were rising as their deposits were mostly long term and margins increased as rates moved higher, the analysts said.

The share price gains also reflected underlying performances, building society executives said. During the six months to end-September, NBS boosted attributable earnings by 24%, UBS by 21,5%, Allied by 15% and Saambou by 11%.

But conditions are expected to get tougher next year, executives at Allied, UBS and NBS said.

UBS executive director Alwyn Noeth said interest rates should drop in the first quarter and possibly again later in the year, though he warned "the decline is likely to be very gradual".

Noeth believed greater funding flexibility coupled with effective asset and liability management should enable building societies to limit any major effects a decline in interest rates may have on margins. He also believed the possible introduction of a withholding tax on interest income would benefit banks and societies.

This was echoed by Allied MD Kevin de Villiers who said a withholding tax would "significantly improve the savings ethic among South Africans".

Nevertheless, NBS GM (management services) Mark Farrer said NBS would retain its independence, despite talk of rationalisation in the industry.

Analysts said the introduction of the Deposit Taking Institutions Act early next year would facilitate mergers and acquisitions in the finacial sector.

New bank rules delayed

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GRETA STEYN
and ROBERT WICKS

THE Reserve Bank has postponed the implementation of the Deposit-Taking Institutions Act — partly to finalise the details of phasing in new more lenient rules, bankers said this week.

The delay in implementing the Act was confirmed by a Registrar of Banks spokesman, who said "procedural matters" and "the time factor" had forced the postponement. Banks had been informed of this.

Senior bankers said the Bank had not yet finalised the phasing in of new requirements for the holding of cash and liquid assets. The new rules represent a relaxation of the old Banks' Act regulations and will be a major benefit to the banking sector as a whole.

The immediate relaxation of the requirements would inject R5bn worth of liquidity into the money market — which could encourage rapid credit extension. Bankers said the Bank had not yet told them how the rules would be phased in.

They said the Bank faced a dilemma in implementing the new Act. With liquidity levels already improved in the money market, the Bank would not want to provide more impetus for new credit growth when interest rates were eased. It also wished to avoid major disruptions in the money and capital markets. At the same time, it did not want to drag its heels on implementation.

Banks were relieved at the postponement, however, as many were still working on getting their systems in place and on understanding the full implications.

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COMPANIES

Shareholders still in dark over talks

ZILLA EFRAT

NEGOTIATIONS between Allied, UBS, Volkskas and Sage Holdings are continuing, with shareholders little wiser than they were when merger talks were first announced three months ago.

58

The four groups have cautioned shareholders again today that discussions aimed at a grouping of their interests into a new diversified financial services group are continuing. B/Day 28/12/93

When the first announcement of the talks was made at the end of September, it was believed the four groups would merge their interests into SA's largest single financial services group with combined assets of about R50bn.

However, reliable sources close to negotiations told Business Day recently that planning had apparently swung towards the formation of a holding company that would control UBS, Volkskas and Allied.

Each group would maintain its own individuality and identity.

But a services company would be formed to take care of the three banks' data processing and services needs, leading to huge synergistic savings.

Sage, it appeared, had been left out of the talks.

UBS Holdings CE Piet Badenhorst yesterday declined to comment while the talks were in progress, as did Allied chairman Norman Alborough.

However, when asked why talks were taking so long, Alborough said the negotiations were complex and involved a large transaction. Other directors could not be reached for comment yesterday.

Interest rate drop could boost housing

(58)

CHARLOTTE MATHEWS

THE decline in interest rates forecast for early 1991 will assist the housing sector of the building industry from mid-1991 onwards, but non-residential building activity is expected to drop sharply, the latest report from Medium Term Forecasting Associates (MFA) says.

At the same time estate agents are forecasting that residential property prices will hold throughout 1991 but increases will be restrained by political factors.

The MFA believes SA will see slower growth in exports in 1991, but the relaxation of sanctions will encourage an inflow of new investment capital.

This, with a milder foreign debt burden, will build up reserves, causing greater domestic liquidity and eventually lower interest rates.

The trough of the current business cycle will be reached in the second half of 1991, the MFA believes.

Abolition

B'Day 28/12/90

After that the years leading up to 1995 will experience more favourable economic growth rates.

Most estate agents say the abolition of the Group Areas Act in the first half of the year will increase demand for houses in all areas. But Basil Elk director David Miller believes prices will not rise until the second half of the year.

Durban's Brink Estates branch manager Bobbie Fraser says there has already been a lot of movement into white areas in the vicinity of Durban and as soon as the GAA is lifted, hundreds of people will move. Affordability is not a problem.

"I think it will affect houses at the lower end of the market in areas such as Bez Valley, Westdene, Newlands and Mackenzie Park in Benoni," De Huizemark director Bruce Andrews says.

The MFA says, however, that a sharp drop, from a high base, is forecast for investment in non-residential building projects in 1991.

Many projects are reaching completion and new work will be scarce.

Commercial property began 1990 on a fairly buoyant note with rentals and prices still rising. From around July the trend line began to flatten.

According to the latest quarterly figures available from the SA Property Owners' Association, vacancy levels in A- and B-grade commercial properties are rising and landlords are offering incentives to attract tenants.

As retail companies have so far turned in good operating results, retail property has been less affected by the downturn than other property markets.

But in August, RMS Syfrets MD retail division Pat Flanagan said retail rentals had reached a plateau and were unlikely to rise over the next two to three years.

Although there is little major office development in the pipeline, projects due for completion in the next year or two include Liberty Life's new office block in Braamfontein and the Stocks & Stocks Braampark development.

Work has also begun in Parktown around the area of the Sunnyside Hotel by Sage. New Reserve Bank buildings are planned for Johannesburg and Durban.

The trend in office development all year has been very much away from speculative projects.

Large developments are taking place in phases so that the capital risk is low and one phase has to be fully or mostly let before the next is begun.

Burglary costs Santam dear

By Tom Hood (58)

CAPE TOWN — An exceptional rise in burglaries cost Santam, SA's largest short-term insurer, more than R200 million in payouts in the year to September.

A record R577 million in claims was paid out and was a big factor in its underwriting profit falling to R2,1 million from the record R26,1 million a year ago.

Dominating feature of underwriting was the sharp increase in the incidence of claims in a market in which premiums were held artificially low By strenuous competition, says MD Oosie Oosthuizen in his annual review.

This was exceptionally strong in the corporate market, the area in which Santam is trying to gain a larger slice of business, he says.

A meaningful turnaround in the corporate market is not expected before the middle of 1991.

"The alarming rise in crime-related claims is not appreciated by the public," says Mr Oosthuizen. Star 28/12/90

Vehicle thefts rose 36 percent over the previous year. Burglaries rose 35 percent and the average amount per burglary claim rose 25 percent.

Taking an overview of the entire market, he says the number of claims rose 35 percent and the average cost was 20 percent higher.

Premium income had not kept pace with the rise in claims experience and it was unavoidable that premiums on motor and personal lines insurance had to be revised upward April and June.

The April increase did not achieve the desired result and a further adjustment in the new financial year was unavoidable, he said.

"A disconcerting aspect of the market remains the extent to which many people are under-insured. Too many policyholders fail to appreciate that inflation continually increases the replacement value of their possessions — and substantially above the original purchase price at that.

"Yet they fail to ajdust their insured values accordingly."

However, as a service to policyholders Santam is automatically adjusting insured amounts where policyholders have given their consent.

chairman Charles van Aswegen says insurance markets worldwide had been through an unuaual period of spare capacity.

South Africa was no exception and rates were often quoted with scant regard to the underlying risks.

"This spare capacity is slowly disappearing worldwide, while in South Africa recent months have brought some dramatic increases in rates for short-term insurance, especially in personal lines," he says.

Levelling the tax playing fields

OUTLOOK '91

DORIAN WHARTON-HOOD, Joint Managing Director Liberty Life

THE appointment of the Jacobs Committee to level the playing fields in the financial services industry was welcomed by the Life Offices Association as one of the most important developments of the year.

The LOA is confident that we will end up with tax rules that genuinely level the playing fields. Star 29/12/90

The committee may be considering taxing the total yield on all personal savings within life assurers, banks, building societies and mutual funds at a low rate.

This would be a pragmatic alternative to taxing only the real return at a higher rate. If the same rates apply to all participants and individuals, the LOA would support such a move.

Life assurers have been successful in the past, despite the fact that they have been adversely treated from a tax point of view and, in addition, were handicapped until last year by having to invest heavily in prescribed assets.

Because of its efficiency, superior products, an effective marketing system and investment expertise, life assurers have consistently produced real returns, above the inflation rate, for policyholders.

The result has been that the bulk of SA's contractual long-term savings has flowed to life assurers. This has provided much needed capital to finance economic expansion.

But, if inflation is brought under control — and there is a chance of this happening if the oil price remains relatively stable — life assurers may struggle to compete with the banks and building societies. Why? Simply because we pay too much tax.

The true role of life assurers is to mobilise contractual long-term savings and, in so doing, provide benefits to millions of people in the event of death, disablement or retirement.

Were is not for the industry, the burden of caring for these people would fall upon the general body of taxpayers.

It is therefore in everyone's interests that life assurers should be successful.

An essential element of any life assurance product is the investment guarantee.

The introduction this year of 100 percent equity-based policies was a disturbing trend as these policies cannot offer these investment guarantees, a feature which we at Liberty Life believe is very important.

It is difficult to control the activities of agents and brokers to ensure that these policies are only sold to people who understand the risk they are taking — most people need these guarantees.

The facility to switch portfolios from equities to properties or gilts gives scant protection. We all know what happens in practice.

The market booms, it reaches a peak and everyone is buying equities. The market crashes and everyone wants to bail out.

The public get it wrong every time. And to suggest that the man in the street has the expertise or the ability to forecast or know where the market is, is absolute nonsense.

The raging bull markets of the 1980s are unlikely to be repeated in the 1990s and who can say whether equities will outperform property or even fixed interest investments over the next decade.

Life assurers are in the long-term business and it is essential that we continue offering investment guarantees to our policyholders. We can't gamble with their retirement savings.

Another development which will impact in the year ahead is the LOA's decision in April to set up a committee to investigate "socially desirable" investments.

It was motivated by the move to research all investment opportunities for the life assurance industry.

The industry will only agree to invest in "socially desirable" projects provided they yield market-related returns.

But the industry does not have the ability to manage and drive these projects — our job is to manage money.

The perception that it is the responsibility of life assurers to invest in socially desirable projects which produce less than market-related returns is wrong.

It is the Government's responsibility to decide what portion of its income from tax it will set aside to subsidise these projects. People must realise that the money we manage on behalf of our policyholders belongs to the members who contribute to the funds, and not to the public.

Another important issue that will impact significantly on the industry in the years ahead is AIDS.

Uninformed speculation is rife that a large number of SA's population could be HIV positive by the year 2000. This is frightening. However, I still feel that as an industry we should offer unconditional life cover, wherever possible.

It is preferable to insist on proposers undergoing HIV tests to enable us to offer them full cover, rather than inserting AIDS exclusion clauses in policies.

Exclusion clauses could give the industry a bad name in the future because claims could be repudiated and widows and orphans left destitute and disillusioned because they would probably not be aware of exclusion clauses on policies. The industry and SA are entering a new era.

It is vital that, in a new South Africa, the economy be structured to achieve a high level of growth and wealth creation to create more employment opportunities.

Life assurers have a major role to play in this regard and therefore the stimulation and mobilisation of the savings of all our people will always be of paramount importance.

Focus on blacks pays off for FNB

S/Times 30/4/90 (58)

By DAVID CARTE

FIRST NATIONAL BANK, whose profits and share price outstripped those of most banks this year, has seen the vindication of policies adopted in earlier years.

So say chairman Basil Hersov and managing director Barry Swart in their joint annual review.

While other banks have gone up-market in pursuit of yuppies and other A-income earners, mainly whites, FNB appears to believe its focus on black customers is paying off.

It also seems to be reaping the rewards of perseverance with its troublesome Hogan computer system.

Mr Hersov and Mr Swart say the "mass market" is fast becoming one of the most dynamic segments and that "many inroads have been made in this respect".

Links

The activities of the Small Business Unit, the Property Finance Department and Wesbank, which has established links with the Foundation of African Business and Consumer Services (Fabcos) and the SA Black Taxi Association (Sabta), are setting a sound foundation for growth.

Similar relationships have been established with the African Council of Hawkers and Informal Business (Achib) and certain branches of the bank.

First National lifted earnings to 453,3c last year from 377c in the previous year. With cover raised from 2,8 to 3, the total dividend was improved by 20% to 150c.

"The sustained improvement in the share price during the period under review is evidence that policies of consolidation were well received by the investment community."

Doubtful

Mr Hersov and Mr Swart maintain that FNB's compliance with the Reserve Bank's request for limited growth in balance sheets cost it market share because some failed to heed the pleas.

High interest rates resulted in an increase in bad and doubtful debt provisions. The total charge rose from R181,6-million to "an unacceptable" R294,3-million. A credit categorisation process has accelerated recognition of potential bad debts.

BASIL HERSOV: Margins vital

BARRY SWART: Hogan OK

The chairman and managing director note "considerable growth" in income from automatic teller machines. First National derived R750 000 a month from Saswitch, four times more than Saswitch's second-highest earner.

They describe the performance of associates Southern Life and General Accident, but say nothing about that of 50%-owned insurance broker First Bowring & Associates.

The commercial bank contributed R173,3-million to net income of R329,8-million and Wesbank R65,8-million. Associates kicked in R37,5-million, First Corp R21,1-million and First Namib R16,6-million.

Capital expenditure of R207,7-million was down by R47,2-million from the previous year. Computer systems were more stable last year, hence the good contribution from Saswitch. Bank City is on time and on budget.

Mr Hersov and Mr Swart say Hogan has settled down. The purchase of a stake in Hogan by IBM and the inclusion of its applications as part of IBM's world-wide banking applications architecture has given First National's pioneering work some stamp of approval with regard to strategic direction.

FNB ordered 7 000 IBM personal computers together with other equipment from NCR and Olivetti to facilitate the provision of information at the bank counter. Linking these with the real-time Hogan systems will make FNB a leader in financial services.

Mr Hersov and Mr Swart say the new Deposit-Taking Institutions Act aims to place financial institutions on the same financial footing and to bring legislation on capital and reserve requirements in line with world standards.

Minimum

The Act obliges banks and building societies to raise minimum cash and liquid asset reserve requirements and to increase capital and unimpaired reserves to 8% by January 1995. FNB believes it will benefit by last year's restraint in balance sheet growth, but continued profit retentions will be needed.

The bank expects to be exempt from VAT, but says it will raise costs slightly. The proposed withholding tax on interest payable to individuals and changes to Section 24 tax allowances affecting suspensive sale will also increase costs.

With the Reserve Bank determined to achieve lower inflation and lower money-supply growth, prospects are for low growth in the current year. But FNB expects to increase its balance sheet faster. It also hopes to reduce provisions for bad debts. Maintaining interest margins will be vital, as will be containment of non-interest costs.

Attrition

The number of employees has shrunk by attrition by 1 300 to 25 352, 23 000 of whom are operational staff.

Mr Hersov and Mr Swart are encouraged by political developments. They insist, however, that it would be in nobody's interests to place at risk the group's capacity to be profitable.

"Indeed, our principal task must be to generate profits through the excellence of the service we offer."

Considerable detail is given on the group's social investment and its role as an equal-opportunity employer. The number of black employees in the position of department head or higher increased from 183 in 1986 to 559 in 1990, of whom 30 were of managerial rank.

UBS in the van as SA banking is revamped

(58) S/Times 30/12/90

THE coming year will be crucial in rationalisation of the heavily overtraded financial services sector.

That is the prediction of Piet Badenhorst, chief executive of UBS Holdings.

His group is involved in complicated negotiations which will lead to the formation of a giant in the arena so he is in a good position to know.

Mr Badenhorst says: "The talks are close to conclusion. Any rationalisation will result in a very large financial institution."

He expects other major regroupings to take place. Financial institutions' margins are under great pressure and the benefits of rationalisation could be enormous.

Mr Badenhorst says: "All the parties in our discussions have their own branch and computer networks. There is a lot of duplicated effort."

Comfort

New capital requirements require banks to raise their capital:asset ratios from the current 4,5% to 8% in the next five years. This will force more of the smaller institutions to band together or seek the comfort of big brothers — a process that has already started.

Another factor forcing the pace of rationalisation is the cost of technology.

"We built our computer centre at a cost of R60-million. A new mainframe costs that much today."

SA has more than 60 registered banks and building societies, and the nine leaders are represented in all the main centres and most small towns. Each branch has its own set of computer terminals, comprehensive staffing and equipment.

Customers

"There is no question that the market is heavily oversupplied," says Mr Badenhorst.

One big bank in Australia almost equals the combined size of SA's big five.

"What we need is concentration. We think we are leading the way in achieving that."

He says "overbranching" grew out of the regulations which governed the operations of institutions like banks and building societies.

"We were the biggest retail savings bank in the country for many years, but we could not issue cheques."

Deregulation has opened the way to greater competition and rationalisation will follow.

By IAN SMITH

The changes should be good for customers. Mr Badenhorst says overbanking has blocked economically priced financial services.

"Competition from new banks has led to benefits for customers through lower transaction charges. The possibility of reductions in charges flowing from rationalisation and reduced overheads provides a great opportunity for the UBS," says Mr Badenhorst.

"For the first time there is major competition for the ordinary man's business. This is benefiting everyone."

UBS has gone into banking cautiously, concentrating first on basic services like cheque accounts, credit cards and hire purchase.

It has now moved into foreign-exchange dealing, an initial three branches offering the service.

"This is new to our organisation, but once it is working well we will expand the service to the rest of the banking network.

"We want to ensure that

PIET BADENHORST: Return to the old values

our overall product is cost-effective and profitable banking. We are not going to provide a service merely because others offer it."

Other projects include the extension of the Beltel home banking service, a cash management system for small to medium corporate clients and full leasing and rental facilities for vehicles and equipment.

"We are always careful to ensure that we do not overextend ourselves," says Mr Badenhorst. He is happy to leave it to others to buy market share whatever the cost.

"I believe the way the market rates us is the measure of our success."

UBS Holdings controls 100% of the building society and of the UBS Insurance Co and slightly more than 50% in United Bank (Volkskas is the other shareholder). It also has a 30% holding in Commercial Union, and major real-estate organisations to keep its grip on mortgage business.

Confident

UBS Holdings has acquired a 25% stake in Aida, 29,7% of JH Isaacs and 33% of independent Multi Listing Services.

With a mortgage book of R12-billion at the March yearend the group is biggest in the home loans market.

Mr Badenhorst is confident about the future of the group and the country. He sees interest rates falling by one percentage point fairly early in the new year and then stabilising.

He says the Reserve Bank's tight control is essential for the economy's wellbeing.

"We must return to old-fashioned values where you don't borrow more than you can repay and where there is an incentive to save."

CAPITAL ADEQUACY AT LATEST REPORTING DATE

	Total Assets (incl contingents) (Rm)	Capital & Reserves* (Rm)	Ratio (%)
First National (30.12.90)	36 192,5	1 430,4	3,95
Standard (30.6 90)	46 657,5	2 048,5	4,39
Nedcor (30.9.90)	33 246	1 834	5,51
Bankorp (30.6.90)	34 785,8	698,3	2,01
Volkskas (30.9.90)	25 811,7	932,4	3,61
United (30 9.90)	16 869,2	1 469,5	8,71
Allied (30.9.90)	10 917,0	590,3	5,41
NBS (30 9.90)	6 366,5	326,9	5,14

* Excludes debentures.

Investor fascination with small banks boosts Investec shares to new highs

B/Day 31/12/90 (58)

MARC HASENFUSS

INVESTEC and its parent Investec Holdings hit new highs on Friday amid growing investor fascination with small banks.

Investec, on a price to earnings ratio of more than 12, is rated far higher than the Big Five banks.

On Friday, its share rose 2% to R12,75c and Investec Holdings' increased to 625c.

Board of Executors (BoE) is similarly highly rated (a price to earnings ratio of 10,5), compared with Standard at 8,8; First National Bank (FNB) at 6,8; Nedcor at 7; and Volkskas at 5,5.

Not all small banks have found favour with investors — Cape Investment Bank is on a price to earnings ratio of 3 and was taken over by the unlisted Prima Bank after rumours of financial problems.

Analysts said some smaller innovative banks and money market operators would continue their strong performance on the JSE next year, while blue chip banks were expected to toil under continuing recessionary pressures.

Recessionary conditions brought out the best in smaller operators which, unlike the traditional banking businesses, delved into the "wheeling dealing system" and showed a definite trend towards mergers and takeovers, an analyst said.

"Fortunately for groups like Investec and BoE they operate in a niche where they are not in competition with FNB or Standard."

Investec's interim performance showed a 33% increase to 50c (37,5c), and was mainly attributed to astute risk management in uncertain business conditions.

Mediocre

The merchant bank has been on the acquisition trail recently, buying the trade finance company Reichmans for R50m to expand its foreign exchange operations.

Cape Town-based BoE reported a commendable 42% growth in earnings to 75c (53c) for the year to end-September, after last year's acquisition of Mercury Trust (now BoE Selections) which also gave the group a 30% holding in Port Elizabeth-based Fidelity Bank.

Banks were generally hard hit by bad debts this year. Only two of the Big Five — FNB and Standard Bank Investment Corporation (SBIC) — posted healthy earnings growth of 20% and 15% respectively this year, while Nedcor and Volkskas were mediocre by comparison.

While the Big Five were not finding much favour, investors have been wooing the building societies.

Whether or not the Big Five's profit performance next year would be further retarded by the depressed economy would be determined largely by managements' stances, analysts said.

These banks could not be expected to cut costs further, a strategy which had kept them above the rising recessionary tide.

Analysts agreed that if the treasury operations of the five main institutions remained on this year's level of activity, these banks would perform sluggishly.

Unit trusts and endowment policies 'not comparable'

B Day 31/12/90

58

GILLIAN HAYNE

INVESTORS should be wary of making comparisons between returns on unit trusts and endowment policies because it was a comparison between "apples and pears", life offices warned recently.

Following a claim by a unit trust broker that an investor had received nearly double the return on his unit trust investment compared with his pure endowment policy over the same 12-year period, the life offices said investors should keep in mind the different components making up the investment, the role of the products and the risk factor.

Southern Life GM Graham Hill noted that the investment blend of the two products was often different. "Units trusts have a free hand in where they invest, whereas, until recently, life offices were obliged to invest 33% of their funds in government instruments."

Similarly, the objective of the investment was often different. Life policies were a longer-term contractual undertaking.

An Old Mutual spokesman also stressed that the two were totally different with diverse components and risk profiles.

He noted that unit trusts in effect provided pre-tax returns, unlike endowment policies whose profits were taxed in the life assurers hands and therefore offered policyholders tax-efficient benefits.

A Sanlam spokesman said that investments in unit trusts and pure endowment policies should not be regarded as substitutes for one another. "They are complementary, catering for different needs and different kinds of investors."