FINANCE - GENERAL

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CITICORP

CAPITAL MOVE

Citicorp, the largest US banking group, is exploring the sale of a 20% stake in its credit card business to raise more than US$1bn. The move is part of the bank's strategy to increase its equity base by about $4bn-$5bn over the next two years. Citicorp has a large problem loan portfolio and is widely regarded on Wall Street as being inadequately capitalised.

Its credit card business is the biggest in the US with more than 26m cards outstanding and about $28bn of receivables under management.

Citicorp declines to comment on the possible stake sale but it is understood the bank has retained Goldman Sachs, an investment bank, to explore the possibility of an initial public offering of shares or a placing with one or more large investors.

Analysts say a successful sale could give a boost to another Citicorp capital-raising initiative — its efforts to place $1bn-$1,5bn of convertible preferred stock with international investors, where commitments have been slow to materialise.

The credit card move follows the surprisingly successful initial public offering last month of shares in MBNA, the sixth largest credit card business in the US.

A similar price tag on the Citibank operation would give the entire business a value of about $6,5bn and a 20% stake a value of $1,2bn-$1,3bn. ■

FINANCIAL INSTITUTIONS

RAINY DAY

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Proposed levies to be imposed by the Financial Services Board are causing controversy in the industry it will serve.

The board, paid for by the private sector, is to replace the existing Financial Institutions Office (FIO) paid for by government, on April 1. Members will be appointed by the State President.

Dorian Wharton-Hood, a former president of the Life Offices Association, argues that, if the industry has to pay for the board by levy, it should be allowed representation.

However, the Financial Services Board Act states that no one with a direct interest in the industry should be represented on the board.

And a spokesman for the FIO argues that the private sector does not foot the entire bill; as the levies are tax deductible, the State

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will, indirectly, make a 48% contribution.

The problem facing the industry, now, is how to allocate the costs fairly between different types of financial institutions.

A draft regulation has been discussed with representatives from the institutions — the last meeting is scheduled for Friday. As the budget for the year has not been finalised, an illustrative budget, which is over R10m, has been used so costs can be apportioned to the various types of institutions: pension funds; the JSE; short-term insurers; and long-term assurers.

The regulation states who should bear what percentage of the costs; it has been proposed that each institution should have an element of fixed charges and an element of pro-rata charges.

One issue under discussion is, if size is to determine the fee paid, at what point in the year is size measured? Institutions have different year-ends. Another issue being debated is whether those organisations which require more supervision should pay more than those which are smoothly run.

The new board is expected to have greater salary expenses, as one of its main objectives is to employ more skilled people at higher salaries than are currently paid to employees of the FIO. A problem in the past has been the high staff turnover as people leave for larger salaries in the private sector. A 50% increase in staff numbers is proposed.

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Final regulations are expected to be published before April 1. Thereafter, further changes may be implemented by amending the regulations. ■

Bankorp back in black with 19,% rise in profits

Cape Times 1/3/91

By ARI JACOBSON

UNDER the guidance of executive chairman Piet Liebenberg, Bankorp produced a sharp turnaround with a 19,6% increase in after-tax profit to R54,8m (R45,8m) for the six months to end December.

Liebenberg joined Bankorp (from Nedcor) after the group recorded a loss of R368,4m for the year to June — with weakened control structures allowing provision for bad debts to balloon by 143%.

The clearest signal to the investment community of a recovery can be gauged by improved cost-cutting measures which pushed net operating income before write-offs and tax by an impressive 48% to R220,5m (R149,1m).

Earnings an ordinary share followed this pattern virtually doubling at 21,6c (42,9c) a share — based on the weighted average shares in issue.

The cash-strapped financial institution went to the market in November with a rights issue worth R550m, enlarging the ordinary share base from 188,7m to 385,8m issued shares.

An interim dividend of 10c (10c) has been declared on all ordinary shares including those issued in November.

Liebenberg said the decision of the main shareholders to accept bonus shares instead of cash dividends would help preserve the distributable reserves with the payout not expected to exceed R4m.

Liebenberg described as "heartened" the performance of the group with the rationalisation process enhancing interest margins as the three previous treasury functions became merged into one central division.

"Net income gains were restrained by high write-offs, provision for doubtful advances and initially high rationalisation costs."

Liebenberg said the serious problem with excessive asset growth in 1988 and 1989 had not been repeated, pointing to the reduction in total assets R33,7m (R34,8m) in the six months under review.

"This is a 6% reduction — on an annualised basis — which compares favourably with the growth of 15,7% for the six months to end December."

He said the reduction was less than the board desired, but that the trend was in the right direction.

Looking at the cost structure, Liebenberg said administrative expenses should start dropping to more acceptable levels aided by further attrition in the staff component.

He said streamlining operations had involved the transfer of 1,2m accounts between divisions, the closing of 109 offices and the transfer of 3 500 personnel.

The 'ANC bank' took us for a ride - angry clients

Where's our money?... Clients who said their loans never materialised wait outside the SANC's Athlone offices. The 'financial society's' city centre and Goodwood offices were locked up this week

W/Mail 1/3 - 7/3/91 (58)

It started off as the ANC bank, was forced to rename itself the SANC bank, and now its account is frozen after cries of fraud. By **GAYE DAVIS** in Cape Town

A CASH-loans scheme which started life masquerading as an "ANC bank" this week had its bank account frozen after a civil court action by angry clients claiming they were defrauded of savings paid as security for interest-free loans which never materialised.

The Southern African National Co-operation (SANC) started operating last year under the name of the African National Co-operation, or ANC bank. Initially, it issued membership cards in ANC colours — and its Athlone offices were decked in the familiar black, green and yellow.

Swift intervention by an alarmed ANC executive in the Western Cape resulted in a name-change. The offices were repainted and membership cards changed.

This week regional court magistrate P May ordered that the SANC had to show cause on March 12 why his ruling freezing a fixed deposit account held by the SANC should not be made final.

Evidence before the court detailed how clients, attracted by promises of large interest-free cash loans for vehicles, homes or starting businesses, paid R5 membership fees and later, "security fees" of up to R3 000 into the SANC's account.

But their promised loans never materialised and when they inquired about them, they were fobbed off with excuses, shunted between the SANC's various branch offices, or told to "learn to be patient", the court heard.

A typewritten document put before the court and headed "SANC detailing constitution" bears the signatures of members of "the Faithly Board of Directors" and describes the SANC as a "friendly society" formed to promote the "financial standard for African citizens".

It says the SANC worked "hand in hand" with the "General Council of Church Consulting Gospels" and the "Agricultural Promotions and Hike Enterprises" and that its name was "in respect of the African National Congress (ANC) that brought our nation up to this height".

A former SANC employee, who left after failing to receive her salary two months running, said in an affidavit that she knew of only a few loans granted, and these were only to people who asked for less than R10 000.

Cameron Mfino, a garage attendant with a wife and two children, told in his affidavit how he heard the SANC "helped people to get what they wanted": he wanted a 16-seater mini-bus so that he could run his own taxi business and give up his R680 a month job as a petrol attendant.

He paid a R5 membership fee and a R70 security fee and was promised he would soon get his mini-bus.

Six months later he was still waiting. In one of his many trips to the SANC's offices to inquire about his loan, he was told mini-buses were only given to people who had a "fixed deposit". Mfino then took R500 in savings and deposited it into the SANC's account.

Told to furnish the SANC with a quote, he went to a garage and chose the mini-bus of his dreams: it would cost R32 000. An SANC official promised the vehicle would be delivered to his home, but it never arrived.

Nine months after he handed over his membership fee, Mfino had still heard nothing. When he tackled an SANC official, he was told that he "must learn to be patient". He demanded his money back and was told he would get it back in 14 days, but nothing happened.

Desperate, he again approached the SANC for his money. Waiting outside the SANC's offices were several other dissatisfied clients. All were given a letter saying they should submit queries in writing and not come to the offices or telephone. Mfino was so angry he tore up the letter and went to the police.

At Cape Town's Caledon Square charge office a white policeman said he was not prepared to take the matter up. "He seemed amused that I was being robbed by the ANC, as he put it," Mfino said. He then approached the Legal Resources Centre.

Despite Mfino's experience at the charge office, the SANC is in fact being investigated by the SAP. This week's court order came only days after fraud squad members seized SANC documents and arrested a man at the company's Athlone offices in a continuing investigation sparked by a spate of complaints.

Documents in possession of the police list some 5 000 clients on the SANC's books. The man arrested has been released on bail of R500 and is due to re-appear in court on March 15 to face fraud charges, according to Detective Constable Johan Brits of the Central Fraud Unit.

ANC Western Cape executive member Amos Lengisi said this week the ANC was "very concerned" when the SANC started operating because "it gave the impression that the ANC was behind it".

Lengisi said: "They used the ANC colours as a hoax to get money from the people."

After a lawyer intervened on the ANC's behalf, the SANC — which is not registered as either a company or a close corporation — changed its name, its membership cards and repainted its Athlone office.

Lengisi said however that the ANC still regularly received complaints about the SANC's practices.

Loan scams: The rats are winning

TURN to the classified ads in any daily newspaper and you'll find a string of enticing offers promising cash loans of up to R100 000, "quick and friendly" service and "no sureties".

Not all of them are scams — but many use loopholes in the law to hoodwink unsuspecting customers, according to fraud squad detectives.

Most at risk are people with little formal education, who are ill-equipped to sift through the fine print before signing a contract.

When they have paid a fee for having the loan arranged and it fails to materialise, they might lay a complaint with police.

But police often have difficulty in making charges stick.

"The rats are winning," said Detective Sergeant Travis Howells of Cape Town's Central Fraud Unit.

"Often there is nothing strictly illegal about these operations," he said. "Someone comes and complains that they paid money and didn't get a loan in terms of the contract they signed. But the loan outfit can claim they're trying their best to arrange it.

"To prove bad intention you have to go through hundreds of applications for loans and try and show that only a few people actually received them — and that these were financed by money paid by others to secure loans."

But police are usually approached by only a few dissatisfied clients. To get access to the full list calls for a raid on a loan scheme's offices, seizing documents and effectively stopping it from operating.

But this can backfire badly.

The amount of painstaking work involved in sifting through each application can be overwhelming, resulting in the charges eventually being withdrawn. Then police face the possibility of being sued by the loan company for loss of earnings during the period they were shut down, as happened recently.

Howells and his colleague, Detective Constable Johan Brits, are now planning a new approach.

"It will involve a publicity blitz to warn the public once and for all against these schemes so they think twice before getting involved," Howells said.

"We also appeal to anyone who has lost money through them to come forward so we can take details.

"We hope to make a full report to the Harmful Business Practices Commission so that it can investigate and take action — perhaps by gazetting the names of disreputable schemes."

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Do you see more branches?

Schütte: In the urban areas, we will definitely see more because convenience of location is important. In the rural areas, banks will be careful not to extend their networks unnecessarily because of the expense. But the public reacts unfavourably to the closure of branches, particularly in small towns, and savings are really quite insignificant.

Grobler: Closing branches would cause some customer resistance.

Retailers are also expanding into the payments mechanism system. Do you see competition coming from areas other than the banking sector?

Grobler: Others will come into our market while we go into theirs. There is about R4bn invested in technology in the SA banking industry while retailers have almost an equivalent investment — both need volumes to support their infrastructures.

Will we see one-stop banking?

Brummer: That was a buzzword in the Eighties. We will probably have one-stop banking within a financial services group, but not necessarily within a single bank — you've got a brand problem to start off with. But we will still have specialist players.

Schütte: I think there is a trend to recognise the needs of different segments. Specialist branches have been introduced to cater for the corporate market, for example. I think there may be a trend away from the overall one-stop banking concept.

Lumsden: One-stop banking for individual market segments is here already. Consumers can access banking, insurance and hire purchase from branches. All major banks are trying to be all things to all people. But that doesn't mean you have to be a one-stop bank at every representation point.

Is there a role for the small bank?

Lumsden: Without a doubt — provided they choose the right niche. You need volumes to justify providing the service.

Grobler: Small banks are more focused on the non-technology component. There is no room for a small bank to compete in cheque accounts or saving deposits. They concentrate on corporate business and individual investment banking.

What can bank customers expect — cheaper services? Better services?

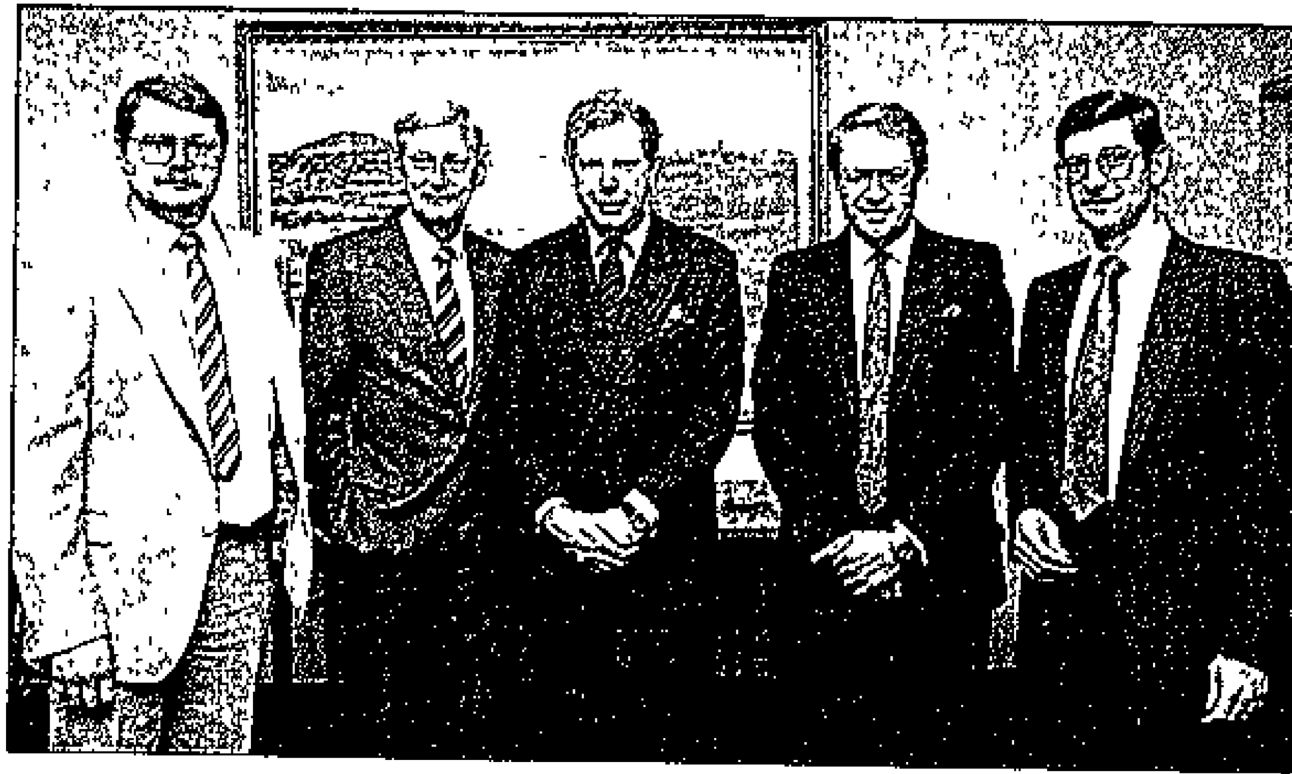
Schütte: I would say better services. Banks recognise they have to provide the services customers require rather than trying to sell the customers what the banks happen to have. I don't think prices will go down, as banks have to cover their costs.

Are bank customers price-sensitive?

Lumsden: They are if you have a major price differential. If you have fairly small price differences, then the overriding criterion is service. You have to have the delivery mechanism to give a customer the convenience he wants.

Do you see extended banking hours?

Schütte: We experimented a year or two ago by extending banking hours in major shopping centres. The demand was not there. The availability of a variety of services through 24-hour ATMs has done away with the need for longer hours.



Bank strategists (L to R): *Bankorp's Grobler, Stanbic's Schütte,* FM *editor Nigel Bruce, FNB's Lumsden, United's Brummer*

Grobler: Over the years, Trust Bank has always had the longest banking hours — 8 am-4.30 pm. These have changed recently to 9am-4pm. We found longer hours gave us no competitive advantage.

How do you get business away from other banks?

Grobler: Other banks get your business if you chase away your own clients. Bad service loses customer loyalty. Otherwise, it is very difficult to poach clients. You could use price.

Lumsden: Significant price differentials. But service is the major sustainable criterion.

Brummer: You've got to provide something your competitor doesn't, either in terms of products or a significant price difference.

What can bank shareholders expect from the banking sector?

Schütte: Our strategic objectives are to increase the value of investments made by our shareholders. Bank profits will tend to grow because of increased transaction volumes, business from new markets and reductions in operating costs through technology, centralisation or rationalisation.

How do you see the black market?

Schütte: We regard the needs of the black market segment in the same way we regard those of other market segments. There is, however, a difference in the level on which those services can be provided.

Will this market feel comfortable with the technology you have developed?

Grobler: They already use electronic banking. Technology can be made simpler so you don't have to read or write. You can get voice synthesisers or graphics. One theory is that this market will move straight from cash to plastic debit-cards, bypassing the cheque phase. We have to use technology — we can't service the large numbers by traditional brick and mortar.

Lumsden: We have a pilot at the moment in KwaZulu in a joint venture with a computer supplier. Rural residents can draw money from voice-activated mobile units, which saves walking long distances to the town.

What do current rationalisation talks mean for the banking industry? Will we see more?

Lumsden: I don't see rationalisation speeding up after the current talks, as there are not that many players left. I guess there has to be a certain size above which the authorities wouldn't be happy.

Grobler: The next major rationalisation phase, if it ever happens, is the merging of the banks' major shareholders — the life assurers. But I don't know if the authorities would allow it.

In your strategic planning, do you take into account the possible political pressures that may arise as a result of that concentration?

Grobler: We don't know what political environment or economic policies we will have. But nowhere in Africa have they nationalised banks.

What is more important to banks — increasing market share which could mean static profits or rising profitability and possibly shrinking market share?

Schütte: Profitability. While you need critical mass to justify your investment in infrastructure, size *per se* has not been an imperative for us. Our bank happens to be the biggest but if, through merger or takeover, another group becomes marginally larger in terms of assets, we would not be unduly concerned.

Lumsden: We have adopted a policy of restraining growth over the past two years. As a result we have shed some market share. At the same time, we have become the most profitable bank based on an average of return on equity, return on assets and net income. We have no intention of getting smaller in relative terms.

Grobler: It is interesting to see the two big banks not wanting to be the biggest, when it once was very important. With the exception of the UBS, which has the resources to increase in size, banks are going for profitability. But the limit to restraining asset growth is maintaining market share.

Brummer: Current rationalisation is driven by two things. The one is the need to sustain long-term profitability and, therefore, good returns to shareholders. The other is to provide a wider range of more cost-effective services which will in turn improve the base for profitability. You need a certain critical mass to pay for your infrastructure.

Do you see banks moving into other areas like securities?

Lumsden: I don't think you will get diversification for the sake of it. Diversification has to give a good return on investment and offer the customer something more. It depends on changes in regulations — institutions could be allowed to take shareholdings in stockbrokers for instance.

Grobler: I think it will open up but I don't see a major big bang.

What sort of image would your bank like to portray?

(Continued on page 33)

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new markets and existing customer bases have to be exploited. "Existing customers have around two to three products," Swart says. "By introducing a more sales-orientated approach, we can increase these to three or four."

Bankorp's Liebenberg

Of vital importance, is the so-called "emerging market" which is still relatively unsophisticated in relation to financial services. "One of the drawcards of Allied is that it has a large number of savings account customers from this market which are mostly unexploited," Swart says.

"Like the transport industry where taxis found the gap in the Third-World market, there is a similar gap in the financial services industry waiting to be taken," Bankorp's Liebenberg adds. "Success will depend on how the financial services group positions itself." He says once Bankorp has got its house in order — in the next two to three years — it will enter this market. "We will have to create the right atmosphere and image and establish an infrastructure in rural areas and densely populated urban areas."

FNB already has this infrastructure. Its busiest BOB machine is in Umtata. It has developed a voice-activated mobile bank to cater for illiterates in rural areas.

The political environment is, however, still uncertain. The threat of nationalisation, though receding, remains at least a strategic planning imponderable. The likely inflation rate is also unknown — under a "wealth-distributing" government it could soar. And "there is no system now whereby banks can protect their capital from the ravages of inflation," Chris Liebenberg notes. Trade unions, as yet muted in the financial services sector, are expected to become more vocal.

As in Europe, the barriers in SA between DTIs, stockbrokers and life assurers are eventually expected to fall, levelling the celebrated playing fields further. Bankers say assurers and stockbrokers have privileges. "Capital ratios and liquid asset requirements that institutions who deal with the public's funds are required to hold have not been extended to stockbrokers, with the result that bankers ... have been carrying most of the risks but none of the benefits," Bankorp's Liebenberg said at a conference last month.

Nedcor's Liebenberg

Assurers have the advantage of being able to offer inflation-hedge products which DTIs cannot. So the latter are likely, in the new environment, to edge their products towards these markets.

De Blanche sees the Act as a vehicle to legislate DTIs and life assurers under one Act. "DTIs and insurance companies should have the choice of what products they would like to offer," he says.

The customer can only benefit from the rationalisation and competition ahead. For his or her custom is vital that these institutions are to make the most of the expensive and advanced technology they now need.

Nor is the profile of a bank customer going to be easy to define in the future. Twenty years ago it was a large corporation. Ten years ago saw many small enterprises emerging as customers over which banks took increasingly special care. The Eighties saw the consumer as predominant.

Today the consumer is not what he used to be. Chances are he's not white and pinstriped anymore. Our guess is that banks are going to have to come to greater terms with the demands that women — more than likely black women — who aspire to sophistication, wealth and social position, will make.

The Soweto kugel is about to make her impression. ■

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PLOTTING FUTURE PATHS

FAR GREATER ATTENTION WILL BE PAID TO SERVICING CLIENT NEEDS

Clear strategic planning has become essential in banking. The *FM* spoke to key people involved in the motivation and implementation of the strategic plans: Bankorp's Stuart Grobler, First National Bank's Andrew Lumsden, Stanbic's Manfred Schütte and United's Clive Brummer.

***FM*: What is the greatest challenge facing the banking industry in this country in the next 10 years?**

Schütte: Banks will have to change their approach to service.

Lumsden: To follow the real needs of the different market segments and match products and services accordingly.

Grobler: Profitability. Large overheads and more stringent capital requirements make profitability more difficult. We are not making enough money on our basic business — buying and selling money.

Brummer: Identifying the needs of the emerging market and delivering products to them in a profitable manner.

Do you see banks developing along traditional British lines or do you see them providing long-term capital for industry and taking stakes in industrial companies, like Japanese and German banks?

Brummer: In the medium term, we have to develop a banking sector to cope with the transition in the new SA. We'll probably follow the UK model.

Lumsden: We are very different from Japan. Japanese banks' return on assets isn't acceptable to us. Market share is a primary driving force for them so they have a different emphasis. Capital requirements are not as stringent.

The ANC says it would like to see less emphasis on distribution of capital via the JSE and more on capital provision by a more compliant banking sector.

Grobler: We will have to move in that direction. The investment banking industry will develop but will focus on the upper end of the market.

Schütte: We will tend to follow the UK model where there is not much evidence of direct equity investment. In the new SA, one is looking more in terms of specialist functions, such as the role of the IDC.

Information technology has spawned an enormous amount of competition. Do you see that competition intensifying?

Lumsden: All the time.

Schütte: Technology is probably one of the driving forces in rationalisation discussions, as banks need volumes to support their infrastructures.

Do you see the sharing of costly technology?

Brummer: Yes, for instance we already share networks like the Saswitch automatic teller machines. There is already a shared banking clearing bureau. We will have a closer association between various specialist organisations. Duplication of support functions must disappear.

Do you see a tendency towards sharing branch networks?

Lumsden: Branch networks give some institutions a competitive advantage. If you share that advantage, you lose that competitive edge. You could price it to your advantage — it depends on the trade-off.

INTRODUCING VAT FM 1/3/91

FOOD FOR THOUGHT

This weekend the Cabinet will decide at what rate the new Value-Added Tax (VAT) will be levied on most goods and services. Once that has been done, the phasing-in period for its application to capital goods will be announced.

According to Deputy Finance Minister Org Marais the cost of the immediate application of the new tax to these goods could be as high as R7,5bn — so the higher the tax the longer the phased introduction needs to be, to soften the impact.

Final details of the new tax and the method of its application are contained in the report of the Value-Added Tax Committee (Vatcom) which was released on Wednesday. As this committee had represented on it some widely divergent interests, the fact that its report is unanimous (apart from one or two stated divergencies) suggests that it will pass smoothly into law without significant amendment. A detailed summary appears on page 35.

The final draft of the enacting Bill will be published later this month and the commencement date of the tax has been confirmed as September 30, whereupon the country will have an efficient and equitable direct tax on consumption that measures up well to similar taxes abroad. The convenience of its audit trial should assist, too, in the compilation of income tax.

To a large extent the principle that the tax be broadly based with few if any exclusions has been applied. Special pleadings for exclusion were quite rightly almost all rejected. The few exclusions there are were based on practicability and administrative convenience, except perhaps for farmers who have concessions to protect their cash flows which are subject to extreme fluctuations.

The exception to this principle is the zero-rating of a few items of basic foodstuffs over which the minister will have some discretionary powers. The rationale is, of course, that VAT is regressive — the poor pay proportionately more than the rich — so there were perceptions that a balance needed to be redressed.

Trouble is that extensive experience abroad has shown that zero-rating (which is less inflationary than exclusion) very seldom does help the poor. The most effective way of doing so is through direct grants or targeted government spending.

This is a principle that has now been acknowledged and a separate committee — the Calitz Committee — has been established to study specific ways of overcoming poverty. Very wisely the revenue-raising tax system will not be used to do so, as it has in the past. It led to misallocations and dislocations that reduced the potential for economic growth.

There is some progressivity in the tax, nonetheless, for services are included in the tax ambit. And services tend to be used more by higher than lower income groups. However, regressivity, which is in fact an indirect tax's merit, is a sensitive matter in political circles and Marais stresses that government will help the poor in many other ways.

Probably the most disappointing thing is that, despite what appears to be a substantial widening of the tax base, the Exchequer appears to be unlikely to receive a proportionately greater amount of tax from a lower rate. This is largely because of the quite substantial amount of double taxation under GST which will now be removed.

So it seems unlikely, especially in view of the declining corporate profits trend, that the VAT rate will be fixed substantially below the current GST rate. No doubt this will focus the minds of those consumers who had undue high expectations of the reduction in this type of tax.

Nor is it necessarily a good thing for the VAT rate to be lowered. It is, like GST, a consumption tax that penalises spenders rather than savers, who are in turn penalised by direct income taxes. It is also a neutral tax as it does not attempt to reallocate resources or redistribute income. It allows the market to allocate resources with minimum interference — and its potential for encouraging economic growth is high.

Moreover, it will draw a greater proportion of informal economic activity which easily evades income tax and which is being stimulated by deregulation into the tax net. This could be quite significant in time as even over the last 10 years black incomes have grown at a much faster rate in real terms than white incomes. Income redistribution must not be at the expense of the fiscus.

What those hopeful of tax relief should be pressing for now is a less progressive income tax, with lower thresholds, in this month's Budget.

The main advantage of changing to VAT from GST is that it is less easy to evade for it is collected at every stage of value being added — not left to the retailer at the end of the production and distribution line. It will now be less compelling for the local café owner to keep two sets of books, one for a potential buyer of his business and the other for the tax inspector.

It is a foregone conclusion that VAT will shortly be introduced into the TBVC states, otherwise business there will be at a disadvantage for it will not be able to claim credit against VAT already paid in SA. Apparently, the decisions have been taken in principle, only the manner and time of implementation have to be considered.

Both the Department of Finance and Vatcom have done their work very thoroughly. The reasons for their decision have been well argued and they have not given in to the type of special pleading that could turn out to be pervasive. They are now turning to the practical problems of implementation and various guides for different categories of business and professionals will be provided soon.

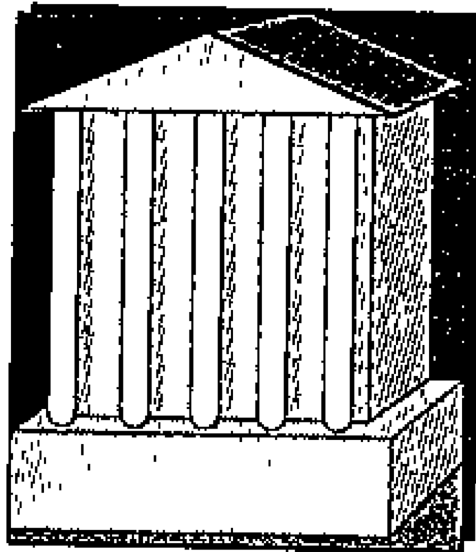
It is a pity that Vatcom felt the need to acknowledge what must have been political pressures to zero-rate some foodstuffs. Experience suggests that far from helping the poor, they will more likely be providing cheaper animal feed for the farmers. ■

BANKING — 1

KINGS OF THE FUTURE

(58) FM 1/3/91.

A NEW CLIENT GENERATION WILL RESHAPE THE IMAGE OF BANKING ITSELF



Once, going to see your bank manager was like going to the dentist. Banking halls had a grim marble authority and customers seldom got the feeling they were welcome. But today it is the customer who is king — and managers who do the wooing. The new banking environment — worldwide its effacts are everywhere apparent — is shifting priorities and the legislation that makes it all possible is falling into place.

Looking ahead just a little, it's possible to see financial services supermarkets selling a selection of branded products; voice- and thumb-print activated mobile banks; screen-based home banking; cut-price products; and generally what might be called a user-friendly environment. The lady from Soweto is as welcome as the plutocrat from Bryanston.

Even after current mergers or takeovers, the structure of banking groups will change further — rationalisation will not simply end with five major banking groups still in place. Some expect the number to fall to four or even three as more merger talks result in further rationalisation. "The only merger which isn't possible is that between Stanbic and First National Bank," says FNB's Barry Swart.

Yet even that may not be impossible.

Current mergers have been spurred by the new Deposit-Taking Institutions Act as financial services groups fight to position themselves to face greater competition, with banks and building societies now subject to the same legislation.

The Act puts more emphasis on risk management and increases capital adequacy provisions of deposit-taking institutions (DTIs) by introducing the Bank for International Settlements' risk-weighted capital:assets requirement of 8% by 1995. Barring UBS and Stanbic, all the major DTIs are under-capitalised.

So capital adequacy has become a major issue forcing banks to become more financially conservative, keeping asset growth in line with capital restrictions. It has also pushed banks into increasing the fee-earning side of their business such as insurance broking which falls off-balance sheet and does not require capital.

DTIs need capital to survive: even more, they need adequate capital and a large backer to allow them a place in the international arena once financial sanctions on SA have been lifted.

FNB's Swart

Consequently, the five groups have sought the comfort of powerful shareholders — though not always willingly. Four out of five have a life assurer: Stanbic has the Liberty Group which owns 33,5%; Nedcor has Old Mutual (52%); FNB's parents are Southern Life (25%) and Anglo (22,5%); Bankorp has Sanlam and Sankorp (together 90%). The proposed Absa Group, in whatever form it ends up, will have Rembrandt as its major shareholder, probably in excess of 30%.

UBS has been a late starter (or a prudent one) in building its group structure — other groups have already positioned building society, banking and insurance interests under one roof.

Chiefs of the big five banking groups, which have about 80% of all deposit-taking business, believe there is room for all. "In the next five years, the environment will open up to include the whole of southern Africa," says Bankorp executive chairman Piet Liebenberg. "SA is overcrowded in terms of infrastructure, it's not overbanked." He believes: "We're going through a temporary situation where technology and branch networks put pressure on operating costs because of costly duplications."

United's De Blanche

But it is these expenses that have resulted in an industry which Stanbic CE Conrad Strauss says is the most competitive in the SA economy. Banks have to fight to keep volumes at levels profitable enough to support their infrastructures and the capital intensity of the banking environment.

High operating costs are one of the reasons for rationalisation. United MD Mike de Blanche believes there has been no real rationalisation yet. "Managers will have to make some tough decisions regarding people and systems," he says. "DTIs will have to reduce costs by cutting out duplication of computers, human resources and branches, and pass the savings on to the man in the street. It is the only way to remain competitive."

For example, De Blanche reckons if UBS and Volkskas merge, outlets will be structured to combine human resources and technology in one unit while still keeping the individual product brand names.

The largest cost to banks comes from technology — an expense which has become a drain on earnings worldwide. De Blanche says research indicates that by 1993 the total worldwide banking investment in technology will amount to US$250bn. "In 1987, computer costs amounted to 13% of total operating expenditure; by 1990 this had reached 18%," he says. Technology has become a vital part of the survival kit.

Technology-based products have been used to lure new customers and secure existing ones. Nedcor CE Chris Liebenberg believes banks have been innovative in generating new products on the asset side of their balance sheets. "DTIs will become more aggressive in introducing savings-related products and services," he says.

But no bank can keep the competitive advantage of a new product for long — competitors can almost immediately introduce similar products.

Some try to buy business. When Standard Bank decided to increase its home loan book, it cut home loan rates below those of competitors and took on R3bn worth of business in 18 months.

However, cutting prices may give only a short-term advantage.

"Pricing differentiation is increasing," Nedcor's Liebenberg says. "But more important, differentiation from competitors comes from accessibility and quality of service."

Strauss agrees: "We place convenience of location, efficiency of service and staff knowledge above pricing. It's seldom possible to drop prices for a significant length of time as this puts pressure on profitability." But it is a strategy useful when a bank seeks to increase market share.

Chris Liebenberg believes the bank which can achieve the cheapest and most efficient delivery system will be the one with the competitive edge. "Present banking hall structures are far too expensive — we have to find better ways to deliver." Nedcor has grown in areas where it did not have sufficient volumes to justify expenditure and has strengthened its presence in the consumer market with its link with SA Breweries companies, details of which are still to be announced.

But people don't change banks easily. "Most people have a preference and place 50%-60% of their business with their choice," Piet Liebenberg says. Swart believes none of the five large players will make major inroads into each other's markets. So

INVESTMENT GUIDELINES

NEW ITEM

FM 1/3/91 (58)

Problems relating to futures and options are holding up the revision of investment regulations for financial institutions. When Finance Minister Barend du Plessis introduced the Prudential Investment Guidelines in October 1989, to replace prescribed assets, he promised to revise them within a year. But the emergence of derivative instruments as an investment alternative has caused delays.

Even a small percentage of total assets invested in futures and options could give a very large exposure to equities. Registrar of Financial Institutions Piet Badenhorst says the new item will be discussed with the industry at the beginning of this month. The revised guidelines will then have to be submitted for approval by the minister.

The new guidelines are expected to increase the 65% of assets limit on equity investment to around 75% and allow a single investment in shares of large, diversified companies to be increased from 10% to 15%. The current maximum 85% in a combination of shares and property could be increased to 95%. The remaining 15% which has to be invested in cash, government stock and related instruments could now fall to 5%. Recommendations were also made by the industry that the current 30% maximum investment allowance in property could drop to 25% as not many fund managers take advantage of the 30% limit.

Members of the industry have not been overly concerned that the new guidelines were not introduced by the promised date of October 1. Because of the poor performance of the stock market, fund managers have not wanted to increase their exposure to equities to the new proposed limit.

But members of the industry generally agree that these percentage limits should not be in place at all. They say there should be total freedom on investment decisions with no limitations on any category of investment.

"Our own actuaries value the liabilities of the company and would advise the investment division of the appropriate asset mix for each major category of business," says Southern Life assistant GM investments Francois Goosen.

"Every portfolio has a different liability profile," another senior portfolio manager says. "The monitoring of the portfolios should be left up to the institution and its actuaries."

Badenhorst says the problem lies with some of the smaller funds which don't have the expertise of the larger fund managers. "The guidelines force fund managers to have a spread and thus protect investors from an over-exposure to one industry or investment," he says.

Equities have provided the best long-term returns. But most portfolio managers see gilts playing an important role in the portfolio mix. The unit exposure invested in gilts depends on the product. For example, annuities are often 100% invested in the capital market. If percentage limitations were abolished, gilts would still be used as the low-risk portion of the portfolio. A fund manager says, on average, portfolios haven't decreased their investment in gilts. This and the fact that government has borrowed less means volumes have been reduced.

Prospects of consistent positive real interest rates could improve the returns on this portion of the portfolio, making gilts a more attractive investment. ■

(Continued from page 28)

Brummer: One of stability, responsibility, soundness, innovation and one that provides cost-effective services which will meet our customers' needs.

Lumsden: Service is extremely important. To be the leading bank in SA, we have to provide excellent service.

Schütte: We would like to be perceived as a bank that really takes care of its customers.

Grobler: We have traditionally focused on service, warmth and the personal touch. We must also have technology that works.

Will the number of bank employees shrink?

Schütte: They will grow at a slower rate. Technology will take care of the mass market where labour intensity has been in the past. Personalised service will continue at the upper end of the market.

Should SA banks regard themselves as part of the global market or should they confine themselves to seeing their role as SA institutions?

Lumsden: Hopefully we will be part of the global market again. Banks need to be in a position where they can fit in immediately.

Brummer: It is critical that we participate in the process of globalisation.

Schütte: It depends how we define globalisation. American banks, for example, globalised with extensive worldwide branch networks. I don't see the need for SA banks to do that. SA banks must have established correspondent bank relationships and branches in places like London and New York.

Why is it necessary to do that?

Schütte: We are at a disadvantage being so far away from the Western world. We need the direct exposure to a sophisticated market.

Would you increase your network into less sophisticated countries?

Schütte: Given the potential for increased trade within southern Africa and the potential role which SA will play, it will follow naturally that we will extend our banking operations into neighbouring countries at the appropriate time.

Grobler: We would go where our clients go. We are a member of the global community, but I don't think SA banks will compete with the top 10 worldwide in terms of size or branch networks. But we cannot afford to be left out. ■

FNB, UBS in last-ditch talks

Star 1/3/91.

By Sven Lünsche (58)

In a desperate attempt to avoid a lengthy and costly legal battle for the control of Allied, First National Bank and the UBS-led camp are holding discussions to iron out their differences.

This emerged yesterday after the Securities Regulations Panel (SRP) issued a statement in which it announced that the publication of a key ruling would be withheld until Monday.

Allied shares were suspended on the JSEe yesterday and are expected to remain suspended until Monday.

The panel said in a press release that the two parties requested a delay until Monday morning to work out a deal with a view to resolving their differences.

Both UBS and the FNB had requested that details of the decision by the panel be kept confidential until the outcome of a meeting between the SRP and the parties on Monday.

The panel has been meeting over the last four days to hear an appeal by FNB against an earlier finding which apparently favoured UBS.

Analysts say that the earlier ruling allowed the UBS to buy more than 30 percent of Allied shares without making a mandatory offer to minority shareholder.

FNB yesterday extended the deadline of its offer to shareholders to Tuesday and could extend it further.

BANKING FM 1/3/91

CAPITAL CONTENT (58)

A spate of debentures and preference share issues from banks is likely over the next two years. To meet the risk-weighted 8% capital:

Continued

assets requirements of the Deposit-Taking Institutions Act by 1995, banks will have to think of ways to raise additional capital.

Primary capital includes capital from the issue of ordinary shares or non-redeemable non-cumulative preference shares, while secondary capital includes debentures and cumulative preference shares. Up to 4% of capital may be second-tier.

Most banks already have their primary capital in place; in the past, items which account for capital fell largely into this category. So most capital raised will be second-tier which is much less costly than primary capital.

It is also more accessible: with banks' profitability under pressure, returns on rights issues are too low to attract investors.

The Act stipulates debentures can be issued for a minimum of five years and will reduce in value by 20% of the initial nominal amount, starting in the fifth year preceding maturity. They devalue by a further 20% in each ensuing year.

Standard Bank decided to raise capital via debentures, before the Act came into effect on February 1, to avoid the 20%-a-year devaluation. Its R250m debenture issue won't amortise over the next five years.

Overseas banks, which have struggled to gain access to capital from equity markets, have been inventing ways to increase their capital adequacy ratios to meet the Bank for International Setttlements' (BIS) 8% capital adequacy requirement. One of the means used is the revaluation of property reserves — this effectively raises capital from assets which already exist. The Act stipulates that only 50% of revalued assets may be used for secondary capital.

UK's NatWest converted this second-tier capital into primary capital by offering its revalued fixed assets as a bonus issue of shares to existing shareholders.

But "in SA, we would be unwilling to permit the capitalisation of revaluation reserves which are not permanent in nature," says Deputy Registrar of deposit-taking institutions, Christo Wiese.

Unlike SA banks, overseas banks' main problem relates to first-tier capital because of their deteriorating credit quality and their inability to raise capital on equity markets. Preference share issues are popular, especially in the US where investors are given tax incentives, but this doesn't solve their shortage of primary capital.

The BIS has been lobbied by overseas banks to allow preference shares, issued through subsidiaries, as primary capital. However, only banks which report capital on a consolidated basis will benefit. Banks which do not consolidate and count the parent's capital, only, will probably have to continue using these preference shares as tier two capital.

"All SA banks now have to maintain adequate capital on an individual basis, though the intention is to move to a consolidated basis in the future," Wiese says. "When this comes into being, the BIS guidelines will be followed as far as possible."

Standard Bank chief accountant Henry Shaw says SA banks will find it more difficult to raise second-tier capital than their overseas counterparts.

"We have to buy money in tranches of five to 10 years — long-term money," he says. "And there are not many providers of long-term funds."

SA banks will also find it more difficult to use innovative ways of raising capital. The Act specifies that all ways of raising capital may be done only with the approval of the Registrar — "who is not likely to allow gimmicks," as one banker puts it.

The pressure is expected to be greatest around 1993 when capital:assets requirements amount to 6%. Hopefully, the timing will be better then and markets buoyant. "The time and price have to be right," says Bankorp senior GM finance Pieter Strydom. "When interest rates come down, banks might see an opportunity to raise capital through debentures or preference shares."

Another way in which banks will increase their capital adequacy is by reducing assets, which is why more are looking to securitisation. ■

Bankorp now moving in the right direction

Diagonal Street

ANN CROTTY

Bankorp has reported earnings of 21,6c a share for the six months to December and has declared an interim dividend of 10c a share.

This was achieved after providing R139,2 million for doubtful debts.

It doesn't look like a great performance — at operating profit level the R220,5 million earned in the first half represents an annualised return (pre-tax and pre-provision) on assets of only 1,4 percent.

Executive chairman Piet Liebenberg says this is not good enough and is looking for a net return of one percent — this is after providing for tax and after providing for doubtful debts.

Onerous

This means a pre-tax and pre-provision return of 2,5 percent — assuming a less onerous bad debt provision. (If bad debt provisions continue to take up around 60 percent of operating profit as they have done in the review period, it means that the return on assets at operating profit level would have to be about four percent.)

All of which means there is considerable scope for improvement at Bankorp.

Operating profit will improve and tighter asset management will see a reduction in the rate at which bad debts are provided for — assuming no massive deterioration in economic conditions.

But at this relatively early stage the most important thing about Bankorp's results is that they represent a very strong move in the right direction.

Extensive write-offs and a R550 million capital injection undertaken in calendar 1990 have produced a reasonably healthy balance sheet.

Slow asset growth and a continued conservative approach to bad debt provisions should sustain this health.

Improvements on the operating front (including the writing of better quality business) will ensure that by end-'95 Bankorp will be able to meet the capital requirements imposed by the Deposit-Taking Institutions Act.

Mr Liebenberg is optimistic of such improvements.

Traumatic

The review results were achieved at a pretty traumatic time for the group.

Extensive restructuring and rationalisation was being undertaken and a new culture being introduced.

As all of the changes are bedded down (including merging three treasury operations into one), management and staff will increasingly be able to concentrate on just one function — running a bank.

Mr Liebenberg has one note of hesitation about the future. Previously he had thought it would take 2-3 years to build Bankorp into one of SA's leading banking and financial services groups.

The sharp deterioration in the economy since last November has caused him to extend this period.

Perhaps it is still too early for the market to take a more positive view of a group that has for so long been a source of disappointment.

But some of the tougher spirits may see the long-term attraction of Bankorp at 280c. (Sanlam/Sankorp's massive holding has helped to support this price).

Assuming full-year earnings of 43c a share and a dividend of 25c, the share is on a prospective dividend yield of 8,9 percent and prospective P/E rating of 6,5 times.

In the six months to December the group achieved a 48 percent hike in operating income to R220,5 million (R149,1 million).

According to Mr Liebenberg, the extent of the improvement was attributable to an increase in interest margins between June and January.

He estimates that these margins were lifted by one percentage point.

Premium

This reflects better market conditions generally, but in addition: "With one treasury department instead of three we were better able to manage our liabilities."

Mr Liebenberg also notes that TrustBank no longer had to pay a premium on deposits as market confidence in the bank returned.

The margin improvement more than covered the higher operating costs.

A lot of these costs were one-off and related to rationalisation and retrenchment expenses.

The provision for doubtful debt was up 45 percent to R139,2 million (R96,2 million). Some R24,9 million was put into a tax equalisation account.

Attributable income was up 19 percent to R48,3 million (R40,5 million).

On the balance sheet side, the growth in assets was kept to a commendable two percent. Total assets were R30,3 million. The capital/asset ratio is around 4,5 percent.

As the main shareholders have agreed to accept bonus shares instead of dividends, the interim dividend will involve a cash payment of less than R4 million.

Over time this dividend policy will benefit the capital/asset situation as cash will be retained in the group and the capital base will be increased through the issue of the bonus shares.

Truce declared in battle for Allied

(58)

GRETA STEYN

FIRST National Bank (FNB) and the UBS have declared a truce in the takeover battle for the Allied and are holding discussions to "resolve their differences", according to a statement released by the Securities Regulation Panel yesterday.

The JSE yesterday announced the suspension of trade in the Allied share at the request of the bank's directors.

The rival predators will meet the panel again on Monday when an official announcement will be made.

There is speculation that the two sides are working on a deal that could end the feud, characterised by fighting over legal technicalities and a war of words aimed at the shareholders.

The two parties started talking on Wednesday night after they had heard the panel's ruling against FNB's appeal against an earlier decision. The panel's earlier decision is understood to have given the UBS the right to purchase large blocks of Allied shares in the market without being forced to make a new offer to minorities.

The panel's statement yesterday said UBS and FNB had requested details of the decision be kept confidential until the outcome of a meeting between the panel and the parties on Monday. But it is understood the panel itself is also insisting on secrecy.

The Allied share price fell to 260c on Wednesday from a peak of 300c at the height of the frenzied battle. The panel supported the share suspension. FNB yesterday extended the closure date of its offer to shareholders from today to Tuesday and indicated that another extension could not be ruled out.

Before this week's ruling, both camps expected a legal battle whatever the outcome, with the loser taking legal action against the panel. There was speculation yesterday that the panel had not handed down a clearcut ruling in favour of either of the parties, but had asked the legal teams to hammer out a compromise within the ambit of the Takeover Code.

If the original decision had been overturned, it would mean the UBS would have to make an offer of about 300c (the highest price paid in the market) to minorities. But the UBS would contest this outcome, saying it acted in good faith. If the ruling was upheld, UBS would have little likelihood of losing — and FNB could be expected to take legal action against the panel.

UAL's Mike Farrel, who chaired the appeal, insisted a decision had been taken and that it was now up to the parties to iron out their differences.

● Comment: Page 10

BD 15/3/91

Act 'could make life offices work illegal'

SEAN VAN ZYL (58)

THE way in which the R21bn life assurance industry operated could become illegal in August if life offices were not excluded from the new Deposit Taking Institutions (DTI) Act, Life Offices Association deputy director Juri Wessels said yesterday. BDay 1/3/91.

Wessels said it would be inappropriate to subject life assurers to the same liquidity requirements as "real" deposit-taking institutions like banks.

Life offices have been granted a six-month reprieve until August before they have to comply with the DTI Act's assets versus liability requirements.

Wessels said banks and building societies were "fundamentally different from life assurers," in that DTI's handled immediate call money and longer term fixed savings (on contractual deposit for longer than six months) while life companies' business was on a contractual period of more than five years.

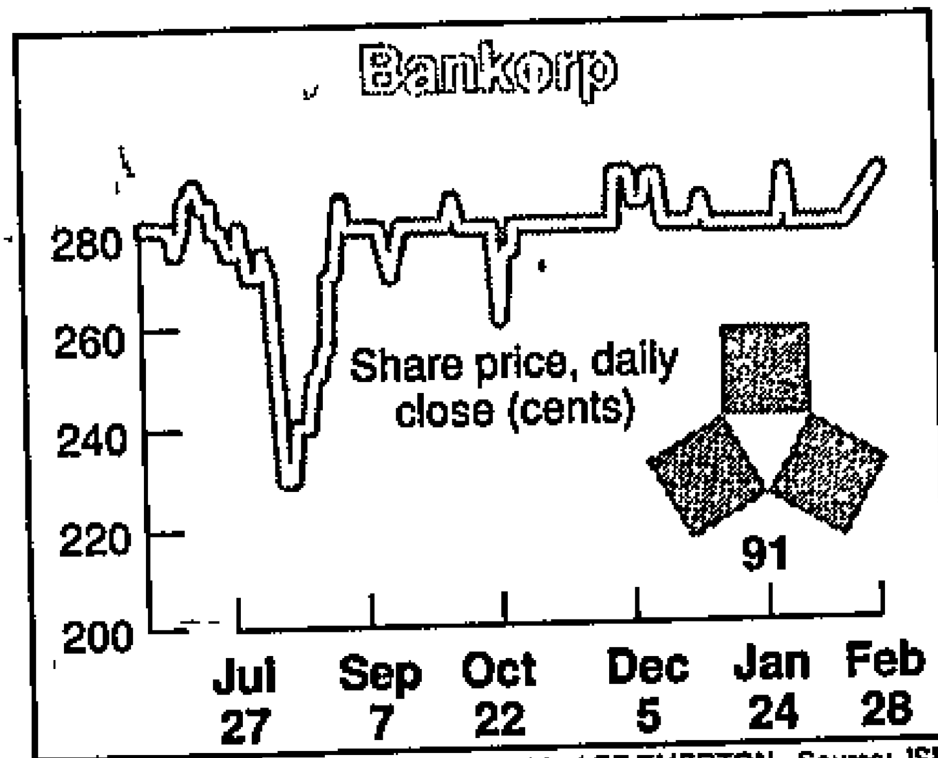
Liberty Life's joint MD Dorian Warton-Hood explained that the demands on assets of DTIs differed greatly from those of life offices. "Should the DTI Act's current requirments come into play, the life industry would be turned into a circus."

Wharton-Hood said whether or not assurers were granted a further six-month exemption to the DTI Act's requirements, or whether control was removed totally, depended largely on the much-awaited findings of the Jacobs investigation into the flow of savings.

He said the authorities had not given any indication if they planned to let the exemption clause of the DTI Act lapse.

Bankorp bounces back into profit

BANKORP returned to profit in the six months to December, but has indicated full recovery could take five years.



ANDREW GILL

Executive chairman Piet Liebenberg says the restructuring and strengthening of the bank's assets is going more slowly than he would have liked. However, he believes a good start has been made.

The disclosed interim attributable profit is R54,8m for the six months ended December, against R45,8m at the previous interim stage. The 1990 financial year resulted in a disclosed loss of R368m as a result of major write-offs and additional provisions.

The bank's previously precarious assets book have declined by an annualised 6% to R33,7bn, but, says Liebenberg, this is less than the board's desired 10% reduction for

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Bankorp

☐ From Page 1

the year. Most of the discarded assets did not meet the bank's new quality criteria.

Provisions for bad and doubtful debts were a hefty R139m (R96,2m) and are likely to continue at the recent high levels, Liebenberg says. Provisions will be dictated by the quality of the book, the economic climate and his own conservatism.

An unchanged interim dividend of 10c has been declared. Payment will be made either through cash or by the issue of bonus shares. Sanlam and Sankorp, which jointly hold 90%, have elected to take the shares, resulting in no more than R4m being paid out in cash. This, Liebenberg says, will strengthen the bank's capital position to the tune of R34m.

The November rights issue netted R561,6m to bring the bank's primary capital position up to R1,3bn. It also resulted in a 5,4% capital-to-risk weighted assets ratio, well above the Deposit-Taking Institutions Act's required 4,5%. Secondary capital has not been included for the moment.

Liebenberg ascribes the turnaround in the case of Bankorp largely to enhanced interest margins resulting from the centralisation of the three treasuries into one.

Net operating income was up 48% to R220,5m. This was diluted by the R139m provision and a R25m tax equalisation charge.

Details of the bank's rationalisation included the internal transfer of 1,2-million accounts, involving R5bn in assets and R3,5bn in liabilities.

Detailed breakdowns of the various operating divisions will be supplied later in the year.

CU profits hammered by underwriting loss

BDay 1/3/91 (58)

SEAN VAN ZYL

COMPOSITE insurer Commercial Union (CU) has disclosed a 62% drop in pretax profits to R31,1m (R50,5m) for the year ending December 1990.

Although the company achieved a modest increase of over 15% in net premium income to R303,7m (R262,9m), an underwriting loss of R14,8m, compared with an underwriting profit of R11,5m the previous year, resulted in the poorer show in earnings.

The underwriting loss reflected "the serious state of the short-term insurance industry" with the number of claims paid out last year having climbing dramatically, MD John Kinvig said yesterday.

The underwriting loss of R14,8m was, however, softened by a 9,3% increase in investment income to R38,3m (R35m).

Because the company is involved in both life and short-term business, it was also able to offset losses incurred on the short term side with its life business. A tax loss of R1,9m lifted after-tax profits to R33,1m (R38,7m).

Kinvig said "a slight improvement is discernible" regarding the year-end's underwriting loss of R14,9m compared with the half-year's underwriting loss of R11,1m.

Corrective measures which the company took during the year were having a beneficial effect.

Earnings of 331c a share (387c) were notched up. A final dividend of 70c (65c) was declared, bringing the total to 105c (95c) a share.

On the long-term side, investment income rose by 20% to R171,3m (R142,3m). Life fund assets also climbed by 14% to top R2,1bn (R1,8bn).

Kinvig expected a 20% rise in rates this year.

AA LIFE'S DIVIDEND FM 1/3/91 (58)

AN ACTUARIAL CONUNDRUM

Very few fledgling life assurers in the first phase of rapid growth have as much capital as they would like. This is because commissions to agents and brokers, together with actuarial reserve requirements, usually equal or exceed the premiums flowing in from new business written. And the faster it is written, the greater the capital strain. AA Life, though nestled safely in the arms of asset-rich mining house Anglovaal, has in recent years been a marketing phenomenon in life assurance and is understandably light on capital.

As Anglovaal is its largest shareholder, there is no need for concern over the long-term capital needs of this lusty young life assurer. But an interesting difference of opinion has arisen over whether it has been prudent in declaring a dividend on February 1 of R6,5m, at a time when it has just raised more capital and is likely to do so again in the foreseeable future.

Badenhorst

In our view, R6,5m is small beer to Anglovaal.

Though the company does point out its sensitivity to the needs of minority shareholders when determining dividend policy, Anglovaal Insurance Group CE Brian Benfield explains that to pass a dividend now would prejudice future issues — and he has a point. Except that Anglovaal is a family business that in the past has been jealous of its control. So presumably it would not want to reduce its participation.

Whatever the reason for the dividend, Ron Howroyd, a consulting actuary to AA Life until recently, believes strongly that it is imprudent.

Benfield is understandably put out by this viewpoint and quotes well-known literature on the subject saying that, in the early years, the shareholders of life assurers have to act as bankers to the policyholders. To our mind that makes the payment of this dividend all the more inconsistent. Benfield replies that this was a modest and prudent dividend and that a record of the consistent release of emerging profits is important to maintain policyholder and shareholder confidence. Moreover, he points out Howroyd does not know AA Life's financial position as at the end of December.

Benfield has support from Registrar of Insurance Piet Badenhorst who told the *FM* this week he was "comfortable" with AA Life. With Anglovaal behind it, who wouldn't be? Anglovaal's Clive Menell has indicated that AA Life will get more capital if and when it is required and that it enjoys his great confidence.

Coy though the Registrar's reply may be, he did confirm that Howroyd had filed a report to his office but pointed out "a consulting actuary has no status." AA Life was not advised of this report nor was it given a copy. The Registrar, who is a relatively recent appointment, talks only to the initiated. Whether that is wise for a public servant charged with his fiduciary responsibilities is another matter.

Whatever the merits of the difference of opinion, neither shareholders nor policyholders are likely to be endangered But ordinary folk buy assurance policies on the basis of the utmost good faith and they are entitled to assurance that the company in which they have placed their money and trust is being run prudently. Howroyd must be taken seriously.

He is a qualified and respected actuary who has worked for the company for nine months. As far as the *FM* can establish, his views are shared by AA Life's official valuator (who was also the MD), Rob Williams, who wrote to other directors early in February after leaving the company to disassociate himself from the dividend declaration. Though Williams will not talk about the incident, Benfield has confirmed that Williams did disassociate himself, in a letter dated February 1 and postmarked February 8. Williams resigned as MD of AA Life because he saw his future more in actuarial science than in marketing, which was an important part of his job. The Registrar says he is still the company's official valuator until a new one is appointed.

Howroyd supports his view for three reasons:

□ "On the basis of the information available to the directors of the company at the date of the declaration, it was clear there were no shareholders' funds from which the dividend could be financed. The only source from which payment of the dividend could be made was assets that were required to support the liabilities to policyholders;"

□ "There were no earnings to support a dividend declaration," and

□ "There were deficiencies in linked policyholders' funds."

Howroyd

Howroyd states that there was a mismatching of about R50m between the portfolios held to support certain linked policies' liabilities. According to the triennial valuation, the life assurer's capital base has been absorbed over the past three years. This arose as a result of new business expense and valuation strains

Benfield confirmed the capital strain in a statement to the *FM* last week but pointed out there had been an infusion of R29m of seven-year redeemable preference shares. The Registrar's office had, he added, agreed that this would be regarded as permanent capital.

According to the triennial valuation which Williams signed, AA Life assets exceeded actuarial liabilities by R1,8m. Williams had also earlier signed the declaration, as valuator, in the company's financial statements, that assets exceeded liabilities. Howroyd, however, insists that using more stringent calculations, there would have been a deficit at April 30 last year — of around R10m.

At a meeting with the *FM* on February 19, Benfield justified the dividend on the basis of "embedded values." This is a life assurance term for the present value of business written but which, because of up-front costs and reserving, is not yet producing surpluses. Embedded values are sometimes quoted in valuing a life office's business in the case of a takeover.

Later that day, Benfield was shown a draft report quoting Howroyd which disputed that the embedded values had ever been calculated and also stating that, were a valuation made, the embedded values would not justify the declaration of a dividend. Benfield said that a new, but uncertified, valuation to end-December had been made by Howroyd's former actuarial assistant. On this basis, there was a substantial surplus and the dividend had been declared in the light of this surplus.

Howroyd was recruited by Benfield last year to assist in setting up computerised valuation programmes at AA Life. Initially appointed on one month's assignment, he found the work involved was more than originally contemplated and he was given a retainer for a further

year, to terminate in June 1991.

Howroyd asserts he was not privy at first to all the fine details of AA Life's assets (but nothing was withheld from him). He says that it became clear to him that, based on his original valuation of liabilities, there would have been a shortfall of R10m against assets. Eventually, he made sufficient adjustments to his original basis to produce a surplus, at April 30, 1990, of R1,8m. In January, the triennial valuation showing this surplus was signed by Williams.

Benfield

Though a dividend had been declared, based on the April 30 results, no policyholder bonus was declared at that time. Benfield explains that a bonus was declared to the end of the new financial year, December 1990, and the amount was adjusted to ensure that no policyholder was prejudiced by the change in the declaration date.

According to Howroyd: "By the end of October I had completed the valuation. The date for submitting the report had been extended from the end of August until the end of October. I discussed the basis of the valuation with Williams and it was agreed that we would use the valuation basis prescribed in the new Insurance Bill. I completed the calculations and this showed a deficit of liabilities over assets of R10m. I reviewed the basis of the situation with Williams and it was decided that there were a number of areas where I could use a lighter basis, as the new conservative basis, the prescriptive basis for linked units, had not yet become law."

After producing the valuation showing a surplus of R1,8m, Howroyd records, Benfield questioned the validity of his findings. Specifically, Benfield suggested that liabilities might include policies that no longer existed or that there might have been double counting.

"I spent another month examining the data again. It showed that, far from finding liabilities that shouldn't be there, there were liabilities that weren't there but should have been there, which increased the deficit." In his opinion, too, this re-examination revealed the partial mismatching in the internal portfolios. This was subsequently rectified.

"The sound conduct of the business requires the premiums from these policies to form or purchase the designated units so that broadly matched positions always obtain."

Howroyd says that, in his view, the dividend could only have been declared out of assets that should have been retained as security for policyholders. On seeing the dividend notices in the media, he contacted Williams, who said he was not a party to the declaration. By that time (February 2) Williams, though still valuator of AA Life, was no longer MD.

Howroyd then arranged a meeting with the Registrar's office, meanwhile informing Williams of his intentions. At this meeting, Howroyd told the Assistant Registrar (long-term) of his views. On his return from Pretoria, Howroyd had a discussion with Benfield during which it was agreed to curtail Howroyd's contract as most of his work had been completed.

On February 19, Benfield issued a statement to the *FM*: "The AA Life actuary (Williams) has recommended that, in order to maintain its momentum and growth pattern, serious consideration should be given to further enhancing the capital structure of the company."

In the triennial valuation, Benfield said, the actuary had said that new business and expense strains, together with below-average investment returns from a depressed stock market, indicated that if the company wished to continue with its strong growth and its infrastructure development, prudence would dictate that more capital be injected over the next two to three years.

Benfield stated: "AA Life is effectively nine years old and is experiencing the classic symptoms of a young and growing life office. At about this stage in its life, a growing life office experiences a peak in its demand for capital. Thereafter, profits emerging from business written in the earlier years accumulate to a level at which the office becomes self-sustaining."

Benfield added: "Naturally, one would always have preferred to delay further calls on capital but we accept the actuary's recommendations at this stage. Just at present, the company is adequately provided for, but the earlier new capital is brought in, the sooner the company will be in a position to take full advantage of the upswing in the SA economy which we anticipate in the coming years. A listing of AA Life during this period is also very possible and this will provide an opportunity for more shareholders to participate in the fortunes of the company than the relatively few who are presently firm holders of Avins and AVF Group shares."

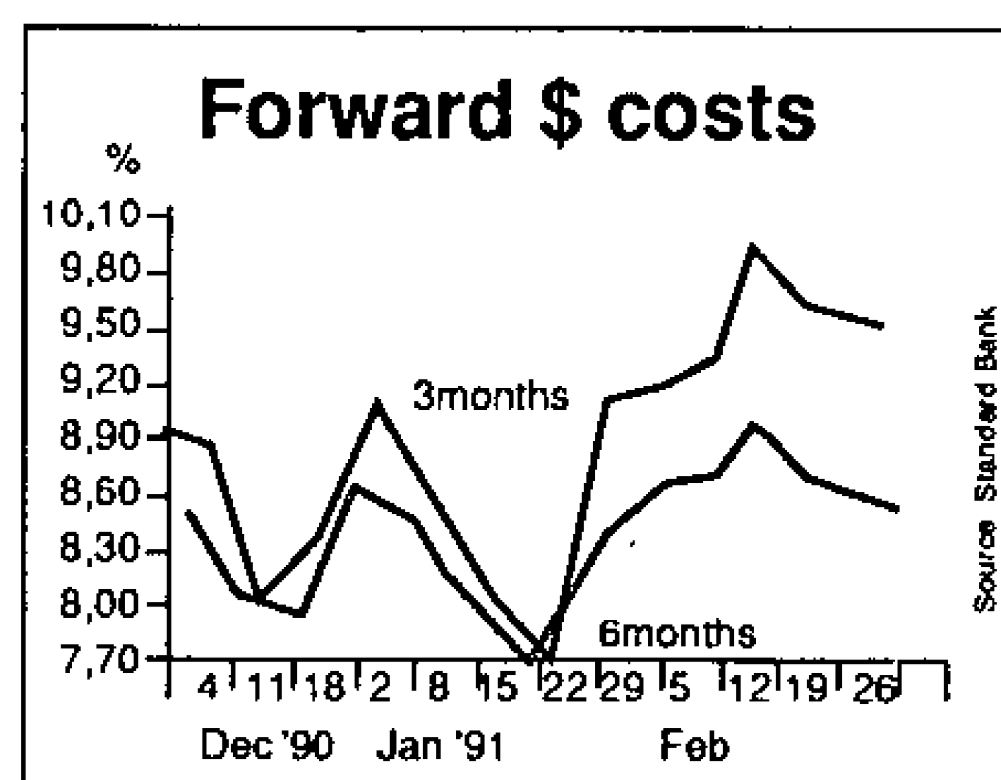
Howroyd (67) has long been a stormy petrel in the life industry. In his own word, he is an iconoclast. As long ago as 1969, when he was deputy GM of SA Eagle, he made headlines with a scathing attack on the activities of life offices. The Life Offices Association in 1970 prepared a detailed incident report, listing five cases where Howroyd was said to have breached conventions of the LOA, which rapped him over the knuckles. The incident report mentioned that "Eagle have been given two chances to mend their ways . . ."

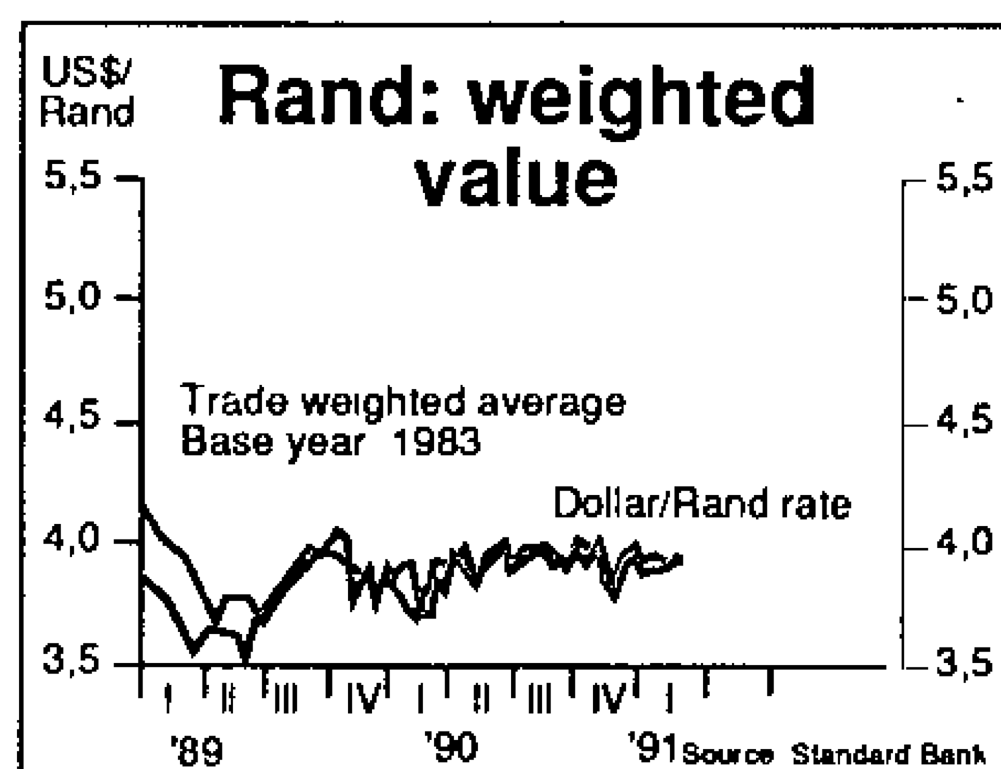
Subsequently, Howroyd did duty with the Eagle both in the UK and Australia where, he says, he was an equally controversial figure. The incident report was unearthed by Dick Geary-Cook of the Life Offices Association and sent to Benfield after the *FM* had spoken to him (Geary-Cook) this week about this matter.

Howroyd says: "None of this has any bearing on the current issue, which is whether the dividend was prudent". And he is quite right.

Brian Deans

MARKET INDICATORS





RAND'S PRICE

Feb 26 1991	R1 equals	One foreign unit equals (R)
SDR	**0,274**	**3,648**
	0,298	3,358
ECU	**0,287**	**3,480**
	0,323	3,099
UK £	**0,201**	**4,966**
	0,231	4,320
US $	**0,389**	**2,573**
	0 391	2,560
Canada $	**0,447**	**2,237**
	0 466	2,146
Switzerland Fr	**0,504**	**1,984**
	0 581	1,721
France Fr	**2,005**	**0,499**
	2,231	0,448
Germany DM	**0,589**	**1,698**
	0,660	1,515
Japan Yen	**51,680**	**0,019**
	58 145	0 017
Italy Lira	**440,245**	**0,002**
	487,320	0,002
Zimbabwe $	**1,046**	**0,956**
	0 902	1,109
Austria Schil	**4,140**	**0,242**
	4,630	0,216
Holland Guilder	**0,665**	**1,504**
	0,742	1,348
US $ value of SDR	1 319	**1,423**
US $ value of ECU	1 214	**1,359**
Financial Rand		
Cost per US $	3 635	**3,170**
Discount (%)	29,668	**18,906**

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

IN BUSINESS

Assurers need clarity

By JOSHUA RABOROKO

(S8)

LIFE assurers will be indispensable in the new South Africa, says Sanlam chairman Dr AJ van den Berg.

Addressing the company's annual general meeting, Van den Berg said life assurers mobilised the country's savings. Sowetan 4/3/91

This meant that about 30 percent of gross domestic investment was available from assurance companies.

The money was used for the development of the country's economic and social infrastructure as venture capital to bolster production, create jobs and provide security.

He said he believed future political developments would not change the function of life assurers as creators of prosperity.

Sanlam was fully prepared for the challenges it would have to face in order to benefit policy owners as well as the broader community.

However, he regretted the uncertainty about future changes. He said clarity about the future political and economic systems must be reached as soon as possible.

Van Den Berg said no political reorganisation would create lasting peace unless it was accompanied by growth and economic reform.

Assurers had an important part to play, primarily as providers of security.

In 1990, an estimated R12 billion was paid to policy holders and dependants. This relieved the Government of the enormous burden of having to pay these people social benefits such as pensions.

New developments would need financial backing from large companies such as Sanlam, he said.

New Bill adds to insurers' bills

STimes 3/3/91

By CURT VON KEYSERLINCK

THE PUBLIC, already reeling from huge rises in short-term insurance premiums because of soaring crime, faces further increases if proposed legislation is passed.

"The new Bill on short-term insurance could increase administrative costs by 25%," says Willis Faber Enthoven technical director John Haenen.

"We were looking forward to the freeing of the many constraints to allow us to operate more effectively. Instead, the proposed law calls for all kinds of prohibitions and requirements that allow the authorities to decide how insurers must run their businesses."

Debacle

The SA Insurance Association has written to the Registrar, saying the Bill is unacceptable. It complains about insufficient time provided for insurers to consider the Bill's "important and far-reaching" implications.

The restrictions are intended partly to prevent the recurrence of the sort of debacle surrounding the collapse of the AA Mutual short-term insurance arm.

A provision clearly inspired by the AA affair is that chief executive officers and top management of insurance companies must have suitable qualifications and experience. Another is that each insurance company must have at least one director with a degree in accounting and one with a law degree.

Insurance sources say this is too prescriptive and that several well-known insurers do not have directors with these qualifications.

The Bill lays down specific rules for the way brokers handle premiums they collect on behalf of insurance companies. It also places new limits on commissions and fees for brokers.

One source describes this as unwarranted interference in what should be freely negotiated agreements. He says insurers are putting pressure on the Registrar to legislate for total deregulation of the manner in which brokers handle their business.

The Bill lays down that insurers may not place more than 50% of their re-insurance business with foreign companies without the Registrar's permission.

"This cuts across the principle of spreading risk, especially the risk of large claims for catastrophe damage," says an executive of a large insurer. "The reinsurance market does not have the capacity to handle this volume of business. The law will give SA reinsurers protection against foreign competition and allow them to set their rates and other conditions."

The Bill requires that all insurers be listed companies. This could inconvenience large groups such as Barlow Rand, Sasol, JCI, Anglo American and Sasol which carry some of their insurance risk themselves — and thereby share in any profits — through their own "captive" insurance subsidiaries.

JOHN HAENEN: The opposite of what we wanted

A payout plan for those left in lurch by the AA Mutual

LIQUIDATORS of the AA Mutual short-term insurance business have successfully applied to the Supreme Court in Pretoria to enter into a settlement with creditors.

Metrust liquidator Henry Gunn said yesterday: "The time and cost involved in settling 18 Supreme Court cases would have been huge. It is in the creditors' interest to settle the claims. Creditors have received 30c in a rand so far. The seventh liquidation account will give them another 25c and a final total dividend of 90c is expected — if we can sell 27 Diagonal Street for R70-million.

Assets

"The application was justified because the liquidators were saved liabilities of R130-million. High dividend payments were saved and expedited by a few years."

Major creditor Federated, which has a R35-million claim against several parties, will get R27,5-million in all, according to Mr Gunn.

Syfrets liquidator David Rennie said the five liquidators, of whom he was one, may now pay out of the assets under their control a sum of R12-million to settle with Federated.

He said the liquidators were currently holding the money on behalf of the creditors.

By DIRK TIEMANN

In February 1986 the Federated group agreed to buy a controlling stake in AA Mutual from subsidiaries of Kirsh Industries and the Automobile Association, worth R35-million.

Huge underwriting losses then emerged and Federated pulled out of the deal. AAM's short-term business was wound up in June 1986.

Texas auction to settle Allied takeover battle

S Times 3/3/91 (58)

THE FIGHT for Allied Group is expected to be resolved this weekend by means of a Texas auction.

The Securities Regulation Panel has asked the parties fighting for Allied to resolve their differences by tomorrow. If they cannot do so, a secret ruling by the panel will become operative and litigation could commence. Allied shares were suspended on Thursday.

The bidders for Allied are Rembrandt, UBS Holdings and Sage (the Amalgamated Banks of SA partners) on one side and First National Bank on the other.

A source close to the deal says: "There's a stalemate. First National has more than 25% of the shares. It can therefore block any special resolution of Allied in the future.

Thorn

"The ABSA partners probably have more than 40% between them but they can't live with FNB as a thorn in their side forever.

"At the same time, First National doesn't want to stay on board the Allied as a relatively powerless minority. Its position is invidious because after a Section 228 asset sale, it will end up with about 9% of ABSA. That's the last thing they want.

"The best way out is for the party prepared to pay the highest amount to buy the other out. They are therefore likely to put their best bids on the table, the highest obliged to take up a put option by the lower one.

By DAVID CARTE

"As this will be the price at which control changes, the Allied minority will have to be offered an equivalent."

In a Texas auction, the winning party would pay such a price that its earnings would probably suffer and its share price fall. The lower bidder would lose an enormous amount of face, but make a large capital gain.

Package

The Allied board issued a statement on Friday defending the remuneration package of its chairman, Norman Alborough. Business Day disclosed the package, effective from June last year, to be R250 000 a year plus 500 000 shares at 132c each. The shares were suspended at 260c.

The board says his package was determined in consultation with outside consultants. It says Mr Alborough is a full-time executive director and it rejects suggestions that there is anything improper or irregular about the package..

Olaf van Schalkwyk, managing director of FSA Remuneration, confirms that his company advised on the package.

Executive "headhunter" Trevor Woodburn of Woodburn Mann, who is not connected with any of the parties, says the package seems low.

"The executive chairman of a company with assets of R10-billion usually gets R750 000 to R1-million plus share options. We have placed sales and marketing directors at R300 000."

Mr Alborough told Business Times: "Much was made of my receiving a dividend before I paid for the shares. But in terms of the share incentive scheme, the dividend accrued to the participant from date of entry.

"The dividend was paid to me only on January 11 when I paid for the shares. I was charged interest during the delay in payment."

Mr Alborough said he had never undertaken to sell his shares to the ABSA partners. All he had ever done was reject the First National offer. He reserved the right to sell to any higher bidder.

The Securities Regulation Panel has come in for more flak for making a second secret decision. Two weeks ago, the executive committee ruled that it had no jurisdiction and the ABSA partners were not "concert partners".

Later the London Takeover Panel indicated privately to the panel that it would have regarded them as concert partners. First National appealed. Its appeal was heard behind closed doors on Thursday.

Having had to handle such a contentious bid in its first week in office, the panel has come through a baptism of fire.

Executive director Doug Gair says the complications arising from this deal should not recur because future ones will unquestionably fall under the panel's jurisdiction.

Because the parties' first offers were made before February 1, the date the code became effective, the panel's authority was always in question.

Observers were mystified as to why the panel did not use moral suasion to get both parties to agree to come under its jurisdiction.

A stockbroker says: "The code and the panel were set up to protect the integrity of financial markets. The entire financial community stands behind that intention.

Ensnared

"The panel could have asked the parties, in the interests of financial integrity, to place themselves under its jurisdiction voluntarily. Had they refused to do so, they would have been seen to be in breach of the spirit of the code."

The code stresses the spirit of the law and to prevent its affairs being ensnared in litigation, one rule says: "Formal legal representation will not normally be permitted." Yet the panel has permitted lawyers to represent the parties.

The panel appears to lack representation for the individual investor. It is dominated by giant institutions, such as the JSE, the life offices and the banks.

Issy Goldberg of the Shareholders Association and Pierre Brooks of the Competition Board are the sole representatives of the small man on the panel.

First National tipped to win battle for control of Allied

Star 2/3/91 (58)

DEREK TOMMEY

AN early end to the fight for the Allied appears in sight with, according to market speculation, FNB getting Allied and the UBS and the remaining Allied shareholders getting the equivalent of 282,5c a share in First National Bank shares.

FNB and UBS Holdings, who have been fighting for control of the Allied, are spending the weekend trying to complete a deal.

Market speculation is that the negotiations are aimed at enabling FNB to acquire the Allied and for the UBS to withdraw from the fray with honour and a handsome profit on its Allied shares.

Market analysts believe this would be a highly satisfactory solution, as the UBS will have enough on its plate merging its own communications system with that of Volkskas with which it is also planning to merge.

Moreover, the Allied Group and its staff have always seen the UBS as their major enemy. To expect the Allied to take what could be a subsidiary role in the proposed Amalgamated Banks of South Africa would also cause the group a major headache.

On the basis of the competing bids, the FNB deserves to win Allied as its offer is worth 282,5c a share, which is significantly higher than the 240c offered by the UBS.

Should agreement be reached, both parties will report to the Securities Regulation Panel on Monday morning. The SRP will then announce its response to the FNB appeal against its ruling two weeks ago on what is a "concert party" and also issue a directive as to what FNB and UBS should now do.

Meanwhile,the Allied directors have issued an extensive statement concerning its executive chairman Mr Norman Alborough.

In the statement the board says the inference is entirely false that the remuneration paid to Mr Alborough and the shares allotted to him were in any way improper.

The implication that the Allied Board and Mr Alborough acted irregularly and in the case of Mr Alborough for his own benefit is also entirely false.

Both the remuneration and the number of shares allotted to Mr Alborough's company were considered consistent with his very senior status in Allied Group and the responsibilities and duties he was required to discharge. Independent professional advice was taken wherever necessary.

Referring to the price paid by Alborough for his shares, the board says it was the last traded price on the JSE on the day immediately before Mr Alborough became a full-time salaried official. This price is determined in accordance with the scheme's rules.

The board denies there was any intention to give Mr Alborough a tax-free benefit.

The board concludes by saying that its decision to appoint Mr Alborough as group chairman has been fully justified by subsequent events.

Among other things, Mr Alborough played a central role in discussions on the merger proposals which are shortly to be considered by Allied's share holdes, and his extensive experience in banking and computers had contributed much to the Allied Group.

The board believes that the remuneration which Mr Alborough receives and the shares which were allotted are justified by the role he has played in the Allied's affairs since his appointment.

FM 1/3/91 (58) FOX

ALLIED

STALLIN' NORMAN

It is hard to imagine what chairman Norman Alborough contributes to the affairs of the Allied group to merit an annual remuneration of R250 000 plus the allotment of 500 000 shares at a favourable price when his predecessor got only R10 000. Or is that the reason for the pickle the group is in now?

A week after *Business Day* revealed details of how the Allied board has seen fit to reward Alborough for his efforts — as a non-executive chairman — neither the board nor Alborough has offered any explanation.

If the facts as presented are correct, then the shareholders, and the public, have an

Continue →

FOX FM 1/3/91 (58)

interest in knowing. If the facts are incorrect, then the board needs to state where they are wrong. Vague generalities about "taking the matter seriously" are simply not good enough. The matter is firmly in the public domain.

Just before the *FM* went to press, Allied director Joe Pamensky stated that the board would meet on Wednesday to discuss other matters, including further circulars that may be issued in response to the FNB and Absa offers, and the reports about Alborough's remuneration and shares have been placed on the agenda.

Pamensky added that the reports were not factually correct, the reporting was selective and legal advisers were preparing a response. He said the board may issue a statement after its meeting.

It is difficult to believe that lawyers need a week or longer to respond. That certainly hasn't been our experience.

MD Kevin de Villiers declined to comment, except to confirm that Alborough is not an executive chairman though it may be debatable whether he is an executive director. The subsidiary, Allied Holdings, of which Alborough was made executive chairman in October, was a shell company which may have been affected by a restructuring related to the stamp moratorium, but it is unclear whether the plan was put into effect.

It seems difficult for the directors of the institutions involved in this takeover to understand that when they borrow money from the public, they have a corresponding duty to explain themselves rationally. A retreat into

Allied's Alborough . . .
explanations needed

silence breeds rumour and dismay, when investors need a climate of certainty in order to make rational decisions. And the one is very much predicated on the other.

FNB stands out among those involved for its candour and conviction. There could be the clearest message to shareholders yet in that fact alone. The covert way in which the UBS and Allied have conducted their affairs does not enhance their persuasiveness. ■

FM · 1/3/91 · (58)

LASER/SUREGRO

STILL TALKING

There has been silence from both Laser and Suregro since the cautionary announcements issued by the companies in December, when a merger appeared imminent (*Fox* January 4). Laser's evaluation of Suregro revealed debt well in excess of shareholders' funds.

Many aspects of the company are attractive to Laser, which has now offered the creditor banks, including Nedbank, a settlement that could prove satisfactory to all concerned.

Should Laser's offer be accepted, it will assume certain of Suregro's debt and in return take over assets, including stock and debtors. Laser has offered the banks an undisclosed cash sum and proposes to issue enough Laser shares to satisfy the portion of the banks' liability. With this offer, creditors should be paid in full. It is expected that the banks will accept or reject the Laser offer within the next 10 days.

Laser MD Denis Kaye contends that Suregro has lacked financial and administrative systems and skills but has "superb operational management." He says Laser's systems could easily be adapted in a merger and synergies would be significant.

According to Suregro MD Keith Blair, the group is trading with positive cash flow and budgets for the current year show an operating profit before interest. He concedes that Surego is highly geared but adds that sales of surplus assets are designed to reduce interest-bearing debt in the event that a sale to Laser or another buyer does not go through.

Gerald Hirshon

Allied: addressing the issues

BIDay 4/3/91. (58)

JIM JONES

A WEEK of intense and sometimes acrimonious debate within Allied's boardroom culminated last Friday in a company advertisement confirming much of the detail of Business Day's earlier reports on the issue of 500 000 Allied Group shares to non-executive group chairman Norman Alborough.

The advertisement does not answer many of the questions surrounding Alborough's pay and share allocation as it appears to fudge several important points.

Naturally enough, the advertisement placed a different slant on the events surrounding Alborough's share allocation and his remuneration and, obviously, sought to justify them. It also alleged that Business Day's reports were biased and attempted to discredit Business Day's earlier reports by claiming that information had been acquired unlawfully. It wasn't.

The response signed by group secretary Harold Donn failed to address several important facts, and appears to contain several errors.

Justification for Alborough's remuneration and share allocation was founded in part on the assertion that in June 1990 — when his appointment as non-executive chairman of Allied Group triggered the share allocation — he had been a member of the "Allied board" for two years. That statement fudges the facts. Alborough was appointed to the group board only in August 1989, 10 months before he became chairman and after what might well be described as a probationary 16 months on the board of subsidiary Allied Bank.

The justification was also founded on Alborough's stature — that he would have to work on "a full-time basis whenever required" and that he would have to relinquish other business commitments. Apart from the apparent contradiction of "a full-time basis whenever required", the justification is on the face of things reasonable.

Alborough's outside representation was far from extensive and, according to one directory, extended to directorships of Sage and Allied Insurance (both of which stemmed from his position at Allied) and of three small private companies. He was also a member of three close corporations, including one of his own. In contrast, co-directors Rod Monthe, Joe Pamensky and Louis Shill were on the boards of dozens of firms, large and small.

Justification was also founded on the assertion that Alborough would assume "significant other responsibilities". As far as the day-to-day running of Allied went, it appears Alborough's workload was not significantly heavier than predecessor Denis Paxton's.

Of course, he was earmarked as executive chairman of Allied Holdings, described in the advertisement as a proposed "significant holding company within the Allied Group in terms of various restructuring proposals which were under consideration by the board." Those holdings were Allied's equity stakes in Sage, Rand Merchant Bank, some trustee companies and companies which hold the group's buildings. All the operating divisions — the bank, building society and insurance company — were specifically excluded. In terms of the Absa merger which Alborough was working on, all of Allied's assets were to be sold and, at present, Allied Holdings remains a shell company.

The main increase in Alborough's responsibilities was in negotiating the proposed merger with UBS, Volkskas and Sage Financial Services. He was at the centre of merger negotiations which helped boost Allied's share price from 132c on June 13 when Alborough was appointed group non-executive chairman to a brief flirtation with 300c a couple of weeks ago.

Of course, the decision on remuneration was taken after a report by outside consultants, FSA Remuneration. They were chosen by a remuneration committee established on June 22 1990, nine days after Alborough's elevation to the group chair, and whose members were Joe Pamensky, Rod Monthe and Alborough himself in the committee's chair.

The advertisement says that as a director holding "full-time" salaried office, Alborough was entitled to participate in the Allied Group Share Incentive Scheme. That begs the question of Section 223 of the Companies Act that shares may only be allocated to non-executives if shareholders approve a special resolution. Alborough was not an executive on June 13 1990, nor was he even on the board of Allied Holdings at the end of August, when the last 1990 Allied directory of its subsidiaries was put together. As Business Day has already reported, he became an Allied Holdings executive on October 1 1990, when Allied's shares were already nudging 180c.

The advertisement does not deal with the fact that Allied's board offered Alborough the shares on September 24, two days before the UBS merger plans were disclosed to the public.

Nor does it address satisfactorily the question of why Alborough was treated differently from other participants in the share scheme, who generally can only convert options into shares over six years. Rule 14 of the share scheme gives the trustees the power to waive any time constraints, which they obviously did in Alborough's case.

Discretion is not accorded the trustees in terms of Rule 6, whose Sub-rules 6.3.3 read with Rule 21.2.1 state that shares must be registered in the names of an individual or his family trust if they have not been paid for. Alborough's 500 000 shares were registered in the name of his private company NVR Alborough Investments (Pty) Ltd, which is neither an individual nor a family trust, on November 19 even though Alborough only paid for them on January 11.

Then, if we turn to Rule 16, we see that dividends declared by the company shall be paid to the share incentive scheme trustees for offset against interest on money owing on unpaid shares in the scheme. The trustees had the right to waive interest charges on the R660 000 Alborough still owed on his allocation.

In Alborough's case the R30 000 interim dividend due on his share allocation was paid to him. The advertisement seems to indicate that interest was paid.

This still does not answer the question of Section 92 of the Companies Act which says dividends may not be paid on shares which are not fully paid up.

Originally it had been planned that Allied would be valued at 225c a share for the purposes of the merger. But on January 25, a fortnight after Alborough had paid 132c apiece for his shares, a board meeting to discuss the merger terms was thrown into disarray when wind of First National's bid was scented. A decision was quickly taken to lift Allied's merger valuation price to 240c a share.

The advertisement says that any suggestion that the intention was to give Alborough a tax-free benefit is entirely false. Was there such a suggestion? Not in Business Day.

HAROLD FRIDJHON in the Money Markets

The odds are on Stals again

LIKE Saddam's dejected legions, the battered money market bulls are dragging their way to security across the desert of their discontent, bruised and bleeding.

They learnt yet again that betting against Reserve Bank Governor Chris Stals doesn't pay. He gets all the accurate data he needs, not the incomplete numbers which creep into the market.

The week before last some people in the market appeared to be aware that the CPI index had eased and that the money supply figures were favourable. But the unknown element was the increase in bank credit, which rose by 18,25% in December compared with the previous month's 16,52%.

Possibly some of the growth in bank credit arose from banks taking on balance sheet part of their off-balance sheet lending ahead of the January deadline under the new Deposit-Taking Institutions Act.

With Bank rate unchanged, baffled bulls milled around in disorganised confusion, adjusting positions and pruning rates.

The measure of the bulls' humiliation was last Friday's reversal of the Treasury bill (TB) rate. It returned to 17,06% — the rate on February 13 — after the wild bull charge of the previous week which had knocked it down to 16,98%.

Most others have followed this pattern, retreating to where they had been before the stampede. The exception is the wholesale call rate, sticking obstinately at 18-18,5% in spite of the low market shortage of R2,121bn — the banks' debt to the Reserve Bank.

Trade in the market is cautious and thin. Some investors are stuck with expensive paper and they will have to sit it out until Bank rate does come down. But when?

As we don't have a Ladbrooks here, perhaps some of the operators in the derivatives market should open a book — an options book, of course — on when Bank rate will be cut. These bets/options can be justified as hedging for interested parties.

Battle for Allied in final stage

By Sven Lünsche

The takeover battle for Allied between First National Bank and the UBS-led camp enters its final stage this week with analysts expecting FNB to emerge as the winner today.

The two parties are expected to announce an end to the two-month-long battle after a meeting with the Securities Regulations Panel (SRP) this morning. The SRP last week postponed the publication of a secret ruling to give the parties time to resolve their differences.

Should they fail to come up with a solution the SRP ruling will become operative and result in long and extremely costly legal wrangle.

The ruling is a response to an appeal by FNB against an earlier finding which allowed the UBS and its associates to acquire more than 30 percent of Allied shares without making the mandatory offer to remaining minority shareholders.

However, analysts are convinced that the two parties put the final touches on a deal yesterday, which enabled FNB to acquire the Allied and allowed the UBS to make a handsome profit on its Allied shares.

Strong growth at Fedsure

Finance Staff

Fedsure has maintained its strong showing since listing in 1987 with 1990's attributable earnings up 24 percent to R23,6 million.

Earnings per share rose 23 percent from 28,6c to 35,1c and a final dividend of 15c has been declared — giving a total dividend of 25c for the year.

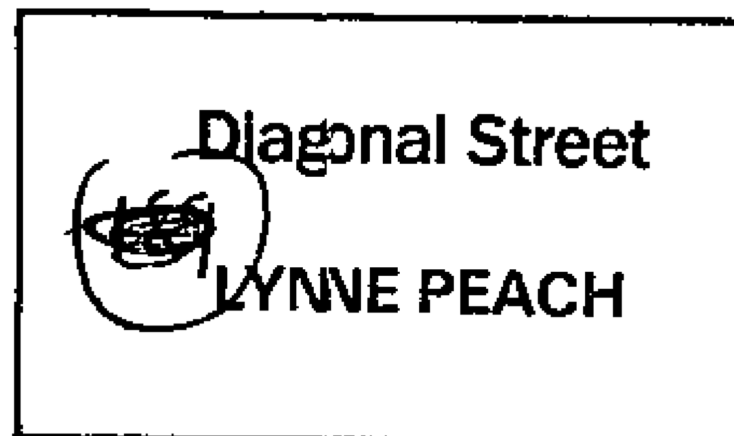
Fedsure has achieved a compound growth in earnings and dividends of more than 22 percent a year over the last eight years.

In 1990 the Group's total assets grew by 17 percent and now stand at approximately R4 billion.

Fedsure's income and the bulk of its assets are provided by its principal subsidiary Fedlife, the Group's long term assurance company, which had a particularly good year.

Fedlife's gross premium income increased by 28 percent to R684 million with strong growth in recurring premiums to R528 million and single premiums to R156 million.

Dorbyl looks to exports to halt earnings decline



The performance of engineering group Dorbyl is set to continue to be adversely affected by the economic slowdown, general labour and political unrest and continued high interest rates.

Management has, however, geared itself up to reduce the ravaging effects of the tough business climate on results.

In the latest annual report, chairman Mr Floris Kotzee says that vulnerable areas have adjusted to lower activity levels while growth is being pursued in other areas, including exports.

Dorbyl has extensive trading and manufacturing interests in the engineering industry.

Activities range from heavy engineering and shipbuilding to airconditioning and refrigeration equipment.

The major industries served include automotive manufacturing, mining, refining, building and construction, power generation, oil exploration, shipbuilding and transportation.

In the year to September, group turnover climbed 14 percent from R2,5 billion to R2,8 billion.

Lower margins, however, caused operation income to decline one percent from R186,0 million to R183,8 million.

Net interest expense rose 22 percent from R29,9 million to R36,5 million due to the higher level of borrowings required to fund the capital expenditure programme of R159 million.

This resulted in pre-tax profit falling 6 percent from R156,1 million to R147,4 million.

A decline in the effective tax rate from 25,5 percent to 22,9 percent reduced the decline in after-tax profit to two percent from R116,4 million to R113,7 million.

After taking into account outside shareholders' interest, attributable retained income of associated companies and preference dividends, attributable profit showed a decrease of less than two percent from R112,1 million to R110,1 million.

Earnings per share retreated from 351,4c to 345,2c.

The dividend for the year amounted to 103c a share, compared with the previous year's payout of 100c.

Mr Kotzee says the major contributing factor to the decline in earnings was poor performances by Dorbyl Heavy Engineering and tubemaker Tosa.

The balance sheet discloses a 32 percent rise in interest-bearing debt from R139,6 million to R184,1 million.

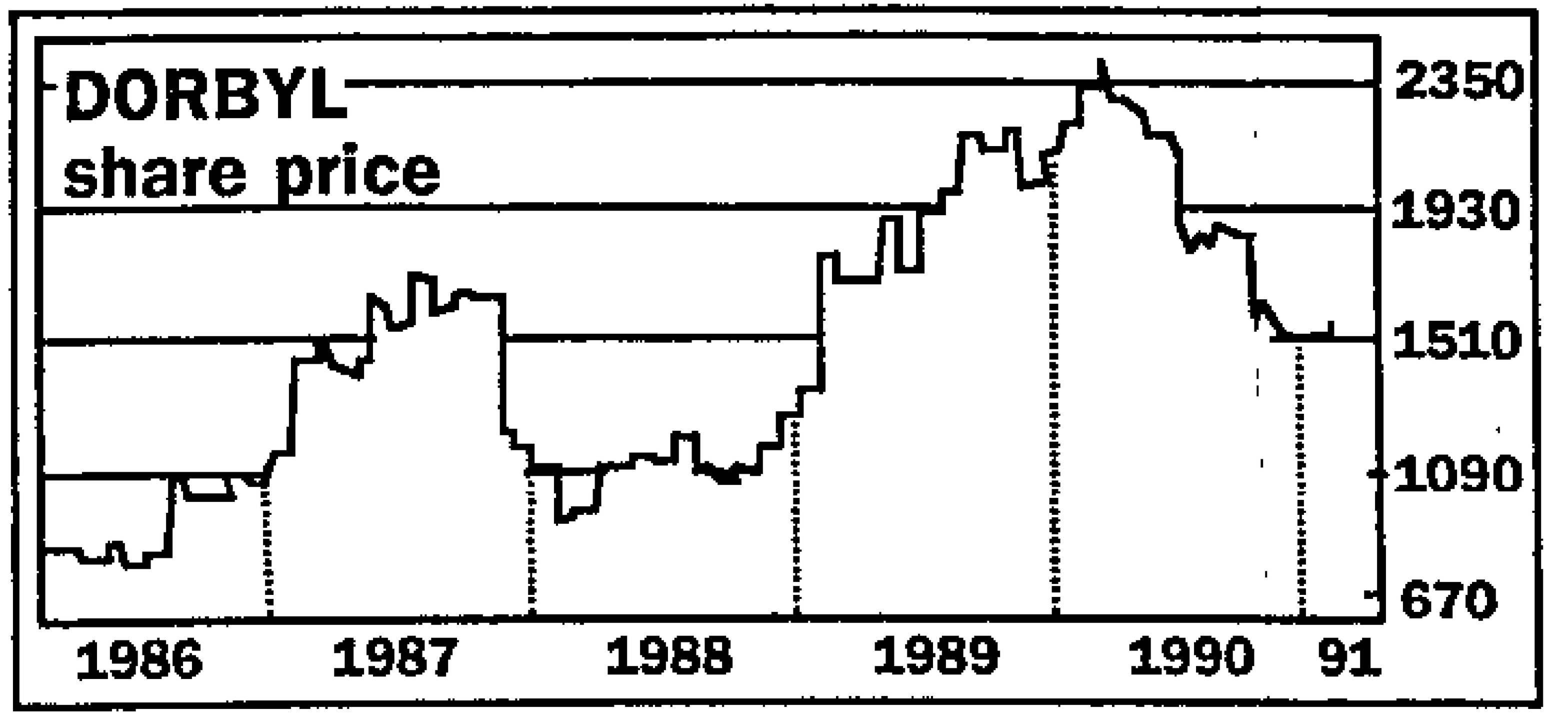
Consequently, gearing deteriorated from 21,2 percent to 26,1 percent.

Net asset value appreciated five percent over the year from R22,10 a share to R23,14.

Dorbyl, priced at R15,50, is trading on a price:earnings ratio of 4,5 and provides a dividend yield of 6,6 percent.

Although Dorbyl's earnings could decline further in the current year, the group's longer term prospects are favourable.

COMMENT: Dorbyl's share price entered a downtrend a year ago after peaking at R23,50. The price looks like it may have bottomed at R15,00. Confirmation of the start of a favourable trend will require the price to rise above R16,00.



'Texas auction' mooted for Allied settlement

(58) GM-7... 4/3/91

Own Correspondent

JOHANNESBURG. — The battle for control of Allied was marked by a series of last-minute weekend meetings to thrash out a settlement ahead of the secret ruling which comes into effect today.

At the time of going to press, no settlement had been reached between the UBS-led Amalgamated Banks of SA (Absa) and First National Bank (FNB).

The two warring camps spent the weekend trying to put together a formula acceptable to both parties.

A settlement might be reached through a "Texas auction" where the best bids are placed on the table and the highest bidder gains the option to take out the lower, a source said yesterday.

The Securities Regulation Panel (SRP) has asked the parties fighting to control Allied to present a settlement by this morning.

If they cannot resolve their differences, details of the panel ruling, which to date have been kept under wraps, will be announced.

There is also the possibility of legal action, sources say, but which parties would be taking action remains unclear at this stage.

The details of the ruling are known only to the FNB and UBS camps.

A source speculated that this ruling must either be favourable or partially favourable to FNB, or the UBS stable would not be talking to FNB.

Another source said it was probable the UBS camp had about 40% of Allied and that FNB held about 25%.

On this basis, FNB would be able to block any special resolution of Allied and could become a problem to the UBS group in the future. But FNB would be a relatively powerless minority in Allied.

"It is not unusual to use a Texas auction when two parties both want control," a participant said yesterday.

The auction could be very expensive for the party that wins control, as the price paid is likely to be extended to minorities.

Allied shares were suspended from trading on the JSE on Thursday at 260c a share. The settlement price could be at a substantial premium to the original FNB and Absa offers, and be very costly to the winning party.

Fedsure improves earnings by 24%

Cape Times 4/3/91 (58)

Own Correspondent

JOHANNESBURG. — Fedsure improved attributable earnings by 24% to R23,6m in the year to December after principal subsidiary Fedlife had a particularly good year.

Earnings a share are 23% higher at 35,1c.

The final dividend of 15c brings the total distribution for the year to 25c a share, also up 23%.

Fedsure has achieved a compound growth in earnings and dividends of more than 22% a year over the past eight years.

In the year under review, the group's total assets grew by 17% and now stand at about R4bn.

Life assurer Fedlife increased its gross premium income by 28% to R684m, with strong growth in recurring premiums to R528m and single premiums to R156m. As a result, Fedlife's gross income exceeded R1bn for the first time.

Group CE Arnold Basserabie says: "In the past 18 months emphasis has been placed on refining our operating procedures. The large investment we made in our computer processing capacity is paying dividends, especially in its contribution to improved customer service.

"In the recent past we also focused on issues relating to our involvement in the broader financial services industry and have taken action in accordance with the strategic plans we developed."

Fedsure's investment income, excluding capital appreciation, rose 22% to R440m.

Basserabie says: "For most of the year, we maintained a relatively high degree of liquidity in order to take advantage of high returns in the money markets.

"In the capital markets we made considerable use of options and other instruments to maximise our yields.

"In the last few months we have increased our exposure to fixed-interest investments so as to take advantage of reducing interest rates."

The group increased pension, death, disability and other benefit payments to policyholders by 18% to R380m. The life fund increased to more than R3,5bn.

The recent launch of unit trust company Fedgrowth, participation bond company Fedbond, and the strengthening of Fedsure's links with other financial institutions provide substantial positive growth opportunities for the group, says Basserabie.

Last-ditch attempt to settle on Allied

BI0914/3/91 (58)

ZILLA EFRAT

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● See Page 6

Fedlife gives parent Fedsure a boost

ZILLA EFRAT

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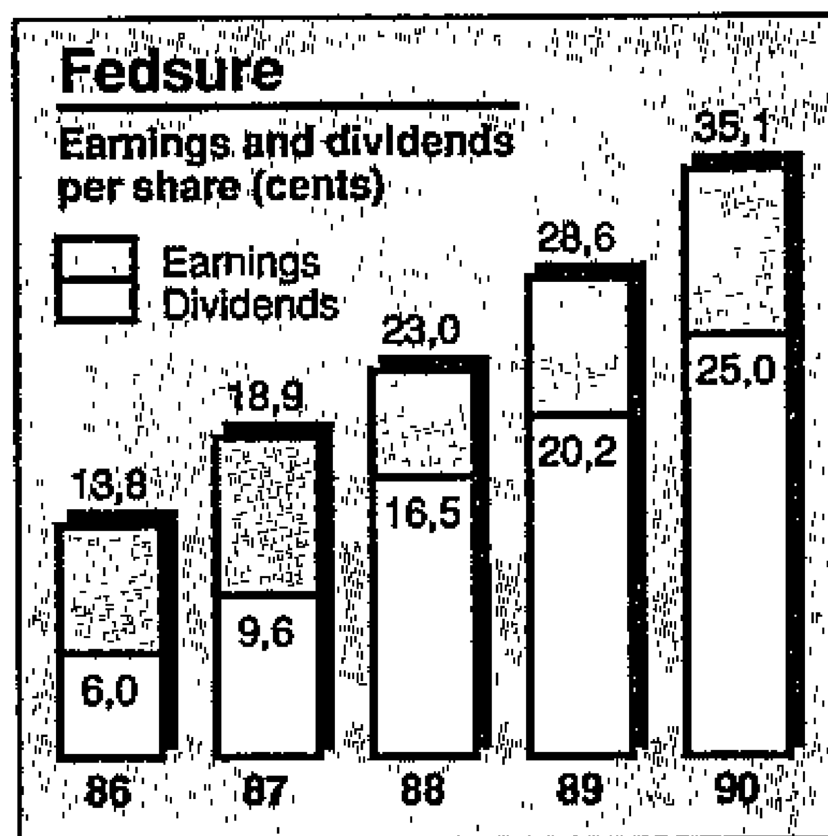

Graphic FIONA KRISCH Source FEDSURE

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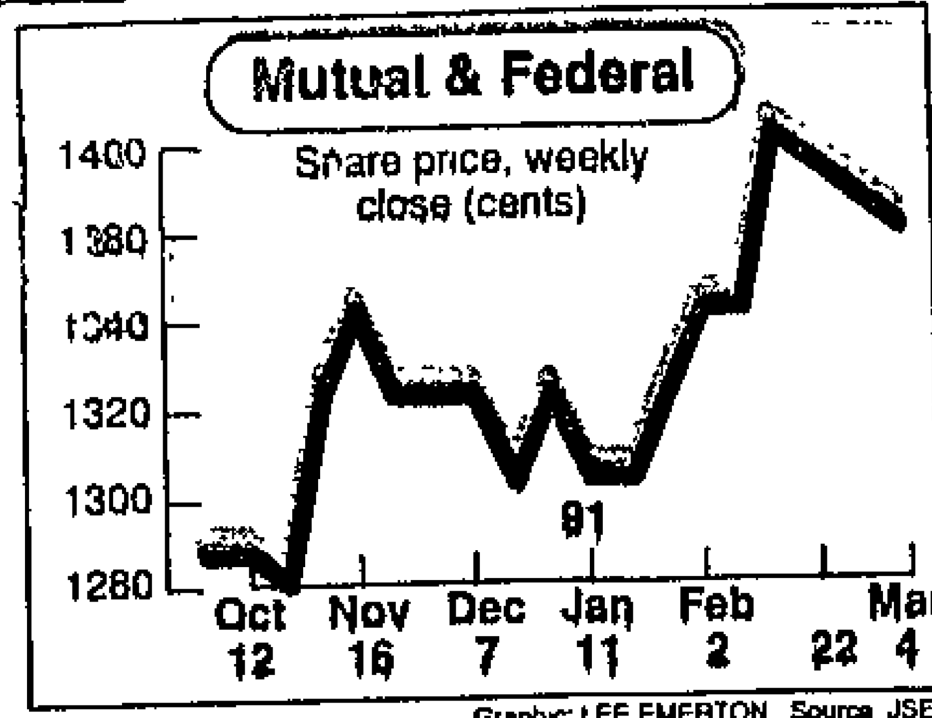

Graphic: LEE EMERTON Source: JSE

Mutual & Federal weathers the storm

B Day 5/3/91 (58)

SEAN VAN ZYL

MUTUAL & Federal withstood the underwriting crisis in the short-term insurance industry in the six months to December, reporting only a 5,3% drop in taxed profit to R44,6m for the period.

Although net premium income climbed by almost 30% to R453,3 (R349,4), a greater number and high cost of claims resulted in a 77% drop in underwriting income to a modest surplus of R3,4m (R14,9m).

MD Ken Saggers ascribed the poor underwriting experience mainly to the escalation of crime "which was a significant component", storms and a greater number of fire claims.

Earnings were down to 96c a share from 101c. However, the company has declared a 25% increase in dividends to 20c (16c) a share. While Saggers said "Mutual & Federal believed in a progressive dividend policy", the decision to declare a higher dividend despite poorer earnings could have been swayed by Old Mutual, which has a more than 79% stake in the company.

☐ To Page 2

Mutual & Federal

B Day 5/3/91 (58)

☐ From Page 1

Investment income, which was switched from interest-bearing instruments to equities towards the end of the last financial year, clocked in marginally higher at R54,9m (R54,5m).

The underwriting surplus and investment income resulted in a pre-tax profit of R58,4m (R69,4m).

The taxed profit of R44,6m (R47m) was boosted largely through lower taxation of R13,8m (R22,4m), of which R10,5m has also been deferred. Saggers said the lower tax was achieved through the swapping of investments to a dividend earning portfolio rather than interest bearing which is subject to taxation.

Operating costs — expressed as a percentage of net premiums — have been kept at an expense ratio of about 24%. The expense ratio remains well below the industry average of about 27%.

The group's solvency margin has dropped marginally to 110%. However, Mutual & Federal's solvency margin is also well above the required 15% stipulated for insurers.

Stockbroker Edey Rogers & Co's analyst David Southey described Mutual & Federal's underwriting surplus as "exceptional" in the light of recent underwriting deficits which had been disclosed by insurers.

Institutional involvement worries agents

Star 5/3/91 (58)

The real estate industry might well have misgivings about the increasing involvement of major financial institutions in their business.

According to one leading estate agent, his clients are concerned about the institutional inroads, mainly on the possibility that they could be pressurised into taking bonds with institutions affiliated to agencies.

"The involvement of large financial institutions in residential property could have far reaching implications for buyers, sellers and agents alike," says Ronald Ennik, director of Pam Golding Properties' Transvaal operation.

"As pointed out by industry observers, biggest is best in South Africa's highly competitive financial services industry. But best for whom? The group, its shareholders, its clients, its staff?" he asks.

Property & Construction

FRANK JEANS

"Already Pam Golding clients believe that, as the new group increases its involvement in the market, their real estate concerns will not be able to deliver the level of personal service as they have in the past.

"Also, clients are concerned they may be pressurised into taking bonds with institutions affiliated to certain real estate companies rather than with the institutions at which they bank."

Mr Ennik also points out that clients believe sales could be prejudiced when the buyer for their property is coerced into approaching an institution at which he has no previous banking history.

However, even more threatening than the repercussions for buyers and sellers is that to the entrepreneurial spirit of estate agent, he claims.

"In the long run, the institutions could start offering salaries and perk-related packages to their agents, a move which may kill the entrepreneurial spirit of the residential real estate agent and cripple the character of the industry," he says.

Ronald Ennik ... far-reaching implications.

Huge govt probe into Old Mutual

CAPE TIMES 5/3/91

Financial Editor

THE government has launched a high-powered investigation into alleged multi-million-rand trading irregularities at Old Mutual.

Minister of Justice Mr Kobie Coetsee and Minister of Finance Mr Barend du Plessis said in a joint statement last night that the investigation would be headed by a Cape attorney-general, Mr Frank Kahn, and include top officials.

The ministers had deemed it necessary "in the public interest to compile an expert team to investigate the allegations".

Old Mutual announced on February 14 that two senior staff members had been suspended.

Two large stockbroking firms are also believed to be involved.

In a statement last night the chief operating officer of Old Mutual, Mr Gerhard van Niekerk, said that a full-scale internal investigation had been launched by his company in the light of some investment transactions which, when viewed collectively, "showed a suspicious trend".

"When the the emerging picture showed that a criminal investigation might be warranted, the authorities were provided with all available information.

"The possible irregularities identified by Old Mutual were limited and the few pension funds whose portfolios could have been affected by the transactions, have been informed."

No one emerged unscathed from the big bank battle

GRETA STEYN

THE good, the bad and the ugly featured in the Allied takeover battle between First National Bank (FNB) and the UBS. They shot from the hip, they sniped from the rooftops, they sent marksmen and decoys and spies. As the dust settles after the battle, winners and losers are counting their casualties.

UBS CE Piet Badenhorst's victory is a long way from the plans Standard Bank Group MD Conrad Strauss had for him six years ago. Strauss had designs on the UBS, but the building society boss refused to be swallowed. He turned predator instead, and is to become CE of a mega-bank kicking off with assets of R50bn. But Badenhorst's victory could prove expensive.

The UBS has ended up paying a premium to include the Allied in its mega-banking group whose other partners are Volkskas and half of Sage's financial services. On top of that, the UBS has to pay a further R16,75m to reimburse FNB its costs of the fight.

At Friday's R7,60 price for the UBS share, the UBS's new offer to minorities of 100 Amalgamated Banks of SA (Absa) shares for every 260 held (instead of 320), values the Allied at 292c a share — a far cry from the 225c Badenhorst had hoped to pay before FNB entered the fray and persuaded UBS to lift its bid to shares or cash worth 240c. The new offer adds about R100m to the first offer's consideration of R712m. Earnings and dividends will be diluted as more Absa shares will be issued.

There is little doubt UBS is overpaying for Allied. Allied's net worth is little more than 200c a share and Badenhorst himself repeatedly said the offer of R2,40 an Allied share is "more than generous". So why did he finally decide to pay more?

The takeover battle between FNB and the UBS was a battle over being the biggest in what is arguably an overbanked financial services sector. For FNB, unwilling to fall to third position in the banking sector's size stakes, the Allied could have been a "quick fix" to its problem of growing its balance sheet without hitting capital adequacy constraints. (The Allied with its overall exposure to the home loans market is comfortably capitalised at about 6% capital-to-assets compared with the statutory requirements of 4,5%.)

SWART

BADENHORST

DE VILLIERS

MARGO

But Badenhorst was seeking sweet revenge on the banks that had in 1987 fought a "bond war" against the building societies — when legislation still forced the societies to contest on what they believed was an unequal playing field. He initiated talks with Rembrandt about the mega-bank merger 18 months ago.

FNB MD Barry Swart's desire to stave off slipping further in the size stakes pales against Badenhorst's will to win. For Swart, there was a limit to the price he would pay. But while he may have lost the Allied, he has forced his competitor to pay a premium for a deal it thought would be signed, sealed and delivered at a much lower price.

Badenhorst's next test is how well he succeeds in merging the different cultures and gaining the benefits of rationalisation. To justify the expense of the takeover, Badenhorst will have to do surgery, while at the same time taking care of key staff.

The takeover battle has dented Allied's staff morale. A "take the money and run" mentality seems to have developed, with Allied executives keen to exercise their share options early during the share buying frenzy. Much has been made of resistance among Allied staff against the Absa offer — not the least the resistance shown by its MD, Kevin de Villiers.

It is understood Badenhorst is not impressed by the way in which De Villiers helped FNB in the battle. Talk in the Allied is that it was De Villiers who provided Swart with the details of the UBS's original offer of 225c. His move resulted in an immediate response announcing FNB's intention to make an offer at a higher price. That forced the UBS to increase its opening offer to 240c and, finally, to 275c.

Badenhorst was furious when De Villiers tried to set up a television debate featuring the two of them, Barry Swart and an Allied shareholder. He refused to take part, which scuttled the programme. His ire was again roused by the Allied executive committee's decision to allow early exercise of the Allied share option scheme — a decision taken in the absence of Badenhorst's ally on the committee, Sage chairman Louis Shill.

Does De Villiers have any future with the mega-bank? The man himself does not believe his future with Absa would be bleak. Describing himself as "pragmatic", he is adopting a wait-and-see attitude. He maintains he acted in the best interests of shareholders and says the final price for the Allied "reflects well on its staff and management". De Villiers does not refer to it, but if Badenhorst wants to see the back of the Allied MD, he will have to pay for the pleasure.

De Villiers' old sparring partner, Shill, must be relieved the Absa deal is going ahead as planned. If FNB had taken over the Allied, Sage would have been left out of the deal and Absa would have consisted only of Volkskas and the UBS. It is widely speculated that Shill and Sage shareholder Rembrandt see the takeover as a way to avoid the embarrassment of accounting for liabilities of as much as R70m on an American venture that turned sour.

Less lucky in avoiding embarrassment has been the Securities Regulation Panel. How can it regain credibility after a decision taken by the panel's executive committee — chairman Cecil Margo, JSE president Tony Norton and executive director Doug Gair — was overturned by other panel members on appeal?

A question mark hangs over the abilities of the executive committee to function in the way envisaged in the Takeover Code. The committee has full powers to make rulings and decisions under the code — but will any party in a takeover battle trust an executive committee ruling again? How is it that a committee consisting of a judge, the JSE president and a former GM of the JSE's listings committee could make a mistake of such awesome proportions?

The UBS went to the panel for advice and acted on it in good faith. It now finds itself forced to pay its rival in the takeover battle R16,75m for the costs FNB incurred in fighting the UBS bid.

Information on the panel's two rulings, released after a period of secrecy yesterday, remains scant. It needs to explain how the botch-up occurred if it wants to salvage its credibility.

The panel's role is to protect minority shareholders and in a clumsy way, it has done so. Even if they missed the boat and did not sell in the market, the price of 275c in the latest deal could be seen as fair. Ironically, the only clear winners appear to be the Allied's minorities.

De Villiers a wild card in the UBS, Allied pack

(58)

By Derek Tommey Star 5/3/91

With the Allied Group on its way to joining the UBS, there is much speculation about the future of the Allied's young, outspoken and independent managing director, Kevin de Villiers.

Mr de Villiers is known to have incurred the wrath of Piet Badenhorst, the chief executive of the merged Allied, UBS and Volkskas banks with his comments on the take-over bid.

Mr de Villiers has publicly opposed the merger of the Allied with the UBS, saying the offer price was too low.

Mr de Villiers had about 2,5 million Allied shares at the start of the take-over battle and some claim he has been partially motivated by self-interest in his opposition to the UBS bid. He can also claim that as managing director, he had a better knowledge of the true worth of Allied shares than anyone else.

The question people are asking is this the sort of man Mr Badenhorst wants to work with.

Mr de Villers has a keen brain.

With the newly merged banks likely to move into deep waters as merger operations are implemented, the group needs all the skills it can muster.

● Costly victory for UBS — Page 14

State steps into Old Mutual shares affair

Star 5/3/91.

(58)

By Peter Fabricius
Political Correspondent

The Government has launched a high-powered expert investigation into the Old Mutual shares controversy.

Old Mutual announced yesterday that it had handed the investigation over to the authorities after its internal inquiry revealed that a criminal investigation might be warranted.

Finance Minister Barend du Plessis and Justice Minister Kobie Coetsee said in a joint statement yesterday that they had decided it was in the public interest to appoint an expert team of investigators.

"If any criminal offences are revealed, the law will take its normal course," they said.

The investigation team would be led by Attorney-General Frank Kahn and include the Registrar of Financial Institutions, senior officials of the Finance Department, the South African Police and the Reserve Bank, and individuals from the private sector.

In a simultaneous statement, Old Mutual chief operating officer Gerhard van Niekerk commended the Government for its "decisive" intervention and promised full support and co-operation to the investigators.

Minister Coetsee . . . will appoint a team of investigators in the public interest.

He said the problem was limited and there was no indication that individual policy-holders or unit trust investors had been or were likely to be prejudiced.

The few pension funds whose portfolios might have been affected had been notified individually.

Mr van Niekerk said that "when a few investment transactions recently came to light which individually appeared completely normal, but collectively showed a suspicious trend, a full-scale investigation was immediatly launched.

"The purpose of this investigation was to establish whether we were dealing with a string of coincidences or with improper practices, and whether it was an internal matter or something that required the attention of one or more public authorities.

"Although the Old Mutual investigation was conducted on a full-time basis, and with the utmost urgency, it proved to be a laborious task of finding and putting together the pieces of a complex jigsaw puzzle.

"When the emerging picture showed that a criminal investigation might be warranted, the authorities were informed and provided with all available information."

He said the investigation pro vided an opportunity for Old Mutual "to reaffirm and insist that the principle of fair and honest dealing must be the basis of the operation of South African investment markets".

Old Mutual was "unreservedly committed to the practice and preservation of integrity".

"This applies also to dealings on the investment markets where one does not know whom one buys from, or to whom one sells."

Now that the investigation had gone public, he looked forward to a speedy resolution.

M & F warns of sharp increase in premiums

Star 5/3/91. (58)

By Sven Lünsche

The rising crime rate leaves short-term insurers with little option but to increase premiums in tandem with inflation, Mutual & Federal managing director Ken Saggers said yesterday.

He was commenting on the group's interim results for the six months to end-December, which saw the underwriting surplus plunge by 75 percent to R3,5 million (R14,9 million).

A slight increase in investment income to R55 million (R54,7 million) limited the decline at the earnings per share level to five percent at 96c (101c). The interim dividend was raised to 25c (20c).

Mr Saggers said the declining profitability reflected the deteriorating state of the insurance market, which continues to be battered by the abnormally large increases in the cost of claims.

"The situation has been aggravated by a rising crime rate, many large fires and a severe storm — a recent hailstorm alone cost us about R20 million.

"Aggressive competition, by local and international insurers, has resulted in a deterioration in underwriting standards and uneconomic ratings for many classes of business, he said.

"The industry environment is likely to be negative for some time to come and insurers will have little option but to increase premiums in tandem with inflation," Mr Saggers said.

Mr Saggers said the acquisition of National Employers' General (NEG) in June last year provided significant benefits to the group — half of the 32 percent increase in gross premiums to R541 million (R411 million) was attributable to the NEG. Net premium income rose to R453 million (R350 million).

Mr Saggers said the full benefits of the acquisition will accrue during 1991.

Mutual & Federal's solvency margin — the ratio of net assets to net premium income — was about 110 percent at the end of December, well above the statutory minimum of 15 percent.

UBS share sheds 7%

9(?) Times 8/3/91 (58)

Own Correspondent

JOHANNESBURG. — The UBS share sheds 7% yesterday, signalling the market's belief that the group was paying too much for the Allied in a new offer made to minorities to form Amalgamated Banks of SA (Absa).

The fall in the UBS share price reflects the dilution in earnings and dividends per share because of the new offer.

Since more Absa shares are issued than in the first offer, the projected earnings per share is reduced by 5% to 84c a share.

UBS, which closed at 705c yesterday, will pay about R100m more for the Allied than the original consideration of about R712m.

The offer of 100 Absa shares (equivalent to UBS shares) for every 260 Allied shares values the Allied at about 270c.

Shareholders can also elect to cash in half their shares at 275c — a substantial premium over the UBS's first offer of 240c and well above the net asset value of just over 200c.

First National Bank (FNB), the loser in the battle for the Allied, has indicated it has no immediate plans to set its sights on another small bank or building society.

An obvious target would be the NBS. Senior GM Viv Bartlett said the group would "get on with its business and grow organically".

He added that FNB had wanted the Allied "at a certain price" and that at a higher level, it became too expensive.

The UBS is to address the question of staff morale at the banks in the new group in the next few days. The group is expected to allay fears of massive retrenchments.

The Securities Regulation Panel yesterday broke its silence over its rulings and explained why it had upheld FNB's appeal against an earlier ruling.

The panel agreed with FNB's argument that "substance should prevail over form" when considering a transaction.

It found that its executive committee had considered the matter "from a narrow specific point of view".

But "matters of this nature" could not be "confined to narrow specifics when there are other wider transactions being undertaken".

Explaining its decision to uphold FNB's appeal, the panel said: "Great stress was laid in the submissions of UBS Holdings . . . on the panel being constrained by the definitions in the rules.

The panel accepts this constraint but, as envisaged in the rules, has the right to interpret those definitions in the spirit of the rules."

Top government team appointed

(58)

Old Mutual: major probe is launched

BDay 5/3/91

ANDREW GILL

GOVERNMENT has launched a high-powered investigation into alleged trading irregularities at Old Mutual. The extent of the suspected irregularities appears to be much larger than previously thought.

Justice Minister Kobie Coetsee and Finance Minister Barend du Plessis yesterday announced the appointment of a investigative committee, to be headed by Cape Attorney-General Frank Kahn.

Also on the committee is Registrar of Financial Institutions Piet Badenhorst, senior Finance Department officials, representatives of the SA Police and the Reserve Bank, and private sector members.

This follows allegations that certain Old Mutual employees had been involved in irregular transactions.

Old Mutual announced on February 14 that two senior staff members had been suspended in connection with the probe. However, at the time, Old Mutual said no inference should be made from the suspensions.

Reports later said that up to four local stockbroking firms had been involved in the transactions and that the alleged transgressions could run into millions of rands.

Rumours that the Commercial Branch had probed certain broking firms were denied by a police spokesman yesterday.

A statement released by the Justice Department yesterday said the Ministers had "deemed it neccessary in the public interest to compile an expert investigation team to investigate the allegations".

The committee will report to Coetzee and Du Plessis.

"If any criminal offences are revealed," the statement said, "the law will of course take its normal course".

Old Mutual chief operating officer Gerhard van Niekerk said in a statement the internal investigation had proved to be a laborious task of finding and putting together the pieces of a complex jigsaw puzzle.

He said when it seemed a criminal investigation might be warranted, the authorities were informed, he said.

The Mutual investigation was conducted on a full-time basis with the utmost urgency, he said.

"The purpose of this investigation was to establish whether we were dealing with a string of coincidences or with improper practices, and whether it was an internal matter or something that required the attention of one or more public authorities."

The situation that Old Mutual had identified was of a limited nature, he said, and the few pension funds whose portfolios may have been affected had been notified individually. There was no indication that individual policyholders or unit trust investors were likely to be prejudiced.

Van Niekerk said last night the pension funds involved were managed by Old Mutual but none would be disastrously affected by any irregularities.

He declined to name the funds.

Market negative to new Allied bid

BDay 5/3/91

GRETA STEYN

THE UBS share shed 7% yesterday, signalling the market's belief that the group was paying too much for the Allied in a new offer made to minorities to form Amalgamated Banks of SA (Absa).

The fall in the UBS share price reflects the dilution in earnings and dividends per share because of the new offer. Since more Absa shares are issued than in the first offer, the projected earnings per share is reduced by 5% to 84c a share.

UBS, which closed at 705c yesterday, will pay about R100m more for the Allied than the original consideration of about R712m. The offer of 100 Absa shares (equivalent to UBS shares) for every 260 Allied shares values the Allied at about 270c. Shareholders can also elect to cash in

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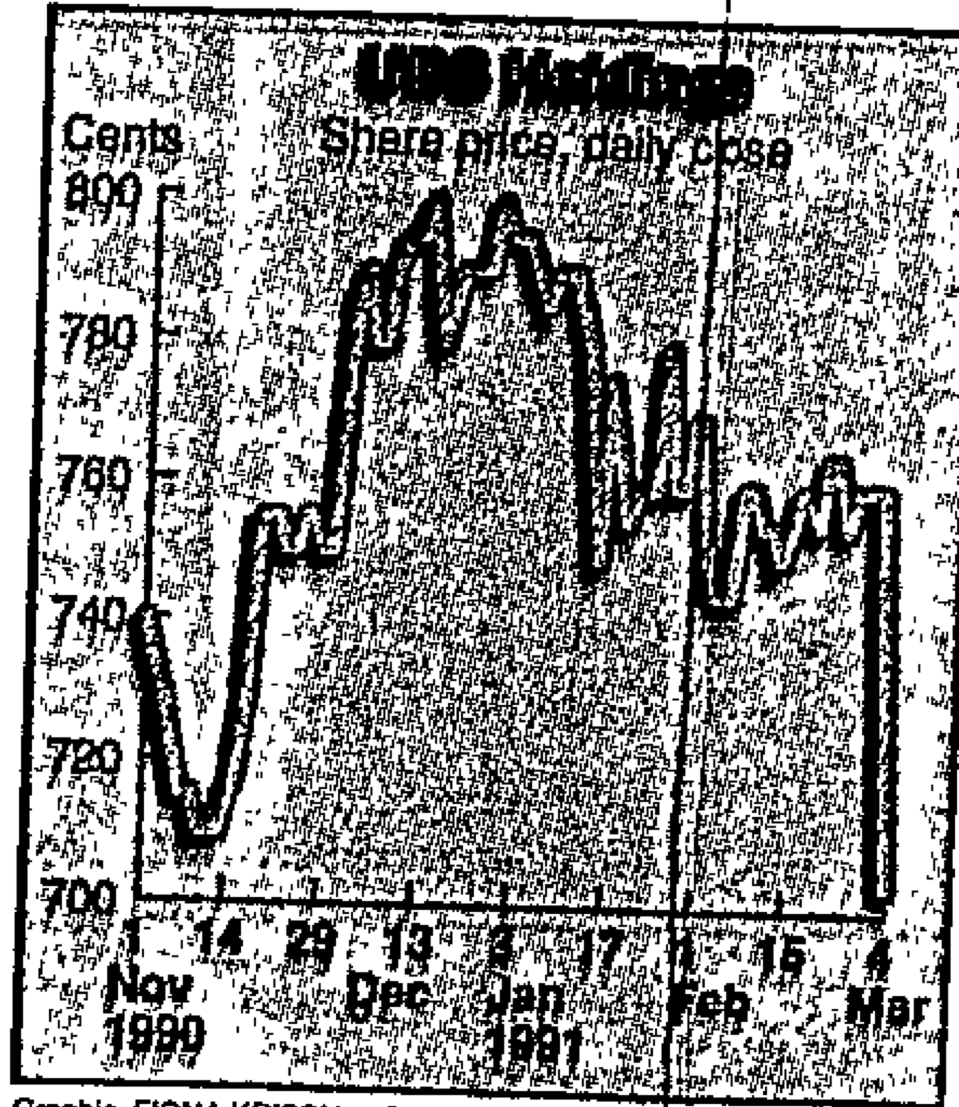

Graphic FIONA KRISCH Source: JSE

Allied

BDay 5/3/91

half their shares at 275c — a substantial premium over the UBS's first offer of 240c and well above the net asset value of just over 200c.

First National Bank (FNB), the loser in the battle for the Allied, has indicated it has no immediate plans to set its sights on another small bank or building society. An obvious target would be the NBS. Senior GM Viv Bartlett said the group would "get on with its business and grow organically". He added that FNB had wanted the Allied "at a certain price" and that at a higher level, it became too expensive.

The UBS is to address the question of staff morale at the banks in the new group in the next few days. The group is expected to allay fears of massive retrenchments.

The Securities Regulation Panel yesterday broke its silence over its rulings, ex-

(58)

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plaining why it had upheld FNB's appeal against an earlier ruling. It agreed with FNB's argument that "substance should prevail over form" when considering a transaction. It found its executive committee had considered the matter "from a narrow specific point of view". But "matters of this nature" could not be "confined to narrow specifics when there are other wider transactions being undertaken".

Explaining its decision to uphold FNB's appeal, the panel said: "Great stress was laid in the submissions of UBS Holdings . . . on the panel being constrained by the definitions in the rules. The panel accepts this constraint but, as envisaged in the rules, has the right to interpret those definitions in the spirit of the rules."

● See Page 10

Sage sets the record straight

Business Day Reporter

LOUIS SHILL, Sage's chairman, yesterday challenged statements made in yesterday's Business Day leading article "Absa opportunity", saying they were based on inaccurate information regarding Sage Financial Services (SFS) and inaccurate inferences regarding the Sage Group.

He pointed out that far from SFS being "up to its neck in debt over soured financial services ventures in the US", SFS had no such problems and its debts were insignificant. He added that, in fact, SFS's total borrowings amounted to 0,5% of its total capital at December 31 1990. Including the company's redeemable preference share capital, the borrowing ratio was 10,9% of total capital. SFS has no ventures of any kind in the US.

In addition, he said that neither SFS nor any member of the Sage Holdings Group which might have investments in the US had liabilities remotely approaching the "R70m-odd" referred to in the leader. Sage's foreign liability contingencies had been fully and openly disclosed to shareholders in the company's financial statements.

The leader suggested that SFS "has to account for about R16m accumulated losses in its ill-starred computer operations". In reality, Shill said, there were no accumulated losses from computer operations still to be accounted for and any losses incurred in the past had been fully brought to account in the years in which they were incurred.

He said it was also relevant to note that the SFS assets and interests to be acquired by Absa did not include any computer operations other than the normal data processing divisions of the various companies.

Shill also made the point that during 1990 Sage had not sought the protection of the courts to prevent publication of information by the Financial Mail, but rather to prevent the Financial Mail from publishing inaccurate information obtained by illegal means and particularly from tapping of telephone conversations.

Business Day regrets the inaccuracies.

Absa deal: benefits 'outweigh' the costs

(58)

BDay 6/3/91

GRETA STEYN

● BADENHORST

THE rationalisation benefits of merging the UBS, the Allied, Volkskas and half of Sage Financial Services to form Amalgamated Banks of SA (Absa) would justify the expensive takeover of the Allied, UBS CE Piet Badenhorst said yesterday.

In his first interview since winning the takeover battle for the Allied, Badenhorst said: "There is no doubt the price was high. But that is what happens when two elephants fight."

He emphasised buying the Allied was a long-term strategic move and should not be judged in the light of any short-term difficulties that analysts might foresee.

Asked whether the cost of the takeover and possible problems in merging the different cultures would not have a negative effect on the earnings in the short term, Badenhorst said: "Look at the UBS's earnings and dividend record for your answer."

Analysts said if the UBS's return on assets was emulated by the group, Badenhorst would achieve the profitability needed to justify the cost of the acquisition. The UBS's return on assets is among the best in the banking sector at over 1% while the Allied's is below.

Badenhorst said the main opportunities for banking rationalisation lay in head office structures, data processing and the number of branches. But he was emphatic rationalisation would be a longer-term

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Absa deal BDay 6/3/91

(58) ☐ From Page 1

evolutionary process, and staff need not fear massive retrenchments.

"There is a big saving in that it will not be necessary for each bank in the group to reinvent the wheel," he said. Analysts speculate that Badenhorst will focus corporate banking activities in one of the banks, probably Volkskas, while scaling down the activity in others. In other areas too, strengths and weaknesses would be identified and built on or cut back.

The first short-term goal would be to weld the management teams into one going in the same direction, Badenhorst said.

He would not discuss the implications of Allied MD Kevin de Villiers' open opposition to the UBS bid. He believed in "getting on with the business" and saw no reason to take special action in response to De Villiers' opposition during the takeover fight.

Badenhorst is believed to have met De Villiers yesterday to discuss improving staff morale at the Allied.

Arrival at the final price was the result of negotiations between the UBS and its rival First National Bank (FNB). "Either they had to buy out our stake or we would buy theirs. But we were never sellers," he said. The UBS's stake in the Allied is already about 50%, most of which is believed to have been bought at about R2,60.

He said losses on Sage's US operations were contractually excluded from the Absa deal. He was responding to speculation that the merging of half of Sage Financial Services with the UBS, Volkskas and the Allied had presented Sage chairman Louis Shill with an opportunity to hide the losses, rumoured to be about R70m.

Net is thrown wider in Old Mutual probe

By Ann Crotty

The scope of the investigation into some of Old Mutual's share transactions which has been handed over to government authorities is now expected to widen to include a large number of players — institutions and brokers — who have been involved in questionable trading in foreign listed shares.

Market sources believe that the investigation is likely to go beyond the four or five broking firms whose names have so far been mentioned in connection with Old Mutual's investigation.

In addition, as the investigation team tracks down myriad complex transactions, it is thought possible that other institutional players will come under scrutiny.

These players are part of the life assurance industry which control over R100 billion worth of assets.

Yesterday leading stockbroker Mr Sydney Frankel stated that he "fully supports the investigation" and believes that a policy of honest and fair trade is essential for the JSE to function: "The strongest action must be taken against anyone breaking the law."

Old Mutual's chief operating officer Mr Gerhard van Niekerk explains that the reason the investigation was handed over to government was that the Old Mutual had reached the point in its investigation where certain information in the jigsaw was missing and the institution did not have access to it.

He dismissed speculation that the creation of a government task force could take the heat off the situation by burying it in a long-drawn out investigation that would produce an exhaustive but inconclusive report.

(This sceptical view is based on the fact that despite many official investigations into foreign exchange frauds over the past few years, little conclusive or dissuasive action has been taken.)

According to Mr Van Niekerk, this matter will not be forgotten: "There is a real urgency in having it resolved as the Old Mutual is keen to ensure the public that the employees of Old Mutual and the people with whom it deals have the utmost integrity."

The most widely speculated transaction relates to the purchase of shares on overseas markets. For instance if a line of De Beers became available in London (where it is quoted in dollars) an SA trader could decide to take the line with the intention of selling it on to a local institution.

The straight way to do this is for the local broker to use rands to effect the purchase from London — using a bank, then immediately sell it on to an institution just taking the normal commission.

Another way is for the local broker to offer dollars for the line of De Beers. This will create a foreign exchange exposure which will have to be matched by finrand cover. This is a transgression of the foreign exchange regulations which a local player can by-pass by using an overseas company to front the deal.

The shares can trade through a number of players overseas or in SA (with each taking a turn) before eventually being booked to the institutional investor at a price well above the original market level.

One deal may not seem significant, but concern in the market is that this may have been going on for a number of years with a number of players making significant profits at the expense of institutional policyholders who are worse off to the extent that the institution has paid in excess of the real market price.

The same sort of transactions can be done without the forex leg. The attraction of the forex leg is the additional obfuscation and the fact that it provides scope to earn profits offshore.

The major difficulty facing Old Mutual and the investigating team is the complex nature of the deals and the fact that much of the evidence surrounding the situation is of a circumstantial nature.

As Mr Van Niekerk stated earlier: "The transactions that came to light individually appeared completely normal but collectively showed a suspicious trend."

Even to take it from "suspicious" to something on which firm action can be taken will be a difficult task involving the linking of numerous transactions and numerous players — some of whom will be innocent.

Given the fact that speculation about these sort of transactions had been fairly wide spread in the market for some time before the Old Mutual investigation was launched and involved many more major players, the Old Mutual is to be commended for taking such decisive and potentially damaging action. It will be unfortunate if other players do not come forward to help with the investigation.

Schweppes

EARNINGS PER SHARE UP 13,7%

for the fifty-two weeks ended 29 December 1990

Consolidated balance sheet

% Change		29.12.90 R'000	30.12.89 R'000
+22,2	Fixed assets	108 591	98 245
+12,3	Investments and loans	42 774	37 518
	Current assets	165 199	145 826
+1,3	Total assets	316 564	281 589
	Current liabilities	117 862	96 911
+12,7	– interest bearing	35 085	12 890
	– other	82 777	84 021
+29,2		198 702	184 678
+16,8	*Financed by*		
	Ordinary shareholders' funds	163 968	138 949
	Minority interest	3 820	4 633
+14,3	Long-term liabilities	27 886	38 113
	Deferred taxation	3 028	2 983

It's business as usual at the Allied

By Tom Hood

Business as usual, no branch closures or retrenchments of staff.

This was the promise today from the Allied group after its takeover by rival UBS to join the new R50 billion megabank Amalgamated Banks of South Africa.

"As far as the public is concerned, there will always be three competing institutions — the Allied, UBS and Volskas," said Allied's managing director Kevin de Villiers.

Obviously in the background there might be a combining of certain computer operations, he said, but he ruled a rationalisation of UBS and Allied branches operating in the same area.

"Economies of scale in the banking world are not that dramatic at branch level and it would be better to continue in competition."

"Branches will stay the same and continue to give the same services

"I am staying on and I will have a chat with Piet Badenhorst (UBS chief executive) and it will be up to him to decide if he wants me to continue.

"If the merger is to succeed, I must do my duty to try to make it work."

The groups involved in the merger have given a joint undertaking "that the various identities and brand names will be preserved for at least five years" and that the Volskas, Allied and UBS interests will be represented by separate operating subsidiary boards of directors.

First shot in new bond war

CAPE TIMES 8/3/91 (58)

Own Correspondent

JOHANNESBURG. — First National Bank (FNB) fired the first salvo in a new bond war last night with a one percentage point cut in its home loan rate to 19,75%. The cut will take effect from April. The move took the bank's competitors by surprise and takes its interest rate to the lowest of the major players in the home loans market.

Arch-rivals Standard Bank and the UBS last night indicated that they had not contemplated any reduction in rates until FNB's announcement.

Fighting back

FNB's senior general manager, Mr Jimmy McKenzie, said the interest rate cut was a signal that the bank intended to become "a more aggressive player" in this market.

"The improved liquidity position in the money market plus the easing pattern of interest rates generally has made it possible for us to contemplate this move."

A senior banker at one of its competitors said FNB was trying to regain the substantial market share lost during the past two years.

Surpassed by the Standard Bank Group and Nedcor, he said the market share problem had been given an urgency by the UBS's success in taking over the Allied.

FNB, pushed into the number four spot in size, wanted to fight its way back through putting home loans on to its balance sheet.

The demand for home loans has remained surprisingly buoyant, with the Standard Bank notching up an increase of almost 33% in its past financial year to a massive R6,5bn.

Reserve Bank figures show that building societies' monthly increase in mortgage holdings picked up in the second half of 1990 to reach their highest level for the year in November at R448m — the latest figure available.

Banks will focus increasingly on home loans as these carry easier capital requirements than other loans in terms of the new Deposit-Taking Institutions Act.

FNB's move comes after weeks of expectations of a general drop in interest rates, which would follow after the Reserve Bank cuts the Bank rate.

Key interest rates in the money market have already almost fully discounted a one percentage point cut in the Bank rate.

FNB shows way with 1% mortgage rate cut

By Derek Tommey

First National Bank is to cut its mortgage rate by one percent to 19,75 percent on both new and old mortgages from April 1.

This will lead to repayment reductions of about R40 or so a month on a R50 000 bond, R80 a month on a R100 000 bond, and R160 a month on a R200 000 bond.

Other banks and building societies have not yet announced their mortgage rate intentions. But as the market for mortgage bonds is extremely competitive they are expected to follow suit within a matter of hours.

The move will help to boost the morale of house-buyers who have seen the cost of their bonds soar in the past two years. But it could be a shot in the arm for business if it prompts a general reduction in interest rates.

This is the first relief that house buyers have had since the end of 1987. That was the last time the bond rate was cut — from 14,5 percent to 12,5 percent.

In the intervening period the bond rate has been raised nine times, the last time being in October, 1989 when it was increased from 19,75 percent to its current peak of 20,75 percent.

The past 18 months is the longest period over which South African have had to pay such high interest rates.

Analysts say that the cut in the mortgage rate was not completely unexpected. There is a strong belief that the Governor of the Reserve Bank, Dr Chris Stals, will announce a reduction in bank rate on Budget Day. This is expected to lead to a general reduction in rates.

However, First National appears to have stolen a march on its competitors in the area of house financing. It also raises the possibility that this could be the start of a major war between FNB and other mortgage lenders for new business.

After failing in its bid for the Allied, FNB said it would grow organically, and this could be the start of an aggressive campaign.

Dr Stals postponed a reduction in the bank rate last year owing to the Kuwaiti crisis and the fear that this could lead to a serious oil shortage resulting in high inflation.

These fears have not materialised and with the Gulf war over, there seems no reason why Dr Stals should delay further reducing interest rates.

In fact, the fact that some areas of the economy have sunk into what seems a deeper recession would seem to justify a rate cut soon.

The move by the FNB and the likely mortgage rate cuts by the other banks and building societies will be greatly welcomed by commerce and industry as well as house-buyers.

The building societies have sone R27 billion invested mainly in domestic bonds. No precise figures are publicly available for the banks' domestic bond business but it is believed to be around R8 billion.

On these combined figures the one percentage point reduction in mortgage repayments should put an extra R350 million a year in consumers' pockets which could give at least a small lift to the retail trade.

Competitors taken by surprise

FNB to drop home loan interest rate

GRETA STEYN

FIRST National Bank (FNB) fired the first salvo in a new bond war last night with an announcement of a one percentage point cut in its home loan rate to 19,75% with effect from April.

The move, which surprised the bank's competitors, takes its interest rate to the lowest of the major players in the home loans market. Arch rivals Standard Bank and the UBS last night indicated they had not contemplated any reduction in rates until FNB's announcement.

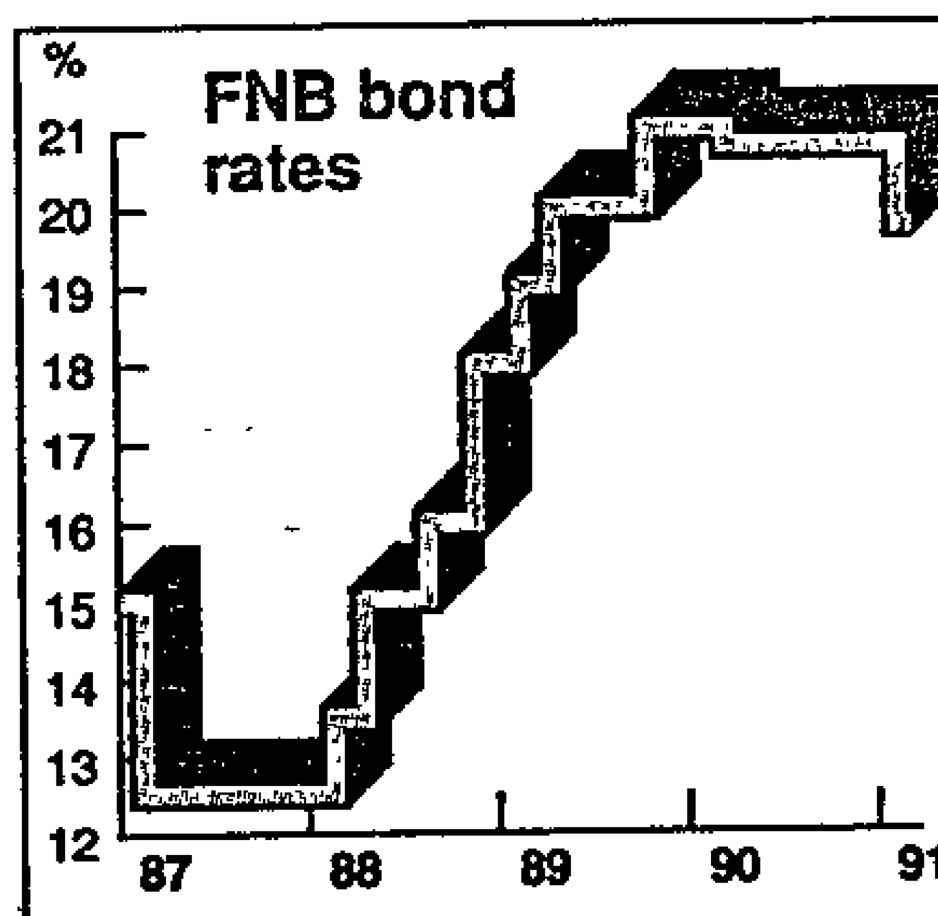
FNB senior GM Jimmy McKenzie said the interest rate cut was a signal that the bank intended to become "a more aggressive player" in this market.

"The improved liquidity position in the money market plus the easing pattern of interest rates generally has made it possible for us to contemplate this move."

A senior banker at one of its competitors said FNB was trying to regain the substantial market share lost during the past two years. Surpassed by the Standard Bank Group and Nedcor, he said the market share problem had been given an urgency by the UBS's success in taking over the Allied. FNB, pushed into the number four spot in size, wanted to fight its way back through putting home loans onto its balance sheet.

With the UBS, the Allied and Volkskas preoccupied with making the Absa merger work, FNB could be expected to launch an all-out attack on gaining market share.

Banks will focus increasingly on home loans as these carry easier capital requirements than other loans in terms of the new Deposit-Taking Institutions Act.



Graphic: FIONA KRISCH

FNB's move comes after weeks of expectations of a general drop in interest rates, which would follow after the Reserve Bank cuts Bank rate. Key interest rates in the money market have already almost fully discounted a one percentage point cut in Bank rate.

The Treasury Bill (TB) rate is at 17,06%, compared with Bank rate at 18%. The three-month liquid BA rate is at 17,40%, 95 points below the rate at which the Reserve Bank exchanges BAs for cash. Capital market rates have shed about 65 points in anticipation of action from the Bank which is unlikely before the Budget.

However, the signal from the Bank is that Reserve Bank Governor Chris Stals will not move until he is certain this month's Budget will not be too expansionary.

Costly victory for the UBS

Star 8/3/91.

By Derek Tommey

The United Building Society has won the fight for the Allied Group but it has had to pay much more than it wanted. According to market analysts the UBS could be paying up to R180 million more than it originally proposed.

The other contestant, First National Bank, announced its withdrawal from the fight yesterday.

With its win the UBS is on its way to forming South Africa's biggest banking group, the Amalgamated Banks of South Africa (ABSA) which will have assets exceeding R50 billion.

Stockbrokers say that the UBS initially planned to offer about 215c for each Allied share. But when it got wind that the FNB was to enter the fray it increased its offer to 240c a share.

After a weekend of negotiations with FNB, and consultations with the Securities Regulation Panel, the UBS has now agreed to pay the equivalent of 275c a share in cash for half of the shares held by each Allied shareholder.

The balance will be in UBS (or soon to become ABSA) shares in the ratio of 100 ABSA for every 260 Allied shares. This compares with FNB's offer of 250c in cash or the currently 284c in FNB shares.

UBS's holding of Allied shares is not known. But if it has to pay 275c for all the 300 million Allied shares, the take-over will cost it some R825 million in cash and shares which is R180 million more than it original 215c a share would have cost.

The offer requires a major increase in the number of new shares the UBS will have to issue, which means that total dividend payments will also have to be significantly increased. Market analysts feel this extra outlay could dampen the new group's short-term prospects.

This concern was reflected in the 55c drop in UBS shares yesterday to 705c. It means that the new UBS offer of 100 ABSA shares for every 260 Allied shares is worth about 271c a share.

FNB option

With FNB losing its bid for the Allied, banking analysts are wondering which other banking group it will set its sights at.

An analyst at Mathison and Hollidge said that FNB had lost market share recently and needed to expand the retail banking side of its business.

Market talk is that FNB might be looking at Boland Bank. However, a bid for the Natal Building Society, the only other large independent building society on the Johannesburg Stock Exchange, is ruled out. The NBS is regarded as being linked too closely to the Norwich Union to be available for a take-over.

If one believes that people learn from experience, a survey of the take-over battle for the Allied which started at the end of January the end of January suggests that next time most of the parties will do much better.

Although the weekend developments have probably done much to redeem the Securities Regulation Panel in the eyes of the public, its earlier performance left much to be desired.

The overturning of the panel's first ruling at later meetings suggests that initially the panel acted too hastily. One would have also thought that a full panel meeting would have been called to confirm and ratify what turned out to be such an important ruling.

The failure of the Panel to communicate its decisions to the investing public or to inform them who was buying Allied's shares contributed to the small shareholders' confusion.

The FNB's approach also appeared somewhat timid. Its downfall lay in its failure to challenge the panel much sooner than it did on its first ruling.

The UBS's performance raises admiration. It kept its head down and said nothing, probably hoping that by keeping quiet Allied's shareholders would let it win be default. But it was a little bit greedy at the start by bidding too low and now they have to pay for that mistake.

Govt to free billions?

JOHANNESBURG. — The government has appointed a private sector committee to investigate the "dramatic" possibilities of freeing its R27 billion in pension funds to invest on the JSE and in property.

The funds are at present allowed to be invested only in government stock, semi-gilts and money market assets.

The ban on investment in equities is regarded as a major factor behind the huge actuarial liabilities of R30bn.

Old Mutual: AG to meet registrar

Staff Reporter

A CAPE attorney-general, Mr Frank Kahn, appointed by the government to investigate alleged multi-million-rand trading irregularities at Old Mutual, is to meet the Registrar of Financial Institutions, Mr Piet Badenhorst, today.

The meeting, confirmed by Mr Sid Miles, chief inspector of financial institutions in Pretoria yesterday, centres on the probe into Old Mutual.

"We'll get instructions from Mr Kahn and will assist him fully if requested," Mr Miles said yesterday.

Mr Kahn, who could not be contacted, spent several hours discussing the probe with Commercial Branch detectives at police headquarters in Pretoria yesterday, it was learnt.

Two senior investment staff members at Old Mutual — portfolio manager Mr Dave Schapiro and senior portfolio manager Mr Marco Celotti — have been suspended pending the outcome of the investigation.

● Mr Kahn is considered one of the country's top specialist commercial crime investigators.

'No losers in Allied takeover'

Cit Trib 9/3/91 (58) AR

By ARI JACOBSON

THE dramatic saga of the war for possession of the Allied Group has finally been resolved, says the chairman of the SA Shareholders' Association, Issy Goldberg.

Goldberg says in his opinion an equitable solution has been found.

"The panel, which was setup to protect minority shareholders against unfair treatment in the takeover of companies, was thrown into the deep-end as the arbiter of the conflict between two giant financial institutions."

Better deal

Goldberg says the end-result is that minority shareholders have been awarded a far better deal than originally offered by the United Building Society (UBS) and associates or First National Bank (FNB).

"A contested bid of this significance is without precedent in SA corporate history — with a price tag of almost R1bn. Minority shareholders have now been offered an almost 20% improvement for their shares."

For each 260 Allied shares surrendered they will now receive 100 Amalgamated Banks of SA (Absa) shares. The original offer was 320 Allied shares for 100 Absa shares. Further, half the Absa shares will now be convertible to cash at an effective 275c an Allied share.

"There has been much criticism of FNB's appeal being upheld, thus reversing the original decision by the panel's executive which permitted UBS to buy shares freely without invoking Rule 8 — requiring the top price paid in the market to be passed on to minorities.

According to published reasons for the judgment of the appeal panel, "the explanation of the reversal of the decision by the appeal panel is that certain facts including important provisions of "the merger agreement" unknown to the Executive surfaced later and came to the notice of the appeal panel."

New factors

He says the appeal panel took into consideration the new factors at their disposal and came to a different decision upholding the FNB appeal.

Goldberg says it is important to note that the spirit and general principles which form part of the rules must be applied in the interpretation.

"The appeal panel accepted the constraints submitted by eminent counsel acting for UBS and associates, that the definitions laid down in the rules were of primary importance and should be respected to the very letter.

"The appeal panel, however, felt it had the right to interpret those definitions in the spirit of the rules without abusing its intentions."

And so, says Goldberg, the appeal panel ruled that the merger agreement between UBS and associates resulted in a concert party being created with the totality of their shares exceeding the specified 30%.

"Following on the appeal panel's ruling the parties came to agreement whereby a new formula was extruded and FNB opted to resile from the contest."

"There are no real losers with those not having sold shares on the market — given a better deal.

Profitability

"FNB will be reimbursed for expenses in opposing the deal (R16m), while UBS has created a tremendous financial services giant amounting to R50bn. The hundred million extra cost is unimportant in a billion rand transaction."

Goldberg says minorities in Allied could consider "staying for the ride" with the Absa rationalisation promising much profitability over the years.

"It of interest to debate what FNB will do with their 25% or 75m Allied shares. They must be given the same deal as minorities which could translate into a substantial 10% of Absa."

BOE to put millions into city face-lift

By AUDREY D'ANGELO
Business Editor

A multi-million rand redevelopment plan for a block bounded by Adderley Street, Longmarket and Parliament Street was announced by the Board of Executors Properties (Pty) yesterday.

It has bought Protea House in Adderley Street, in consortium, for an undisclosed sum.

This completes its ownership of a block including Melotronics, Pearne Buildings, Kottlers Curios, the Singer Building, Margolin Building, Aegis House, Geneva House, Foschini and Protea House.

Feasibility studies are being prepared for the redevelopment of the consolidated site, covering 3 000 square metres.

But a statement issued by the company emphasised that the historic Victorian buildings on Adderley Street and Longmarket Street would be retained and renovated.

Demolition of the other buildings will start in July this year.

The new development will add 23 000m² of office space and 400 parking bays to the accommodation available in the Cape Town central business district.

The announcement has come at a time when Anglo American Property Services (Ampros) reports an increase in vacant office space in every major centre.

The Ampros current Property Review says that in the past year the amount of vacant space in A-Grade office accommodation in Cape Town has increased from 1,6% to 6,2%.

But the Board of Executors Properties statement forecasts "strong demand from national companies requiring modern offices and parking in the heart of the CBD, and also from new embassies".

It says the new accommodation it will provide will be "less than one year's historical take-up."

This is the first site assembly that has taken place in Adderley Street since the Woolworths development in 1970.

JSE moved first, says Norton

New details widen net in Mutual probe

B'day 7/3/91

ANDREW GILL and LESLEY LAMBERT

THE investigation into suspected dealing irregularities by individuals at Old Mutual and the JSE shifted gear yesterday, coinciding with a wave of disclosures which shed further light on the scope of the suspected illegal activities.

JSE president Tony Norton said the suspected scam had first been exposed by the exchange, which had notified the Mutual about "some deals that had looked unusual". The Mutual had acted immediately by initiating its own investigation and suspending two senior employees.

Old Mutual's chief operating officer Gerhard van Niekerk repeated yesterday that the men were suspended because they were in responsible positions and that they were not necessarily involved.

After three weeks of declining to comment, Norton said the JSE had been investigating the matter since it was noticed, first with Old Mutual and now with the state-appointed investigative team headed by Attorney-General Frank Kahn.

Major broking firms have apparently been under scrutiny at the JSE. Norton said although the exchange's inspectorate was combing through thousands of deals, evidence seemed circumstantial at this stage. He pointed out that no conclusions had yet been reached.

"No stone will be left unturned," he said, and if anything was found, people would be punished under the full spectrum of rules, laws and the code of ethics.

In Cape Town yesterday Van Niekerk said it was clear the investigation needed to be extended beyond Old Mutual, and that a criminal investigation might be warranted.

The companies whose pension funds may have been affected had been informed by Old Mutual.

The transactions which Old Mutual had investigated internally had been JSE share transactions. Fewer than 10 share transactions were currently under investigation and the amounts concerned were insignificant.

The transactions had appeared normal when studied in isolation, but suspicious coincidences had emerged as Old Mutual's investigation had delved further back in time, he said.

He knew nothing about financial rand transactions or forex fraud. If there had been any they would have been outside the realm of Old Mutual.

Brokers said the likelihood of an offshore link was strong, raising the question of how deeply involved some individuals or stockbroking firms had been.

Van Niekerk added that as yet Old Mutu-

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Mutual

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☐ From Page 1

al had not acted against any brokers by withdrawing business. He said this would only happen when the investigation had been completed and any guilt had been established.

Kahn's investigating team and the JSE inspectorate have been hard at work. Stockbroking firms mentioned as being involved have promised full co-operation and have emphasised the need for getting to the bottom of the investigation.

Deals by Frankel Max Pollak Vinderine had been investigated by the JSE, joint MD Geoff Rothschild said yesterday. He added that his firm had carried out its own internal investigation.

Rothschild said the internal investigation had not disclosed any deals that appeared questionable in isolation, but accepted that some might be seen to be so if put into what Van Niekerk called "a complex jigsaw puzzle".

He was unaware of any investigation of his firm by Kahn's team. However, Norton said no inference should be drawn from this. It would not necessarily be required that the team visit any broking firm's premises as it would have full access to the JSE's own records.

Ed Hern Rudolph director Johann Blersch confirmed one deal, which appeared to him to be "bona fide", was under investigation.

Blersch was reported by the Financial Mail as saying deals put through by as many as 10 firms were being investigated. However, when asked to identify them yesterday he would not.

BUSINESS DAY, Thursday, March 7 1991

Costs of Absa merger are mounting steadily

GILLIAN HAYNE

THE costs of the Amalgamated Banks of SA (Absa) merger appear to rise at every turn, with the cost of stamp duty and other fees — reported in the UBS offer document — estimated to exceed R36,3m.

This is in addition to the estimated R80m UBS has to pay for Allied as a result of the deal with First National Bank (FNB) at the weekend, and the R16,75m it could be liable to pay to cover FNB's cost of fighting the takeover.

In the offer document, UBS expects stamp duties, fees for merchant banks, corporate advisors, auditors and attorneys to reach R30m. Added to that is the commission in terms of the cash underpin agreement of R6,3m and the JSE fees of R13 000.

No mention is made of advertising, PR costs and the cost of employing teams of people to phone Allied shareholders to pass on "a message of reassurance".

Tax consultants say these costs will not be tax deductible as they were not incurred in the production of income nor were they of a capital nature.

In terms of the Income Tax Act deductions are allowed if expenditure is incurred in the production of income, provided it is not of a capital nature.

OM's trusts well placed for surge in share prices

By Des Parker

Old Mutual unit trust and portfolio managers kept their liquidity levels lower than most institutional investors last year to avoid getting trampled in the rush for scarce scrip when the market turns.

According to figures produced at a presentation this week in Durban by Denzil Burger, a senior investment fund manager with the life assurer, the average liquidity ratio of the company's four unit trust funds was just over 16 percent at the end of last year.

The level traditionally is close to 27 percent.

While the ploy eroded the performance of Old Mutual's unit trusts last year — their 12-month returns were below the median level for the industry — the fund managers say they are well placed to take advantage of any growth in share prices.

Industrial and financial sector counters made up 46 percent of the market value of the group's Investors' Fund — the biggest unit trust in South Africa.

While it might take only a few weeks to amass R10 million-worth of equity in companies like Barlow Rand, Lonrho and SA Breweries, said Mr Burger, an investor could spend more than 18 months buying the same value in groups such as McCarthy, Edgars, Romatex, Anglo Alpha or NBS.

By comparison with other leading stock markets around the world, turnover of shares on the Johannesburg Stock Exchange was very low.

As a percentage of total market capitalisation, annual turnover was about four percent on the JSE, as against about 25 percent in Britain and Australia, and more than 60 percent in the United States.

Old Mutual clarifies probe issue

(58)

Star 7/3/91.

By Ann Crotty

The Old Mutual has issued a statement stressing that it is a number of investment transactions that are currently under investigation by the government and not the Old Mutual as a business organisation.

The statement also attempts to make clear the "limited nature" of the transactions under investigation. It points out: "The situation that the Old Mutual has identified is of a limited nature. The few pension funds whose portfolios may have been affected have been notified individually.

"There is no indication that individual policyholders or unit trust investors have been or are likely to be prejudiced."

● In yesterday's article on the Old Mutual it should have been stressed that according to Reserve Bank regulations foreign exchange exposures have to be cleared at the end of every day but a dealer or broker can carry an exposure during the course of a day's trading. This means that he can buy De Beers in dollars in the morning and close out the consequent exposure before the end of the day.

The Old Mutual investigation does not involve transactions of this nature. It involves transactions where exposures are held for an indefinite period by an overseas based company fronting for local players. During this period, there is scope to churn the shares as well as take profit on the finrand/commercial rand discount.

FNB reduces its bond rate

House buyers with First National Bank bonds will pay less from next month. FNB announced last night that its mortgage bond rate will be reduced from 20,75 percent to 19,75 percent from April 1 on existing and new bonds.

This is the first reduction to follow nine successive increases in the bond rate from 12,5 percent over two years ago to its current rate.

No other bank or building society has announced a similar cut. But because competition for mortgage bonds is so keen, they are expected to announce reductions in their mortgage rates shortly.

● See Page 10.

Govt questions role of M3 as policy indicator

Bday 8/3/91 (58)

THE Reserve Bank is rethinking its approach to money supply, including the almost exclusive focus on the broad definition of money, M3, as a monetary policy indicator.

M3 consists of cash in circulation and all deposits with banks, including long-term savings. The Bank is looking at the feasibility of using another definition of money as a prominent policy indicator. Possibilities under investigation include using a "narrower" definition of money.

The Bank is studying the four different "definitions" of money and their reliability as indicators of spending and the general level of economic activity. The study takes place at a time of increasing doubt over M3 as a reliable indicator because of statistical distortions.

The new Deposit-Taking Institutions Act, which requires banks to bring activities previously conducted in the "grey" market back on balance sheet, is expected to cause difficulties in interpreting the rate of growth in M3. The Act came into effect in February.

GRETA STEYN

Paper money represents only about 5% of money as defined by M3. The definition can be broadened step by step to include cheque and transmission deposits (M1A), other demand deposits (M1) and other short and medium-term deposits (M2) and long-term deposits (M3). The pros and cons of focusing on each of these is being debated in the Bank.

The markets are awaiting the announcement of new guidelines for growth in the money supply, when a new approach to M3 might be outlined. But Reserve Bank Governor Chris Stals is expected to downplay the announcement of new guidelines.

The annual rate of increase of 10,25% in M3 in January is well below the inflation rate and in line with the Bank's previous target range of 11%-15%. Although a reduction in the target range is expected for 1991, bankers say this will be of little significance as hitting or missing the targets is becoming increasingly irrelevant for monetary policy decisions.

Old Mutual unit trusts face test of low-liquidity policy

B 10 cu 8/3/91

(58)

LIZ ROUSE

OLD MUTUAL unit trusts and pension funds have remained fully invested in equities over the past 12 months on fundamentals such as proven longer-term returns and the nature of the JSE.

Old Mutual senior portfolio manager Adrian Allardice said at an investment seminar in Johannesburg yesterday that there was little doubt that equities would remain the key sector for investors seeking the highest returns over the medium to longer term.

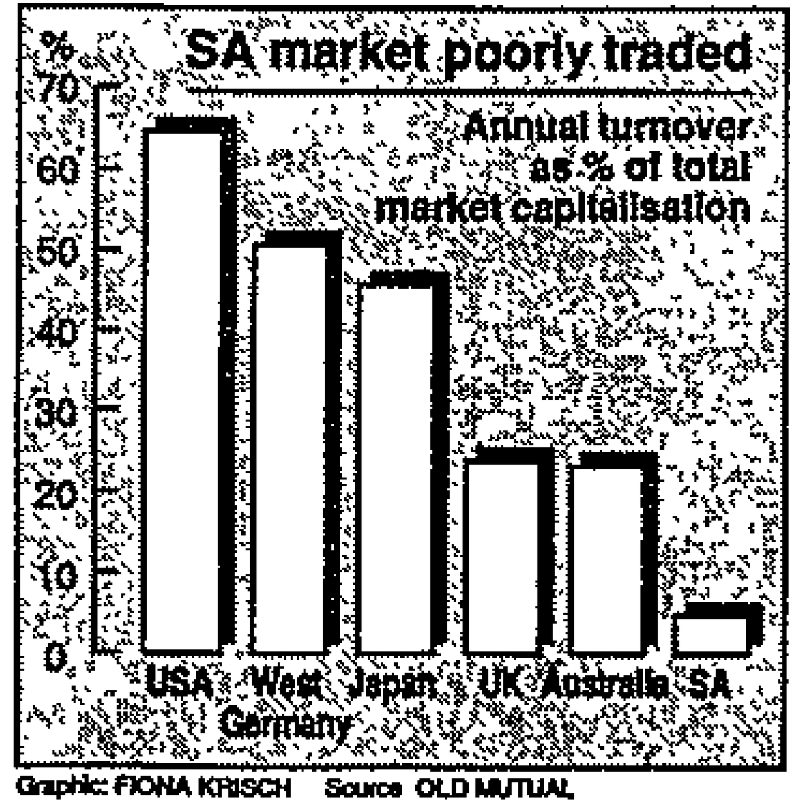
While building liquidity might appear attractive in the near term, a unit trust could end up being unable to buy the large lines of equities required for portfolios.

The scrip shortage on the JSE — which had been a problem for portfolio managers over the past five years — was as severe as ever and could even be worsening.

The accompanying graph shows the very low turnover in SA equities (as a percentage of total market capitalisation) compared with other countries. In SA it is around 4% compared with well over 60% in the US, 50% in Germany and 25% and in Britain and Australia.

Allardice noted that to build a R10m position (assuming the buyer was allocated 25% of market trade) would take three to six months in shares such as Nedcor, UBS, Liberty and Amic, and up to a year in shares such as AVI, Kersaf, Liberty, Nampak and Altech.

Only in the case of a few best grade shares such as Barlows, Richemont, SAB, Sasol and Remgro, would an institution be able to fulfil requirements within weeks.



With the worsening scrip shortage in mind, Old Mutual invested heavily in equities last year for its mutual fund and pension portfolios and is well placed for the expected growth in equity prices.

Liquidity for Old Mutual's biggest fund, Investors, was 18% at the end of 1990, 10% for the Industrial fund, 15% for the Gold fund and 22% for the Mining fund. The minimum liquidity for the industry's general funds was 16% at the end of 1990 and the maximum 44%, while liquidity levels of specialist funds were a minimum 10% and maximum 37%.

ALLIED INTO ABSA FM 8/3/91 (58)

WINNING THE PEACE

BIG RATIONALISATION BENEFITS ARE NEEDED TO VINDICATE THE TAKEOVER

After one of the most dramatic takeover contests SA has ever seen, UBS Holdings has emerged holding the prize. By capturing the Allied Group, one of the most attractive takeover candidates still available, UBS has turned the new Amalgamated Banks of SA (Absa) into a R50bn giant and streaked far ahead of its rivals in the banking sector.

What the *FM* can now reveal is that First National Bank (FNB) was not the only contender for Allied. The Standard-Liberty axis was standing ready to plunge in — with both Standard's Conrad Strauss and Liberty's Donald Gordon intervening with proposals. Had Allied gone to Standard, it would have created a financial institution so vast in relation to the SA economy that no other bank in the foreseeable future could have challenged its lead.

But the deal has been clinched at a high price. Now Piet Badenhorst, CE of UBS and CE-designate of Absa, will clearly have to push ahead more vigorously than ever with rationalisation if he is to achieve the benefits.

Allied shareholders have certainly gained handsomely from the battle. For the rest, there are few, if any, real winners, at least in the short term. FNB has covered its costs but has achieved little else for itself, except that a competitor has been made to pay a lot more than intended. GM Viv Bartlett contends this was always part of the game plan.

The Securities Regulation Panel claims to have been a catalyst in the resolution of the differences between FNB and United, but has not covered itself with glory. It must be hoped that the panel and the financial community have learnt useful lessons.

Executives around whom much of the drama has swirled now know where their futures lie. In particular, Kevin de Villiers, Allied's controversial MD, who sold all but 225 000 of his 2,506m shares in the market, will be planning his next career move — we guess outside of the Allied.

In contrast, Louis Shill, chairman of Sage, whose subsidiary Sage Financial Services would not have gone to Absa had the Allied bid fallen through, is now closely tied into the mega-banking group, a prospect which Badenhorst welcomes. And that prepares the way for Absa's next step within a few years: a rationalisation — and likely expansion — of its insurance interests, at that stage bringing Momentum and others into the fold.

Existing banking groups — FNB, Standard Bank Investment Corp (SBIC), Nedcor and Bankorp — are suddenly facing a powerful competitor, well-capitalised and diversified, and relatively well equipped to handle the emerging banking environment of the Nineties. But nobody should assume that attaining the targeted payback for Absa will be swift or painless.

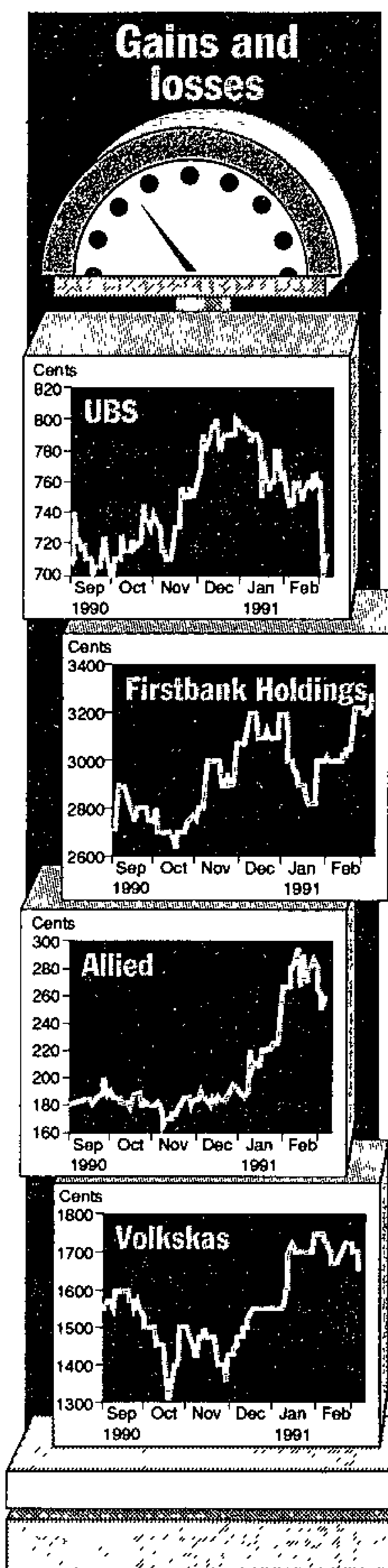
No matter how well the ground has been prepared, a merger as large and complex as this is always problematic. Absa's competitors will hope to take the advantage over the next two to three years. So the battles are not over yet.

The battle for the Allied could, in fact, have dragged on for months or years, had UBS and FNB not decided at the weekend to reach an agreement. This point was reached after the panel upheld the appeal by FNB, against the panel's earlier ruling in favour of the UBS.

A fortnight ago, the securities panel's executive committee — comprising the chairman, Judge Cecil Margo, executive director Doug Gair and JSE president Tony Norton — ruled that UBS and certain parties (mainly Sage and the Mines Pension Fund) were not concert parties. UBS could thus continue buying Allied shares on the market, on the understanding that it would not have to make a mandatory offer to minorities at the highest price paid for its shares.

FNB's appeal was heard by a new five-member panel committee, chaired by UAL's Mike Farrell, who represents the Merchant Bankers' Association on the panel. New hearings were held on February 25, with oral arguments led by Michael Katz for FNB and Rex Welsh QC for UBS, while Sydney Kentridge QC represented other Absa parties.

It was argued on behalf of UBS, that as the rules have the force of law they should be strictly enforced. The counter-argument was that substance should prevail over form when considering a transaction and the spirit as well as the precise meaning of the general principles and rules must be observed. In effect, the latter argument prevailed. On February 28, UBS Holdings, UBS Pension Fund, Volkskas and its pension fund, the Mines Pension Funds and SSI Securities (Pty) were all deemed to be a concert party.



That created a quandary. When FNB launched its bid for Allied on January 31, a total stake of 14,6% was held by its concert party, including the FNB pension fund, Southern Life and Fedlife. FNB itself had none, but it subsequently acquired a 10% holding through the market. FNB CE Barry Swart says the group carefully avoided allowing the total holding to reach 30%, as there was no wish to be forced into making a mandatory offer.

When the first ruling was made, Sage Financial Services (SFS) and the Mine Pension Funds respectively held 10% and 5% of Allied. As the buying continued, the total stakes of UBS, SFS and the Mines Pension Funds was lifted to 42% of the Allied. UBS, armed with the first ruling, argued that it had increased its stake in good faith. But Allied had traded during this period as high as 300c, so a mandatory offer at this price would have greatly increased the total cost.

Once the FNB appeal was upheld, that raised the possibility that UBS would be required to pay R3. FNB then had to decide whether it was worth staying in the race.

"We had to ask ourselves, if the UBS is going to pay R3, are we still interested?" comments Swart. "The conclusion

Financial Mail

SECURITIES REGULATION PANEL

BAD ADVERT FOR CAPITALISM

The *FM* argued for many years that a Takeover Code and associated panel to administer it were not needed in SA. We were, with some reluctance, persuaded that conditions had changed and suspended our disbelief to give the Securities Regulation Panel a guarded welcome. Alas, its lamentable performance on its first test is not only deplorable in itself, but could not have come at a worse time for those who (like the *FM*) believe the free enterprise system is the best way to advance the prosperity of all South Africans.

The panel's shilly-shallying over to what extent the battle for Allied fell within its purlieu, its refusal to publicise its rulings and the fact that a ruling made by the three-man executive was overruled by the full panel would be dispiriting enough individually. Together, they're a catastrophe.

And why were Allied shares suspended for the vital two days — we understand, at the prodding of the panel — when the battle was at a climax? There was no new information; buyers and sellers who were prepared to deal, in whatever uncertainty, should have been able to do so. After all, uncertainty is the essence of a market: where there is no uncertainty, there is no market.

Finally, allowing FNB and UBS to hammer out a compromise — again, behind closed doors — seems a total abrogation of responsibility and, in effect, leaves unsettled some of the basic principles at stake.

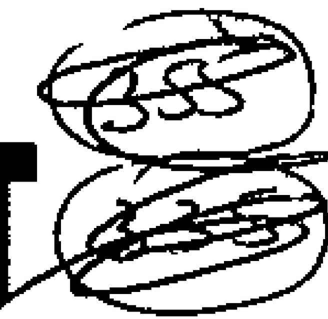
No doubt the panel will be able to make all its actions sound plausible — at least in its own ears. But whatever justification can be put forward, its secrecy and indecisiveness will do the cause of a share-owning democracy no good. The ANC and other anti-capitalist radicals, always eager for ammunition to show that the market is not the ideal vehicle for economic decision-making, will take comfort from this unhappy episode.

It may be significant that, of the three-man executive whose ruling was reversed by the full panel, one is the executive president of the JSE and another a senior ex-JSE executive (the third, and chairman, is the respected Judge Cecil Margo).

The JSE's own problems in the recent past have been well aired, not least in the *FM*. It's a pity, in both principle and practice, that in the new regime there are such close links between the poachers and the gamekeepers. ■

WAGE DEMANDS FM 8/3/91

COSTLY UNRESTRAINT



A convincing argument can be made that the trade union movement in this country is rapidly losing its marbles. Its extravagant demands for higher wages and less work is not only destroying jobs — unemployment is already 41% of the economically active — but eroding the competitiveness of exports and, by depressing the rand, encouraging inflation.

Simply put, they are prolonging the recession and creating a class of unemployed whose economic interests are rapidly diverging from their own. Britain's trade union movement nearly crippled its economy in the Seventies in this way. The outcome was the decline of union membership (and consequent political power) and Margaret Thatcher as PM. In one way or another, the unions here are not going to escape those consequences — reduced political clout and the scourge of a radical capitalist reformer.

The unions are already trying to cloak these consequences by revealing only "registered" membership, which is rising, rather than "paid-up" membership, which we suspect is falling.

This week, the National Union of Metalworkers (Numsa) demanded in the face of plunging corporate profits a 25% across-the-board wage increase, guaranteed job security, paid retraining of retrenched workers, 20 days paternity leave — as well as a say in management.

Numsa wants this in the face of one of the worst worker productivity records in the world and wages that are several times higher than those of competing countries in the Far East, where such notions as poverty datum lines are seen for what they really are — a device of dubious academic merit used by those in jobs to keep the unemployed out.

Reputable economic statistics show that over the past 10 years black wages have risen 29% and whites by only 10%. Since 1986, black wage settlements have on average each year risen by 17% against 10% for whites. No wonder that in the fashionable restaurants of Johannesburg and Cape Town there is hardly a black waiter to be seen. By unionising and demanding higher wages they have destroyed their jobs in that sector, the service one, where the greatest potential for rising black employment and prosperity lies.

The white teenagers from affluent households who have taken over these jobs do so largely for the tips. They know a fancy education isn't needed to be a waiter. What is needed is a willingness to serve so well that higher tips are forthcoming. And what a pleasure it is to have them rather than some surly tribesman with his thumb in the soup and eye on the clock. It's worth 15% on the bill.

The unions may feel they have a democratic right to make extravagant wage demands that are ultimately not in the best interests of the poor: demands that seek to drain the undistributed surpluses accumulated by enterprises to reinvest and thus prolong their own lives or that of their products. But they do so at a cost to others. ■

was that there is a price beyond which the most attractive of prizes no longer looks attractive. The frenzied activity in the stock market pushed the Allied price beyond a level that either UBS or we wanted to pay."

Price aside, both UBS and FNB recognised there was a real possibility that the issue would turn into a protracted battle in the courts — in nobody's interest Though FNB at this stage had accumulated fewer shares than the Absa group, Swart contends FNB could have won a proxy battle.

"Each side could have been left holding close to 50% of the shares," says Swart. "Allied would have been stuck with two large minorities, neither of whom could carry out their plans."

Another consideration, Swart adds, was the position of the panel. FNB openly criticised the panel for making its first ruling in secret and Swart clearly feels that FNB was disadvantaged by the manner and the effects of that hearing. Even so, he feels it was important to allow the panel to emerge from its first case with honour.

Following the agreement, the FNB parties will vote their shares in favour of the Absa proposals. Swart says the shares acquired by FNB during the bid will be sold virtually immediately and buyers have already been arranged. There will be no capital gains on these shares, which were acquired in a rising market. Swart declines to disclose the average price paid, but it would not be surprising if there is a small loss. Shares in FNB pension fund were being held as a long-term investment and will probably be retained. UBS, meanwhile, has agreed to pay up to R16,75m towards reimbursing FNB for its costs.

By any criteria, the new UBS offer, equivalent to 275c per share, is a steep price for Allied. It is 37% higher than the 200c NAV given in the last published balance sheet and is well above the figure of about 225c which Badenhorst estimates from more recent balance sheets. With the offer price increased to 275c, the effective price for 100% of Allied rises from R772m to about R880m. There is also the reimbursement of FNB costs.

The result is a dilution of the financial effects for UBS. Whereas at the lower bid price the result would have been an 8,1% increase in EPS for UBS, at the increase it is now only 5,3%. And instead of rising by the original 8,8%, the NAV rises by 5,8%. While EPS for Volkskas would have dropped by 20,9%, they now drop by 22,9%. Those for SFS rise by 22,5% instead of 24,2%.

Absa is acquiring a group whose returns have lagged and whose senior management's performance cannot have been unaffected by the dissension in the boardroom — aside from other distractions and hindrances. Rationalisation was always going to be necessary to make the deal work. Badenhorst says the plan is still to retain the separate operating companies, partly because he sees great value in the trademarks.

The original intention was to concentrate initially on rationalising support areas. These would include computers and other service areas such as marketing and strategic planning. It is clear, though, that the new management will now have to accelerate the process. As Badenhorst puts it: "The payback period will have to be brought forward."

Piet Badenhorst interviewed by Nigel Bruce and Andrew McNulty

He continues to believe the deal will work. The biggest challenge — and an early priority — is to lift the returns on assets in the banking groups closer to the UBS's level of more than 1%. Badenhorst contends fears of staff cuts have been greatly exaggerated. "A story is going around that we want to fire 7 000 people, but Allied has only got 5 000 people," he says.

Competition between the operating companies will be encouraged and niche marketing will not be allowed. Aside from costs and efficiencies, another major challenge, as Badenhorst sees it, will be to ensure the building society operations are marketed as effectively as possible.

It will also be necessary to build up certain operations, such as the corporate activities. Given the existing businesses being put into Absa, though, the new group's greatest strengths will evidently lie in retail banking. With Allied's portfolio of R8bn-odd added to UBS's home loan book of about R12bn, Absa will have an unassailable position in the bond market.

But then retail banking is where the best profits are going to be made in the financial services sector during the Nineties. The large leaps being taken in market share, plus the opportunity for cross-selling and cost-cutting, explain why Allied was such an attractive target for FNB and, almost certainly, for SBIC.

Indeed, in terms of market share, total assets and diversity, SBIC has now been firmly displaced from its position as industry leader — though not yet in profitability. SBIC CE Strauss said on several occasions the group was "not aloof" from the contest for Allied.

The possibility of the purposeful SBIC launching a bid must have been a serious concern for the Absa team. Had such a bid succeeded, then that would have thrust SBIC into a lead that could not have been overtaken by any of its competitors.

That, by all accounts, was a definite possibility. Major shareholders in SBIC are Liberty and Mutual; but the balance of power is held by Rembrandt, with a direct and indirect stake of 20%. At one point, Liberty's Gordon apparently approached Rembrandt executive director Johann Rupert in London and suggested a deal.

His proposal was that Liberty would sell to Rembrandt its direct stake in UBS and in return Rembrandt would sell to Liberty its holding in SBIC. Had that happened, Rembrandt would have lost the balance of power in SBIC, leaving Strauss free to join in the fray. It didn't happen. So SBIC — at least partly because of the broader concerns of major shareholders — relinquished its leadership without a fight.

When Absa does turn full attention to the insurance interests, the broader shareholdings will again play a part. At this stage, the Absa interests include Sage Life and UBS Insurance.

Momentum, controlled by Rembrandt but not yet part of Absa, will certainly be included later. Another likely candidate is Commercial Union, of which UBS now holds 30%, while Rembrandt has a further 28% odd held through GFSA.

Rembrandt has had its attention focused recently on such issues as the GFSA deal — and what should follow it — and the question of management succession at the centre. Given the unwieldy way in which Rembrandt's own financial services interests had been cobbled together, it is not surprising that the Stellenbosch group would not encourage any move by SBIC. Rembrandt will be pleased with the result, though it does not appear to have played an active role.

Swart feels that FNB has emerged with honour intact and without losing face or incurring financial cost. It has been argued before that FNB's biggest problem is inertia. At this stage the market has responded positively — FNB's market capitalisation has doubled in the past 18 months. Now the group will have to show that it can achieve profitable asset growth without a big acquisition. If not, the improved share rating is set to weaken.

UBS's share price shed about 60c after the agreement was announced, emphasising the market's concerns about the challenges that lie ahead. Badenhorst has won the takeover battle. He is faced now with the much more protracted task of showing that it will work.

Andrew McNulty

REPARATIONS FOR APARTHEID

OUT OF THE CONFESSIONAL

FM 8/3/91.

WHERE THERE HAS BEEN DISPOSSESSION, THE CLAIMS SHOULD BE HEARD

How seriously should we take the "confession" of apartheid? The avidity of Archbishop Tutu, for one, to receive such confessions in church is worrying — as if the significance of the issue is being embarrassed by an atmosphere of street-corner revivalism. But now politicians like Leon Wessels speak boldly and frankly in public of the "mistakes" of the past, and once you put it like that you have to think of making amends. That means reparations.

Reparations are usually imposed by the victors in a war on those they have defeated — the compensation demanded of the Germans after both world wars, for example, or by the Allies of Iraq today. In addition, after World War 2, the Nazi leadership was made to stand trial for war crimes. The issue of reparations in this country cannot be divorced from the question of whether those who carried out the policies of apartheid in their most brutal and extreme form should not, equally, be put on trial.

It must therefore be asked: was apartheid a crime against humanity, or a misguided attempt at social engineering?

In its purest form (enforced by law) apartheid involved the disruption of millions of lives. The total of those arrested in terms of influx control was 17m. A 1983 estimate put forced removals at 3,7m. And there were many deaths flowing from the effects of apartheid — people who died in detention under security laws designed to protect the white State, and an uncountable number who perished in remote and desolate areas to which they had been forcibly removed.

To make the Group Areas Act work required the destruction of entire communities such as Sophiatown and District Six; and "black spot" removals of rural settlements from white areas required the utmost use of force. One factor in preparing the ground for sanctions in the Eighties was the repeated assault of Bantu Administration police on squatters at Crossroads, generally in mid-winter and at night.

The effects of all this destruction cannot be quantified: the ramifications of rigidly imposed segregation in all aspects of our life are too broad for that. The cost to GDP, for example, of the forgone education of the million-odd black schoolchildren who have lost out since 1976 is unknowable. And from their ranks most probably come those responsible for the current wave of crime which, like war, is purely destructive.

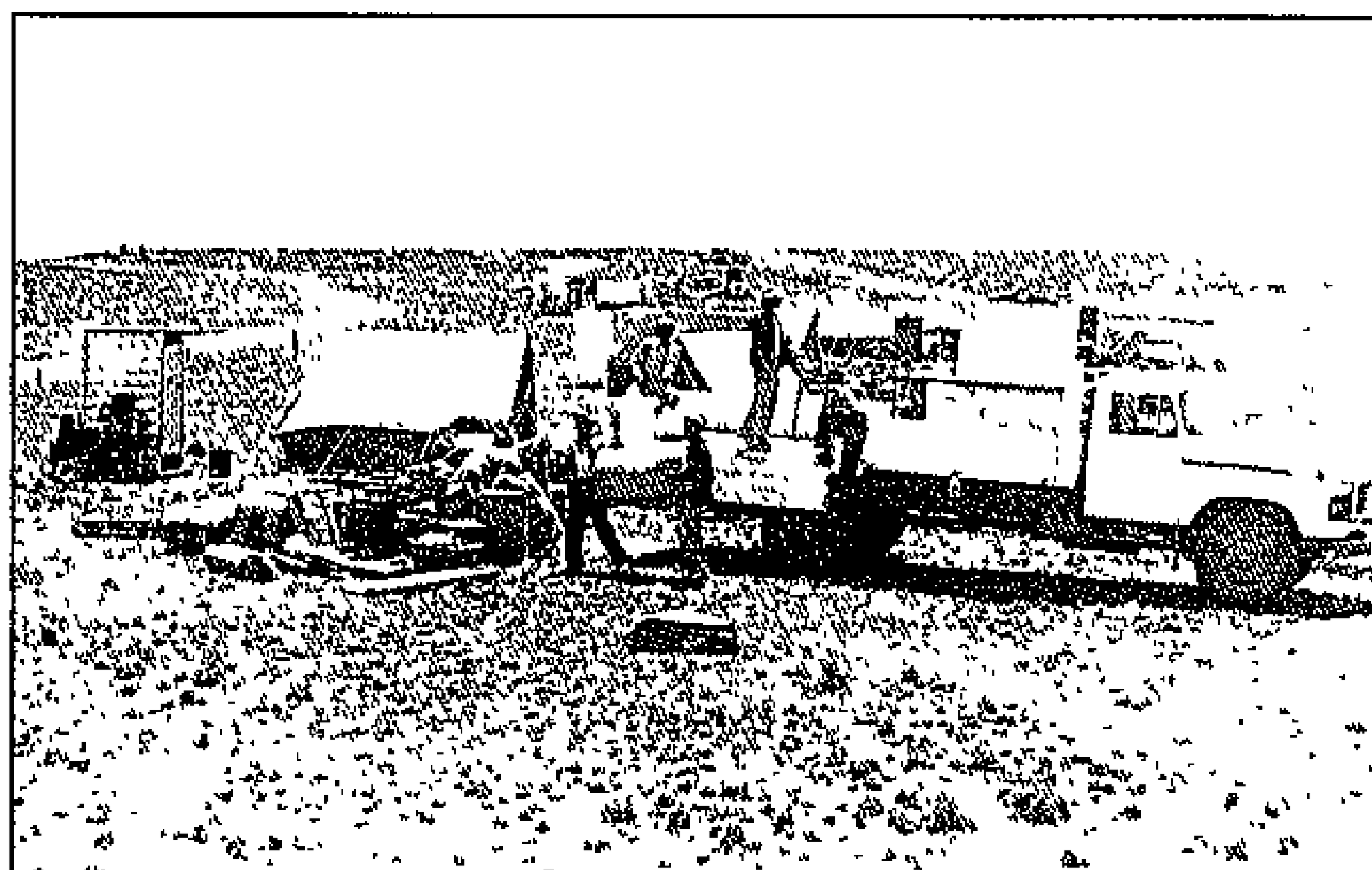
There is also the broader economic loss symbolised by the creation of apartheid cities with racially separate hospitals, schools and transport. Richard Tomlinson — who did research on urbanisation at the Massachusetts Institute of Technology — notes that planning for a future based on apartheid has been immensely costly in terms of decentralisation and the subsidisation of commuter bus services alone. By 1983-1984 (on the eve of the unrest which was to shatter the ideological framework of separate development) these primary costs of segregationist industrial policy came to R1,743 bn a year. In 1985 the travelling costs of a worker from KwaNdebele were subsidised by R1 600 a year — almost three times per capita homeland income.

All this money has been completely wasted. Partly because of that, we do not have adequate schooling, health or housing. Operation Hunger, a charity, feeds almost 2m people. Many of the people who were locked into the homelands by coercion have in any case come to the cities because of desperation, overburdening areas designed for a far smaller number of people on the premise that by 1978 the flow of blacks from the bantustans would reverse itself.

These facts suggest that a more appropriate comparison for apartheid than Nazism is Stalinism. Stalin's attempts to collectivise agriculture in the Soviet Union — Lenin had been less successful before him — led to the deaths of millions of *kulaks*. Both Verwoerd and Stalin started out with a central impelling idea of how society should be structured, and proceeded to enforce it. It is true, however, that there has been no episode comparable to the Great Terror in SA.

This point relates to the fact that reparations are generally imposed by the victors in a war. Stalin's successors — while they, too, have come to the abyss of admitting that their social religion was a "mistake" — may succeed in their reforms, or they may be overthrown and there could be a return to autocracy. Whichever it is, there will be no going back to communism as it existed in the Twenties and Thirties; and because there is no question of one stratum of society having defeated another, and all might be said to be the losers, reparations are not an issue. Stalin's crimes become a horrible episode of history about which nothing can be done — except not to repeat them.

Forced removal ... *brutal social engineering*



Relocation camp ... *millions were victims*

This is in some ways SA's situation today. It is unlikely that the many officials who presided over the millions of influx control arrests and forced removals will either be named — in relation to known excesses — or brought to account. For many years Piet Koornhof - as minister of co-operation and development — was a virtual tzar of black affairs; he was called "Piet Promises" because he kept promising that things would improve, though they never really did — and the government with which he was associated was replaced by a more genuinely reformist one. But he has had a happy later career as ambassador to Washington, and his golden years are likely to be peaceful.

In fact, judging from his public statements, Koornhof — like President F W de Klerk — has outgrown apartheid. In church and in the press — everywhere, in fact, except in rightwing circles — Afrikaners indicate that they have had just such a conversion from the bad old ways. The English-speaking community can continue to keep its head down and claim that it never had anything to do with apartheid anyway.

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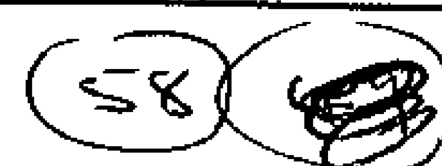
GROWING NOWHERE

FM 8/3/91



In recent years, 12-month growth in money supply has been considered an important economic indicator. Its value will fall, as the new Deposit-Taking Institutions Act, in force from February 1, brings changes in banks' balance sheets. Business which previously took place in the grey market and was therefore not reflected in M3 will be converted to conventional deposits (reintermediation) and be included.

Estimated growth in the broad monetary aggregate, M3, in the 12 months to January, proved surprisingly low. The 10,25% increase (to R160,5bn) was a marked deceleration from 12,38% in December and 13,22% in November. In the month, M3 actually dropped 1%.

True, there is a technical factor — January 1990 M3 growth was extraordinarily high, which caused the 12-month rate for January 1991 to dip. For this reason too much economic importance must not be attached to it. Even so, the January figure is a surprise, for several reasons.

First, it is not in line with recent trends in credit creation. Second, it came in a month when the Bank's gross gold and foreign reserves rose R509m. Third, it happened at a time when some reintermediation was expected to take place, before the Act (see "Banking breather").

To understand the influence of these factors, one must look at the components of M3 and what contributes to its growth.

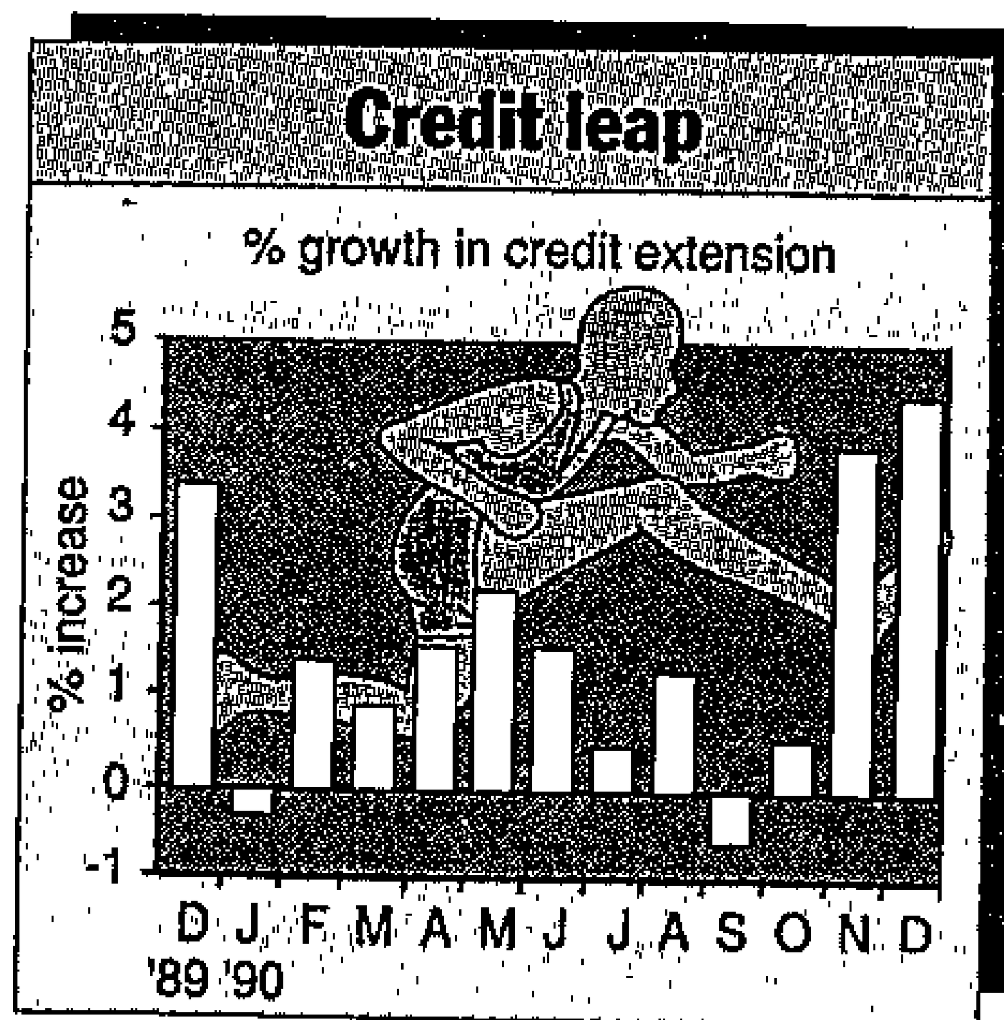
M3 comprises cash in circulation and deposit liabilities (of deposit-taking institutions) to the public. As M3 is by far the major liability and credit the biggest asset, M3 correlates closely with the level of credit extended in the system. Growth in M3, then, coincides with credit creation.

There are other factors, such as changes in gold and other foreign reserves and net other assets of the Reserve Bank (largely losses or surpluses on Treasury's forward cover account). But these are subsidiary.

Credit figures for January are not available, so we have to rely on figures to December. In November total domestic credit extended by all monetary institutions grew a monthly 3,8% and in December 4,4%; this was well up on growth in the preceding months and way above the 1% regarded as desirable by the Reserve Bank.

However, strong seasonal factors are at work in December.

Apart from the Christmas boost in spending, there are statistical distortions. Offshore facilities are frequently withdrawn by overseas banks, for technical (and tactical) reasons, and local borrowers have to switch to local finance. Corporates with December year-ends draw down on medium-term facilities so these can be reflected on their balance sheets.



This December's run on credit may have been boosted by early restructuring of banks' books as they brought off-balance sheet business above the line. It is believed some banks did this ahead of time to accustom clients to the new situation.

So to get an accurate picture of the trend, one has to compare the year-end with the previous year-end. In November 1989 credit extended fell 1,5% and in December it grew by 3,4%. This confirms that there was a sharp and sudden uptick in demand for credit towards the end of 1990.

The January figure, of course, will show a deceleration as consumers recover from the festive spending spree. But if the November-December trend continued, there should have been more demand for credit than in January 1990, when credit extension fell 0,3%.

Which makes it surprising that growth in the counterpart of credit creation was so low that month

A partial explanation lies in changes in the central bank's "net other assets." In December, R3bn was repaid to the Reserve Bank on the gold and foreign exchange contingency account, on losses on forward cover extended. This reduced government deposits, thereby increasing net credit to the government sector and simultaneously reducing net other assets of the Reserve Bank — three separate but inter-related factors.

This would push growth in credit, while holding down growth in M3.

Whether there was also a dramatic fall in demand for credit remains to be seen.

New guidelines are expected to be announced in March. But it is not certain whether they will relate to M3.

Targeting was introduced by the Bank in 1986, when M3 was chosen as the appropriate aggregate.

In the past few years there has been debate about both the aggregate and the validity of the exercise, as statistical distortions tend to obscure fundamentals.

In future a broader measure may be monitored, including repurchase agreements.

☐ M3 growth, as measured from the base of the current target year and seasonally adjusted, was a provisional 12,57% to R161,9bn.

Revised figures for December show growth of 12,38% over 12 months to R162,3bn and 12,99% from the base of the current target year to a seasonally adjusted and annualised R160,9bn. Twelve-month growth for M2 in December was 13,47% to R134,3bn; for M1 15,9% to R53bn; and for M1A 14,27% to R29,1bn.

REPURCHASE AGREEMENTS

FM 8/3/91 (58)

BANKING BREATHER

The authorities have made a temporary concession on certain reserving requirements of the new Deposit-Taking Institutions Act. It was expected that, from February, all repurchase agreements (repos) would be treated as liabilities to the public and be fully subject to reserving requirements. But a 12-month period of grace has been allowed for repos where the underlying security is a gilt or semi-gilt.

These constitute only a small proportion of banks' combined repo portfolios of about R10bn and an estimated R5bn worth of stockbrokers' portfolios.

The move will protect the marketability of government stock which, for the past two years, has suffered from a variety of constraints, including high inflationary expectations. Because of the low-risk profile of the instruments, repos based on gilts and semis do not create credit risks except for the counterparty risk arising from the unsettled portion of the transaction. Conceptually they introduce little if any liquidity risk as one party gets cash and the other a readily marketable security.

(There is, of course, the price risk which arises when a counterparty fails to honour the repurchase undertaking at a time when market prices have moved unfavourably.)

The move followed application for exemption from stockbrokers, whose money broking activities fall within the Act. The reserving requirement would have created serious problems for brokers carrying positions, as they rely on repos to fund them.

Registrar of Deposit-Taking Institutions Hennie van Greuning used his discretionary power under Regulation 14(2)D to allow time for a compromise to be found. By the end of the period, non-bank security dealers may be reporting to another supervisory authority. This will follow the report of the Jacobs Committee, which is investigating the need for supervision of organisations operating on the fringes of legislation.

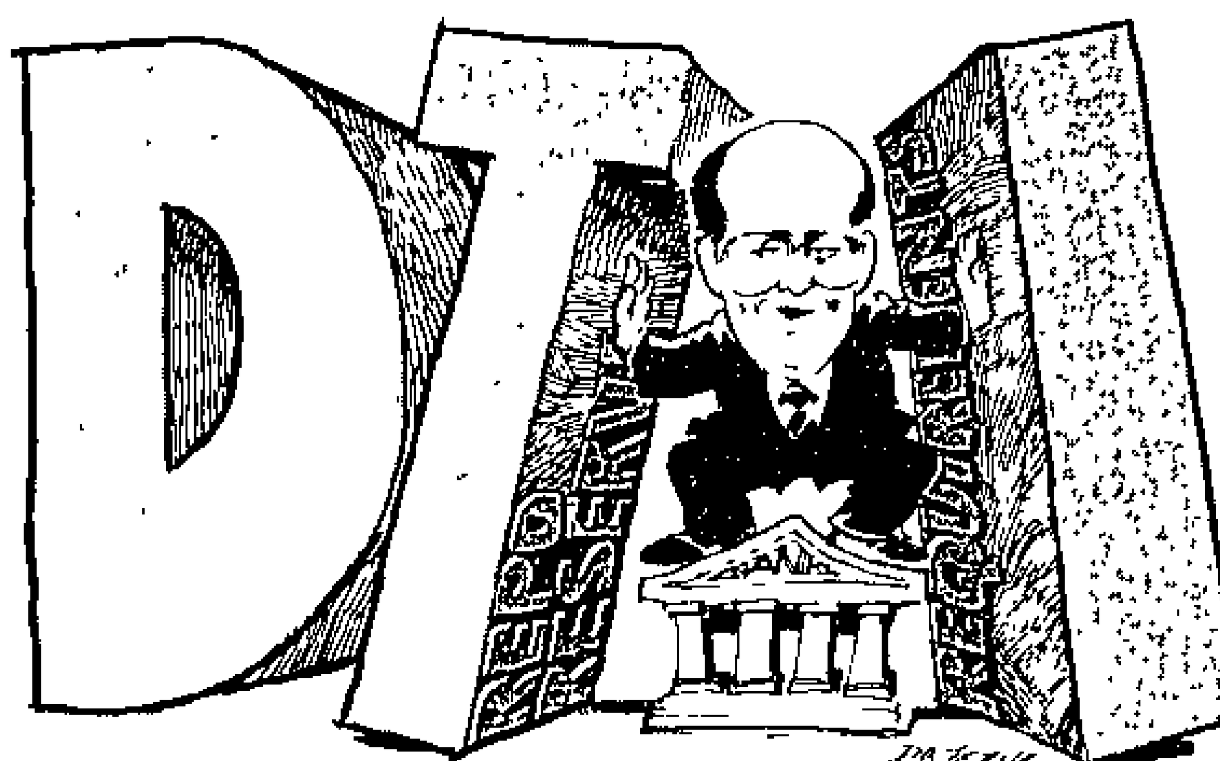
To avoid discriminating between different types of institutions, the concession was extended to banks.

Transactions which will be permanently exempt from the requirement are covered repos — backed by a deal with a counterparty — which the authorities believe carry no liquidity risk. This is allowed under Regulation 14(2)C.

For the rest, banks must convert repos to conventional deposits.

Repos were an important source of comparatively cheap funding to banks for about 10 years until May when Reserve Bank Governor Chris Stals decided they should be treated as deposits.

At that stage many of the smaller banks had repo books that were a multiple of their total assets. Bigger banks were also resorting to this type of funding and between them had books worth several billion rands.



Standard Bank had been actively involved with a book at one stage worth several billion rands.

First National Bank had only a small amount of repos. But it issued long-term CDs (which attracted lower requirements than short-term paper) to stockbroker Anderson Wilson, which found investors to fund them. These are due to expire in June.

Various schemes have been devised to circumvent the spirit of the Act, to avoid the costly reserve balance and liquid asset requirements. Especially popular are schemes based on what are known as (variable rate) call bonds and promissory notes.

"The short-term gains flowing to a few institutions from these schemes would, in the long term, undermine the banking sector as a whole," says Van Greuning, "because of the effect of disintermediation."

Corporates are also subject to the Act, in that if deposits are placed by associates and other non-subsidiary companies with another group company, this is regarded as deposit taking. It seems they may be able in future to disintermediate through the mechanism of commercial paper.

Ethel Hazelhurst

FM 8/3/91 (58)

Bankorp's Liebenberg ... *improving the assets*

BANKORP FM 8/3/91 (58)

MARGINS RISING

Margins have begun turning in Bankorp's favour and profitability is recovering The group is keeping a tight rein on its balance sheet and management expects to see greater benefits coming through from the refocusing and rationalisation — but a more cautious view is now being taken on the economy

Net operating income for the six months to end-December was up by R70m, or 46%, on the year-ago interim's level. A R43m, or 45%, rise in the provision for doubtful advances left the pre-tax net income higher by a half, at R81,3m. With no further deductions for abnormal items, the EPS on the increased issued shares after the rights issue was 21,6c, against 42,9c for the previous interim

With the emphasis now on conservatism, the group has provided for a tax equalisation charge of R25m in addition to the normal tax payment of R1,6m. The additional amount, which does not represent a cash outlay but does strengthen Bankorp's reserves, is intended to avoid distortion of earnings when the tax liability increases.

Rationalisation has continued apace. This has included transfer of about 1,2m accounts between divisions, involving about R5bn in assets and R3,5bn in liabilities; closure of 109 offices, mainly in the old Santambank, and the refurbishment of 79 new offices and service points, mainly in TrustBank; transfer of about 3 500 staff; and reduction of staff, mainly by attrition. Staff numbers will have dropped by about 2 500, to 15 000, from April 1990 to March 1991.

Management has concentrated on improving the quality and profitability of the asset structure. Total assets have shown an annualised decline of 6%, while the target for the June 1991 year is a drop of 10% including assets relating to contingencies and repurchase agreements

Management is taking a more cautious view on prospects than at the time of the rights issue. Comment accompanying the interim announcement states that the group should achieve its broad goals over the next three to five years. This was previously targeted for a three-year period.

Chairman Piet Liebenberg says the recovery remains largely on course, but economic conditions have deteriorated further than was then expected. Given a reasonable economic environment, he says, the three-year recovery period is still considered attainable.

Better margins for the industry, as well as the internal developments, have contributed to the group's improved margins Liebenberg reckons Bankorp is seeing some benefits from the merger of three banks into a single entity. TrustBank, for example, had historically paid a premium on its deposits, but this has been eliminated. Generally improved liabilities management has helped, though the treasuries have yet to be merged; that step is expected to show positive results by year-end.

The other aspect that should boost the group margin is asset management. "The really big job is to upgrade the quality of the assets," says Liebenberg. "That will take place over two to three years." He notes that last week's restructuring of Unidev, in which Senbank was a significant creditor, presages other such arrangements in future.

In the second half, it's hoped there will be further rationalisation benefits, as well as positive effects from a drop in interest rates. Income from the rights funds will be received for a longer period, after affecting the first-half results for only one month.

A 25c dividend should still be paid for the full year; the uncertainty relates to the level of cover. Meanwhile, the market is taking a more favourable view, with the share rising as high as 340c this week after remaining for months at the rights issue level of 280c.

Andrew McNulty

THE OLD MUTUAL FM 8/3/91 (58)

SMALL BEER, OR TIP OF ICEBERG?

The investigation of possible malpractices in the investment department of the Old Mutual is taking on international dimensions and dragging in — however innocently — some of the best-known names on Diagonal Street.

The appointment jointly by Justice Minister Kobie Coetsee and Finance Minister Barend du Plessis of a team headed by a high-powered figure like Cape Attorney-General Frank Kahn (who made his name leading the evidence to the Harms Inquiry) suggests that there is much more at issue than simply some fund managers, in cahoots with one or more stockbrokers, under suspicion of ripping off the assurer in one of the many ways possible to people in such positions.

The two most obvious are front-ending — where fraudsters skim profits off deals they pass on to the institution concerned — and round-tripping, taking advantage of the discount between the financial and commercial rands.

Reserve Bank GM — Exchange Control Jan Postmus implicitly confirms that there is a forex angle, saying that his department is taking part in Kahn's investigation. Diagonal Street is abuzz with names of broking firms that may be involved; the *FM* has been told of three, at least two of which have long been active in foreign transactions as well as the institutional market.

Largest is Frankel Max Pollak Vinderine, formed late last year by a merger of the long-established Max Pollak & Freemantle and Frankel, Kruger Vinderine. Its joint MD Geoff Rothschild confirms that the firm (which is understood already to be conducting its own investigation) will "co-operate fully" with Kahn, adding: "We fully support the investigation. The strongest action must be taken against anyone found guilty."

Another firm named is Ed Hern, Rudolph. Johann Blersch, an Ed Hern director, agrees that one transaction between his firm and a foreign client is being looked at. While he denies flatly that Ed Hern — or any firm as such — is being investigated, he believes deals put through up to 10 firms are under the spotlight.

Blersch is adamant that no stockbroker can be criticised for doing a bona fide transaction. Postmus, too, stresses to the *FM* that it is too early to draw any inferences of who may be guilty, or of what.

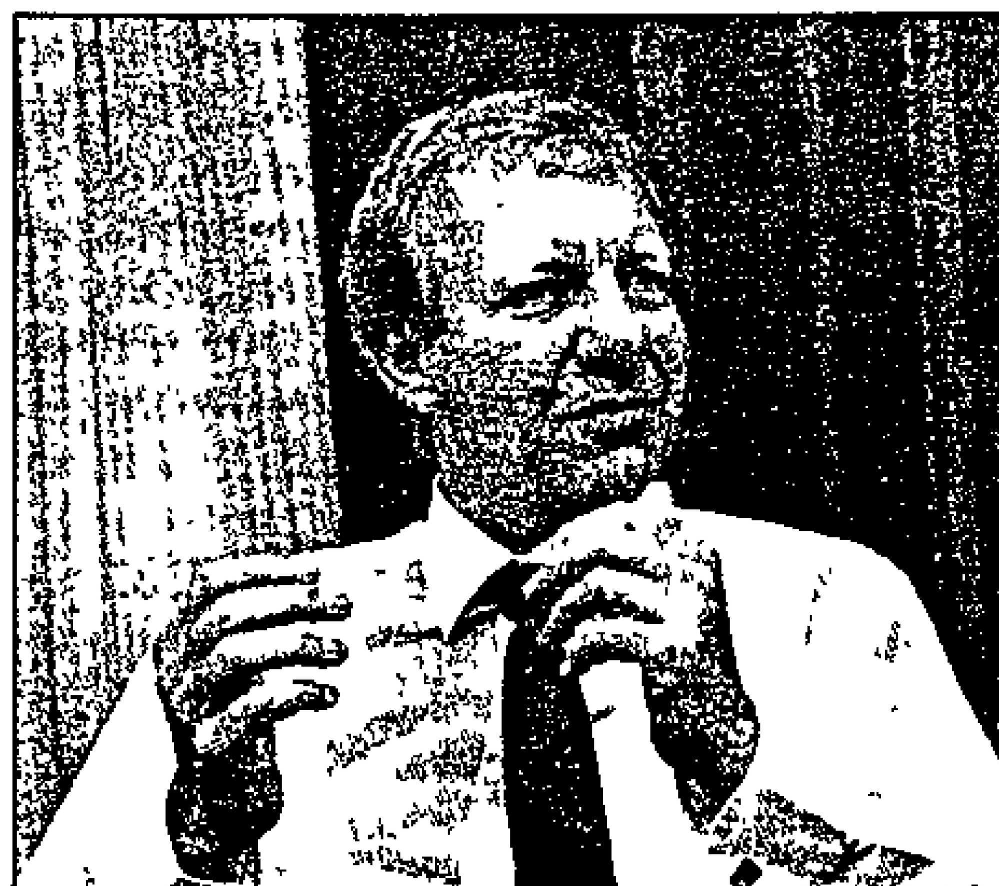
JSE executive president Tony Norton won't comment on the extent or ramifications of the inquiry, but a statement by the JSE on Wednesday said the exchange "has been co-operating and will continue to cooperate" with the Old Mutual and "other bodies" (Norton won't be drawn on who, other than the Kahn team, they may be). It will take appropriate disciplinary steps if any broking members are found to have contravened the rules or ethics of the JSE.

Obviously all the investigations are still in their early stages. With more than one broking firm involved, especially with deals routed through the finrand, it will require close scrutiny of more than one set of books to track them all.

On its side, the Mutual, which suspended two senior portfolio staff on February 14 but tried to play down the event, has since been more forthcoming. CEO Gerhard van Niekerk affirms that the Mutual is "unreservedly committed to the practice and preservation of integrity" and says it was its internal investigation of "a few investment transactions . . . which individually appeared completely normal, but collectively showed a suspicious trend" that showed that "a criminal investigation might be warranted." It then informed the authorities and provided them with all available information.

Van Niekerk adds that the situation identified so far "is of a limited nature" and affects only a few pension funds — who have all been told. There is no indication that individual policyholders or unit trust investors have been prejudiced, he claims.

That's all very well, but the fact is that any fraud that may have taken place is a zero-sum game; other people's profit must be the Mutual's loss. To say that the loss is spread over pension funds (with, presumably, thousands of members, any of whom will be little affected) is casuistry and does not affect the principle.



Old Mutual's Van Niekerk . . .
a suspicious trend

In any event, it is premature to speculate on the sum that may be involved. Old Mutual may be justified in calling the amounts small; but, equally, what we know may just be the tip of the iceberg.

Kahn's investigation suffers from two conflicting requirements: the need for the quickest possible finding to protect the innocent (it will patently be unfair to blame any firm as such for what may be misconduct by individual employees and the firms are entitled to have their names cleared — if that's what's justified) and the time it may take to trace a complex series of transactions.

What we cannot afford is a botched job. There is as yet no indication of how far back the suspect deals may go; and top management at other financial institutions must be wondering whether, if the Mutual was taken in so easily, what skeletons might be found in their own dealings. However inconvenient it may be, it may be worthwhile for other institutions to conduct internal investigations of their own transactions.

After all, the last thing we need — especially so soon after the controversial Allied takeover — is yet more fuel for the ANC to argue that our financial giants can't look after other people's money properly.

Michael Coulson

BARMINES FM 8/3/91

ANOTHER SHUFFLE?

The financial crunch at the Rand Mines-controlled platinum producer, Barplats, has come to a head. Judging by the cautionary notices published on Tuesday, it appears the house could be forced to concede defeat on yet another project.

The candidates most likely to be the "interested party" with which Barmines is negotiating on a rationalisation of operations are Anglo American Corp, Impala Platinum (Implat), Rustenburg Platinum (Rustplat) and Gold Fields of SA (GFSA). Of these, Rustplat seems the best bet.

Rustplat MD Barry Davison declined to comment on whether the group was negotiating with Rand Mines about Barmines when approached by the *FM*. Both Anglo American Corp public affairs consultant Michael Spicer and Implat chairman Brian Gilbertson denied they were negotiating with Rand Mines/Barmines. GFSA deputy chairman Colin Fenton says GFSA is not involved.

One outsider that might also be interested is Anglovaal, which wants an entry to platinum, but deputy chairman Clive Menell tells the *FM* the house is not involved "to his knowledge."

Rustplat, controlled by JCI, has denigrated the Barmines operation ever since former chairman Loucas Pouroulis started it up as Lefkochrysos Platinum.

Even so, there are sound reasons why Rustplat might like to get control of the operation. JCI controls a large platinum deposit — the Pandora project — which is

Continue

Unit trusts can play futures market

Star 9/3/91

58 SVEN LUNSCHE

A WIDE-RANGING financial bill, published in Parliament yesterday, has paved the way for unit trust investments in the futures market.

The Financial Institutions Amendment Bill will also provide for the establishment of Advisory Committees for the unit trust industry and for pension funds, in line with recommendations by the Melamet Commission.

A memorandum attached to the Bill says the definition of "securities" in the Unit Trust Control Act will be amended to provide for investments by unit trust schemes in the futures market.

The Registrar of Unit Trusts will also be authorised to grant exemptions to the Act if this is recommended by the new Advisory Committee on Unit Trusts. This would, inter alia, promote self regulation by the industry, the Bill states.

The Pension Fund Advisory Committee will have a similar function, but will focus in particular on safeguarding "the reasonable benefit expectations" of investors in a pension fund.

The Committee differs in function from the private sector committee, appointed by the Government this week, to investigate the public sector's R27 billion pension fund.

The memorandum to the Bill also facilitates the division of long-term and short-term insurance business if they are conducted by the same company.

The Bill also announces substantial changes to the Stock Exchanges Control Act.

In order to improve liquidity on the JSE the Bill says it is necessary to shorten the periods of compulsory purchase and sale of securities by a broker.

Other changes to the Stock Exchanges Control Act proposed by the Bill include:

- The exemption of certain bear sale transactions from the Act.
- Provide for civil fines under the same Act for failure to disclose information in time.
- Place it beyond all doubt that dealings in options as defined in the Act are not affected by common law on gambling.

Finally, the new Bill will enable the Registrar of Financial Institutions to cooperate with the Registrar of Deposit-Taking Institutions if the latter uncovered any irregularities.

More money in your pocket

Star 9/3/91 (58)

Cut in bank rate will boost economy

DEREK TOMMEY

THE announcement last night of a one percent cut in the bank rate is good news for millions of South African businessmen and home buyers.

A similar reduction in the bond rate, overdraft rates and other lending rates set by banks and building societies should soon follow.

The Governor of the Reserve Bank, Dr Chris Stals, said the bank rate would be reduced from 18 percent to 17 percent from Monday.

Dr Stals also announced he was freeing R1 billion of the banks' cash holdings.

Squeeze

The cut in interest rates is expected to go some way towards easing the severe financial squeeze felt by many individuals and businesses.

The freeing of the cash reserves will also enable the banks to increase lending without driving up interest rates again.

First reaction from the banking community was favourable.

Chris Liebenberg, managing director of Nedbank, said: "For the man in the street, it does mean that bond rates will come down by one percent, in line with the move by First National Bank. There will also be a general decline in other borrowing rates."

Willy Roux, spokesman for Volkskas, said the drop in the discount rate would make banks think about lowering their interest rates.

"It is hard to predict exactly what will happen, but one can expect a general lowering of interest rates — bonds and overdrafts being the most immediate and obvious."

Both First National Bank and Standard Bank have announced that their main lending rates will be reviewed soon.

A spokesman for Standard said their rates would come down by one percent on April 2, while FNB said a decision on reduced rates would be taken in the coming week.

FNB announced on Thursday it would reduce its home-loan rate by one percent to 19,75 percent in April.

The South African Chamber of Business (Sacob) last night welcomed the decision by the

● TO PAGE 2.

...as brought to South Africa specially for Red Nose Day. ● Photograph: John Hogg.

Star 9/3/91

Money (58)

● FROM PAGE 1.

Reserve Bank to lower the bank rate, saying it was good news for the economy and the business sector in particular.

"Sacob hopes that the positive message of lower interest rates will be constructively reinforced in the forthcoming budget on March 20," said Raymond Parsons, director-general of Sacob, the largest employer organisation.

"While Sacob recognises that a fall in the bank rate alone will not transform South Africa's economic situation, it will have a positive impact on business confidence and will assist in reducing business costs," Mr Parsons said in a statement.

"The business community, will also be grateful for the realisation at the Reserve Bank that it cannot crush inflation by monetary policy alone.

Rough estimates suggest that the one point cut in the bank rate is worth some R1,5 billion to commerce, industry and house buyers in reduced interest payments in a full year.

In the past two years South Africans have had to endure the longest period of high real interest rates the country has seen since at least the 1930s. This has created unemployment and hardship.

Dr Stals said that several factors had influenced him in his decision to cut the bank rate. These included:

- The sharp slow-down in the rate of increase in the money supply. This rose only 10,3 percent in the 12 months ending January, against 12,4 percent in the 12 months ending December last year and 22,4 percent in the 12 months ending December 1989.
- The slow-down in credit creation by the banks. Advances to the private sector, after growing 20,6 percent in 1989, rose only 14,7 percent in 1990.
- The improvement in the foreign exchange reserve holdings. After falling by R3,5 billion in 1988 and R1,2 billion in 1989, these rose by R2,9 billion last year and rose a further R1,8 billion in January and February.
- The stability of the rand, whose average weighted value, Dr Stals said, depreciated 2,8 percent last year.

D BONANZA

Bond

W/L ARGUS 9/3/91 58

By TONY HOOD, Business Editor

LONG-AWAITED relief for individuals and businesses from crippling interest rates is here at last.

First National Bank and Standard Bank announced last night that their main lending rates would be cut soon.

A one percent drop in home-loan rates, overdraft rates, hire-purchase instalments and other forms of borrowing was triggered last night when the governor of the Reserve Bank, Dr Chris Stals, announced a one percent cut in its key bank rate to 17 percent from Monday.

Standard immediately announced a cut in its prime lending rate from 21 to 20 percent from April 2, a cut likely to apply to all overdraft rates.

First National said a decision on reduced rates would be taken this week. The bank announced yesterday that it would be reducing its home-loan rate by one per cent to 19,75 percent in April.

A one percent cut in rates by all banks and institutions is estimated to be worth about R1,5 billion to commerce, industry and house-buyers in reduced interest payments in a full year.

Welcoming the cut, an economist said the move was "a beginning of the end of the long, dark night of extremely high interest rates which South Africans have had to endure for the past two years".

He believed a reduction in rates would give a strong psychological boost to the economy.

Dr Stals said last night some progress had been made over the past year in redressing the rate of monetary expansion in the country and in replenishing South Africa's gold and foreign exchange reserves.

The reduction in rates by the Reserve Bank "should enable all deposit-taking institutions to reduce their prime overdraft and other lending rates and home-loan rates by similar percentages"

However, he warned that the drop in rates should not be seen as a sign of progressive relaxation of the country's strict monetary policies.

"It should not create the expectation of any early further reduction in interest rates.

"In the final instance it remains the objective to reduce the inflation rate first."

Dr Stals said he wanted to see visible evidence of a real drop in inflation before taking a next step towards lower interest rates.

What you will save

Although borrowers won't get rich overnight, even one percent in overdraft repayments will save commerce and industry about R100 million a month and help to stave off more closures and unemployment.

When home-loan rates come down by one percent borrowers will save about R40 a month on repayment of a R50 000 bond, R80 on a R100 000 bond and R160 on a R200 000 bond

First National moved ahead of the Reserve Bank announcement by making a one percent cut in its mortgage rate from April 1.

Other banks and building societies have not announced changes in their lending rates yet, but competition for bonds is likely to make them do the same.

This is the first relief house-buyers have had since the end of 1987. That was the last time the bond rate was cut — from 14,5 percent to 12,5 percent.

Hopes of a cut in rates at the year-end were thwarted by the Gulf war and fears of higher oil prices and inflation.

Dr Stals said factors which enabled the cut in rates included:

- An increase of only 10,3 percent in the money supply in the 12 months to January 1991;
- Bank credit to the private sector increased by only 14,7 percent last year against 20,6 percent in 1989; and
- Gold and other foreign reserves, which had declined by R3,5 billion in 1988 and by R1,2 billion in 1989, increased by R2,9 billion in 1990.

In January and February the Reserve Bank's net gold and other foreign reserves increased by a further R1,8 billion.

"These more stable underlying financial conditions reduced the inflationary pressures in the economy."

Any material decline in the rate of inflation would eventually lead to lower levels of growth in the financial aggregates and to lower interest rates.

The Reserve Bank has also reduced the minimum cash reserve requirement for banks to four percent — a move which will put about R1 billion back into their coffers.

...in colours today as the University of Cape Town's Rag ... the streets to raise funds for SHAWCO.

...ds procession ...tival under way

...was to be shown at 12.40pm at the ... Street stage.

... Standard Bank Tavern of the Seas ... a festival of food, drink and live en...tainment until midnight. Entrance is ...cept at "open time" between 5pm ...6pm, when entrance is free.

...tional music, and the Hudson Show ...will feature at the Tavern until late.

...noon onwards, a daily fish braai is ... at the Gardens.

... at the Gardens, there are buskers ...medieval craft fair from 10am until ...ne youth talent contest prelims will ... outside the SA Museum from 3pm ...

... theatre is offered at the same ... from 4.30pm until 5pm, and the Uni...

from 5pm until 6pm.

Art enthusiasts can join the Art Walk, a friendly walkabout to six city galleries, starting at 6pm in the Gardens.

The Eoan Group presents Gems of the Opera at the Joseph Stone Auditorium at 5pm. After Hours at Dukes, a new venue at Joseph Stone, starts at 9pm and features Gail Reagon and Hilton Schilder.

The Cape Town Symphony Orchestra presents Under the Tablecloth at the City Hall at 8pm, with conductors Elyakum Shapirra and Gerry Bosman. Soloists are Wayne Siebritz and Taliep Petersen.

The Standard Bank Tavern of the Seas opens at 12pm. The Hudson Show Band will play from 9pm until midnight.

The Soweto String Quartet play at the ...

Western Province take

Currie Cup ...

Dunhill b... to... Li...

Another mortgage rate cut on the cards

Star 9/3/91

DEREK TOMMEY

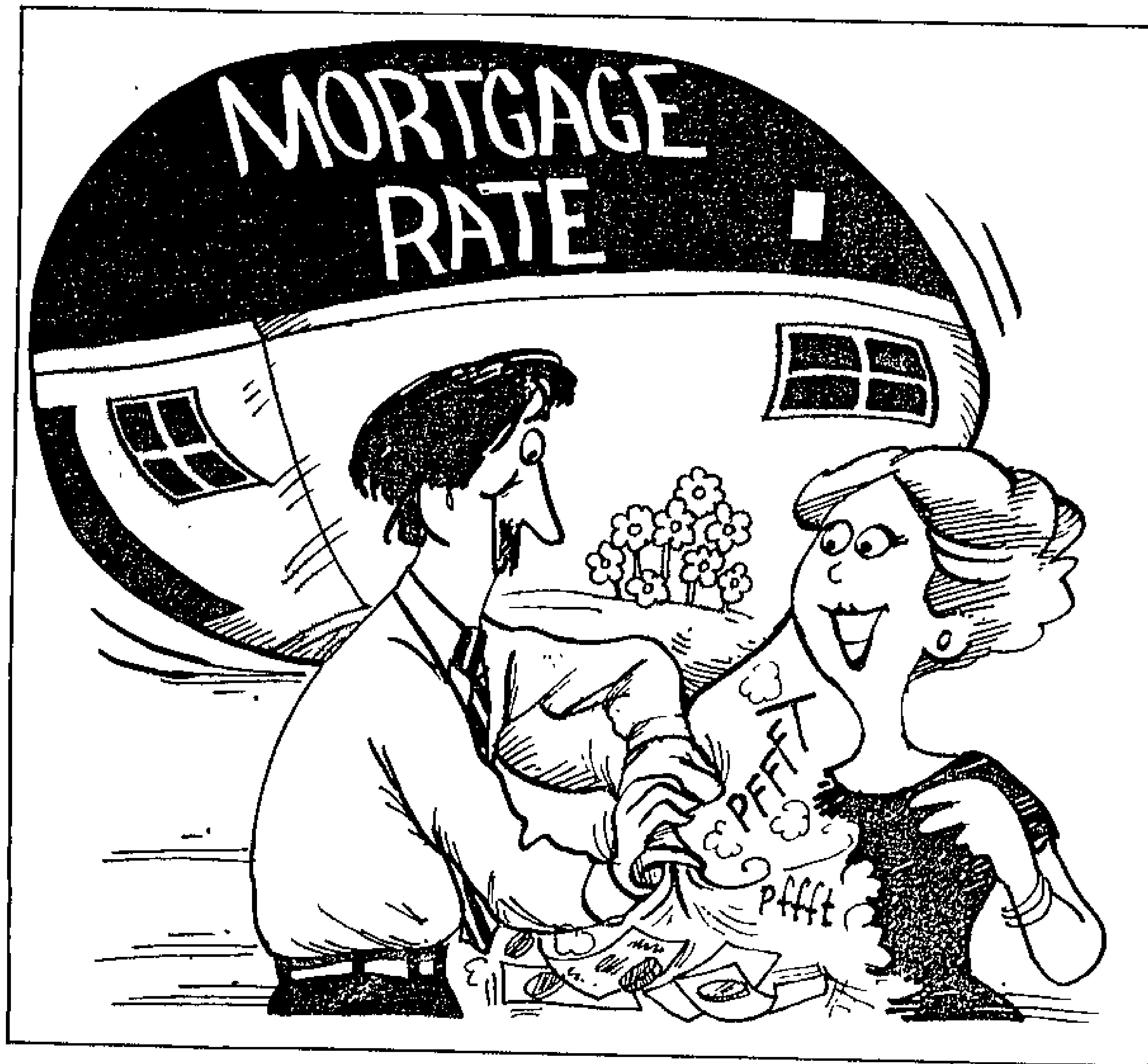
FIRST National Bank did not win the take-over war for the Allied Group.

But its announcement on Thursday that it was cutting its mortgage bond rate by one percent, suggests that it is determined to win the "peace" by grabbing a much larger share of the home loan market.

In setting this target FNB also appears to be out to make life difficult for the UBS and all other competitors in the home loan market.

For while the other financial institutions are mulling over whether to follow First National Bank in cutting their rates the the financial markets are speculating that the FNB might make a second cut in mortgage rates within the next month or so.

Mr Jimmy Mackenzie, senior general manager of FNB, would not give a direct answer to whether this was the bank's intention



Aggressive

But, he *said*, FNB intended to become a more aggressive player in the home loan market And it would consider whether another reduction in its mortgage rates would be possible after the expected cut in bank rate later this month.

The UBS will not welcome the move by FNB If it cuts rates to match the FNB, the margins on it biggest and most profitable area of business could be severely squeezed and its profits affected.

The UBS is the country's biggest lender of home loans and for the moment relies heavily on earnings from this division for the bulk of its profits

The UBS is also committed to spending a great deal of money on acquiring Volkskas and the Allied. And while it will recoup much of this expenditure in time, at the moment its finances are probably a little tight. Probably the last thing it wants at this stage is a mortgage rate war.

FNB, in contrast, has come out of the fight for the Allied with little financial loss — partly owing to the UBS paying it R16,75 million to help cover its expenses.

FNB is also significantly underlent at present and probably would accept lower margins on its home loan business to win additional market share which makes it a dangerous competitor.

The other mortgage lending institutions have so far given no indication that they will also lower their interest rates on house loans. However, financial analysts do not see how they can refuse the challenge of FNB

FNB's lower interest rates on its bonds means that the income limits of borrowers can also be lower Alternatively people will be able to borrow larger bonds

FNB normally requires that the bond repayments should be no more than 30 percent of the joint income Using this as a guide line, a young couple with a joint income of R7000 a month willbe able, from April 1, to obtain a bond from the FNB of R125 000, against R119 000 at present.

However, the financial markets are looking not for just one or two cuts in mortgage and other interest rates this year, but three atleast

For example, Mr Nick Barnardt, chief economist at Bankorp, is expecting a one percent cut in rates in March, July and November, in line with the expected fall in the inflation rate.

Star 9/3/91.

However, he expects the real interest rate — the difference between the inflation rate and prime rate — to remain at around 6 percentage points — continuing the situation which began at the start of 1988

House buyers could look forward to substantial savings on bond repayments if interest rates do fall by three percentage points this year

A person with a R50 000 bond repayment over 20 years is at present paying back R879 a month A one percentage reduction in the bond rate will save him R39,50 a month, a two percentage point cut R78,50 a month and a three percentage point reduction R118,50 a month

Savings

A one percentage point cut in interest rate will cut his bond repayment by 4,5 percent, a two percentage cut by 8,9 percent and a three percentage cut by 13,5 percent.

Monthly savings for people with bonds of R100 000 who are paying R1758 a month will be one percent cut. R79 (4,5 percent), two percent cut R157 (8,9 percent), and three percent cut R237 (13,5 percent).

Monthly savings for people with a R200 000 bond, which is now costing R3 516 will be one percent cut R158 (4,5 percent), two percent cut R314 (8,9 percent) and three percent cut R474 (13,5 percent).

One important result of lower mortgage rates is that it should also lead to a drop in the inflation rate

The expected three percentage point cut in mortgage rates in the next nine months reduce the rise in the consumer price index which is currently 14,3 percent by almost 3 percentage points.

BUSINESS

OM still buying Iscor shares

By BLAISE HOPKINSON

OLD Mutual is still buying Iscor shares in spite of the steel giant's 30 percent drop in earnings for the first half.

Mr Rowland Chute, Old Mutual's assistant general manager, investments, said this week the share remained a good long-term investment.

"It is often worth taking a closer look when a market is down. There might just be something you have missed," he told a media briefing.

He added: "In the long term Iscor is a real growth asset."

He warned that South Africans had to expect a bouncy ride for the economy.

"There is an environment for an upswing in industrials but be cautious, it is going to be a bouncy ride."

He said Old Mutual's unit trusts had attempted to remain largely invested in equities in the past year instead of taking better advantage of relatively high money market rates.

He added the overall scrip shortage was caused by a low annual turnover of equities on the JSE.

It would take, for example, a month to build a R10 million position in blue chips like Barlows, Lonrho, SAB or Sasol while the same amount would take more than 18 months to invest in companies like NBS, Volkskas and Amaprop.

He said the Old Mutual had invested heavily in equities last year for its mutual fund and pension portfolio and was therefore well placed for the projected growth in equity prices.

Old Mutual is bullish on the prospects for industrial shares which are currently in a "neutral" phase — in that they are neither overbought nor oversold.

Chris Stals relents

AS banks considered whether to match First National Bank's surprise one percentage point cut in its home loan rate on Friday, the Reserve Bank announced reductions in its key interest rates. (58)

This will force all banks and building societies to follow FNB's lead on home loans and result in lower prime overdraft, hire purchase and other lending rates. S Times 10/3/91

Business Times Reporters

Standard Bank has already announced cuts in its prime lending rate by one percentage point to 20% and its home loan rate one percentage point to 19,75%.

FNB managing director Barry Swart said he would meet with his executive committee tomorrow to decide on his bank's reaction to the surprise announcement by the Reserve Bank on Friday evening.

"It is a foregone conclusion that we will reduce our prime overdraft rate by one percentage point," he said.

"But at this stage I do not believe that we will make any further reductions to our homneloans rates.

"It is coincidence that the Reserve Bank's announcement came out a day after ours. We had no foreknowledge of it. It might even be that our announcement triggered the Reserve Bank's decision."

Nedcor managing director Chris Liebenberg said: "Our lending rates will reflect the Reserve Bank's reductions but I cannot now say whether it be across the board or on what date.

Reasons

"It is clear that Reserve Bank governor Dr Chis Stals reacted to market forces but I am also sure that monetory policy will continue to remain tight."

Few commentators expected the Bank Rate cut but in his statement Dr Stals gave sound reasons for the step.

- Money supply growth has declined from 22,4% during 1989 to 12,4% during 1990 and that a further reduction to 10,3% is expected for the 12 months ending in January 1991.
- The rate of increase in bank credit to the private sector fell from 20,6% in the year to December 1989 to 14,7% in the year to December 1990.
- Net gold and foreign reserves which declined by R3,5 billion in 1988 and R1,2 billion in 1989, increased by R2,9-billion in 1990.
- In January and February 1991 the net gold and foreign reserves rose by a further R1,8-billion.

CHRIS STALS: Surprise cut

- The exchange rate of the rand stabilised during 1990, depreciating by only 2,8% against the basket of currencies.

Dr Stals said that the reduced growth in the money suppply was an important factor permitting the cuts.

"In the fourth quarter, money supply growth finally ended up at 12% ... well within the guideline range"

He said lower money supply growth had a disappointing affect on inflation but did contribute to reduced underlying inflationary pressures.

He said various cost-push factors, such as the fuel-price increases in the wake of the Gulf crisis and excessive increases in wages and salaries, continued to support a relatively high level of inflation.

These persistent pressures called for a contintuation into 1991 of a relatively restrictive monetary policy.

Dr Stals said money supply growth would be held between 8%-12% between the fourth quarter of 1990 and the fourth quarter of 1991.

He said that forcing the rate of growth in the money supply to within a tolerable range required a prolonged restrictive monetary policy which commenced in 1988 and required a relatively high level of interest rates throughout last year. These developments in the monetary aggregates provided further evidence of the unavoidable time lags involved in the implementation of monetary policy measures and subsequent reactions, and confirm the need for timely action in this regard.

Although the decline in the rate of growth in the money supply had but a small effect on the rate of inflation in 1990, it did contribute to a reduction of the underlying inflationary pressures.

"This further reduction of three percentage points in the money supply guidelines provides further evidence of the determination of the authorities to reduce inflation to being it more in line with the rates of inflation in SA's major trading partners."

He has reduced the minimum cash reserve requirement of banks from 5% to 4% of their short-term liabilities to the public.

The Reserve Bank has adjusted its various interest rates as follows.

- Bank rate reduced from 18% to 17%;
- Rate for rediscounting Land bank bills reduced from 18,15% to 17,15%;
- The rate for rediscounting liquid bankers acceptances reduced from 18,3% to 17,5%;
- The "penal" rate for overnight loans to banks is fixed at 1,5% above prime overdraft rate;
- All other Reserve Bank lending rates are reduced by one percentage point.

Premature

Dr Stals concludes: "This step by the monetary authorities should not be interpreted as a sign of any progressive relaxation in monetary policy and should not create the expectation of any premature further reduction in interest rates.

"In the final instance it remains the objective to reduce the rate of inflation first.

"The Reserve Bank will require visible evidence of a real decline in the rates of increase in the producer and the consumer price indices before taking a next step toward lower interest rates."

Bankers warn: rate cut isn't a boom signal

(58)

By DAVID CARTE

THE Reserve Bank's one percent cut in the bank rate will reduce interest rates throughout the economy — but don't expect cheap money soon.

Said Cees Bruggemans, group economist at First National Bank: "The cut is a reward for progress on all economic fronts but the governor has only put his toe in the water. This is not the starting gun for a new boom."

ST Times 10/3/91

Warned

In trimming the bank rate from 18 to 17 percent, Reserve Bank governor Chris Stals said the reduction should enable banks and building societies to cut their prime overdraft and home loan rates.

But he warned: "This step should not be interpreted as a sign of any progressive relaxation in monetary policy and should not create the expectation of any premature further reduction in interest rates."

The prime rate at banks has been 21 percent since October 1989 and is now expected to drop to 20 percent. All banks have indicated they will cut their rates this week.

The fall in rates will bring slight relief to all borrowers but is negative for savers. Bank and building society deposit rates have already weakened and savers are likely to see rates fall further.

Individuals will score most on their home loans and overdrafts.

Interest rates on most home loans are close to the prime rate, so the saving for home owners will be a little less than five percent of their monthly interest costs. Monthly repayments on 30-year bonds will now be R16,71 for every R1 000. On 25-year bonds, they will be R16,78, on 20-year bonds R16,99, on 15-year bonds R17,56 and on 10-year bonds R19,33.

Only the biggest companies qualify for the prime rate on their overdrafts. Most individual overdraft customers are paying at least 25 percent. Most hire purchase contracts are at fixed interest rates. Only those with rates linked to the prime rate will benefit.

Some HP borrowers are being charged 32 percent. For them, a one percent cut is a saving of only three percent in their monthly interest costs.

Companies and farmers with debts will also experience some relief.

Dr Stals said the Reserve Bank was able to cut its rates because money supply growth was under control and the country's gold and foreign exchange reserves had grown by R4,7-billion since 1989.

Softer interest rates and lower oil prices in foreign countries also helped (see Business Times).

Lower oil prices have raised hopes of lower inflation and economic recovery in industrial economies. SA's inflation rate and growth prospects also stand to benefit by lower oil prices.

A winner in the battle of the banks

(58) S/Times 10/3/91.

By HELLOUISE NORVAL

IT doesn't take a scientist to figure out how UBS chief executive Piet Badenhorst won the battle for Allied. Simple: he never gives up.

"Two things matter, patience and determination," he says.

Media pundits believe UBS over-paid roughly R180-million for Allied to create the R57-billion financial services monolith, the Amalgamated Banks of SA. Did he buy a pup?

He snorts: "First lay the pundits' credentials on the table to enable me to assess on what basis they arrived at that question.

"There was an auction, FNB was one of the bidders and the market determined the price. That's how it works.

"You have to look at the potential and what you think you can do with it. Absa can become the most meaningful financial player in the country."

Was FNB a serious bidder or was its bidding tantamount to greenmail (whereby a company buys a strategically significant block of shares in another company, sufficient to threaten a takeover and thus force the parent company, another bidder or a white knight to buy the shares at a premium)?

"They were serious bidders," he replies.

(Consensus among observers is that FNB lost a strategic opportunity to acquire Allied's consumer mortgage book, an obvious lack in FNB's financial services profile.)

As the victor, how does Badenhorst feel? Satisfied, challenged, happy, a bit scared?

Stealth

"We've achieved one of the milestones we set out to achieve. Now we work steadily towards the next steps in this particular set-up we are bringing together."

Will Allied chief executive, 43-year-old Kevin de Villiers, remain part of the team?

Many say his dismissal is a question of timing. Others point out that he holds two trump cards — a one-year service contract and a 500 000-share option. To excise him would cost R2-million.

Badenhorst: "I have no comment of any kind on that."

De Villiers: "It would be unfair of me to comment. Obviously I have to chat with Piet Badenhorst, see what his plans are and establish to what degree I can be useful in executing them.

"I have to keep an open mind on that. I'm a pragmatist. I have no personal problems with anybody in the group."

What's Badenhorst's next goal?

"Anything to do with future strategy is out of bounds for journalists," he replies.

"An Irishman once told me all the great achievements of this world have been done in stealth.

"I work on the need-to-know principle; communicating to people what they need to know to carry out their job, nothing more."

Back in 1984 when he was made chief executive of UBS he decided to jack up the moribund building society industry.

"We became efficient, well organised and highly profitable. Our figures went that way." He swings his arm skyward.

OWNER-BUILDER: Piet Badenhorst, motivated by challenge — Picture: ROBERT BOTHA

That's when all the suitors arrived. Rob Abrahamse was the first. Then Fred du Plessis of Sanlam. There were intimidatory tactics. Everybody wanted the United. But when you're born free you don't *"gee boedel oor* (hand over the estate, ie surrender) before you start".

He's a tough negotiator "I do what's necessary to adeal."

Railways

Described by the media as a formidable enemy, an unstoppable powerhouse and a pugnacious fighter, there's no mistaking Badenhorst's streak of aggression below the surface.

He's 54 years old and been with the UBS for 31 years. His father was a railways goods inspector.

"He never really understood what I was doing. He was 83 when he allowed me to do his tax return. He used to go to the local postmaster to do it for him."

He says that "everything in my life I've had to owner-build. My education, my career, my house in Florida, the organisation from where we were to what we are now, to what we are trying to put together."

During school holidays he worked to pay for his education and studied for a BComm at Wits while doing accounting articles with Dreyer and Dreyer.

What attracted him to the UBS?

"I walked down Von Brandis Street and saw the United neon sign. Something inside me said that's where I was going to work. A year later I saw an ad saying young CA required. I was about the last one to apply and they said 'you're the guy we want'."

What motivates him?

"There are guys in this town who are megalomaniacs. I'm not but if you want to be a meaningful player it helps to have resources, assets, capital, infrastructure, size."

Badenhorst believes he has a team of very good people

"Chairman Herc Hefer is phenomenally able. He works like a Trojan. We have a close relationship. At times I go in with the bulldozer and he goes in with the soft-touch diplomacy. But don't think for one second that he's soft.

"Look at that picture behind you." It's a graphic of astronaut Armstrong on the moon. The caption reads "MAKE IT HAPPEN".

"That is one of my credos. The other is '*aanhouer wen*' (perseverance wins)."

The dirty deals of the filthy rich

SI Times 10/3/91 (58)

By JULIE WALKER

BACKHANDERS in brown envelopes could be at the bottom of a share-dealing investigation by Cape Attorney-General Frank Kahn.

A tip-off by the JSE to the Old Mutual about a pattern of at best unusual, at worst inspired, share dealing led to an internal investigation by the giant financial institution.

The JSE itself was alerted to the deals by a stockbroker. It would not have tipped off the market's biggest customer for trivial reasons.

Old Mutual undertook an internal investigation "to establish whether we were dealing with a string of coincidences or with improper practices and whether it was an internal matter or something that required the attention of one or more public authorities", according to a statement

Employees Marco Celotti and David Schapiro were suspended. They have faced no charges. The Old Mutual has stressed that their suspension does not imply blame or guilt.

It informed the authorities that a criminal investigation might be necessary and this has been rapidly convened.

Old Mutual wanted the special investigation because such investigations by the SA Police Commercial Branch often take a long time.

Old Mutual is reluctant to say exactly what irregular dealings might be suspected.

Small amounts to the Old Mutual could be large amounts to individuals. Markets this week were full of talk of foreign homes, works of art and racehorses.

Risk

Brown envelopes or backhanders from stockbrokers to institutional fund managers could be one possible explanation for the investigations. Stockbrokers are in the business of generating brokerage by getting more traders preferably institutional - to use their services.

If the cost of a brown envelope is not out of proportion to the amount of brokerage it buys, it probably outweighs the risk of being found out.

There is an undrawn dividing line between real banknotes and sweeteners such as trout-fishing weekends and helicopter rides.

A second possible route to riches involves collusion between an institution and a stockbroker to manipulate the price of shares, particularly those which move on small volumes.

This is especially possible where an institutional investor knows the buying policy of his employer. By front-running — putting in orders ahead of the institutional biggie — stock can be secured at a low price. That price rises when a big buyer emerges. The colluding party sells out and the spoils are shared.

This ploy can be extended to the use of a London broker through whom shares are bought in sterling on personal account. The intention is never to pay, because the buyer banks on the expectation that share prices will rise when a large buyer becomes evident.

Not only is this a breach of integrity, it breaks the laws governing foreign exchange transactions.

Gold's failure to behave as expected in the Gulf War may have been the undoing of parties using this ploy.

Such parties may, for example, have gone long on gold shares and lost heavily when the gold price dropped during the war, instead of rising.

Frank Kahn neads a team of blue-chip investigators on what could become SA's biggest witch hunt

Clean-up

One dealer says the investigators are looking back to six-year-old deals, and that there are a lot of nervous people around at both institutions and stockbrokers.

"The good guys on the market welcome this. It should be marketed as a clean-up by the JSE," said one.

Yet two things are in the favour of anyone who falls under scrutiny. Is it illegal to front run, or just very naughty? And how difficult will it be to prove majority coincidence?

HAROLD FRIDJHON in the Money Markets

Stals rate rewards patient bulls

8 | 04 11/3/91 (58)

THE financial markets will open this morning with the boards clean and with most rates already in line with the new Stals rate. The bulls have had their patience rewarded.

The rate for 90-day liquid bankers acceptances (BAs) has to be skinned by 10 basis points to 17,30% from Friday's 17,40% to bring it into line with the new rediscount rate of 17,30%, and the Treasury bill (TB) rate will undoubtedly adjust to Bank rate next Friday, by shedding four basis points.

Some TBs might trickle into the market this week with other marketable assets — BAs, non-liquids and short-dated CDs — as holders of paper might find it more convenient to take a small immediate profit.

For the next month or two, the money market should be calm and dull as the motivation for trade will be 100% based on pure investment with barely a suspicion of speculation.

Today's bond market will gyrate as the bulls take their profits and the few bears deal wildly to get out of trouble. Bond yields might soften marginally, but the end of the day should see the bulls rampant as they over-react to the mild stimulus which the lower Bank rate and the easing of bank liquidity will give to the economy.

The slight relaxation of monetary policy will not trigger the boom which reflex-minded bulls might fantasise about. At best it will edge the economy off the floor and revive flagging business confidence.

Perhaps monetary policy has been eased because fiscal policy, to be revealed in next week's Budget, will continue to be tight, strongly anti-inflationary.

If this assumption is correct, Stals was ready to reduce Bank rate several weeks ago when he declared that he was prepared to follow market trends. And the signals from the markets have been clear and unequivocal. He might have delayed cutting Bank rate until Finance Minister Barend du Plessis had positioned all the jigsaw pieces which make up the Budget.

Possibly Du Plessis will not be in a position to be generous to taxpayers next week, but they will have some compensations; for consumers the mortgage rates will be eased and so will the overdraft rates. For those in business, bank borrowing will be cheaper.

Perm announces bond rate cut

Finance Staff Star 11/3/91

(58)

The SA Perm today followed Standard Bank's lead and announced a one percentage point cut in its bond rate with effect from April.

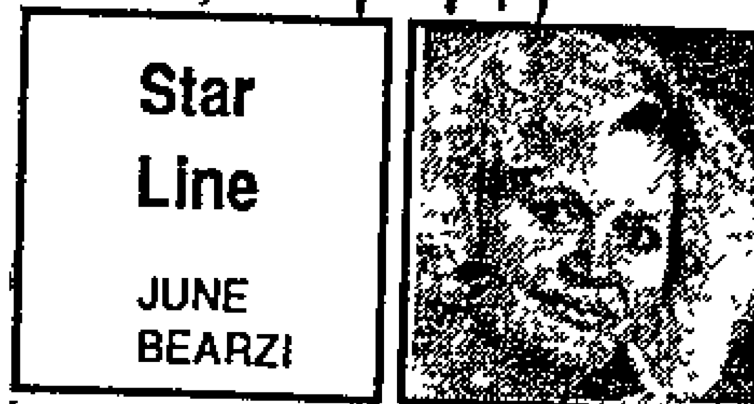
Major banks and building societies are expected to cut their rates today, after the cut in the Reserve Bank's bank rate on Friday.

Standard Bank announced on Friday that it would lower its prime interest rate from 21 to 20 percent and its bond rate from 20,75 to 19,75 percent. FNB had reduced its bond rate to the same level on Thursday.

● Politics an important factor — Page 12

'Loan' companies ensnare blacks

Star 11/3/91


Star Line
JUNE BEARZI

Unscrupulous "loan" company operators countrywide have trapped thousands of blacks in their shadowy enterprises by taking advantage of this community's inaccessibility to cash loans and advancement aspirations.

Most blacks shopping for loans at financial institutions are seriously hamstrung as loan approval through conventional methods hinges on property ownership or long-term investments. Few blacks have such fixed assets.

Probed

The wheeler-dealers realise this is the case and have jumped onto the black-advancement bandwagon using ruses and adverts promising "easy loans with no sureties for small administration fees".

A Cape Town-based loan scheme went to the lengths of luring clients by claiming to have the backing of the ANC.

Over the last two weeks Star Line has probed and highlighted the activities of Monaid Finance in Kempton Park, Four Seasons Housing and Development in Johannesburg, BDS Finance in Elandsfontein, and the African National Co-Operation bank in Cape Town which preyed on blacks seeking financial aid for housing and taxis or to set up their own businesses.

These companies have taken huge sums in downpayments from applicants but have failed to provide the cash loans.

The African National Co-Operation, or ANC "bank", opened up last year, decorated its premises in the ANC's black, green and yellow colours, and promised interest-free cash loans in return for "security and membership" fees.

However, the Legal Resources Centre and the Cape Town police were approached by unhappy clients when loans were not forthcoming, and the bank's account has been frozen.

An ANC spokesman told Star Line the "bank" was not connected to the organisation and that the ANC's western Cape office had issued a statement disassociating itself.

A Primrose, Germiston, couple, Gladys and Eric Shangase, have no hope of retrieving R5 000 paid to BDS Finance, run by Oscar Davies from offices in Elandsfontein.

Mr Davies, who is apparently also known as Oscar van Heerden, has vanished and the couple have been told that legal action would be fruitless.

Mrs Shangase, a domestic worker earning R150 a month, told Star Line they had decided to acquire a minibus taxi to boost the family income after her husband lost his job.

Unsuccessful

They approached Mr Davies's offices in Elandsfontein and were told that if they handed their R5 000 savings over, BDS would raise the balance and obtain the vehicle.

When the loan was not granted, Mr Shangase approached a lawyer who referred them to Star Line.

Attempts to trace Mr van Heerden have been unsuccessful.

A woman who now works in the North Reef Road, Elandsfontein, offices vacated by BDS Finance confirmed that several other dissatisfied clients were looking for Mr Davies.

Bank looking at neighbours

Business Day Reporter

THE Development Bank was seriously considering a closer involvement with SA's neighbouring states "as the political situation normalises and sanctions are eased, and with the possibility of international finance becoming more readily available", a senior bank official said yesterday. B Day 11/3/91 (58)

Field manager Peter Freeman said the bank was already giving limited technical assistance in Lesotho and Mozambique.

Exploratory talks were also being held with Malawian and Swazi authorities on the possibility of helping to "strengthen municipalities and building societies in those countries".

He denied a report by the Zimbabwe news agency Ziana that the bank had already set aside R4bn for such development.

Mine's standard, but it's bigger than yours

58 — 8/3/91 — 12/3/91

SHARON WOOD

FIRST National Bank's (FNB) advertising campaign claiming it has the "biggest" credit card in the country has brought a formal complaint from rivals Standard.

Standard Bank advertising and promotion manager Alistair Jack said yesterday a complaint had been lodged with the Advertising Standards Authority (ASA) on the basis that the FNB campaign suggested it had the largest credit card client base.

Three television adverts for FNB's credit card, FirstCard show customers at a travel agency, a shop and a restaurant carrying a huge FirstCard, and having it processed through a large card processing machine. The adverts claim FirstCard is the "biggest card" on the market.

The campaign was designed to show FirstCard was the biggest card in SA in a "different, warm and human way", said Jocelyn Scharrer MD of Scharrer Edwards Fraser — the advertising agency which created the advertisment. The ASA confirmed that a complaint had been lodged against the FNB print, radio and television adverts. The

☐ To Page 2

Standard

B Day 12/3/91 (58)

☐ From Page 1

ASA had called for substantiating evidence from FNB to prove its claim, said ASA assistant director Deline Beukes.

FNB card division head Jon Wildman said the matter would be investigated.

Internal research conducted by the Standard Bank and external research had shown that Standard Bank's Mastercard client base was bigger than FNB's FirstCard Visa card, Standard Bank card division GM Alistair Graham said.

The 1989/90 All Media Product Survey (AMPS) showed of the 1,15-million credit card users, 34% used Standard Bank's credit cards and 30% used FNB's.

A Times Media SA Business Research Evalution (SABRE) survey showed that of 132 900 business people with credit cards, 40% held Standard Bank credit cards and 38% held FNB credit cards.

The SABRE information was collected between February and April 1990. SABRE's target market was top or middle management, professional or technical business people with a minimum monthly household income of R5 000.

Bank turns away 'coloured'

By Shareen Singh 12/3/91

A Lebanese man who last week tried to open a BobSave account at the First National Bank in The Firs, Rosebank, was turned away by a bank assistant who thought he was coloured and said he needed a letter from his employer.

Gerard Simon, a member of Mother Hubbard's co-operative, said he felt insulted when he was told that in order to qualify to open an account he needed a letter of reference.

He returned to the bank with another member of the co-operative who demanded to know what was going on as no such letter was required of other members who had opened accounts at the bank.

The bank assistant explained that "with these sort of people we need references".

Apologetic

"To add to our frustration, the assistant turned to me and asked if she should fill in 'white' or 'coloured' on the form. When I told her that actually I am white, she became very apologetic and her attitude changed," Mr Simon said.

Although she did not explicitly say that only blacks needed letters of reference, it clearly implied that, he said.

As a result of the incident a few Mother Hubbard members have cancelled their accounts at the bank and others are planning to do likewise.

Members of the co-operative had taken up the matter with top management of First National Bank, who assured them it was not bank policy to demand letters of reference to open an account.

First National Bank was opposed to racial discrimination, management said, and had undertaken to investigate the incident, Mr Simon said.

A senior manager said the bank would be able to comment only after the matter had been fully investigated.

Swift action in Old Mutual probe

By Ann Crotty

The speed at which action is being taken in the investigation into alleged irregular transactions conducted between the Old Mutual and JSE stockbrokers has astounded the market.

Within just a week of the investigation being handed over to the government two arrests have been made and warrants of arrest have been issued in respect of alleged fraud for three other players.

They are Peter Rawson an ex-Zimbabwean who runs a Channel Islands-based broking firm called A Bradshaw and ran Ed Hern Rudolph's London office in the mid-eighties; Marco Celotti who was a senior portfolio manager at the Old Mutual until his suspension three weeks ago and, David Schapiro a dealer in Old Mutual's investment department.

Mr Celotti and Mr Schapiro left the country last weekend before they could be arrested. Mr Rawson lives outside the country.

Late on Sunday night Greg Blank, a director of stockbroking firm Frankel Max Pollak and Kenny Fouche a leading dealer at stockbroking firm Ed Hern Rudolph were arrested on charges of fraud.

Yesterday afternoon the two

Tony Norton . . . No more arrests likely at this stage.

were released on bail of R500 000 each. They were remanded for three months.

Mr Blank and Mr Fouche have been suspended by their firms pending the outcome of the court case.

The head of both firms have stressed that they fully support the investigation and some time ago had undertaken their own internal investigations into the matter.

JSE president Mr Tony Norton believes that at this stage no further arrests are under consideration.

It is believed that there is a link between the current government-led investigation and an investigation into alleged foreign exchange losses of about R8 million that were suffered by Ed Hern Rudolph about a year ago. The Ed Hern case is being heard this week.

Apparently during the course of the Ed Hern investigation a number of "unusual looking deals" were discovered and it was noticed that there was a tendency for these deals to end up at the Old Mutual. On the basis of this information the JSE apparently approached the Old Mutual last month.

The Old Mutual responded quickly, instigating its own investigation which quickly led to the suspension of Mr Celotti and Mr Schapiro. Within a few weeks it became evident to the Old Mutual investigating team that it did not have access to a lot of the information that was needed.

For this reason the investigation was handed over to the government and is now being led by the Cape's deputy Attorney-General Mr Frank Kahn.

The nature of the transactions being investigated are complex and Mr Kanh's team is faced with the task of linking numerous transactions and numerous players.

Some of these transactions were effected in South Africa by local players and some in overseas markets by others who were apparently fronting for the SA players in a bid to circumvent exchange control regulations.

Given the very complex and circumstantial nature of the transactions being investigated it was felt that any progress made by Mr Kahn's team would be at a very slow rate. Yesterday's developments dramatically changed this perception.

There is now speculation that one informed source is providing considerable assistance to the investigating team. This may be sufficient to compensate for the difficulties that are expected to arise as a result of the departures of Mr Celotti and Mr Schapiro.

If this is so, the investigation may be completed sooner rather than later — assuming that Mr Kahn's brief is quite tightly defined.

Some attention is now being turned to the possible repercussions at the broking firms involved.

In addition there is speculation about the investigation being extended to include a close look at on-going relationships between the broking community and the institutional investors.

Financial institutions cut rates

Star 12/3/91

(58)

By Sven Lünsche

Financial institutions in the Amalgamated Bank of SA (ABSA) group are expected to launch a concerted drive to gain market share over the next few weeks in both the lending and the home loan market.

This emerged yesterday when the UBS lowered its bond rate and its prime rate to 19,75 percent from April 1.

This brings UBS' bond rate in line with those of its major competitors, but its prime rate is 0,25 percent lower than the new standard rate of 20 percent by other financial institurions.

The Allied and Volkskas have not yet moved in response to the Reserve Bank's one percent drop in the Bank rate, but analysts said yesterday that the Allied could make a surprise move on its home loan rate.

Other financial institutions yesterday followed FNB's lead by reducing their bond rate by one percentage point to 19,75 percent.

Standard Bank, in addition to dropping its home loan rate, on Friday announced a one percent cut in its prime lending rate to 20 percent from April 2.

Its move on the prime rate was followed yesterday by TrustBank, Senbank and FNB.

On the bond rate front the Perm said its cut would apply to new home loans from April 1 and existing loans from April 16.

TrustBank's mortgage bond rate will be decreased on a differentiated scale by between 1,25 and 0,75 percent. The new minimum rate will be 19,75 percent, effective from April 15.

'Invest bond savings in unit trusts'

GILLIAN HAYNE

A ONE percentage point reduction in some mortgage rates, amounting to about R80 on a bond of R100 000, offers home owners an investment opportunity at no additional cost, independent unit trust specialist Consolidated Fund Managers (CFM) MD Clive Fox said yesterday. (58)

Fox said home owners could either use the R80 to settle the bond in a shorter time span — in less than 15 years — or buy a unit trust, which over 12 to 15 years would provide a tax-free investment of approximately R100 000. B|Day 12|3|91

"Reductions in the bond rate are often an excuse to reduce monthly bond repayments and to reallocate the spare money to non-essential expenditure," he said.

Fox believed the drop in interest rates would lead to increased activity in the equity markets, thereby improving the performance of unit trusts. (123)

Unit trusts have historically yielded 20% or more a year over the long-term, with average returns often as high as 25% a year.

"By simply reallocating the money being liberated by the drop in bond rates into unit trusts which are, we believe, on the verge of substantial upward growth, the home owner can derive maximum benefits from this relaxation in rates at no real additional cost," Fox said.

UBS cuts most as prime rate drops

(58)

BDay 12/3/91

GRETA STEYN

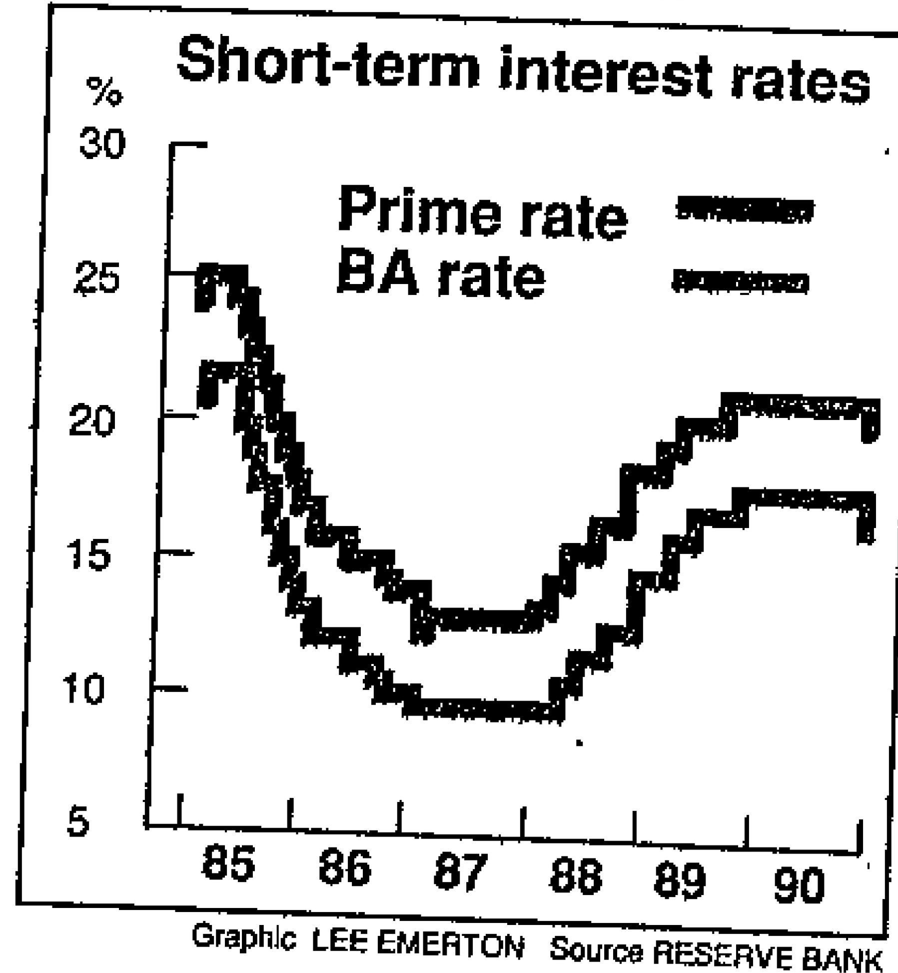
THE United has undercut other major banks by dropping its prime rate to 19,75% instead of their 20%, from April 1.

Standard Bank, First National Bank (FNB), Bankorp and Nedbank announced they would cut their prime overdraft rates one percentage point to 20% from April 2.

Banks are delaying passing on the Reserve Bank's interest rate cut — which became effective today — thus adding some cream to their margins.

Bankers said UBS's overdraft client base was small relative to that of major banks and that it could afford to undercut the others to gain market share.

Of the other banks in the Absa group, the Allied's prime rate will be in line with the rest of the market, but there is speculation that it may make an aggressive move on home loans. Allied senior GM Don Hunter said yesterday the bank would this week decide how much and when it would cut its home loan rates. Volkskas has not yet made any announcements, but could keep its home loan rate slightly higher than the others in the new group.



Graphic LEE EMERTON Source RESERVE BANK

In spite of FNB's claims last week that it intended to become more aggressive in the home loans market, its one percentage point cut in mortgage rates to 19,75% re-

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Prime

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mains unchanged and is in line with the market. The Perm, the Standard and the UBS have announced similar cuts. TrustBank's basic rate for home loans will be a little higher than the rest of the major banks at 20%.

There was confusion in the money market yesterday because of the Bank's decision not to cut its lending rate against three-month Bankers' Acceptances (BAs) by the same margin as Bank rate. The Bank's rediscount rate for BAs dropped 80 points to 17,50% compared with the full percentage point cut on Bank rate (the rediscount rate for Treasury Bills).

The move means the BA rate in the market will be high in relation to other rates for a while — it remained stuck at 17,40% yesterday as other rates dipped. The market interpreted the Bank's move as a sign that BAs had deteriorated.

Bank Deputy Governor Chris de Swardt said the rediscount rates for different money market instruments was based on the debtor status of the issuers of the instruments and their liquidity characteristics.

The realignment of rediscount rates was "a more realistic assessment" of the debtor and liquidity status of money market paper.

Jacobs to head probe into life assurers' role

B Day 13/3/91

GRETA STEYN

GOVERNMENT has asked Finance special adviser Japie Jacobs to lead an investigation into the life assurers' role in social investment.

Jacobs will work with the Life Offices Association and development bodies, including the Development Bank, the Small Business Development Corporation and the Independent Development Trust, to seek ways to encourage investment by the major institutions in these bodies.

He confirmed the investigation yesterday, saying it was part of his continuing brief to study the role of the life assurers in the SA economy.

He did not want to comment on claims in the industry that one investment "pool" would be created.

The development bodies would be funded from this pool, a source claimed — representing a change from the present system of individual investments in each organisation's capital markets stock.

"A key question that has to be answered when looking at social investments is: Who is ultimately responsible for the risk? If government has to stand behind these investments, it will probably be at the regional level rather than at central government level. Developments at the third tier of government can be expected to play a key role in facilitating social investments," Jacobs said.

He said a mechanism being looked at for investment was securitisation of financial assets — the creation of a secondary market in debt.

Existing development structures would be used with much emphasis on ensuring that finance reached the informal sector, where he believed a void existed.

"There is a tendency to look at the life assurers and pension funds and to say their savings must be mobilised for development.

"The question is: How? Commercial considerations cannot be cast overboard." Ways of minimising risk would receive attention.

The investigation will take place simultaneously with Jacobs's work on "levelling the playing fields" between life offices and banks. But, contrary to industry expectations, no tax changes will be made in this Budget to ensure equitable treatment between the institutions.

Talk in the industry is that Jacobs had recommended an approach which would have left the fiscus out of pocket, which is why it was rejected.

But he said yesterday that his approach had at first hinged on the implementation of a withholding tax on interest, and that closer scrutiny had led his committee to conclude that he could not recommend the implementation of the tax. He said the system would be open to abuse through re-classification of income and arbitrage.

He would continue working on the tax treatment of financial institutions, he said.

The former building societies, led by UBS CE Piet Badenhorst, have lobbied government to tax life assurers more heavily.

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Absa's top spot will soon come under pressure

(58)

Star 13/3/91

By Derek Tommey

The Amalgamated Banks of South Africa (Absa) will have to fight hard to hold on to the number one spot it achieved by the merger of Volkskas, UBS Holdings, the Allied Group and part of Sage Financial Services.

A pro-forma balance sheet issued by Absa shows that it will have assets totalling R45,7 billion.

The Standard Bank Investment Corporation, which owns the Standard Bank, has assets totalling R45,5 billion — only R200 million less.

A comparison of the two banks' balance sheets shows interesting similarities. Absa has R1,7 billion in cash and short-term funds while Stanbic has R1,8 billion.

Absa's advances and debtors amount to R35,8 billion, while the figure for Stanbic is R36,0 billion. Both banks value their fixed assets at R1 billion.

The only major discrepancy is that Absa gives investments of R7,1 billion while Stanbic's investments amount to R2,9 billion. But this might be the result of a difference in nomenclature. Stanbic also reports R0,5 billion remittances in transit, R0,2billion in associated companies and liabilities of R3,0 billion.

The Absa balance sheet shows that the improved offer made to Allied shareholders has affected the expected earnings of UBS, Volkskas and SFS at the expense of other Absa shareholders.

The new offer will increase the earnings on the equivalent of one share from 23,2c before the first offer and 27,6c after this offer to 33,08c.

Dividend will rise from 11,5c a share prior to the offer and 10,6c after the first offer to 12,72c a share.

UBS shareholders who expected to see their earnings rise from 82,1c to 88,3c a share as a result of the merger, will now have to be satisfied with earnings of 86,02c. The dividend, which was 32,0c a share before the merger, and which was expected to go to 34,0c will now be only 33,08c.

Volkskas shareholders will fare even worse than originally intended Before the merger their shares were earning 270c. The first merger proposal reduced these earnings to 212c a share. Now their earnings will amount to 206,5c a share.

Their dividends too will suffer. Before the merger they received 90c a share. The merger proposals envisaged this dividend dropping to 81,6c a share. Now they will get the equivalent of 79,4c for each Volkskas share.

Sage Financial Services (SFS) shareholders fare a little better with eps of 36c before the merger rising to 45c on the original proposal, but slipping to 44,1c on the final deal. The dividend will increase from an original 18c to 18,7c, below the projected 19,1c when the offer was first made.

Tough times don't stop demand for home loans

(58) BDay 13/3/91

SHARON WOOD

HIGH interest rates and a recessionary economy failed to depress mortgage loan demand, with some major banks experiencing growth of more than 25% in their home loan books last year.

Mortgage lending by Natal Building Society and Standard Bank grew by an annual rate of 26,8% and 25,1% respectively in February this year.

Allied experienced record growth of 13,9% in home loans advanced in the eleven months to February 1990.

But First National Bank's (FNB) home loan growth during 1990 was lower than expected, said FNB banking assistant general manager Pat Lamont.

FNB has experienced acceptable growth this year, he said. Analysts said FNB's conservative approach to its balance sheet had probably caused a weak performance on the home loans front.

For the banking industry as a whole, Reserve bank figures showed virtually stable bank and building society mortgage loan advances during 1990 — with the value of new loans shrinking by only 0,3% to R7,4bn in 1990 from the previous year.

Standard Bank's exceptional growth in mortgage lending during the last four years continued during 1990, home loans divisional GM Eric Tomlinson said.

The rapid advance in NBS's mortgage loans last year could be attributed to the fact that they were the core of NBS's business, said mortgage lending assistant GM Trevor Olivier. NBS's objective is to increase mortgage loans by 20% a year.

Allied expects home loans for the financial year to top R1bn from the present R956,5m by March 31, the end of the financial year, said Allied mortgages advances chief manager Len Greenfield.

The outlook for future growth this year was uncertain because an overall strategy for the new Amalgamated Banks of SA (ABSA) had still to be determined, he said.

Home loan managers expect the 1% cut in prime to boost home loans further.

The decline in the Bank rate signalled the beginning of a downward trend in interest rates this year, they said, which would have a psychological impact on home loan demand.

Short-term outlook for property 'hard to predict'

THE global recession and the Gulf war, superimposed on rapid and far-reaching socio-political developments in SA, made it extremely difficult to forecast the short-term outlook for property, Centrecity and Capital Property Funds chairman Jan Calitz said in his annual review.

Both funds have the JH Isaacs Property Group as portfolio manager and consultant.

Calitz said high interest rates were causing distress among private investors and developers, and few properties had come onto the market.

However, the level of vacancies was not alarming, and would be taken up fairly rapidly in an economic upturn.

Investment in property of all categories where leases were secured by strong tenants and at rentals not exceeding current market levels would continue to provide a safe haven for investment, protection of capital and escalating returns, Calitz said.

"Prime investment properties remain in short supply and notwithstanding that institutional investors committed a higher proportion of their resources to gilts, demand for these properties ensured that purchase yields remained fairly constant at 1989 levels," he said.

The shortage of quality stock for direct investment in property units by many institutions attracted by spread and marketability again resulted in a percentage increase of units held by institutional investors.

Costs of development continued to rise, which would ensure that the market would, in time, experience rapid rental escalations. Surplus space would be taken up and new developments would again become viable. In view of those conditions, only the "very bold" would commence speculative development in 1991, he added.

Police seek 'third man'

58

Cape Times 12/3/91

Warrants out for Old Mutual men who left SA

Own Correspondent

JOHANNESBURG. — Police have issued a warrant of arrest for a third man following the government probe into suspected irregularities in dealing at Old Mutual and the JSE.

He is London-based broker Mr Peter Rawson, who has extensive South African contacts.

An arrest warrant has been issued against him for fraud, as were warrants for the arrest of suspended Old Mutual employees Mr Marco Celotti and Mr David Schapiro.

This was confirmed in a joint statement yesterday by Old Mutual and a Cape attorney-general, Mr Frank Kahn.

Senior portfolio manager Mr Celotti, of Bishopscourt, and investment team member Mr Schapiro, of Hout Bay, left the country at the weekend.

Although the joint statement said only that the two were "out of the country", market talk was that they had gone to the Netherlands. This could not be confirmed.

The president of the JSE, Mr Tony Norton, said the warrant issued for Mr Rawson indicated a firm currency link with the alleged irregularities in dealing. A well-placed source indicated the amount involved was R6 million, but Mr Norton could not confirm this.

Meanwhile, a director of Frankel Max Pollak Vinderine (FMPV), Mr Greg Blank, and Mr Kenneth Fouche, dealing clerk with Ed Hern Rudolph, were arrested for alleged fraud on Sunday night and released on bail of R500 000 each after appearing in the Johannesburg Magistrate's Court yesterday.

They were ordered to surrender their passports and the case was postponed until June 10.

Mr Blank and Mr Fouche have been suspended from their firms pending the outcome of the investigation.

Another director of FMPV, Mr Sydney Frankel, has confirmed Mr Blank's suspension. He said yesterday that to the best of his knowledge, Mr Blank was the only FMPV employee suspected of involvement.

Only two or three FMPV accounts were involved, but this did not necessarily mean only this number of deals were involved, Mr Frankel said. The firm would give full support to the investigation.

A director of Ed Hern Rudolph, Mr Ed Hern, also confirmed Mr Fouche's suspension, but was unaware of his alleged involvement until the arrest. The firm put up a portion of the bail money.

Mr Hern said investigations at the Reserve Bank had stopped in June last year. However, JSE investigations had continued and a former Ed Hern Rudolph director was to appear before the JSE committee on Friday.

Old Mutual's chief operating officer, Mr Gerhard van Niekerk, said in a statement the company was pleased the authorities had acted swiftly.

"The authorities seemed to have made considerable progress during the first week of their investigation," he said.

Individual policy holders and unit trust investors were not affected and "the few pension funds that have been affected have been informed".

A colleague of the two suspended Old Mutual employees said both had called in regularly to ask when they could return to work.

A woman answered the telephone at the home of Mr Celotti but refused to disclose her identity.

Mr Kahn declined to comment on the investigation, but confirmed that warrants of arrest had been issued for Mr Celotti and Mr Schapiro.

Volkskas challenges the rest on rates cut

(58) Star 13/3/91

By Sven Lünsche

The key constituents in the future Amalgamated Bank of SA (ABSA) — the UBS, Volkskas Bank and Allied — are continuing their aggressive strategy to gain market share.

Volkskas yesterday announced that clients, in addition to paying lower prime and bond rates, were also eligible for an interest rate as low as 19,25 percent.

This was dependent on which of the bank's service packages they have accepted.

Volkskas' move comes hard on the heels of a decision by the UBS to lower its prime interest rate from 21 to 19,75 percent from April 2, 0,25 percentage points below the rate offered by all other banks and building societies.

The battle for market share has been particularly intense on the home loan front.

First National Bank took the market by surprise with an early cut in its bond rate to 19,75 percent a day before the Reserve Bank dropped its bank rate from 18 to 17 percent.

In addition FNB is offering an extra 0,25 percent cut in the rate to clients who have two other accounts with the bank.

FNB general manager Jimmy McKenzie said yesterday that no further cuts were planned at this stage.

Analysts said that the Allied could make a surprise move on its home loan rate and the fact that it is delaying its announcement until later this week has fuelled speculations.

Allied general manager Don Hunter commented yesterday that the group needed more time to consider its move, but added that its role in the ABSA will not influence its decision.

"This will only be relevant once Absa has been officially founded," Mr Hunter said.

In its announcement Volkskas said new borrowers are immediately eligible for a rate of 19,75 percent, while the rate on existing loans will drop by one percentage point on April 2.

Extradition unlikely in Old Mutual probe

By Helen Grange Star 13/3/91 (58)

South Africa is not likely to ask for the extradition of suspects sought in the Old Mutual investigation, says the Department of Foreign Affairs.

Two senior company officials have disappeared — they are believed to be in the Netherlands — in the wake of an investigation into alleged irregular transactions between the Old Mutual and top stockbrokers.

Marco Celotti, a senior portfolio manager at the Old Mutual until his suspension three weeks ago, and David Schapiro, a dealer in the investment department, left the country at the weekend.

Vaughan Dewing of the Department of Foreign Affairs said he was not aware of any extradition orders issued by the Department of Justice.

"In commercial crime, there has to be a watertight case against people if attempts are to be made to extradite them. They have to be more or less proved guilty before a country will arrest a fraud suspect," Mr Dewing said.

The police have issued warrants of arrest in respect of alleged fraud for Mr Celotti and Mr Schapiro, as well as a third man, Peter Rawson.

Mr Rawson, an ex-Zimbabwean, runs a Channel Islands-based broking firm called A Bradshaw.

At the weekend, police arrested Gregory Lex Blank, a director of stockbroking firm Frankel Max Pollak, and Kenny Fouche, a dealer at Ed Hern Rudolph, on fraud charges.

The two have been released on bail of R500 000 each.

Cautious nod for Melamet ideas

B/Day 13/3/91

SEAN VAN ZYL

THE Melamet Commission's recommendations regarding offshore insurance captives had been accepted "in principle", Registrar of Insurance Piet Badenhorst said yesterday.

Captive insurance companies are set up offshore by SA corporations to cater for their needs.

He added that developments regarding the captives were at "a very sensitive stage", and were a priority for the Financial Institutions Office and the Reserve Bank.

Negotiations were under way between the Registrar and Reserve Bank, Badenhorst said.

Companies assigning premiums to their own offshore-registered insurance companies as a form of self-insurance had to gain approval from the Reserve Bank.

Badenhorst said the outcome of the discussions should result in legislative action before year-end.

Industry sources suggested the authorities would not ban captives but rather tighten exchange control requirements and impose a withholding tax on premiums.

The Melamet Commission, established to probe possible misuse of offshore captives for tax avoidance and exchange control evasion, last year recommended:

- That offshore captives be brought onshore;
- Funds in offshore captives be returned to SA;
- That premiums, other than reinsurance, not be deducted before tax on income;
- That tighter requirements for registration be introduced;
- That annual returns be submitted to exchange control authorities and Inland Revenue;
- That no more than 50% of reinsurance funds be allocated offshore.

(58) (320)

The Receiver has apparently sent out circulars to companies operating offshore captives, to gain more information.

However, Barlow Rand group risk and insurance manager Des Vernon said he was unaware of such a questionnaire: "We are waiting with bated breath to see how much of the Melamet report will be written into legislation."

Some brokers may lose business as Old Mutual introduces tough controls

BDay 13/3/91

ANDREW GILL

OLD Mutual is to introduce tough new controls in its dealings with stockbrokers, some of whom may lose lucrative business.

It would soon implement a new system for dealing with brokers and "if they don't like it, the business will go to someone else", Old Mutual chief operating officer Gerhard van Niekerk said yesterday.

Although requirements for the new "quality system" have not been defined, he would soon be speaking to brokers. A new internal process of dealing would also be implemented.

Ultimately, the investigation into allegedly irregular dealings at Old Mutual and the JSE was likely to result in a "pulling up of standards" where no one was likely to get away with anything. Van Niekerk urged fellow institutions to follow Old Mutual's lead.

Frankel Max Pollak Vinderine director Greg Blank and Ed Hern Rudolph dealing clerk Kenneth Fouche have been arrested on charges of fraud and released on bail of R500 000 each. Warrants of arrest have been issued for suspended Old Mutual employees Marco Celotti and David Schapiro as well as for Peter Rawson of London.

Further information about the London link in the alleged fraud surfaced yesterday, showing the extensive links which Rawson has with SA firms and companies.

Rawson is chairman of Johannesburg-based Masterbore, a JSE-listed company specialising in drilling, and was linked with Richemont, Rand Merchant Bank (RMB) as well as Ed Hern Rudolph. He also operated his own offshore firm.

The former Zimbabwean stockbroker, resident in London, was apparently last in SA in January.

Masterbore MD Wilf Davies was emphatic that his company had nothing to do with the alleged fraud but said Rawson was still chairman of the company.

Rawson, apparently a specialist financial rand dealer, was a director of London stockbroking firm RND International until November 1989 when RMB acquired a stake in RND, RMB MD Laurie Dippenaar said in a statement.

RND was established to trade SA equities in the UK market. RMB became connected to RND in 1989 when it was involved in National Discount House's restructuring. It acquired a 45% stake in the firm. It injected £5m capital into RND, which brought RMB, Richemont and RND MD G J de Jager's collective stake to 97%.

After leaving RND in 1989 Rawson traded for his own company, A W Bradshaw. He is apparently part of Guernsey-based firm Ludgate Advisory Services.

(58)

Protea's underwriting losses at R39m as crime increases

B|Day 13/3/91 (58)

GILLIAN HAYNE

CAPE-based composite insurer Protea Assurance's underwriting losses increased to R39,55m in the year to end-December from the R1,6m loss reported in 1989, mainly due to the increase in crime, Protea MD Tony Crank said yesterday.

The group was hit by an unprecedented increase in claims which rose by 70%. The results mirrored the poor performances by other short-term insurers.

Crank said: "Crime and violence have become endemic in this country and, in some regions, one questions the validity of continuing to trade. Compounding this, intense competition for business has caused rates to drop to suicidal levels."

Premium income from the life division rose by 43,3%, and the investment income grew 8,4% to R21,2m, but the losses had to be financed from the reserves. This pulled the group's solvency margin down to 98,5% from last year's 140,5% — still above the statutory minimum of 19%.

The balance sheet remained sound, despite the operating loss of R14,6m (last year a profit of R13,6m), and attributed it to a long-adopted conservative reserving stategy.

On the strength of the free reserves, the directors declared an unchanged final dividend of 33c a share which with the 20c interim brought the total to 53c.

Earnings a share did not stand up well to the 70% rise in claims and showed a loss of 186c a share, down from 172c a share profit in 1989.

He warned business and the public would have to pay more for their insurance."While the maintenance of law and order remains in the hands of the authorities, I do believe that the impact of rate cutting now being seen on underwriting results industrywide."

Examined individually, new premium income in the short-term division rose 32% to R198,97m while premium income in the group's life division soared 43,3% to R31,36m.

On the other hand, the growth in investment division had not only been hampered by financing the underwriting deficit but also from the poor performance on the equity market.

Two other major projects — the development of a new head office and the "extensive technology upgrade" used additional financial resources.

Claims at Prosure increase by 70 pct

Star 13/3/91 (58)

By Jabulani Sikhakhane

Protea Assurance (Prosure) has reported an underwriting loss of R39,55 million mainly due to a 70 percent surge in claims in the 12 months to end-December last year, compared with a loss of R1,64 million in 1989.

But the balance sheet remains healthy with the solvency margin at 98,5 percent against the statutory minimum of 19 percent. For this reason directors were comfortable in maintaining the final dividend of 33c, despite the operating loss of R14,6 million (R13,56 million).

MD Tony Crank says the endemic crime and violence has been exacerbated by a breakdown of law and order.

"In a number of regions the validity of continuing to trade is fast becoming questionable."

Looking ahead Mr Crank says prospects for the industry were not encouraging.

"While the claims trend increases alarmingly, internecine competition has precluded insurers from adjusting rates to realistic levels."

In the review period, premium income rose 32 percent to R198,97 million and investment income increased 8,4 percent to R21,2 million.

Shareholders' share of life profits was up 29,2 percent to R557 000. The group's life division showed good growth with a 43,3 percent rise.

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March 14 1991

Banks raking in 'illegal profits'

ARGUS 14/3/91 58

R4-m uncovered, consumer body says

By SHARON SOROUR
Staff Reporter

BANKS have illegally charged hundreds of customers more than R4 million in punitive overdraft interest rates, says the Consumer Federation.

These are the results of research by the private consumer body on 200 accounts in the five months from October to March.

This follows public response to reports last year that banks were exploiting "the most unsuspecting account holders, usually prime customers".

Federation executive director Mr Karel Gevers said all banks were "clearly at fault" and regularly contravened the Usury Act, he said.

Cases where customers had been overcharged included:

- Interest rates checked on a Volkskas prime account over 10 years from 1980 to 1990 revealed the client was overcharged R368 265,17.
- Statements of a prime-plus-two First National Bank client, checked over a two-year period, showed the client was overcharged R25 876.
- At Volkskas a prime-plus-two client was charged prime plus 14,5 percent one month and prime minus 10,5 percent the next. Checking the account over eight years, the federation found the bank still owed the client R87 728,10.
- Statements of a First National prime account checked over three years showed the prime rate changed nine times, with the interest rate changing 32 times in 41 months. The client was overcharged R14 975.

Volkskas public affairs manager Mr Willie Roux said the "vague" allegations "are not new" but the matter of interest rates was not simple.

Computer system

He said: "The examples quoted by the Consumer Federation which concern Volkskas Bank can only be properly judged if we are brought fully into the picture. It is impossible to comment on specific cases where we have no more information than a vague allegation."

It was not Volkskas's intention to contravene the Usury Act and the bank was prepared to investigate any specific cases brought to its attention.

First National Bank general manager Mr Niel Swart said the bank's computer system was programmed to change all prime and prime-linked interest rates on current accounts depending on the prime rate movement.

Mr Swart said a system in the computer programme ensured that it was impossible to input rates which were in excess of those laid down by the Usury Act.

But Mr Gevers warned customers that the federation's research had shown that when interest rates went down, banks did not automatically reduce the rates on overdraft accounts.

He said: "For example, if you are a prime plus two client and the prime rate drops, banks don't see to it that you remain at prime plus two. They leave your interest and you become prime plus three, so you do not benefit."

Mr Gevers said he had personal reassurance from both President De Klerk and the Department of Finance that any contraventions of the Usury Act would be referred immediately to the attorney-general for prosecution.

"To my knowledge, no bank has been prosecuted by an attorney-general for contravention of the Usury Act."

The federation started its investigation in 1988.

Bankorp 'in talks with French bank'

BI Day 14/3/91 (58)

GRETA STEYN

BANKORP is negotiating to sell its 50% stake in International Bank of Johannesburg (IBJ) to the French bank Societé Générale — a deal made possible because of the lifting of the EC ban on new investment in SA, banking sources said yesterday.

IBJ is a small merchant bank capitalised at about R30m and with assets of about R500m, with Bankorp and Societé Générale as its major shareholders. The latter became a shareholder before the EC ban on new investment.

Bankorp yesterday confirmed it was considering disposing of its stake in IBJ as part of its rationalisation programme, but would not confirm it was negotiating with its French partner. Banking analysts said Bankorp had been prompted to consider selling its stake in IBJ because of its capital adequacy problems.

Now that the EC has lifted its investment ban bankers expect the sale to take place in about two months, after French legislation has changed to allow the deal. Sources said initial talks between the parties had taken place and would be resumed once the legal problems had disappeared.

If Societé Générale buys out Bankorp, it would be a financial rand deal. When the EC's decision to lift investment sanctions was announced in December, it was speculated the move could strengthen the finrand and hasten its end. The discount between the financial and commercial rands has narrowed to about 22% from 39% at the time of the EC announcement.

Liberty maintains excellent record

BDay 14/3/91 (58)

LIZ ROUSE

LIBERTY Life Association maintained its growth record last year with a 20,5% earnings rise, and a 23,1% increase in total shareholders' capital and reserves employed to more than R4bn.

Net taxed surplus for the year to December rose to 102,1c a share from 1989's 84,7c (restated to account for the 5-for-100 bonus capitalisation issue and 10-for-1 subdivision of ordinary shares).

This is equal to attributable profits of R218,1m (R180,5m).

Liberty's excellent performance in difficult times was foreshadowed by the increased final dividend of 54c (37,8c) declared on February 4, lifting total distribution by 36,5% to 86c (63c). In addition, a special ordinary dividend of 50c was paid last year, and a 32c interim dividend.

Chairman Donald Gordon was particularly pleased that the group achieved an R800m rise in total shareholders' capital and reserves employed (including minority interests) to R4,1bn (R3,3bn).

He added that total reserves backing policyholders amounted to R6,5bn.

Gordon said the very significant increase in shareholders' worth was attributable mainly to the outstanding growth in the value generated by Liberty Life's strategic investment holdings in the Standard Bank Group, SA Breweries (mainly through the group's 34% holding in Beverages & Consumer Industry Holdings), Premier Group and TransAtlantic, the latter investment being held through First National Trust (FIT).

The group's top 26 equity and property investments (which include Sandton City and Eastgate) totalled R12bn at the end of 1990. They comprised 80% of all equity and

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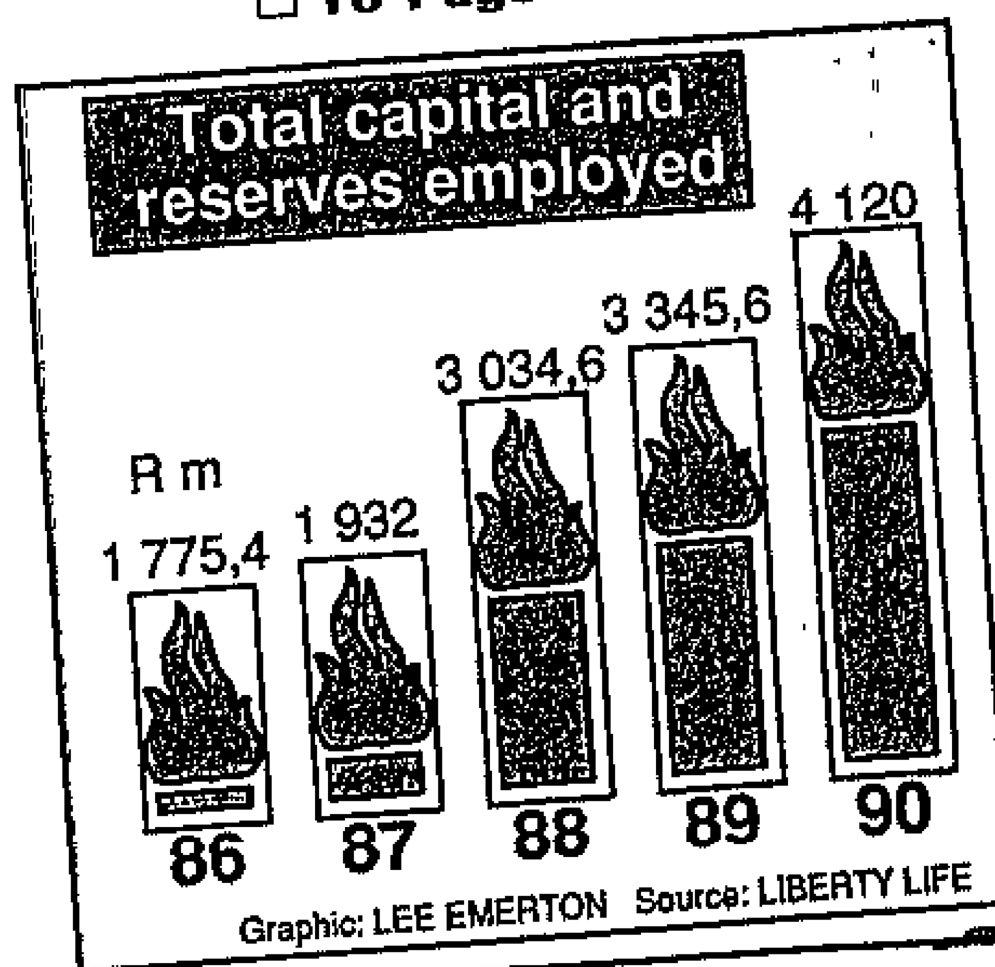

Graphic: LEE EMERTON Source: LIBERTY LIFE

Liberty

BDay 14/3/91

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property investments and 58% of all Liberty Life group investments.

Gordon said the investment performance was outstanding, surpassing that of the market, which experienced a difficult year.

The group's life funds rose to R16,6bn (R15bn). Gordon said a significant feature of a life office's progress was the growth in new annualised recurring premiums. In 1990 these totalled R409m for both individual and group business, compared with R350m in 1989. This represented a highly satisfactory performance in a particularly difficult environment.

Single premiums, including annuity considerations, generated a further R523m, compared with R662m in 1989. The decrease of R139m reflected a generally unexciting investment climate and the placing for investment management of large-scale pension fund monies directly with Liberty Asset Management.

The investment management arm's institutional and pension fund business increased by about R1bn, of which R150m was transferred directly to it from Liberty Life.

● Picture: Page 3

Liblife forges ahead

By Ann Crotty

The Liberty group shares are deservedly rated as the bluest of blue-chip investments.

Results for financial '90 show excellent advances in both earnings and dividends during a period when corporate performances in all sectors were hampered by adverse economic conditions.

These conditions were further aggravated by social and political considerations.

In the 12 months to end-December Liberty Holdings reported a 20,4 percent hike in earnings to 316,3c (262,8c) a share and paid a total ordinary dividend of 220c a share — 46,7 percent up on the previous year's 150c. (In addition there was a special ordinary dividend of 120c a share declared last August.)

Liberty Life Association increased its net taxed surplus by 20,5 percent to 102,1c (84,7c) a share in the same period and paid a total ordinary dividend of 86c — 36,5 percent up on the previous year's 63c. (There was also a special ordinary dividend payment of 50c a share.)

FIT's earnings were up 28 percent to 47,7c (37,3c) a share and declared a dividend of 20c (18c) a share.

Appropriate to the group's blue chip status, Mr Donald Gordon notes in his annual chairman's statement: "Since Liberty Holdings was first listed 22 years ago in December 1968, it has recorded each year an unbroken pattern of increases in dividends per ordinary share averaging over 25 percent per annum."

And at a time when most executives believe that sustaining nominal earnings in calendar 1991 will be a difficult task, Mr Gordon says that the group is trying to budget for growth of at least 20 percent: "We've only once dropped below 20 percent."

Mr Gordon's optimistic outlook for growth at Liberty seems not much daunted by the extreme uncertainty that is facing corporate SA. He believes that long-term growth prospects will be supported by the tremendous backing of reserves that the group enjoys, noting that shareholders' capital and reserves plus investment surpluses and other reserves at Liberty Holdings amount to R,65 billion."The group is very very strong."

Other factors that will sustain solid growth during adverse trading conditions include its history of strong premium income growth, an excellent blue chip equity portfolio and its exposure to the UK property market through FIT.

The value of Liberty Life Association's shares and mutual fund units rose by 10 percent in '90 despite the JSE's weak performance in this period. Mr Gordon's annual statement includes a list of the major investments held by the Liberty Life equity portfolios at end-December.

This is dominated by blue chips such as SAB, Stanbic, Anglo, Premier and Richemont which helps to explain the strong growth in investment income enjoyed by Liberty Life Association.

The portfolio did include some disappointments such as De Beer's and Plate Glass.

Star 14/3/91. (58)

The figures

First International Trust's (FIT) earnings were up 28 percent to 47,7c (37,3c) a share and a dividend of 20c (18c) a share has been declared.

FIT, whose main investment is an effective controlling interest in London-based property and investment holding group TransAatlantic, reported a 15 percent increase in income to R127,8 million (R110,8 million).

The interest payment remained high but little changed at R40,5 million (R40,6 million).

As Mr Gordon notes FIT's high gearing is a consequence of the constraints on capital movements from SA.

After tax, attributable income was up 14,4 percent to R66,1 million.

The balance sheet at end-December shows net asset value was little changed at R10,63 (R10,30) a share. This was despite a devaluation in some of the underlying properties. This downward valuation was in line with the prevailing conditions in the UK property market.

At Liberty Life Association net premium income and annuity considerations were up 8,2 percent to R1,929 billion (R1,783 billion). Net income from investments and sundry income rose 20,5 percent to R1,466 billion (R1,217 billion) which lifted total income 13,2 percent to R3,395 billion (R3 billion).

Net taxed surplus was up 20,3 percent at R218,4 million (R181,6 million).

The end-December balance sheet shows total shareholders capital and reserves were lifted by 23 percent to R4,1 billion (R3,3 billion).

Total assets of R21,5 billion (R19,2 billion) comprised R12,2 billion (R11,1 billion) of shares and mutual fund units; government, public utility and municipal stock of R3,51 billion (R3,56 billion) and; properties R2,79 billion (R2,34 billion).

The group also held R1,58 billion (R765 million) liquid, while R541 million (R478 million) was invested in debentures, mortgages and loans.

DEPOSIT TAKING FM 15/3/91

COUNTER POINT

(58)

Surprise is an important element in battle. On March 7, First National Bank (FNB) took the market unawares, moving before the central bank, with a one percentage point reduction — to 19,75% — in its bond rate. This aggressive step attracted headlines and scored valuable points for the bank among consumers, for leading the way down. Moreover, it couldn't have been better timed — it was followed the next day by Reserve Bank Governor Chris Stals's announcement that he would reduce the official rediscount rate by one percentage point to 17%.

As usual, when this official rate falls, market rates move in line. So banks cut the prime rate at which they lend to their best borrowers by one percentage point to 20% and, with it, a range of prime linked rates.

But United Bank went one step further. Since inception, it has held its prime 0,25% below the rest of the market. It continues to keep this margin, offering prime of 19,75%.

Piet Badenhorst, CE of holding company UBS, is doing to the banks what they did to him when they entered the home loan market at end-1986. With tiny books, they could afford to compete on price to build market share. Building societies, with their massive mortgage portfolios, were unable to keep ahead on interest rate reductions.

Now United, with a comparatively small loan portfolio priced on prime, is buying its way into this market.

But the other big players will allow United to maintain this edge only until they perceive it as a threat in the overdraft market. "It's unlikely any major competitor will be able to maintain a pricing advantage," says Standard Bank's Manfred Schütte.

continue →

FM 15/3/91 (58)

If rates charged to borrowers are to be held down by competitive pressure, there will be a big squeeze on banks' margins.

Further reductions in the official rediscount rate are not expected for months, nor are they expected to be of the order experienced in 1985-1986 (**see *Leaders***). So cost of funds will remain high.

In this environment, institutions may try to boost other sources of revenue, such as fees and commissions, because direct comparisons on this score are more difficult to make. However, wary consumers may force them to trim margins in these areas as well.

Banks and building societies are now all operating within one legislative framework. United, once the biggest building society, is about to take advantage of this, merging bank and building society as United Bank. This follows success in creating a mega-group together with Allied, Volkskas and Sage Financial Services.

Secure in a comfortable retail base, United still has to work its way into the corporate market.

Banks already established in this area say there is no immediate danger from the newcomer as "UBS doesn't have the systems that corporates need."

With the second largest society, the Perm, already part of Nedcor and Saambou doing a deal with insurance company Fedsure, involving issue of R55m in convertible debentures to Fedsure subsidiary Fedlife, this leaves only the smallest society NBS retaining its orginal guise.

Without the budgets at the disposal of the big deposit-takers, this organisation has a comparatively low profile.

"However," says NBS's Trevor Olivier, "our results speak for themselves. We have been very successful and have been gaining market share. Without the budgets we have to find other ways of securing new business."

Ethel Hazelhurst

JSE PROBE (S8) FM 15/3/91

CLOSING THE NET

For many years the deterrent value of a major and successful case against investment malpractices — such as insider trading — has been absent in the local financial community. That may be about to change.

After weeks of rumours the swift arrests made this week by the high-powered team investigating activities at certain broking firms and the Old Mutual have left both brokers and institutions in no doubt about the magnitude of the case. It is expected to trigger an extensive reappraisal of share dealing procedures — and not only at the organisations already named in connection with the case.

As the investment manager of a leading assurer points out, should collusion occur between dealers in trusted positions in institutions and dealers in other firms, possibly even abroad, it may be extremely difficult to prevent malpractices, whatever systems are in place. Even so, most institutions will now be reassessing their systems and relationships with brokers.

Old Mutual CEO Gerhard van Niekerk says: "We will be reviewing all our relationships with broking houses. We have quality requirements and expect zero defects. We will be talking to everybody we do business with to make sure proper standards are in place. It seems we have got to be explicit rather than implicit."

It remains unclear whether material losses — as opposed to opportunity costs — have in fact been suffered by pension funds, policyholders or other investors. Nor is it known how large any such losses may turn out to be.

Van Niekerk points out that any losses that may be substantiated in the case of pension funds administered by Old Mutual would be covered either by reinsurance or from the Mutual's contingency reserves. These reserves, of course, also ultimately belong to policyholders, but are large — though the size is undisclosed — and the effective cost to policyholders would be "insubstantial, not an issue."

Authorities investigating the case have produced results more rapidly than many had expected. That has prompted speculation that the team has encountered useful co-operation, though it may also reflect the size and efficiency of the investigating team led by Attorney-General Frank Kahn. The JSE's 12-man inspectorate is also fully involved. So, too, is General Nollie Hulme, head of the commercial branch.

Kahn simply confirms that two Johannesburg stockbrokers, Greg Blank, a director of Frankel, Max Pollak, Vinderine, and Kenny Fouché, an authorised clerk at Ed Hern, Rudolph, have been charged with fraud. Also, warrants of arrest have been issued in respect of two Old Mutual employees who were earlier suspended, Marco Celotti and David Schapiro, as well as a London-based broker, Peter Rawson. All three are now "out of the country."

Kahn declines to comment on the extent of the investigation, or on the scope and activities of the investigating team, but he emphasises that "every effort will be made to bring to justice those who have placed themselves beyond the reach of the law."

Blank and Fouché have been charged with fraud, a broad charge that could include a range of activities from insider trading to exchange control irregularities such as round-tripping through the financial rand. While the exchange control aspect would presumably be relevant, given the known international link, the more common assumption is that the probe centres on front-running activities, a form of insider trading.

Old Mutual's Van Niekerk ... *reviewing relationships*

The two were arrested early on Monday and were released on bail of R500 000 each, a figure which reflects the standing of the individuals involved as much as the magnitude of the case. The hearing was remanded until June 10.

Sydney Frankel, CE of Frankel, Max Pollak, Vinderine, says that, to his knowledge, nobody else in his firm is involved. He adds that the firm is co-operating fully.

Ed Hern, senior partner of Ed Hern, Rudolph, says he does not believe these activities investigated at his firm relate to financial rand irregularities, such as those which cost the firm R8m last year. Hern confirms that the firm put up the bail money for Fouché (42), who, Hern says, has not had an extravagant lifestyle. "When we lost money last year we asked for contributions from members and the staff," says Hern. "Kenny sold his car and lent us money."

Blank (32) had responsibility for running Frankel's institutional dealing desk and he also managed numerous private client accounts. As a top dealer in one of the JSE's largest firms, his annual remuneration package, including commissions, would certainly have been high.

Rawson is a former Zimbabwean broker who was known in Johannesburg but moved to London in the early Eighties. In about 1984, Hern opened a London office and, after the first two months, Rawson, who had cultivated contacts in the London financial community, was asked to run it. Hern says this arrangement lasted for three months, at which stage the firm decided the office was not a proposition. It was then run for some time as a small listening post under former SA broker Dave Burnham.

In 1988, Rawson, in partnership with National Discount House of SA (NDH) established RND International in London to trade SA equities on the UK market. That May the firm was admitted as a member of the UK's International Stock Exchange. According to Rand Merchant Bank (RMB) MD Laurie Dippenaar there was a restructuring in 1989 which resulted in RMB acquiring NDH's 45% interest in RND. Capital was injected by RMB, Richemont and Geoff de Jager, who together acquired a 97% shareholding in RND.

Rawson resigned as a director of RND in November 1989 and has continued his business activities in the name of his own company, A W Bradshaw. The Hern office was closed completely when Burnham was hired by RND during its expansion.

Kahn remains tight-lipped except to say that the public should be wary of rumours. He reaffirms that the case is *sub judice*. Whether there will be further arrests remains an open question.

In any event, if it does turn out that the matter involves any form of insider trading, this will be a test for the new legislation which came into force with the advent of the Securities Regulation Panel. There has yet to be a prosecution in SA for insider trading, largely because of the difficulty of obtaining adequate evidence.

There are now tough new penalties, including fines of up to R500 000, or imprisonment of up to 10 years, or both. Claire Herbst, MD of Ernst & Young Corporate Advisory Services (Pty), notes in a booklet just published on the panel, that prosecution in cases of insider trading has been facilitated by shifting the onus of proof in certain instances. Offenders can now be more readily prosecuted and face significantly stiffer penalties. Also, any person who contravenes the criminal provision of Section 440F of the Act can be held liable under civil law for loss or damage suffered by the other party.

In effect, the penalties now bear some relationship to the profits that insiders can make on such dealings, and thus might act as a deterrent. But they are not necessarily as stringent as those applied abroad. In the US penalties of up to three times the illegal profits can be imposed; in the UK there is no limit to the fine. Still, a successful case could have a lasting impact.

Andrew McNulty

FOX FM 15/3/91 (S8)

Continue →

FM 15/3/91

MORTGAGES

DELAYED ACTION

While bond rates may have turned the corner, there's still a long way to go before they do any more than provide home owners and buyers with a morale booster.

Estate agents, while expressing pleasure at the decisions of lenders like FNB, Standard, and the Perm to drop their mortgage rate by about 1%, believe rates are still too high to induce any real boost to property sales.

Property economist Erwin Rode says the miniscule drop in mortgage rates will have "zero" impact on property prices. "Interest rates don't have a short-term effect on house prices. It will, however, slightly boost the actual number of property transactions."

He says the small decline in rates is more of a symbolic gesture than anything material for home-owners or buyers. He points out that, though the residential market is more buoyant than other sectors, he goes on to draw attention to Reserve Bank Governor Chris Stals's warning that the easing of rates is not the beginning of a big rates slide. "Stals is committed to being led by the rate of inflation, so any decline is likely to be gradual at best. It is quite possible that the worst is still to come, because most economic indicators lag interest rates. On that basis, this is not the beginning of a residential property boom," he cautions.

FM 15/3/91

Nevertheless, Interciti's Moira Wingate-Pearse says activity at show houses in Sandton was very lively last weekend with the exception of areas near strife-torn Alexandra. Some properties had 20 to 25 visitors. Randbuurg was also busy, though not as brisk as Sandton. "I'm sure this was related to the promise of lower bond rates," she says.

Pearse concedes, however, that the impact of fractionally lower bond rates will have minimal real influence on buyers other than those who have been vacillating. "Obviously everyone has been holding back in anticipation for a drop in interest rates, but, at this stage, the impact is likely to be more psychological than tangible. The real impact will be when the economy picks up and that won't happen overnight."

Status Mark's MD Graham Lesch concurs: "This reduction in the mortgage rate will do little for the pocket of the man in the street, but it will have a positive psychological effect on the property market in general."

He adds that house prices will probably stabilise and any further rate reductions later in the year could trigger the next upward movement in prices.

Aida Geffen, of the Aida franchise, believes bond rates will have to drop to about 14%-16% before it beneficially affects affordability. "The high bond rates are still putting property ownership out of the reach of most people and many people are buying down in order to stay in the market and have some extra cash for day-to-day living.

"I would only be optimistic if I thought this was the first step in a significant decline in rates. If it stays like this for the next two years then it won't help the people who really need it." ■

Financial Mail

THE OLD MUTUAL SCAM (58) FM 15|3|91.

WHERE DOES THE BUCK STOP?

For many years mutual assurance companies have liked to boast of the superiority of that type of structure. Look, they have said, we have no shareholders: all the profits and capital gains we make go entirely to the policyholders who own us, with no rapacious shareholders to lick off the cream.

Ah, proprietary companies have responded, but because we have shareholders we are under even greater pressure to maximise returns. Anyway, we can't sell products unless they're competitive; so we have to work even harder to satisfy both sets of stakeholders. And our shareholders make sure we run a tight ship.

The developing saga revolving around alleged irregularities by fund managers at the Old Mutual (**see *Fox***) adds a new perspective to this debate. And though the Mutual is trying to emphasise that the sums involved are small — in which event the Kahn inquiry looks like crushing a butterfly on a wheel — this does not affect the principles.

It is all very well to say that any losses to pension funds managed by the Mutual will be made good from the assurer's reserves. Fact is, Mutual has no reserves that do not ultimately belong to the broad body of policyholders. So all the promise means is that the loss will be spread among a wider population.

Not only does a mutual assurer have no separate reserves attributable to shareholders to bear such losses, the question must also arise whether it has any pressure group capable of exerting the necessary discipline — even, maybe, exacting the appropriate retribution — on top management.

The effective power of minority shareholders in the average listed company is weak enough, but it is infinitely stronger than policyholders' in the face of self-perpetuating mutual assurance governing oligarchies. The inherent nature of such bureaucracies is to close ranks defensively at a time of crisis and protect its own.

The Mutual's assurances that it will not condone any cover-up are appropriate and timely, and may be all that it can say at the moment, but will not suffice for ever.

The JSE's claims that it was the first to tip the Mutual off to possible irregularities are also all well and good, but must not be allowed to whitewash that body either. The fact is that any fraud there may have been could simply not have been executed without the existence of the JSE as an institution.

It is not good enough for responsible institutions to seek to minimise the scale of the investigation and hide behind that hoary excuse, *sub judice*. Unfortunately, 1991 has not, so far, been a particularly good year for capitalism in SA. In the transition to a New SA we must be doubly vigilant; and not only must justice be done, it must be seen to be done. ■

Guardian's results fall foul of crime

B/Day 15/3/91 (58)

SEAN VAN ZYL

SHORT-term insurer Guardian National Insurance's underwriting performance dropped R23,3m and fell into the red in the year to end-December, reflecting a trend in an industry plagued by escalating crime.

The 40% rise in the company's net value of claims resulted in an underwriting loss of R14m compared with the previous year's R9,2m profit.

Guardian's underwriting loss comes in the wake of losses suffered by Protea Assurance, SA Eagle and Commercial Union. Only Mutual & Federal has recorded an underwriting profit in its latest results.

Guardian MD Keith Nilsson said premium rates would definitely have to be reviewed in the current year to correct this underwriting performance.

The company's taxed profits dropped by 11,4% to R26,6m (R30,1m), largely aided by a lower tax rate of 13,4% (33,7%).

Nilsson said the lower tax rate resulted from the higher level of dividend-earning investments the company had moved into. The transfer of funds into the contingency reserve required by insurers also came out of pre-tax income.

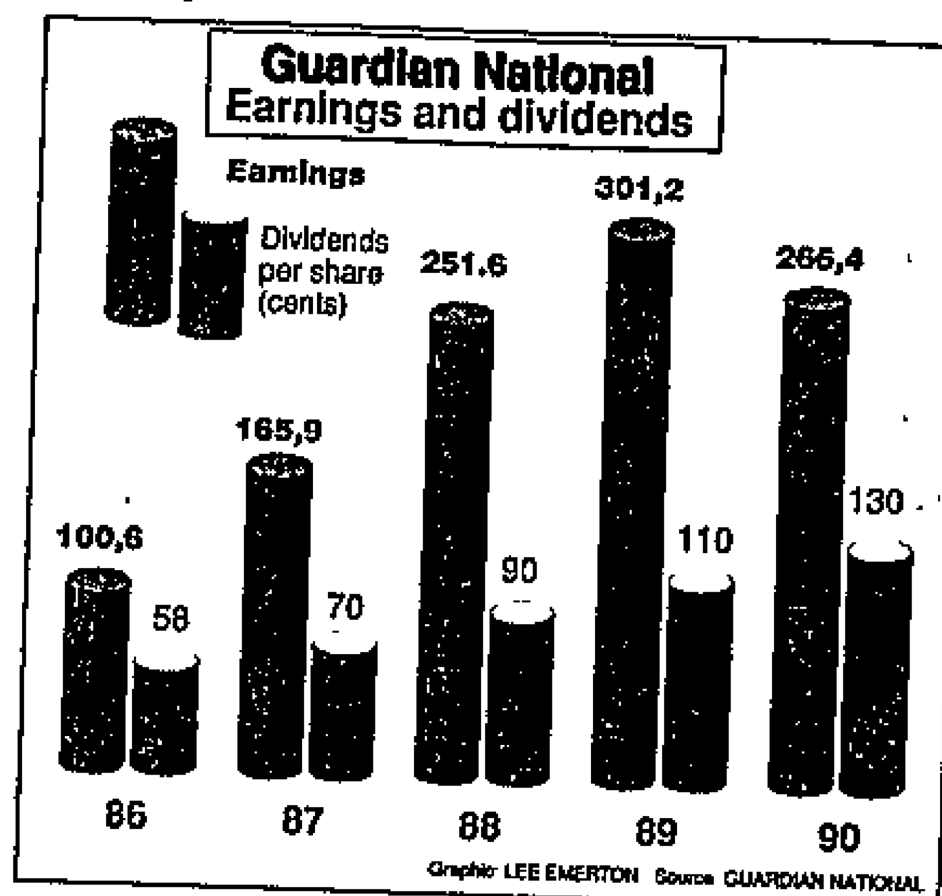
Guardian's contingency reserve level of 4% of net premiums was in line with official requirements.

Guardian's distributable income of R17,6m (R17,9m) also compared favourably with the previous year as the loss incurred through its investment in Charter Life (1989's extraordinary item of R6,2m) was not reflected on the income statement.

Earnings fell to 266,4c from 301,2c a share. However, a final dividend, 15,3% higher at 75c (65c) a share was declared bringing the total to 130c (110c). The company's dividend cover still remains fairly high at 2,04.

Nilsson said that, based on the international formula Guardian's solvency margin had fallen seven percentage points from 73% to 66%.

He added that the poor underwriting experience resulted from the increase in crime. Guardian's "property" account also suffered significant underwriting losses through higher incidence of fires and engineering claims.



JSE gags members on Old Mutual probe

By Ann Crotty Star 15/3/91

At an emergency meeting yesterday afternoon all senior partners and senior directors of the JSE were informed that they were not permitted to make or give comments to the public relating to the investigation that is being led by the Cape attorney-general Frank Kahn.

Mr Kahn is investigating alleged irregular transactions conducted between the Old Mutual and some JSE stockbrokers. Last weekend two brokers were arrested on charges of fraud. They were released on bail of R500 000 each on Monday.

In addition warrants were issued for the arrest of two Old Mutual employees who were suspended three weeks ago.

The two employees Marco Celotti and David Schapiro left the country before the warrants could be served on them.

Mr Kahn has in effect subpoenad the JSE's Inspectorate department to work as part of his investigation team. This means the JSE will not be able to complete its own investigation into the matter, but will have to await the outcome of the attorney general's findings.

This morning's hearing into foreign exchange losses suffered by stockbroking firm Ed Hern Rudolph last year has been cancelled as a result of this decision by Mr Kahn.

This latest move is not the only sign that the authorities are getting tough on the whole issue.

Brokers report that the Inspectorate Department has issued a number of warnings recently that have been designed to tighten up controls and leave no uncertainty about the types of transactions that are unacceptable.

On March 6 a warning was issued to broking firms that parties involved in "fictitious" transactions would be dealt with severely.

On Wednesday another warning was issued stating that brokers/traders involved in "middling", "accommodating" or taking a turn for their own private accounts would be dealt with severely.

"Fictitious" transactions occur when a price is manipulated without underlying trade in the share to support the change in price. "Middling" and "accommodating" relate to the use of a number of friendly brokers to churn shares through before on-selling to a captive institutional investor.

Guardian reports underwriting loss

By Sven Lünsche

The results of short-term insurer Guardian National Insurance reflect the soaring crime levels and higher claims experienced by all its major competitors.

Guardian yesterday reported an underwriting loss of R14 million in financial 1990, a R23 million turnaround from a surplus of R9,2 million in 1989.

A R70 million rise in gross premiums to R501,4 million (R423,2 million) was more than offset by a steep rise in the net value of claims over the year.

The underwriting loss was cushioned somewhat by a 24 percent rise in investment income to R44,9 million (R36,2 million) and a substantial drop in tax payments to R4,2 million (R15,4 million).

Earnings subsequently declined only slightly by 11,6 percent to 266,4c (301,2c) a share. A total dividend of 130c (110c) was declared for the year.

Commenting the directors said the dramatic increase in the level of crime had caused a major deterioration in both the domestic and commercial areas of the group's business.

The property account also suffered underwriting losses as a result of higher fire and engineering losses at a time when premium rates were under pressure from severe competition.

Bank charges illegal - report

Sowetan 15/3/91

BANKS have illegally charged hundreds of customers more than R4 million in punitive overdraft interest rates, says the Consumer Federation.

These are the results of research by the private consumer body on 200 accounts in the five months from October to March.

Federation executive director Mr Karel Gevers said all banks were "clearly at fault" and regularly contravened the Usury Act.

Interest rates checked on a Volkskas prime account over 10 years from 1980 to 1990 revealed the client was overcharged R368 265,17.

Statements of a prime-plus-two First National Bank client, checked over a two-year period, showed the client was overcharged R25 876.

At Volkskas a prime-plus-two client was charged prime plus 14,5 one month and prime minus 10,5 the next.

Checking the account over eight years, the federation found the bank still owed the client R87 728,10.

Statements of a First National Bank prime account checked over three years showed the prime rate changed nine times, with the interest rate changing 32 times in 41 months. The client was overcharged R14 975.

Interest

Volkskas public affairs manager Mr Willie Roux said the "vague" allegations "are not new" but the matter of interest rates was not simple.

He said: "The examples quoted by the Consumer Federation which concern Volkskas Bank can only be properly judged if we are brought fully into the picture.

"It is impossible to comment on specific cases where we have no more information than a vague allegation."

It was not Volkskas' intention to contravene the Usury Act and the bank was prepared to investigate any specific cases brought to its attention.

First National Bank general manager Mr Nielcorr Swart said the bank's computer system was programmed to change all prime and prime-linked interest rates on current accounts depending on the prime rate movement.

Swart said a system in the computer programme ensured that it was impossible to input rates which were in excess of those laid down by the Usury Act.

Gevers warned customers that the federation's research had shown that when interest rates went down, banks did not automatically reduce the rates on overdraft accounts.

FW DE KLERK

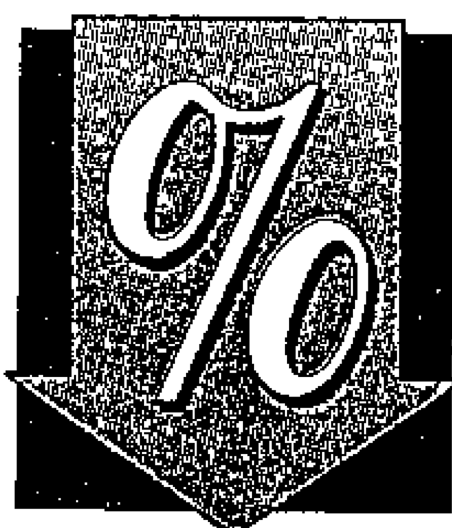
He said: "For example, if you are a prime plus two client and the prime rate drops, banks don't see to it that you remain at prime plus two. They leave your interest and you become prime plus three, so you do not benefit."

Gevers said he had personal reassurance from both the State President and the Department of Finance that any contraventions of the Usury Act were immediately referred to the attorneys-general for prosecution.

INTEREST RATES FM 15/3/91

INTO THE WIND (58)

MONETARY POLICY REMAINS ON COURSE, BUT IT IS CHANGING TACK



Talking of slides — in the previous recession, a 21,75% peak in the rediscount rate in January 1985 was followed by a tumble to 9,5% by December 1986. The first decline, of one percentage point, came in May 1985. The next three moves came at intervals of less than a month and the rest followed within four to six weeks of each other.

This free fall in the rate at which the Central Bank accommodates the banking sector is unlikely to be repeated now.

Having held the rediscount rate at 18% for 17 months, before announcing a one-percentage-point fall from March 11, Reserve Bank Governor Chris Stals is unlikely to reduce it again for a while. One indication that he will keep a tight grip on the money market is that he has cut the guidelines for growth in the broad money supply aggregate M3 from the previous 11%-15% to 8%-12%. Another indication is his insistence that the decision "should not be interpreted as a sign of any progressive relaxation in monetary policy and should not create the expectation of any premature reduction in interest rates."

To Stals, "premature" means cutting rates for the wrong reasons — such as political pressure — which happened all too often under earlier economic stewardships.

Consistency is Stals's strong suit and now even the markets take him at his word. Having guessed wrong on several previous occasions, institutions which fund themselves in the money market are looking for another fall no sooner than the second half of this year. Thereafter, they hope the situation may allow further declines.

Ken Russell, who heads First National Bank's treasury, suggests another 1%-2% by year-end and 2%-3% in 1992. This is reflected in the rates FNB quotes on certificates of deposit — six-, nine- and 12-month. Their yield curve is negative — 17,1%, 17% and 16,95% — as it has been for many months.

But "the Reserve Bank will require visible evidence of a real decline in the rates of increase in the producer and consumer price indices before taking a next step towards lower interest rates," says Stals.

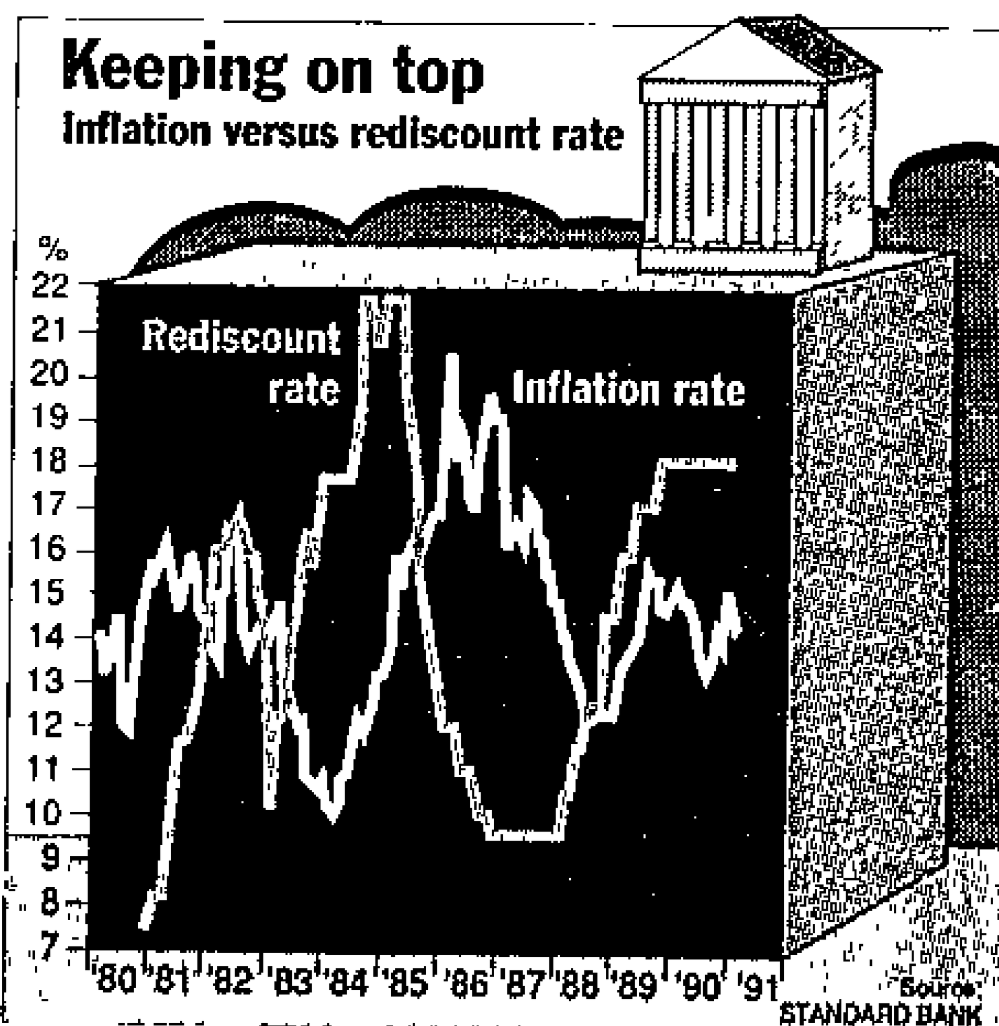
What are the chances that "visible evidence" will be forthcoming?

The *rate* at which producer and consumer prices are rising is again falling — marginally — after a resurgence late last year. Rand Merchant Bank economist Rudolf Gouws is confident that the offical inflation rate will decline two percentage points to 12% by the end of the year.

Still uncertain is what the redistributive effect of recent wage increases towards lower-income groups is doing to the propensity to consume. The poorer the homes which receive additional income, the more likely it is to spill over into the economy. Until the third quarter of 1990 (the latest available figures) private consumption spending hadn't stopped rising, despite the downturn in the economy, which started in the second quarter of 1989.

Figures due later this month will show whether this trend continues or whether the recession is finally reining in demand.

At least there should be some relief on the supply side now the war in the Gulf is over. Reserve Bank economics chief Jaap Meijer points out that the oil price is far lower than expected a few months ago — so fuel price increases will no longer put pressure on producer prices. Though Opec may try to orchestrate a cut in oil production, it is unlikely to succeed. Unless Saudi Arabia makes massive cuts in production, oil could fall to US$10-$12 a barrel within months. Cutbacks in Saudi Arabia — or any Gulf state — are remote, as they need to generate revenue.



Another crucial measure is the year-on-year growth in money supply, which is closely linked to the rate at which credit is extended. The latter showed signs of recovery (*Economy* March 8) in November-December — but largely for technical and seasonal reasons. The January figure will be much lower and Standard Bank treasury head John Lloyd believes the combined December-January figures will show an acceptable level of growth.

Money suppy growth, however, arises not only from credit creation but also from an increase in gold and foreign reserves (provided there are willing holders for the money created in this way). As these reserves continue to improve (see *Economy*) any further deceleration in M3 growth depends on increases in credit creation remaining modest.

Will the fall in interest rates stimulate credit demand? Standard Bank group economist Nico Czypionka says no. "One has to take into account economic inertia. Just as a rise in interest rates does not dampen credit demand immediately, falling lending rates will not lead to a quick strengthening either. In fact the growth rates in bank lending will continue to fall for a number of months."

Meijer

He sees the new money supply guidelines as being within easy reach. Meijer agrees. "There may even be an initial small decline in demand for credit because less interest is being capitalised."

What may increase bank lending, according to Meijer, is the R1bn reduction in the cash reserve requirement. "Lower cash requirements reduce the cost of bank funding and allow banks, in principle, to offer somewhat better rates either to borrowers or to depositors — which will narrow margins and encourage reintermediation."

This would feed into money supply figures. However, future reliance on money supply figures as an economic indicator will have to take into account that repurchase agreements not reflected in the money supply will be switched into deposits, which are. But for the moment, says Meijer, the Reserve Bank has no plans to revise historic statistics to make them comparable. "We are watching developments," he says. If distortions prove a problem, the Bank could choose another aggregate to monitor — possibly M3+, which would add repurchase agreements held by nonbanks to the historical and present M3 figures.

If the one-percentage-point reduction in the rediscount rate is not expected to affect intermediate targets significantly, the crucial question is what will it do for growth.

On its own, nothing, says Gouws. "The reduction is a reflection of poor growth in the past and part of the preparation for the eventual reversal of the downswing." A point which Czypionka also stresses.

As proverbial wisdom has it, interest rates are like a piece of string. They can be used to pull back demand but are powerless to push it. This was shown in 1986 when negative real interest rates failed to revive demand and growth in M3 stuck well below the

THE OLD MUTUAL SCAM (58) FM 15/3/91.

WHERE DOES THE BUCK STOP?

For many years mutual assurance companies have liked to boast of the superiority of that type of structure. Look, they have said, we have no shareholders: all the profits and capital gains we make go entirely to the policyholders who own us, with no rapacious shareholders to lick off the cream.

Ah, proprietary companies have responded, but because we have shareholders we are under even greater pressure to maximise returns. Anyway, we can't sell products unless they're competitive; so we have to work even harder to satisfy both sets of stakeholders. And our shareholders make sure we run a tight ship.

The developing saga revolving around alleged irregularities by fund managers at the Old Mutual (**see *Fox***) adds a new perspective to this debate. And though the Mutual is trying to emphasise that the sums involved are small — in which event the Kahn inquiry looks like crushing a butterfly on a wheel — this does not affect the principles.

It is all very well to say that any losses to pension funds managed by the Mutual will be made good from the assurer's reserves. Fact is, Mutual has no reserves that do not ultimately belong to the broad body of policyholders. So all the promise means is that the loss will be spread among a wider population.

Not only does a mutual assurer have no separate reserves attributable to shareholders to bear such losses, the question must also arise whether it has any pressure group capable of exerting the necessary discipline — even, maybe, exacting the appropriate retribution — on top management.

The effective power of minority shareholders in the average listed company is weak enough, but it is infinitely stronger than policyholders' in the face of self-perpetuating mutual assurance governing oligarchies. The inherent nature of such bureaucracies is to close ranks defensively at a time of crisis and protect its own.

The Mutual's assurances that it will not condone any cover-up are appropriate and timely, and may be all that it can say at the moment, but will not suffice for ever.

The JSE's claims that it was the first to tip the Mutual off to possible irregularities are also all well and good, but must not be allowed to whitewash that body either. The fact is that any fraud there may have been could simply not have been executed without the existence of the JSE as an institution.

It is not good enough for responsible institutions to seek to minimise the scale of the investigation and hide behind that hoary excuse, *sub judice*. Unfortunately, 1991 has not, so far, been a particularly good year for capitalism in SA. In the transition to a New SA we must be doubly vigilant; and not only must justice be done, it must be seen to be done. ■

SANCTIONS FM 15/3/91

SPEAKING IN TONGUES

Remember Chris Heunis? Apart from being John the Baptist to P W Botha in the Wilderness, he — like a former Bishop of Grahamstown — had the rare ability to speak in tongues. Neither, in their respective fields of inspirations, was particularly lucid.

Nor, unhappily, are the various spokesmen of the ANC on such matters as cultural policy, freedom of speech, nationalisation of productive assets and, of course, economic sanctions. Indeed, we have the impression (**see *Current Affairs***) that the vocally nimble ANC leadership is at such odds with those of its illiterate members (who predominate) that it feels it cannot afford to be either candid or consistent.

A few weeks ago in its official journal *Mayibuye* ("Freedom" for the uninitiated) it revealed a major policy shift over nationalisation in the guise of an article setting out the advantages and disadvantages of such a policy. In the March edition it takes a similar look at trade sanctions and the sports boycott. And, guess what.

It's against them provided that their removal helps "the process of ending apartheid."

The cultural boycott is a different matter. The comrade commissar in charge wants to exercise discretionary control. There will be no backsliding or equivocation in that area. What the Commissar Poet says goes.

The *FM*, which has argued consistently that the ANC would regret its advocacy of sanctions, has long awaited the day of atonement. And this week it appears to be at hand.

High Priest of liberation theology, SA Council of Churches' Frank Chikane, and ANC exiles repatriation officials have been asking — with extraordinary effrontery — US businessmen and the American Chamber of Commerce to find jobs for returning exiles.

These are men from the very organisations that hounded scores of US companies out of this country in recent years and who have contributed in no small measure to the instabilities and strife that have scared off foreign investors from the new SA.

The fact that Chikane and his ANC comrades believe that the Americans, after such a drubbing, are willing — let alone capable — of suddenly providing jobs is sad testimony to their ignorance of how employment is created and how the economy works in general.

For all the sense that he must be making to the Americans, Comrade Frank might just as well be speaking in tongues, like Chris or the Bishop. He would have done better to have led a prayer meeting. ■

target 16%-20%. Twelve-month growth in this aggregate was 9,3% that December.

"But eventually," says Meijer, "the string stiffens and effects are felt after the usual lags in effect of monetary policy measures."

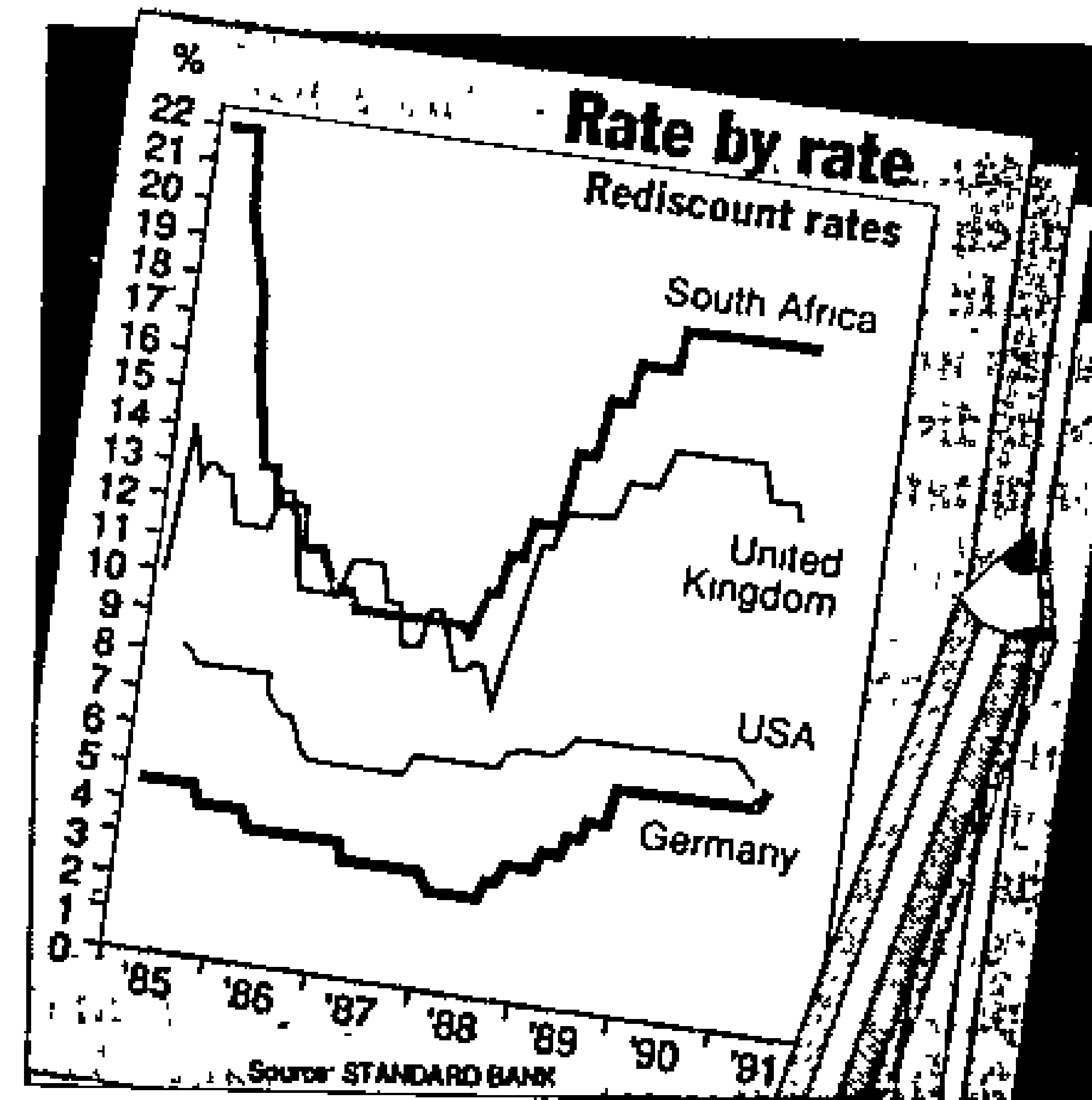
The move in the rediscount rate will have an important positive impact on confidence, Czypionka says, "because it demonstrates rates can also go down."

So its immediate value is psychological.

Eventually this will translate into something more practical. "The first effect," he says, "will be on the cash flows of individuals and farmers. Companies have cash flows and their financing costs can be passed on in some way. But the farmer who has to pay for his crop or the individual who has to pay off a house is directly exposed to any increase in the rate. Therefore they are the first to benefit when rates go down."

Czypionka points out there will also be losers — "those who depend on interest income. But the net effect of declining interest rates is an improvement in growth prospects." The process is gradual.

Fortunately, says Meijer, a number of other factors are in place which "may help take us to the turning point in the economic cycle more rapidly." The end of the Gulf War has set the scene for a recovery in international equity markets, which has already reached the JSE. It has also brought a



revival in the international economy closer. At the same time, falling interest rates in the US and UK **(see graph)** will allow those economies room to expand. The combination should improve commodity prices and therefore the prospects for major SA exports.

On the domestic front there are also positive inputs. According to Econometrix's Azar Jammine, these include comparatively healthy debt-equity ratios, a record low level of inventories and the easing of economic sanctions — meaning renewed access to lines of credit from abroad. "One has to see any fall in interest rates in the context of the business environment. And in this case we are likely to see the results of the fall towards the end of the year."

Another important factor working for recovery is the very resilience in consumer confidence which causes anxiety about inflation. Jammine says: "Despite growing unemployment and the continuing violence, consumer confidence hasn't been crippled. So we may have seen the worst of the recession without a total breakdown in law and order."

While the series of interest rates reductions which took place in the last recession was not able to revive demand for quite some time, reductions this time round may fall on more fertile soil. And the salutary application of discipline may prevent an automatic rebound into the boom-bust cycle.

"The economy's Achilles heel," Meijer stresses, "is the strength of the inflation mentality. Inflation expectations are deeply rooted, easily rekindled and easily reinforced. An increase in monetary demand may then dissipate itself in higher wages, higher prices and higher wages again. A large part of the risk, to us, of the Middle East crisis was that it would again make the man in the street doubt the effectiveness of our policies to curb inflation."

With this disruption behind us, monetary discipline will presumably be used to dispel these doubts. ■

FINANCIAL SERVICES (58)

CURBING PREDATORS

Raping a pension fund is being made more difficult for the takeover specialists. The Financial Institutions Amendment Bill coming before parliament is intended to close the door to predators.

It is mostly concerned with good housekeeping. Provisions flow mainly from changes to other legislation and it accordingly amends a number of clauses in existing Acts. FM 15/3/91

An amendment to Section 14 of the Pension Funds Act is of great significance to present and future pensioners. An explanatory note records: "In the case of the amalgamation and transfer of a pension fund, as well as (in the case of) the report by a valuator on the financial condition of a pension fund, provision is being made for the recognition of the reasonable benefit expectations of persons in respect of whom a pension fund has liabilities."

Stripping pension funds reached almost endemic proportions in the US (where tax legislation makes these targets attractive) but it has also occurred often enough in SA to make the authorities wary. In these cases, company A has targeted company B which has a sound fund in surplus. The staff of company B are redistributed through the new parent group and assigned to other funds. Finally, company B's fund has only one member — the nominee of the predator.

In the past, this would be legal, as the predator would have studied the pension fund rules and taken full advantage of them. Trustees would, in most cases, be employer nominees with little opportunity to object.

In future, if the amendment is passed, the valuator of the fund will have a new responsibility. Provision for "reasonable expectations" means that he can report to the Registrar if there is any reason to suspect a member is being prejudiced.

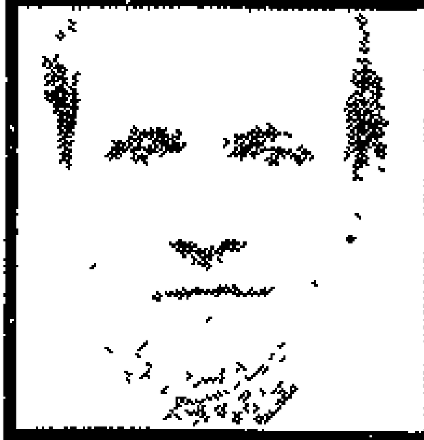
That goes beyond "active" members. If a pensioner has been accustomed to receiving increases — typically a fund will declare increases equivalent to 66% of CPI — that will become a reasonable expectation. It may not be in the rules but the valuator will create that expectation as a liability. ■

Advantages of a bond-rate cut

Star 16/3/91. (58)

Money Matters

MAGNUS HEYSTEK



Review Intervals Years	Balance Outstanding On Conventional Home Loan R	Value of Unit Trust Investment R	Balance of Home Loan R	Net Position R
3	(99 398)	3 677	(100 000)	(96 322)
6	(98 315)	10 344	(100 000)	(96 322)
9	(96 366)	22 432	(100 000)	(88 567)
12	(92 859)	10 344	(100 000)	(96 322)
16	(86 545)	84 090	(100 000)	(15 909)
18	(75 182)	156 143	(100 000)	56 143
21	(54 731)	286 786	(100 000)	186 786
24	(17 924)	523 658	(100 000)	423 658
25	0	639 536	(100 000)	539 536

WITH most mortgage rates now down by 1 percentage point to 19,75 percent many homeowners must surely have worked out what the reduction in the bond rate would save them per month.

To many people the reduced monthly repayments might seem insignificant, but by maintaining payments at the old level the bondholder can actually save several hundred thousands of rands.

Take for example a home-owner with a bond of R100 000 repayable over 25 years. At an interest rate of 20,75 percent the monthly repayments are R1 739. At the new rate the repayment drops to R1 659 per month, a saving of R80 per month.

Maintaining repayments at current levels is equivalent to a tax-free investment of 19,75 percent. Assuming that interest rates remain constant over a period of ten years the homeowner will have reduced the outstanding capital by about R30 000.

After another 4,9 years the bond will have been paid off.

Conventional home loans are structured so that the borrower repays mostly interest with only a tiny portion of the amount being applied to the reduction of the capital over the early years.

On a R100 000 loan, for example, after 15 years only R12 000 will have been paid off the capital. After 20 years the outstanding capital amount will be down by only 50 percent.

It's only during the last five years that the capital amount is swiftly reduced. That's why it's so important to maintain bond repayments at the same level asthey were before the rates were cut.

However, there is another choice. A spokesman at Nedbank, part of Nedperm, suggests that the saving generated by a reduction in bond rates be invested in a unit trust on a monthly basis.

Assuming unit trusts perform roughly in line with historical figures, this would result in a capital nest egg of about R32 000 after 10 years.

This example uses the average return of the UAL Growth fund of 20,65 percent over the last 10 years. Over longer periods the average growth rates have been even higher; over 15 years the average growth rate has been 24,07%.

However, as the interest portion of unit trusts exceeding R2 000 is taxable, the after-tax return depends on the marginal tax level of the individual.

A marginal tax rate of 30% would result in a return of 18,83% while a marginal tax rate of 40% would produce a return of 18,31%

According to the Nedperm spokesman, the minimum return on the unit trust fund required to ensure that the final investment value is equal to the outstanding loan balance upon expiry of the loan period, is 10 percent.

However, this would entail a sharp deviation from the long-term growth performance of unit trusts and equity markets.

What Nedperm is recommending is that the monthly saving generated by lower interest rates be paid into a unit trust for the remainder of the loan period.

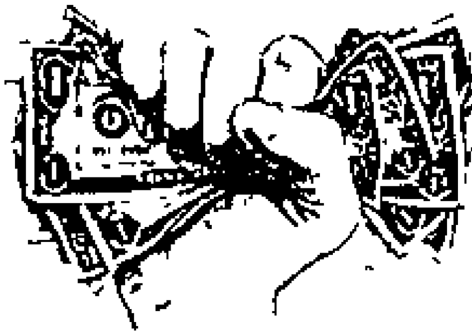
Using the bond of R100 000 at an interest rate of 19,75% the figures will look like the following:

Conventional bond — monthly repayments: R1 659 per month.

Unit trust linked bond:
Interest R1 646.
Unit trust contribution R75.
Capital reduction: Nil.
Monthly repayments R1 721.

Assuming the growth rate of 20 percent is achieved, the value of the unit trust investment would be R639 536 after 20 years. After repayment of the loan balance of R100 000 the investor is left with R539 536.

If the borrower decided to sell his house after, say 18 years (refer to chart) the value of the units would be sufficient to repay the loan in full and he would still be left with an investment of R56 143.



Sanlam expands its base

y DESMOND BLOW

ANLAM has expanded ; traditionally Afrikaner ise with strong growth nong black and English-reaking clients during ie past year.

For the first time, the mpany's total annual in-me topped the R10-bil-n mark.

Sanlam had maintained , growth despite a diffi-lt year for the life assur-ce industry, said chair-in Dr AJ van den Berg Sanlam's recent annual neral meeting.

Recurrent premiums re-ived from black clients creased by 74 percent on e previous financial ar, while those from iglish-speakers grew by) percent.

In Namibia, Sanlam re-ived more than R1-bil-n in premiums during e year.

Payments to policy-ilders and beneficiaries nounted to about R3,9-llion.

Sanlam also maintained ; position as the leading iderwriter of pension id other group benefits South Africa. The com-iny's investment team rned an income of al-ost R3-billion for cli-ts, said Van den Berg.

As Sanlam was a mutu-company with no share-ilders, all assets and ofits belonged to the ilicy owners and were anaged for their benefit.

Education too dear for most?

Buy Unit Trusts and beat the rising fees

By DESMOND BLOW

THE cost of education is rising so fast that parents will not be able to afford higher education for their children if they do not plan ahead.

In today's fast-moving technological world, increasing emphasis is being placed on tertiary education, including university degrees and technikon diplomas.

The cost of education has risen sharply over the past 10 years and is estimated to rise about the same again over the next decade.

One of the best ways of financing children's education is through a unit trust investment which offers inflation-beating returns.

The normal investment in a building society, bank or post office, although it has a slightly lower risk factor, cannot keep pace with South Africa's high 15 percent inflation rate – which can halve the buying power of savings within five years.

South Africa's largest fund, the Old Mutual Investors' Fund with assets of more than R2,27-billion, gave investors a return of 26,19 percent in the past five years.

A unit trust is rather like a syndicate, where investors' funds are pooled to buy a stake in a portfolio of leading shares.

Units are issued to investors in return for their investment and these units can be sold back to the company managing the fund at any time.

Most people put aside a set amount – from as little as R50 – every month to purchase units.

The prices of the units published daily in the Press reflect the prices of the shares in the portfolio.

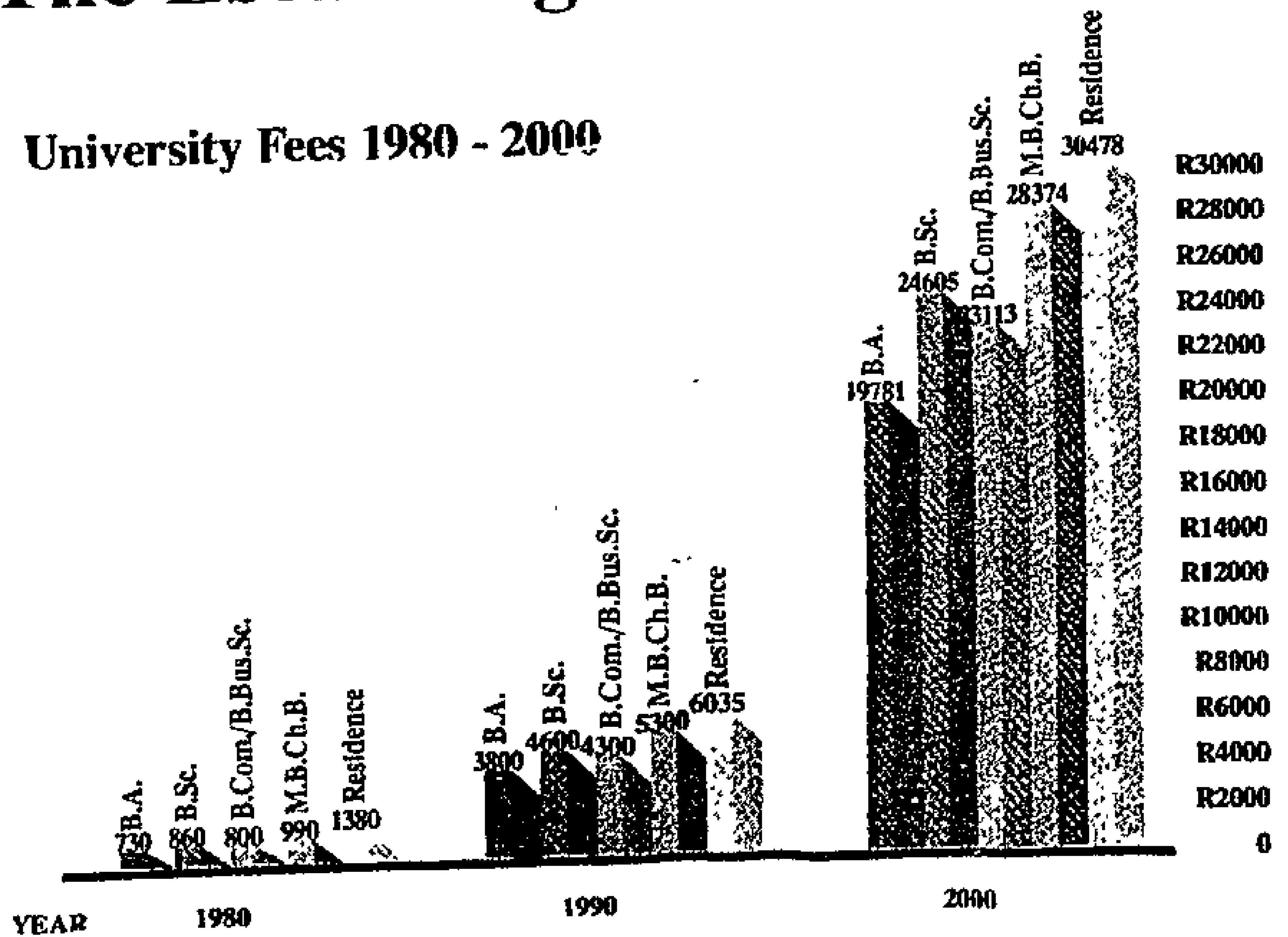
Even if he had sufficient money to play the stock exchange, the man-in-the-street would find it difficult because of his lack of knowledge about shares. But the unit trusts employ investment experts to manage their funds.

The assistant general manager of Old Mutual Unit Trusts, Bastiaan van der Westhuizen, believes new investors should have a regular savings account as well as a unit trust account.

The savings account can be used for shorter term requirements, while the unit trust funds should be invested for at least five years.

Even a regular monthly investment of R50 will soon build up to a useful lump sum which can be used to educate children, buy a house or a car.

The Escalating cost of Education



This graph shows how the cost of university education is shooting up.

DONNY GORDON: Life insurance companies play a crucial role in a country without social welfare

Policyholders get R1bn in bumper year for Liberty

58

S Times 17/3/91.

Business Times Reporter

DONNY GORDON of Liberty Life was delighted to highlight the distribution of R1,1-billion to policyholders when he informed shareholders of yet another record year.

During 1990 Liberty Life pushed attributable net taxed surplus 20% higher to R218,1-million and earnings a share to 102,1c. The new dividend policy of 85% distribution meant a total of 86c for the year — more than a third up on last year's. A special dividend of 50c a share was declared in August.

Shareholders had a bumper year. Holders of 100 shares were given 16 free shares in FIT (First International Trust), so reducing Liberty's FIT holding to below 40%. It will still have control over voting.

Liberty's shares edged up 25c to R28,25 on the news. Just before the 10-for-one split the price touched R300.

Liberty Holdings dividends have grown at more than 25% a year compound for the 22 years of its listing. FIT — the holding company of Liberty's offshore investments — also pushed earnings 28% higher to 47,7c a share.

The dividend was put up 2c to 20c.

The Liberty group now controls assets of R35-billion.

Mr Gordon's chairman's statement urges the authorities to recognise "the crucial role the life offices play in bolstering the personal security, protection and financial confidence of the many millions of policyholders and pension-fund members of all races in a society fundamentally devoid of any kind of social welfare safety net.

"The policy of overtaxing life insurers with a view to curtailing their development and thrust to favour other institutions in the financial services industry is flawed to say the least and could do significant damage to the entire financial system which, in the special circumstances of the South African economy, is heavily reliant on long-term contractual saving and the function which this performs as distinct from the role of discretionary saving, which is fundamentally different."

SECRET DOCUMENT STOLEN, SAYS BANK

S/Times 17/3/91 (58)

By DAVID CARTE

THE managing director of Prima Bank, Johan Bellingan, disclosed yesterday he had asked the police to investigate an allegation that a "confidential" document was stolen from the bank.

He said an arrest was expected by tomorrow.

The Sunday Times has legally acquired a copy of the document.

The document relates to a claim in court papers last week that Cape Investment Bank, which is controlled by Prima, had persuaded companies to issue R20,3-million in bills against "fictitious transactions".

The allegation was made last week by Riaan van Rensburg, managing director of listed Transvaal Distilleries and Rico Breweries in an affidavit filed with the Supreme Court in Cape Town.

Mr Bellingan, asked to comment on the contents of the document, refused to discuss it, saying the document itself was

□ To Page 2

Secret document in bank row

S/Times 17/3/91

□ From Page 1 (58)

stolen.

Christo Wiese, deputy registrar of banks, said yesterday that if the Sunday Times tried to publish the document, an urgent Supreme Court interdict might be sought to prevent it from doing so.

Earlier in the day, Mr Bellingan had threatened to send police to search the offices of the Sunday Times and to ask the Governor of the Reserve Bank, Dr Chris Stals, to obtain an interdict to prevent publication.

Mr Van Rensburg's affidavit was among papers filed in the Cape division of the Supreme Court in connection with an application last week for the provisional liquidation of Transvaal Distillers and five other companies.

In his affidavit he said "fictitious bills" would replace loan agreements between Transvaal Distillers and its associated companies and Cape Investment Bank signed in October 1990.

"The letters of credit reflected on the face of the bills have never existed and the trading transactions to which they ostensibly refer and in respect of which finance was purportedly required are entirely fictitious," the affidavit said.

"Respondents did not raise finance against the bills. This was merely a device employed by the applicant to gain short-term finance from the Reserve Bank. I infer that the fictitious transactions were recorded on the face of the bills in order to create the impression with the Reserve Bank that these were normal bankers' acceptances.

"It is clear that the device which was employed by applicant to obtain short-term finance from the Reserve Bank is highly irregular and might have very grave consequences for the applicant.

"For instance, it appears from the foregoing that applicant may very well have contravened provisions of the Banks Act."

In his replying affidavit, Allan Greyling, managing director of Cape Investment Bank, said Prima Bank was worried about the financial position of Cape Investment Bank.

"This was discussed with all concerned and it was decided by Mr Bellingan ... that the bank should have ready, in the event that there might be a run on the bank, some negotiable bankers' acceptances, which would enable another investor of the Reserve Bank as lender of last resort to the banking system to advance it the necessary money to meet such a crisis.

"Where banks have temporary liquidity crises, it is common practice for the Reserve Bank to come to their assistance. All the Reserve Bank requires is a series of accommodation bills, in which the acceptor or endorser has a sound financial background."

● Police spokesman Capt Attie Laubscher said late yesterday, after checking with the Fraud Squad and Commercial Branch in Cape Town, that Mr Bellingan had not approached the police about a stolen document.

Double trouble for Commercial Union

(58)

By IAN SMITH

S Times 17/3/91

COMMERCIAL UNION, South Africa's biggest composite insurer, is grappling with two tough problems.

New managing director John Kinvig takes the helm at Cusaf as the whole short-term industry is moving through a critical period which has seen soaring underwriting losses from most companies.

At the same time the composite companies will face a legislated need to separate their short-term and long-term business operations. Cusaf intends doing this by the yearend

"It's a time of great challenge for the industry and individual companies," says Mr Kinvig.

"Decisions made now will have a strong bearing on future strategy and growth."

The immediate aim, he says, is to correct the underwriting deficit, which climbed to R14,8-million in the year to December 31 after a R11,5-million surplus in the previous year.

Mr Kinvig, who has lived with the cycles of short-term insurance since he came to SA 33 years ago, is not daunted by the challenge.

"The deficit should be seen against the background of an exceptionally bad year for the shorter-term insurance industry. But a slight improvement is discernible when one compares the yearend deficit with the half-year's R11,1-million.

Effect

"Corrective measures which the company took during the course of the year are having a beneficial effect."

The life performance, however, limited the effect of the underwriting deficit and taxed profit fell from R38,7-million to R33,1-million and Cusaf was able to increase its dividend

Mr Kinvig says Cusaf is well geared to play an important role in the changing financial services industry.

It is the country's sixth largest short-term insurer and the eighth largest in the long-term market, which puts it well ahead of other composites.

Premium income of just over R600-million is well split with R304-million from short-term and R299-million from the life side.

The form of the group after it has been restructured to conform with the new legislation has not been decided yet, says Mr Kinvig.

Discussions are being held with professional advisers to decide what will be in the group's best interests.

"We have several options, and the future direction should be decided soon," says Mr Kinvig.

"There are many details to be decided and we would like our ideas for the new structure to be in place some months before the yearend."

COMMERICIAL UNION'S JOHN KINVIG: Learning to live with insurance cycles Picture: TOM EDLEY

Few will escape the deposit-taking net

S/Times 17/3/91.

By DIRK TIEMANN

APPLICATIONS to the Registrar of Banks for exemption from the Deposit-Taking Institutions Act are flooding in, but very few will escape the net.

Registrar Dr Hennie van Greunen says the definition of the Act is deliberately broad, but that discussions among various parties will soon be held to determine "what to hit and what to exclude".

The DTI Act, in force since February 1, will regulate and supervise activities of "deposit-taking institutions". Who and what will fall under the Act is not yet clear. Discussion papers will be released soon.

Pooled

The idea is to level the playing field for DTIs, restricting deposit-taking activities of unregistered persons, enabling better supervision by the authorities and rationalisation. Monetary policy will be strengthened by tighter controls.

The Government Gazette of January 31 1991 outlines those activities excluded from the "business of a DTI".

Participation bond and unit trust schemes, mining houses, the Teba Savings Fund (registered under the Employment Bureau of Africa) are exempted, subject to certain conditions outlined in the Gazette.

The mining houses are unaffected by the new Act. Surplus funds pooled within the group and received from associates remain exempt for the next three years.

Surplus money available after the cross-funding within the group is placed with the banking sector.

Mining houses cannot borrow from each other without falling foul of the Act. All houses deny ever having borrowed or loaned money from or to each other.

Companies' activities falling under "the business of a DTI" in terms of the new Act would be required to stop these activities or register under the DTI. Registration will be difficult and demands high capital and liquid asset requirements.

A Deloitte Pim Goldby paper shows that treasury operations, employee savings schemes, money broking operations, money broking, administration of trust funds and repurchasing agreements could all fall under the Act.

REGISTRAR OF BANKS HENNIE VAN GREUNEN: Deciding what to hit and what to exclude

If companies accept deposits from the public and employees as a regular part of their business they fall under the Act. If the money is used for lending, investing or financing and if assets are sold under repos agreements to non-DTIs, they also fall under the Act.

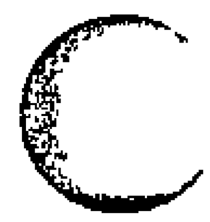
Companies are excluded if they do not hold deposits from more than 20 people totalling less than R500 000 on a regular basis and if they do not advertise for them.

Corporate treasuries are restricted to accepting deposits from within the group, excluding associates. The mines are exempt.

Cash management schemes will be restricted to subsidiaries of the same holding companies. The provisions of the Act will in many cases restrict the cash-management services offered by banks or increase their cost.

Money-broking activities by non-DTIs are permitted if the broker places funds on the same day his instructions are received and places funds with deposit-taking institutions only.

The placing of aggregated deposits with a DTI to secure wholesale interest rates will also be affected. Separate accounts in the name of each individual depositor are likely to be required.



Standard joins Camdon's

Business Times Reporter (58)

THE battle for the homeloan market is intensifying with Standard Bank the latest financial institution to enter the real estate business.

Standard has signed a "joint working agreement" with Camdon's Realty to supply bond-financing to its clients. The UBS and the Perm are already well represented in the estate agency business.

The UBS has 25% of Aida, De Huizemark, JH Wakefield & Sons and Bernard O'Riain. The Perm has a stake in Basil Elk.

Estate agents are "seriously worried" that banks and building societies are trying to gain control of their businesses.

Clients are also worried that they will be coerced into taking bonds from the estate agent's backer when they buy a house through the agent.

Pam Golding Transvaal divisional manager Ronald Ennik says banks will want to monitor their investments.

"Ultimately, this means running estate agents like banks. They say they are only interested in the bond business, but eventually they will try to offer packages under one roof."

Standard Bank now has access to to Camdon's share of the estate agency business. Unlike the UBS and the Perm, the Standard has bought no equity stake in Camdon's.

Eric Tomlinson, Standard's divisional general manager for homeloans, says: "The bank has no intention of intruding in any manner into the business affairs of Camdon's." He says both parties will concentrate on their areas of expertise.

Camdon's is franchising its property marketing operations throughout SA with the backing of Standard. The managing director will be Australian Allan Hart, who is on a three-year management contract.

Allied's boss challenges life industry on commissions

By David Canning (58)

Star 18/3/91.

Controversial Allied managing director Kevin de Villiers has challenged the life insurance industry to disclose salesmen's commission levels to policy buyers.

Mr de Villiers prompted heated debate among the 700-strong audience at the industry's Multi Rand Forum, held at the Wild Coast at the weekend, when he said "the customer should know how much he is paying".

During a panel discussion on the future of the industry, Mr de Villiers said he had "no argument" with commission levels themselves — salesmen were entitled to charge whatever they liked.

However potential buyers should be told the amount of commission payable on each policy. Commission levels often were uppermost in salesmen's minds and disclosure would enable buyers to assess the objectivity of the advice being given.

Mr de Villiers's suggestion was challenged from the floor by an agent who said disclosure of commission levels would be unfair because clients could not realise the level of an agents' costs — like rent, salaries, telephone bills, etc.

Mr de Villiers dismissed the point by saying the public was not concerned about the cost structures — just the level of commissions being paid. Banks disclosed their ledger fees and surgeons their tariffs — but nobody was interested in their costs.

Alistair Colquhoun, representing the unit trust industry, told the conference that in order to survive he believed the insitutions were going to have to move to greater disclosure.

An institutional broker told delegates that most of his colleague brokers would find it "pretty controversial" to have to disclose to a client that 3,25 percent a year was going by way of commission.

It also raised the question about how much should be disclosed about the corporate costs.

A representative for independent brokers told the conference his colleagues tended to "get very close" to clients and to deliver "unbiased advice."

However he "could not say the same" for colleagues who were bound to one company.

He cited, as an example, a case in Natal where a man had lost his job for having placed business elsewhere. This man had "paid the price" for having put his client's interests first.

African bank opens talks with SA

TIM COHEN

MBABANE — The African Development Bank — which lends $3,25bn annually — is preparing to admit SA as a member and has accepted an invitation to meet members of the Development Bank of SA, says African Development Bank vice-president Adewale Sangowawa.

However, incorporation which would allow SA companies to tender for bank projects would take place only when existing members were prepared to welcome the country.

Sangowawa was attending a conference in Mbabane on co-operation in sub-Saharan Africa, which he described as "significant".

"We see it as the beginning of a process which will be beneficial to the sub-region," he said.

He said the African Development Bank's management was looking forward to the role SA could play in Africa.

The bank lends an average of $3,25bn each year to all African countries, excluding Libya and SA. It has 50 African and 25 non-African members and has financed 1 200 projects.

Asked if SA companies could participate in bank projects, he said: "Officially I would say there is no way, but I do know that there are some companies set up in

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Africa

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countries like Zimbabwe, Botswana and Lesotho which have a relationship with SA and which do tender."

The Development Bank of SA, which had not had official contact with the African Development Bank, had requested a meeting which Sangowawa said his bank was inclined to accept "on a professional level".

He said both the Development Bank of SA and the African Development Bank were financing projects in Lesotho and Swaziland, so it made sense for the banks to exchange ideas.

On the preparations the African Development Bank was making for SA participation, Sangowawa said the bank had to assess the SA ecomony and re-examine its charter.

Sapa reports that the meeting of business representatives from 16 African countries ended positively in Mbabane on Friday with a call for greater economic co-operation in the sub-Saharan region.

"We have one common economic destiny on this continent," Transnet MD Anton Moolman said during the closing session.

He said business people would have to create greater economic co-operation in the region "and thereby force the politicians to do it".

It was the first time in 40 years that business representatives from 15 African countries met their counterparts from SA in public.

R500m blow to banking sector

Govt set to impose new interest tax

B/Day 18/3/91

GRETA STEYN

THE banking sector is expecting to be dealt a major blow this week when the Budget proposals impose a form of VAT on interest earnings of more than R1m.

Senior bankers said at the weekend that finance special adviser Japie Jacobs had discussed the proposed move with bank chief executives at a confidential meeting at the Reserve Bank last Thursday.

● JACOBS

It is understood he told them government hoped to raise about R500m from the new tax.

The proposed tax is expected to be charged over and above the usual income tax on interest earnings, and would be similar to VAT with interest regarded as the "value added" in financial services.

Bankers estimate the effective cost at 1% of interest earnings — an expense that will knock profitability.

Long-term gilt rates rose steeply last week in anticipation of the announcement, gaining almost 30 points to 15,48%.

Sources said the proposal was made by the IMF team which came to SA to advise on the implemention of VAT.

Although most countries in the world regard financial services as too complex to be subject to VAT, the IMF's view is that this "extraordinarily remunerative" sector with its "high visibility" should be included, especially in a developing country.

The IMF recommendation followed the recent finding by government's VAT committee (Vatcom) that financial services be exempted from VAT pending further investigation. Bankers were sworn to secrecy and declined to comment officially on the new tax and its affect on profits and the cost of borrowing.

Privately, bankers say the move forms part of government's redistribution policy. One banker said the decision was politically clever, as banks were widely regarded as "fat cats" that could afford to give up some cream to feed the needy.

Bankers said the move would help to keep the overall VAT rate below the current GST rate of 13%. The IMF's apparent proposal of a speedy phase-out of tax on capital goods had made a low rate difficult to achieve, and government needed all the extra revenue it could get.

The tax is expected to stem downward pressure on interest rates in the markets, as it effectively raises banks' cost of borrowing. This cost could be passed on to consumers in the form of higher bank charges or tighter credit policies.

All earners of interest income above R1m a year will be hit by the tax, including life assurers and pension funds. But banks will be hardest hit since interest payments

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Interest tax

B/Day 18/3/91

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are their main source of income.

Bankers said this went against the principle of a "level playing field" between the different financial institutions. While pension funds and life offices could reduce their exposure to interest income, banks could not. The authorities are apparently not planning to tax non-interest investment products.

But government is expected to argue that the move will not contradict its objective of encouraging "discretionary" savings with banks. The policy to encourage savings at banks is aimed at personal investors, few of whom earn interest above R1m. As a concession to small savers, the threshhold of interest earnings exempted from marginal income tax rates is expected to be lifted in the Budget from the present R2 000 to double that amount.

Vatcom's report found that VAT on interest would create a strong incentive for disintermediation — bypassing the banking system through direct lending and borrowing. The report noted the argument that "no country has as yet been able to overcome the difficulties foreseen with taxation of financial services and it is not advisable that SA does pioneering work in this regard."

HAROLD FRIDJHON · in the Money Markets

The old bulls that refuse to fade away

UNLIKE old soldiers, bulls in the markets never fade away, nor do they lose their urge.

Those in the money market started pawing the ground last week after bank executives met Reserve Bank Governor Chris Stals. They sniffed the air and thought they detected a hint of another Bank rate cut.

The bears tilted against some rates, causing some confusion but little material damage.

The Treasury bill (TB) rate was brought down lower than it should be a week after a Bank rate cut. On Friday, the TB rate shed nine basis points to 16,85% from the previous 17,04% in a four-and-a-half times oversubscribed tender. The 16,85% rate is 15 basis points below the new 17% Bank rate.

The rate for 90-day liquid bankers' acceptances (BAs) at 17,25% is 25 basis points lower than the 17,50% rediscount rate.

Very little business is being transacted in negotiable certificates of deposit (CDs) because of market confusion caused by Stals saying that market liquidity would continue to rise. This was interpreted as indicating that Bank rate would surely drop. And not in the too, too distant future.

Overlooked, apparently, is that Stals has it in his power to soak up excess liquidity if it were to undermine his policies.

Some banks are glibly forecasting two further Bank rate cuts this year; others, however, are more cautious, suggesting a further one percentage point cut before the leap year bells chime. He might make two half-point cuts, but I do not see a further trimming of the Bank's lending rates unless the inflation rate flops like an amateur's souffle.

Astute people in business apparently share the view that interest rates are not going to slide as they did in 1986. Bankers report that corporate treasurers are inquiring about two- and three-year fixed-rate loans.

When matador Stals enticingly flourishes his cape, money market bulls should act with extreme caution; a sword is in the folds.

Bond market bulls, however, have sneaked out of the arena, leaving blood in the sand. During the week before last they stampeded a surge in the price of the Eskom 168s, resulting in its shedding 17 basis points in the yield which dropped from 15,44% to 15,27%. Last week, sanity returned to a market which always gambles on false premises.

The yield on the E168 did a complete 22-point turnaround, closing at 15,49%. The price of the stock was helped on its way down not only by the bearish PPI numbers, but also by some offshore disinvestment. People in Europe recognised better than local market players that the bonds were priced out of line with reality.

Large short positions are said to be threatening the market. This is not bringing joy to warehousing bankers.

Enter the bears with claws rampant!

Attention turns to life assurers

B/Day 18/3/91 (58)

SEAN VAN ZYL

FIVE of the listed life assurers notched up new share price highs by the close of trade on Friday.

Momentum Life's share price rose 19,6% over the week to close at 335c. Liberty Holdings followed with a 7,4% rise to 7 200c, Metropolitan Life with 6,2% (850c), African Life Assurance with 2,9% (175c) and Fedsure Holdings rose marginally by 0,8% to 580c. The insurance index's 1,6% gain during the week lagged behind the 2,6% rise in the industrial index. However, analysts said the poor earnings performance by short-term companies had had a detrimental affect on the sector.

Davis, Borkum Hare & Co analyst Graham Baillie said last week's interest in life companies was largely due to the shortage of industrial blue-chip scrip, which made second-line counters in the financial services industry look particularly attractive.

Baillie said while the insurance sector looked undervalued, the life industry also had "a great future", with the moves being made towards black social upliftment.

Another analyst commented that the insurance sector "looked good" as a long-term investment option since most of the leading industrial shares were "top heavy".

George Huysamer analyst Alta Theron was more cautious, saying the life industry could be facing a number of short-term obstacles. She said the authorities were reviewing options on "levelling the playing field" between banks, building societies and life companies in their chase for public savings.

Life offices are already classed as deposit-taking institutions, and unless they get a further exclusion extension from the new Deposit-Taking Institutions Act, they could run into problems on their investment business, she said.

COMPANIES

Standard link with real estate group

CHARLOTTE MATHEWS

THE Standard Bank of SA has entered into a joint working agreement with estate agency group Camdon's Realty which will make Standard Bank the major supplier of bond financing to Camdon's and its clients.

The move follows tie-ups between other financial institutions and estate agency groups, but Standard Bank divisional general manager — home loans Eric Tomlinson emphasised Standard Bank's deal was different because it had taken no equity stake in Camdon's. Bday 18/3/91

Tomlinson said there was some negative reaction within the estate agency industry to institutions becoming financially involved in their industry.

"We don't want to interfere or exert any control over their industry. We think our agreement with Camdon's is in the interests of both parties." (58)

Tomlinson was unwilling to discuss the details of a private arrangement between the two companies, but when asked how effective it would be without any financial arrangement, he said it was in Camdon's interests to perform in accordance with the agreement.

"They are under no obligation to give us a certain percentage of their bonds. It is an arm's length agreement."

New tax on interest of R1m likely

Own Correspondent

JOHANNESBURG. — Bankers expect to be dealt a blow by Budget proposals to impose a form of VAT on interest earnings of more than R1 million.

Senior bankers said at the weekend that finance special adviser Mr Japie Jacobs had discussed the proposed move with chief executives at a confidential meeting at the Reserve Bank last Thursday.

It is understood Mr Jacobs told them the government hoped to raise about R500 million from the new tax.

The proposed tax is expected to be charged in addition to the usual income tax on interest earnings.

It would be similar to VAT, with interest regarded as "value added". Bankers estimate it will cost 1% of interest earnings — an expense that would knock profitability.

Long-term gilt rates rose steeply to 15,48% last week, gaining almost 30 points in anticipation of the announcement in this week's Budget.

Sources said the proposal had been made by the International Monetary Fund team which advised the government on the implemention of VAT.

Although most countries in the world regard financial services as too complex to be subject to VAT, the IMF's view is that this "extraordinarily remunerative" sector

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Banks

with its "high visibility" should be included, especially in a developing country.

The IMF recommendation followed the recent finding by government's VAT committee (Vatcom) that financial services be exempted pending further investigation.

Bankers were sworn to secrecy and declined to comment officially.

Privately, bankers say the move is part of government's redistribution policy. One banker said the decision was politically clever as banks were widely regarded as "fat cats" that could afford to give up some cream to feed the needy.

Bankers said the move would help to keep the overall VAT rate below the current GST rate of 13%. The IMF's apparent proposal of a speedy phasing out of tax on capital goods had made it difficult to set a low rate and the government needed all the revenue it could get.

The tax is expected to stem downward pressure on interest rates as it effectively raises the banks' cost of borrowing. This cost could be passed on to consumers in higher bank charges or tighter credit policies.

All earners of interest income of more than R1 million a year, including life assurers and pension funds, will be hit by the tax. Banks will be hit hardest as interest payments are their main source of income.

Bankers said this went against the principle of a "level playing field" between the different financial institutions. Although pension funds and life offices could reduce their exposure to interest income, banks could not.

The government apparently is not planning to tax non-interest investment products.

It is expected to argue that the move will not contradict its objective of encouraging "discretionary" savings with banks. The policy to encourage savings is aimed at personal investors, few of whom earn interest above R1 million.

As a concession to small savers, the Budget is expected to double from the present R2 000 the threshold of interest earnings exempted from marginal income tax rates.

Plastic money to cost more

58

Star 19/3/91

By Sharon Sorour

Hard-pressed consumers face another blow with two major banks announcing that annual fees on credit card services will go up by at least 12,5 percent on April 1.

The two banks are Standard and First National.

Nedbank, which has one of the lowest fees, Trust Bank and Volkskas are considering increasing their charges.

First National Bank First Card annual charges rise from R24 to R27 per annum, according to deputy general manager Mr Jon Wildman.

"The Premiercard charge will increase from R60 to R72 but this is the first increase in five years," Mr Wildman said.

Other First National credit card charges, like that on the Garage Card, remained unchanged.

Standard Bank assistant general manager of the card division Mr Alastair Graham said annual fees on the Mastercard increase from R24 to R27 with a secondary Mastercard now costing R12.

Gold Card charges increase from R50 to R60 and Garage Card holders will pay R12 instead of R10 plus a 60 cents transaction fee — an increase of 10 cents.

The charges to existing cardholders will become effective on the anniversary dates of the cards starting from April 1.

Mr Graham said the increase on the ordinary Mastercard — the credit card used by the majority of cardholders — was 12,5 percent.

"This is fairly reasonable in the current economic climate. We introduced the charge on credit cards about five years ago and have increased it gently every year instead of doing it in one fell swoop," Mr Graham said.

Compared with overseas charges on credit cards, Standard Bank's were "very reasonable".

He said: "Overseas the charges are much higher. Some banks in the United Kingdom charge between R40 and R60 for the ordinary Mastercard, and it is higher in Germany."

Volkskas public affairs manager Mr Willie Roux said the matter of increasing charges on credit cards was being discussed.

Nedbank operations manager Mr Schalk Badenhorst said there was "no intention" to increase credit card charges at the moment "but the option is open to us".

Nedbank clients pay R21 a year for the Classic card and R60 a year for the Gold Card.

Billions in private funds to be tapped

BDay 19/3/91 (58)

KEVIN DAVIE

A SPECIAL supplement to tomorrow's Budget is expected to outline government's new plan to facilitate the transfer of billions of rand of private funds into socially desirable investments.

The supplement flows from an investigation by Japie Jacobs, Finance Minister Barend du Plessis's special adviser on institutional savings and social investments.

Jacobs was given a brief by Du Plessis to draw up a co-ordinated plan to facilitate the movement of funds from potential sponsors to recipients. His investigation included input from the Life Offices Association (LOA), the Development Bank, the Small Business Development Corporation (SBDC) and the Independent Development Trust (IDT).

The need to channel institutional savings into social development has been a hotly debated issue for some months. Political parties such as the ANC have said the life and pension industry should invest a portion of its assets, say 10%, in housing, health and education.

The LOA has conducted its own inquiry but has argued strongly against a return to a policy of prescribed investments. Its view is that a market return on investment is essential, and that the paper should be tradeable. With adequate underwriting by government, billions of rand of private savings could be released for development spending, industry sources say.

A Finance Ministry source said yesterday the supplement to the Budget would contain general comments on the contractual savings industry.

The Cabinet, meanwhile, has been briefed on a major new confidential plan by Old Mutual and Nedcor which recommends that sweeping changes be implemented before 1994, when the new constitution is expected to come into effect.

The plan envisages a massive housing, jobs, electrification and education programme which would have to be put in place immediately to stem the disintegration of black society, meet minimum black socio-economic expectations and prevent a

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Private funds

BDay 19/3/91 (58)

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decline in white living standards.

The plan has also been presented on a confidential basis to the ANC, Inkatha and the PAC, but is yet to be completed, Old Mutual and Nedcor sources say.

Pierre Wack, a leading scenario planner in the Old Mutual and Nedcor report, also played a prominent role in developing Anglo's "high road, low road" scenarios which were popularised by Anglo executive Clem Sunter.

The Old Mutual and Nedcor scenario argues that SA faces a Beirut situation unless there is rapid economic growth within the next few years. A two-stage growth plan is proposed so that desired political change is not fatally undermined through lack of economic growth.

The first, or "kick start", phase involves investment in poor communities to give the economy a rapid boost; the second calls for an export-oriented strategy to make this growth sustainable.

The first phase has four parts including the provision of housing on a massive scale (200 000 homes and 400 000 serviced sites every year for the next five years), the electrification of a million homes a year for five years, a massive skills training programme to be partly financed by tax breaks for companies which do the training, and the creation of a government-funded jobs corps of one-million workers to build houses and install electricity.

The plan could create 800 000 jobs (excluding the jobs corps), the scenario planners say.

Investors pump R2,1-bn into unit trusts

By Derek Tommey Star 19/3/91

Investors opened 168 000 new accounts with the 37 unit trusts last year bringing the number of accounts to 735 405.

According to the Association of Unit Trusts' year book, investors put a record R2,1 billion into the movement in 1990 but withdrew R985 million, leaving it with a healthy and record net inflow of R1,12 billion.

In terms of income unit trust investors were well rewarded. During the year the income index rose by almost 25 percent.

But last year was not such a good one in terms of capital gains, mainly owing to the drop in the gold price.

At the end of the year the capital gains index was showing a drop of 1,5 percent.

At the end of 1990 the market value of the trusts was R7,56 billion, and the average account was R10 300.

A year earlier the market value of the trusts was R6,6 billion while the average account was R11 700.

Bankers say new tax will cost them a billion a year

Star 19/3/91

By Derek Tommey

Bankers are deeply worried about the Government's proposal to levy a tax on gross interest income to offset the revenue the Government expects to lose by exempting financial institutions from VAT.

The proposal, which was discussed at a confidential meeting in Pretoria last Thursday, is to impose a one percent tax on interest income where the recipient receives more than R1 million a year.

The Government claims the tax should raise an extra R500 million a year. But bankers say that the Government has not done its homework properly as such a tax could easily produce more than R1 billion a year — if advantage was not taken of loopholes.

Bankers said they would also have to decide whether to include the new tax in the interest rates they charge, or whether add it on top of their normal rates.

The tax would increase the cost of a 20 percent loan by 0,2 percent and a 30 percent loan by 0,3 percent.

Bankers also point out that it was incorrect to say that financial institutions were exempt from VAT. They would have to pay VAT on everything they bought like every body else, but unlike others would not be able to pass on the cost of VAT directly to their clients.

Dr Japie Jacobs, special adviser to the Department of Finance, reacted angrily yesterday to the leaking of details of the confidential meeting to a Johannesburg newspaper.

He said this would be the last time he would discuss such proposals with bankers. Leaking the information had been a breach of confidence and had reduced the banks' credibility.

Although bankers appear surprised by the proposal to tax interest, the new tax would be in line with the recommendations of the Value Added Tax Committee (Vatcom).

Vatcom said that owing to the problems in imposing VAT on financial institutions, they should be exempt from VAT.

But other indirect taxes should be imposed or increased "to ensure that tax, equal to what would have been collected from private investors and private policy holders, is collected from financial institutions".

Non-residential sector slows down

B Day 19/3/91

RESIDENTIAL and non-residential sectors of the property market are behaving quite differently in this business cycle.

The latest Rode Report on the SA Property Market says while non-residential indicators show no growth to speak of, house prices and flat rentals are growing in real terms.

"This is reminiscent of the situation we had in the 1982-83 recession, when house prices were oblivious of the slowdown in the economy."

The end of 1990 saw capitalisation rates for office buildings continuing their decline, with the exception of Durban, where investors are taking a cautious view because of the imminent deluge of new office space.

Industrial capitalisation rates, on the other hand, started increasing in the second half of 1990, especially in Johannesburg and Durban.

Cape Town is the most favoured city for investors. Over the past three years this city narrowed the capitalisation rate gap between itself and Johannesburg to zero.

This applies to offices, regional shopping centres and industrial leasebacks.

Over the last year, capitalisation rates for income-producing properties in the Cape declined considerably to become comparable to the best nodes on the Reef.

The decline is a reflection of changed perceptions of SA investors, who now see the Cape more favourably.

"A probable reason is political changes awaiting SA. Investors, perhaps see the Cape as more Westernised and stable in a future SA."

Property investors in the Cape made windfall capital profits in the past year, unlike in the rest of SA.

Unlikely

However, Rode says it's unlikely the drop in capitalisation rates will be repeated in the foreseeable future.

Also, market rentals have stopped growing.

He says: "The Cape party is over for now."

Property unit trusts are still more attractive than directly held property, says the report.

For offices, nominal rentals have stalled in all nodes, so they are declining in real terms.

Buoyant until now, the report says office take-up may have started feeling the recession. An exception is Sandton CBD.

Analysing the latest take-up figures calculated from Sapoa vacancy surveys, there's an indication that office take-up may be slowing in many nodes.

However, other nodes put in a surprise rally during the last quarter of 1990, making it difficult to generalise.

Measured in square metres, new office completions will fall by 16% this year compared to 1990, except greater Durban, which will see a 52% increase.

For 1992, the decline is a further 69%, but this must be interpreted cautiously, because many projects could still be announced and completed before end-1992.

"We note that in 1991 the Cape will see an increase in office construction of 12%, but greater Durban will increase by 52%. This tells us the Durban office market is heading for trouble."

Healthy

For line and CBD shops there is no nominal growth left in market rentals, despite phenomenal turnover growth a square metre notched up until end-1990 by major retailers.

The industrial market is healthy because, to a large extent, rentals and land values have levelled off in nominal terms and vacancies are not rising.

The report says contract prices are falling for both residential and non-residential buildings and at end-1990 were between 10%-12% lower compared to a year earlier.

"Non-residential building starts are moving sideways, whereas house starts have dropped through the floor.

"The latter can be ascribed to high interest rates, violence and theft in townships, labour problems, instalment boycotts and a mortgage funds shortage."

Writing in the report, director of Stellenbosch University's BER, Dr O D J Stuart, says it seems the general economy may improve during the second half of 1991.

ERWIN RODE

"But it doesn't follow the building industry should also experience improved conditions before year-end."

He says conditions may remain sluggish during the year, but should improve during 1992.

Syndication a hedge against inflation

Beeld 19/3/91.

AS AN investment medium, property syndication is a relatively new concept.

However, Board of Executors' national syndications manager Barry Steinberg says syndication is gaining acceptance as an important element in a balanced portfolio.

The average syndicate combines a degree of capital growth with interest income to give an above average return.

"The investment is secure as it is a stake in a fixed commercial or industrial property which has a net worth on realisation at least equal to the value of the investment.

"One should consider syndications as an inflation hedge. The average syndicate can be expected to yield a combined compound income and capital return of a least 21,5% before tax and about 16,5% after tax, based on a marginal rate of 44%," says Steinberg.

Comprises

Gearing — which is borrowing a percentage of the investment (usually around 50%) — will also see returns of over 20%.

He says return in a syndicate comprises two elements — an income return and a capital return.

The income return is derived from the capitalisation rate, which will be around 10%-12%, depending on the property.

"This will grow with the escalations in the leases which also range from 10%-12% a year.

"Renegotiation of the leases to the property, usually after five-year option periods, can see rental, and thus income to shareholders, jump higher than this if leases are operating at below market rates."

The second element is a capital return, which is the growth in value of the investment.

"Property syndications can suit a range of investors' needs — from those who want to maximise income, to those wanting to maximise capital growth.

Unit trust changes expected soon

B/Day 19/2/91

SEAN VAN ZYL

AMENDMENTS to the Unit Trust Control Act, which will boost the performance of the unit trust industry, could be placed on the statute book early this year, Association of Unit Trusts (AUT) chairman Roy McAlpine says in the latest yearbook for the industry. (58)

These amendments, which the AUT had been discussing with the Registrar for some time, would make certain provisions governing the industry less rigid, he said.

He added "the Registrar has been very supportive of the proposals" which will enable investment managers to further enhance the performance of their unit trusts.

While the local equity market was "expected to continue to be nervous and perform in a somewhat pedestrian manner in 1991", McAlpine noted that this was the ideal time and opportunity for the public to purchase shares.

"Those investors who have committed funds to unit trusts during periods when equity markets are depressed ultimately have enjoyed considerable benefits."

He added that, overall, the SA economy was likely to reflect a second year of negative growth in 1991, largely resulting from the authorities' decision to tighten monetary policy to bring inflation down.

A further six unit trusts were launched during 1990.

Factors that impact on investment patterns

BDay 19/3/91.

PROPERTY professionals are often too pessimistic or too optimistic, and this is caused by fear of the unknown.

Fortunately, says Board of Executors' Nikki Vontas, the property market is relatively predictable if one analyses the factors driving the industry.

"Examine these and it's possible to assess their likely impact and the effect they may have on investment patterns."

Factors influencing the property industry are interest rates and investment yield requirements, building costs and construction activity, supply and demand for space and the impact of this on rental levels.

The initial return required by investors affects the value of property. While this is influenced by the interest rates, they have remained remarkably consistent within fairly narrow bands over the last seven or eight years.

"For example, returns for decentralised, multi-let offices have remained between 9,5% to 11,5%, with a few exceptions changing hands on returns as low as 8% and 8,5%.

Historical

"On the other hand, if we use the historical yield of property unit trusts against property investment yields during the past five years, there is a fluctuation from 7,1% in September 1987 to 12,6% in June 1986."

Vontas says the influence of interest rates is not so much on the return that an institutional investor looks for, but more on the amount of money available to be invested.

"During times of high interest rates, many investment managers are content to keep their money in near liquid form, but as interest rates fall, they look to the equity and property markets.

"Private investors, on the other hand, are more aware of the effects of gearing, and thus the bond rate has a greater impact on this market."

On building costs and construction activity, he says: "At the end of 1989, the value of plans passed for the development of commercial and industrial properties was in decline compared to 1988.

"There is an indication of further erosion of contractors' profit margins, and in areas where new developments compete against existing vacant property, it's impossible to break even when comparing market value to the cost of the property."

Understood

Having analysed profit margins of major construction divisions, it is easily understood why most construction companies have become developers.

This way, they can compensate for the effect of stagnating real net margins on earning through retention of the development profit.

When it comes to supply and demand for space — and rental levels — it's necessary to differentiate between retail property, offices and industrial space.

"Over the last few years, a number of retail shopping centres have given investors an excellent hedge against inflation because rentals are linked to retailers' turnovers.

"For this reason, as inflation increases, so will a shop's turnover, and rental rises even though there may be little real growth for the retailer."

However, there is concern that in most of the major cities white areas are close to capacity, other than for small convenience centres.

"Increasing costs, greater competition and the need to increase trading densities are concerning retailers."

NIKKI VONTAS

For this reason, Vontas says there is demand for owners to refurbish shopping centres developed during the last 10 years in order to increase their market share.

BoE launches its merchant bank

LESLEY LAMBERT

CAPE TOWN — The Board of Executors (BoE) has launched its own merchant bank — a wholly owned subsidiary with a capital base of R50m and the first bank to be registered in terms of the new Deposit Taking Institutions Act.

The formation of BoE Merchant Bank from the group's separate money market and corporate finance divisions follows the recent acquisition of a 35% stake in BoE by Anglovaal's financial services holding company, the AVF Group.

It will bring more than R1bn in money market activities on book and has necessitated a restructuring of the listed BoE Ltd into a controlling company with BoE and BoE Merchant Bank as 100% subsidiaries.

BoE main board director Phil Biden has been appointed MD of the new bank, and former BoE Securities head Richard Derman executive director, with Anglovaal's Dave Barber, Andrew Ovenstone, John Swain and BoE chairman Paddy Wilson as non-executive directors.

Headquarters will be in Cape Town but the corporate finance office in Johannesburg will continue to do the lion's share of fee-based corporate and banking business. BoE also has international associates in London, Europe and the US.

BoE MD and BoE Merchant Bank executive chairman Bill McAdam said yesterday the new bank's R50m capital ranked it

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With capitalisation of R50m . . .

Cape Times 19/3/91 58

BOE launches merchant bank

By PIETER COETZEE
Financial Editor

CAPE-based financial services group, The Board of Executors (BOE), has formed a merchant bank with a capitalisation of R50m, the MD of BOE and executive chairman of the new bank, Bill McAdam, announced yesterday.

With this BOE has officially entered the local and international merchant banking arenas and the new bank brings together the previously seperate money market and corporate finance arms of BOE within a single focussed environment.

"In effect, BOE Merchant Bank will take over the activities of BOE Money Market and BOE Securities, including underwriting, investment banking and a risk management and arbitrage unit."

The new bank will have offices in Cape Town and Johannesburg as well as international associates.

Already a significant player in the SA money market, BOE has acted as an agent in its dealings up till now. The formation of the new merchant bank will bring on book more than R1bn worth of money market activities.

The group is also being restructured with The Board of Executors Ltd becoming a holding company, while The Board of Executors 1838 becomes a wholly-owned subsidiary as does BOE Merchant Bank.

The Board of Executors 1838 will handle investment management, participation mortage bonds, property and other trust company services, while BOE Merchant Bank will handle corporate and investment banking and corporate finance.

The merchant bank is the first to be registered in terms of the recently introduced Deposit-Taking Institutions (DTI) Act.

McAdam said the merchant bank is in a very comfortable position with regards to the reserve requirements under the DTI. It has more than double the eventual amount required and will not be subject to the phasing in period.

"Our capitalisation puts us in a similar league to the other major merchant banks, however, we shall continue as a niche operator in the corporate and interbank fields," he said.

The merchant bank will be concentrating at the top end of the market and at low risk business.

He said the corporate finance team has gained increasing recognition in recent years, among other for spearheading the company's successful defence of the hostile Investec takeover bid and the resultant successful acquisition of Mercury Trust.

This move follows closely on the acquisition of a 35% stake in BOE by the AVF Group, Anglovaal's financial services holding company.

The other major shareholders in BOE are Liberty Asset Management with just over 10%, The Really Noble Group with 8% and senior management with 10%.

"While BOE Merchant Bank may well benefit from its affiliation with these major organisations, it will continue to function independantly within specific niche markets," said McAdam.

MD of the new bank is BOE main board director Phil Biden, while former BOE Securities head Richard Derman has been appointed executive director.

Non-executive directors are Dave Barber (from Anglovaal), Andrew Ovenstone, John Swain and BOE chairman, Paddy Wilson.

Biden said the operational team has more than 40 years of merchant banking experience among them.

"The money market has been operating for more than a decade and has an established and successful track record.

"Prudence and a conservative approach to credit assessment and interest rate risks will continue to be characteristic of our business philosophy," he said.

Libvest lifts earnings 17 pc

Star 18/3/91

Finance Staff

Liberty Investors (Libvest) lifted its earnings 17,2 percent to 19,7c a share in the year to February 18, up from 16,8c in the previous year.

It is paying a final dividend of 8,8c (6c), making a total of 14c (10,8c) for the year.

Chairman Donald Gordon says in the annual report the net asset value of Libvest shares rose 64c during the year to 374c a share and since the year-end has risen further to 434c.

As a result of the acquisition of the 16,66 percent family interests of Michael Rapp held in the Liberty Life Group through Annexe Investments, Libvest now owns 50 percent of Liblife Controlling Corporation.

Libvest consequently now controls the Liberty Life Group jointly with Standard Bank Investment Corporation.

'Private resources must be used in housing aid'

GOVERNMENT must use the resources of private enterprise to distribute assistance to the many people who need housing, Aida Holdings chairman Aida Geffen said in an interview.

She believes there is an urgent need for a conference of all those involved in the housing process, including building societies and estate agents, together with all political parties, to exchange ideas on solving the housing crisis.

Estate agency group Aida has 57 franchises. They have been selling houses costing R25 000 and upwards to all sectors of the population.

"In drawing up our ten-year feasibility plan we decided to look at low cost mass housing as a possible area of future development.

"It is not an area that offers a lot of profit, but we believe we need to make a constructive contribution to the new SA. We have the necessary infrastructure to help in this area."

Geffen said the lower income group had little experience of home ownership, and did not realise it was not in their own interests to boycott payments, or damage homes if they were evicted.

"Most experienced home buyers understand they can negotiate with the building society if they fall behind in their repayments through misfortune, but these people do not.

"We have the resources to train people in home ownership."

Geffen's research did not reveal any housing scheme which she believes really addresses the needs of the market. The cheapest house she found on the market cost R8 500 and consisted of a foundation, walls and a roof.

"The government is talking about a R6 000 subsidy to first time home buyers, but this leaves at least another R2 500 to be found. We are talking here about people who are at subsistence level. They cannot find R2 500."

Building societies were not prepared to lend below R40 000, owing to the costs of administration.

Geffen did not believe granting serviced stands on which people could erect their own structures was really what was wanted. "People want a house with bricks and mortar and a proper foundation so they can expand."

She firmly believes the government has to take responsibility for the problem.

No secret about the plan for tomorrow

B/Day 20/3/91

KEVIN DAVIE

ONE of this country's worst-kept secrets is the confidential Old Mutual and Nedcor scenario plan for SA.

The Cabinet, politicians, businessmen and editors have been briefed, there have been some reports on the plan, and aspects have been publicly criticised by Anglo chairman Julian Ogilvie Thompson.

Yet the plan, which so far has been presented in lecture form only, is still to be completed as a written document. Nedcor sources say they expect it to be released next month, while an Old Mutual source indicates there is no timetable for the publication of the plan.

The major thrusts have already been aired by Ogilvie Thompson, at Sacob's southern Transvaal regional conference last weekend, by Azapo, and by the Labour Research Service (LRS), a Cape Town-based service used mainly by the trade union movement.

The chief architect of the plan is a Frenchman, Pierre Wack, who has made a name for himself as one the world's foremost scenario planners. Shell and Anglo have used his expertise, the latter study resulting in Clem Sunter's celebrated "winning nation" scenario.

The main difference between the Anglo and Old Mutual/Nedcor scenarios is that the latter details what must be done within the next few years to get on the high road of economic growth. The Anglo scenarios dealt with the same issues, but in general rather than specific terms.

SA's downside potential is an African version of Beirut, according to the Old Mutual/Nedcor scenario. Massive interventions are needed now to prevent this. If successful, the plan would create hundreds of thousands of jobs and boost GDP growth by several percentage points.

The planners believe SA will have its new constitution by 1994/95, but argue that a two-stage solution needs to begin now for the new negotiated order to succeed. The first depends on a kick start to get the economy going, the second involves consolidation to change into higher gear.

Skills

The kick start has four parts:

- The provision of housing on a massive scale. The plan calls for 200 000 houses to be built and 400 000 serviced sites to be provided every year until 1995. Government would spend R2,4bn annually in subsidies, and financial institutions a further R2bn;
- The electrification each year of one-million houses with pre-payment meters, at a cost of R2bn. The housing and electrification components of the package will add an estimated 3,5% to GDP;
- The restructuring of education to provide state-funded compulsory free primary education and a state/private sector partnership to fund skills-orientated secondary education. Participating companies would get tax breaks to encourage investment in skills training; and
- The creation of a community-based, government-funded jobs corps to provide work for the lost generation. Accommodation would be provided, there would be a small wage, and training in building and other skills would be given.

The gear change, or phase 2, calls for the restructuring of the economy to push manufactured exports.

The Bargaining Monitor of the LRS says the plan depends on social compacts (peace treaties) to succeed. Unions will have to sign these compacts with companies and the state. Strikes need to be reduced, there will have to be wage restraint, and violence will be banned.

OGILVIE THOMPSON

Communities must likewise agree not to launch boycotts.

Ogilvie Thompson said at the weekend the Old Mutual/Nedcor planning team believed SA could not rely on foreign capital and needed forced saving. Further devaluation of the rand was required to encourage exports.

He said the proposals "were compatible with the general direction government and business are already taking. Both conclude that much greater social investment has to take place despite a tight economic policy and environment."

But Ogilvie Thompson said while he broadly supported the proposals, he did have some criticisms.

One was that the analysis tended to regard SA's mineral resources as a burden, as they have retarded potential developments elsewhere.

He said the appropriate mix for SA should be the efficient further development of the minerals sector, including beneficiation where possible, and complementary efforts to develop manufactured exports.

Ogilvie Thompson said problems could arise from stressing the need for forced saving rather than mass consumption, which was needed to achieve a larger domestic base.

Another problem was that currency depreciation and lower interest rates would have inflationary implications: "Social compacts in this scenario may be difficult to achieve."

A further criticism made by Ogilvie Thompson is of the suggestion by the planners that there should be a return to prescribed investments, although at market-related rates.

Policies differ for whites, blacks

Banks face accounts race row

(58)

Star 20/3/91

By Shareen Singh

Some banks are practising racism and discrimination in dealing with applications for the opening of savings accounts.

In an investigation done by The Star, it was found there were different requirements for different race groups to open savings accounts at certain Volkskas and Trust Bank branches. And at most banks, housewives were told their husbands had to counter-sign the application.

The unemployed, even if they had access to thousands of rands, are refused permission at virtually all banks.

A black man was told at a Volkskas branch in Johannesburg that he needed a minimum of R500 to open a savings account. A few minutes later, an Indian woman was told at the same bank that she needed R200 to open such an account.

A white reporter telephoned the same branch later and was told she did not require a set minimum to open an account.

At Trust Bank, both black and Indian applicants were told that a minimum of R500 was needed to open a savings account.

One applicant said this was "rather steep" and asked whether it might be a mistake, but the bank assistant insisted that this was bank policy and applied to all races.

However, when a white applicant contacted two other Trust Bank branches, she was told no minimum amount was required. A black reporter who telephoned the same branches was told that a minimum of R500 was required.

Probe

Trust Bank and Volkskas emphatically denied that their banks' policies were racist.

Trust Bank's head of communications Louis de Villiers said the bank did not tolerate racist practices and would investigate the case.

Volksas senior public relations officer Irna Meyer said a minimum of R50 or R100 was required, depending on which savings account the client wanted. The same applied to all races, she said.

Two weeks ago, The Star published an article on alleged racism at a branch of First National Bank, where a bank assistant demanded a letter of reference from a Lebanese man, believing he was coloured.

A senior manager of FNB, Jimmy Mckenzie, denied that his bank practised racism, saying it was left to the discretion of each branch manager to decide whether a letter of reference was needed. This discretion was not based on race, he said.

Verifying this, reporters found they were given the same treatment, irrespective of race, at two branches of FNB.

All were asked to get letters of reference from their employers authorising them to open an account at the one branch, and the other branch did not require reference letters.

With regard to the unemployed, it was established that banks believed the jobless would not be able to service their accounts and preferred such people to open fixed deposits or longer-term accounts.

Housewives also faced problems when trying to open savings accounts.

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Property market 'on the road to recovery'

THERE are signs that the property market may recover from its decline much sooner than expected, says Camdon's Group MD Scott McRae.

This view is based on news that the trend in building plans passed for residential properties has moved from a 5% decline in 1989 to a 12% increase in the first nine months of 1990, he says.

"The figures released by Econometrix, the consulting economists, show there is now a strong case for an early relaxation of interest rates to provide the impetus for resurgence of the market," McRae says.

The increase in building plans is a positive sign and shows a recovery of the market is on the way, he adds.

"However, building plans passed are not necessarily buildings begun. A drop in interest rates and an improvement in business conditions would probably be needed before the full benefit of the intent represented in the figures is realised," McRae says.

The SA property market should see the start of a strong recovery by about mid-1991. This will be spurred by any further decline in bond rates, he says.

A 1% drop in the bond rate was announced by the major banking institutions after Reserve Bank Governor Chris Stals's 1% Bank rate cut on March 8.

In addition, expatriates who are living and working in SA could turn political and economic trends to a profit of as much as 30% in the short term by investing in SA property now, McRae says.

"Now is the time to invest before the conditions for such investment are no longer as favourable," he adds.

Of the more than 9 000 immigrants in the first nine months of 1990, about 40% applied for permanent residence. "There are three essential reasons for a potentially excellent return for such investors: the present artificially low price of SA properties in world terms; the similarly artificially low value of the SA rand and the natural escalation in values of properties in SA."

If one accepts that SA's new political dispensation will lead to an inflow of capital and an improvement in the economic climate, then property values must rise, he says.

If a 10% increase in the value of the rand is assumed and a 10% improvement in home values and a conservative increase due to inflation, an expatriate investor in early 1991 could see a 30% tax-free return on his money within a short period of time, he concludes.

Little growth in residential buildings

THE general uptrend in buildings completed, which increased by 11% between January and November 1990 compared with the same period in 1989, was mainly due to the construction of non-residential buildings.

Boland Bank's March 1991 Focus on the Property Market says capital expenditure on residential buildings has been a relatively small component of total gross domestic fixed investment since 1984.

But, Boland Bank says, the decline of 3% to 4% in the real value of plans approved for both residential and non-residential construction in the first 11 months of 1990 over 1989 indicates a further slackening in building activity in 1991/92. B/Day 20/3/91

The average rise in the cost of housing measured by the CPI fell to single figures in 1990 as a result of the stability of financing costs and levelling off in building cost increases.

"The pressure on the financial position of the average South African is clearly reflected in the weak performance of the residential property market since the first half of the eighties," it comments.

"Inhibiting legislation and socio-economic instability in the black townships during this period further restricted activities.

"During the next year socio-economic risks will remain a decisive factor regarding the development of underdeveloped areas."

Boland Bank expects a revival in the property market by mid-1992 at the earliest.

Allied's Alborough pays loan interest

B Day 20/3/91 (58)

Business Day Reporter

ALLIED Group has written an official internal end to the saga of its chairman's share allocation.

Just less than a fortnight ago, on March 7, group non-executive chairman Norman Alborough sent a R20 336,50 cheque to Bruce Vermeulen, Allied's senior general manager responsible for finance and administration.

The cheque covered 52 days interest on a R660 000 loan calculated at the prime overdraft rate of 21%. Of the total, R19 745,75 was interest on the principal up to January 10 and the remaining R590,75 was 52 days interest on interest to March 5.

The R660 000 represented payment by Alborough's private company NVR Alborough Investments (Pty) Ltd for the controversial issue of 500 000 Allied shares to him at a price of 132c a share.

The shares were allocated to Alborough in September, at a time when he was closely involved in merger negotiations with UBS, and the purchase price was back-dated to July when Alborough had been appointed Allied's group non-executive chairman.

Alborough only paid for his share allocation on January 11 and, at present, stands to make a profit of R715 000 by accepting UBS's cash and share offer for his Allied shares and calculated at UBS's 710c share price yesterday.

Vermeulen would not comment on the matter yesterday. However Allied insiders say he had discussed the matter of the interest with director Joe Pamensky, who chairs Allied's audit committee.

And it would appear from the fact that Alborough's payment was directed to Vermeulen, that Allied itself had loaned Alborough money at no more than prime to pay for the shares.

Unless shareholders have given their approval in a general meeting, companies are prohibited in terms of section 226 of the Companies Act from making loans to directors or providing security in respect of transactions to directors.

Allied's shareholders were not invited to vote on any loans to Alborough or even on the allocation of 500 000 Allied shares to him.

No upward pressure on interest rates

By Claire Gebhardt

The Budget should not exert any upward pressure on interest rates, apart from the marginal effect of a 0,75 percent tax on the gross interest income of financial institutions, says Dr Japie Jacobs, special economic adviser to the Minister of Finance.

Addressing a Budget seminar presented by Frankel Max Pollack Vinderine, he said the amount to be raised by this turnover tax would be in the vicinity of R400 million — depending on the level of interest rates in the period ahead.

The amount included the gross interest and interest-related income of banks, building societies, long-term insurers, pension funds, unit trusts, participation bond schemes, the Corporation for Public Deposits, the Land Bank and companies conducting credit trasactions.

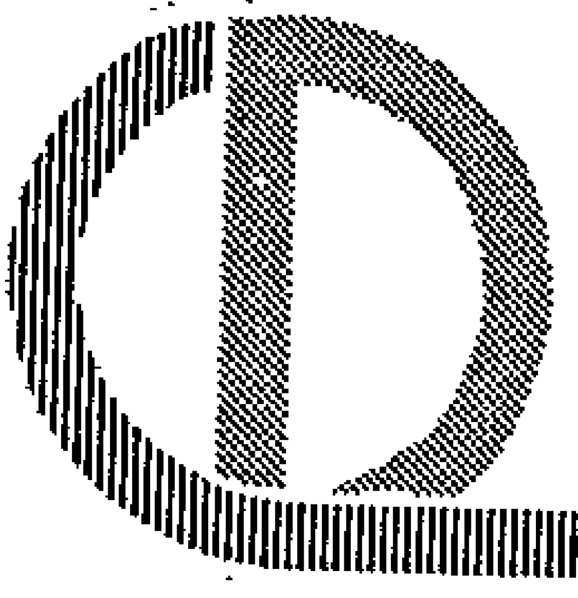
"The Post Office Savings Bank, which is providing saving facilities for the small man and is therefore performing a social function, will be excluded from the tax."

Dr Jacobs said the loan requirements of the Government, even if maturing stock was taken into account, could be met easily from the savings flow to the contractual savings institutions, including the PDC.

The contribution of the PDC could be in the order of R6 billion to R7 billion in the form of new money.

It was generally known that the PDC currently managed a pool of funds amounting to about R3 million which was invested in credit instruments other than government stock.

South PROPERTY



SOUTH Property. Tel 462-2012 P.O. Box 13094 Sir Lowry Road 7900 Cape Town. 6 Russell Street Woodstock

Code of Conduct

South 21/3 - 27/3/91 (58)

THE Code of Conduct was introduced to improve the standards of the Estate Agency Industry beyond the ordinary rules of commerce and impose obligations in terms of social responsibility, behaviour and standards of competence.

1. In this Code of Conduct, unless the context otherwise indicates,

(a) "client" means a person who has bound himself contractually to an estate agent for the purpose of the estate agent rendering a service on his/her behalf in return for any gain, or for the payment of any remuneration or commission.

(b) "franchise" means an agreement, arrangement or understanding between a franchiser and a franchisee estate agent in terms of which the franchisee estate agent is entitled or required to operate under a trade name which is owned by or which is associated with the business of the franchisor or any other person.

2. An estate agent shall,

2.1. not in pursuant to the conduct of his business do or omit to do any act which will or may damage the good name, standing or integrity of estate agents in general.

2.2. protect the interests of his/her client at all times to the best of his ability with due regard to the interests of all other parties concerned;

2.3. display his/her fidelity fund certificate at all times in a prominent position in his/her place of business to the satisfaction of the board;

2.4. convey to a purchaser or lessee or an intending purchaser or an intending lessee of immovable property in respect of which a mandate to sell or lease has been given to him, all facts concerning such immovable property as are within his personal knowledge and which are or would be material to a prospective purchaser or lessee thereof.

2.5. furnish without undue delay to a contracting party upon being so requested. Insofar as he/she is able a copy of the relevant agreement of sale, agreement of lease, offer, option, mandate or similar document relating to every transaction with which he/she is concerned as an estate agent.

2.6. inform the Estate Agents Board in writing within 14 days of any change in the information supplied to the said board at the time when he/she applied for the issue of a fidelity fund certificate and if the information appearing on the said certificate is no longer applicable or has changed, forthwith forward such certificate to the said board for appropriate amendment or for cancellation thereof or for the issue of a new certificate in substitution therefor,

2.7. if he/she conducts his/her business in terms of a franchise, disclose clearly and unambiguously in all correspondence, circulars, advertisements and other written documentation that he/she operates in terms of a franchise and state thereon his/her name and the name of the franchisor.

2.8 if he/she conducts business under a trade name or style other than his/her own name, clearly disclose in all correspondence, circulars and advertisements and other written documentation his/her full names and in the case of a company or close corporation, the registration number thereof in addition to such trade name or style.

3. No estate agent shall

3.1 in his/her capacity as an estate agent publish or cause to be published any advertisement which could create the impression that it was published by a person other than an estate agent.

3.2. without detracting from the generality of the aforegoing, in advertising immovable property for sale or for letting, willfully or negligently mislead or misrepresent in regard to any matters pertaining to such immovable property.

3.3. purchase directly or indirectly, or acquire any interest in any immovable property in respect of which he/she has been given a mandate to sell, without the full knowledge and consent of the seller, or sell his/her own immovable property or any immovable property in which he has any direct or indirect interest to any prospective purchaser who has retained his services, without that purchaser having full knowledge of his/her ownership of, or interest in such immovable property.

3.4. offer purport or attempt to offer any immovable property for sale or let or negotiate in connection therewith or canvas or undertake or offer to canvas a purchaser or lessee therefore without the prior authority of the owner or the lessor as the case may be, or of their agents, which authority when it confers a sole agency, shall be in writing.

3.5. on behalf of a prospective purchaser or lessee offer, purport or attempt to offer to purchase or lease any immovable property or negotiate in connection therewith or canvass, or undertake or offer to canvass or seller or lessor therefor without the prior authority of such prospective purchaser or lessee as the case may be or their agents which authority when it confers a sole agency, shall be in writing. □

Quentin Pavitt

Sage makes provision for its troubled US offshoot

BDay 21/3/91

SAGE Holdings has decided to charge R55m against its reserves as a "conservative" provision against its troubled US offshoot, Independent Financial Marketing Group (IFMG). The charge represents more than a quarter of of the group's end-1989 R206,2m shareholders' funds.

The provision, calculated at the financial rand rate and due to be set against reserves at the end of Sage's 12-month financial period to end-December 1990, has been made against the US offshoot's $15,8m accumulated borrowings. At the end of the previous financial year a R41,7m contingent liability was disclosed as a note to the end-1989 accounts.

When the 1989 accounts were released, Sage refused to say whether the liability had been calculated at the commercial or financial rand exchange rate, but yesterday conceded it had been calculated at the commercial rand rate. Foreign exchange regulations oblige SA parents to repay their foreign off-shoots' debts at the less-attractive financial rand rate if it appears the foreign company cannot be traded back to profitability.

Business Day Reporter

Sage blamed IFMG's problems on what it described as "an untenable degree of anti-South African pressure".

Press investigations last year into Sage's affairs led to court action which prevented the Financial Mail from publishing information on the offshore losses the magazine had uncovered.

IFMG is to be restructured with new finance from Coverdell, which is a US financial services company, and Glenleigh Corporation, which Sage yesterday described as a New York merchant banker. The restructuring involves Sage's $2m sale of its subsidiary's US marketing operations, the injection of necessary capital by Coverdell and Glenleigh and their assumption of IFMG's operating liabilities and leases. Sage has a seven-year option to convert one-third of the $2m into a joint controlling interest.

Sage said yesterday it would not be repaying its US debts immediately but is waiting until exchange rates are felt to be favourable.

SA banks 'are overcharging'

B Day 21/3/91

THE Consumer Federation has found that banks are charging "illegal" interest rates on overdrafts, executive director Karel Gevers said yesterday.

He said illegal interest rates did not only mean rates charged in excess of the Usury Act limitations, but also the changing of interest rates without notifying clients.

In one instance, a client supposed to be charged the prime interest rate plus 2% was charged the prime rate plus up to 14,5% in one month, and prime minus 10,5% the next month, Gevers said. (58)

Gevers claimed that a bank had overcharged one client by R87 728 over eight years, and in another case a client was overcharged by R14 975.

Gevers said although he had mentioned prime rate clients, research had indicated that clients with less favourable terms were more vulnerable. — Sapa.

Levy fulfils worst fears of bankers

ROBERT GENTLE

THE blow the banking sector had been fearing was delivered yesterday when Finance Minister Barend du Plessis hit it with a 0,75% levy on interest income and finance charges.

The move will raise R170m in revenue.

The levy, which is not tax-deductible and applies to institutions and persons providing finance charges, is to offset the revenue lost from exempting these entities from VAT.

This followed the realisation by Vatcom, the VAT Committee, of problems associated with defining VAT for such institutions and ensuring it was collected. Du Plessis described these problems as "insuperable".

He said that financial services, banks, insurance, pension funds and other financial intermediaries must also "make their contribution" from an equity viewpoint.

Arthur Andersen tax manager Peter Todd said it was not yet clear whether the tax would also apply to other entities — say, group finance companies.

"The net effect could be an increase in lending rates," said Todd.

KPMG Aiken & Peat tax partner Ed Hoffman said banks might prefer to raise bank charges instead.

R25bn 'available for social investment'

B/Day 21/3/91 (58)

KEVIN DAVIE

THE life and pension industry had R25bn deposited with financial institutions at the end of 1989; funds which could be channelled into social spending through development agencies.

A special annexure to yesterday's Budget details the extent of the life offices' funds, and suggests ways for productive investment in socio-economic upliftment through the Industrial Development Corporation, Development Bank and Small Business Development Corporation.

The annexure results from a continuing investigation by Japie Jacobs, special adviser to Finance Minister Barend du Plessis, into savings trends in SA. Jacobs has also been investigating co-ordinating the movement of private sector socio-economic funding from potential sponsors to recipients.

Jacobs said there was no evidence that the funds of the life and pension industry were used unproductively or that their activities harmed the financial markets. He said these institutions had no role in making risky investments and that the supervisory authorities would not permit this.

He added though that satellites could be created to make such investments.

Jacobs said these savings institutions had no expertise in investing in socio-economic upliftment, but said they "can certainly channel funds to the Industrial Development Corporation (IDC), Development Bank and the Small Business Development Corporation (SBDC) (which have) the expertise".

The life offices were important investors in public sector securities, including local authorities and public sector corporations, in this way providing for social and economic infrastructural upliftment.

Jacobs said the life offices could not be expected to directly provide home loans to householders as they did not have the necessary infrastructure.

"They do, however, channel funds and are prepared to invest in instruments which make funds available for this purpose to institutions serving the residential housing market."

Jacobs suggested the life industry might be able to invest in education so long as an appropriate development agency acted as intermediary and accepted responsibility for the investment and interest burden.

The annexure showed long-term insurers and private pension funds had R25,3bn invested with deposit-taking institutions at the end of 1989. About R12,5bn of this was deposited by the long-term insurers.

"An important slice of contractual savings is thus channelled into the banking sector for credit extension," Jacobs said.

Total assets of all financial institutions (including the Reserve Bank and the Corporation for Public Deposits) stood at R423bn at the end of 1989. Banks and building societies accounted for 56%, or R237bn, of the total, and life offices R96,1bn or 22,7%. Private pension funds had assets of R46,8bn, or 11% of the total.

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Savings accounts: 'Banks guilty of racism and discrimination'

AK845 24/3/91 58

The Argus Correspondent

JOHANNESBURG. — Some banks are practising racism and discrimination in dealing with applications for the opening of savings accounts.

An investigation by the Star found there were different requirements for different race groups to open savings accounts at certain Volkskas and Trust Bank branches.

At most banks housewives were told their husbands had to countersign the application.

The unemployed, even if they had access to thousands of rands, are refused permission at virtually all banks.

R500 minimum

One man was told at a Volkskas branch in Johannesburg that he needed a minimum of R500 to open a savings account.

A few minutes later, a potential woman customer was told at the same bank that she needed R200 to open a savings account.

A reporter from the newspaper telephoned the branch later and was told that she did not require a set minimum to open an account.

At Trust Bank, applicants were told that a minimum of R500 was needed to open a savings account.

'Bit steep'

One applicant said this was "rather steep" and asked whether it may be a mistake, but the bank assistant insisted that this was bank policy and applied to all races.

But when a white applicant contacted two other branches of Trust Bank, she was told that no minimum amount was required.

A black reporter who telephoned the same branches was told that a minimum of R500 was required.

Both Trust Bank and Volkskas emphatically denied that their banks' policies were racist.

Bank policy

Mr Louis De Villiers, head of communications for Trust Bank, said the bank did not tolerate racist practices and the matter would be investigated. He hoped these were isolated incidents.

The senior public relations officer for Volkskas, Ms Irna Meyer, said a minimum of R100 or R50 was required, depending on which savings account the client wanted. The same applied to all races, she said.

The paper also found that unemployed people were not eligible to open saving accounts at FNB, Volkskas, Trust Bank, Standard Bank or Nedbank even if they had thousands of rands to deposit.

It was established the banks believed that unemployed would not be able to service their accounts.

PROPERTY FOCUS

New bond rate could help boost investment

Sowetan 21/3/91 (58)

THE one percentage point reduction in the mortgage interest rate, amounting to about R80 on a bond of R100 00 offers homeowners a substantial investment opportunity at no additional cost.

This is the opinion of Mr Clive Fox, managing director of independent unit trust specialists, Consolidated Fund Managers.

"Without spending anything extra, the homeowner with a bond of R100 000 can settle his bond in less than 15 years or acquire an additional tax-free investment of approximately R100 000 in 12 to 15 years.

"Unit trusts have historically yielded 20 percent or more per annum over the long term, with average returns often as high as 25 percent per annum.

"This level of return is substantially better than the investment return in the residential property market and also better than the new bond rate of 19,75 percent, which we believe will continue to decline over the next two years," Fox said.

Reductions in the bond rate are often an excuse to reduce monthly bond repayments and to reallocate this spare money to non-essential expenditure, he said.

Interest rate reductions also invariably herald improved activity in the equity markets, with positive benefits to unit trust investors.

"While investing in your own home has always been important, residential properties are not yielding anywhere near as high as the returns being yielded by top performing unit trusts.

"And by simply reallocating the money being liberated by the drop in bond rates into unit trusts which are, we believe, on the verge of substantial upward growth, the homeowner can derive the maximum benefit from this relaxation in rates, at no real additional cost," Fox said.

Banks to pass on tax to customers

Star 21/3/91. (58)

Diagonal Street

ANN CROTTY

Stanbic and First National Bank would have had to pay R52 million and R40 million respectively in "turnover tax" if the proposed 0,75 percent tax on interest income had been in force in their latest financial year.

It would have reduced earnings of both banking groups by around 7,5 percent — a major reduction given that in the 12 months to end-December 1990 Stanbic had managed a 24 percent hike in earnings and FNB lifted earnings by 20 percent in the 12 months to end-September 1990.

Stanbic had interest income of R6,9 billion and FNB had interest income of R5,3 billion.

This sort of hit on earnings, which would be felt across the finance sector and will be aggravated by the changes to Section 24 allowances, is expected initially to put signficant downward pressure on JSE ratings in the sector.

But to the extent that this additional tax cost can be recovered by passing it on to the end consumer, earnings will be protected and ratings should recover. However, this additional cost may dampen the demand for borrowings.

The new tax will be effective from October.

Although the major banks had last week met with government to discuss this move, the announcement did come as a shock to most of them.

FNB MD Barry Swart said that in the very difficult circumstances that prevailed The Budget reflected "remarkable fiscal responsibility". But the interest tax was a great shock and disappointment to the banks.

He referred to the banks' very low interest margins and the pressure they face in boosting capital levels to meet the new requirements under the DTI Act. "We will have no choice but to pass all of it on to the end consumer," he said.

With regard to the changes to Section 24 of the Income Tax Act (details of which were published yesterday in Practice Note 13), Mr Swart noted that previously the benefits of these allowances had been passed on to clients. To the extent that the changes were retrospective customers might have to repay some of the benefits.

The interest tax represents a double tax for the banks and, as Mr Swart pointed out, it will take FNB's overall tax rate up to 52 percent.

Standard Bank's chief accountant, Henry Shaw, noted that the interest tax reflected government's dilemma about applying VAT to financial services. He also felt that it would be totally impractical not to expect the players involved to pass on the cost of the tax.

"It is likely to have some dampening effect on the level of demand for borrowings," he said.

Given the extent of the additional tax that will be received from Stanbic and FNB alone (they are the only banks that publish this information), the Minister's projection that the new tax will provide around R400 million a year seems conservative.

In an address to Frankel Max Pollak Vinderine's Budget seminar, Dr Japie Jacobs pointed out that the total amount raised would depend on the level of interest rates in the future.

The new tax would be imposed on the gross interest and interest-related income of banks, building societies, long-term insureers, pension funds, unit trusts, participation bond schemes, the Corporation for Public Deposits, the Land Bank and companies conducting credit transactions such as hire-purchase business.

In addition it was possible that corporate head offices that frequently play an important cash management role for their subsidiaries would be faced with the new charge as soon as they hit the R1 million interest income level.

Dr Jacobs pointed out that the Post Office Savings Bank, "which is providing saving facilities for the small man and in many respects perform a social function in this respect," would be excluded from the tax.

FM 22/3/91 (58)

LIBERTY LIFE/FIT

LONG RUN

FM 22/3/91 (58)

Shares in the Liberty group have done well over the past year. Since January 1990, Liberty and Liberty Holdings have climbed by between 38%-45%, while First International Trust (FIT) — though restrained by a firming financial rand — gained about 22%.

Reasons are not difficult to find. Not only have earnings and dividends remained on the steady growth path established over about two decades, but both policyholders and shareholders have benefited from bonus distributions. Shareholders' funds of Liberty Life have gained from growth in value of strategic investments, such as SBIC, SA Breweries and Premier, while the international holdings in FIT are moving closer towards benefiting from large investments in real estate.

Overall effects are reflected in the top company, Liberty Holdings, whose EPS rose by 20,4%. Total dividends declared by Liberty Holdings for the 1990 financial year, excluding the special ordinary payout of 120c a share declared in August, amounted to 220c — a record 46,7% increase on the 150c paid in 1989. As chairman Donald Gordon points out, that gives an unbroken pattern over 22 years of increases in dividends averaging over 25% annually.

Liberty Life remains the dominant source of group profit, having contributed 78% last year. The 36,5% increase in its dividend reflects the change in dividend policy announced with the interims in August. The new policy, which established dividend distributions at a level of not less than 85% of net taxed surplus, will have matching effects for Liberty Holdings.

On the international front, FIT — whose interests include a 27,7% stake in Sun Life Corp Plc and a controlling stake in the real estate company, Capital & Counties — produced attributable income of R66,1m, with EPS up by 27,9% at 47,7c; the dividend was raised by 11%.

Currency boost

With FIT's investments all in the UK, the sharp depreciation of the rand against the pound during the first nine months of the year would obviously have boosted the result. It remains to be seen whether FIT will see a similar currency boost this year, but the odds must be against it. Notably, FIT's share price, at 1 270c, trades well below the peak of 1 775c set in August.

Given what Gordon describes as extremely difficult financial and trading conditions, TransAtlantic's strategy has been to strengthen its capital base and to improve liquidity. Capital & Counties is concentrating on the steady completion of its existing development programme, with no significant new development contemplated.

In October, Capital & Counties opened the Thurrock Lakeside shopping centre at a site which Gordon says is convenient for about 20% of the UK's population. He adds that Thurrock is trading ahead of all reasonable expectations, when UK retailing has been going through its most traumatic period of the past two decades.

Last year saw several major distributions of wealth in the Liberty group. More than R1bn was distributed to policyholders by way of bonus distributions including income and capital appreciation applicable to linked participating policyholders.

From the shareholders' standpoint, there was the special dividend, and last month Liberty Life announced it would distribute to shareholders, free of consideration, about 34,2m FIT shares, amounting to a quarter of its issued shares. Liberty Holdings, with 56% of Liberty Life, is entitled to receive about 19,2m FIT shares, which will be distributed to its shareholders on the same basis. The scrip dividend is intended to provide tax efficient recompense to shareholders for the effective deferment of income almost from the start of the overseas venture more than a decade ago.

A bonus distribution is all very well, but when considering which of the shares offers the best long-term investment, the market favours the top company, Liberty Holdings, which directly benefits from growth achieved down the line. Since the trough of February 1988, FIT's price has doubled, Libvest has risen 178%, Liberty Life has gained 215% and Liberty Holdings has climbed 245%.

Andrew McNulty

COMMERCIAL PAPER

FM 22/3/91

NEW GUISE FOR GREY MARKET

The tiny commercial paper and debenture market is expected to burgeon as it absorbs a large proportion of the grey market in inter-company lending, now outlawed by the new Deposit-Taking Institutions Act. "Until now, the paper market has been confined to short-term instruments issued and then held by banks," says Securities Portfolio Managers' Pierre Faure.

This has been changed by the Act, which came into effect last month. Deposits by subsidiaries with holding companies do not fall within its ambit, but deposits by associates and other non-subsidiaries do (excluding mining houses which have been exempted in the case of investment in mining ventures).

This brings those companies accepting the deposits within the definition of deposit-takers, making them illegal operators subject to prosecution.

The Reserve Bank is offering companies the option of continuing these funding transactions through commercial paper and debentures, a form of borrowing which will be exempt from the Act. The second draft of a discussion paper on this topic has been circulated for comment.

Proposed changes aim, firstly, to eliminate a "lacuna" in the Act, created by the treatment of debentures, which results in "circumvention of the Act."

In addition, says deputy Registrar of Deposit-Taking Institutions Christo Wiese: "The Bank has proposed guidelines under which debentures and commercial paper can be issued, which allow for specific exemptions from the Act."

If the proposals are implemented, corporates will be allowed to issue short-term paper and longer-term debentures, subject to certain provisions:

□ That the paper is issued by a listed company with net asset value (NAV) of R100m (excluding intangible assets and taking into account off-balance sheet liabilities);

□ Alternatively, that it is issued by an unlisted company with an NAV of R200m, complying with certain disclosure requirements relating to the issue of debentures; and

□ Units have a minimum value of R5m.

Issues are also permitted by a subsidiary of a company which complies with these requirements and which binds itself "in writing, jointly and severally, in favour of the investors in such subsidiary."

Receipts of the issue must be earmarked for a specific project and not used directly or indirectly to finance credit extension. Paper is to be issued with a fixed term (three to 12 months) and at a fixed interest rate.

No restriction is to be placed on the identity of investors but only one investor may have a beneficial interest in "any one commercial paper at any single point in time." The paper may be traded and the issuers will be allowed to make a market in it.

Says Faure: "Markets in private sector commercial paper are massive in many industrialised countries."

He cites several reasons why the market has been inhibited here:

□ Potential investors have been discouraged by the lack of rules and structures;

□ There are comparatively few large companies capable of issuing and dealing in their own paper; and

□ Lack of a rating agency.

"Now that the authorities are creating the framework for the commercial paper market and we have a ratings agency (see "Perspective on risk"), it has become a viable proposition," says Faure.

Tom Makinson, chairman of the technical committee of the Association of Corporate Treasurers of SA, points to inhibiting factors still in place.

"My initial response is that the second draft is a substantial improvement on the original proposals, which restricted paper to periods of not less than two years. But there is still a need in the 30-90 day area.

"Moreover, the Bank is prescribing who the triple A players should be by laying down minimum NAVs. There can't be many unlisted companies with NAV over R200m."

He points out that there are companies the rating agency may consider triple A, which will fall outside the parameters set by the Bank. "Why should they be excluded?" ■

INCOME TAX

FM 22/3/91

PHASING-OUT

In practice note 13, just released, Inland Revenue sets out the terms of phasing out the timing concession for finance charges, previously allowed under section 24 of the Income Tax Act. The new rules apply to suspensive sale agreements predating March 1.

For category A agreements (where the original amount does not exceed R500 000) the amount subject to phasing-out must be limited to taxable income (with a choice of years) after adding back the previous year's S24 allowance and deducting the unearned finance charge element for that year.

This amount must be phased out over 48 months, starting on March 1 1991, on a straight-line basis.

Category B agreements are those where the original loan capital exceeds R500 000. For category B1 contracts, under which the term at February 28 1991 is five years or fewer, the allowance will still be on the earlier basis, allowing finance charges, for a further four years, provided:

□ No extension to the original period of contract will be recognised; and

Continue →

FUTURES CONTEST HOTS UP

The leader board in the second week of the Safia Futures Risk Management competition shifted dramatically. By March 17 Morkel Brink dropped from first to 10th place while John Cutten moved into the top spot to vie for the R50 000 prize sponsored by Rand Merchant Bank (RMB.)

With the JSE taking a breather, growth in the underlying portfolio is unchanged at 0,9% (27,4% annualised). But all top 10 contestants are easily outperforming the market.

Both Cutten (of Hayes Cutten) and Johnny Solms (Mechiel du Toit) have maintained long positions in Industrial index futures. In doing so they outperformed those who tried to take profits more frequently on intra-day positions.

Top contender for the *FM* Top Trading Desk trophy is now Standard Merchant Bank.

Its best two portfolios have an annualised return of 61,1%. RMB is second, Finansbank third.

HOW THEY RUN

	Absolute return %	Annualised return %
1 John Cutten, Hayes Cutten	3,87	117,7
2 Johnny Solms, Mechiel du Toit	3,68	111,9
3 David Rennie, private	2,92	88,8
4 Brett Stacey, National Futures	2,92	88,8
5 Mark Perkins, Greenwich Futures	2,52	76,7
6 Bruce Walker, Standard Merchant	2,31	70,3
7 Ray Cadiz, Rand Merchant Bank	2,10	63,9
8 Chris Greyling, DHSA	2,06	62,7
9 Herbert Peter, JCI	2,05	62,4
10 Morkel Brink, Genbel Investments	1,89	57,5

FM 22/3/91

LOA's CROCODILE TEARS

58

"Disappointing" is how Life Offices Association (LOA) executive director Dick Geary-Cooke describes the Budget. Fact is, life offices score heavily, relative to other financial institutions.

LOA requests included a cut in tax attracted by policyholders' funds to 30%, which it reckons is an average individual tax rate. Instead, Finance Minister Barend du Plessis cut the rate from 45% to 43%, bringing it in line with top marginal rates. The LOA hadn't really expected anything better, though the benefit is put at only R10m.

Another request was that policyholders' investments should be freed from dividend tax, bringing them into line with all other investors and entrenching the principle that life offices are trustees for individuals. That concession was not granted, though Du Plessis referred to the trustee principle.

Nor was the suggestion that all or most of life office expenditure should be allowed against income. At present, only 55% can be claimed.

So on the face of it, life offices have taken a beating. In reality, they win hands down against banks and building societies. The so-called level playing fields debate is as open as ever.

Life offices score because of what did *not* happen. There was no capital gains tax, which they had feared, because to follow the trustee principle logically, they deal in shares on behalf of policyholders.

Nor had they realistically hoped for an increase in their expense allowances. Following the trustee principle again, policyholders as individuals can't usually offset expenses against tax.

More than offsetting any negatives was the failure of the Jacobs Committee to produce a workable withholding tax, which might have swung savings back to banks/building societies, and the new 0,75% tax (in lieu of VAT) on interest earned by financial institutions.

Publicly, life offices consider the tax detrimental to pension fund members. Privately, they note that it will apply to almost all the income of banks/building societies. In the case of life offices, between only 10%-15% of income is interest-bearing and they have far more room to hedge against the tax.

LOA deputy director Juri Wessels reckons the tax will produce about R50m in a full year from life offices — "not staggering, but significant."

By contrast, First National Bank MD Barry Swart says the tax — based on last year's figures, when FNB had R5,4bn gross interest income — amounts to 15% of pre-tax income. "It is simply not possible for banks to absorb this cost — it will be passed on to the consumer."

Moreover, 0,75% of R4,5bn is, crudely, R40,5m for FNB alone, which suggests that even the Budget estimate of a total yield of a whopping R170m could be an under-estimate.

Standard Bank chief accountant Henry Shaw also points out that financial institutions will pay VAT for goods and services that go into the provision of their products but won't be able to claim input costs, because there is no final VAT-laden product.

He foresees a multiplier effect, with depositors demanding more interest to offset their tax, which will compel banks to hold their lending rates correspondingly higher.

Deloitte Pim Goldby's Craig France reckons the tax could cost Nedcor R38m and FNB R39,7m. "Retail banks that operate on a larger margin on interest may be able to absorb the tax. Commercial banks will be extremely hard hit."

DAVE KING

PERSPECTIVE ON RISK

(58) FM 22/3/91

Dave King is MD of Republic Ratings.

This is shaping up to be the year that restores credit risk evaluation to its proper place in the financial markets. For too long credit risk has played second fiddle to subordinate risks such as liquidity; now a number of factors have converged to cause a fundamental readjustment of investor attitudes.

The first factor is the deteriorating quality of some debt issuers. During the past two decades the imposition of prescribed assets eliminated all but government and semi-government organisations from the medium- and long-term markets. Consequently, a whole breed of institutional and other investors has grown up in a market where the credit standing of issuers was not in question and therefore required limited consideration.

This has caused an exaggerated emphasis on liquidity as the prime factor driving many investment decisions. It can be shown by the fact that many issuers have been able to use their sophisticated market-making skills to reduce their cost of funds to levels significantly below that of government.

This was possible even where the debt of an issuer did not carry a government guarantee. Some issuers, in fact, do not have inherent financial strength and have been dependent on government subsidies and hand-outs. Already there are strong indications, particularly in the agricultural sector, that government support will be moderated and become more commercially orientated.

This is causing investors to re-examine risk/return relationships on specific debt issues. Investors will stop focusing on liquidity across all risk categories and rightly look at liquidity within common risk categories. This change in emphasis will be complicated by the impending entry of new players as well as the emergence of new markets such as structured financing and commercial paper. Lack of familiarity with the new players and products will make investors analyse carefully the issuer of each debt instrument.

The second factor is investors' increasing awareness that undue emphasis should not be placed on uncommitted credit support from parent companies and organisations such as the Reserve Bank.

In a number of recent cases large corporations allowed ailing subsidiaries — including some quoted companies — to go to the wall. There are clear indications that this will become the norm rather than the exception.

Similarly, the warm feeling investors have regarding Bank support for the banking sector is not warranted. While the risk of a large bank failure is remote, this is clearly not the case with smaller banks. Developments in the market are likely to result in fewer larger, but more smaller, players.

The Bank cannot and should not lend direct support to these institutions, particularly in the wholesale market. Corporates are advised to manage their credit limits more carefully than in the past. The Bank should not waste taxpayers' money supporting institutions' poor advancement policies.

Republic Ratings, SA's first debt rating agency, highlights the credit risk of different debt issues and issuers. This is the first time the local market has had access to strategically focused debt ratings, as well as the recently introduced credit ratings. Major players in the capital market have either been or are in the process of being rated. This will assist in rating becoming institutionalised in SA, as the ratings of Standard & Poor and Moody's have abroad.

Minorco's cash pays best

Star 22/3/91 (58)

By Derek Tommey

Uninspiring performances by new acquisitions affected group earnings of Minorco - Anglo American's offshore investment arm - in the six months ended December, interim figures issued today show.

Earnings before extraordinary items amounted to $95,6 million equal to $0,56 a share. This compares with the $102,3 million equal to $0,60 earned in e six months ended December, 1989.

An interim dividend of $0,17 has been declared which is an increase of 6 percent on the year-ago payment of $0,16.

The chairman, Julian Ogilvie Thompson, says that if the lower gold price and lower interest rates continue, Minorco's earnings for the second half of the year will be below those for the first half

Minorco's main source of revenue in the six months ended December was its cash and short-term investments. At December 31 these amounted to$1 883 million and generated $115,5 million (year ago $105,5 million) in revenues.

Minorco received an additional $53,7 million in revenues from precious metals and $800 000 from base metals. But against this operating expenses absorbed $56,9 million, prospecting a further $5,1 million and interest $11,2 million.

Taxed took $500 000 (R1,3 million), equity earnings contributed $300 000 $1,3 million) while minority interest in earnings of subsidiaries took $1,0 million ($500 000).

Mr Ogilvie Thompson says that that Independence Mining Company, acquired at the end of March, last year, produced 144 000 ounces of gold at an average price of $381 an ounce while cash unit production costs were $225 million.

However, gold production at Jeritt Canyon, in which Independence has a 70 percent stake, declined owing to temporary operating difficulties (now largely resolved) with the ore roasting circuit.

Beralt Tin and Wolfram acquired at the end of October, last year, produced 331 000 tons of high-grade wolframite concentrate.

The consolidation of Independence and Beralt and the strengthening of Minorco's management resources led to the increase in operating expenses.

Earnings from Adobe Resources and Inspiration Resources were both negative.

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Another payout for AA Mutual creditors

58

Star 22/3/91

By Blaise Hopkinson

Creditors of defunct short-term insurance giant AA Mutual Insurance Association are in for an estimated R33 million bonanza as the liquidators have announced a further 25c in the rand payout.

The 200 000-odd creditors have already received a 30c in the rand payout, making a total so far of 55c.

The liquidators are hoping to raise at least R65 million from the sale of the prime AA Mutual House in Diagonal Street, Johannesburg.

This could bring the final liquidation dividend to 90c in the rand.

Liquidator Trevor Franklin said the final winding up of the short-term business at AA Mutual could take another two years.

Apart from the building there were few assets left for liquidation except for some furniture.

The liquidators are still collecting book debts.

AA Mutual's short-term business collapsed almost five years ago after a series of bad business moves.

The Melamet Commission into the affairs of AA Mutual concluded "inadequate reserving and other manoeuvres concealed the true position and the facade continued until 1986 when the bubble burst".

Uncontrolled growth, insufficient solvency margins, inadequate accounting and unsound reinsurance programmes were further factors blamed for the fall.

The crash left thousands of motorists high and dry in terms of cover.

The Supreme Court has authorised a settlement with certain major creditors whereby all outstanding litigation between these creditors and the liquidators is finalised and all outstanding cases against the liquidators are withdrawn. This will expedite the liquidation process considerably.

The seventh liquidation and distribution account will be open for inspection at the Master of the Supreme Court in Cape Town, Pretoria, Bloemfontein, Grahamstown, Kimberley and Pietermaritzburg and at AA Life Centre in Johannesburg from today.

Proposed lending limits mean corporates can bypass banks

B/Day 22/3/91

(58)

22/3/91

ROBERT GENTLE

THE Reserve Bank, in a major concession, has proposed allowing SA corporates to borrow directly from and lend short-term money to each other through the issue of tradeable commercial paper, without having to go through banks.

This process, known as disintermediation, will pave the way for a corporate debt market estimated at billions of rands and result in more competition for banks in the short-term lending market.

These developments emerge in the Reserve Bank's draft discussion paper released this week to the financial community for comment and eventual approval.

Corporates will be able to issue debt, including promissory notes, for three to 12 months, and debentures for periods exceeding 12 months.

However, the very short end of the debt market — 0-90 days — will still remain the exclusive preserve of the banks because of Pretoria's stated desire to offer them protection.

"We do not want to see the 90-day BA market destroyed," said Registrar of Banks Hennie van Greuning.

The new three-month lower limit was widely acknowledged in the market to have been a substantial improvement over the initial two-year limit proposed in the initial position paper released last December.

At that time, corporates such as blue chip industrials and parastatals protested vigorously, saying their greatest funding needs were precisely in that two-year window from which they were being excluded.

"We welcome the three-month limit," said Eskom GM, finance, Mick Davis, adding that the electricity giant already rolled over about R3bn every three months in the money markets.

Although disintermediation would deprive banks of a portion of the lending business they do with corporates, initial reaction yesterday suggested that would not necessarily mean reduced income.

"What we lost on the lending side we would make up on the servicing side," said First National Bank assistant treasurer Mike Law, explaining that corporates would need banks anyway to act as issuing and placing agents.

Similarly, Allied Bank chief manager Tony Andrew said: "We don't see it as eroding our income, but rather changing the way it is earned."

Tom Makinson, chairman of the Association of Corporate Treasurers of SA welcomed the progress made to date, but said improvements were necessary.

Financial sector shocked at turnover tax on interest

Bday 22/3/91 (58)

SHARON WOOD

THE imposition of a turnover tax on interest income in yesterday's Budget came as a major shock to the financial sector.

The costs it would impose on financial institutions would probably halt the recent downward trend in interest rates, and could even lead to an increase in rates, analysts said.

Deloitte Pim Golby tax consultant Craig France said commercial banks which operated on low interest margins would be extremely hard hit by the tax.

It came at a bad time, because the economy needed a boost and not a dampener, he said.

Initially there was some confusion about which institutions and transactions would be affected. Analysts now expect all financial services to be subject to the tax, including banks, pension funds, insurers and company groups involved in internal financial transactions.

Banks considered the tax to be severe because they were already subject to VAT as end-users of products.

Standard Bank chief accountant Henry Shaw said the introduction of the tax was likely to curb the decline in interest rates.

He said it was essential that the tax be applicable to all taxpayers involved in financial transactions. If the implementation was selective it would defy the principle of equity and would lead to distortions in the market.

First National Bank general manager Jimmy McKenzie said he considered the turnover tax to be a levy on interest income, since banks had no turnover.

The tax would penalise banks, which were already subject to VAT on goods used by the bank.

Finance Minister Barend du Plessis said in yesterday's Budget that the turnover tax on interest income would be implemented at a rate of 0,75%, as a proxy for VAT, from September 29 this year.

R975m in forex frauds

Cape Times 22/3/91

Own Correspondent

JOHANNESBURG. — Financial rand foreign exchange fraud cases under police investigation involve amounts of more than R975 million, a police spokesman said yesterday.

However, Witwatersrand Attorney-General Mr Klaus von Lieres und Wilkau said yesterday that R975m was a "low figure" and that cases outstanding on the Witwatersrand involved between R1bn and R1,5bn.

Police spokesman Lieutenant Burger van Rooyen said the SAP was investigating 69 forex cases and had instituted prosecutions in 33 cases since last April.

FM 22/3/91

BOARD OF EXECUTORS

BANKING VENTURE

(58)

Board of Executors (BoE) is launching its new merchant bank, with an equity base of R50m, firmly in the league of the top eight institutions in that field.

BoE Money Market (Pty), a wholly owned BoE subsidiary which has been providing money-market and related services, has changed its name to BoE Merchant Bank. It has been registered as a deposit-taking institution in terms of the new Deposit-Taking Institutions Act. Bill McAdam, MD of BoE and executive chairman of the new bank, says there are no plans to list it.

The bank's capital base will be funded from internal resources. MD Phil Biden, a main board director of BoE, says the capital: asset ratio stands at 16%, so assets could be doubled before the capital ratio drops to the minimum 8% requirement deposit-taking institutions will have to meet within four years.

BoE has long been involved in local and international money markets through its money desk. The new merchant bank will bring to book more than R1bn of money-market activities. With the expertise available in its existing corporate finance department, BoE itself has recently performed many merchant banking functions. These, and the money-market activities, are being brought together in a specialised environment.

McAdam says: "As the principal rather than the agency that we were, we will continue to operate in the top end of the corporate and interbank markets."

McAdam adds that the bank is not seen as a new venture, nor will it be involved with new products, new ideas or new people. It will lend only to AAA credit-rated clients and would be prepared to forgo some of the additional earnings that could be obtained by increasing the risk profile of its loans.

Though the advent of the new Act forced BoE to become either a money broker or a bank, the move to create a merchant bank follows the acquisition by AVF Group, Anglovaal's financial services holding company, of a 35% stake in BoE. Other major shareholders are Liberty Asset Management (10%), senior management (10%) and Really Noble Group (8%).

Also on the board of BOE Merchant Bank is executive director Richard Derman, while the non-executive directors are Anglovaal's Dave Barber, Andrew Ovenstone, John Swain and BoE chairman Paddy Wilson.

McAdam says budgeted earnings from the new bank are not expected to have any material effect on BoE in the short term.

Gerald Hirshon

ALLIED GROUP FM 22/3/91

CEASEFIRE (58)

Kevin de Villiers, controversial MD of Allied Group, says he will keep his post when the company is taken over by UBS Holdings. It seems he and UBS CE Piet Badenhorst have buried the hatchet after De Villiers' outspoken opposition to the bid.

De Villiers backed the rival offer by First National Bank and sold his holding of more than 2m Allied shares when this seemed destined to fail.

In the heat of the battle, hard words were exchanged between the two. But now that the die is cast, De Villiers says, his loyalty lies with his future employers.

"I phoned Piet and told him. He agreed it would be best if I stayed on," says De Villiers. Badenhorst does not wish to comment.

The decision to retain De Villiers, despite past friction, is in line with his conservative approach to business. Bankers say he is likely to "give the situation time to develop."

Keeping existing management in place will let the situation stabilise sooner. Staff morale must be preserved if the organisation is to function effectively. Allied, which has already undergone a number of changes under De Villiers, would be particularly vulnerable to further changes.

De Villiers came to the group from FNB in 1986 to establish its new bank the following year. He became group MD in 1988. A

FM 22/3/91 (58)

number of FNB staff moved with him or joined him later to replace executives of the original building society. ■

Battle to win back savings

CAPE TIMES 25/3/91 (58)

By LESLEY LAMBERT

THE battle between banks and life offices for the nation's savings has flared up again after strong indications that the life assurance industry is to be granted competitive advantages.

Banks and building societies, represented by the Association of Clearing Banks and the Association of Mortgage Lenders, will object to proposals for a punitive new tax on financial services before the joint standing committee on finance this week, industry spokesmen said at the weekend.

They will also demand justification for the support the financial authorities and the Jacobs Committee appear to be giving the life assurance industry.

Central to their concern is the competitive advantage the recent developments could give to the life industry, which has attracted a high proportion of the nation's savings away from banks and building societies in the past decade.

Over the past two weeks, the deposit-taking institutions have suffered considerable setbacks in their battle to win back personal savings.

First, the financial authorities decided to shelve proposals for a fixed low-rated "withholding" tax on the interest earnings of private depositors.

If introduced, the tax would have replaced the marginal rate on interest and redirected a large proportion of personal savings from the life industry back to the deposit-taking institutions.

Then, in his Budget last week, Finance Minister Barend du Plessis announced that as an alternative to VAT, all financial institutions would have to pay a 0,75% "turnover" tax on financial services from October this year.

While life offices and pensions funds will also be subject to the tax, deposit-taking institutions will be harder hit because of the nature of their business.

Nedcor CEO Chris Liebenberg estimates that the tax which is likely to be levied on interest income could be more punitive than a 12% VAT on the net profits of deposit-taking institutions and that the higher costs will have to be passed on to customers.

First National Bank senior GM Viv Bartlett argues that the tax is based on an unfair perception that the financial services industry is exempt from VAT.

"We may be exempt in the sense that we won't pay VAT on what we charge our customers. But all our other inputs will be taxed and we will have nothing to offset this against."

Another development which has raised the temperatures of bank and building society executives is the unexpectedly strong show of support the financial authorities have given the life industry.

In his Budget, Du Plessis announced that the life industry's tax would be reduced from 45% to 43%, the maximum marginal rate for individuals.

After the Budget, he assured the industry that more would be done in the next financial year to bring its tax basis on a more equal footing with that of other financial institutions.

Underpinning Du Plessis' attitude is the support Jacobs Committee chairman Japie Jacobs has given the life industry.

In an annexure to the Budget speech, Jacobs, whose committee is investigating ways of equalising deposit-taking institutions' and life offices' ability to compete for personal savings, defended the industry against claims by deposit-taking institutions that it had unfair advantages which distorted the economy.

Jacobs blamed the deposit-taking institutions for dissaving.

"Household dissaving is made possible precisely by the consumption credit obtained from the deposit-taking institutions to which households direct discretionary savings," he said.

UBS MD Mike de Blanche said yesterday he was "extremely disappointed at the one-sidedness of Jacobs' report" which had not been circulated for comment before it was published.

De Blanche said the matter would be raised with the financial authorities at a meeting on Wednesday.

HAROLD FRIDJHON in the Money Markets

Bulls and bears go out to play and miss the news

THE financial markets have not yet responded to two items of news which, in the normal course of events, would have roused dormant bears in the money market and bulls in the bond market.

Reserve Bank Governor Chris Stals should have administered a mild tonic to money market bears when he indicated that a further reduction in Bank rate was unlikely in the near future and that the stimulatory measures in the Budget called for caution in adopting further stimulatory measures.

The bond market has not responded to the Eskom announcement that its funding programme has been slashed by 35%.

The markets' customary kneejerk reflexes to this news was dulled by the absence of dealers in both markets.

They had abandoned the dealing rooms to trudge around the golf course to enjoy the annual hospitality of Eskom. Their minds were more concentrated on birdies and eagles than on bulls and bears.

Today when they return to their trading screens they will probably assess these two pronouncements with the sobriety that they warrant.

Many in the money market will not accept that the current 17% Bank rate might be eased by only one further percentage point this year, and that only in the fourth quarter. A strong element in the market is convinced that the first reduction will come during August/September with a further one percentage point being docked in December.

Bankers say that credit demand is still flaccid and that the recession is still deepening. They support their opinion by not borrowing for periods longer than six months. But the effects of Budget-induced spending will start seeping into the economy within the next three or four months. Hence Stals's caution.

Eskom's reduced borrowing programme should trigger off an easing in semi-gilt rates, although those on RSA stock might harden.

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Heavy trading in NBS and Stanbic shares

(58)

By David Canning

Star 25/3/91

Speculation about realignments in the financial services sector resurfaced last week, with heavy trading and soaring prices for NBS Holdings and Standard Bank Investment Corp (Stanbic) shares.

On Friday Norwich Life announced it had been buying NBS shares — having pushed its stake in the Durban-based group to more than 25 percent in a move partly aimed at blocking any hostile takeover bid.

While Norwich was involved, another unnamed buyer also was in the market, reportedly picking up a large parcel of NBS shares in a bookover deal.

Brokers said a special bargain put-through deal on Wednesday had accounted for 720 000 NBS shares at R10 each. The balance of the day's turnover of 800 000 was at R9,25 a share. On Thursday another special deal at R10 accounted for 250 000 shares while 71 000 more shares traded at R9,50.

Holders of NBS shares have been the beneficiaries in the increased interest which has lifted them from 870c.

NBS is keen to protect its back against a hostile takeover and high share prices clearly are in its interests.

Norwich managing director Charles Davies denied that either his company or any other company was involved in a take-over bid for the NBS.

Meanwhile Stanbic shareholders have experienced an even more meteoric rise from R30 to R53 as market speculation spread about a possible move by Rembrandt on Stanbic.

Home loan applications: precautions and rules to keep in mind

A HOME loan is a contract between you and the building society and is known as a mortgage bond.

The contract states that the building society agrees to lend you money to build or buy your own home.

You will be paying interest on the loan at the current interest rate.

Interest rates are subject to change from time to time due to market conditions.

Your monthly payment will be affected by these changes, so it would be wise to take this into consideration when applying for your bond.

The same conditions for the buying of a property on freehold (ownership) exist for the acquiring of a property on leasehold.

You in turn agree to repay your loan, usually over a period of 20 years, by making regular monthly repayments.

Although the first few years of your repayment will go towards clearing the interest accumulated each month, you will after two or three years start clearing your capital.

Your home will act as security for the repayment of your loan, should you default.

A mortgage loan may not only be obtained for the purchasing or building of a home, but also for the improvement or extension of your existing home.

If you are buying a property you and the seller will have to sign certain legal documents for the purchase of the property.

It is suggested that the contract for the purchase includes a clause which protects you from not being bound if, for some reason, your loan application is not approved.

When signing the documents for the purchase of a property the procedure would take from four to 12 weeks up to the time that the property is transferred into your name. Until transfer is taken, do not pay anything except a small deposit – between five and 10 percent of the purchase price.

Ensure that any money paid prior to the final registration is paid into an attorney's or estate agent's trust fund so that funds can be recovered more easily should the contract be cancelled.

You should specify in the agreement that all the interest is payable to the purchaser.

It is wise to allow the transfer date to precede the date of occupation.

Should the deal fall through, your problems will be multiplied if you have already taken occupation.

If, in your "Offer to Purchase", you have agreed to take occupation of the property before the transfer procedure is complete, you will have to pay occupational interest to the seller until the transfer is through.

This monthly payment will be stipulated in the document. After completion of the "Offer to Purchase" document by both the seller and the purchaser you will be required to complete a loan application form at the building society where you apply for the mortgage bond.

The building society will carry out an inspection to ensure that it can reasonably lend on the value of the property and that the house is in good order.

The building society will evaluate your application with a view to your ability to repay the loan based on the prevailing homeloan interest rate and your gross monthly income.

Your monthly instalment should not exceed 25 percent of your gross monthly income.

The maximum loan that can be given against the security of the property is 80 percent of the valuation of the property.

In certain circumstances a 90 percent loan can be considered by the branch manager at the branch where you make your application.

Standard mystified by aggressive share buying

ST Times 24/3/91

(58)

By DAVID CARTE

THE controllers and top management of Standard Bank Investment Corp are mystified by aggressive buying of the group's shares at sky-high prices.

About 430 000 shares, worth R21,45-million, traded this week and the share price soared 22 percent to R50, valuing the bank at nearly R5 000-million.

The buying prompted speculation that Standard and Liberty might do a deal with Rembrandt, forming a group that would dwarf both Anglo American and Old Mutual.

Said Liberty chairman Donald Gordon: "That's not on. Rembrandt has gone off with United.

"There's no way the Competition Board would let Standard get together with the recently formed Amalgamated Banks of SA. (United, Volkskas, Allied and Sage Financial Services.)

"I don't know who's buying. The price simply cannot be justified. It makes no sense. No one can challenge for control.

"We have 35 percent, Rembrandt about 10 percent, Gold Fields of SA 10 percent and Old Mutual 21 percent.

"If someone is trying to build a stake to 25 percent to block special resolutions, it's an expensive exercise that will tie up more than a billion rands."

Standard Bank group managing director Conrad Strauss said: "It's a very determined buyer."

A banking analyst said Standard was the way to eventual control of Liberty because control moved to it after the retirement of Mr Gordon.

If Rembrandt and Liberty become estranged because of the ABSA deal, Rembrandt could conceivably put its 10 percent stake together with Old Mutual's 21 to vie for control of Standard and Liberty Life.

Banks ditch Doornkop scheme

C/Press 24/3/91

BOTH major banks which private developer Safrich originally claimed were backing its Doornkop project have backed out of the scheme.

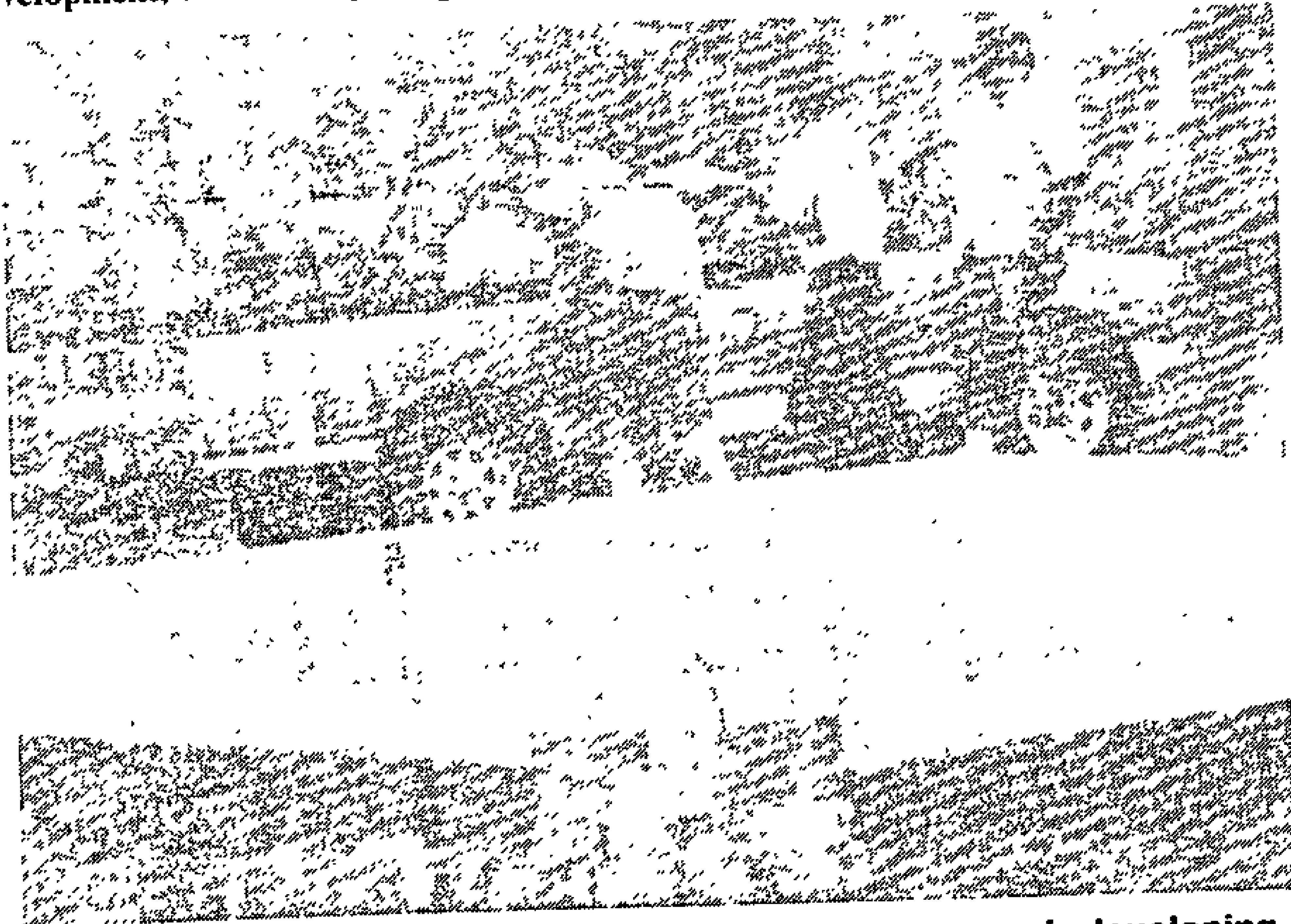
The Perm and Standard Banks, which originally considering investing more than R10-million in the Safrich development, are no longer putting money into the scheme.

The two banks would have granted bonds for more than half the 1 300 houses Safrich hopes to build.

A spokesman for the Perm's Johannesburg Central branch told *City Press* the bank was not satisfied the political, legal and technical considerations had been given enough attention.

The spokesman said the Perm had originally been interested in financing 400 houses – 30 percent of the scheme – but had made no formal undertakings to Safrich.

He said Safrich was notified on February 4 of the Perm's decision not to finance the project.



Safrich workers at one of the Doornkop sites the company is developing. Banks which were considering backing the scheme have pulled out.

A spokesman for Standard Bank said they had made no commitment to finance Doornkop.

Community organisations have voiced reservations about the involvement of private developers and the unfair allocation of sites to financial institutions.

They have also questioned the marketing of Doornkop sites through Safrich sales representatives and independent estate agents. Advertisments have appeared in Johannesburg daily newspapers for the past three weeks offering sites in Doornkop.

Agencies working on behalf of developer Safrich are charging R200 in administration fees to process site allocations through the Soweto and Dobsonville councils and the Transvaal Provincial Administration offices at the Doornkop site.

Purchasers of these sites have to sign a building contract with Safrich for between R15 000 and R20 000, as well as pay the TPA R5 100 in instalments over 30 years for the site.

According to spokesmen for the Dobsonville Civic Association (DCA) and Operation Masakhane for the Homeless (Omhle), Doornkop sites are supposed to be for poor, homeless people.

The organisations claim that thousands of homeless people squatting illegally in Dobsonville, Soweto and Diepmeadow qualify for Doornkop sites – but have been told there are no more sites.

One agency, Brink Property Group, of York House in Rissik Street, is run by Eddie Maisel, formerly of Faith Homes, which last year had offices in the same building.

City Press wrote about Maisel and Faith Homes last year after complaints from several readers who paid deposits to Maisel, but never got houses. A number of them issued summonses and are waiting for their cases to be heard in court.

'Fair tax deal for life offices'

LESLEY LAMBERT

CAPE TOWN — Finance Minister Barend du Plessis has given assurances he will remove disparities from the tax treatment of life offices to bring them onto an equal footing with other financial institutions.

Old Mutual chief operating officer Gerhard van Niekerk said yesterday Du Plessis had conceded that the industry was unfairly taxed and had undertaken to introduce a more equitable tax package.

In his Budget Du Plessis announced that the life industry's tax rate would be reduced from 45% to 43%, the maximum marginal rate for individuals and indicated he would also address tax on dividends received by life offices and the formula for determining their tax payments.

The industry has been lobbying for "more appropriate" tax treatment for many years, arguing that punitive taxation affects its ability to compete with banks and building societies for personal savings.

It has argued that in line with the trustee principle which governs tax paid on behalf of individual policyholders, its tax rate should be reduced from 45% to about 30%, the average applied to these individuals.

The industry has also called on the authorities to scrap tax on dividends paid to life offices and to allow them to deduct all expenses from taxable income.

The strength of the industry's lobby has achieved significant results. Two years ago the authorities declared their support for the trustee principle and followed this up with the scrapping of tax on provident fund investments.

Life offices 'must pay back excess on rates'

B/Day 25/3/91.

GILLIAN HAYNE

(58)

LIFE offices which had been paying individual commission rates, rather than group commission rates, on policies funding pension or provident funds over the last 18 months, would have to pay back the excess, Registrar of Financial Institutions Piet Badenhorst said.

In a strongly worded letter to the Life Offices Association (LOA), Badenhorst warned he would take the necessary steps to ensure each office confirmed its compliance with the ruling.

He added at the weekend a committee had been appointed to examine submissions by life offices on the existence and extent of malpractices. Solutions and new approaches, if necessary, would then be determined.

LOA deputy director Jurie Wessels said that for administrative reasons it was easier to underwrite a small provident fund with individual policies, but the problem arose because of the difference between the commission rates for individual and group policies.

"Individual commission is largely paid upfront whereas group commission is spread over a longer period."

In an effort to overcome the problem about 18 months ago, the LOA advised its members to pay group commission until the matter had been formally decided by the Registrar and legislated.

Badenhorst said although the market was rife with rumours of offices operating contrary to the LOA decision, no cases had been confirmed. He could not quantify the extent of overpayments.

Fincorp MD Justin Hooper said it should be up to the clients, the trustees of the funds, whether individual or group commissions could be paid.

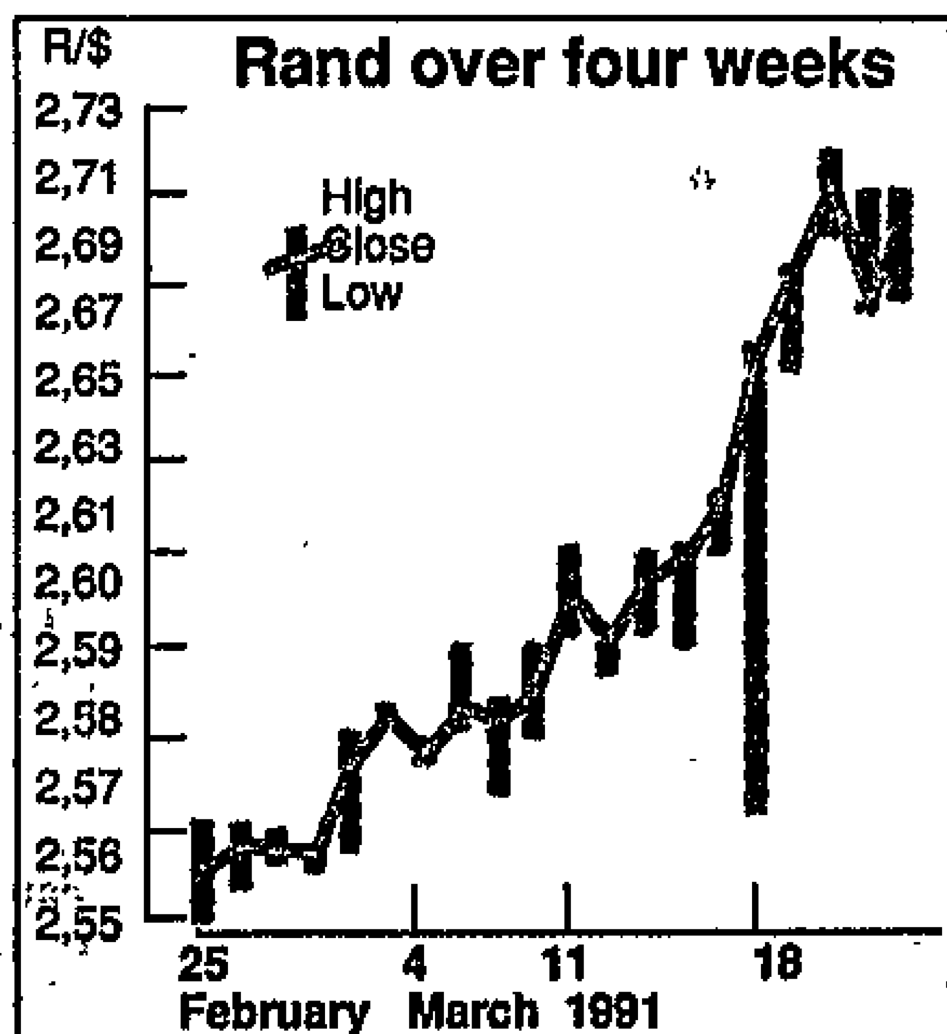
"In order to alleviate the lower surrender values in the early years, because of the upfront individual commission paid, we remit the entire commission to boost the value for the client."

Hooper said it did not matter whether individual or group commissions were paid as long as the values to the client were increased accordingly.

Govt accused of showing favour

Savings row: bankers take on life offices

Bday 25/3/91. (58)



Graphic: LEE EMERTON Source: REUTER

The rand closed weaker against the dollar on Friday in a continuation of the trend which has seen the currency slide from 2,5633 over four weeks, largely as a result of the allied victory in the Gulf. The rand closed at 2,6973 to the dollar on Friday, down from Thursday's finish of 2,6838. Dealers said the rand remained firm against most other leading currences.

LESLEY LAMBERT

CAPE TOWN — The battle between banks and life offices for the nation's savings has flared up again after strong indications that the life assurance industry is to be granted competitive advantages.

Banks and building societies, represented by the Association of Clearing Banks and the Association of Mortgage Lenders, will object to proposals for a punitive new tax on financial services before the joint standing committee on finance this week, industry spokesmen said at the weekend.

They will also demand justification for the support the financial authorities and the Jacobs Committee appear to be giving the life assurance industry.

Central to their concern is the competitive advantage the recent developments could give to the life industry, which has attracted a high proportion of the nation's savings away from banks and building societies during the past decade.

Over the past two weeks, the deposit-taking institutions have suffered considerable setbacks in their battle to win back personal savings.

First, the financial authorities decided to shelve proposals for a fixed low-rated "withholding" tax on the interest earnings of private depositors. If introduced, the tax would have replaced the marginal rate on interest and redirected a large proportion of personal savings from the life industry back to the deposit-taking institutions.

Then, in his Budget last week, Finance Minister Barend du Plessis announced that as an alternative to VAT, all financial institutions would have to pay a 0,75% "turnover" tax on financial services from October this year.

While life offices and pensions funds will also be subject to the tax, deposit-taking institutions will be harder hit because of the nature of their business.

Nedcor CEO Chris Liebenberg estimates that the tax which is likely to be levied on interest income could be more punitive than a 12% VAT on the net profits of deposit-taking institutions and that the higher costs will have to be passed on to customers.

First National Bank senior GM Viv Bartlett argues that the tax is based on an unfair perception that the financial services industry is exempt from VAT. "We may be exempt in the sense that we won't pay VAT on what we charge our customers. But all our other inputs will be taxed and we will have nothing to offset this against."

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After the Budget, he assured the industry that more would be done in the next financial year to bring its tax basis on a more equal footing with that of other financial institutions.

Underpinning Du Plessis' attitude is the support Jacobs Committee chairman Japie Jacobs has given the life industry.

In an annexure to the Budget speech, Jacobs, whose committee is investigating ways of equalising deposit-taking institu-

☐ To Page 2

Savings row

Bday 25/3/91. (58)

☐ From Page 1

tions' and life offices' ability to compete for personal savings, defended the industry against claims by deposit-taking institutions that it had unfair advantages which distorted the economy.

Jacobs blamed the deposit-taking institutions for dissaving. "Household dissaving is made possible precisely by the consumption credit obtained from the deposit-taking institutions to which households direct discretionary savings," he said.

UBS MD Mike de Blanche said yesterday he was "extremely disappointed at the one-sidedness of Jacobs' report" which had not been circulated for comment before it was published. De Blanche said the matter would be raised with the financial authorities at a meeting on Wednesday.

Crulife's premium income up by 38%

58

BD 26/3/91.

GILLIAN HAYNE

CRUSADER Life (Crulife), a subsidiary of the newly formed Anglovaal Insurance Holdings, has posted a 38% increase to R77,3m (R56m) in its net premium income and annuity considerations for the year to end-December.

The group, distinctive for its health cover policies, also declared a 17,25c (14,38c) a share dividend, 20% up on the same period in 1989.

The unaudited 12-month group interim results were reported because the group has changed its financial year-end to be in line with Anglovaal's June 30 year-end.

The current financial year will therefore cover the 18 months ending on June 30 1991.

With net investment and other income up 23% to R10,6m (R8,6m), the group's total income reached R87,9m, 36% up from the previous year's R64,6m.

Pleased

Crulife chairman Don Rowand noted that during the period under review, Crulife issued R10m of redeemable preference shares to outside shareholders.

The shares are redeemable at the end of seven years and the dividends are payable biannually at variable costs.

This, together with growth in the business pushed net current assets up 79,7% to R23,6m.

Rowand said he was very pleased with the group's performance although the benefits of the rationalisation and the steep decline in expense ratios would show to better advantage in the coming year.

Prospects look rosy with a small profit expected from Crulife's R10m investment in UK-based Pegasus Financial Holdings.

The stand-alone dread disease policy has also been well-received by brokers, he added.

Consumer body enters overdraft fray

B Day 26/3/91 (58)

SHARON WOOD

INTEREST rates on overdraft accounts had actually gone up when prime had been cut in many instances in the past few years, Consumer Federation executive director Karel Gevers said yesterday.

These findings support recent claims that banks have regularly overcharged clients.

Investigations undertaken by the Consumer Federation showed that the greatest benefit of reduced prime rates went to the banks, and the lesser benefit to the client, said Gevers.

The client might even be paying a higher interest rate than before the reduction in prime rates, he said.

Consumer Federation investigations revealed 89,2% of 206 accounts verified had been overcharged.

Gevers said that overcharging was a result of banks changing interest rates without notifying clients, in contravention of the Usury Act.

Investigations showed one client at First National Bank (FNB) was charged 3,7% above the agreed rate when prime dropped 1% in 1985. Further prime overdraft reductions during 1985 and 1986 were not followed by a similar reduction on the client's overdraft account interest.

Similar situations occurred with Nedbank, Standard Bank, TrustBank and Volkskas, the federation said.

ROBERT LAING reports FNB GM Jimmy McKenzie said last night Gevers' allegations were "utterly untrue" because it could not happen.

"Even if a clerk makes a typing error — typing say 82% instead of 28% — a fail-safe system would be triggered and the illegal interest rate would not be accepted by the computer.

Standard galvanised by speculation

GRETA STEYN

HEAVY buying of Standard Bank Group shares saw volumes double and the price hit a new high of R51 yesterday amid speculation that Liberty and Rembrandt are discussing restructuring their shareholdings in the banking group.

Market talk is that Rembrandt wants to sell its 10% holding in Standard to Liberty, which already owns more than 30%, in exchange for a direct stake in Liberty. It is said Rembrandt sees Standard as the key to gaining a strong say in Liberty, and possibly even control in the longer term.

Speculation is that Standard's price is soaring because Old Mutual (holding about 20%) has got wind of the plans and is buying as a spoiling tactic to upset Liberty.

However, another rumour is that offshore buying via the financial rand was the reason why the price had soared by about 70% since the beginning of February. With its price-to-earnings ratio at 11,84, analysts say Standard is overpriced.

Almost 537 000 shares changed hands yesterday. Although yesterday's volume represents only 0,5% of the issued shares, analysts say it is surprisingly large for such a tightly held share. Market capitalisation has risen by about R2bn during the buying frenzy. BDay 26/3/97.

Interest in the share helped push the banks' index to a new high of 2 193 yesterday — a gain of about 9% in a week, bucking the trend of the overall market with Nedcor chalking up a 15c gain.

But a number of important players in the sector have lost some ground, notably the NBS which has been at the centre of takeover rumours, and the UBS. The NBS shed 4% to 910c yesterday.

Yesterday Norwich Life MD Charles Davies confirmed talk of an offshore link in its strategy towards NBS. Luxembourg-based trust Slaney, with about 10% in NBS, had thrown its weight behind Norwich.

The latter therefore had effective control over about 30% of the building society group, after doubling its own stake to 20%. Norwich is understood to have increased its holding to stave off any hostile takeover bids. Likely predators include First National Bank, already holding an effective 13%, and the Standard Bank Group.

AAA loan rating for Development Bank of SA

B Day 26/3/91 (58)

ROBERT GENTLE

THE Development Bank of SA (DBSA) has obtained an AAA rating on all its loan issues from Republic Ratings, the independent SA debt-rating company.

Republic executive director Gideon van Rhyn said the rating reflected the very low expectation of repayment risk and the massive current and future demand for development assistance in southern Africa.

He also singled out the financial contribution given to the bank by government.

DBSA GM Andre la Grange said the bank was "highly satisfied" with the rating. "It confirms our successful positioning in the local markets as a first-class borrower.

"We also plan to extend our fund's mobilisation actions abroad in the near future," he said.

La Grange said the rating meant the bank could be an important vehicle for institutional investment in socio-economic upliftment, and that he was confident its loan issues would attract even more support from the investment community.

By the end of 1989, the life and pension industry alone had R25bn deposited with financial institutions which could be channelled through development agencies such as DBSA for social investment, he said.

DBSA's rating follows that of a number of other companies, including Eskom, Land Bank and Transnet.

Life assurance assets 'grew tenfold in 80s'

BDay 26/3/91 (58)

LESLEY LAMBERT

CAPE TOWN — The assets of the life assurance industry burgeoned from R11,6bn to R132,4bn in the 1980s, figures released by the Life Offices Association (LOA) show.

Total income from individual premiums, group scheme and pension fund premiums and investments grew from R3,1bn in 1980 to R33bn last year.

During the year to December 1990, total income grew by 18% from R27,9bn to R33bn — an indication that the rampant growth of the early 1980s was maintained during the second half of the decade.

Individual premiums contributed R14,2bn to total income after 18% growth, while investments contributed R10,6bn after 16% growth, and group scheme and pension fund premiums R8,1bn after 22% growth.

Benefits paid out by the industry grew from R730m in 1980 to R12,3bn in 1990. Last year, benefits grew by 27% from R9,6bn to R12,3bn.

LOA chairman Mike Levett pointed out that the benefits paid out last year amounted to an average of almost R6m a working hour. "That represents the money required to build perhaps two hundred low-cost houses every working hour," he said.

More than two million new individual policies were sold last year. If the growth of existing policies is taken into account, R4,7bn worth of new investments flowed into single premium policies, while R2,9bn flowed into recurring premium policies during the year.

The only decline reported by the LOA was in tax paid by the industry. The tax bill, which grew from R46m in 1980 to R594m in 1989, declined to R502m last year.

Levett said that the amount of tax paid last year was still too high because the industry had paid tax on dividend income which the policyholders would not have paid had they invested directly in shares.

Levett said life assurers were only allowed to deduct 55% of their expenses instead of the "logical" full deduction of expenses and had paid tax at a rate of 45% in 1990.

This rate was higher than the top marginal income tax rate for policyholders.

Start flexing your muscle, blacks told

(58)

Sowetan 26/3/91

By JOSHUA RABOROKO

BLACKS must start exercising their economic muscle by forming their own insurance companies, building societies and other financial institutions.

This message was given by the president of the central region of the National Federated Chamber of Commerce, Mr L Mule, and chairman of Get Ahead Foundation, Dr Nthato Motlana, at the launch of the National Association of Co-operative Societies of South Africa (Nacssa), in Welkom at the weekend.

The association represents thousands of burial, *moholisano* and women's societies which contribute millions of rands to the country's mainstream economy through savings in big white financial institutions.

Base

Mule said institutions such as Sanlam, Saambou and Volkskas were established by the Afrikaners after they had sweat and toiled.

He encouraged blacks to start flexing their muscle by following this example.

He said: "The societies are a good base for blacks to empower themselves economically.

"We are in the majority and if we establish our own building societies, insurance companies and other financial institutions, then we will advance in the new South Africa."

Motlana said there were more than 25 million blacks in South Africa. He said if each one of them was to invest R1 with a financial institution on weekly basis, then "we shall have saved R25-million a week."

He said the crucial issue facing burial societies, which invested large sums of money with financial institutions, was whether or not they had a say over their money.

He said it was high time they started manufacturing their own coffins and establishing their own funeral parlours and insurance companies so they could become key players in the economy.

He said Nafcoc was prepared to redress the economic imbalances of the past by demanding that all companies listed on the Johannesburg Stock Exchange must have 30 percent black members on their boards of directors.

SOWETAN Tuesday March 26 1991 Page 15

BUSINESS

Old Mutual probe

Sowetan 26/3/91

(58)

By JOSHUA RABOROKO

OLD Mutual is pleased with the progress being made by the Government in its investigations into alleged fraudulent investment transactions within the company.

The company said a quick resolution to the matter would be in everybody's interest.

"The authorities seem to have made considerable progress during the first week of the investigation," said chief operating officer, Mr Gerhard van Niekerk.

"Integrity, honesty and openness are the fundamental principles of trust on which Old Mutual's business is based," he said.

Van Niekerk said it was now a police matter and declined to comment further.

"Any statements about details of the investigation can only be made by the Attorney-General, Mr Frank Kahn, who heads the official investigation."

Kahn declined to comment on the investigation other than to confirm that stockbrokers G Blank and K Fouche have been charged with fraud.

Stanbic shares in renewed demand

58

By Ann Crotty Star 26\3\91

Speculation about a possible battle between Liberty and Rembrandt over control of Stanbic was fuelled yesterday when almost 500 000 Stanbic shares changed hands at R51 a share in trade valued at R22 million.

If there were a battle, it would be a multi-billion-rand affair involving at least three of the largest institutions in the country.

A battle for control at around R50 a share would value Stanbic at a massive R5 billion.

The players directly involved would be Liberty Life, which has 32,5 percent of Stanbic, Rembrandt with 10,7 percent of Stanbic and Goldfields with 10,5 percent.

As usual with the big groups in SA, there is much interlinking.

The most important cross-holding is Stanbic's 50 percent stake in unlisted Liberty Life Controlling Corporation, which gives Stanbic effective joint control (with Liberty chairman Donald Gordon) of the massive and powerful Liberty group.

At this stage, Mr Gordon has the controlling vote in the 50:50 partnership, but it is understood that when Mr Gordon leaves Liberty, the controlling vote passes to Stanbic.

It is Stanbic's stake in Liberty that makes a battle for control of Stanbic much more than just another battle for control of a massive banking operation. At stake in this instance is control of Liberty.

Although JSE traders seemed quite certain that the buying demand for Stanbic was coming from Rembrandt, analysts were confused about the implications of such a move.

It is difficult to see why anyone would make a play for Stanbic in view of Liberty's 32,5 percent stake, which sets it well ahead of other players. This position would seem to be protected by the fact that the shares are tightly held and are very expensive.

If Rembrandt is buying, it may be attempting to lift is effective stake to 25 percent — at which level it could block any special resolutions. (Because of its controlling stake in GFSA, Rembrandt in effect controls just under 20 percent of Stanbic).

Or Rembrandt may have some arrangement with Old Mutual, which would give it access to OM's 20 percent stake. From here it would not be so difficult or so expensive to move to 50 percent.

This scenario is complicated by the fact that the new Securities Regulation Panel would require parties acting in concert to inform the JSE of their plans if there was a change in effective control.

It is further complicated by the fact that Mr Gordon and Rembrandt's Johan Rupert are believed to be good friends.

This friendship has encouraged a number of operational partnerships between the two groups. (It may have taken some strain during the ABSA battle).

In addition, because of the voting arrangement between Stanbic and Mr Gordon, an unfriendly attack on Stanbic is likely to see the attacker doing battle against both Mr Gordon and Stanbic's Dr Conrad Strauss — an intimidating consideration for any player.

Another possibility is that Old Mutual may be attempting to lift its stake to 25 percent in order to have some kind of bargaining power in the event of Rembrandt and Liberty wanting to effect a major rearrangement of Stanbic's assets.

Another, less likely, possibility is that Liberty is increasing its stake. This seems hard to justify because under the new Deposit-Taking Institutions Act Liberty could not have more than 49 percent of Stanbic.

Whatever is happening, it is certainly more than just a re-rating of Stanbic — to unjustifiable levels.

Stanbic sources have said there are no significant new operational moves on the cards.

They have also said an announcement will be made "as soon as things develop".

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Rationalisation will save new banking giant R85m

Bday 27/3/91 · GRETA STEYN (58)

RATIONALISATION within SA's new banking giant, Amalgamated Banks of SA (Absa), was expected to yield savings of at least R85m in the coming financial year, CE Piet Badenhorst said yesterday.

He was speaking after special general meetings of Allied, United, Volkskas and Sage shareholders to approve the merger of the three banking groups and 49% of Sage Financial Services.

"In addition to data processing and technology, we are looking at the rationalisation of other support functions such as treasury, property, accounting, secretarial and legal, advertising, and internal and external communications," Badenhorst said.

The "immense" task of welding the three banking groups into a single "cohesive and efficient" organisation had not been under-estimated. Operational committees had already been established to put the rationalisation process in motion.

He added he had met the management of the Allied and addressed their branch staff as well as those of the United on internal TV broadcasts. Absa deputy CE Danie Cronje had spoken to Volkskas staff.

Badenhorst disputed the view, first expressed by Allied MD Kevin de Villiers, that the cultures and systems of the Allied and the UBS differed.

But he added the independent identities of Allied, United and Volkskas would be maintained for a minimum of five years.

"The impact of the rationalisation process will be confined largely to the operational support and administrative functions within the group and will not be readily noticeable to our clients," Badenhorst said.

Life industry probes development fund

BDay 27/3/91 (58)

THE life and pension industry is considering the establishment of a special fund to finance commercial and property development in black areas.

The fund would operate in conjunction the Development Bank's existing capital market stock which is used to finance infrastructural development.

The bank's stock has been identified by government as a possible channel for the industry to invest part of the R25bn it has deposited with financial institutions in social upliftment.

Development Bank chairman Simon Brand said in an interview yesterday there had been discussions with the life offices on the possibility of creating a separate fund to finance shopping centres and other capital projects in black areas.

He said while the life industry was happy to invest in such projects in white areas, the political risks in black areas were still too high. A possible solution was to create a fund for this purpose which would be underwritten by government.

He said unfamiliarity with risks in black markets meant the industry was not prepared to risk policyholders' funds, but he believed they could contribute, although this would not happen automatically.

"It would be entering a new market, one

KEVIN DAVIE

which can yield returns, but the industry is reluctant to invest on its own because of high, unfamiliar risks."

Brand, stressing that discussions were at a preliminary stage, said the fund would probably be separate from the Development Bank, but projects might be evaluated by the bank and submitted to a board representing the institutions

Brand said the life offices could not be criticised within the parameters in which they worked, but said there was room for their involvement through funds which would allow a market-related return.

He said the bank would be raising R250m in the capital markets this year. A constraint was the amount of funding it received from government as its gearing depended upon this.

In an annexure to last week's Budget Japie Jacobs, special adviser to Finance Minister Barend du Plessis, said the life offices could invest in social spending through the Development Bank, Small Business Development Corporation and the Industrial Development Corporation.

The life and pension industry had R25bn deposited with banks at the end of 1989.

New turn in JSE probe

Cape Times 27/3/91 (58)

Top investment quits after 'irregularities'

Staff Reporters

THE chief investment manager of Momentum Life, Dr Chris Auret, has resigned as a result of the investigation into trading irregularities on the Johannesburg Stock Exchange.

This was announced in a dramatic statement yesterday by Momentum Life, who said Cape attorney-general Mr Frank Kahn had advised directors of "certain irregularities".

This shock development comes on top of the dismissal last week of two Old Mutual investment managers in the probe headed by Mr Kahn.

Momentum Life is part of the giant Sanlam stable of life insurance companies.

Mr Kahn's investigation into possible trading irregularities by stockbrokers on the JSE was initiated by the recent Old Mutual probe into irregular investment transactions allegedly made by senior investment team members Mr Marco Celotti and Mr David Schapiro.

The two Old Mutual men are believed to have subsequently left for the Netherlands.

Two weeks ago stockbrokers Mr Greg Blank and Mr Ken Fouche were arrested on fraud charges, and a warrant was issued for the arrest of London stockbroker Mr Peter Rawson.

Sum not disclosed

In the statement released yesterday, Momentum Life said Mr Kahn had advised executive directors last Friday of certain transaction irregularities made in 1988 and 1989.

Directors then met Mr Kahn's team at the weekend and a joint investigation was launched into dealing transactions involving a particular stockbroking firm.

These initial investigations were completed on Monday.

As a consequence, a senior employee of Momentum Life, Dr C J Auret, had resigned with immediate effect, the company said.

Momentum has declined to divulge the amount involved, but said it was "insignificant in relation to the earnings, income and assets of the company".

It also noted that Momentum was indemnified against losses of this nature.

Mr Kahn said last night that he was unable to comment at this stage on the Momentum-linked trading irregularities.

Dr Auret said he also could not say anything as he was bound by the sub judice rule.

Momentum's managing director, Mr Niel Krige, said he was most disappointed that one of the company's employees might be involved in something of this nature. Momentum planned to hold an internal audit on its other transactions.

According to Mr Peter du Toit, director in charge of investments at Momentum, the irregularities involved four deals made in 1988/89.

The losses were not significant but it was the principle that mattered.

"We plan to launch our own internal investigation, looking into every transaction done in the last three years", he said.

New banking act inflates money supply figures

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By Sven Lünsche Star 28/3/91

Judging from the latest money supply figures, released by the Reserve Bank yesterday, growth in money supply is rapidly losing its value as an instrument of monetary policy.

The new Deposit-taking Institutions (DTI) Act, which came into effect on February, has brought new changes to banks' balance sheet and will make a comparative analysis of money supply figures over the next year more difficult.

The figures released yesterday show that the broad money supply measure, M3, increased by a provisionally estimated 14,58 percent to R167,58 billion in February compared with the same month last year. In January comparitive M3 growth was 10,22 percent at R160,48 billion.

The rapid increase in the annual money supply is explained by the new DTI Act, which forces banks to convert repurchase agreements, previously not included in M3, into conventional deposits.

This contributed R3,6 billion to the provisional R6,4 billion rise in M3 from January to February this year, the Reserve Bank says.

Without the added transaction M3 would have shown an annual increase of 12,15 percent, almost two percentage points above January's year-on-year increase, but in line with the 12,09 percent rise in December 1990.

The acceleration in the rate of increase of M3, coupled with the inclusion of new banking transactions, will make it difficult for the Reserve Bank to keep credit extension for the year within the targeted eight to 12 percent range between the fourth quarters of 1990 and 1991.

More about bond repayments

Sowetan 28/3/91

Home ownership is not a privilege. It is a just reward for hard work and perserverence. But how do you set about buying ground then financing, building and maintaining a home? Join us every Thursday to learn the answers . . . and if you still have any questions, write to Jacky, PO Box 260835, Excom 2023.

LAST week we learnt how to work out how much you can probably afford to spend on a conventional house. We also looked into the concepts of bonds and interests.

Alfred and Selina Kunene, who are planning to build a conventional house, now have a better understanding of these subjects, and are ready to visit FHA Homes to discuss the house they'd like to build, and learn more about bonds and repayments.

After making an appoinment, they prepared a list of questions.

Firstly, they needed to know whether it was possible to have a conventional brick home built for R45 000. They knew that FHA Homes was formed by the Urban Foundation and does not operate for private gain; and they expected a straight answer.

FHA Homes, they were told, could arrange for their home to be built in Vosloorus at a cost of no more than R45 000. The Kunenes were satisfied. Vosloorus was convenient to their workplaces, schooling was available, and they already had friends living there. But before committing themselves, they needed to know more about bonds and repayments.

A bond is simply a loan to enable you to buy your house. Although bonded, the house will belong to you from the day it is registered in your name in the deeds office, and the lender of the money can only take it back if you fail to repay your debt as agreed.

Banks and building societies usually allow clients 20 years to pay off their bond. Payments are made monthly and are known as instalments.

When you pay a monthly instalment, you're paying off more than just your loan.

Each instalment also includes the interest on your loan, an administration fee of R5 and insurance. All these are paid together, which is convenient.

As we mentioned last week, Alfred and Selina had managed to save R12 000 over the years. If they paid a R9 000 deposit on their R45 000 home, they would need a bond of R36 000. Instalments would amount to R630 per month.

This is a great deal more than the R300 that the Kunenes are presently paying in rent. Can they afford it?

The Kunenes are in for a pleasant surprise. Their instalments will be far lower than usual.

Because they earn less than R3 500 per month, and they're buying a newly-built house, they qualify for a special subsidy which will pay of their instalments for many years.

This subsidy, called the First-time Homebuyers Subsidy, will pay approximatly one-third of the interest part of the instalments on their house (excluding ground) for first five years. In the Kunenes' case, the subsidy (which is at present paid over seven years) would amount to about R195 per month for the first few years.

But how should the Kunenes apply for a bond and the First-time Homebuyers Subsidy? And what about the initial cost? What will these amount to?

Be with us next week when we learn the answers.

*** Prepared by FHA Homes.**

Failing the recovery of the said certificate within 30 (thirty days) from date hereof, application will be made to the Town Treasurer of Standerton for the issue of a duplicate certificate and any person or persons objecting to the issue of such duplicate certificate must be lodge an objection with the Town Treasurer within 30 (thirty days) hereof.

Indien die sertifikaat nie binne 30 (dertig) dae vanaf datum hiervan herwin word nie, sal aansoek by die Stadstesourier van Standerton gedoen word vir die uitreiking van 'n duplikaat sertifikaat en enige persoon of persone wat die uitreiking van sodanige duplikaat sertifikaat teenstaan moet binne 30 (dertig) dae hiervan beswaar by die Stadstesourier aanteken.

No. 628 **28 March 1991**

STATE TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act No. 86 of 1968), the Minister of Finance has appointed the undermentioned persons as members of the State Tender Board to represent the department/organisation as shown against their names:

No. 628 **28 Maart 1991**

STAATSTENDERRAAD

Kragtens die bepalings van artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet No. 86 van 1968), het die Minister van Finansies die ondergenoemde beamptes as lede van die Staatstenderraad aangestel om die departement/instansie soos teenoor hulle name aangedui te verteenwoordig:

Name	Department/Organisation	With effect from
Mr W. G. Olivier	Trade and Industry	1 March 1991.
Mr D. J. Schutte	South African Agricultural Union	1 April 1991.

Naam	Departement/Instansie	Met ingang van
Mnr. W. G. Olivier	Handel en Nywerheid	1 Maart 1991.
Mnr. D. J. Schutte	Suid-Afrikaanse Landbou-Unie	1 April 1991.

No. 629 **28 March 1991**

REGIONAL TENDER BOARD: PRETORIA

In terms of the provisions of section 3A (1) (c) of the State Tender Board Act, 1968 (Act No. 86 of 1968), the Minister of Finance has appointed Mr S. S. Naicker as a member of the Regional Tender Board: Pretoria with effect from 1 April 1991 to represent the Administration: House of Delegates.

No. 629 **28 Maart 1991**

STREEKTENDERRAAD: PRETORIA

Kragtens die bepalings van artikel 3A (1) (c) van die Wet op die Staatstenderraad, 1968 (Wet No. 86 van 1968), het die Minister van Finansies mnr. S. S. Naicker met ingang 1 April 1991 as lid van die Streektenderraad: Pretoria aangestel om die Administrasie: Raad van Afgevaardigdes te verteenwoordig.

No. 679 **28 March 1991**

16 PER CENT LOAN LEVY, 1994.—CERTIFICATE No. 7068 FOR R43 000 ISSUED IN FAVOUR OF CITIZENS INVESTMENT HOLDINGS (PTY) LTD

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

No. 679 **28 Maart 1991**

16 PERSENT LENINGSHEFFING, 1994.—SERTIFIKAAT No. 7068 VIR R43 000 UITGEREIK TEN GUNSTE VAN "CITIZENS INVESTMENT HOLDINGS (PTY) LTD"

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloor of verlê is, word hierby bekendgemaak dat tensy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

No. 694 **28 March 1991**

FINANCIAL SERVICES BOARD ACT, 1990 (ACT No. 97 OF 1990)

NOTICE OF LEVIES ON FINANCIAL INSTITUTIONS

I, Barend Jacobus du Plessis, Minister of Finance, hereby make known that I have, in terms of section 16 (1) (b) of the Financial Services Board Act, 1990 (Act

No. 694 **28 Maart 1991**

WET OP DIE RAAD OP FINANSIËLE DIENSTE, 1990 (WET No. 97 VAN 1990)

KENNISGEWING VAN HEFFINGS OP FINANSIËLE INSTELLINGS

Ek, Barend Jacobus du Plessis, Minister van Finansies, maak hierby bekend dat ek kragtens artikel 16 (1) (b) van die Wet op die Raad op Finansiële Dienste,

No. 97 of 1990), approved the levies imposed by the board in terms of that section as set out in the Schedule.

B. J. DU PLESSIS,
Minister of Finance.

(58)

SCHEDULE

Levy on pension funds

1. (1) In respect of a pension fund organisation registered or provisionally registered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), excluding a retirement annuity fund defined in section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962), a levy of R50 plus R1,00 per member of such fund and R1,00 in respect of each other person who receives regular periodic payments from such fund, or R20 000, whichever is the lesser amount.

(2) The number of members of persons referred to in subitem (1) shall correspond with the latest statistics in the return furnished or to be furnished to the Registrar of Pension Funds in terms of regulation 12 (h) of the regulations promulgated by Government Notice No. R. 98 of 26 January 1962, Government Notice No. R. 99 of 126 January 1962, or in terms of the conditions subject to which a pension fund has been exempted, in terms of section 2 (3) (a) (ii) of the Pension Funds Act, 1956, from certain provisions of this Act.

Levy on retirement annuity funds

2. (1) In respect of a retirement annuity fund as defined in section 1 of the Income Tax Act, 1962, not operating exclusively by means of policies of insurance issued by an insurer registered in terms of the Insurance Act, 1943, (Act No. 27 of 1943), a levy of R50 plus 0,004% of the value of the assets of the fund excluding insurance policies.

(2) The value of the assets of the fund referred to in subitem (1) shall be consistent with the valuation thereof as reflected in the return furnished or to be furnished to the Registrar of Pension Funds in terms of section 15 of the Pension Funds Act, 1956.

Levy on friendly societies

3. In respect of a friendly society registered in terms of the Friendly Societies Act, 1956 (Act No. 25 of 1956), a levy of R25 plus 50c per member of such friendly society or R1 000, whichever is the lesser amount.

Levy on short-term insurers and underwriters at Lloyd's

4. (1) In respect of a short-terms insurer who is registered in terms of the Insurance Act, 1943, but who is not classed under subitem (2), a levy of R30 000 plus 0,02563% of the gross premium income of such an insurer as published in the latest Annual Report of the Registrar of Insurance.

1990 (Wet No. 97 van 1990), die heffings opgelê deur die raad kragtens genoemde artikel soos in die Bylae hierby uiteengesit, goedgekeur het.

B. J. DU PLESSIS,
Minister van Finansies.

BYLAE

Heffing op pensioenfondse

1. (1) Ten opsigte van 'n pensioenfondsorganisasie wat ingevolge die Wet op Pensioenfondse, 1956 (Wet No. 24 van 1956), geregistreer of voorlopig geregistreer is, uitgesonderd 'n uittredingsannuïteitsfonds soos omskryf in artikel 1 van die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), 'n heffing van R50 plus R1,00 per lid van sodanige fonds en R1,00 ten opsigte van elke ander persoon wat gereeld periodieke betalings uit sodanige fonds ontvang, of R20 000, watter bedrag ook al die kleinste is.

(2) Die getal lede en persone in subitem (1) bedoel, moet ooreenstem met die jongste statistiek in die opgawe wat ingedien is of wat ingedien staan te word by die Registrateur van Pensioenfondse ingevolge regulasie 12 (h) van die regulasies afgekondig by Goewermentskennisgewing No. R. 98 van 26 Janaurie 1962, Goewermentskennisgewing No. R. 99 van 26 Januarie 1962, of ingevolge die voorwaardes onderworpe waaraan 'n pensioenfonds ingevolge artikel 2 (3) (a) (ii) van die Wet op Pensioenfondse, 1956, vrygestel is van sekere bepalings van dié Wet.

Heffing op uittredingsannuïteitsfondse

2. (1) Ten opsigte van 'n uittredingsannuïteitsfonds soos omskryf in artikel 1 van die Inkomstebelastingwet, 1962, wat nie uitsluitlik deur middel van versekeringspolisse uitgereik deur 'n versekeraar geregistreer ingevolge die bepalings van die Versekeringswet, 1943 (Wet No. 27 van 1943), bedryf word nie, 'n heffing van R50 plus 0,004% van die waarde van die fonds se bates, versekeringspolisse uitgesluit.

(2) Die waarde van die fonds se bates in subitem (1) bedoel, moet ooreenstem met die waardebepaling daarvan soos weerspieël in die opgawe wat ingedien is of ingedien staan te word by die Registrateur van Pensioenfondse ingevolge artikel 15 van die Wet op Pensioenfondse, 1956.

Heffing op onderlinge hulpverenigings

3. Ten opsigte van 'n onderlinge hulpvereniging wat ingevolge die Wet op Onderlinge Hulpverenigings, 1956 (Wet No. 25 van 1956), geregistreer is, 'n heffing van R25 plus 50c per lid van sodanige onderlinge hulpvereniging, of R1 000, watter bedrag ook al die kleinste is.

Heffing op korttermynversekeraars en onderskrywers by Lloyd's

4. (1) Ten opsigte van 'n korttermynversekeraar wat ingevolge die Versekeringswet, 1943, geregistreer is, maar wat nie onder subitem (2) ressorteer nie, 'n heffing van R30 000 plus 0,02563% van die bruto premie-inkomste van sodanige versekeraar soos in die jongste Jaarverslag van die Registrateur van Versekeringswese gepubliseer.

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(2) In respect of a short-term insurer who has a gross premium income lower than R10 million per annum and who is registered in terms of the Insurance Act, 1943, a levy of R5 000 plus 0,02563% of the gross premium income of such insurer as published in the Annual Report referred to in subitem (1).

(3) In respect of underwriters at Lloyd's payable by the person appointed in terms of section 60 (1) (g) of the Insurance Act, 1943, a levy of R30 000 plus 0,02563% of the gross premium income received on behalf of such underwriters in the Republic and as published in the Annual Report referred to in subitem (1).

Levy on long-term insurers

5. (1) In respect of a life insurer who is registered in terms of the Insurance Act, 1943, and who carries on one or more classes of long-term insurance business, except home service business or business in addition to home service business, a levy of R20 000 plus 0,004% of the liabilities under unmatured long-term insurance policies.

(2) In respect of a home service insurer who is registered in terms of the Insurance Act, 1943, and who does not carry on any other class of long-term insurance business other than home service business, a levy of R1 000 plus 0,004% of the liabilities under unmatured long-term insurance policies.

(3) In the application of this item, "liabilities under unmatured long-term insurance policies"—

(a) include liabilities under unmatured annuity contracts except those referred to in paragraph (c); and

(b) liabilities under unmatured policies entered into with a retirement annuity fund as defined in section (1) of the Income Tax Act, 1962; but

(c) exclude liabilities in terms of contracts referred to in paragraph (cc) of the definition of "life policy" in section 1 of the Insurance Act, 1943, entered into with a pension fund, retirement annuity fund, provident fund, benefit fund or a friendly society.

(4) The value of the liabilities referred to in subitem (3) is calculated in accordance with the provisions of the Second Schedule to the Insurance Act, 1943, at the end of the insurer's financial year which ended in the previous calendar year. (In respect of the April instalment the levy shall be based on a reasonable estimate of the liabilities if the actual value is not available.

Levy on intermediaries

6. In respect of an agent, broker or other person as referred to in section 20*bis* of the Insurance Act, 1943, a levy of 0,01743% of the audited aggregate gross premiums which were received on behalf of registered insurers and underwriters at Lloyd's by such agent, broker or other person in his latest financial year.

(2) Ten opsigte van 'n korttermynversekeraar met 'n bruto premie-inkomste laer as R10 miljoen per jaar wat ingevolge die Versekereingswet, 1943, geregistreer is, 'n heffing van R5 000 plus ,02563% van die bruto premie-inkomste van sodanige versekeraar soos in die Jaarverslag bedoel in subtitem (1) gepubliseer.

(3) Ten opsigte van onderskrywers by Lloyd's betaalbaar deur die persoon aangestel ingevolge artikel 60 (1) (g) van die Versekeringswet, 1943, 'n heffing van R30 000 plus 0,02563% van die bruto premie-inkomste wat ten behoewe van sodanige onderskrywers in die Republiek ontvang is en soos in die Jaarverslag bedoel in subitem (1) gepubliseer.

Heffing op langtermynversekeraars

5. (1) Ten opsigte van 'n lewensversekeraar wat ingevolge die Versekeringswet, 1943, geregistreer is en wat een of meer klasse van langtermynversekeringsbesigheid, uitgesonderd tuisdiensversekeringsbesigheid of besigheid bykomend by tuisdiensversekeringsbesigheid, bydryf, 'n heffing van R20 000 plus 0,004% van die verpligtinge ingevolge onafgeloste langtermynversekeringspolisse.

(2) Ten opsigte van 'n tuisdiensversekeraar wat ingevolge die Versekeringswet, 1943, geregistreer is en wat nie enige ander klas langtermynversekeringsbesigheid as tuisdiensversekeringsbesigheid bedryf nie, 'n heffing van R1 000 plus 0,004% van die verpligtinge ingevolge onafgeloste langtermynversekeringspolisse.

(3) By die toepassing van hierdie item sluit "verpligtinge ingevolge onafgeloste langtermynversekeringspolisse"—

(a) verpligtinge ingevolge onafgeloste annuïteitskontrakte, uitgesonderd dié bedoel in paragraaf (c), in;

(b) verpligtinge ingevolge onuitgekeerde polisse aangegaan met 'n uittredingsannuïteitsfonds soos omskryf in artikel 1 van die Inkomstebelastingwet, 1962, in; en

(c) verpligtinge wat ingevolge ooreenkomste bedoel in paragraaf (cc) van die omskrywing van "lewenspolis" in artikel 1 van die Versekeringswet, 1943, aangegaan met 'n pensioenfonds, uittredingsannuïteitsfonds, voorsorgfonds, bystandsfonds of 'n onderlinge hulpvereniging, uit.

(4) Die waarde van die verpligtinge bedoel in subitem (3) word bekend ooreenkomstig die bepalings van die Tweede Bylae van die Versekeringswet, 1943, aan die einde van die versekeraar se boekjaar wat in die voorafgaande kalenderjaar ten einde geloop het. (Ten opsigte van die April-paaiement moet die heffing gebaseer word op 'n redelike beraming van die waarde van die verpligtinge sou die werklike waarde nie beskikbaar wees nie.)

Heffing op tussengangers

6. Ten opsigte van 'n agent, makelaar of ander persoon bedoel in artikel 20*bis* van die Versekeringswet, 1943, 'n heffing van 0,01743% van die geouditeerde totale bruto premies wat deur sodanige agent, makelaar of ander persoon gedurende sy jongste finansiële jaar ten behoewe van geregistreerde versekeraars en onderskrywers by Lloyd's ontvang is.

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Levy on stock exchanges

7. A levy of R11 000 per stockbroking firm carrying on business on a stock exchange licensed in terms of the Stock Exchanges Control Act, 1985 (Act No. 1 of 1985).

Levy on financial exchanges

8. A levy of R150 per member of a financial exchange licensed in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989).

Levy on portfolio managers

9. A levy of R150 on a person who is a portfolio manager as referred to in paragraphs (d), (e) and (f) of section 4 (1) of the Stock Exhanges Control Act, 1985, and in paragraphs (f), (g) and (h) of section 5 (1) of the Financial Markets Control Act, 1989.

Levy on participation bond schemes

10. A levy of 0,003% of the aggregate amounts owing by mortgagors on 31 December of the previous year in a participation bond scheme exempted in terms of section 37 of the Unit Trusts Control Act, 1981 (Act No. 54 of 1981).

Levy on unit trust schemes

11. (1) A levy of R6 200 on every unit portfolio of a unit trust scheme in securities other than property shares registered in terms of the Unit Trusts Control Act, 1981, plus, in the case of any management company of a unit trust scheme managing assets with a value in excess of R300 000 000, a further levy of R32 500.

(2) A levy of R6 875 on every unit portfolio of a unit trust scheme in property shares registered in terms of the Unit Trusts Control Act, 1981.

General

12. (1) From 1 April 1991—

(a) the levies referred to in items 1, 3, 7, 8, 9, 10 and 11 are payable annually not later than 15 April every year; and

(b) the levies referred to in items 2, 4, 5 and 6 are payable annually in two instalments, namely 50% of the levy or a reasonable estimate of such amount before 15 April and the balance before 15 October.

(2) The fees referred to in this Schedule shall be paid by cheque, postal order or money order made out in favour of the Financial Services Board: Provided that if such fee is delivered by hand, the payment may be made in cash.

Heffing of effektebeurse

7. 'n Heffing van R11 000 op 'n effektemakelaarsfirma wat besigheid dryf op 'n effektebeurs wat ingevolge die Wet op Beheer van Effektebeurse, 1985 (Wet No. 1 van 1985), gelisensieer is.

Heffing of finansiële markte

8. 'n Heffing van R150 per lid van 'n finansiële beurs wat ingevolge die Wet op Beheer van Finansiële Markte, 1989 (Wet No. 55 van 1989), gelisensieer is.

Heffing op portefeuljebestuurders

9. 'n Heffing van R150 op 'n persoon wat 'n portefeuljebestuurder soos bedoel in paragrawe (d), (e) en (f) van artikel 4 (1) van die Wet op Beheer van Effektebeurse, 1985, en paragrawe (f), (g) en (h) van artikel 5 (1) van die Wet op Beheer van Finansiële Markte, 1989, is.

Heffing op deelnemingsverbandskemas

10. 'n Heffing van 0,003% van die totale bedrae verskuldig deur verbandgewers op 31 Desember van die voorafgaande jaar van 'n deelnemingsverbandskema wat ingevolge artikel 37 van die Wet op Beheer van Effekte-trustskemas, 1981 (Wet No. 54 van 1981), vrygestel is.

Heffing op effekte-trustskemas

11. (1) 'n Heffing van R6 200 op elke effektegroep van 'n effekte-trustskema in ander effekte as eiendomsaandele ingevolge die Wet op Beheer van Effekte-trustskemas, 1981, geregistreer, plus, in die geval van 'n bestuursmaatskappy van 'n effektetrustskema wat bates met 'n waarde van meer as R300 000 000 beheer, 'n verdere heffing van R32 500.

(2) 'n Heffing van R6 875 op elke effektegroep van 'n effekte-trustskema in eiendomsaandele wat ingevolge die Wet op Beheer van Effekte-trustskema, 1981, geregistreer is.

Algemeen

12. (1) Vanaf 1 April 1991 is—

(a) die heffings bedoel in items 1, 3, 7, 8, 9, 10 en 11 jaarliks, nie later nie as 15 April van elke jaar, betaalbaar; en

(b) die heffings bedoel in items 2, 4, 5 en 6 in twee paaiemente per jaar, te wete 50% van die heffing of 'n redelike beraming van daardie bedrag, voor 15 April en die balans voor 15 Oktober van elke jaar, betaalbaar.

(2) Die gelde in hierdie Bylae bedoel, is betaalbaar deur middel van 'n tjek, posorder of geldwissel uitgemaak ten gunste van die Raad op Finansiële Dienste: Met dien verstande dat waar bedoelde gelde per hand afgelewer word, die betaling in kontant mag geskied.

No. 695 **28 March 1991**

RATE OF INTEREST ON GOVERNMENT LOANS

It is hereby notified that the Minister of Finance has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the standard interest rate applicable from 1 April 1991, and until further notice, to loans granted by the State out of the State Revenue Fund at sixteen comma nought nought per cent (16,00%) per annum.

No. 695 **28 Maart 1991**

RENTEKOERS VAN TOEPASSING OP STAATSLENINGS

Hierby word bekendgemaak dat die Minister van Finansies ingevolge artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975), die standaardrentekoers van toepassing vanaf 1 April 1991, en tot nadere kennisgewing, op lenings deur die Staat toegestaan uit die Staatsinkomstefonds op sestien komma nul nul persent (16,00%) per jaar vasgestel het.

(58) The above-mentioned standard interest rate is applicable from 1 April 1991, and until further notice, to all drawings of loans from State moneys, except loans in respect of which other rates of interest are specifically authorised by legislation or the Minister of Finance.

Bogenoemde standaardrentekoers is van toepassing vanaf 1 April 1991 en tot nadere kennisgewing, op alle trekkings van lenings uit staatsgelde, uitgesonderd lenings ten opsigte waarvan rentekoerse spesifiek deur wetgewing of die Minister van Finansies gemagtig is.

DEPARTMENT OF JUSTICE

No. 633 **28 March 1991**

INTERNAL SECURITY ACT, 1982

REMOVAL OF NAMES FROM THE CONSOLIDATED LIST

Notice is hereby given in terms of section 16 (6) (b) of the Internal Security Act, 1982 (Act No. 74 of 1982), that the names set out in the Schedule have in terms of section 16 (4) of the said Act been removed from the consolidated list.

D. C. D. SWANEPOEL,
Director of Security Legislation.

DEPARTEMENT VAN JUSTISIE

No. 633 **28 Maart 1991**

WET OP BINNELANDSE VEILIGHEID, 1982

SKRAPPING VAN NAME UIT DIE GEKONSOLIDEERDE LYS

Kennis word hierby ingevolge artikel 16 (6) (b) van die Wet op Binnelandse Veiligheid, 1982 (Wet No. 74 van 1982), gegee dat die name vermeld in die Bylae ingevolge artikel 16 (4) van genoemde Wet uit die gekonsolideerde lys geskrap is.

D. C. D. SWANEPOEL,
Direkteur van Veiligheidswetgewing.

SCHEDULE • BYLAE

Banda, Vronda Zeblon.
Buthelezi, Norbert Sifiso.
Cikozani, Mzwakhe Hespro.
Direko, Abraham Tebogo.
Dyabooi, Xolile.
Faku, Nceba Christopher.
Gans, Charles.
Gumenge, Wellington Vukile.
Jikijela, Gushebetele.
Khumalo, Malungizi.
Lowe, Nazeem.
Macozoma, Reed Zwelethu.
Madumise, Regina Tseleng.
Makape, Solomon Moloi.
Maloma, David.
Marais, Stephen Johannes.
Marupeng, James Edward.
Maserumule, Frans Tlokwe.
Matiwana, Josef Kwanele.
Mbelekana, Lindile Patrick.
Mehlo, Sakhiwo.
Mhlophe, Mzingaye Richmond.
Mkhulhwa, Joseph Susele.
Mogale, Simon George.
Mohapi, Oliver Jani.
Morake, Phillemon Modisagareko.
Motlhoaleng, Frans.
Myamya, Mthetho Douglas.
Ndlovu, Alfred Muntu.
Nkosi, Elias Bennet.
Nokele, Thanduxolo Kingsley.
Nxiweni, Lindile Ora.
Bhoya, Herbert.
Chiwayo, Lazarus.
Dinca, Siphiwo Wellington.
Ditsebe, Peter Parks Tebogo.
Esau, Cecil.
Francis, Jude.
Gongo, Sigqibo Michael.
Hendricks, Titus.
Khumalo, Jerry Themba.
Kumalo, Charles.
Maape, David Tlhomelang.
Madikoto, Willy Landslord.
Majola, Malusi Israel.
Makwela, Motshele Edwin.
Mapumulo, Wilfred Mhlawumbe.
Martins, Benedict Anthony Duke.
Matakata, Michael Mkhuseli.
Matosa, Petros Zanemvula.
Mdlalose, Sibusiso Dingane.
Mfeketo, Molliat Mziwuxolo.
Mkhize, Moses Jabulani.
Modisella, Solomon.
Mogano, Piet.
Mokoena, Mpini Moses.
Motaung, Vuyani Knowledge.
Motimele, Malose Stanley.
Muthwa, Derrick Sakhele.
Ndevu, Maboye Colin.
Nkabinde, Jack Themba.
Nodlawu, Sipho.
Ntuli, Bongani.
Phule, Phanuel.

Momentum Life probed

Sowetan 28/3/91

(58)

By JOSHUA RABOROKO

INVESTIGATIONS. are underway against the second leading insurance company accused of investment irregularities in 1988 and 1989.

Cape attorney-general advocate Frank Kahn has advised the directors of Momentum Life of alleged irregularities in share dealings.

This is the second investigation to be conducted by Kahn in the past few weeks following the probe of leading financial institution Old Mutual.

A Momentum Life spokesman said the company and Kahn's investigative team jointly launched an inquiry into the alleged irregularities.

As a result of the probe, senior employee of Momentum Life Dr CJ Auret, has resigned with immediate effect.

Pilot housing project in the balance after Perm pulls out

BD ay 28/3/91

DARIUS SANAI

THE future of a major government pilot housing project for the homeless is in jeopardy after the SA Perm, the scheme's main financial backer, pulled out following tensions between community groups and the TPA and allegations of bribery of housing officials.

The project was aimed at providing hundreds of housing sites at Doornkop, near Soweto, a number of which were to have been set aside for the homeless.

The Perm was to have supplied bonds for the project.

However, a Perm spokesman said yesterday it had withdrawn its support primarily because of civic associations' dissatisfaction with the scheme.

"It appears some of the civic associations involved with the scheme were unhappy. The scheme did not seem to have the people's support," he said, adding that differences between the associations and the TPA would have to be sorted out before the Perm would recommit itself.

There have been allegations that Soweto councillors have been taking bribes from would-be residents to jump the waiting list. The Perm spokesman denied this was a reason for the pull-out.

Banking sources said yesterday that Standard Bank was interested in being involved following the Perm's pull-out, but that no firm arrangements had been made.

A spokesman for Operation Masakhane for the Homeless, which has been negotiating with the TPA for housing sites, said the TPA is "extending Soweto by locating the plots at Doornkop" without consulting community groups to determine the convenience of the site.

The TPA's housing spokesman was yesterday unavailable for comment.

AVF restructuring pays premiums

(58)

Bday 28/3/91

SEAN VAN ZYL

AVF Group, formerly AA Life Group, has disclosed a 7% rise in net premium income of R142,9m (R133,7m) for an interim eight-month period to December.

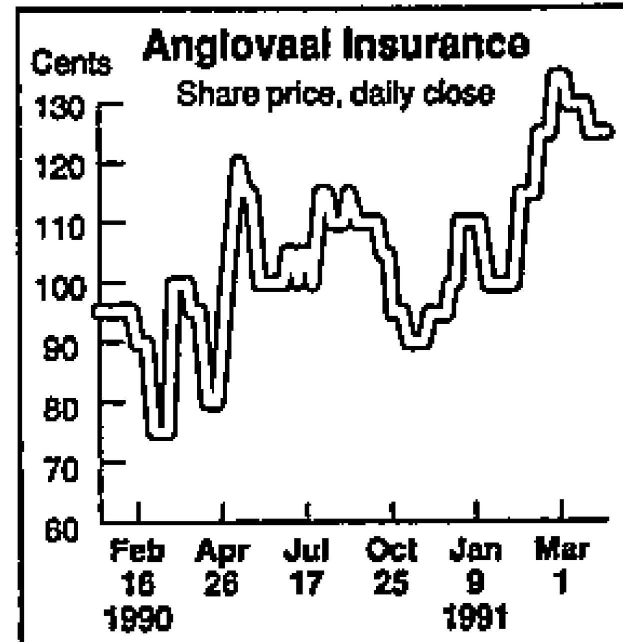
AVF has adjusted its year-end to June in line with that of its parent shareholder Anglovaal, which holds 53%.

Last year the group underwent an extensive restructuring which resulted in Crusader Life and AA Life falling under the same corporate umbrella of Anglovaal Insurance Holdings (Avins), previously Crusader Life Holdings. Crusader Life has, however, retained its listing. AVF, at the top of the ladder, has an 84% stake in Avins.

Avins' CE Brian Benfield said that, while the company's results were not truely comparable (because of the year-end change and trading periods concerned), AVF's attributable profits rose by 14,6% to R7m (R6,1m) against the previous 13 months to end April. This equated to earnings of 9,8c (8,6c) a share.

An interim dividend of 9,8c (5,9c) a share was declared. The dividend payout climbed by more than 66% and covers earnings fully. Benfield said that, as a holding company, AVF's policy was to distribute all earnings.

AVF's life funds, representing the two life operations, increased by 21,8% to R282,7m (R232m), which was indicative of new business growth during the period. Benfield noted that Crusader's recently disclosed 38% growth in net premiums and AA Life's 34% climb, over the 12 months to December, were both more than double the industry's average growth.



The company's purchase earlier this month of a 35% interest in Board Of Executors (BOE) for R57,2m has also made the AVF financial services group an extremely important factor in the Anglovaal stable, Benfield said.

BOE's contribution to AVF's figures to end-June "will definitely enhance our performance", he added.

Benfield said that keeping the different life companies separate had been an important component ensuring the group's success.

SFS excited about future

GILLIAN HAYNE

SAGE Financial Services (SFS), 49% owned by Amalgamated Banks of SA (Absa), has posted an 11,2% increase in attributable earnings to R32,5m.

Earnings a share, calculated on the weighted number of shares in issue, increased a modest 10,8% to 39,9c.

Executive director Bernard Nackan attributed this to "lower than anticipated growth in earnings from group subsidiaries impacted by poor investment markets, and certain associated companies."

On a fully diluted basis, assuming conversion of all preference shares, earnings were 35,7c (33,9c).

Nackan said the future held exciting prospects after the merger into R50bn banking giant Absa.

To bring SFS's financial year end in line with its merger partners, the current financial period will reflect the 15 months ending March 31 1991. The final dividend will be declared at that time, as will the dividends on convertible preference shares.

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Code of Conduct

Part 2

South 28/3 - 3/4/91 South 28/3 - 3/4/91 (58)

AS part of a series on property, we publish Part 2 of the code of conduct which governs the actions of estate agents:

3. No estate agent shall:

3.6 pay or offer to pay, directly or indirectly, any consideration or offer directly or indirectly any inducement to any party in order to secure or endeavour to secure business, except to —

3.6.1 another estate agent in possession of a valid fidelity fund certificate; or

3.6.2 an attorney intended in paragraph (d) of the definition of "estate agent" in section 1 of the Act; or

3.6.3 any other person or body as the board may determine from time to time: Provided that the aforegoing shall not be so construed as to prohibit an estate agent or his client from negotiating the amount payable as commission to such estate agent.

3.7 act or offer in any capacity in relation to a matter which is the subject of judicial or quasi judicial proceedings either on the basis that no charge will be made unless the proceedings are successful or that the amount of the charge raised by him will be related to the degree of success attained.

3.8 intentionally use any confidential information obtained by him from any other estate agent concerning any immovable property or pending transaction relating thereto to the prejudice of such other estate agent;

3.9 in relation to immovable property, as defined in the Estate Agents Act, 1976 (Act 112 of 1976), or a prospective purchaser thereof, particulars of which or whom have been requested and obtained from another estate agent, negotiate to deal directly or indirectly with the owner of that immovable property or that prospective purchaser, same through that other estate agent or with the knowledge and consent of such estate agent. Provided that should that immovable property be withdrawn from the market or the mandate of that other estate agent be terminated, all obligations by the former estate agent towards the latter shall cease in respect of that immovable property and purchaser unless otherwise agreed in writing between the estate agents involved;

3.10 through the medium of a company, close corporation or third party or using such company, close corporation or third party as front or nominee do anything which it would not be permissible for him to do if he were operating as an estate agent.

3.11 accept any mandate or instructions for work in respect of immovable property if his interest therein would conflict with his obligations towards an existing client in respect of the same immovable property without first disclosing such interest in writing to such client.

3.12 willfully or negligently fail to perform any work or duties normally performed by an estate agent with such degree of care and skill as in the opinion of the board may reasonably be expected;

3.13 knowingly, in relation to his activities as an estate agent, prepare make or assist, any other person to prepare or make any false statement, whether orally or in writing or sign any false statement in relation thereto knowing it to be false, or knowingly prepare or maintain any false books of account or other records.

3.14 without just cause divulge to any third party any confidential information obtained by him concerning the business affairs, trade secrets or technical methods or processes of a client or employer;

3.15 if he is in the service of an estate agent, whether an an employer or independent contractor undertake same with the written consent of that estate agent, any work falling within the field of estate agency for his own account or in partnership or for another estate agent.

3.16 solicit or influence an owner of trust funds in the agent's possession or under control to make over or pay to the estate agent directly or indirectly any interest on moneys deposited or invested in terms of section 32(1) or 32(2)(a) of the Act.

3.17 prior to the registration of transfer of any immovable property in respect of which transaction he acted as an estate agent, secure or accept for himself or his benefit directly or indirectly, a sole agency or sole mandate to sell the said immovable property after the aforesaid date of transfer of such immovable property.

3.18 without good and sufficient cause directly or indirectly in any manner whatsoever solicit encourage persuade or influence any party or potential party to a pending or a completed transaction to utilise or refrain from utilising the services of a particular attorney, conveyancer, firm of attorneys or professional company;

3.19 stipulate for, demand or receive directly or indirectly any remuneration, commission, benefit or gain arising from or connected with any completed, pending or proposed transaction which is subject to a condition of any nature until such time as that condition has been fulfilled. Provided that the aforegoing shall not apply in respect of any written mandate executed independently of the transaction in question, which expressly authorises the estate agent to receive his remuneration, commission benefit or gain at any time prior to the fulfillment of the condition in question and which is signed by all the parties to the particular transaction.

4. Every estate agent who is the sole proprietor of an estate agency business or a partner in a partnership or a director or a company or a member of a close corporation contemplated in paragraph (b) of the definition of "estate agent" in section 1 of the Act carrying on the business of an estate agent, shall be held responsible for any contravention of or failure to comply with this code of conduct by any other partner director or member or by any person in the service of such sole proprietorship, partnership, company or closed corporation, whether as an employee or independent contractor unless he has prior to such contravention or failure to comply taken all reasonable steps to prevent same and could not in the circumstances have prevented such contravention or failure to comply. ❑

Quentin Pavitt

ECONOMIC OUTLOOK

SEEDS OF GROWTH

FM 29|3|91

As recessions go, 1990 proved unusual. The latest Reserve Bank *Quarterly Bulletin* confirms a trend that emerged early in the year: while production continues to fall, consumer confidence remains surprisingly intact.

Economic output shrank in 1990 by nearly 1% — but real final demand rose almost 1% for the year — and an annualised 3% in the fourth quarter. Most of the impetus came from private consumption, up 1,5% in 1990.

Particularly unusual is that much of it was generated by spending on durable goods, up 2,9% (see graph.) In 1985, when the GDP shrinkage was only slightly greater, real final demand dropped by more than 3%, private consumption spending 3,5% and spending on durables by more than 22%.

The trend arises partly from recent real increases in salaries and wages — 3,2% in 1989 and a slightly moderated 2,1% in 1990. More important, perhaps, as much of the spending is financed by instalment credit, it is due to expectations for the future.

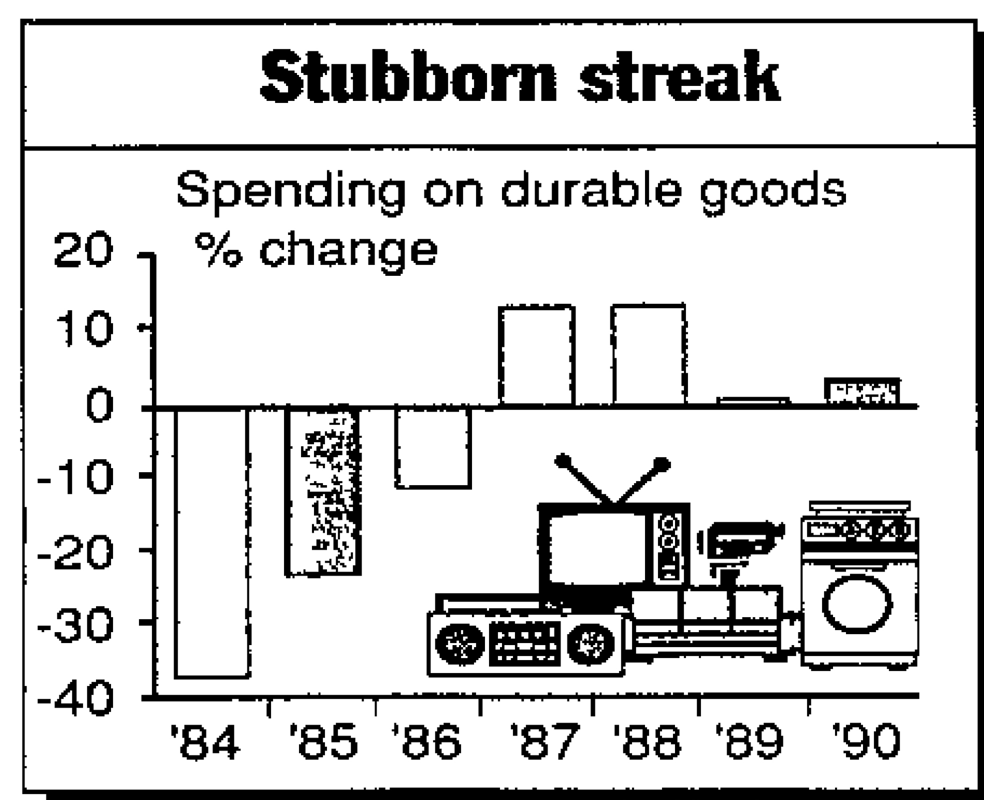
The sector that benefited most was furniture and household appliances, up 5,9%, and recreational and entertainment goods, up 9,7%. (In 1985, sales of these categories fell 9,8% and 21,8%.) The effects are evident in recent results from companies supplying furniture and electrical goods:

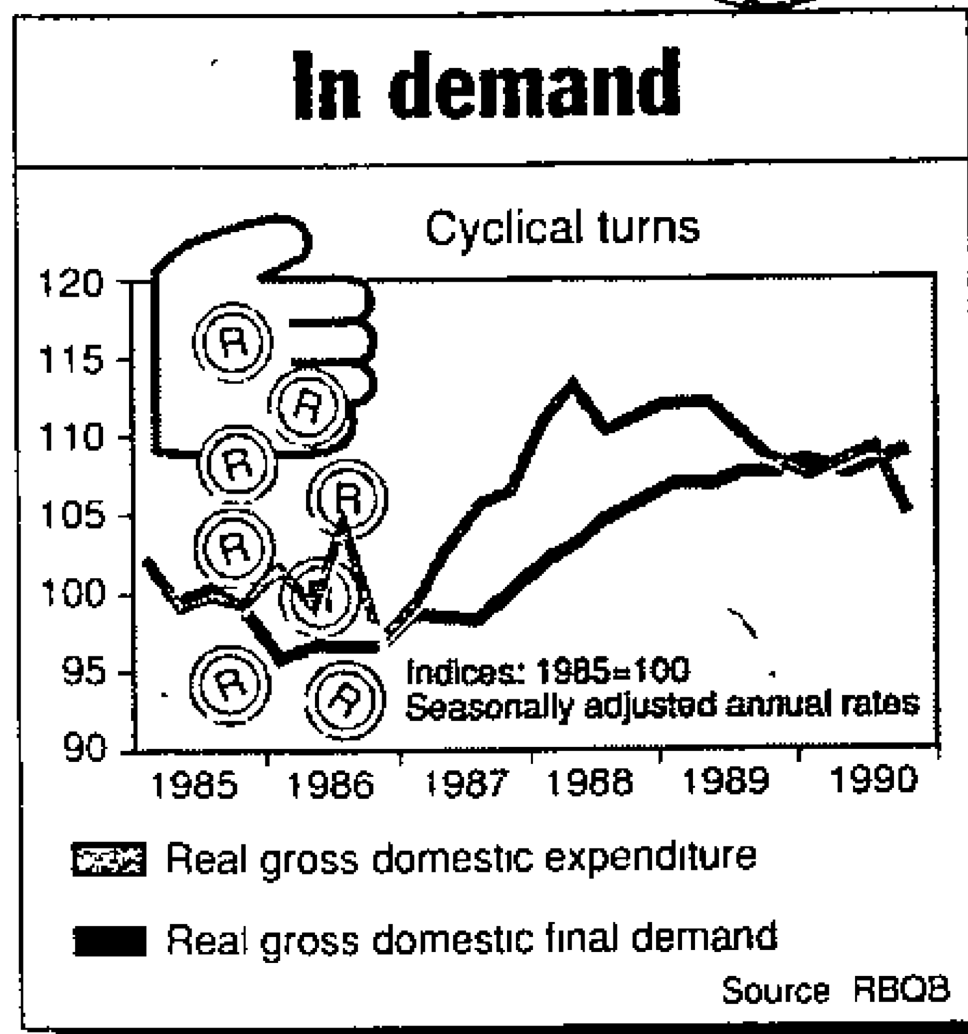
- In the six months to end-February, Ellerine's sales rose 30%;
- In the year to end-December the J D Group saw a 37% rise in turnover; and
- In the six months to end-February, Tedelex reported a 37% increase in business.

This unexpected demand has resulted in a large rundown of inventories — a massive R3bn in constant 1985 prices.

The ratio of industrial and commercial inventories to GDP fell to 19,4% in 1990 from 22,2% in 1985.

Herein lies the seed of recovery. Says Standard Bank group economist Nico Czypionka: "There is no scope for inventories to run down much further. Unless demand falls off, we will soon get positive growth on the production side which will underpin employment in industry and related areas." With capacity utilisation at a low 81,7% there is scope for expansion.





These developments are too tentative to be seen as signs of a recovery; more is needed before the cycle can turn. In the short term, an improvement in commodity prices to bolster export revenue would be a useful spur to growth, as so often in the past.

Longer-term what is needed is improved productivity. In the first three quarters of 1990 it was 0,9% lower than in the first three quarters of 1989. This was partly a cyclical phenomenon, says the *Bulletin*, but reflects also days lost due to strikes, work stoppages and labour unrest.

If income is to be redistributed without priming the already dangerous strength of inflation, productivity must match demand. ■

FINANCIAL SERVICES (58)

DOUBLE TROUBLE

FM 29|3|91

Bankers will not accept without protest what they interpret as a victory for life offices in last week's Budget. Nor will they willingly accept the tax of 0,75% on interest and finance charges in the form suggested there.

A procession of business leaders headed for the parliamentary Joint Standing Committee on Finance this week. The Association of Clearing Banks was due to see the committee on Wednesday, preceded on Tuesday by the Life Offices Association.

Bankers believe the Budget favours life offices at the expense of deposit-taking institutions. They point to the lopsided effect of the proposed 0,75% tax and are also worried at the tone of the Jacobs Committee memorandum accompanying the Budget speech, which seems to favour the life offices.

FM 29|3|91 (58)

The LOA delegation argued for the full application of the principle that life offices are merely trustees for policyholders and should be taxed in the same way as individuals. Specifically, they want to be relieved of tax on dividends received, a reduction in their tax rate from the proposed 43% to about 30% and an increase in the expenses they may offset against tax.

The bankers' mission is twofold: before the ACB and Association of Mortgage Lenders can formulate any resistance to the 0,75% tax, they must know how it will operate. "I haven't been able to find anyone who knows," says UBS CEO Mike De Blanche. He is echoed by Nedcor CEO Chris Liebenberg: "It's so vague, it makes planning very difficult." Vague or not, Liebenberg insists the tax leaves banks worse off than had they been subjected to a straight value-added tax (VAT).

Standard Bank chief accountant Henry Shaw says the tax as presented in the Budget could severely disrupt money markets. The multiplier effect, he calculates, could have swingeing effects on corporate interest rates. "A margin of a paper-thin 0,25% would have to go to about 0,85%".

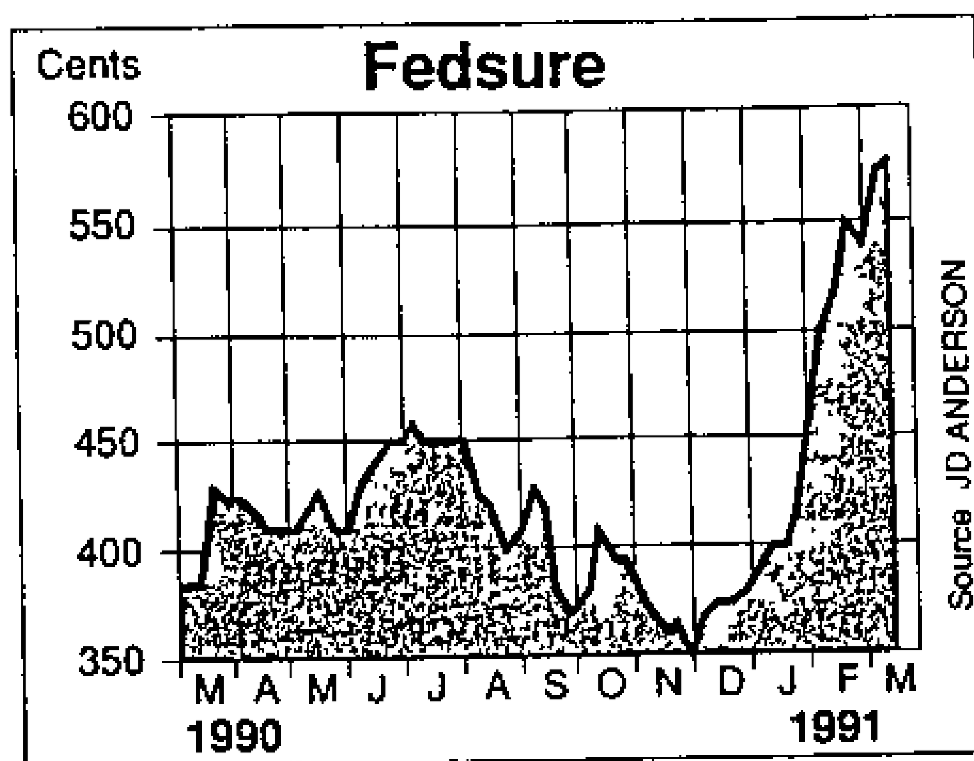
There are other problems of definition, says Shaw. "If we buy bills at a discount, what is the interest rate?"

Bankers believe the tax is unworkable. There is general acceptance, however, that a quantum of money has to be levied from the industry, to approximate what VAT would have yielded. Several say they will co-operate in constructing a workable levy system — but emphasise the tax, as now proposed, is fraught with problems.

Bankers' other objective this week is to get clarity about the Jacobs Committee report. The committee was set up largely at the request of banks-building societies campaigning for a more level playing field between themselves and the life offices. Far from achieving that, they have been confronted with a report that is critical of banks and supportive of the life offices.

Jacobs concludes: "There is no evidence that (life office) funds are utilised unproductively, that personal saving is metamorphosised into consumption spending (apart from pension payments used in this way) or that their activities harm the financial market.

"Contractual saving is not responsible for the negative element of discretionary saving; indeed, household dissaving is made possible precisely by the consumption credit obtained from the deposit-taking institutions to which households must direct those discretionary savings. There is also no reason why discretionary saving should rise if contractual saving falls." ■



FEDSURE FM 29/3/91

BROADENING THE BASE

Activities: *Short- and long-term insurance and other financial services.* (58)
Control: *Directors and construction industry organisations through a pool agreement.*
Chairman: *J A Barrow; MD: A I Basserabie.*
Capital structure: *67,3m ords. Market capitalisation: R390m.*
Share market: *Price: 580c. Yields: 4,3% on dividend; 6,1% on earnings; p:e ratio, 16,5; cover, 1,4. 12-month high, 590c; low, 350c. Trading volume last quarter, 3,1m shares.*

Year to Dec 31	'87	'88	'89	'90
Total assets (Rbn) ...	2,5	2,8	3,4	3,9
Gross prem inc (Rm) ..	363	503	532	684
Invest income (Rm) .	239	275	362	440
Taxed profit (Rm)	10,0	15,4	19,1	23,6
Earnings (c)	18,9	23,0	28,6	35,1
Dividends (c)	9,6	16,5	20,2	25,0
Net worth (c)	117	124	134	148

Fedsure has taken steps to a become a more broad-based financial services group in recent months.

These include its agreement with Saambou — which, subject to due diligence investigations and shareholders' approval, will see Fedsure transfer half the equity of its Planet Finance subsidiary to Saambou in return for debentures convertible to 30% of the building society's equity — and the recent launching of a general equity unit trust.

Fedsure's Basserabie ... *better quality business*

Fedsure also flexed its muscle in the financial services market by supporting FNB in its unsuccessful bid to acquire control of Allied. The group holds 6% of Allied's equity and expects to benefit handsomely from United's offer to minoritites. The group has yet to decide whether to convert all or part of its stake into ABSA shares. Other investment activities include the funding of 65%-owned Fedbond, which specialises in participation mortgage bond schemes, and the purchase of 27% of Fidelity Bank.

However, it is Fedsure's long-standing life insurance business that continues to generate earnings growth. Fedlife, the group's main subsidiary, increased premium income from life assurance and pension policies by 28% to R684m in the year to end-December. Additional investment income of R440m, up 22%, pushed gross income for the year past the R1bn milestone.

Group CE Arnold Basserabie says Fedlife not only increased the amount of business written, but also improved its quality. The group's total assets swelled 17% to R3,9bn, despite a slide in equity prices in the second six months.

Fedlife's stout performance ensured that taxed profit for the group climbed 24% to R23,6m, with EPS rising 6,5c to 35,1c. Dividend cover was maintained at 1,4 times and shareholders will receive 25c a share.

Underwriting losses

In the short-term insurance business things were less rosy. After reportedly keeping ahead of break-even at the interim, the group's short-term insurance operation, Fedgen, suffered the fate of most of its competitors and underwriting losses of R20m helped pull the company R10,3m into the red — compared with a profit of R3,7m last year.

Basserabie says Fedgen's loss includes increased reserve provisions required by the Insurance Act. He adds that the company's year-end solvency margin of 37,4% was well above the legally required 15%. "Fedgen's management is working flat out to return the company to profitability but because of the volatility of this market it is difficult to say whether this will happen in the current year," says Basserabie.

Fedgen is treated as an investment of Fedlife, and its loss this year had a negligible effect on group earnings. The expansion of Fedlife's investment portfolio, together with high interest rates, is likely to result in

continue →

healthy growth in investment income in the current year. Basserabie is reluctant to forecast investment earnings growth other than to say that he expects a favourable appreciation of these earnings.

However, Fedsure's life assurance business appears set to be the mainstay of the group's business for some time to come. Basserabie expects growth in new business in both the pensions and life division.

A fairly favourable Budget — the 0,75% tax on interest earned by financial institutions is mild compared with some of the proposals for withholding tax and VAT aired before the Budget — is unlikely to temper Basserabie's optimism that "satisfactory" earnings and dividend growth will be achieved in the current year. Fedsure's attributable earnings have grown at an annual compound rate of more than 22% in the past eight years and it would not be unreasonable to expect similar growth in the current year.

At 580c, the share is only 10c off its 12-month high and gives a p:e of 16,5. Such a rating puts the share behind only Southern and the Liberty group in the insurance sector and the share looks fully priced at current levels. However, management believes the stock deserves a rerating and expects the price to rise in line with future earnings growth.

Simon Cashmore

NBS FM 29/3/91 (58)

NORWICH MOVES IN

With Allied destined to become part of the Absa banking conglomerate, investors' attention has inevitably shifted to the last remaining independent building society, NBS.

Speculation that a large financial services group may bid for NBS helped to push up the share 250c this year to a high of R10. It's now 950c. Last week Norwich Life revealed that it had lifted its stake in NBS from 10% to just under 20% in the past few weeks. It has also secured the voting rights on a further 9,9% of the equity held by Slany Ltd, a trust based in Luxembourg.

Norwich MD Charles Davies says the life assurer paid R10 a share on open market for the additional shares. He adds Norwich has no intention of trying for control of NBS but is merely exercising a cross-shareholding agreement dating from 1987.

NBS has long prided itself on its independence. Davies acknowledges that a by-product of the deal is that it provides the building society with a blocking mechanism against a hostile takeover. NBS public affairs GM Brian Short agrees: "Nothing is ever watertight, but it does protect us."

Norwich and NBS have worked closely together since 1987 when Norwich's UK ex-parent Norwich Union disinvested. NBS then took 30% of Norwich, the rest going to a

Continued

FOX FM 29/3/91 (58)

trust for policyholders and staff. In turn, Norwich acquired 10% of NBS.

Davies says Norwich couldn't increase this stake until the Deposit-Taking Institutions Act came into effect last month. He says Norwich has no intention of raising its holding in NBS beyond voting rights of 30%.

Short is delighted with Norwich's purchase of more shares. He says the two already have board cross-representation and a closer relationship could bring further marketing benefits. *Simon Cashmore*

INSURANCE FM 29/3/91

THIRD WORLD? (58)

Another look at compulsory *balance of third party* insurance (BoTP) is under way — this time by a subcommittee of the SA Insurance Association (SAIA), but there is little likelihood of anything passing into legislation for years.

In most First World countries, owners of motor vehicles must take out insurance cover to recompense owners of property damaged by a driver's negligence or behaviour. In SA, the statutory insurance fund covers damage to life and limb but not property.

The problem is exacerbated by premium costs. It is estimated, for example, that up to 75% of taxis are not comprehensively insured. While taxis have been singled out in the debate, thousands of other vehicles fall in the same uninsured category. In many cases, an attempt by a property owner to pursue a civil claim for damage would reveal a man of straw unable to offer redress.

Clearly, if BoTP cover were made compulsory, SAIA members would add to their books. Yet SAIA's own newsletter is hardly encouraging. It recalls the Grosskopf Commission of 1985 which recommended against compulsory BoTP.

Grosskopf found that the whole community, not just vehicle owners, should contribute to such insurance if it were introduced. Problems were envisaged with a lack of suitable manpower to administer a scheme and with tariff fixing. Premiums were likely to be high, beyond the means of many (perhaps most) vehicle owners.

There are other problems:

- □ It would be almost impossible to control the use of funds effectively;
- □ It would be difficult to control assessment of damages by adjusters and, therefore, the costs of repair; and
- □ Such a scheme would be an encroachment by the State into the private sector.

While all these arguments have some merit, the issue, say insurance insiders, is political. Any proposal by the industry will be filibustered and described as discriminatory. ■

No 'devious plot' behind Stanbic's share rise

Star 30/3/91. (58)

MALCOLM FOTHERGILL

The Johannesburg Stock Exchange has been knee-deep in rumours that a devious plot has been behind the past fortnight's sharp rise in Standard Bank Investment Corporation (SBIC) shares.

But a more prosaic explanation seems to be the case.

According to the "devious plot" scenario, the mighty Rembrandt group has been responsible, by way of a determined buying spree, for pushing Stanbic shares from their R31,50 level two weeks ago to R51 last Monday. (They have since slipped back to around R46.)

Rembrandt has been buying the Stanbic shares, says the rumour, because it wants control of Liberty Life, which it could get through controlling Stanbic.

Sub-scenarios see Old Mutual and Rembrandt and perhaps Gold Fields of SA too joining forces in a bid to wrest control of Stanbic from Liberty.

There's even a counter-scenario, which has Liberty buying Stanbic shares in an effort to stave off an unfriendly approach.

The common ground in all these scenarios is that Stanbic is a highly rated group, placed first among Africa's Top 50 banks by the London-based The Banker magazine in 1989, when its earnings per share were considerably lower than they are now.

Until the new banking giant Amalgamated Banks of SA (Absa) was formed recently, Stanbic was regarded as the top dog among the country's "Big Five" banks, the others being First National, Nedcor, Bankorp and Volkskas.

Where the "devious plot" scenario starts falling flat is that there is a logical explanation for at least the initial spurt in the Stanbic price some weeks ago.

This is that after a lacklustre performance in 1987 and better results in 1988 and 1989, the group posted exceptionally good results for 1990 — earnings per share were up 25,9 percent to 340c (270c in 1989).

These results made the then ruling price of about R30 look cheap.

Another argument against the "devious plot" scenario is that it depends on Rembrandt, with or without the connivance of other major shareholders, acting against Liberty.

But, as Liberty chairman Donald Gordon says, neither Anton Rupert nor his son Johan have ever been known to act aggressively in this way; nor has Old Mutual.

Speaking from his holiday home in Plettenberg Bay, where he is spending the Easter weekend, Mr Gordon said he was at the same table as the Ruperts at a convention dinner in Somerset West during the week, and relations were as cordial as ever.

"If there is a rift between us, I'm not aware of it."

Besides, said Mr Gordon, the Liberty Life group's stake in Stanbic is so large — 41 percent, all in — that it would seem impregnable.

The other major shareholders in Stanbic hold far less — Old Mutual has 20,5 percent, Rembrandt has 10,7 percent and GFSA has 10,5 percent.

Nor would a hostile bid be likely to meet with the approval of the board of directors and management — a necessity in bank takeovers throughout the world.

And, since shareholders tend to follow the recommendations of their board, if the Stanbic board opposed a takeover bid, most shareholders would also oppose it.

Yet another argument against the "devious plot" scenario is that all the potential plotters are already tied in with other banking groups.

Thus, Old Mutual is tied in with Nedbank, Rembrandt is tied in with United, and GFSA is also out of the running because its major shareholders are Rembrandt and Liberty.

As Mr Gordon puts it: "All the potential players already have their own domain and I'm sure the Competitions Board would not allow them to move in on a second bank."

Mr Gordon believes the surge in the Stanbic price was caused by people wanting to build up their stakes in the group in the wake of the excellent 1990 results; as the price rose, so jobbers and speculators moved in, pushing it higher.

"In that sort of situation, people start getting a bit stupid. The sort of prices that have been paid for Stanbic shares recently have been a bit unwise."

DONALD GORDON: Cordial relationship with the Ruperts.

Standard Bank defends link with agency

Star 30/3/91

FRANK JEANS

(58)

THE Standard Bank has defended its entry into the real estate business against recent criticisms by leading agents about the growing involvement of financial institutions in their operations.

In one of the latest get-togethers, Standard and the agency network of the Camdon's Group, have a "working agreement" without any equity stake by the bank.

Stressing again that the bank ensures the independence of agencies, Eric Tomlinson, general manager of Standard's home loans division, says: "The institutions dovetail well with the estate agency business in view of their role of providing housing finance.

"While this is complementary to the business of agencies, it is not the main business of agencies which is the matching of buyers and sellers in real estate.

"Standard's view is that the professionalism and integrity of real estate people should be fostered."

Mr Tomlinson insists that the arrangement the bank has with certain estate agents does not in any way intrude into the business affairs of those agencies nor "in any way do they cover a broad business relationship".

Standard has no intention of influencing agencies to sell its broader range of financial services.

"We are able to continue to offer the same high level of service to all our other loyal estate agency clients by avoiding conflict of interests that could ensue due to formal equity interests with their competitors," says Mr Tomlinson.

"The lack of an equity interest by an institution facilitates impartiality on the part of an estate agency when dealing with the buyer who does not want to deal with a particular financial institution."

Bank shares looking good

ST Times 31/3/91. (58)

By DIRK TIEMANN

ABSA SHARES will be good value for money, says Martin & Co director Richard Jesse.

The new Absa shares should attract considerable institutional attention and cost about 700c each.

They should be easily marketable, says Mr Jesse.

Late last year UBS Holdings stood at 800c. In the takeover bid for Allied the price hovered about 750c, but has since dipped to 720c.

UBS Holdings shares will simply change in name to Absa

Growth

Analysts believe the institutions will look to Absa shares to outperform the market in the next two years.

Bank shares in general should be attractive to institutions looking for current value.

Earnings growth in the banking sector is likely to be strong compared with several big industrial companies. Banks' price earnings ratios have been consistently below the average market PE of 11.

One analyst says: "The forecasts one year ahead put most banks on a PE of about 7 and institutional fund managers should be comfortable with this rating."

He says there are certain arguments why bank ratings should not be too demanding.

"First, it is a tight margin business, with a return on assets of about 1%. Margins can be rapidly squeezed, tending to cause volatile underlying earning series.

Davis Borkum Hare banking analyst Graham Baillie is also bullish about Absa shares and believes they will offer good value.

"Bank shares are for investment and not trading. Trying to merge the services of two groups is not easy and we should see the benefits flowing through in the next two years."

Mr Baillie says the banks are on good margins and are also well positioned in terms of risk exposure. They have not "thrown money at the world" and are well placed to add business to the books at low cost.

Risk

He says the downside risk is small.

"Institutions have been increasing their weighting in this sector because of the defensive nature of these stocks."

Mr Baillie expects the 0,75% tax on interest income and finance charges to lessen the attractiveness of bank shares slightly.

Had the tax been in place for the 1990 financial year, Standard Bank would have paid R52,2-million on R6,9-billion interest income. First National would have paid R39,7-million on R5,2-billion and Nedcor R38-million on R5-billion.

He says the added cost will add pressure to banks to meet capital requirements under the Deposit-taking Institutions Act.

"Unless the cost is passed on increased retentions and lower dividends to raise additional capital are likely."

Earnings forecasts for 1991 for First National Bank show a 20% to 25% improvement. Nedcor is looking for growth in the high teens and Standard Bank about 20%. This factor, correlated with relatively low PE's should make bank stocks a good buy.

Standard shares are believed to be overvalued, driven by speculation of a rift between Rembrandt and Liberty. They hit a high of R5 last week, but have dipped t R46. This is higher than th R36 about a month ago.

Standard is on a histori PE of 11,3 and an earning yield of 8,7%. The share wa boosted by strong results i February. Good marke spread and management ar other factors that appeal to investors.

Deliver

First National's share price, which stood at R30 before its offer for Allied, is R37 and on a PE of 8. Earnings yield is 12,25%. Nedcor is on a PE of 8,6 and yield of 11,6%.

Industrials like SA Breweries on a 19 PE deliver a 5,1% earnings yield. Nampak is on 12,5 PE, but has an earnings yield of 7,9%. Wooltru is on a PE of 19 and a yield of 5%.