FINANCE — GENERAL

1991

OCT.

Threat to SA life industry

Business Staff (58) ARG 1/10/91

JOHANNESBURG. — The multi-billion-rand life insurance business in this country can expect to face a serious threat from bankers anxious to cash in on the lucrative industry.

Currently, banks channel millions of rands worth of business to the insurance companies through their brokers.

But it won't be long before the banks have their own life insurance companies, says Michael Lafferty, the Dublin-based publisher of several respected international insurance and banking surveys.

Publisher of *The Allfinanz Revolution*, which analyses the move in Europe and Australia by banks into life assurance, he said in Johannesburg last night that he expected at least one local bank to have its own insurance subsidiary within a year.

"This is the trend overseas and it must come to South Africa," he said.

"Banks have found that unless they have their own insurance company they are not maximising their client base."

Mr Lafferty is in Johannesburg for the First International Retail Financial Services Conference for Southern Africa, which he organised and which starts today.

Mr Lafferty would not name which banks he believed would start their own life companies, but local analysts believe Absa, recently created through the merger of Volkskas, the United and Allied, might be a frontrunner.

Absa inherited a number of companies, which have been writing mortgage insurance.

Using these companies as a base, it seems possible that Absa could obtain permission to establish a fully fledged life insurance company.

Standard Bank has also been mentioned as a possible, even though Liberty Life is its major shareholder.

The question of whether a South African bank can own an insurance company is not clear. The Insurance Act stops anyone from owning more than 25 percent of an insurance company without the permission of the Registrar of Insurance.

He can block any increase in shareholding above this figure if he believes it would not be in the interests of policyholders.

The Deposit-Taking Institutions Act puts a limit of 49 percent on an individual shareholding in an insurance company, but permits a higher percentage if this is the historic position.

However, while the DTI Act prevents a company and its subsidiaries from holding more than 49 percent of an insurance company, it specifically does not prevent a company and its sub-subsidiaries from doing so.

From this it might seem that the DTI Act has opened the way for banks to have their own insurance companies.

But legal authorities believe that the Insurance Act and its 25 percent shareholder limitation is still the one that matters in determining who can own an insurance company.

Most major banks are closely linked to the leading life assurers and may be reluctant to compete directly with them.

But analysts point out that once one bank moves into the life business the other banks have no choice, otherwise they face the risk of being accused by their minority shareholders of not maximising their opportunities.

Bond boycotts raised in talks with finance houses

BDay 1/10/91

58

THEO RAWANA

IN A move designed to resolve the bond crisis gripping black housing in SA, Transvaal civic associations and the Mortgage Lenders' Association agreed yesterday to form a working committee to address the issue.

Township housing seemed to be headed for chaos recently when the Civics Association of Southern Transvaal (Cast) said because residents were finding it difficult to repay bonds and were getting no co-operation from financial institutions, they might resort to action which could include a bond boycott.

Banks and building societies had expressed fears that such actions could force them to refrain from granting loans in the townships and look for other, safer markets.

Representatives of major financial institutions held a six-hour meeting with Transvaal civic leaders in Johannesburg yesterday to discuss the housing finance issue and a joint statement seemed to indicate that a confrontation had been averted.

Among the financial institutions represented were the Perm, United and Allied.

Issues discussed, the statement said, ranged from access to, and affordability of, housing and finance; the process of foreclosure; the impact of VAT on housing; and the bond rate.

In a memorandum submitted to yesterday's meeting, Cast president Moses Mayekiso said tension was caused by banks' and building societies' haste in foreclosing when people could not pay.

He said people were ignorant of the intricacies relating to the granting of bonds and bond repayments, and the policies of different finance houses. There was no information mechanism to help them.

Dennis Creighton, the Perm's GM and chairman of the technical committee of the association, said in his presentation that housing must be seen in the context of the balanced development of communities.

On bond boycotts, he said: "There is nothing more damaging to the confidence of financial institutions with respect to investing in housing than talk and rumours of bond boycotts."

The statement said the working committee would consider specific proposals and address matters of common concern.

"This committee will make recommendations which will be referred back to its constituent members."

Old Mutual shelves London fund plans

Business Day Reporter

OLD Mutual has shelved plans for its UK closed-end investment fund Omsaf after it failed to raise the minimum subscription from investors of $50m.

The trust was to have been listed on the London Stock Exchange last week, but was postponed due to lack of investor support.

Old Mutual yesterday released a statement confirming that Omsaf had been put on hold "for the time being".

GM of investments Johannes van der Horst said the poor investor reponse was largely a result of township violence which increased at the same time the fund's listing was proposed. B/Day 1/10/91

He added that SA share prices had also climbed sharply during the period, thus weakening the "bargain value" of equities for overseas investors. 58

"This price rise was a ~~reflection~~ of both the narrowing of the financial rand discount and the strength of the equity market domestically."

Van der Horst said the investment presentations by Old Mutual and the fund's marketing representatives in Europe had not been a waste of effort as "we have established useful relationships with major institutions".

He said the company would continue to work on the launch, the listing of which would be proposed at a more opportune time.

Slowdown in credit granted for private use

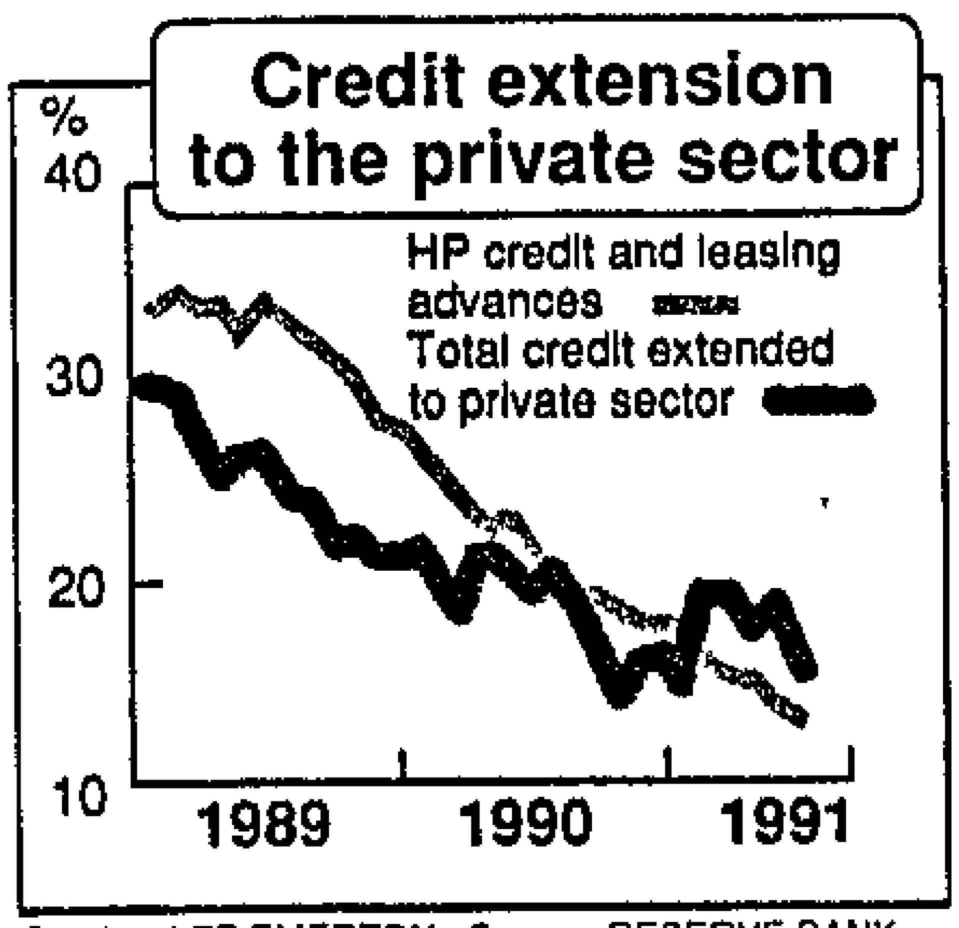
B/Day 1/10/91

ANDREW GILL

WHILE many analysts speak of a slight upturn in the near future, the position of consumers in the economy continues to worsen.

The Reserve Bank's September Quarterly Bulletin says credit extended for private consumption and investment expenditure has been far less buoyant than overall extension.

It was reflected in declining increases in hire-purchase credit and leasing finance which fell to an annual 12,8% in June from December's 17,4%.



Graphic: LEE EMERTON Source: RESERVE BANK

The Bank says the slowdown may have been reinforced by the withdrawal of certain tax benefits for credit-granting institutions.

The downward trend was also reflected in balances outstanding on credit cards.

While they amounted to only 2% of banks' claims on the domestic private sector, the view of the Bank was that it reflected developments in spending-related credit.

The annual rate of increase in outstanding month-end balances on credit cards fell to 15,6% at end-June.

This compared to 19,1% in December and 32,2% in December 1989.

Overall credit extended to the private sector, however, showed relatively high increases as a result of banks bringing off-balance sheet items on to the balance sheet.

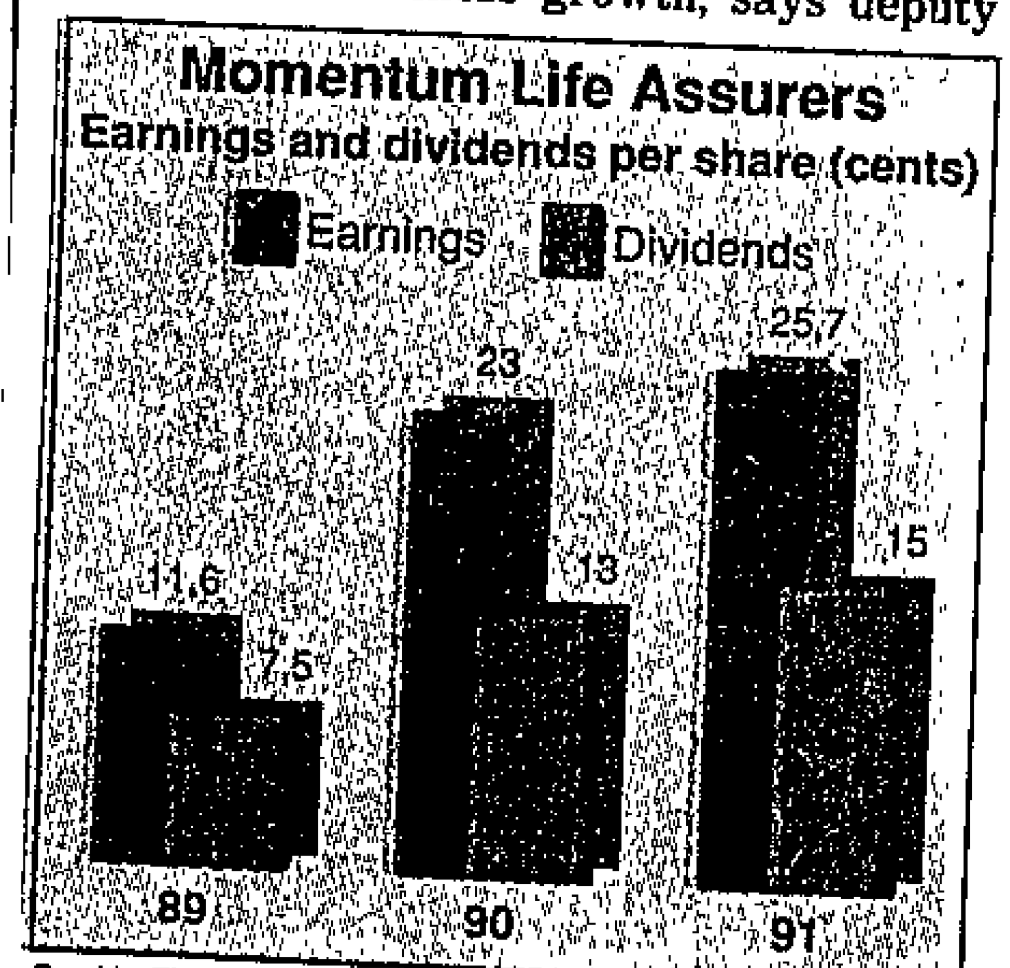
If growth is measured from end-February to end-June on a seasonally adjusted and annualised basis, the increase is a relatively low 13,8%.

Momentum rights issue (58)

B/Day 1/10/91.

SEAN VAN ZYL

MOMENTUM Life plans to hold a rights issue before the end of the year to raise a "substantial amount of capital" to fund future new business growth, says deputy chairman Blignaut Gouw.



Graphic FIONA KRISCH Source MOMENTUM LIFE ASSURERS

The pending rights issue was announced in conjunction with the assurer's results for the year ended June.

Momentum has disclosed a 12,5% increase in attributable earnings to R18m (June 1990: R16m) for the 1991 financial year. Earnings came in at 25,7c (23c) a share, on which a total dividend of 15c (13c) a share has been declared.

Although Momentum achieved a modest 7% growth in total net premium income to just over R1bn (June 1990: R946m), the assurer boosted recurring premiums, regarded as the life blood of the industry, by 25% to R825,2m (R662m). Gouws said Momentum's recurring premiums as a percentage (82%) of total premium income were among the industry's highest ratios.

He felt the rights issue was ideally

☐ To Page 2

Momentum

B/Day 1/10/91. (58)

☐ From Page 1

timed, as Momentum had completed two full trading years as a listed company, "and the strong appreciation of our share price indicates investor confidence in the company".

Momentum's group policy surrenders dropped by R60m during the year, while individual surrenders remained static. Gouws said the reduction in surrenders showed the assurer had weathered the worst of the recession.

Furthermore, he noted roughly 25% of Momentum's new business had been written in the black market. Since the assurer had targeted the upper-end income sector, Gouws said the marketing of products had not been affected by township unrest.

Momentum boosted investment income to R540,9m (R442,3m), thus achieving a 22% return on investments. The assurer increased its investment assets by more than R1bn to R6,96bn (R5,88bn), resulting in total assets breaking the R7bn mark.

Gouws said the relatively high liquidity of the investment portfolio placed Momentum in a flexible position to take advantage of investment opportunities. Investment exposure at the year-end stood at about 50% equity, 10% property, 13% interest bearing stock, 17% cash and the remainder in investment loans.

FNB launches new subsidiary

MELANIE SERGEANT 58

FIRST National Bank (FNB) has launched a new subsidiary, First-Net (Pty) Ltd.

The move is in line with trends for more trading to be handled electronically, and Telkom's willingness to allow certain competition in the market.

The company will provide Value Added Networking (VAN) services after the bank was granted a VAN Provider and Electronic Data Interchange (EDI) licence by Telkom.

FNB Information technology GM Mike Jarvis says FirstNet will offer customers "value added banking", integrating FNB's banking products and services with EDI and other VAN services. It will trade under a series of names. B/Day 1/10/91

The move follows that of ISM and Standard Bank, which joined forces in May to launch Trafex.

FirstNet will operate on a mainframe computer at FNB's Randburg computer centre. It will have its own independent network, linked into FNB's network infrastructure, and will support connections with established international banking.

FirstNet is due to be fully operational by early next year.

'No danger' to 3rd party fund

(58) CT 1/10/91

Own Correspondent

JOHANNESBURG. — The Multilateral Motor Vehicle Accidents Fund (MMF) was in no danger of going bankrupt, contrary to weekend press reports, senior industry sources said yesterday.

One source, a director of a major insurance company, said the government-run MMF had been running up a deficit for years, but was still able to pay for its day-to-day costs and insurance claims.

Outstanding claims amount to more than R1,2bn, but actual payouts may be significantly less as claims are often settled for lower sums than those originally sought.

The source, however, said the government's refusal to raise the 4c/ℓ levy on petrol, which funds the MMF, was causing the organisation's deficit to increase.

The deficit was being funded from future allocations to the fund, causing increasing delays, the source said, adding that a rise in the levy was unavoidable.

MMF director Mr Johan Oosthuizen yesterday denied that the fund was bankrupt, as alleged in the Sunday Times, and said that annual government funding to the tune of R410m was sufficient.

However, he did not rule out the possibility of a rise in the levy, but said that such a decision would depend on the outcome of the auditor-general's investigation into the MMF, which was started on the instructions of the government in July.

MIB Insurance director Mr Rod Pearson said that under the fuel levy system, the MMF's income had risen from R68m in the 1986 financial year to R410m in 1990.

"In other words, the man in the street is paying an extra R342m for cover. However, whether this is sufficient depends on the way the fund is run — at the moment income funds only claims which have to be settled in the year of account, which were R370m in the 1990 financial year."

Banks pose threat to life insurance industry

Star 1/10/91

By Derek Tommey (58)

The multi-billion-rand life insurance business in this country can expect to face a serious threat from bankers anxious to cash in on the lucrative industry.

Currently, banks channel millions of rands worth of business to the insurance companies through their brokers.

But it won't be long before the banks have their own life insurance companies, says Michael Lafferty, the Dublin-based publisher of several respected international insurance and banking surveys.

Publisher of "The Allfinanz Revolution", which analyses the move in Europe and Australia by banks into life assurance, he said in Johannesburg last night that he expected at least one local bank to have its own insurance subsidiary within a year.

Client base

"This is the trend overseas and it must come to South Africa," he said.

"Banks have found that unless they have their own insurance company they are not maximising their client base."

Mr Lafferty is in Johannesburg for the First International Retail Financial Services Conference for Southern Africa, which he organised and which starts today.

Michael Lafferty . . . good business for banks.

Some 300 top executives have together paid more than R500 000 to attend the three-day function.

Mr Lafferty would not name which banks he believed would start their own life companies, but local analysts believe Absa, recently created through the merger of Volkskas, the United and Allied, might be a front-runner.

Absa inherited a number of companies, which have been writing mortgage insurance.

Using these companies as a base, it seems possible that Absa could obtain permission to establish a fully fledged life insurance company.

Standard Bank has also been mentioned as a possible, even though Liberty Life is its major shareholder.

Standard Bank has been an aggressive supplier of financial services. It must be aware that a well-rounded operation ought to include it own life insurance products.

The question of whether a South African bank can own an insurance company is not clear. The Insurance Act stops anyone from owning more than 25 percent of an insurance company without the permission of the Registrar of Insurance.

He can block any increase in shareholding above this figure if he believes it would not be in the interests of policyholders.

The Deposit-Taking Institutions Act puts a limit of 49 percent on an individual shareholding in an insurance company, but permits a higher percentage if this is the historic position.

However, while the DTI Act prevents a company and its subsidiaries from holding more than 49 percent of an insurance company, it specifically does not prevent a company and its sub-subsidiaries from doing so.

From this it might seem that the DTI Act has opened the way for banks to have their own insurance companies.

But legal authorities believe that the Insurance Act and its 25 percent shareholder limitation is still the one that matters in determining who can own an insurance company.

Close links

Most major banks are closely linked to the leading life assurers and may be reluctant to compete directly with them.

But analysts point out that once one bank moves into the life business the other banks have no choice, otherwise they face the risk of being accused by their minority shareholders of not maximising their opportunities.

Mr Lafferty said that banks overseas had discovered that their branch-based customers represented warm prospects for life insurance products, giving them a superior success rate in converting prospects into policy sales.

The insurance industry average is one contract for 20 prospects. Banks are selling as many as five contracts for every 20 warm leads.

Briefly

Absa move (58)

Star 1/10/91

Absa has taken over all assets and liabilities of its wholly owned deposit-taking subsidiaries — Allied Bank, Allied Building Society, Volkskas Bank and Absa Motoring.

They have been taken over by United Bank, now Absa Bank, and will cease to be registered as deposit-taking institutions.

Urgent talks held over homes crisis

(58) Star 11/10/91

By Louise Burgers
Municipal Reporter

Banks and building societies have formed a working committee with Transvaal civic associations to address bond repayment problems and the shortage of housing.

A crisis meeting was held in Johannesburg yesterday.

Civic Association of Southern Transvaal (CAST) spokesman Mohammed Dangor said issues included access to and affordability of housing and finance, foreclosures, the impact of VAT, lack of information for prospective borrowers, community trusts and the state of the economy.

● The meeting began with a short memorial service for CAST general-secretary Sam Ntuli, who was shot dead on Sunday.

Southern unit trust achieves return of 41% for the year

58

B/Day 2/10/91

Business Day Reporter

IN A quarter which saw the JSE all share index drop by a moderate 0,3%, Southern Life's general equity fund continued its growth with a 34,7% return for the 12 months ended September 30.

Based on level monthly payments, the fund returned 41% for the year.

Southern Life GM, investments, Carel de Ridder said signs of economic recovery remained mixed and hesitant, and he urged investors to exercise caution.

"The past has shown clearly that the local stock exchange is not immune to sharp trend reversals in international stock markets, which are currently considered to be expensive."

Building on the strong performance of the Southern Equity Fund since the beginning of the year, holdings in Driefontein, Elands, Indsel and Natsel were sold out and the Premier and Remgro holdings reduced slightly.

Additional shares were bought in Anglos, Anglovaal, Genbel, Sasol and TIB. New counters introduced to the portfolio were Ofsil, Minorco, Implats, Keeley, Southern and Mobile.

The Southern Mining Fund continued to perform satisfactorily in the increasingly difficult conditions prevailing in the mining sector. The weaker precious metal prices, and a stronger financial rand, put downward pressure on the JSE mining sector, and the all gold index declined by about 28% over the quarter.

The top five counters in the Southern Equity Fund are Mobile (5,8% of the portfolio), Foschini (5,6%), First National Bank (4,9%), Richemont (4,5%) and De Beers (4,1%).

Major holdings in the Mining Fund are Anamint (5,5%), De Beers (5,4%), Anglos (4,6%), Lonrho (4,6%) and Gencor (4,5%).

De Ridder said despite a continued tight monetary policy, with high interest rates and firm control on money supply, the Treasury had opted for stimulation of the economy through sharp increases in government consumption expenditure, further delaying a drop in the rate of inflation.

BUSINESS DAY, Wednesday, October 2 1991

DBSA looks at the jobless

B/Day 2/10/91

LESLEY LAMBERT

(58)

ONLY 125 of the estimated 1 000 people who came onto the job market daily were accommodated in the formal economy during the past four years, according to new data published by the Development Bank of Southern Africa (DBSA).

The DBSA publication, which provides comparative information on the nine development regions into which SA was demarcated in 1982, emphasises the alarming trend in unemployment over the past few decades.

The economy's capacity to absorb new job seekers declined from 73,6% of the new labour market in 1970 to 12,5% in 1989, the publication shows.

While new opportunities were created in the informal sector as it was deregulated, the future growth of this sector would be heavily dependent on the formal sector, it says.

The publication also provides updated information on population, health, education, production, income and expenditure and living standards in each of the nine regions, which include the TBVC states and the self-governing territories.

It highlights high population growth rates, future population growth potential, rapid urbanisation, inadequate education, inter-regional migration patterns, low economic growth, skewed income distribution and levels of human development.

Apart from contrasting socio-economic conditions in the various development regions, the publication also provides information on the structural socio-economic changes which occurred in these regions over the past 20 years.

DBSA chairman and CE Simon Brand said yesterday the publication would provide the bank and other interested parties with an updated perspective on the development challenges which faced each region.

Reliable information on current issues would also facilitate an informed public debate on regional development, he said.

Brand said it was coincidental that the publication followed shortly on the release of the NP's constitutional proposals, in which a strong tier of regional government based on the existing development regions featured.

DBSA GM André le Grange said that measures needed to address SA's high unemployment included economic growth, greater support of the informal sector, restructuring and new development projects to ensure the creation of longer term opportunities.

PROPERTY

Scheme to insure building of homes

B|Day 2|10|91

(58)

Reports by
PETER GALLI

THE SA home owners' warranty scheme, an indemnity scheme warranty which insures against building loss or damage to structural defects, inherent defects due to poor workmanship, defective material, unstable soil conditions and design defects, was launched last night.

For a 1,5% premium on the construction contract fee, subject to a minimum premium of R1 500, the warranty and insurance backup will apply for five years from the completion of construction, SA Home Owners Warranty Scheme director Basie Pretorius said.

"The warranty is backed by an independent insurance company and may be bought by the owner of the property, that is the developer, or the bond holder, that is the financial institution providing the finance, or by the builder if he is a member of the various Master Builders Associations (MBA) and Building Industry Associations (BIA)," Pretorius said.

If the property is protected under the warranty scheme, insurers will make good any loss in accordance with the rules of the scheme. An annual escalation of 15% in the sum insured, compounded over the five years, is built into the premium.

"We believe that with the establishment of the scheme, all fears will be something of the past and more people will have their homes built and will not wait for somebody else to build a house and check it for structural defects before they buy," Pretorius said.

The warranty scheme is the result of studies of overseas schemes and is designed to protect the home owner, property developer or financial institution. In addition, the scheme will improve building standards in SA and will create faith and confidence in the industry.

The warranty scheme would also see the market value of a property built under this scheme rise by about 6%.

Eligibility for the scheme has been restricted to members of the various MBAs and BIAs to keep costs down.

The cover was restricted to contractors who were members of these bodies to eliminate the need for an expensive and complex system of monitoring workmanship and standards.

MBA and BIA membership was granted only to contractors who complied with strict criteria and who had been screened before admission, which reduced the need for introducing a strict monitoring system and inspection service, Pretorius said.

So as to give the scheme credibility and independence, the building industry registered a Section 21 company — a company that is not for gain. This would then oversee the scheme's function in accordance with the law, he said.

Black borrowers seen as bad risks

B/Day 2/10/91 (58)

ROBERT GENTLE

BOND boycotts, lack of financial understanding and disrespect for the law among sectors of the black community were hampering the ability of financial institutions to lend to the black market.

This was said by Amalgamated Banks of SA (Absa) CE Piet Badenhorst at a retail financial services conference in Johannesburg yesterday organised by the London-based Lafferty Conferences group.

Badenhorst said he was referring to people in certain black areas refusing to pay their bonds while the communities refused to allow the eviction of the defaulters.

"This would not happen in any normal society elsewhere in the world," said Badenhorst.

If a house was vacated, the property was often vandalised, resulting in "substantial losses" to the lending organisation. Valuers and sheriffs of the court were sometimes refused access.

"The financial services industry is being severely criticised for not lending in a major way in black areas, but how can the industry be expected to lend when the normal processes of law cannot be enforced?"

Badenhorst also spoke of a lack of understanding about financial products like mortgages and how monthly payments changed with prevailing interest rates.

The sooner people were educated financially, he said, the sooner there would be an end to misunderstandings and recriminations, not only in bond repayments but also over services such as electricity and water.

Banks also had to deal with the risk involved in black ventures — even when these were hugely successful. The black taxi industry had caused banks losses of "millions of rands", Badenhorst said.

Taxis were not paid for and efforts to find the vehicles were expensive. When found, the taxis were badly damaged, cannibalised or in a state of disrepair.

"The results of these actions have made bankers reluctant to finance taxis and the industry is therefore not growing at the rate it should," said Badenhorst.

Another speaker at the conference, Nedperm Bank divisional director Peter Hibbit, said there was very little, if any, respect for authority and the institutions of society.

He called for the establishment of a national body consisting of representatives from the public sector, financial institutions, developers and community to encourage attitudinal changes and to initiate policies for housing development and finance suited to SA needs.

Brokers claim life offices misuse pay-back agreement

B/Day 2/10/91.

(58)

SEAN VAN ZYL

A RUMPUS is brewing between life assurance brokers and life companies over the industry's handling of annualised commissions paid on policies which later lapse.

Life companies, acting through the Life Offices' Association (LOA), introduced a reverse commission agreement (RCA) several years ago to ensure that unearned commissions could be reclaimed from brokers without involving the courts.

However, several brokers claim the RCA is being misused by life offices. A dispute between a brokerage and a life office about the agreement is in the courts.

When enacted, the RCA requires all LOA members to pay commission to brokers named on what some call a blacklist only once premiums are received.

Normally, as an incentive, a broker is paid an annualised commission in advance by the company with which he places the business. Unearned commission paid on lapsed policies would then be "clawed back" by the life company on future commission owed to the broker.

The RCA was introduced to prevent a broker from placing all new business with another life office, delaying the repayment of unearned commission indefinitely.

The RCA requires life companies to give brokers at least 30 days' notice of their intention to enact the RCA. However, brokers claimed some life companies were not giving the notice and were asking the LOA to enact the agreement without notifying them.

Life Underwriters' Association spokesman Hennie Oosthuizen said besides the effect on a broker's cash flow, the RCA could taint his reputation.

"The notification period required by the RCA is not always complied with, and I think it is being used too often and too hastily," he said.

He felt better controls on the RCA should be introduced.

Sources noted that over the past two years life companies had been accepting less firm business because of recessionary pressures. This was now causing more policy surrenders and lapses. As a result, life companies were to a large extent responsible for the present problem.

LOA spokesman Jurie Wessels said the RCA, when proposed, had been submitted to the Competition Board and found not to be a restrictive business practice.

He added the agreement was a final recourse that life companies needed.

Absa chief critical of ANC nationalisation

58

Star 2/10/91

By Derek Tommey

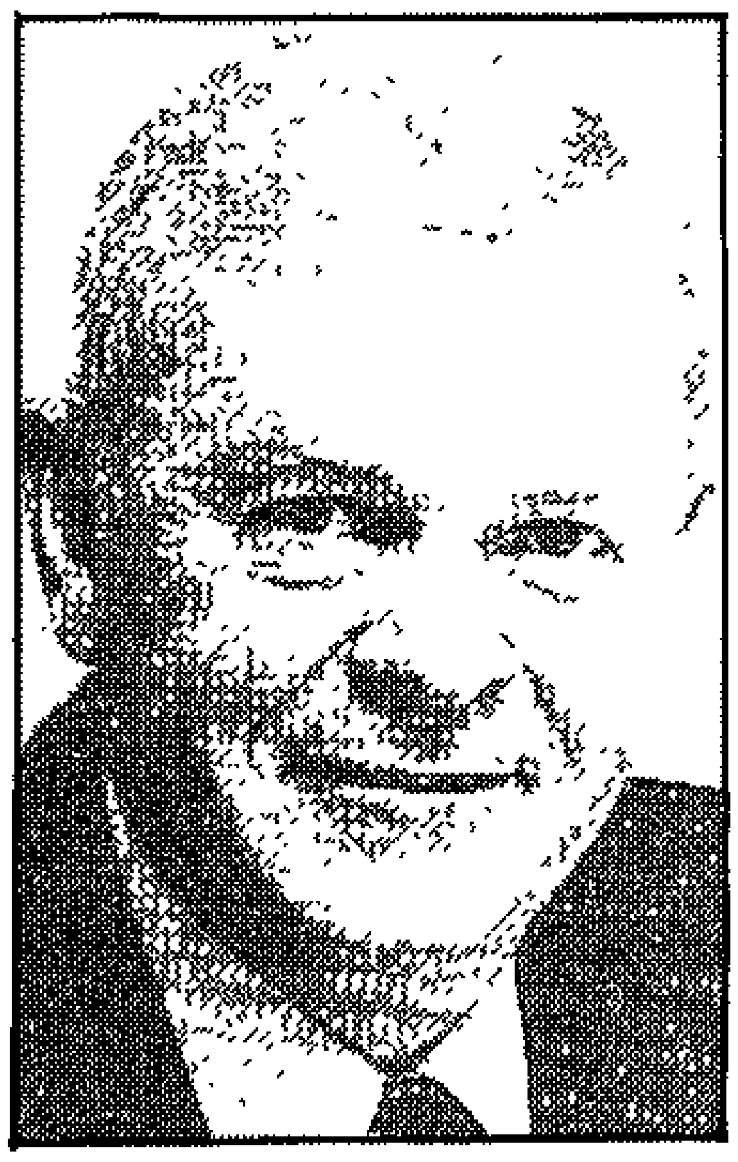
The nationalisation of South Africa's financial industry would have catastrophic consequences, says Piet Badenhorst, chief executive of Absa.

He was commenting yesterday on a statement by ANC President Nelson Mandela that financial services and the mining industry would be nationalised if it came to power.

"A healthy economy can survive only with a healthy financial sector. Normal market forces must be allowed to play their part in controlling money supply and interest rate levels within a well disciplined environment," said Mr Badenhorst.

He told the Retail Financial Services Conference in Johannesburg yesterday:

- Unless black borrowers paid the instalments on their mortgage bonds, financial institutions would not be able to do much to ease the chronic shortage of housing;
- The banking industry was experiencing large-scale fraud costing it millions of rands. It was also suffering from a huge drop in business morality;
- Some way had to be found to protect house buyers in the lower-income groups from sharp fluctuations in interest rates;
- He would like to see Absa become larger and expand its operations overseas;
- Absa was already selling its own insurance policies.



Piet Badenhorst . . . normal market forces must be allowed to play their part

Mr Badenhorst said certain sections of the population were not making their bond repayments — some because they were having difficulty meeting higher repayments, but many because they were simply unwilling to do so.

"The normal processes of the law do not operate within certain black areas. People refuse to pay their bonds and the communities refuse to allow us to evict these borrowers.

"The financial services industry is being severely criticised for not lending in a major way in black areas.

"But how can the industry lend money when the normal processes of the law cannot be enforced?" he asked.

Unless lending conditions return to accepted norms, the chronic shortage of housing cannot be addressed in any meaningful manner.

The Absa group pioneered lending in black areas in 1978 and had some R2 billion invested in black housing, he said.

Mr Badenhorst said another risk facing the industry was the large increase in the amount of fraud by small-time operators from the involvement of staff directly or indirectly, and from well-organised syndicates with networks operating countrywide.

Mr Badenhorst refused to say how much Absa and other financial institutions had lost through fraud, but said it ran into millions of rands.

Absa had also to spend millions to protect itself against fraud.

He said it was surprising how relatively unsophisticated and uneducated people were able to find ways to circumvent the systems.

He said a further disturbing factor had been the decline in business morality.

For a business to be liquidated, and for the owner of the business to buy it back at a discount to the detriment of other creditors, was totally unacceptable, especially when these liquidations were engineered, he said.

"We need an effective credit rating mechanism to penalise those people who cause a loss to any one who provides finance and walks away without paying a penalty."

Mr Badenhorst said the black taxi market, hailed as a success story, had cost banks millions of rands.

People did not pay for their taxis and the recovered vehicles were mostly badly damaged.

This had made bankers reluctant to finance these vehicles, with the result that the taxi industry was not growing at the rate it should.

He said there was a need to finance housing for the lower-income groups so that they could be shielded from the effects of substantial interest rate movements.

"We must in some way devise a system where the proportion of family income being expended on shelter is not suddenly escalated beyond the means of the family, thus avoiding hardship, anxiety and resentment for the owners, and potential problems for the financiers of the properties."

Questioned on whether Absa had any plans to start its own life assurance company, Mr Badenhorst said that Absa already had its own life assurance company and was busily rationalising the group's insurance interests.

Life insurance was far more profitable than banking, he said. A bank was doing well if it received a return of one percent on its assets.

Life assurance companies were getting a return of eight percent.

Business is obliged to guarantee an end to capital flight

B/Day 3/10/91

58

ZAVAREH RUSTOMJEE

A RECENT study in the SA Journal of Economics estimated illegal capital flight from SA between 1970 and 1988 at between $12bn and $22bn. Another study put the figure as high as $37bn at current prices.

Depending on which estimates are believed, this means potential economic growth has been stunted by between 2% and 5% every year since 1970.

Three interrelated questions arise. Firstly, who has been involved in capital flight (the term is used in this article to refer to unlawful flight)? Secondly, how is it possible for up to $37bn to circumvent what are acknowledged to be fairly stringent capital and exchange controls? Thirdly, what impact will this have on future economic policy choices?

Broadly categorised, asset holders include foreign private and corporate investors, private SA residents and SA corporate asset holders. Given the magnitude of flight, it is unlikely private individuals have been involved to any great extent. The flight is more likely to have resulted from actions of a combination of foreign investors and domestic corporate asset holders.

If we were to assume flight capital is largely foreign controlled, then one important policy implication is that future national development is unlikely to be secure if it is based primarily on future foreign capital inflows (assuming that these are forthcoming). This does not imply that foreign investment should be discouraged, but that caution should be exercised in future policy making, particularly in regard to a future investment code.

Since one major objective of such a code would be to provide a framework of stability to all signatories, the code should include specific clauses that, firstly, provide a clear agreed definition of what is meant by capital flight. Secondly, it should outline an appropriate scale of penalties for illegal capital flight.

While the SA economy is but one of many investment options open to foreign capital, this is not the case with domestic capital holders. Assuming that flight has been carried out partly by the latter, what are the implications?

Firstly, capital flight of such magnitude has directly contributed to the stagnation of the SA economy. It would be ironic if domestic asset holders have engaged in capital flight, since they have been the most vociferous opponents of sanctions and disinvestment.

Secondly, the evidence of flight undermines the arguments of many domestic asset holders, who, while not denying that flight has taken place, attribute it to sanctions, inflation driven by state spending and unreasonable wage demands.

It also casts doubt on their solution to the crisis which is to lift sanctions, allow domestic asset holders to invest outside SA and entice capital back to SA by giving favourable tax and capital repatriation incentives, to develop competitive export oriented industries and to raise productivity by working harder and curbing wage demands. The very conditions that are cited as causing capital flight have actually been created and exacerbated by flight.

Furthermore, in view of the fact that the action of flight has significantly sabotaged growth, it places a question mark on the sincerity of domestic asset holders who are participating in debates on future political and economic dispensations.

The question of how $37bn was lost needs to be directed at the relevant regulatory institutions. Laws have been broken but those responsible have largely not been brought to book.

From time to time, there have been glimpses of action — the special committee formed within the Reserve Bank after 1985; reports of foreign exchange investigations being undertaken; and the occasional forex circumvention trial.

It has, however, been left to academics to inform the taxpaying public of the magnitude of the problem of capital flight. These revelations should have a major impact on debates about abolishing the financial rand and lifting exchange controls. Given the past record of capital flight, it would be almost a criminal act to open the floodgates.

Why has the flight issue been so muted in the economics fraternity? This is partly due to the fact that contemporary economists usually explain away the phenomenon of capital flight as "rational behaviour". In other words, the asset holders concerned rationally diversify their portfolios between domestic and international holdings. The process of capital flight, they argue, is determined by a number of factors including perceptions of political and economic risk and state intervention which inhibits the most efficient allocation of assets.

They argue that specific factors that have driven asset holders in SA to indulge in capital flight have been a stagnant economy with few investment opportunities, little prospect for growth, high inflation, a comparatively high tax regime, pressures from organised labour and financially repressive state policies largely in the form of capital and exchange controls.

The same argument is then extrapolated to reassert ideological dogma — that those who control assets should be free to allocate them in accordance with market principles. If present or future governments do not grant this freedom, asset holders will — as they have done in the past — shift their assets into a more liberated environment.

Yet far away from the rarified atmosphere of this economic debate, there exist about 30-million South Africans who are worse off as a result of such "rational behaviour". Investment has stagnated in the '80s. Gross domestic fixed investment in 1981 was higher in real terms than in 1990. Those fortunate to be employed have watched their purchasing power steadily fall while the returns of their corporate employers have steadily risen. From their perspective, capital flight has been nothing more than criminal economic sabotage. A thorough examination and revelation is required of all such past activities.

Today the word "democracy" is on the lips of all, and a vigorous debate is in progress about the future constitution, possible safeguards, and so on. Asset holders, as individuals and through their collective organisations, like Sacob for example, are making major contributions to the debate, committing themselves to a democratic economy. In doing so, they have raised many objections about past state policies and many questions about a future government's economic policy.

This is their right and is an essential component in a democratic economy. However asset holders are not neutral referees, but also participants in the economy. Other essential components include the obligations that participants must uphold. This is particularly important in a future economy which incorporates some form of social accord involving all the major players including labour, state, capital, unemployment and the rural poor.

If adopted, each of the parties involved in such an accord would carry a heavy responsibility to make it work. In such a framework, a major democratic responsibility of capital (domestic and foreign) would be to guarantee that illegal capital flight does not take place.

☐ **Rustomjee is completing a PhD in Economics at London University and is associated with the ANC's economic policy deparment.**

Black housing help hampered

FINANCIAL institutions would not be able to make contributions to solving black housing shortages until the political situation stabilised, ABSA chief executive Mr Piet Badenhorst said this week.

Certain black homeowners were not making repayments on mortgage bonds because they had difficulty in meeting the higher costs, but there were many who were simply unwilling to do so.

"The normal processes of the law do not operate within certain, unfortunately black, areas," Badenhorst told the three-day retail financial services conference in Johannesburg.

"People refuse to pay their bonds and communities refuse to allow us to evict those borrowers: This would not happen in any normal society elsewhere in the world."

Vacated houses were mostly vandalised, which resulted in substantial losses to organisations that financed the property.

"There are areas where the sheriff of the court cannot enter to carry out the normal process of the law," he said.

New laws ease curbs on investments

BI Day 3/10/91. (58)

ANDREW GILL

RECENTLY gazetted regulations have paved the way for more investment freedom for insurers and pension funds, with an increased limit on equity investments of 75% from 65%.

Property-linked investments, however, have been limited to 25% from 30%. The net effect is a 95% limit on ordinary and preference shares, convertible debentures, unit trusts and property.

The regulations for short-term insurers differ from the pension funds and long-term insurers with a 50% limit on equity investments, among other differences.

For the long term insurers and pension funds, a minimum of 5% has to be invested in liquid investments, including gilts, down from 10%.

"It appears that shares will be the biggest winners and gilts the biggest losers," Sanlam investments senior GM Ronnie Masson said.

Previous limits capped funds' potential investments in equities despite the fact that they did not go much higher than 60%.

However, Masson said some might be looking to go above 65% in the future as a result of the "psychological" increase.

He said the move gave much more flexibility to funds despite the increased restriction on property. Funds generally had about a 15% interest in property.

Old Mutual employee benefits assistant GM Chris Newell said the changes gave more freedom to funds and meant that more responsibility rested on the shoulders of fund trustees to find the right investment mix.

With the current high inflation and the probability that it would continue for some time, investors would be looking more intensely at property and equity investments.

However, he did not think any investment managers would be getting out of gilts entirely because of the funds they generated for pension payments.

The amendments did not specify any limits on futures and options, as many industry members had expected.

The maximum investment in a single company is 15% for a company with a market capitalisation of over R2bn and 10% for those below R2bn.

SOWETAN BUSINESS

Black brokers take another step forward

Sowetan 3/10/91. 58

By JOSHUA RABOROKO

AFSURE, the first black brokerage company, has taken another step towards black economic empowerment by launching Unity-Afsure Brokers.

The new company, to operate within the group, will tackle some of the following risks: financial planning services; retirement planning; education investment; business insurance; and partnership.

Speaking at the launch managing director Mr

GABY MAJUBA

Gaby Majuba said: "Our people have been subjected to bad conditions in the purchasing of life insurance and related products.

"Many fly-by-night operators got involved in the industry and totally misrepresented the benefits of the industry. It is with this background that we at Unity-Afsure see ourselves as the professionals to remedy the situation."

Evolving

Since inception the Afsure Group has committed itself to evolving insurance products that meet the needs of various sections of the community.

To this end Afsure has developed, among other schemes, products for: the National Stokvels Associ-

KEHLA MTHEMBU

ation of South Africa, the Southern Africa Black Taxi Association, National Soccer League and several black local authorities.

The board of directors consist of Mr Gaby Magomola (group chairman); Mr Kehla Mthembu (chairman); Majuba (MD); Mr Matthews Magafe (administration director) Mr Audrey Mkhabela (marketing director) and Mr Alan Hackett (director).

The company's goals are to be the first-choice life assurance broking company in the black market; to earn the esteem of clients through a professional and highly ethical broking practice; to contribute towards black economic empowerment by maintaining an equitable work environment that encourages, recognises and reward success and identifying visibly with the communities.

Mtembu said finding solutions to the problems of economic disparities would require the restructuring of the country's economic system.

"The majority of life assurance is underwritten by blacks, hence action for the empowerment of black life assurance brokers should be put in place as a matter of urgency," he said.

"Black participation in the country's economic mainstream is growing. It is within these developments that people with a common purpose came together to establish Unity-Afsure."

Banks can choose their own tax basis

(58) (B20)

B/Day 3/10/91

ROBERT GENTLE

BANKS would be free to choose whether they wanted to be taxed on gross interest earnings or on their capital base, Japie Jacobs, special economics adviser to the Finance Minister, said yesterday.

His remarks, made during an interview at a retail financial services conference in Johannesburg yesterday, clear up confusion about the new tax on financial institutions.

The tax, which has been likened to a kind of VAT on financial institutions, came into effect along with VAT this week.

"Hopefully, the banks will play ball and choose capital as the basis," said Jacobs. "Non-banks like insurance companies will still be taxed on interest."

There had been some uncertainty in banking circles after Finance Minister Barend du Plessis told reporters at the conference that the tax on capital was only "a guide", and that if it did not work, he would "go back to the drawing board".

Jacobs said the tax had come into effect along with VAT this week, but that the regulations were still being drafted. The taxman is aiming to raise about R400m a year from the tax on financial institutions, about half of which will come from banks.

United Bank MD Mike de Blanche welcomed the decision.

He said he preferred the capital approach, and ventured that most banks probably would too. However, he did not exclude the possibility that certain banks, depending on their structures, might choose the interest approach.

Earlier De Blanche told delegates that banks were not "fat cats", and disputed the view that the new tax was a proxy for VAT.

"Banks that pay VAT will not be able to claim input credits due to their VAT-exempt status," he said.

The income of banks was already systematically being "nationalised" through high taxation, he said. "The special tax on financial institutions represents some 10% of pre-tax profits, bringing the effective rate of tax for banks up to 58%."

● See Page 3

Zambian bank hopes to set up SA operation

BD 3/10/91

ROBERT GENTLE (58)

THE Zambia National Commercial Bank would approach banking authorities in Pretoria soon for permission to establish a full banking subsidiary in SA, bank director Tom Kapapa said yesterday.

If successful, it would become the first African bank to set up a full banking operation in SA.

In May this year, a Zairean bank became the first African bank to set up a representative office here.

Kapapa, speaking in an interview during yesterday's conference, said the bank was thinking of investing at least R10m (which is the minimum capital requirement in terms of the Deposit-Taking Institutions Act) in the venture, though he doubted it would be adequate.

He said the bank would be involved mainly in trade and export finance.

Low investor confidence killed Masterbond group

B/Day 3/10/91. (58)

LINDA ENSOR

CAPE TOWN — Waning investor confidence in the Masterbond Trust group proved its undoing as it could no longer attract finance for its borrowers to fund their development projects, Masterbond Participation Bond Trust Managers director Johannes Brits said in papers before the Cape Town Supreme Court yesterday.

Hundreds of small investors are uncertain of the security of their investments in the group and its companies which were placed in provisional liquidation yesterday.

The six companies placed under voluntary provisional liquidation were Masterbond Participation Bond Trust Managers, Club Mykonos Langebaan, Club Mykonos Langebaan Resort Managers, Mykonos Weskus Beleggings, Rosenfontein Masterprop and CML Developers.

Application

An application is also to be made in the Eastern Province Supreme Court for the provisional liquidation of Marina Martinique at Jeffrey's Bay.

The group's collapse comes as SA's timeshare industry lies in the doldrums and new venture confidence is low. Brits said the viability of the R100m Club Mykonos development on the West Coast was threatened by bad publicity which resulted in reduced sales.

A system of intercompany loans and a reliance on companies lower down the pyramid to provide the means to pay the monthly interest on the debentures issued to the public proved fatal when sales at Club Mykonos fell off.

The companies were mostly unable to finance the interest payments on their debentures which fell due on October 1. Club Mykonos Langebaan issued R78,2m worth of debentures on its R127m mortgage bond and Mykonos Weskus Beleggings, a property developer which owns 88ha of land adjacent to Club Mykonos, issued debentures of R30m on its bond of R30m. Marina Martinique issued debentures worth R66,3m on mortgage bonds totalling R97m.

The Masterbond Trust Group, which has assets under administration of about R750m, assisted companies to raise loans using their property as security.

It issued debentures in return for investment funds for these companies and these debentures were secured by mortgage bonds in favour of Masterbond. Masterbond then acted as a trustee for the debenture holders.

Masterbond's difficulties began when the Reserve Bank decided its short-term debenture scheme was deposit taking and required that this aspect of the business be wound down or taken over by a licensed deposit taking institution.

Negotiations with financial institutions proved unsuccessful.

Brits said a drop in investor confidence had resulted in a "tremendous decrease in the flow of investment funds into the group".

This meant that Masterbond was not able to provide continuing financial support to its borrowers and the reinvestment of funds also decreased dramatically.

The provisional liquidation of its major borrowers destroyed Masterbond's main source of income — commission and administration fees. As a result, Brits said, it could not finance its operational expenses of about R800 000 and had a shortfall of about R2,3m in interest payments due. A further R7,4m becomes due on November 1.

Papers before the court showed that Club Mykonos Langebaan was unable to finance interest payments of R1,5m to debenture holders on October 1 and would not have been able to pay out the R603 000 capital sum due on debentures maturing this month. The company owes its parent company, Club Mykonos Holdings, R45m and Masterbond Trust R1m.

Club Mykonos Langebaan Resort Managers, which relied on the sale of units at Club Mykonos to generate its income, ran at a loss of R289 764 in July and R175 645 in August. It has net current liabilities of R1,9m, a negative equity of R1,3m and owes CML Developers R2,2m which had been called up.

Safeguard

Club Mykonos Langebaan owes Mykonos Weskus R7m and had been unable to service the R562 000 interest due on October 1.

The two sources of Club Mykonos developer CML Developers' income — sales of residential units to the public and draws against mortgage bonds — have both dried up. CML Developers owes Club Mykonos Langebaan R78m. Rosenfontein is a property investment company.

☐ Association of Participation Mortgage Scheme Managers chairman Colin Hickling said Masterbond was not a member and that the Participation Mortgage Bond Act was enacted to secure and safeguard participants' interests irrespective of what becomes of a management company.

Hint of change in hardline ANC policy

BDay 3/10/91

ROBERT GENTLE

THE conference tomorrow of the ANC and its allies could see the first signs of change in the ANC's hardline policy on sanctions and new investment, ANC's Don Mkhwanazi hinted yesterday.

Mkhwanazi, member of the ANC's department of economic policy, said at the retail financial services conference yesterday that the stance on new investment and sanctions would be "considered" at tomorrow's meeting.

If government moved quickly on outstanding issues in the reform process, the ANC would call for new investment.

Asked whether the perception that the ANC was not wholeheartedly committed to free market principles might jeopardise future foreign investment, Mkhwanazi said: "I know of three multinationals who have said that if the ANC calls for new investment, they would do so tomorrow."

Mkhwanazi described the SA financial system as the exclusive preserve of whites. There were virtually no blacks in the audience, and the only blacks at the JSE were cleaners, sweepers or messengers.

He called for financial institutions to revise their lending criteria to make it easier for black entrepreneurs to obtain finance. He accused certain banks of "stealing ideas" from local black savings clubs like Stokvels and engaging in unfair competition.

"What we need is a strong, vibrant, efficient, disciplined and responsive financial system that is closer to the people; not a racist, aloof, apathetic, distant, inefficient and ineffective financial system," said Mkhwanazi.

Reserve Bank governor Chris Stals told the conference that financial institutions in the new SA should not be "for the rich alone". Special economics adviser Japie Jacobs said a "broader spectrum of the population" must have access to the financial markets.

New Act will keep out the financial rogues

Star 3/10/91

By Derek Tommey 58

A wide-ranging Financial Services Act aimed, among other things, at keeping rogues and the incompetent out of the financial services industry and giving greater protection to savers is in the pipeline.

The proposed Act will be far-reaching as it will regulate all providers of financial services and will cover all participants in financial markets.

Under consideration is the creation of an Ombudsman to deal with the complaints of individual investors and with the power to make his findings binding on institution concerned.

The proposed Act will provide for the screening of anyone who can impact on the financial market to ascertain whether he is "fit and proper".

However, the new Act will not provide any insurance against losses. Investors will still have to assess the risk themselves.

But it will regulate more closely financial institutions, especially in the area of risk management, and will force agents to disclose more information about how their clients' funds are employed.

Some of the details of the proposed Act were made public yesterday by three members of the Jacobs Committee, Dr Japie Jacobs, special economic adviser to the Minister of Finance, Piet Badenhorst, Executive Officer, Financial Services Board, and Dr Hennie van Greuning, Registrar, Deposit-Taking Institutions.

They were speaking at the First International Retail Financial Services Conference in Johanneburg.

Dr van Greuning said that rather than talking about the trustee principle and whose funds were being protected, the aim of the Act was to emphasise the role and in which capacity – either principal or agent – the financial institution, broker or financial adviser was operating.

Banks, building societies and insurance companies act as principals.

But insurance companies sometimes act as agents when it comes to retirement planning.

But unit trusts, brokers, financial advisers and participating mortgage bond schemes operate on a pure agency basis.

Risk factor

Agents handle consumers' funds. Consumers must be aware that when they use an agency, they must bear the responsibility and risk for any losses.

It means they must understand where their funds are actually going.

The principal will have to guarantee a specific return and that the consumers' capital will be returned.

Referring to the "fit and proper" proposal, Dr van Gruening said it was important to establish criteria of ethics so that the consumer was protected.

"In fact, if one looks at what the principles should be and who should be allowed to operate, one should first look at management, management and management again.

"The regulators cannot protect the consumer; only management can.

"It is important that a proper risk-management ethic be created. Then one looks at capital adequacy as financial operators incur risks. Should those risks not succeed, capital is the only buffer against the loss of the consumers' momey".

Mr Badenhorst said it was proposed to expand the system of self-regulation, with segments of the industry setting requirements for a fit and proper person; ensuring that the conduct of members of the segment was not in conflict with the public interest and able to take disciplinary action if necessary.

The rules of these self-disciplinary organisations could provide for the fair treatment of all investors, including control over unreasonable terms and conditions.

They should also provide for the disclosure of material information, such as making compulsory the financial results of an institution.

The rules could also extend to the protection of investors' assets against attachment by the creditors of an intermediary, or the refund of such assets in the case of fraud.

Japie Jacobs . . . architect of the proposed Act

Financial services 'must undergo fundamental change'

58

Star 3/10/91.

Finance Staff and Sapa

The ANC is not as yet convinced that the transformation process and changes that are taking place in this country are irreversible, said a senior ANC official, Don Mkhwanazi, at the financial services conference in Johannesburg yesterday.

He was commenting on the warning by Cyril Ramphosa, the ANC's secretary-general, that an ANC government would "not be keen" to honour international loans granted to the current Government.

Mr Mkhwanazi, who is corporate affairs and management specialist at the ANC's economic department, said the ANC would be in a position to say that the change was irreversible when the All Party Congress asserts and agrees on the mechanicism for delivering a new constitution.

He said that the ANC regions, with Cosatu and the SACP, will be meeting on Friday to consider the whole issue of sanctions and disinvestment alongside the developments taking place.

If the Government had moved fast on some of the things that were still issues "the ANC would have called for new investment yesterday".

He said the country's financial system needed to undergo fundamental change to respond to the needs of the community and to sustain political transformation.

There was no doubt that political change was taking place with all its attendant problems and suspicions.

"What is of course worrying is that there is no corresponding economic transformation," he said.

"We cannot wait for political transformation to take its full course before applying our minds to the whole process of economic restructuring, reconstruction and transformation."

Problem areas were food poverty, housing, municipal-services infrastructure, job creation and education.

Most of these community needs were basic.

"It is not unreasonable for the people of the community not only to have these needs but to expect satisfaction.

"They desire that shortly after liberation the new democratic order would guarantee them the basics of human life."

The ANC believed the financial system was not geared to meet the needs of all citizens.

"There is no doubt in my mind that the financial system cannot continue to be an exclusive preserve of whites, in terms of management composition, spread of ownership, delivery and benefits.

"Black participation in terms of ownership, control, management and service benefits must be accelerated." — Sapa.

Stals pledges to maintain firm hold on strict monetary policy

58 Star 3/10/91

Finance Staff

Governor Chris Stals has committed the Reserve Bank to a tight monetary policy, regardless of the economic needs of the present or the new South Africa.

He told the Retail Financial Services Conference yesterday longer-term economic needs could only be served by applying fundamental financial discipline.

"Should we ever discard or ignore it, financial indiscipline will come back with a vengeance to haunt us in the form of inflation."

He said real interest rates were among the lowest in the world at less than two percent above the inflation rate.

A major disadvantage of a persistently high inflation rate was that it led to a malignant maldistribution of resources.

"The evidence is there that almost two decades of double-digit inflation inflicted unavoidable distortions on the economy," he said.

Chris Stals . . . malignant maldistribution of resources

While monetary policy could not remain aloof from the changing needs of South Africa, there were certain basic economic laws that could not be altered — not by politicians, not by the people and not by those responsible for the determination and implementation of policy.

"Any unnecessary waste of the limited resources of South Africa, now and in the future, must be avoided at all costs."

Dr Stals said the Reserve Bank believed maximum econmic growth would be promoted by a monetary policy that ensured optimum financial stability.

To achieve those objectives South Africa had to:

- Keep the rate of money supply increase at least below the inflation rate.
- Prevent excessive increases in bank credit extension.
- Allow interest rates, as determined by market forces, to stay above the inflation rate.
- Reduce the inflation rate, which would make lower interest rates possible.
- Protect gold and foreign exchange reserves.
- Keep the average exchange rate of the rand as stable as possible.

Dr Stals called on financial institutions to provide reasonable access to their services for all people and "not only for the rich".

"The total savings potential of the community must be mobilised, preferably through an efficient financial system to take account of the many needs for financing economic development," he said.

Director-General of Finance, Gerhard Croeser, echoed Dr Stals' call for monetary stringency because the inflation rate "was still far too high and out of control", Sapa reports.

Dr Croeser, who was speaking at the conference on Tuesday evening, added, however, that at some stage South Africa was going to have to question its basic interest-rate structure.

He said the current level of interest rates saw a lot of businesses suffering and going under.

MBA offers new home warranty

By Frank Jeans Star 3/10/91

A major breakthrough in the protection of the new home buyer comes with the launch of the Home Owners Warranty Scheme.

The scheme, which will cover owners of newly-built homes against loss or damage due to structural defect, unstable soil conditions as well as materials and design defect, has been launched by the Master Builders Association (MBA).

Once a property is protected under the scheme, the insurers will make good any loss according to its rules. (58)

The cost of a warranty is 1,5 percent of the contract sum, subject to a minimum premium of R1 500 and is payable immediately on completion of the development.

A R100 000 property, for example, would require a once-only R1 500 premium to obtain full cover for five years.

An administration fee of R150 per dwelling or housing unit must be paid to BCE Underwriting Managers before construction begins.

The warranty plus the insurance back-up will be for five years calculated from the completion of the building of the home.

At the inaugural function in Johannesburg yesterday, Basie Pretorius, executive director of the MBA (Witwatersrand and Transvaal South), said: "A main reason for the introduction of the HOWS is to protect the home owner, property developer and lending institution.

"We believe fears about bad workmanship and structural defect will now be something of the past."

BANKING FM 4|10|91 (58)

Taxing the customer

Bank charges to customers are set to rise as a result of VAT. Banks are VAT-exempt, so cannot recover input credits on goods and services provided to them, as do vendors who are charged VAT or are zero-rated.

Banks' costs will, therefore, increase, as many services they receive — such as rental of property and premises, audits and telecommunications — were untaxable under GST. They may, however, benefit by 3% on products which previously carried GST.

First National Bank (FNB)'s Niel Swart says: "We either have to increase market share or put up charges — but this will be done on a selective basis." From October 1, FNB raised its ATM charge to 70c from 60c, which Swart says is "more market-related."

Nedbank MD Richard Laubscher says his bank is also looking at charges. "Banks have been under-recovering electronic costs, mainly because of competition." He says customers will be warned when costs increase; Nedbank statements reflect the specific charges that apply to each client.

Standard Bank deputy MD Denzil Busse says some services, such as safe custody services, are directly Vatable. Charges for these will automatically increase with the inclusion of VAT. "However, as most VAT inputs incurred by banks cannot be passed on directly, banks will have to manage these additional costs."

VAT is a double whammy for banks, which are to be subject to a financial services tax devised to replace VAT on financial institutions. The 0,25% increase in prime and home loan interest rates and still to be confirmed cuts in deposit rates are a direct result of the special bank tax.

Swart says FNB's contribution to the R220m tax banks will pay this year will be around R50m. "So we will have to make an extra R100m to meet the special tax which is payable from after-tax profits."

Absa executive director Mike de Blanche estimates Absa's contribution will be around R47m. The group will reduce some investment rates once the financial team has examined the draft tax formula. ■

LAW OF CHEQUES FM 4/10/91 (58)

Extending banks' liability

A recent case in the Witwatersrand Division of the Supreme Court has important implications for the law of cheques. It involves a medical aid scheme which found itself the victim of a R2m fraud, linked to the actions of Albert Vermaas.

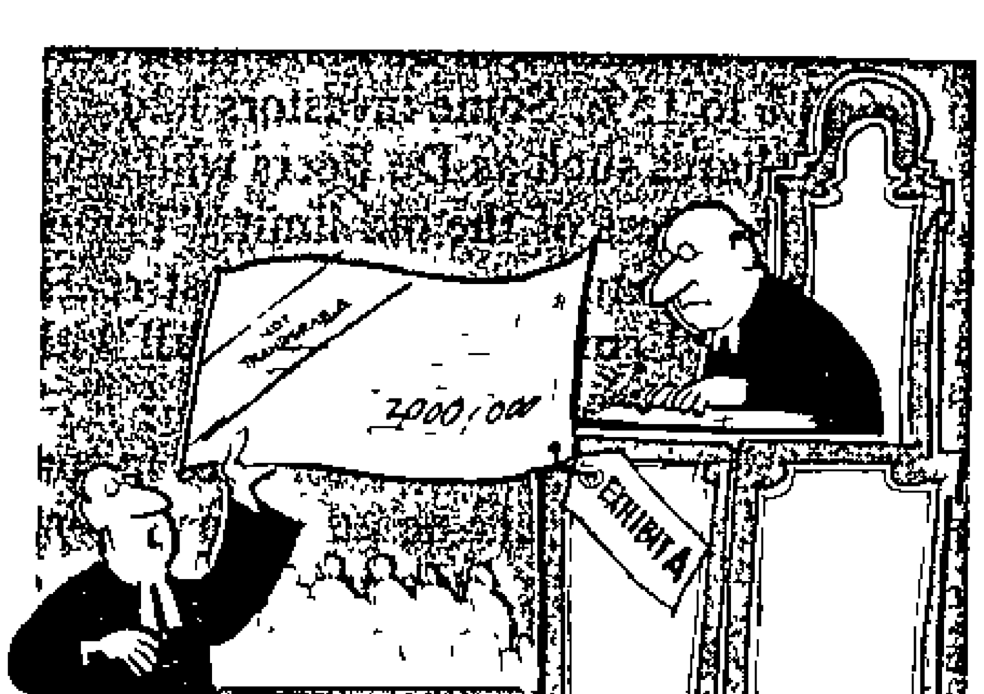
The attorney for the plaintiff, Werksmans' Tony Gorley, tells that Bonitas Medical Fund (administered by Medscheme Administrators (Pty)) sued both banks when a cheque drawn on Nedbank and made out to Volkskas was deliberately credited to the account of Eurotrust Ciskei (Pty), a company connected with Vermaas.

The court found Volkskas liable for the amount, interest from the date of proceedings and costs. Nedbank was found not liable, because Volkskas had stamped the cheque: because in part of an agreement between banks, this made Volkskas responsible for the cheque being correctly dealt with.

On November 25 1988, a cheque intended as an investment by Bonitas in a Volkskas call account was credited to an account in the name of Eurotrust Ciskei by an agent apparently working for Vermaas. The deposit slip had been signed by Vermaas's employee on behalf of Eurotrust. When the medical aid scheme saw its name linked to Eurotrust in the press in mid-1989, it immediately issued summons against both banks.

What makes the case interesting besides Vermaas's involvement is the question of banks' liability when dealing with cheques. The cheque in question was correctly crossed and marked "not transferable" between parallel lines. Judge Chris Plewman, however, found that Volkskas was not merely negligent but had constructive if not actual knowledge that it was crediting the amount of the cheque to the wrong account.

This followed from the fact that the cheque was marked not transferable — meaning that it could not be paid into any other account than that of the payee. If a bank disregards this annotation it is at the least negligent in ignoring the drawer's instructions. However, cases decided in the Transvaal courts until now have held that mere negligence is not enough on which to found an action against the collecting bank.



This awkward series of precedents was distinguished by Judge Plewman through a finding that there was constructive if not actual knowledge by Volkskas that the cheque was not due to Eurotrust Ciskei.

This arose out of evidence by Volkskas' witnesses that they trusted Vermaas implicitly and would and did not question his actions — in this case depositing to Eurotrust's account a "not transferable" cheque drawn in favour of Volkskas itself. ■

ECONOMIC OUTLOOK FM 4/10/91

Measure for measure

With international economic recovery still tentative, the "mild upturn" in the domestic economy which the Reserve Bank now describes as a "distinct possibility" will have to come from a recovery in local confidence.

Yet this seems to have become more tenuous in recent weeks. Since the sharp fall in the price of gold — to a London morning fix under US$343,50/oz on September 13 — the JSE Industrial index has drifted in sympathy with falling gold share prices. Gold recovered to nearly $355 at the London afternoon fix on Monday, but the Industrial index remains lethargic. It closed Monday at 3 974, below September 10's closing high of 4 237.

The market was overbought and analysts have expected a consolidation for months. A more hopeful signal is the upward path of the leading business cycle indicator. And the latest Bank *Quarterly Bulletin* suggests the "more stimulatory fiscal package should encourage both consumer and new capital investment expenditure."

But impetus from within the economy cannot accomplish much. What is needed is a recovery in exports. Though second-quarter trade figures are encouraging, the improving surplus was generated largely by the weak rand, which offset a further fall in international commodity prices.

Benefits of a depreciating currency will be lost now the dollar is losing ground. Expectations are that US interest rates will continue to fall, putting further downward pressure on the currency. So the impetus to domestic growth that comes from a stronger dollar will fail as the year progresses.

Meanwhile, SA second-quarter national accounts figures show that growth is still swallowed by a huge decline in inventories and an even bigger negative residual item.

The residual is a balancing item between expenditure and output figures and is partly

FM 4/10/91

the result of statistical distortions. It is fair to assume that unrecorded growth makes a contribution, as expenditure statistics measure activity of the informal sector more fully than do output figures.

The unusual size of the residual in three of the past four quarters — nearly 3,5% of GDP compared with less than 1% in 1989 — shows one of two things: either statistical errors are far greater than they were or growth in the informal sector is substantial.

These unknowns make it difficult to pinpoint where we are in the business cycle and predict future economic growth. An encouraging signal is coming from gross national product (GNP), which rose 7% in the second quarter.

GDP measures expenditure on goods and services produced in SA, while GNP measures income earned by SA residents. Because SA pays more in dividends and interest to foreigners than it earns from foreign sources, GNP is derived by subtracting net factor payments to the rest of the world from GDP and is, therefore, the smaller aggregate.

The Bank's economic head Ernie van der Merwe explains: "GNP is an indication of the standard of living and GDP is an indication of real economic activity."

The discrepancy in growth between the two is not due to the different composition as net factor payments are relatively small. It comes about because GDP is calculated in constant 1985 rands; GNP is recorded in nominal terms and, therefore, reflects the 5,2% improvement in the terms of trade, measured in rands, in that quarter.

GNP is far the more volatile, a pattern also seen in the US where the Department of Commerce has just announced that it will focus in future on GDP. "Swings in US GNP sometimes give a misleading picture of economic activity," says *The Economist*, which notes the switch to GDP brings the US into line with most industrial economies. ■

THIRD PARTY

Clarity needed

Concerns about the Multilateral Motor Vehicle Accidents Fund (MMF) centre on two issues. One is whether the fund is maladministered; the other, whether it is solvent.

On possible maladministration or irregularities, Transport Minister Piet Welgemoed said this week he had called for a report on "possible irregularities." On solvency, there can be two views. A leading reinsurer, who's also an actuary, considers that "on published figures, the fund is technically insolvent."

Standard Bank unit trusts perform well

B/Day 4/10/91 (58)

SEAN VAN ZYL

TWO of Standard Bank's unit trusts — the general equity and income funds — have beaten inflation by reporting returns in excess of 20% for the third quarter, figures released by the bank show.

The Standard Bank mutual fund achieved an average 33,9% compound return on its repurchase-to-repurchase unit price for the 12 months ended September. The single lump sum unit price climbed by 33,91% compared with the monthly debit orders of 33,99%.

The fund's returns compare with an inflation rate of 15,8% during the period, while the JSE overall index rose by 25,5%.

The mutual fund's total assets rose to R484m, of which an inflow of R25m resulted from record unit sales during the quarter, MD Derick Finlayson said.

It has increased equity exposure to 61% of its portfolio assets, pegging liquidity at about 39%.

The fund purchased Kloof, Driefontein, Barlows, Sasol, NEI and Prefhold senior debentures during the period. It also "trimmed back" holdings in Southvaal.

The fund's largest holdings have been concentrated on Liberty group shares, Richemont, Edgars and Remgro.

Exposure to mining shares was reduced to 28% of equity investment, while industrial holdings were increased to 50% and financials to 22%.

The Standard Bank extra income fund reported an average 20,6% increase in its unit repurchase-to-repurchase price. Single lump sum purchased units appreciated by 20,6% while monthly purchased units rose by 20,7%.

The bulk of the fund's assets were invested in the high yielding short-term interest rate market. Finlayson said the fund would start to accumulate long-term instruments should rates continue to rise. The fund's total assets have risen by 92% to R159m over the past 12 months ended September.

Finlayson said the fund's investment performance was boosted by the strong capital appreciation of Medi Clinic debentures and Prefhold senior debentures during the quarter.

The Standard Bank gold fund's average repurchase-to-repurchase unit price dropped on average by 10,3% for the September quarter on an annualised basis. The single lump-sum return on price dropped by 14,7% while the monthly debit orders fell by 6%.

As a result, the fund's assets had dropped marginally to R222m by the September quarter end.

Finlayson said the operating environment for the gold mining industry remained tight resulting from the almost static position of the rand gold price at R1 000 over the past four years.

Bank takes steps to liberalise lending

(58)

B/Day 4/10/91

ROBERT GENTLE

COMPANIES have finally been given the go-ahead to borrow and lend money directly in the market through the issue of commercial paper without recourse to bank loans.

The move was announced yesterday by the Reserve Bank, which also released a set of formal guidelines within which the transactions have to take place.

Companies — banks included — will also be able to raise money by selling off portions of their assets and repackaging them into negotiable securities which can be listed on the JSE.

Guidelines for this process — known as securitisation — as well as for the issuing of commercial paper, were presented at the Reserve Bank's news conference.

The guidelines, contained in two position papers, lay down the rules and regulations of the processes, as well as the procedures to follow to prevent contravention of the Deposit-Taking Institutions Act.

They contain certain concessions by banks and corporations, which had been split on issues relating mainly to banks' fears that commercial paper and securitisation would harm their traditional lending business.

Reserve Bank researcher Nico Marais said that while the guidelines were technically not legally enforceable — they were mainly aimed at establishing market practice — they would eventually find their way into legislation, possibly at the next parliamentary session.

Commercial paper, defined as short-term secured or unsecured promissory notes as well as any other written acknowledgement of debt — excluding Bankers' Acceptances — can be issued for maturities of less than 12 months.

Companies with a net asset value (NAV) of at least R100m must have their paper endorsed by a deposit-taking institution, resulting in a 50% risk weighting. Companies with an NAV of under R100m will see their paper attract a 100% risk weighting. Central government and other public sector bodies are exempt from these requirements if their paper carries explicit government guarantees.

Marais said the risk weighting requirement was an interim measure aimed at ensuring the new market got under way without undue pressure on banks' margins. He hinted that it would be phased out at a pace dictated by market developments and banks' acceptance of the new product.

☐ To Page 2

Lending

B/Day 4/10/91

(58)

☐ From Page 1

Issuers of commercial paper will have to disclose information relating to an eventual listing of the issue, whether it is secured or unsecured, and the specific purpose for which the funds are to be used.

A key element of the securitisation guidelines is that the consent of all parties connected with the assets of a securitisation issue must be obtained. Another is that pools of non-homogeneous assets — say 30% credit card receivables and 70% mortgage loans — can be securitised. The insistence on a clean transfer between buyer and seller of the assets is another central theme.

The most controversial element — at least for non-banks — is that only a deposit-taking institution can effect a securitisation issue. Thus non-banks will have to route their deals through a deposit-taking institution. There was no indication whether this requirement would be phased out.

Deposit-Taking Institutions registrar Hennie van Greuning said that the Reserve Bank's role in publishing the guidelines was solely to establish a regulatory framework for securitisation issues. It was not responsible for their success or failure.

The Reserve Bank also released its third discussion paper on money broking.

Masterbond investors reassured (58)

LINDA ENSOR

CAPE TOWN — A major financial institution had stepped in to manage unliquidated Masterbond Participation Bond Trust bonds worth R72m, director Johann Brits said yesterday.

Brits would not disclose the name of the institution but said it would look after the investors' interests in non-liquidated companies in the group and act as advisers on its other investments.

Nedbank yesterday unfroze the bank accounts of Masterbond companies which were not provisionally liquidated on Tuesday, allaying thousands of investors' fears that they would not receive their monthly interest payments this month.

Investors in unliquidated bonds would receive their October payments, Brits said, though there would be some delay as the bank accounts had been frozen.

Brits said offers to buy the assets and bonds in Masterbond Trust — which were prime real estate developments — were streaming in.

The Club Mykonos resort is to continue operating following an agreement reached between resort managers Renaissance Resorts and the joint provisional liquidators yesterday.

Renaissance Resorts MD Rick Lander said arrangements had been made to ensure the resort traded normally. All key management staff would be retained and

☐ To Page 2

Masterbond BDay 4/10/91

(58) ☐ From Page 1

current services continued, Lander said. The resort has 1 400 guests on conference or on holiday at present and is heavily booked until the end of January.

Masterbond Trust's application for the winding up of the Marina Martinique resort in Jeffrey's Bay was postponed in the Grahamstown Supreme Court yesterday until October 16 to allow the development company and its creditors an opportunity to oppose it.

Marina Martinique Development Company MD Oswald Bückner said the company was illiquid but not insolvent.

It is believed that a number of financial institutions have offered to take over from Masterbond Participation Bond Trust Managers as backers of the project. Marina Martinique has issued debentures worth R66m on its bond of R97m, so any offer would be on this basis. Bückner believed that given Masterbond's need for cash, a favourable deal could be negotiated.

Marina Martinique will have to find R2m by mid-October to pay certificates due to several construction companies for development work and R1,3m by the end of the month for the November interest on debentures.

Bückner said Marina Martinique would make a R32m counterclaim against Masterbond Trust for monies allegedly owed to it and for alleged breach of contract.

DEPOSIT INSURANCE FM 4\10\91

Cold comfort

(58)

A survey of deposit insurance schemes in 31 countries, by *The Banker*, shows considerable diversity in structures: 11 systems are officially sponsored and administered by government; seven are collectively operated by the public and private sector; and 12 are private industry arrangements.

Only 11 schemes cover deposits in foreign currency and only five explicitly cover deposits in foreign branches of domestic banks.

Methods of funding are equally diverse. Countries like France, Italy and Switzerland collect funds, as needed, to repay depositors after a failure. Others use a regular assessment of premiums whereby the UK, for example, levies a premium on its banks on the basis of deposits up to a maximum of 0,3% of the total deposit base.

"Further variations occur but no single method has proven fully satisfactory. In France, the big banks are furious that they have to pay for the mistakes of their smaller competitors, such as the Lebanese Arab Bank in 1989 and now Bank of Credit & Commerce International (BCCI). In the UK, the Deposit Protection Board has gone into deficit, following the collapse of British & Commonwealth Merchant Bank last year and has been forced to increase its borrowing from the Bank of England.

"The US, which operates one of the most generous schemes (US$100 000), is now thinking about reducing the scope of federal deposit insurance. The pace of bank failures in the late Eighties has led to sizeable losses: the net worth of the Federal Deposit Insurance Corp's fund has halved since 1987."

Twenty of the schemes surveyed have come into existence since 1976. "It has generally taken a banking crisis to force countries to reassess protection for depositors. In 1933, following the Depression, the US set up the first deposit insurance system. In 1974, Germany strengthened its Deposit Security Fund after it could not cope with the Herstatt failure. And, in 1979, the UK's Deposit Protection Board began life as a result of the secondary banking crisis of the mid-Seventies. The collapse of the Banco Ambrosiano in the early Eighties was one factor that led to the creation of Italy's system; in the mid-Eighties the Al Saudi Banque debacle caused ructions throughout French banking.

"As the full repercussions of the BCCI

continue →

 FM 4\10\91 (58)

scandal unravel and the full damage to depositors wordwide becomes known, the adequacy of existing insurance schemes are being seriously quesioned," writes *The Banker*. "With billions of dollars of deposits at stake in up to 70 countries, BCCI depositors have looked to protection schemes for help but found little comfort."

BCCI was shut down by the Bank of England in June, following a report by auditor Price Waterhouse.

This revealed that potential deposits of about US$600m were not recorded, large losses in the treasury operation were hidden, significant losses were made over a decade and significant loans were given to senior managers.

There is no formal protection for depositors in SA.

However, assistance is provided on an ad hoc basis by the Reserve Bank. ■

Star 4/10/91

Bankers won't be shy

By Derek Tommey (58)

Banks were not going to shy away from meeting real customer needs, said Mike Vosloo, managing director of Standard Bank, when asked yesterday whether the bank would ever sell life insurance.

He was speaking at International Retail Financial Services Conference in Johannesburg.

"If the banks identify an emerging need, it is almost perverse to think they will not meet it," he said.

The question follows speculation that a bank, possibly Absa, could enter the life assurance market in the near future.

Mr Vosloo said Standard Bank was planning to become a regional bank and expand into sub-Saharan Africa, which was its natural trading area.

Mr Vosloo denied that banks had not provided services for the black population, as recently alleged.

He said Standard's client base of 2,5 million was predominantly black. Some 40 percent of the bank's staff were black, a figure that would rise to 70 percent in 10 years' time.

He did not know when the bank would get its first black executive director, but it could be in three to eight years' time.

MONEY SUPPLY (58)

Tapering off

FM 4\10\91

Growth in the broad monetary aggregate M3 has slowed significantly since February. Legislative changes that month obliged banks to reclassify certain transactions as deposits, which created a technical increase in money supply. But annualised growth since then has been below the Reserve Bank's target range of 8%-12%.

The 3,8% increase in seasonally adjusted M3 in the six months to end-August represents annualised growth of only 7,7%, says Old Mutual's Rian le Roux.

The latest Bank *Quarterly Bulletin* says that, even measured this way, technical distortions are not removed, as changes to regulations in May brought more transactions on to balance sheet. If these — estimated at R1,5bn — are removed, fundamental underlying growth in February-August is 5,8% annualised, says Le Roux.

M3 growth peaked in August 1988, at 27,5% year-on-year. By January 1990, it had halved, to only 10,1%. Thereafter, it accelerated "under the impact of the new regulations to 14%-16%."

In August, M3 rose:

□ 14,51% to an estimated R176,5bn, over 12 months; and

□ 15,85%, to an estimated seasonally adjusted R176,4bn, from the base of the current target year (in mid-November).

Revised July figures show growth of 14,38% and 17,12% over these periods (compared with estimates made last month of 15,94% and 19,38%).

Of other aggregates:

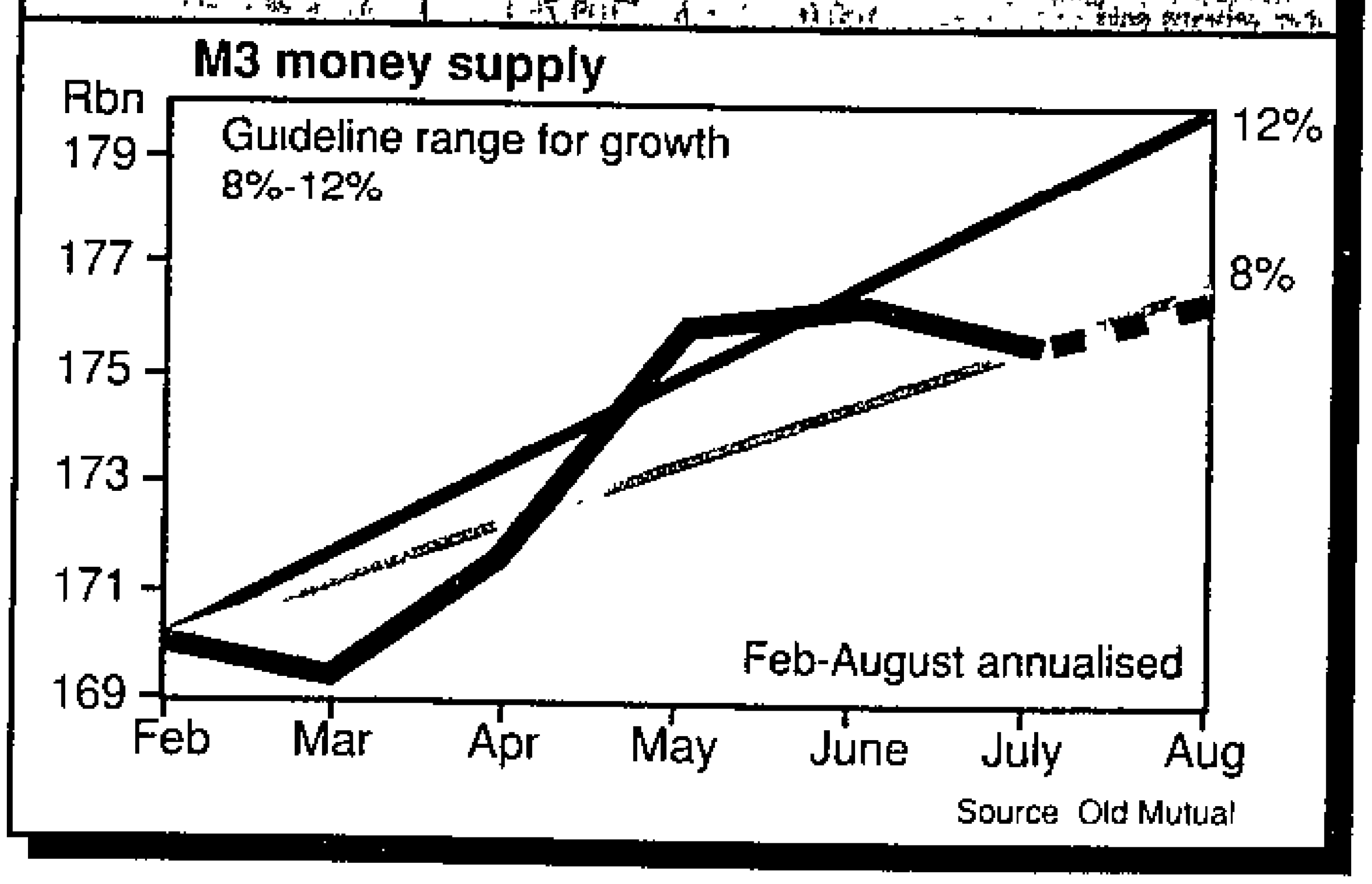
□ M2 rose 21,83%, over 12 months, to R147,7bn in July;

□ M1, 25,45% to R57,9bn; and

□ M1A, 26,73% to R32,2bn.

The monetary aggregate least distorted by the new regulations, says the *Bulletin*, is " 'notes and coins in circulation outside monetary institutions.' Though this indicator has obvious shortcomings, its 12-month rate of increase (11,9% to June) was probably more indicative of developments in the real economy than the growth of the other monetary aggregates during (that) period."

Off the boil



Source Old Mutual

Credit extended, the main counterpart of the components of money supply, slowed accordingly. In the 12 months to July:

□ Claims on the domestic private sector rose 15,95%; and

□ Total domestic credit extension grew 16,56%.

The deceleration has taken place in recent months. In July, these measures fell in absolute terms and, between February-July, total credit rose only 2,4%, while claims on the private sector rose 3,3%. This is annualised growth of 11,3% and 13,7%. ■

FM 4\10\91 (58)

Fund managers now cautiously optimistic

Star 4/10/91 (58)

By Sven Lünsche

Despite the disappointing performance of the stockmarket over the past few months, fund managers are cautiously optimistic that prices will recover strongly next year.

In its September quarterly report, Metfund Unit Trust says the market ought to be supported in the longer term by strong institutional cash flows and the recent change in prudential investment requirements.

Furthermore, an upswing in the corporate earnings cycle by the second half of 1992, in a continued high inflation environment, should be good for the equities market.

In the year to September, **Metfund's** capital growth totalled 27 percent, while the income yield was five percent.

Over the same period, the JSE's overall index improved by 20 percent.

Fedgro is also optimistic about industrial and financial shares. "We expect that these shares will maintain their strength so long as expectations of an economic recovery and the influence of the relative illiquidity of the JSE remain."

However, in line with other unit trusts, the managers are pessimistic on the performance of mining shares, particularly gold counters.

"The exposure to gold producers in the Fedgro portfolio is minimal and we do not expect to increase it further for the present. The lack of response to the political crisis in the Soviet Union from the precious metals markets is further evidence of the lack of speculator interest in those markets."

The cash in the portfolio was reduced to 14 percent from 29 percent in the previous quarter, while total assets grew to R22 million.

In line with the poor performance of gold shares, **Standard Bank's Gold Fund** declined by 14,7 percent in the year to end-September, while total assets over the past nine months fell by R22 million to R222 million.

Standard said investors preferred the dollar as a safe haven during the Soviet coup, but on the supply side indications were that Soviet gold hoardings were at low levels and were likely to be retained to support the rouble.

Improved dividend and share price prospects depended on the rand gold price entering a sustained upward trend above R1 000.

The Standard **Mutual Fund** reduced its holding in the mining sector to 28 percent, in line with the poor outlook for the counters, and consequently raised its portfolio in industrial and mining stock to 72 percent.

Its total assets increased by about R25 million to R484 million, while the value of its investments was raised by 34 percent over the 12 months.

The bank's **Extra Income Fund** declared a distribution of 3,35c per unit, 10 percent down on last year, as the bearish sentiment in the capital market continued over the quarter.

Sage Fund increased its income distribution for the six months to 51,6c from 47,4c in the previous six months.

Income in the **Sage Resources Fund** was lifted slightly from 3,6c to 3,7c.

BOND BOYCOTTS

Casting the die

FM 4|10|91 (58)

If this week's scheduled meeting between borrowers and lenders in the black housing market managed to forge some greater understanding between the sides, it probably went as far as possible towards defusing the bond boycott issue.

As former Perm CE Bob Tucker puts it, the two groups have potential atomic bombs pointing at one another — with little to achieve by firing them.

Ranged against the institutions are many black home-owners represented by the Civic Associations of the Southern Transvaal (Cast). They face economic recession, high unemployment, high inflation and interest rates which have stayed higher than anyone expected. At this moment, they feel VAT is an aggravated impost — and all commitments, including mortgage payments, are becoming difficult to meet. Their weapon is a boycott of the repayment of mortgages — if relief measures cannot be found.

Tucker says: "Lined against them are the institutions which, because high interest rates push up the cost of delays in foreclosures, are actually getting tougher about attaching property. So they're not giving any leeway. The institutions' ace is that they can withdraw from the market."

Of course, in today's economic climate, there is little more that the lending institutions *can* do to ease mortgage hardships. But that doesn't mean that their performance in this market is beyond reproach and can't be improved.

There is even a suggestion that the traditional mortgage bond may be inappropriate for funding home ownership in the black market. An instrument which includes unemployment insurance and product defect insurance (dealing with structural problems which arise after the property is transferred) might be more appropriate. Correctly structured, it could go a long way towards protecting those who've bought homes, and preventing others, who can't afford them, being sucked into excessive bond commitments by unscrupulous property salesmen.

Equally, Cast, which has mobilised blacks on local issues as never before, would probably achieve much more for those whose interests it represents by working with the institutions rather than resorting to confrontation.

Certainly, since the bond boycott issue was first raised Cast seems to have adopted a much more conciliatory line on the issue of housing finance. It stresses that it never actually called for a boycott but simply raised the possibility as a last resort to press institutions to lighten the home ownership load for low-income groups (*Property* September 13). However, that was sufficient to send shivers down the spines of the already jittery institutions.

It could be that the boycott suggestion was an attention-grabber — if so, it was eminently successful. Now all concerned should capitalise on the focused attention to find appropriate solutions.

Before this week's meeting it was perhaps difficult to establish just what measures Cast hoped the institutions could take to alleviate hardships.

Nevertheless, the civics' agenda was quite explicit. Accepting the complexity of the problem, Cast stressed the need for institutions to provide:

- ☐ Finance which will meet the needs and nature of the communities;
- ☐ Education on mortgage finance to all customers;
- ☐ Explanations of all hidden costs such as interest; and
- ☐ Careful monitoring of defects in buildings and the reputations of builders and private developers.

Furthermore, the civics requested a joint probe into why people cannot, or have not, met their bond commitments and to find ways of dealing with the issue.

Cast's Sam Ntuli — killed by an assassin's bullet last weekend — expressed his optimism on the eve of the meeting. He believed the establishment of a joint monitoring committee would help to identify and alleviate problems at an early stage.

"I think we could also explore some of the systems used internationally to lighten the bond burden to see whether they'd work in SA," he said.

But is there room for the institutions to lower interest rates — and if so are the banks and building societies willing to do anything about it?

One option identified by Tucker is that of mortgage capping which, though introduced a couple of years ago by government, has never been extensively used. It offered to defer and subsidise bonds which rose above a certain interest rate; the buyer would then reimburse the State when rates fell again.

Another important element is, just how motivated are the banks to stay involved in black housing? At the height of the bond war, for example, banks frequently offered to pay legal costs of those executives' bonds poached from competitors. They wanted the prize of corporate business spinoffs. If the black market becomes attractive they will compete just as fiercely for that market.

Product pricing is based on return on assets — capital requirements and liquid assets are the driving forces. Mortgage lending has a relatively low capital coefficient and is therefore attractive as a lending instrument.

But even if the institutions considered mortgages on a lowest loan-to-value ratio they'd still have to consider the security of the investment and issues such as the poor secondary market; difficulty in collecting money; the collapse of black local authority structures which has permeated down to the management of utilities; the difficulty in repossessing properties; and the breakdown of the rule of law.

On this basis, the banks and building societies have become increasingly reluctant to lend into this market. What is the solution?

Apart from a compromise between Cast and the institutions there is a need for some innovative thinking by institutions — perhaps along the lines of the Independent De-

continue →

FM 4|10|91 (58)

velopment Trust Finance Corp's approach to the informal housing market. It makes unsecured loans to people right down at the bottom of the home market but at maximum rates allowed under the Usury Act (28%). Its current book is about R7m in Cape Town spread over 2 700 borrowers built up over three years. The key to its successs is an emphasis on educating borrowers on the intricacies of interest rates.

Another option may involve moving away from conventional mortgages and looking at ways of identifying and training borrowers. An agency would then make the loan on behalf of the institution, attend to collections and, if necessary, in the event of foreclosure or arrears, property management. ■

FM 4\10\91 (58)

INSURANCE

Investors' choice (58)

FM 4|10|91

Both long- and short-term insurers are relaxed about the revised investment regulations introduced this week. There is still some carping about a few restrictions in revised Regulation 34 of the Insurance Act but insurers are happy they can now put more of their assets into JSE shares.

For long-term assurers, the share limit goes to 75% (from 65%) of portfolios. The short-term industry can invest up to 50% (40%) in the JSE. Another change affects the overall composition of investment portfolios. Some life offices had argued that the mix was unbalanced. For example, the provision that property can make up 25% of portfolios may suit a smaller office: it is meaningless to a Sanlam or Old Mutual which would be hard-pressed to expand its property percentage, even if it wanted to.

For both industries, the new guidelines introduce more flexibility. There are 13 definitions of assets which offices may hold and maxima are such that most investment managers would be able to contrive portfolios which match particular strategies.

Some tidying up may still be required, says SA Eagle MD Peter Martin. He acknowledges that, in the nature of short-term business, insurers like Eagle need to be more invested in cash and gilts than a life office, but would have preferred the limit on JSE investment to go to about 60% instead of 50%. Nor is he happy with the regulation that 30% of short-term insurers' funds must be in cash and near-cash. He believes 20% would be more realistic.

To keep the balance required by the regulations, he notes, when there's a tearaway market on the JSE and the value of an insurer's equity investments rises sharply, the insurer is almost compelled to offload shares to get back in balance. "To a company like ours, it means we have to keep about R170m in cash or government stocks."

Some other guidelines may also be inappropriate, Martin suggests. "For example, we are allowed a maximum of 20% invested in the paper of a local authority. Theoretically, a major insurer could take up a whole issue." While that situation would be absurd, Martin is concerned that the regulations leave doors open for investment managers to become over-exposed to specific risks.

Old Mutual's Theo Hartwig says the guidelines need studying to ensure there are no surprises. There has, however, been considerable consultation between the Financial Services Board and the Life Offices Association, so small print hiccups are unlikely.

Sanlam says another concession is an increase in the exposure allowed to shares with a market capitalisation of more than R2bn, from 10% to 15%. Some investors had exposures to shares such as De Beers which were slightly in excess of the old limit. "The new levels will probably mean that most reasonably balanced portfolios will now fall within the revised percentages."

The changes could affect volumes in some markets. "There could be additional money for shares, putting upward pressure on prices. Conversely, less money may be available for fixed-interest investments." That could place upward pressure on longer-term interest rates. ■

Masterbond probe set up

58

Star 5/10/91

A TEAM of officials from the Department of Finance is to investigate the liquidation of six subsidiaries in the Masterbond Group as a "matter of urgency" it was announced yesterday.

The investigation is to be headed by Dr Japie Jacobs, a former senior vice-president of the SA Reserve Bank and now a special adviser to the Department of Finance.

A spokesman for the department said that the investigation could possibly affect more companies than just Masterbond.

No further details were given.

Investor confidence has been shattered as a result of Masterbond's problems while thousands of investors, many pensioners who rely on a monthly income to survive, await their fate.

It could become the largest financial services collapse in South Africa for many years.

Many investors are particularly upset that Masterbond was

MAGNUS HEYSTEK

never a member of the Association of Participation Mortgage Companies which would have offered some kind of protection in the case of insolvency.

"How could the authorities have allowed Masterbond to operate participation mortgage schemes without ever alerting the public to the fact that Masterbond was not a member of the association. How many other companies are not members," a very irate and worried member of the public said yesterday.

Irate investors

She was one of countless investors who phoned to inquire about the fate of their investments as Masterbond offices and agents across the country were not answering phone calls.

Masterbond's rates on its participation bond projects have been published for years, together with other part bond companies, creating the impression that it was a member of the association.

The three companies appointed to oversee the provisional liquidation of the Masterbond-subsidiaries — the Board of Executors, Sanek and Cape Trustees — have provided some relief for hard-pressed investors by resuming interest payments after they were frozen earlier this week.

However, no repayment of capital will be possible until a clearer picture of the solvency of the companies concerned emerges.

Also, it is understood that Mr Koos Jonker, the managing director of Masterbond Investment Holdings, has been barred by the liquidators from making further statements to the press. In future all public announcements regarding the liquidated companies will be made by the liquidators.

Yesterday, it was rumoured in financial circles that Board of Executors was prepared to step in as a "white knight" and save the cash-strapped companies from final liquidation, but this could not be confirmed by late last night.

In an urgent application in the Grahamstown Supreme Court one of the development companies being liquidated by Masterbond Investment Holdings successfully opposed an application for its provisional liquidation.

Marina Martinque, in which Masterbond has a stake of 50 percent, managed to have the provisional liquidation, granted earlier in the week, set aside for 14 days.

Set aside

The order was granted following arguments that the company's assets exceeded its liabilities and that alternative financing was being sought to continue operations.

And in Cape Town it was announced that the liquidators of Club Mykonos have reappointed Rennaissance Resorts to manage the resort. This is seen as an effort by the liquidators to keep the resort open as it has been fully booked until the end of January next year.

20 000 investors await their fate

S Times 6/10/91.

Sunday Times Reporter

(58)

TWO high-powered investigations have been ordered into the affairs of Masterbond Trust, the financial services and property development company placed in provisional liquidation in Cape Town this week.

A team of officials from the Department of Finance will investigate the liquidation of six subsidiaries in the Masterbond group as a "matter of urgency".

The liquidators have ordered a probe into Masterbond's participation mortgage bond scheme — and particularly its controversial short-term debenture bonds.

The Board of Executors hinted it was prepared to step in as a white knight to rescue the cash-strapped companies from final liquidation.

The Masterbond group has about 20 000 investors and it administers R735-million of their funds.

The government investigation is to be headed by Dr Japie Jacobs, a former vice-president of the Reserve Bank and now a special adviser to the Department of Finance.

Mr Robert Walters, one of the three provisional liquidators, said the liquidators believed the orderly handling of Masterbond could best be achieved by experts in the financial services field.

Mr Philip Biden warned that investors should be under no illusions about the state of their investments in Masterbond. Each investor's situation depended on the security of each bond and/or debenture.

Banks strict lenders for sake of clients

IN seeking loans to set themselves up in business, potential entrepreneurs often complain that they are confronted with a seemingly unsurmountable wall of bureaucracy.

But what are the criteria which banks and other financial institutions consider in screening credit requests from applicants with little or no financial track record?

Rod Cusens, senior manager of First National Bank's Small Business Unit says: "We look closely at the viability of any proposed venture, in addition to the collateral and security required in terms of normal banking criteria.

"We also look at the contribution which the individual is prepared to make towards the proposed business venture, what his qualifications are and whether he is able to make the sacrifices required of an individual who goes into a new business venture.

"This is particularly so bearing in mind the competitive nature of small businesses, many of whom are duplicating existing services in the market. One also has to look at the proposed location of the business and the demand for the product or the service.

"We would rather decline an approach where we see that the competition is already too advanced and the players in the market place already suitably equipped to counteract any new entrant."

Reacting to criticisms that banks were sometimes too inflexible in considering applications for credit, Roy Polkinghorne, a senior manager of the Small Business Development and Advisory Department (SBAD) of Standard Bank said: "Banks are often criticised for hindering the development of small businesses by being too strict in lending. The assumption is that this stops small businesses from growing.

"Our research shows that small businesses need more than capital and sometimes the need for capital masks a need for better management. Throwing money at the problem is counter-productive.

"Our aim is to help growing small businesses keep growing. If the management is defective, they need support and advice and that is one of our roles."

Visa to open SA office

58

BD 7/10/91

ROBERT GENTLE

VISA International, the payment organisation used by 263-million cardholders worldwide, will open an office in Johannesburg early next year.

The announcement on Friday followed the inaugural meeting of Visa International's southern African subregion, held in Johannesburg and attended by senior bankers from Amalgamated Banks of SA (Absa), First National Bank and Nedperm.

It was chaired by Visa International MD for Europe Middle East and Africa, Jacques Kosciusko.

Last week senior vice-president of MasterCard International in New York, Joel Lisker, was one of the speakers at a retail financial services conference in Johannesburg.

THE MONEY MARKETS by Andrew Gill

Fun and games if rates are increased

58

BDay 7/10/91.

SURPRISE, surprise, Chris Stals is not going to cut rates.

In fact, the Reserve Bank Governor thinks market rates are too low.

It could make for an interesting showdown if he acts on this statement, made at a conference last week, with banks looking to lower rates to make up the lost margin on the new tax in a liquid environment.

If rates are to increase, the Bank is bound to struggle to maintain relative stringency with the shortage and could be caught spending a fair amount in interest charges if the taps escalate.

At nearly R500 000 a day on every R1bn of special TBs out of the market, it certainly is not a cheap exercise.

Additional payments of about R880 000 a day for the R1,95bn out from the weekly R150m TB tender add to the burden.

But it is apparently all in the interests of a healthier economy so we cannot argue. If the weekly tender continues at R150m and an average R1bn a year is out on special TBs, interest payments on these alone are R480m.

However, the special TBs effectively pay for themselves because this forces holders to rediscount them at higher rates at the discount window.

The net result is a R320m a year payment which is barely covered by the new levy looking for an overall R400m from all institutions.

Japie Jacobs, special adviser to the Finance Minister, said last week the new levy would take whatever form the respective banks chose. Most look set to take the capital route.

No provision appears to have been made for anyone who chooses the tax on interest earnings in an environment of declining interest rates.

For instance, if rates fall six percentage points, gross interest earnings are unlikely to be as large as they would be now.

The argument, however, appears to be academic considering the bleak outlook for interest rates in the near to medium term.

When it does crop up the authorities will undoubtably take action.

The sharp jump in the shortage on Friday took the market by surprise as it had been flush all week despite the R1bn TB tap.

Reasons forwarded for the increase included late tax payments and dollar swaps but little clarification could be gleaned on the matter.

It did not do much to call rates which had shed about 0,25% over the week.

Other rates again did very little other than stay static and the outlook is for a similar trend for months to come.

The outcome of the plans for the commercial paper market did not provide much excitement with little change from the position paper evident in the latest draft.

Banks will have to sign the paper, leaving them happily involved in a potentially lucrative market, and possibly irking the corporates just a little.

CGIC has 'disappointing' premium growth

BDay 7/10/91 (58)

PAUL ASH

THE local recession and slow growth in the economies of SA's major trading partners resulted in a "disappointing" 7% growth in premium income for the year to end-June for Credit Guarantee Insurance Corporation (CGIC), MD Chris Leisewitz said in a statement at the weekend.

Insured turnover for the year climbed to R20bn (18,5bn) and premium income rose to R144,4m (R134,9m). Investment income for the year amounted to R11,6m (R10m).

Total net after tax profit rose 21% to R9,3m (R7,7m), of which R2,24m was appropriated for dividends of 82c (68c) a share.

CGIC paid out nearly R100m in claims with the number of domestic claims rising to 2 955 from 1 868. Export claims were also up at 255 from 129 previously.

In June, CGIC brought to account results of business conducted to end-June 1989 and an underwriting profit of R4m (1990: R3,4m loss) was transferred to profit and loss on closing the 1988/89 account, Leisewitz said.

The company's solvency margin improved to 74,3% (63,2%) or 98,8% (87,5%) under the international formula.

Leisewitz was confident the economy would pick up but said it would be a slow, sustained improvement rather than a sharp upturn.

Interest rates were expected to come down by the end of the calender year, and with export growth and a clearer political scene, prospects were encouraging.

Business failures, which reached a record number during the year, were expected to continue, Leisewitz said, adding that growth in CGIC's domestic operations would be very slow in the next financial year.

He said that during the year CGIC obtained an "AA" claims payment rating from Republic Ratings.

COMPANIES

Insurers 'need to adjust premiums'

B/Day 7/10/91 (58)

SEAN VAN ZYL

THE past 18 months had been one of the most difficult periods for the short-term insurance industry, Mutual & Federal chairman Alistair Macmillan said in his 1991 annual review.

He said increased competition in the short-term industry since 1989 resulted in inadequate premium rates being applied in many classes of business.

Increased claims, due mainly to soaring crime, had boosted the risk incurred relative to net premium inflow to unacceptable proportions.

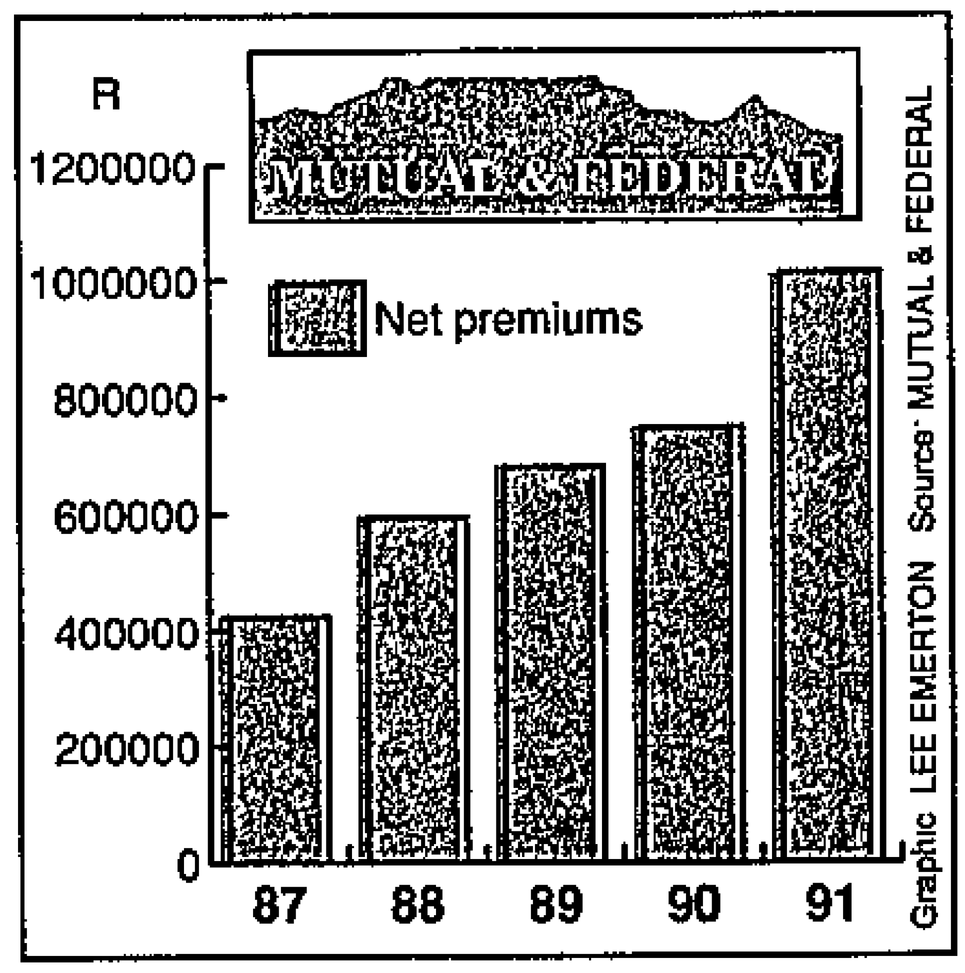
He said rates had become inadequate in the commercial and industrial market where competition was fierce. Industrial fires and a record increase in crime related losses had further aggravated the situation.

"I wish to caution that the underwriting results in the industrial market necessitate urgent corrective action."

Macmillan said it would be extremely difficult to predict the course of the industry in the coming year. However, he said the positive underwriting steps taken over the past year in the personal lines market were proving beneficial.

As a result, he hoped similar steps would be taken in the industrial and commercial sectors, and that "we will see a return to profitability in the near future".

Considering the poor underwriting conditions during the year, Macmillan was pleased with M & F's 14% increase in net income to R101m (R88,3m) for the year ended June.



He noted the insurer also showed improvement of its underwriting account, which reflected a R19m (R11,6m) surplus for the year.

Net premium income for the trading year reached a record R1,01bn (R748,3m).

Macmillan said the financial welfare of the company had also been strengthened during the year, resulting in the market value of assets breaking through the R2bn mark. M & F's solvency margin at the year-end stood at 120% compared with the previous year's 125%.

Syfrets funds put up a good show

(58) Star 7/10/91

CAPE TOWN — Syfrets Growth Fund posted a total annual return of 42,13 percent for the year to September.

Results released on Saturday show that the compound annual return for the three years to September 30 was 33,46 percent, exceeding the inflation rate, which averaged 14,5 percent over the same period.

Syfrets Growth Fund has started selectively reintroducing gold shares to its portfolio, while remaining cautious about the outlook for industrial share prices.

In the fund's quarterly report to September, portfolio manager Anthony Gibson says he believes $335/$350 to be gold's bottoming price area, which justifies limited exposure to high-quality gold shares.

"Unfortunately, a dilemma continues to face us. On the one hand, we are influenced by the political uncertainty and violence, the prolonged recession and high interest rates, while on the other hand, investment reality is one of stubbornly high inflation, a weakening currency and growing buying pressures from financial institutions."

Syfrets Growth Fund's income distribution of 2,64c for the quarter results in a total distribution of 12,40c for the past 12 months.

The prospect of lower international interest rates should have a positive impact on the local money market, but an oversupply of stock to the market will exert upward pressure on interest rates, says Income Fund manager Robert Nichol.

"We must remember that South Africa's real long bond rates are extremely low by world standards and with Dr Stals determined to keep real short-term rates in place, we can expect the long end of the market to show similar trends."

"The increasing demands on future governments for social spending will also prevent interest rates from declining significantly in the rest of 1991, says Mr Nichol.

"The income fund has consequently reduced its average investment term and increased its holdings in cash and one-to-three year deposits."

The Fund's income distribution of 4,02c for the quarter results in a total distribution of 15,97c for the past 12 months. This represents an income yield of 15,49 percent on the unit price of a year ago.

Its total return for the past 12 months is 15,25 percent and the three-year annual compound return to September is 16,39 percent. — Sapa.

More firms set to fold in the Masterbond empire

B|Day 8/10/91.

58

LINDA ENSOR

CAPE TOWN — It was almost certain that other companies in the Masterbond Trust empire would be wound up, informed sources said yesterday.

And as investigations into the group proceed, so indications of mismanagement suggesting that the conduct by Masterbond of a short-term debenture operation on an agency, rather than a principal basis, might have constituted an unsound business practice.

Sources said there were several other management companies in the group which were so intertwined with the six which went into provisional liquidation last week that they would not be able to survive.

Under the spotlight were those companies managing the R450m short-term debenture bonds which exist in a legal grey area between the Deposit-Taking Institutions Act and the Participation Bond Act.

Provisional liquidator of Club Mykonos Resort Management Co, Cape Trustees' Jannie Rousseau said yesterday it was likely that more of the 88 companies in the Masterbond group would fold.

Initial signs indicated there was a high degree of financial mismanagement of the resort, though Rousseau said it was too early to determine the reasons for the collapse of the six Masterbond companies, including Masterbond Participation Bond Trust Managers, which were provisionally liquidated last week.

Allegations have been made of inadequate management structures and poor planning procedures at Club Mykonos Langebaan, the developing company for the resort. Police investigations into financial irregularities at the resort are continuing.

Further development of the complex has come to a standstill and negotiations are underway with interested buyers, Rousseau said.

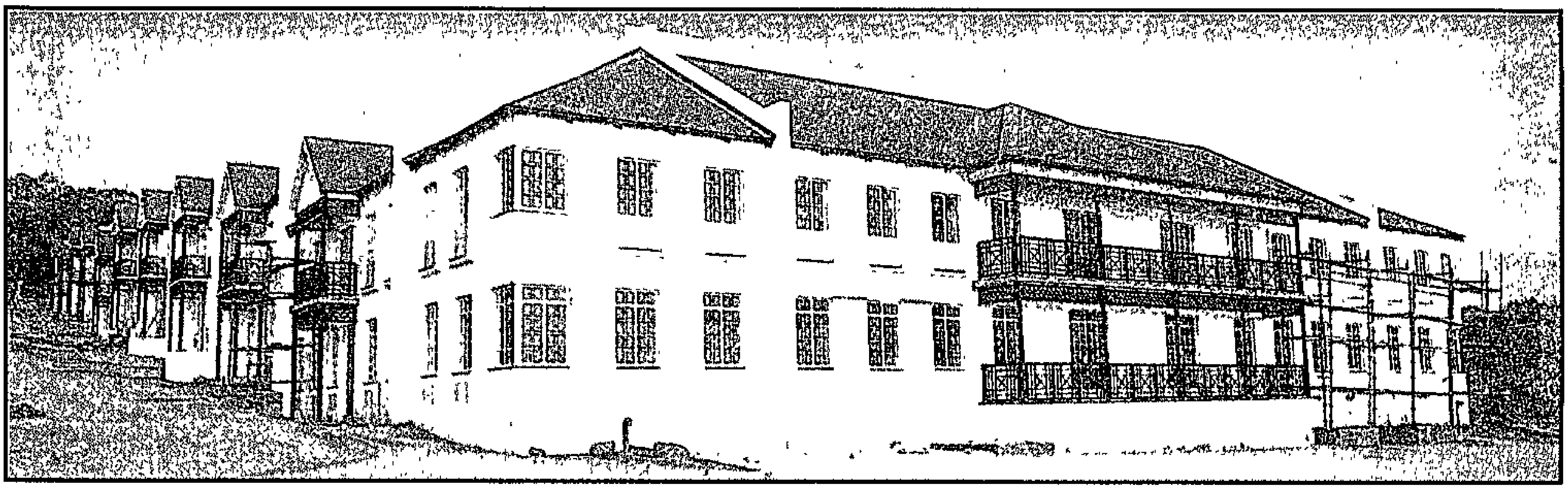
Meanwhile, the 1 500 investors in the R70m Masterbond Participation Bond scheme, the interim management of which has been taken over by the Board of Executors (BoE), would not receive interest on their investment until the outcome of investigations, BoE executive director Philip Biden said yesterday.

He said the legal status and documentation of the investors had to be checked before interest could be paid out. Also, the underlying financial soundness of the borrowers had to be examined to determine whether they had the ability to pay interest.

The Financial Services Board's inspectorate is participating in the investigation.

"Interest has been collected and has gone into a trust account being administered by the liquidators pending the outcome of the investigation," Biden said.

Biden added that BoE might be interested in taking over some of Masterbond's property syndications as well as the management of some of its other businesses provided these met up with BoE standards.



Accent on aesthetics . . . Mount Royal, a showpiece office and workshop development near Halfway House.

Absa, JHI in R10-m flats deal

Star 8/10/91

(58)

South Africa's new banking giant, the Amalgamated Banks of South Africa (Absa), has linked up with JH Isaacs' associate company, Downtown Development Corporation, in a R10 million Johannesburg residential property deal.

In the joint venture, a prestige block of flats, Killarney Wilds in 7th Street, Killarney, is being sold under sectional title.

David Marais, DDC managing director, says: "The 40 one, two and three-bedroom apartments are spacious and in excellent condition."

Marketing is being handled by Eskel Jawitz-JHI Real Estate and the apartments are being offered initially to tenants, with sales to the public to follow.

Bob Gauld, of Eskel Jawitz-JHI Real Estate, says: "The present tenants are entitled to certain rights, including a 90-day option to buy or a guaranteed period of 180 days tenancy should they decided not to purchase.

"With VAT now payable in this development, buyers will be free from paying transfer duties and this means a saving of 3 percent."

In another JH Isaacs deal the former Douglas and Barry building beside the Mooi Street off-ramp has been sold to a Cape buyer.

The four-storey 5 000 sq m block will be converted and refurbished to accommodate manufacturing and warehousing.

With export markets opening up on the back of warming attitudes towards this country, Johannesburg and the PWV area is again becoming a focal point for industrialists, says Wayne Wright, Transvaal industrial leasing and sales director.

"There is a definite increase in demand for industrial property and many businesses are moving to the Johannesburg area.

"International buyers are beginning to look at South Africa with new eyes," says Mr Wright.

"I expect foreign interest to pick up over the next year.

"We have already negotiated a 25 000 sq m lease in the Brits industrial area for a German company."

'It won't last' agency still going strong

B Day 9/10/91

THE Alternative Agency, which takes a 3% commission on the sale of property, is alive and doing well after two years, despite industry predictions that "it won't last three months", say partners Barry Cribb and Pauline Black. 9/10/91

The agency caused a stir when it cut commissions on sales to 3% — half the usual rate — thus offering sellers a potentially better price for their property, though for reduced services.

The agency does not take the prospective buyer to see the home for sale. It compiles and produces a brochure giving details of the properties on its books, and financial aspects. This is given to clients. 58

It puts interested parties in touch with the seller, and the prospective buyer is shown around the property by the owner. The same applies to showdays, when owners remain at home to meet the home-hunters.

The agency deals with all paperwork and advertising, and also the bond application.

"We really struggled at the start," says Cribb, "but we believed our policy could succeed, and we are holding our own."

Now the agency has decided to sell franchises. It has already sold one and is negotiating others in Cape Town and Durban.

"On average we sell between 10 and 17 houses a month. We focus on the northern suburbs — Jukskei Park, Johannesburg North, Sandton and as far as Weltevreden Park," Black says. "But we will take on homes in other areas."

By not sitting in on showdays and taking people to the houses, the agency is able to handle more houses, Black says.

Big changes forecast as financial sector re-enters real world

B/Day 9/10/91. **ROBERT GENTLE** (58).

FINANCIAL services in SA are set to undergo dramatic — if not traumatic — change as SA finally shakes off the chains of isolation and rejoins the global market.

Within the next five years it is likely banks will be selling life insurance and shares, while clothing and food retailers will be selling unit trusts. Blue chip companies could be borrowing money directly in the market without ever needing to make a bank loan.

While the SA financial sector has been moving hesitantly in this direction, it still has a long way to go. One need only look overseas to appreciate this.

In Germany, Deutsche Bank sells life insurance while Volkswagen distributes credit cards. In the UK, food and clothing retailer Marks & Spencer has a banking licence and sells unit trusts. In the US, retailer Sears Roebuck is one of the largest suppliers of financial services; General Electric has developed a sprawling banking and finance empire through its Capital Corporation.

Indeed, the very word bank is becoming increasingly blurred. The question whether banks are too big to fail has been replaced by whether they are too big to survive.

Traditional banking is a threatened industry," said Standard Bank MD Mike Vosloo at last week's retail financial services conference in Johannesburg organised by the UK-based Lafferty Conferences group. "The banks which can combine the traditional disciplines of banking with the capacity to encourage innovation will certainly survive best."

Isolation is a two-edged sword. While SA banks were spared the trauma of shaky Third World loans or the BCCI affair, they also missed out on the latest developments.

"While we were out of the mainstream, certain important developments took place," said Vosloo. "We will have new skills to learn and a higher degree of expertise will be required to operate in the faster environment which technology and competition have created."

The brave new world of financial services Vosloo referred to has many facets. The most topical of these is the concept of Allfinanz, a German term for the integration of banking and insurance at the customer level. (The French call it bancassurance.)

"This is the trend overseas and it must come to SA," said conference organiser Michael Lafferty. "Banks have found that unless they have their own insurance company, they are not maximising their client base."

Deutsche Bank has its own life insurance arm which sells more disability and term insurance than the industry itself, although it does not pay commission to employees. "Individual insurance, even sophisticated products which combine risk and savings elements, can be sold over the counter by bank employees," said Deutsche Bank's life insurance company CE Sven-Michael Slottko. "A bank branch network is better prepared to sell financial services than a sales force organisation."

Implicitly recognising this was life assurer Fedsure Holdings group CE Arnold Basserabie. Observing that many South Africans did not carry credit cards or have bank accounts — making regular payment of insurance premiums problematic — he ventured that large retailers and suitably located bank branches might act as collecting points, possibly through the use of automated teller machines.

Although SA banks routinely offer short-term insurance (household, motorcar, medical), they do not offer life insurance. One reason advanced at the conference was that the major life insurance companies use their key shareholdings in SA banks to prevent them breaking into this field. Significantly, 75% of the delegates — mostly senior bankers — canvassed by conference organisers in an anonymous poll agreed with this view.

Another side of the future face of banking is likely to be the widening of financial services to non-banks. Already retail clothing outlets like Edgars or Markhams provide basic credit services and issue plastic cards. It is but a regulatory step away for these services to be upgraded. Retailers have the most efficient client bases and are ideal vehicles for the sale of financial services, as the recent tie-up last year between Nedcor and SA Breweries retail network shows.

Then there is the commercial paper market. Rather than a triple A-rated company having to borrow money at high rates from a bank, the company could simply issue debt in the market at lower rates. Securitisation, a similar process, would see companies raising money by selling off part of their assets, repackaging them into negotiated securities and listing them on the JSE.

The permutations are endless. The process of change has been set in motion. Significantly, the regulatory authorities have seen the writing on the wall and produced regulatory guidelines which emphasise efficiency and competitive neutrality.

"A free market approach with maximum competition and thus a high level of efficiency for all financial intermediation should be supported. It should not be a concern who provides a service, and unnecessary regulatory barriers for entry of further competititors should not be imposed," said Financial Services Board CE Piet Badenhorst.

This bold approach was strongly welcomed. "The regulatory authorities are doing an excellent job, unlike in the past," Alexander Consulting CE Pierre Faure told the conference. "They have really got their act together."

However, there are a number of risks in this new financial environment, one of which is the strong skills base it requires. The statistics speak for themselves: only 2% of SA's labour force is decribed as executive, compared to 7% abroad; barely 9% of the SA labour force is highly skilled compared to 33% abroad; the ratio of managers to non-managers in SA is 1:60, compared to 1:15 abroad.

Secondly, this leap into First World banking cannot ignore the Third World element of SA society. Marrying the two is going to be one of the major tasks facing local bankers. However, a key advantage is that the Third World component of SA society is already inextricably linked to the retail sector; the challenge will be to take existing financial services "to the people".

Finally, there is the lingering threat of nationalisation of financial institutions by a future government. Special economics adviser to the Finance Minister, Japie Jacobs, bluntly told delegates: "We have a very sophisticated financial sector in SA. I wouldn't like to see it buggered up."

Explaining that financial institutions act as custodians of the country's savings, Jacobs said attempts to nationalise them would merely drive those savings elsewhere, or even worse, convert them into consumption.

Nationalisation is one scenario which would bring fundamental change to SA's financial services sector. The other is competition, which will alter the way things have worked. Now that we are ready to rejoin the world, there is a lot of catching up to do.

LETTERS

COMPANIES

Sanlam general equity trusts perform well

BDay 9/10/91. (58)

By LINDA ENSOR and SEAN VAN ZYL

SANLAM's three general equity trusts have reported an average total return of 38% for the 12-months ended September.

The general equity Sanlam Trust, Index Trust and Dividend Trust achieved total returns of 31,8%, 35%,6% and 46,8% for the period, the September quarterly performance figures showed.

Sanlam's two specialist funds, Industrial Trust and Mining Trust, also achieved acceptable returns in their particular markets. The Industrial trust's performance topped all its competitors by producing a 57,1% total return for the 12-months. The Mining Trust achieved a total return of 9%, which was exceptional, compared with the 29% drop in the all gold index during the period, senior portfolio manager Stafford Thomas said.

Besides the specialist mining fund, all of the Sanlam unit trusts beat the bullish 20,2% gain made by the all share index over the period.

Thomas said four of the funds either held or reduced their portfolio liquidity during the September quarter.

While the Sanlam Trust and Industrial Trust liquidities remained fairly constant at 10% and 16%, the Index Trust's liquidity had been reduced to 9% (last quarter: 13%) and the Mining trust to 7% (9%). The Dividend Trust increased liquidity to 15% from 6%.

Thomas said the performance of the Sanlam Industrial Trust indicated the value of sound share selection and market timing.

He said the five Sanlam funds made substantial purchases in Sasol, Iscor, Samancor, Gold Fields, Metropolitan Life, Driefontein, Holdains and Gencor during the year. The Dividend Trust also made substantial purchases of Q Data, and Supalek, while the Industrial Trust bought a large number of Powertech shares.

Sanlam Trust has declared an income distribution of 32c a unit for the six months to end-September, giving a total distribution of 72,7c for the year. The Dividend Trust will pay out 8,4c a unit, giving a total distribution of 21,7c.

The general fund portfolio exposures at the quarter end were: Dividend Trust — financial and industrial shares 50%, mining shares 35% and liquid assets 15%; Sanlam Index Trust — financial and industrial 50%, mining 41% and liquidity 9%; Sanlam Trust — financial and industrial 54%, mining 36% and liquidity 10%.

Sanlam senior GM investments Ronnie Masson said based on earnings and dividend yields, the industrial equity market looked volatile.

However, he expected share prices to maintain steam in the long term, mainly because of investor views that inflation was likely to remain high in the immediate term. "The need to invest in real growth assets will sustain the bullish momentum of prices in the long run," he said.

However, he expected industrial share prices to level off in the short-term, and perhaps undergo a downward correction to fundamental buying support levels. Although Masson did not expect a major downturn similar to the 1987 October crash, he said a minor correction would actually be welcomed by investors. "Lower prices would be a necessary stimulus to encourage foreign investment." An industrial market offering better value would also attract new investment by local financial institutions, he added.

Although analysts expected an upturn in gold-related shares, Masson said he was not confident in the long-term strength of the international gold price.

Furthermore, Masson did not expect an improvement in corporate profits to start filtering through until 1993: "The expected recovery in the economy next year would likely reflect new growth in company profits the following year."

Compared with the outstanding return achieved by Sanlam's Industrial Trust, statistics released by the University of Pretoria's Graduate School of Management yesterday show that the Old Mutual Industrial Fund was the second best performer over the year, generating a 53,56% growth.

Of the general equity funds, the Sanlam Dividend Trust came top with a 48,68% rise, followed by Syfrets Growth Fund which showed a 43,15% increase. All the gold funds showed declines in their repurchase to repurchase prices over the year, with the lowest drop being that of the Standard Bank Gold Fund (-12,87%) and the highest the Old Mutual Gold Fund (-26,48%).

Bank guidelines set to regulate debenture issues

(58)

6/Day 9/10/91

LINDA ENSOR

CAPE TOWN — The issue of short-term debenture bonds, a grey area of the market in which the Masterbond group has been active, will be strictly controlled once Reserve Bank proposals on issuing commercial paper and debentures are made law.

Stringent rules regulating such issues are contained in the Bank's guidelines on commercial paper released last week.

Short-term debenture bonds have previously fallen outside the Deposit Taking Institutions Act and the Companies Act. The Reserve Bank's guidelines, once legislated, will formalise operations in this area, making it exceedingly difficult for all but the highest quality company to issue such paper.

"The rules make it impossible for any small company which does not have the 100% endorsement of a bank to issue commercial paper and debentures," Bank researcher Nico Marais said yesterday.

Masterbond companies administer about R450m in short-term debenture bonds. They have been criticised for operating their business on an agency basis rather than as a principal because they depend on cash in-flows to fund their operations.

One banking critic said the problem with investing short-term funds in long-term property developments was that funding became increasingly expensive and there was a need to roll funds continually to finance developments. This raised the danger of a mismatch of funds by the ultimate borrower and of the development coming to a halt when no additional funds could be raised.

This is what happened with Masterbond's Club Mykonos Langebaan project.

In terms of the Reserve Bank's guidelines, companies with a net asset value of over R100m will only be able to issue debentures and other forms of commercial paper in units of R1m (which cannot be split) if the capital amount comes to maturity in less than one year. Also, the issue has to be endorsed by a deposit-taking institution.

Liability

Other rules governing the contract with the investor also apply.

The Reserve Bank felt that the mimimum of R1m would keep out unknowing members of the public.

Those companies with a net asset value less than R100m are given a risk weighting of 100% and will appear as a contingent liability on the bank's books in terms of the Reserve Bank's proposed rules. At its last year-end Masterbond Trust had a net asset value of about R12m.

Masterbond investors left high and dry as bank accounts remain frozen

Star 9/10/91.

Finance Staff (58)

The Government may step in to help resolve the Masterbond Trust debacle, according to informed sources.

After a week of discussions between the liquidators and their advisers, it seems likely that Dr Japie Jacobs, special financial adviser to the Minister of Finance, may be asked to join discussions next week.

There is bad news though, for Masterbond Trust investors. They will have to wait for their interest because the company's bank accounts are still frozen, say spokesmen for the liquidators.

Chairman Koos Jonker claimed last week after six of his group's companies were liquidated that the bank accounts had been "unfrozen" so that investors could be paid.

Since then investors have been trying in vain to get in touch with Masterbond and the liquidators to find out what has happened to their interest.

"We're getting 400 telephone calls a day from investors", said a switchboard operator.

But the liquidators have appealed for investors to be patient. A Press statement will be issued later this week — "probably not before Friday" — said a spokesman.

Even then, it may take some time before investors get any interest or know what has happened to their investments.

It is understood that the liquidators feel they cannot pay out until they have all the facts at their disposal so that all creditors are treated fairly.

A large firm of Cape Town attorneys has been appointed by the liquidators to comb through the documents of between 11 500 and 15 000 investors.

Until that is completed, the liquidators will not be able to pay out any interest.

Lawyers and financial experts engaged in untangling the web of inter-related investments say that this is one of the most complicated matters in their experience.

Scores of investors have approached the Star. Pensioners have been worst hit as in many cases the income from their Masterbond investment is all they have to live on.

One caller, a pensioner who has a heart problem said that he has had to borrow money from a friend to pay his rent.

A 58 year-old British immigrant in Springs who is unable to work due to ill health, put R170 000 into Masterbond. He says he needs expensive medication but can no longer pay for it, putting his life at risk.

"If all us investors got together we could pressure whoever is now controlling the purse strings to get the dividends resumed. I frankly have no money for food let alone medication or even this telephone call", he said.

An investment counsellor commented that most investors in Masterbond were relatively unsophisticated and had undoubtedly been attracted by the fact that Masterbond paid slightly higher interest than banks and building societies.

"These people forgot the cardinal rule; the higher the interest the higher the risk," he said.

And a former Masterbond employee says she and others were given summary notice by the group."We got nothing. We were told to pack our bags and go," she said.

It is believed that another 20 employees will be discharged within the next day or two.

Investors put off by high risk factor

58

Star 9/10/91

FRANKFURT — International investors appear ready to return to South Africa, but some bankers said at a conference on Tuesday that worries persist about its political and economic outlook.

"At the moment bankers are flooding the country," said Caspar von Hauenschild, head of Bayerische Vereinsbank's International division.

SA business and political leaders addressing the conference expressed confidence that SA would remain on course with its market oriented policies.

But some said at the one-day conference, "South Africa — Open for Business", that doubts about the nation's political future were causing banks to consider it a greater risk than less economically developed countries.

Mr Von Hauenschild said the perception of risk associated with SA was forcing the country to pay the highest premiums on its international debt. Also, bankers noted that international bank lending to SA was currently concentrated in the short-term — most loans carried maturities of one year or less.

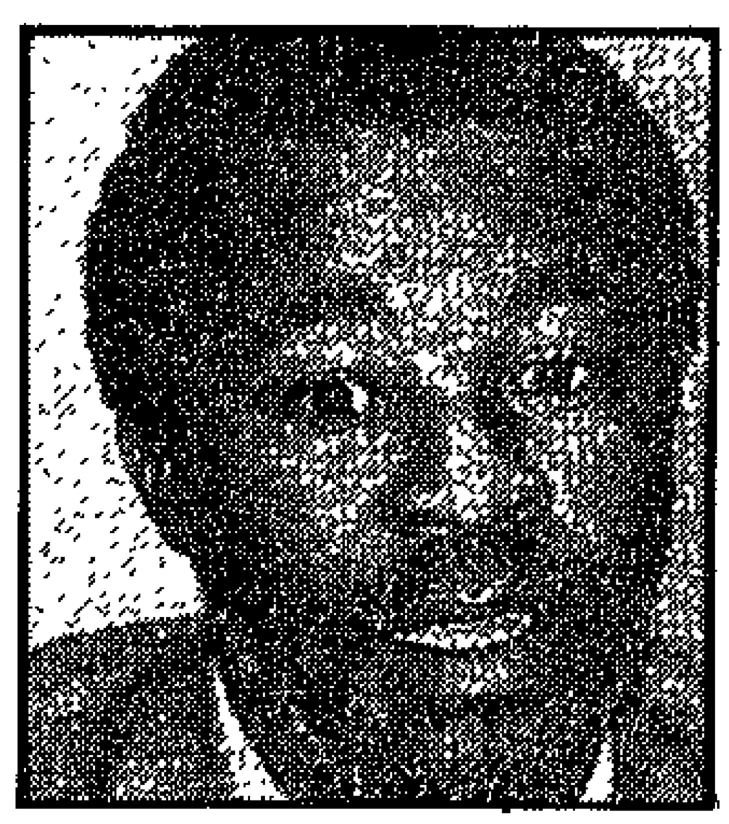
Stephen Denning, director of the World Bank's South Africa division, said the bank was prepared to resume lending to SA, but only with international consensus.

Last month SA launched its first public bond issue in six years — a Dm 400 million five-year issue — ending a self-imposed exile from public capital markets which began in 1985. The deal was lead-managed by Deutsche Bank.

"The comeback was expensive ... they had to pay 200 to 250 basis points above what German federal bonds pay," Mr von Hauenschild said.

Investors' concerns have been fuelled recently because of fresh talk from Nelson Mandela and the ANC about the possibility of nationalisation, as well as the renegotiation of loans.

Dr Gerrit Viljoen . . . rosy view of SA economy.



Thabo Mbeki . . . nationalisation must be an option.

"This (ANC reaction) was almost to be expected after the strong subscription to the new bond," said Conrad Strauss, managing director of SA's Standard Bank Group.

The SA bond, launched on September 19, was originally for Dm 300 million, but the demand was so strong it was raised to Dm 400 million four hours into trading.

At a press conference in Frankfurt yesterday, Minister of Constitutional Development Dr Gerrit Viljoen accused the ANC of sticking to its "unfortunate" economic policy demands "in order to strengthen their negotiating position".

ANC secretary for international affairs Thabo Mbeki did not respond to the charge, but he stressed the ANC position that a fairer distribution of wealth had to occur in any new SA and that nationalisation must remain an option.

Mr Mbeki also warned the SA Government not to negotiate any new loans or other forms of credit during "this transitional phase". Such agreements would have to be renegotiated by a new government, he insisted.

Giving a rosy view of the South African economy, Dr Viljoen said a "sound, modern economy" had been built despite the "handicap of apartheid".

The present Government recognised the dire need for priority channelling of funds to support the poor and disadvantaged, but, he added, "we believe in redistribution through growth, not in the bizarre concept of growth through redistribution".

Pressed to state specifically how the ANC stood on the question of nationalisation, Mr Mbeki said: "There is a whole series of political issues to be discussed. One of them is what do we do about the issue of this over-distribution of wealth. One of the options we have to look at is nationalisation. But privatisation is also an option."

Speakers at the conference said that while the longer-term outlook for SA's economy was positive, complete removal of international economic sanctions and strict adherence to market oriented policies were essential.

"If sanctions do not disappear we will be faced with the inevitability of having to abort the recovery of the South African economy," Dr Strauss said. — Star Foreign Service and Sapa-Reuter.

The message is simple: it's a matter of time . . . and time is running out. ■

PART BONDS FM 11/10/91

Picking up the pieces

The participation bond industry is putting on a brave face, but last week's collapse of the Masterbond Trust group has spooked thousands of potential investors (see page 68). Damage control will depend on how successfully the provisionally liquidated group's affairs are wound up — and that could take months. (58)

The group relied heavily on small investors — many of them pensioners — who were attracted by higher than average interest rates. What they were not told was that Masterbond's borrowers — often group subsidiaries involved in leisure property development — were relatively high risks.

continued

FM 11/10/91 (58)

Colin Hickling, chairman of the Association of Participation Mortgage Scheme Managers of SA, which represents all major players in the industry (Masterbond was not a member) points out the failure is the first since the original Participation Bond Act came into effect in 1964. He says most part bond funds are managed by companies associated with or owned by major banking groups and the assurance industry.

Investments in any scheme operated in terms of the Act and the guidelines of the Financial Services Board should be safe, "given the underlying fixed property mortgaged provides adequate security."

Masterbond had nearly R740m under administration and about 20 000 investors on its books. But the number could be far higher because, in many cases, groups of small investors, mainly pensioners, banded together to make single investments.

Many investors depend on their monthly interest for living expenses. Last week, the joint provisional liquidators appointed the Board of Executors (BoE) as interim administrator of Masterbond's part bond scheme.

BoE's Philip Biden says interest will be collected from borrowers and passed on, via the liquidators, to investors. What amount — or whether — investors are paid depends on borrowers' ability to meet interest payments as well as the documentation relating to the scheme. Incoming payments will probably be kept in trust until the use of each investor's funds can be determined, so that none of them is prejudiced.

Biden expects clarity on the state of Masterbond's part bond scheme by early next week. BoE is also advising the liquidators on its debenture mortgage bond scheme, which is being treated as a separate issue.

Chris Mostert, Deputy Registrar of Unit Trusts, whose jurisdiction includes the Participation Bond Act, says his department will "closely monitor" the liquidation of the Masterbond Trust group but will play no direct role for the time being.

Mostert says part of his department's function is to ensure companies operate part bond schemes in terms of the Act. As part of the process, Masterbond's activities were monitored and he is satisfied that the group was operating in terms of the Act. In his opinion, it was the group's ancillary business as a property developer that caused its financial problems, not its part bond activities.

Mostert says it is difficult to say at this stage if investments in Masterbond's part bond scheme are safe. "It depends on the valuation of the properties. If valuations were realistic and bonds of no more than 66,6% of the valuations were granted — as stipulated by the Act — then the investments should be safe. If this procedure was not followed, then the scheme was being operated outside the terms of the Act and criminal action could be instituted."

However, industry sources point out problems may arise in cases where Masterbond used part bond investors' funds to finance its own developments or property acquisitions.

In these cases, the properties or developments could become assets within the liquidation net and investors, whose funds were used to finance the projects, would simply have to join the creditors' queue. In cases where Masterbond lent to genuine third parties the investments should be safe.

As a rule of thumb, funds should be reasonably safe provided borrowers can continue servicing debts and repay capital owing when the bond matures, or refinance it. Where this cannot be done, the security of investments could depend on what the property or development can be sold for — and that is when Masterbond's system of internal valuations of developments by borrowers who were subsidiaries will be tested. ■

Insurance 'valid if ANC governs'

(58) CT 11/10/91

Staff Reporter

INSURANCE policies would continue to be valid and offer protection and a safe investment haven should the African National Congress become the next government.

This was said yesterday by Mr Emil Linde, chief legal adviser for Sanlam Insurance, following remarks in the United States by Mr Thabo Mbeki, the ANC's director of international affairs.

Speaking at South Bend, Indiana, Mr Mbeki said the enormous amounts of money invested in life assurance companies should be used to combat the housing crisis.

The life insurance industry had enough capital to wipe out the housing backlog and a million houses could be built within three years, he said.

Mr Mbeki warned that should insurance companies continue to invest in the Johannesburg Stock Exchange to increase the savings of investors, those companies would go up in flames because nothing had been done about housing.

Mr Linde said that nowhere in Africa where there had been some form of intervention in the life assurance industry had there been a confiscation of assets.

Insurance policies continued to be valid and continued to provide protection and safe investment havens, he said.

There had never been any suggestion that life offices should not be allowed to invest on the Johannesburg Stock Exchange and the possibility of that happening was "extremely remote", Mr Linde said.

"Any action from the authorities which would make the contribution by the public to life assurance companies and pension funds unattractive would inhibit and reduce personal savings.

"This again would impede investment of these funds by the life offices and accordingly also economic growth — without which constitutional reform would be unsuccessful."

Mr Linde said vast amounts of money were available for townships housing, for example in the Independent Development Trust, but unrest hampered efforts to improve the situation.

Mr Mark Winterton, joint managing director of Liberty Life, said he believed the ANC recognised that money invested with life assurance companies belonged to policy-holders, who needed guarantees that the returns on their investments would be market-related.

throwers.

At Thabong, Welkom, a hostel shop was set alight causing extensive damage, while

A limpet mine was discovered attached to wire screening at the Nyanga police station. The building was evacuated and bomb squad members defused the device.

MK leader for ANC's PWV region

B Day 11/10/91

ANTHONY NDLOVU

UMKHONTO we Sizwe commander Tokyo Sexwale was the overwhelming winner in elections for chairman of the ANC's PWV region.

He received 189 out of a possible 197 votes at the annual congress yesterday.

Proceedings, attended by delegates from 90 branches, focused on the election of office beares.

A total of 61 candidates stood for elections for 20 regional executive committee positions.

Barbara Hogan retained her position as secretary with 189 votes, while Cassim Salojee was elected treasurer with 160 votes.

Mathole Motshenga was elected deputy chairman and Bavumile Vilakazi deputy secretary.

At a news briefing after the elections, Sexwale pledged to work with all parties for peace.

He said violence was not affecting ANC members alone, but the community as a whole.

The restructuring of violence-monitoring committees locally and regionally was high on the agenda.

He called on people to identify themselves with the ANC, and pledged to build a strong organisation that would be ready for the interim government and ultimately for the "eventuality of elections".

The names of 15 other office bearers are to be announced.

Absa man had no links with the security police

58

B Day 11/10/91

ABSA group personnel executive Petrus Claassen has been cleared of any security police link through the Liaison Bureau's front company, Liaison Human Resources Management Services, the Financial Mail reported this week.

The magazine said it had a statement signed on behalf of SAP Commissioner Johan van der Merwe saying that Claassen "had at no stage, knowingly or unwittingly, been involved with the SAP, whether in his personal or official capacity".

Resigned

The FM said that all the documentation in its possession substantiated this, and indicated that Claassen's integrity was above question.

Claassen told the magazine he had resigned as a director of Liaison Human Resources some time ago.

He said that he had, in any case, been unaware of the security police's involvement with the Liaison Bureau, or that Liaison Human Resources was a front for the security police.

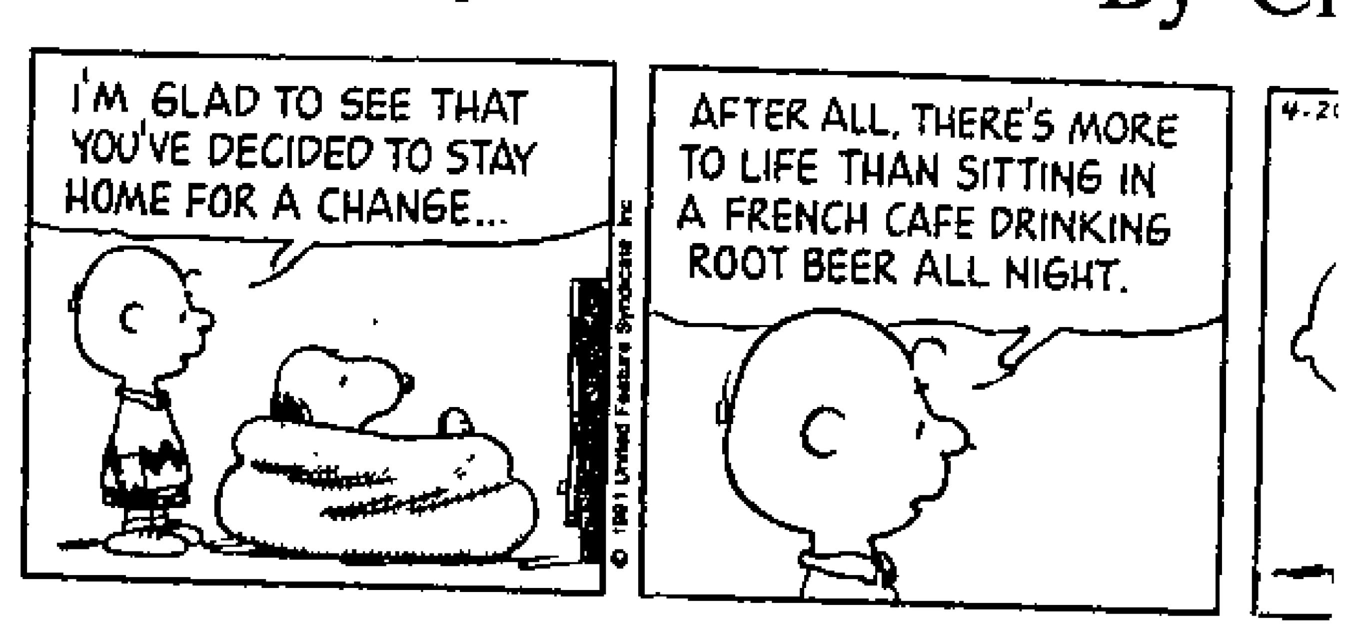
When the FM published its exposé of the police-funded project, Business Day approached Absa about Claassen's reported involvement, but Absa deputy CE Danie Cronje declined to comment.

In the Business Day report on October 3, it was mentioned that the FM had reported that Claassen was paid a total of R61 000, of which R21 000 was for a "Spoornet contract", and that there was no evidence that Claassen knew the project was a front for the security police.

Claassen is quoted in the FM this week as saying the amounts were paid to Liaison Human Resources by bona fide clients for management courses and the analyses of top executive remuneration packages.

The FM said Claassen's fees came from the payments of these genuine clients, and that this was confirmed by Liaison Human Resources head Kobus Slabbert.

PEANUTS By Cl



Steps to protect 20 000 investors

Govt mounts bid to rescue Masterbond

B/Day 11/10/91 (58)

CAPE TOWN — Government is to launch a rescue bid for the 20 000 financially threatened Masterbond investors by trying to prevent the final liquidation of the six Masterbond Trust companies provisionally wound up 10 days ago.

It is believed that details of some form of salvage action can be expected in the next week.

The intervention comes amid indications that Masterbond's R450m short-term debenture activities are collapsing, and that as much as R600m could be involved as Masterbond companies' affairs could be in a more serious state than first thought.

A high-powered team under the chairmanship of the Finance Minister's special adviser Japie Jacobs has been appointed to look into the options available to prevent the Cape Town Supreme Court from granting a final order of liquidation on the return date at the end of the month.

"We would like to take action to protect the interests of investors," Jacobs said yesterday.

Financial Services Board (FSB) executive director Piet Badenhorst said government would like to prevent a final liquidation to protect the interests of investors.

"We care about these people and even though we are not the regulating authority for all the activities of the Masterbond group, we are concerned about protecting the interests of investors," Badenhorst said, adding this was the FSB's normal function. A final order would mean that investors would, if lucky, get a portion of each rand they invested, depending on the extent of the assets and liabilities.

LINDA ENSOR

Possible options to prevent a final order include a judicial management order, curatorship or the financing of Masterbond Trust's liabilities to bring it out of provisional liquidation. This would not entail government financing, Badenhorst said.

He would not be drawn on further details but financial sector speculation suggested one option open to government would be to set itself up as a facilitator for the formation of a private sector consortium to rescue Masterbond.

Some members of the team — which includes Badenhorst, registrar of Deposit-Taking Institutions Hennie van Greuning, FSB inspector Sydney Miles, FSB legal adviser Francois van Zyl and Fergusson Brothers economist Gad Ariovich — will visit Cape Town next week.

Once the team has investigated the situation, a special application to the Supreme Court could materialise.

Badenhorst said the team would see what could be done to protect the interests of short-term debenture holders, who have invested about R450m in the Masterbond group. The management of the other part of Masterbond's activities, its R70m Participation Bond Scheme, has been taken over by the Board of Executors but the team will also check that this is in order and legislation has been complied with.

Badenhorst said the FSB was not the governing authority for the issue of short-term debentures, which were self-regulating in terms of the Companies Act, but that Finance Minister Barend du Plessis had

☐ To Page 2

Masterbond

B/Day 11/10/91 (58)

☐ From Page 1

requested it to look into Masterbond's short-term activities.

Du Plessis had also instructed the team to take matters further and look into what legislation and other regulating disciplines were necessary to prevent a recurrence of the Masterbond collapse.

Meanwhile, liquidators are reported to be investigating the relationship and flow of funds between the provisionally liquidated Masterbond Trust Participation Bond Managers and its holding company, Masterbond Trust Investment Holdings, which is controlled by the directors.

Badenhorst disclosed that since the provisional liquidation on October 2, a special team of people had been appointed by the FSB to be on call to answer the public's inquiries.

Probe routine, says Gordon

B/Day 11/10/91

(58)

BRENT VON MELVILLE and SEAN VAN ZYL

LIBERTY LIFE chairman Donald Gordon says he is not concerned that an EC Commission investigation may derail the recent joint Liberty and French UAP takeover of the UK Sun Life Corporation.

AP-DJ quoted a spokesman for the EC Commission on Wednesday as saying it would launch a preliminary probe into the takeover deal.

Under EC merger regulations rules, the commission has the power to block or significantly alter large cross-border deals which could endanger competition in the 12-nation community.

Gordon said the investigation was nothing more than routine procedure, considering the size of the joint Liberty and UAP venture.

He added that extensive documentation had been lodged with the commission and a decision would be taken in a couple of weeks: "I am totally confident there won't be any complications arising from the investigation."

Gordon said the commission had been consulted prior to the announcement of the deal, "and we would not have gone through with it had there been any uncertainty".

Liberty asset management chairman Roy McAlpine played down the probe, and said it amounted to nothing more than standard procedural comment.

"All it means is that the EC has received the necessary documentation."

Liberty — through its Luxembourg-listed TransAtlantic Holdings — and UAP notified investors last month that the property and financial services giants had consolidated their holdings in Sun Life in a joint company, Rockleigh Corporation.

Liberty and UAP also enlarged their joint controlling stake to 59,9% of the UK assurer's issued share capital.

Our London correspondent reports that a spokesman for the commission's mergers section confirmed the preliminary investigation was normal procedure.

The inquiries, which lasted a month, were routine and usually ended up with the deal being waved through. In a minority of cases a further inquiry was instigated, he said.

Cast/mortgage lenders meeting gives hope for resolution of housing crisis

W/Mail 11/10 - 17/10/91

(58)

By MONDLI MAKHANYA

THERE are glimmers of hope about the financing crisis in the black housing market. But it is still far from being resolved, despite increased contact between civic organisations and financial institutions.

All that a meeting last week between the Civic Associations of the Southern Transvaal (Cast) and the Association of Mortgage Lenders achieved was the formation of a joint working committee to resolve the crisis.

At the heart of the crisis is financial instititutions' cold feet about lending in black townships. As a result, private developers are stampeding out of black townships.

The financial institutions' main concern is the profitability and risk factor lending to township dwellers entails.

However threats of bond boycotts have aggravated the banks and building societies' paranoia.

The recession's products of low wage increases, increased retrenchments and high interest rates are taking their toll on township dwellers' ability to meet bond payments.

Thus civics are demanding affordable interest rates; a moratorium on foreclosures; and the reversal of the 0,25 percentage point bond rate rise.

A participant at the talks says "there was agreement on some issues but we disagreed on many more than we agreed on. Given such a situation and the almost irreconcilable positions of the two groups the working group certainly has an arduous task ahead".

Nedbank chief economist Edward Osborn, speaking in his private capacity, says there is no room for compromise on the issue of interest rates and risk assessment.

"If you're going to make exceptions insofar as interest rates and risk assent what are you going use as your criteria: colour, income level or area of residence?"he asks.

He points to the danger of distorting the market and also compromising financial institutions' obligation to their clients and shareholders.

A way of this logjam is what Osborn refers to as "appropriate government subsidised institutions for risk venture lending" and Cast calls a "people's bank that will provide local communities with access to their savings and loans mechanisms".

But unless the state intends financing such an institution through huge foreign borrowing or excessive taxation, the financial institutions are still going to have to play major role.

Fidelity Bank planning capital base of R50m by going to market on rights issue

6/Day 11/10/91

(58)

ROBERT GENTLE

FIDELITY Bank has boosted net taxed income for the year ending September by 35% to R5m (R4m last year) on a 13,5% growth in assets.

Simultaneously, the bank announced a R21m rights issue which will take its capital base to R50m.

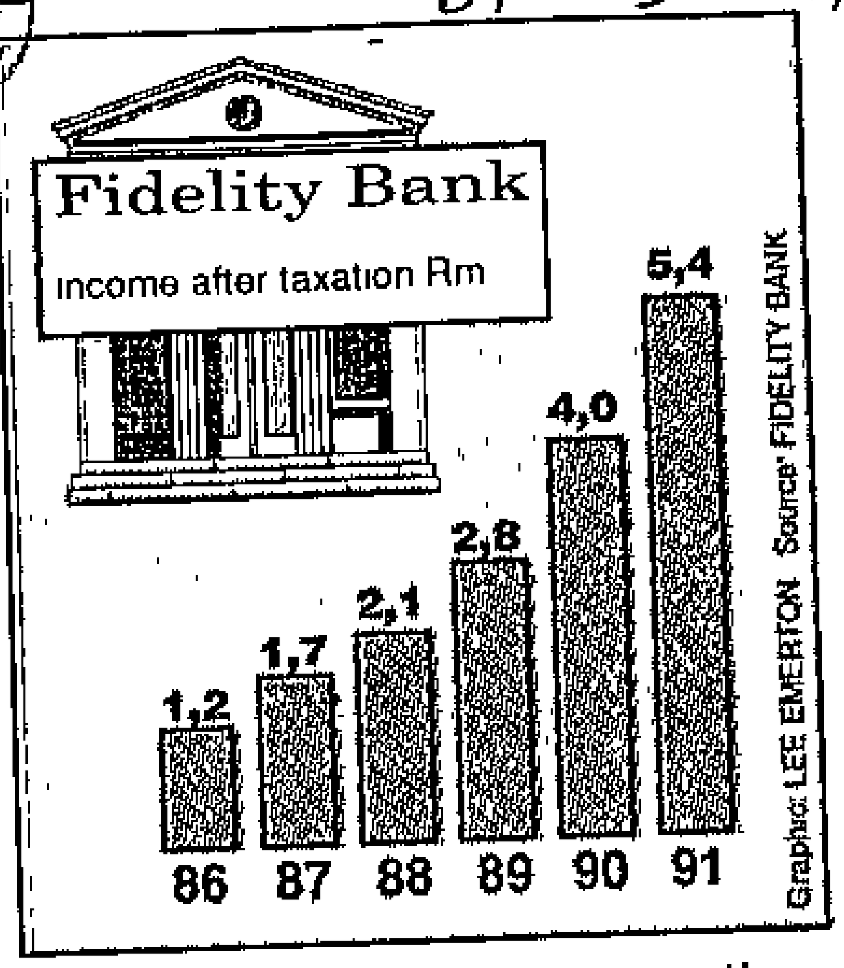
Fidelity, an Eastern Cape bank before 1984, now operates in most major cities with 60% of its business coming from the PWV region. Its major shareholders are Board of Executors (30%) and Fedlife Assurance (30%).

Company secretary Mike Newton said virtually all banks would soon be needing capital and that Fidelity wanted to go to the market early.

"We are confident that the rights will be taken up," said Newton. Details would be released within the next couple of weeks.

On the operational level, net interest income rose 24% from R15,6m to R19,3m.

Bad debt provisions of R3,8m (R2,1m) were within budget.



Newton said Fidelity was continuing its established policy of conservative lending and good risk management.

"We have never pursued a policy of competition for market share. Rather, we consider credit applications in a spirit of realistic conservatism," he said.

The good performance was helped by the strong liquidity position Fidelity found itself in when the new Deposit-Taking Institutions (DTI) Act was phased in this year. This allowed the bank to expand without recourse to increased funds from depositors.

The bottom line showed earnings a share increasing 35% to 77,1c (57,1c). However, the dividend a share was increased by a more conservative 20% to 24c (20c), which saw dividend cover rise from 2,85 to 3,21.

Fidelity's return on assets — a key performance indicator in banking — stands at 1,34%, way ahead of the rest of the industry. The equivalent figures for the leading big five banks is 0,8%-0,9%.

According to a 1990 banking survey by KPMG Aiken & Peat, Fidelity Bank had the highest return on capital with a figure of 41,73% (ahead of First National Bank with 25,02%) and the highest return on assets with a figure of 1,61% (ahead of Investec with 1,30%).

Fidelity's shares traded at 550c on Wednesday, close to the 600c high reached last month and almost double the 300c level of November last year.

DISINTERMEDIATION

FM 11/10/91 (58)

Phase one

Position papers published last week by the Deposit-Taking Institutions (DTI) office open up two new debt markets — corporate paper and securitisation. Guidelines have been introduced to "preserve the stability of the banking system without eroding the efficiency of the financial markets," says a spokesman for the office.

By allowing the issue of corporate paper, the office has introduced a measure of flexibility into application of the DTI Act, which allows only registered deposit-taking institutions to raise funds from the public.

However, banks have not been completely sidelined, as paper issued by corporates will have to be endorsed by banks ("an interim measure," says the office). Banks' exposure to companies with a net asset value of more than R100m (which may issue commercial paper in units of R1m for periods of fewer

Continue →

FM 11/10/91 (58)

than 12 months) will attract 50% risk weighting in terms of the DTI regulations. Companies with a net asset value of under R100m attract a risk-weighting of 100% because of the higher credit risk.

The R100m cut-off is an arbitrary figure that will apply only until rating agencies are firmly established and can provide credit assessment of companies.

On securitisation — the sale of a portfolio of financial assets — there has been no compromise with the non-banking sector. These can be undertaken only by a deposit-taker — though whether a corporate can use a DTI as a conduit remains unanswered. The guidelines create a regulatory framework which allows a "clean transfer of rights and obligations from the DTI to the buyer or special purpose vehicle (SPV)." The DTI originating the securitisation issue cannot own or control the SPV.

The DTI office says: "A spontaneous level of disintermediation can be good for the economy but there is a need to ensure the market develops in an orderly manner."

The guidelines have been criticised as re-regulation. But the office argues they soften "the somewhat tough definition of deposit-taking in the Act and are in fact deregulatory." The spokesman says the goal is to let markets operate without constraints — but there is no set period for this development.

A discussion paper on money broking — direct transactions between borrowers and lenders that are not DTIs — has also been published. The DTI Act makes the pooling of funds by money brokers illegal. The paper suggests exemption of brokers who comply with certain requirements. ■

MUTUAL'S UK FUND FM 11|10|91

Change of plan

58

South Africans need look no further than the borders of their country to find out why, at the 11th hour, the international launch of the Old Mutual South Africa Fund (Omsaf) — a US$50m Channel Island-based closed-end investment trust — had to be postponed at the end of last month

Inkathagate and the heightened violence in townships helped to fray the delicate film of international confidence and optimism that had developed because financial barriers — sanctions and the like — were being eased. Perceptions being held by the international investment community, that investment returns here could be high enough to justify increased risk, no longer held up Politically, the country was again being viewed as too unsettled.

The second problem has much to do with SA's closed economy. Local institutions, having nowhere else to place funds earmarked for equity investments, tend to invest heavily on the JSE, and they are rarely

FM 11|10|91 (58)

sellers of quality stocks. Apart from any other investment criteria, the need to invest in shares that are marketable minimises the number of counters that can be included in their portfolios. Partly as a result of this, share prices have risen this year to heights that made the JSE appear expensive to international investors.

Old Mutual's Investments GM, Johannes van der Horst, notes that when market research was undertaken to test the acceptability of the fund concept in the international investment community, the financial rand discount was 14%. When the launch was due to take place at the end of September, however, the discount had narrowed to 8%. In the same period, the JSE Industrial index had appreciated by 15%.

When these factors are taken together, the JSE was more than 20% more expensive than when positive reaction was first received from the foreign institutions canvassed. The market had moved from an earnings multiple of 10 at the outset, to over 12 just before the launch, he says, and became too expensive in view of the perceived political risk.

Smith New Court Securities was to sponsor and underwrite the placement of funds in the trust. A poll by the firm — before the Inkathagate scandal and escalating violence — of 110 UK institutions showed that 25% were already invested in SA equities, and that 45% had tempered their views about South African investment potential because of recent political changes. At the time of the poll, institutions displayed strong interest in participating in the fund.

Omsaf was to provide an opportunity to invest in South African blue-chip shares and other equities believed to have good earnings growth potential. Minimum investment was to have been $10 000.

Van der Horst says the launch of the fund was postponed because the minimum of $50m was not raised. He adds Old Mutual has every intention of resuscitating the plan at a better time — but cannot say when that will be

Gerald Hirshon

INSURANCE FM 11|10|91

Bandaged up

(58)

A general return to underwriting profit by short-term insurers cannot be expected until next year at the earliest. Meanwhile, latest results (see table) show some success in staunching losses.

Compared to London figures, SA's record losses seem insignificant. But such losses have to be eliminated if the capital base of the industry is to be protected.

Rod Pearson, director of technical services at broker MIB, also draws comparisons with the US short-term industry, where the last underwriting breakeven was in 1978. "In recent years, a combined ratio (claims plus operating expenses to premium income) of

Continue

FM 11|10|91 (58)

... AND LONDON

Insurer	Underwriting profit/(loss): (£m) This Year	Overall profit/(loss): (£m) This year
CU	(345)	1,4
General Accident	(462)	(121)
Eagle Star	(475)	(128)
GRE	(461)	(157)
Prudential	(318)	244
Royal	(294)	(187)
Sun Alliance	(267)	(181)
	(2,622)	(407)

Source: MIB

109% has been considered good, while at times they have suffered ratios of 118%.

"Sure, they've squealed, but they've had to learn to bolster investment income to counter underwriting losses — often taking the view that shareholders are not too uneasy so long as dividends are maintained and not all that concerned whether profits come from underwriting or investment accounts."

Yet, he points out, consistent underwriting deficits are equivalent to a manufacturer selling products at a loss. He queries, however, whether the distribution of results between underwriting and investment accounts is always logical. He offers two suggestions:

☐ Investment income on premiums received during the year is attributed to the investment account. Because it is income on turnover for the year, perhaps it should be attributed to the underwriting account; and

☐ There is a year-end provision for claims outstanding or as yet unknown. Investment income on these should be for the underwriting account.

But window-dressing would not hide the overall picture displayed in the tables. Having taken a hiding last year, short-term insurers are now trying to return to sound underwriting practices. ■

SA banks to soon start fight for life

(58) ARG 12/10/91

JOHN SPIRA
Weekend Argus Correspondent

JOHANNESBURG. — South Africa's financial arena is poised to enter a new phase of competitive conflict as the banks prepare to launch themselves into the lucrative life assurance market.

Daggers will soon be drawn again — shortly after having been sheathed in the wake of the uneasy truce between the banks and building societies.

A measure of the pending hostilities is the marked unwillingness of the prospective participants to comment.

Bottom line of the issue is that the banks, which collectively channel billions of rands worth of assurance business to the life companies through their brokers, are witnessing first hand the evaporation of millions of rands worth of prospective business.

Several banks have assurers with a stake in their equity and there has accordingly been a presumption that the assurers would strongly discourage banks from competing in the life underwiting field.

This they may try to do — but the carrot is such they are unlikely to prove successful. Even in cases where assurers have a controlling interest in a bank, the market could evolve in such a way that such banks sell their own policies with the blessing of their big brothers.

Banks have strong grounds for establishing their own life companies, among them:

- Absa has admitted it is already selling its own policies. If Absa moves into life assurance in a big way, the other banks would have to follow;
- The international trend is for banks to establish their own life companies by acquiring established assurance groups, to merge with assurers or to form joint ventures with them; and
- Retail banks are concluding that they need to offer one-stop financial services, including life assurance and related products, which they can offer at lower distribution costs than assurers because of their branch networks.

The trend is vividly illustrated by recent events in the UK.

Last week National Westminster Bank broke ranks with its decision to start selling life assurance.

Then Abbey National Bank bought a well-established mutual life assurer, Scottish Mutual.

This could well be a harbinger of what is in store for South Africa.

Research has shown that banks, with their strong customer bases, are able to sell life assurance more efficiently than traditional assurance groups.

For one thing, institutional cash flows available for investment in equities will get a further boost, coming as it would on top of the relaxation in prudential investment guidelines for retirement funds and the government's decision to place its five pension funds on an equal footing with private sector pension funds.

The cash flows of these State pension funds should exceed R5 billion this year, suggesting that total institutional cash flows in South Africa could now be running at an annual rate of roughly R33 billion — with a further boost in the offing when banks move in.

For another, a fresh rash of takeover battles looms as the banks and the life offices position themselves to carve out market shares.

Finally, the man in the street should benefit from renewed efforts to woo his custom. Lower premiums and improved payouts cannot be discounted.

Assurance boosts Cape bid to be finance centre

S|Times 13|10|91. (CM)

58

WHILE the mining industry on the Reef battles with sanctions, threats of closure and possible major lay-offs plus a low gold price, the Cape Town-based life assurance industry goes from strength to strength and bids fair to eventually coming a close second to Johannesburg as South Africa's financial centre.

Latest figures from the Cape Town-based Life Offices Association (LOA) show that life assurance companies had combined assets of R132 billion in 1990 — a sizeable increase on the R113 billion in 1989.

This R132 billion compares favourably with the Chamber of Mines estimate of R144 billion for the combined assets of the mining companies, although the chamber is quick to point out that if the assets of the mining finance houses are added to that figure the total is R221 billion.

But even these figures are beaten by the assets of purely industrial and manufacturing companies of about R400 billion.

However, this does not detract from the significant contribution the insurance industry makes to the South African economy.

Indeed, there are billions of rands in international pension schemes which can be added to the basic R132 billion of assets of the life assurance companies.

The Cape Assurance Industry Liaison Committee (CAILCOM) estimates that of the R132 billion, at least R100 billion represents the assets of Cape Town-based life assurance companies, with Old Mutual, Sanlam, Southern Life, Protea and Norwich Life as obvious examples.

"This shows the financial strength of the Cape," says Roger King, marketing executive of Cailcom.

He points out that Cailcom represents a powerful body of Western Cape organisations.

No fewer than seven large organisations are members — the Insurance Industry of the Cape of Good Hope, Institute of Life and Pensions Advisers (Western Cape), Life Underwriters' Association of SA (Western Cape), Life Underwriters' Association of SA (Boland), Insurance Brokers Council (Western Cape), Insurance Brokers Council (Boland), SA Insurance Brokers Association (Western Cape).

"With this sort of membership we decided it would be worthwhile to hold a one-day conference in Cape Town to which leading insurance personalities would be invited, and we were delighted with the number of Johannesburg executives who flew down for the event last month.

"The conference was opened by the Mayor of Cape Town, followed by the Minister of Finance plus several other top-level speakers.

"It was such a success that feedback from delegates has prompted us to plan another one-day conference next year."

The Life Offices Association helped to supply information for a report on the role played by life assurers in savings and investment, which was compiled by Prof Geert de Wet, head of the Department of Economics at the University of Pretoria.

The report shows the extent to which the insurance industry is helping to build the South African economy.

"It is clear that during a period when personal saving showed a strong negative trend towards dissaving, life insurers played a stabilising role," says the report.

"Through long-term contractual obligations, they insured that the ordinary consumer continued to save positively when short-term considerations induced him to dissave.

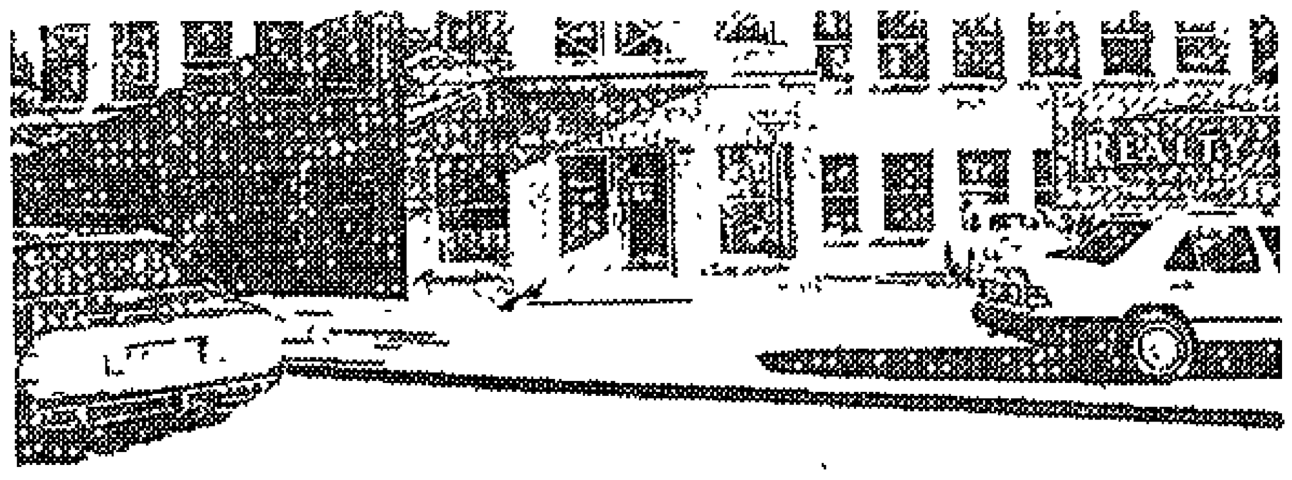
"It is interesting to note that since 1971 the compound growth of funds flowing to life insurers has been higher than that of funds flowing to banks and building societies.

"In the period 1971 to 1980, the annual growth rate of premiums flowing to life insurers was 19,5% compared to 15,1% in the case of banks and 14,9% in the case of building societies.

"Although the annual growth rates were higher for all three institutions during the period 1980 to 1989, the growth rate of funds flowing to life insurers was again higher (24,3%) than in the case of commercial banks (21,2%) and building societies (18,3%).

"This tendency has become even more pronounced over the period 1985 to 1989, when the volume of funds flowing to the life insurers increased by 31,6% as against 24,5% in the case of commercial banks and 16,2% in that of building societies.

"It is quite clear that a structural change has been taking place with life insurers becoming even more important as financial institutions channelling savings," says the report.



Realty 1 Durr Estates head office ... Garden Route expansion drive doubled their number of agencies

(58)

Family feeling

S Times 13/10/91 (CM)

Durr perceived being an "only child" operating in one province as holding greater benefits for the company and its clients

WHILE Gian Sdoya, MD of Realty 1 Property Group and assistant general manager of the Perm's estate agencies division, describes its affiliation with the coalition of estate agencies as a marriage, Arlene MacKenzie, MD of Durr Estates since 1971, who retains her captaincy in Realty 1 Durr Estates, prefers the term "only child."

Durr was courted by two major financial institutions. One was the new banking giant, Absa — Amalgamated Banks of SA — which evolved from mergers between the United, Volkskas, Allied and parts of Sage. The other was the Perm, now an important player in the Nedcor Group.

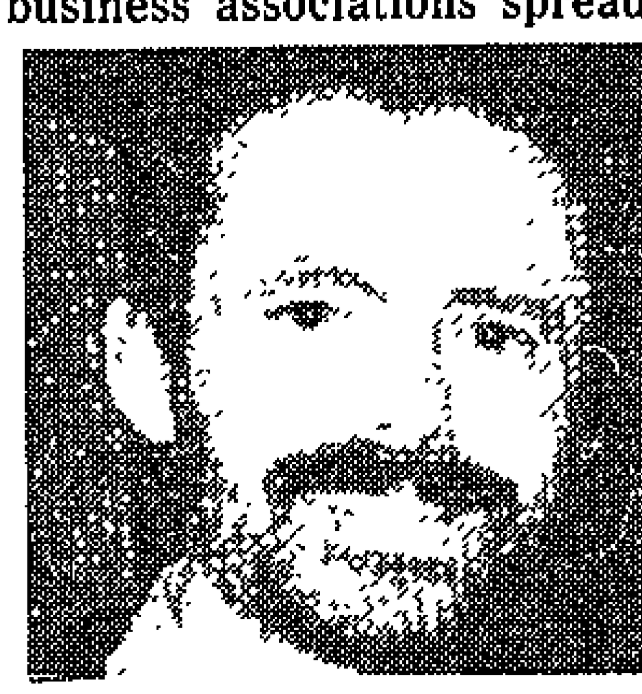
Though closely allied to the United — MacKenzie was a founder member of MLS, Cape Town — she says she also had a "good" attitude towards the Perm.

Two years ago, with the turbulence in the property industry still on the boil, MacKenzie met with the Perm's then MD, Bob Tucker. MacKenzie contributed the thought of a sort of coupling strategy with a financial institution from which estate agents would enjoy value-added benefits.

Six months later Tucker had left. The bank battle had become increasingly fierce and her idea had crystalised to a partnership with a big financial institution — "a big brother in case of a bank war," she recalls.

In the end, of the two approaches, MacKenzie and her management chose the Perm. It was the better deal because, she says, "it specified only one market leader in each of the provinces, whereas Absa was set on more. As an only child we believed we would receive greater benefit."

MacKenzie sees only gain in the alliance, formalised on March 1 this year. In an editorial in the inaugural issue of the Realty 1 Bulletin, she writes, "We are now a national company, with clients and business associations spread throughout South Africa. We have strength. We have reach and power. We have security and opportunity."



The Perm's Gian Sdoya

The Perm is equally pleased with its 25% shareholding in Durr. Says Sdoya: "It has the same kind of culture as the Perm, the same high ethical and business standards. We are also impressed with the integrity and competence of the people within its organisation, apart from its financial criteria, obviously."

These, too, are impeccable. The Realty 1 Group's current turnover amounts to R1,5bn; Durr's contribution being R500m (up 50% on last year).

Durr boasts 20 branches in the Cape Town area. And a strong expansion drive in the first six months of this year has seen it doubling its outlets along the Garden Route — now numbering 22.

Involved are agencies in East London, Port Elizabeth, Plettenberg Bay, Mossel Bay, George, Knysna and the Wilderness. In each of these areas Durr sought the market leader and said, "If you want to join us, you must become bigger." Their approach was overwhelmingly successful. "We achieved a 100% success rate," confirms MacKenzie.

Little wonder, then, that she is able to say confidently that "our target this year is the sale of 5 000 residences and we'll meet it with ease."

She believes there can be little doubt now that Realty 1 Durr Estates is the market leader in all the areas in which it markets.

At the Cape Regional Conference attended only by managers and principals, Durr came in for warm praise. There were also glowing reports on the progress of the group as a whole. Says MacKenzie, "As much as we have done in the Cape, they've been doing in Natal and the Transvaal."

An article in Realty 1 Bulletin confidently predicts. "In its alignment not only with a powerful banking group, but also with some of the strongest real estate companies in South Africa, Realty 1 now dominates the high ground of the property industry.

"From this secure position it can not only influence future battles, but can also control and direct further changes."

DONNIE BREAKS THE ICE IN EUROPEAN MARKETS

S/Times (Bus) 13/10/91. (58)

By JULIE WALKER

LIBERTY LIFE's foreign fundraising operation breaks new ground for SA's private sector.

Not only is the placement of shares to raise between $141-million and $236-million from United Kingdom and Continental European investors the first such deal chairman Donnie Gordon can remember, its scale also matches the South African government's first foray after the debt standstill into the European capital market.

Usually, shares can be issued by a company either for an acquisition or in a rights offer to all members. In this deal, Liberty will issue shares of R37 or thereabouts to foreign institutional and other investors.

UNDERWRITTEN

A blue-chip team of European finance houses and merchant banks — comprising SG Warburg Securities, Paribas Capital Markets, UBS Phillips & Drew and NM Rothschild — have already underwritten the offer, guaranteeing acceptance of the minimum 12-million shares on offer.

Liberty's minority shareholders hold the power to thwart the deal if more than 10% of those present at the general meeting on 28 October vote against it.

But Mr Gordon says he would be very disappointed if shareholders did not back his judgment on this issue. "Why should they block it when it is clearly in the interests of the company?" he asks.

DONNIE GORDON: 'This is a major step forward for SA'

Liberty Holdings with 56%, and certain other large blocks of shares, have already undertaken to support the proposal.

Raising the money offshore kills two birds with one stone.

It builds a war chest of funds to be invested in existing offshore operations, such as TransAtlantic and Sun Life, or it can be used to pick up any bargains that might be had during the recession.

It also means that TransAtlantic's debt can be brought down without the company having to apply for funds to be taken out of SA through exchange controls.

"We have always had to operate overseas with relatively high debt," says Mr Gordon.

"This is a major step forward for SA. It takes years to build up credibility and respect. This is a pathfinder move to see if we have gained acceptance among international investors. I hope it is a success."

Liberty Life, whose market capitalisation of about R8-billion makes it the largest financial institution listed on the JSE, will move closer to its objective to become a "significant international participant" in the financial services industry.

The issue should also improve the marketability of Liberty Life shares in SA and internationally, says Mr Gordon.

DISCOUNT

The deal provides for the issue of a minimum 12-million shares, but if there is strong demand, the number can rise to 18-million. A further two-million are available to cover over-allocations.

The price will be determined between October 28 and November 4 and will be at the lower US-dollar equivalent of either R37 or a discount of not more than 5% to the closing middle-market price on the day the price is arrived at.

Liberty Life shares traded at R39 on the JSE on Friday and Libhold's lost 100c to R96. If the full 20-million shares are issued, Libhold's stake in Liberty Life will be reduced to 51%.

Homing in on success

S/Times 13/10/91 (CM) (58)

The formation of the Realty 1 Property Group took property and banking circles by surprise. The outlook is rosy. Already agents are reaping benefits

IN A property context, the battle in the home loans industry, culminating in the 1986 amendments to the banks/building societies Act, led to a bond war. The ensuing alliances between estate agents and finance houses became a competitive strategy which demanded decisive counter attack.

In the midst of the tumult, the Perm, second-largest of the original building societies, proved the maverick. Initially, it refused to go public. Today, however, it is merged with Nedbank, is a division of Nedperm and, as such, part of the Nedcor Group.

From the capital base provided by Nedcor, it has made an impressive comeback in the industry. Happily, it has also retained much of its identity and its traditional emotional appeal to the man in the street, both in savings and in the furnishing of home loans.

Success

In November last year it caused another major stir when, with affiliate institutions, the Perm founded the Realty 1 Property Group, with a coalition of carefully selected market leaders in the real estate industry.

These comprise Durr, Elk's, Parson's, Pearson's and the A-Group and their respective franchisees. They reflect the Perm's intention to closely associate with a single market leader in each of the provinces of SA.

The input of the agents is vital to the success of the project. They are the engines which power Realty 1.

Strange as it may seem, experience within the industry has demonstrated that homeowners show little loyalty to their mortgage-bond holders. On repurchasing a home, as often as not, most buyers will leave it to the agent to organise and arrange the new bond.

Gian Sdoya, 38, who holds an MBA from Wits Graduate School of Business, is assistant general manager of the Perm's estate agency division, and MD of Realty 1. He largely initiated and implemented the project and expresses enthusiasm and satisfaction in "seeing a plan come together."

He described in a recent Realty 1 conference, held at the Wilderness, the relationship between the Perm and the agents as a marriage, "which like any marriage demands a two-way input and output to achieve a mutual advantage.

"We, the Perm, see this advantage in the increased bond business we expect to get by helping the property companies in the group expand and streamline their activities."

Benefits

For the agents there are many added-value benefits — both professional and personal. These range from a national Realty 1 corporate advertising campaign, nationally negotiated and favourable advertising rates, market research to create a national database, the creation of a single corporate identity and management support and advice.

Personal benefits include cost-free savings accounts, free Perm evaluations on agents' homes and the Perm to pay bond-free registration fees on an agent's home.

Sdoya says it is still too early to talk about profitability, "We have not even reached our first year-end." But he believes the progress made within Realty 1 Group has been impressive — and is being seen as such by the media, in one-to-one talks with agents as well as with agents under the Realty banner.

Arlene MacKenzie, MD of Realty 1 Durr Estates and director for the Cape region, says agents in the field are already reaping benefits from the move. Still to be felt is the impact of opportunities through the expanded referral network.

Storm Durr, Chairman of Durr Estates since 1971

Though the linked association between real estate and financial institutions follows a trend towards mega groupings, it doesn't rule out the role of independent agents, Sdoya declares.

"Success doesn't depend solely on size. Association with a large institution provides a larger capital base, sophisticated hi-tech networking, greater business clout. But, whatever its size, the fortunes of a company depend on sound management decisions and business expertise."

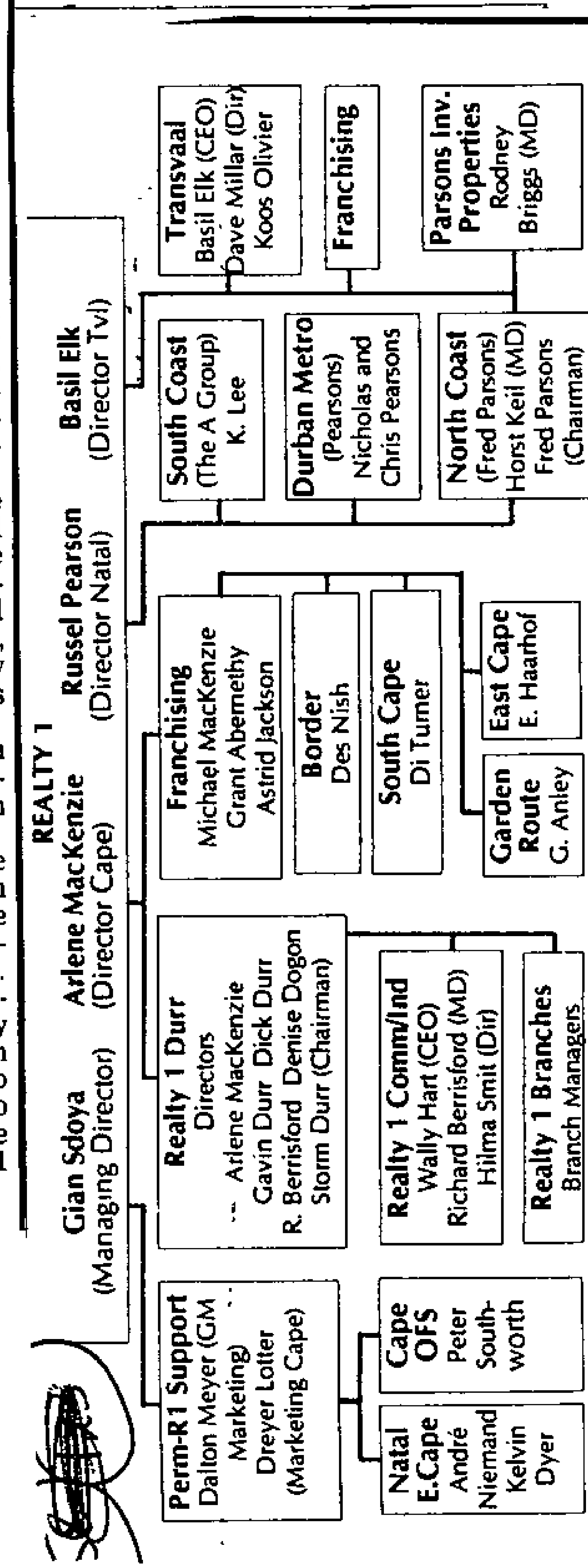
Nor does the fact that the Perm has equity in several reasonably large real estate groups means that it neglects the independent real estate agents. Sdoya says, "On the contrary, we very much need to do business with them."

He stresses the choice of a purchaser's financial institution must always remain personal.

"Obviously we encourage agents to support us with bond finance. That is the nature, the competitive environment, of our business.

"If a client has no particular preference, naturally we're happy to have him come to us. But there's no undue influence brought to bear on a purchaser by the agencies in the Realty 1 Group."

New lines of influence: The structure of the Realty 1 Property Group



THE BIG FIVE

THE spread of the business of the coalition estate agency companies making up the estate agency arm of Realty 1 covers the four provinces in South Africa.

Realty 1 Durr Estates, works in Cape town and the coastal regions up to East London.

Realty 1 Basil Elk in the Transvaal and Johannesburg has representation, too, in Natal and three franchises in the Orange Free State.

In Natal Pearson's Property Group covers the Durban Metropolitan area. A-Group is the market leader along the South Coast and Fred Parson's markets the Natal North Coast.

The total number of agencies and franchises in the Realty 1 Property Group is 110.

The Mission Statement highlights the group's high business ethics, professional skills and service excellence.

It reads, "The Realty Group comprises a team of skilled, service-orientated real estate professionals, who offer a spectrum of innovative specialist services to our clients to facilitate the efficient, ethical exchange and transfer of residential, commercial, industrial and agricultural property in Southern Africa for the benefit of all parties."

These principles demand a high level of professional integrity from the signatories. With such a lodestone, surely there *can* be no other way to go but up.

Homing in on success

S/Times 13/10/91 (CM) (58)

The formation of the Realty 1 Property Group took property and banking circles by surprise. The outlook is rosy. Already agents are reaping benefits

N A property context, the battle in the home loans ndustry, culminating in the 1986 amendments to he banks/building societies Act, led to a bond war. 'he ensuing alliances between estate agents and inance houses became a competitive strategy vhich demanded decisive counter attack.

In the midst of the tumult, the Perm, second-largest of he original building societies, proved the maverick. nitially, it refused to go public. Today, however, it is nerged with Nedbank, is a division of Nedperm and, as uch, part of the Nedcor Group.

From the capital base provided by Nedcor, it has made an npressive comeback in the industry Happily, it has also etained much of its identity and its traditional emotional ppeal to the man in the street, both in savings and in the urnishing of home loans.

Success

In November last year it caused another major stir when, vith affiliate institutions, the Perm founded the Realty 1 'roperty Group, with a coalition of carefully selected mar-.et leaders in the real estate industry.

These comprise Durr, Elk's, Parson's, Pearson's and the \-Group and their respective franchisees. They reflect the 'erm's intention to closely associate with a single market eader in each of the provinces of SA.

The input of the agents is vital to the success of the roject. They are the engines which power Realty 1.

Strange as it may seem, experience within the industry as demonstrated that ho-neowners show little loyal-y to their mortgage-bond olders On repurchasing a ome, as often as not, most uyers will leave it to the gent to organise and rrange the new bond.

Gian Sdoya, 38, who holds n MBA from Wits Graduate chool of Business, is assis-ant general manager of the 'erm's estate agency divi-ion, and MD of Realty 1. He argely initiated and imple-nented the project and ex-resses enthusiasm and sat-sfaction in "seeing a plan ome together"

He described in a recent Realty 1 conference, held at the Wilderness, the relationship between the Perm and the agents as a marriage, "which like any marriage demands a two-way input and output to achieve a mutual advantage.

"We, the Perm, see this advantage in the increased bond business we expect to get by helping the property companies in the group expand and streamline their activities."

Benefits

For the agents there are many added-value benefits — both professional and personal. These range from a national Realty 1 corporate advertising campaign, nationally negotiated and favourable advertising rates, market research to create a national database, the creation of a single corporate identity and management support and advice.

Personal benefits include cost-free savings accounts, free Perm evaluations on agents' homes and the Perm to pay bond-free registration fees on an agent's home.

Sdoya says it is still too early to talk about profitability, "We have not even reached our first year-end." But he believes the progress made within Realty 1 Group has been impressive — and is being seen as such by the media, in one-to-one talks with agents as well as with agents under the Realty banner.

Arlene MacKenzie, MD of Realty 1 Durr Estates and director for the Cape region, says agents in the field are already reaping benefits from the move. Still to be felt is the impact of opportunities through the expanded referral network.

Storm Durr, Chairman of Durr Estates since 1971

Though the linked association between real estate and financial institutions follows a trend towards mega groupings, it doesn't rule out the role of independent agents, Sdoya declares.

"Success doesn't depend solely on size. Association with a large institution provides a larger capital base, sophisticated hi-tech networking, greater business clout. But, whatever its size, the fortunes of a company depend on sound management decisions and business expertise."

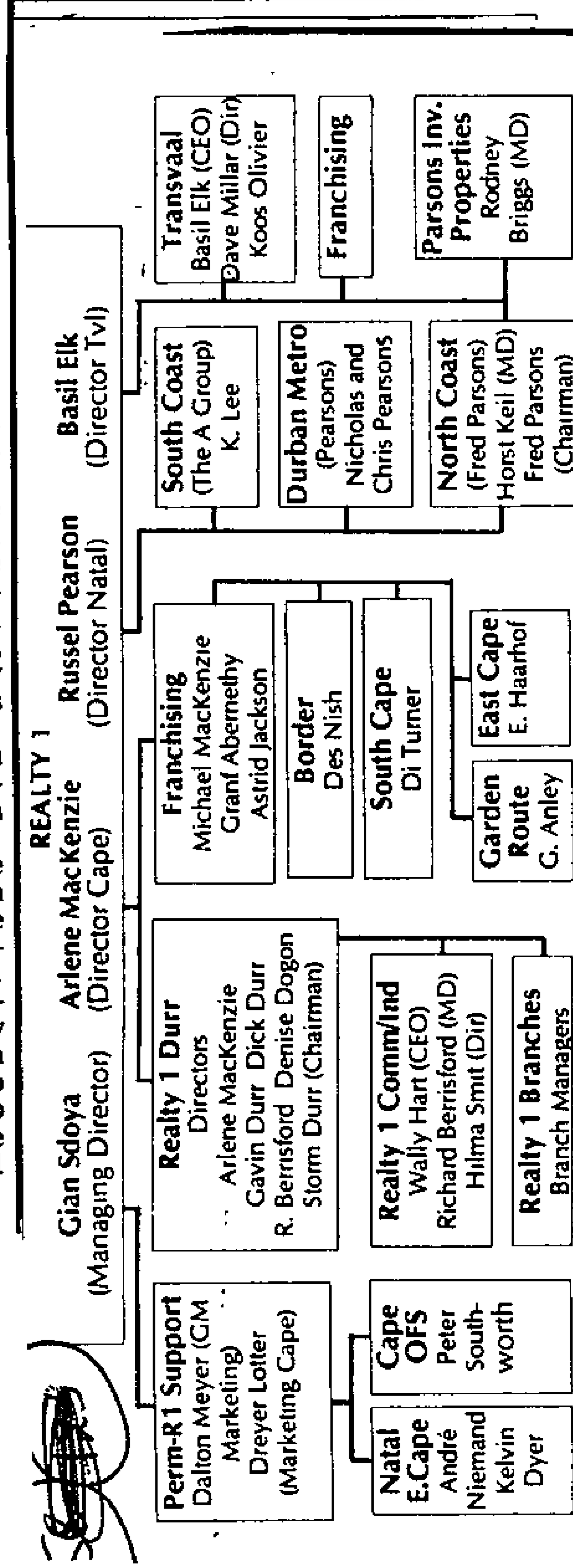
Nor does the fact that the Perm has equity in several reasonably large real estate groups means that it neglects the independent real estate agents. Sdoya says, "On the contrary, we very much need to do business with them."

He stresses the choice of a purchaser's financial institution must always remain personal.

"Obviously we encourage agents to support us with bond finance. That is the nature, the competitive environment, of our business.

"If a client has no particular preference, naturally we're happy to have him come to us. But there's no undue influence brought to bear on a purchaser by the agencies in the Realty 1 Group."

New lines of influence: The structure of the Realty 1 Property Group



THE BIG FIVE

THE spread of the business of the coalition estate agency companies making up the estate agency arm of Realty 1 covers the four provinces in South Africa.

Realty 1 Durr Estates, works in Cape town and the coastal regions up to East London.

Realty 1 Basil Elk in the Transvaal and Johannesburg has representation, too, in Natal and three franchises in the Orange Free State.

In Natal Pearson's Property Group covers the Durban Metropolitan area. A-Group is the market leader along the South Coast and Fred Parson's markets the Natal North Coast.

The total number of agencies and franchises in the Realty 1 Property Group is 110.

The Mission Statement highlights the group's high business ethics, professional skills and service excellence.

It reads, "The Realty Group comprises a team of skilled, service-orientated real estate professionals, who offer a spectrum of innovative specialist services to our clients to facilitate the efficient, ethical exchange and transfer of residential, commercial, industrial and agricultural property in Southern Africa for the benefit of all parties."

These principles demand a high level of professional integrity from the signatories. With such a lodestone, surely there *can* be no other way to go but up

ADVERTISING FEATURE

LOAN RANGERS

S/Times 13/10/91.

INTENSE competition raged in the home loans industry during the eighties. Dating from 1983 when an informal banking cartel was dissolved, banks became increasingly combative — and not only against one another. They also entered the traditional building society markets, granting mortgage bonds for residential properties.

At the same time, building societies began lobbying for deregulation, which, banks realised, would erode *their* traditional markets. With changes in legislation relating to banks and building societies in 1985 and 1986, banks accelerated their lending in the home loan market in a big way.

They held the competitive edge. Banks were free to take advantage of cheap funds in the money market at a time of high liquidity.

Building societies, however, were obliged to raise most of their funding long term which meant, at that time, at higher rates.

The war raged through 1987. By 1988 monetary policy was tightening, interest rates were rising and concern over capital adequacy was emerging.

The regulatory authorities were determined to bring banking into line with the international capital adequacy standards. These have now been imposed under the Deposit-Taking Institutions Act, introduced in February this year.

(58)

The ~~new~~ Act ~~brought~~ building societies within its ambit, so now all deposit-taking institutions are subject to the same capital constraints — and banks and building societies operate on a more equal footing.

The home loans market remains an important one, as the capital requirement against this type of loan is lower than the requirement against traditional banking loans. Further, it is a useful springboard from which to sell other financial products, like current accounts, savings accounts and other personal financial services.

Allied 'round-tripped' to buy finrands, court told

(58) ARG 15|10|91

The Argus Correspondent

JOHANNESBURG. — The Allied Bank took part in a "round-tripping" fraud by using its dollar account in New York to buy financial rands for a South African company, the Rand Supreme Court was told.

The financial institution is one of three accused in a R5,5million finrand fraud case.

Rainer Moringer, 48, an Austrian citizen and managing director of Ciskei Aircraft Industries (CAI), and Ulrich Leitich, 49, divisional manager of Allied's international Business Division, have pleaded not guilty to charges of fraud.

Yesterday, State advocate Mr J J du Toit, summing up the State's case, said Allied used a nostra account (dollar account) held with Standard Bank in New York to buy financial rands.

Accountant Danny Sabbagh, who examined Allied's books, told the court Allied had advanced 1,67 million US dollars to Holten Holdings, which it had acquired from Barclays Trust International. This money was used to buy R5,5 million in finrands.

The funds were retained in Allied's system in the Holten Holdings finrand account, except for R40 000 used to acquire Holten Holdings.

Ciskei Air Transport Investment Corporation, of which Mr Moringer was also managing director, and CAI settled the debt at the commercial rate, he said.

Mr Du Toit told Mr Justice R Zulman that the R5,5 million was raised, ostensibly as an investment by an Austrian company Agropojeckt, to buy equipment.

The value of the equipment was actually R1,1 million, and the difference was disguised by "under-invoicing".

Allied had contravened foreign exchange regulations by providing money for the finrands when it was not an off-shore company. According to Treasury regulations, only an off-shore company could buy finrands.

"There was no bona fide investment from Agropojeckt. Allied was the actual investor. It provided the money when it was not allowed to do so," Mr Du Toit said.

Even if Allied had been involved only through Mr Leitich, its negligence in not controlling what its officials did was enough to secure a conviction, Mr Du Toit said.

The trial continues.

Dominance in niche markets lifts Investec

BDay 15/10/91. (58)

ROBERT GENTLE

INVESTEC Bank boosted attributable earnings by 30% to R13m (R10m last half-year) for the half year ending September.

Earnings a share on a fully diluted basis rose 26% to 62,8c (49,9c), and on an undiluted basis by 30% to 65c (50c). The dividend a share rose 40% to 28c (20c), with dividend cover at a comfortable 2,3 (2,5) times.

"It was an excellent performance with each division achieving its budget," said Investec chairman Bas Kardol.

He attributed Investec's ability to flourish in the face of tough economic conditions to continued benefits derived from the group's philosophy of establishing dominance in niche markets.

Total assets rose to R2,97bn while assets under administration stood at over R7bn. Investec's capital adequacy ratio, at 7,5%, was well ahead of the current requirements of the Deposit Taking Institutions (DTI) Act and close to the 8% level that all banks have to reach by 1995. Investec's capital base would soon be further strengthened by the issue of compulsory convertible debentures which will take total capital plus reserves to R269m.

Investec shares, which have been on a giddy upward run from the R8 level of a year ago, closed yesterday at R21,00.

Investec Holdings, whose sole investment is a 75% stake in Investec Bank, reported earnings per share up 30% to 41,6c (31,9c) and a dividend per share up 40% to 14c (10c).

Employee needs will have to be recognised

EMPLOYERS will have to take greater account of the needs of different employee groups for pensions funds to reach their full potential, say employee benefits specialists.

Absa Consultants & Actuaries MD Ben Solomon says employers' paternalistic views on pension and provident funds are not acceptable to employees.

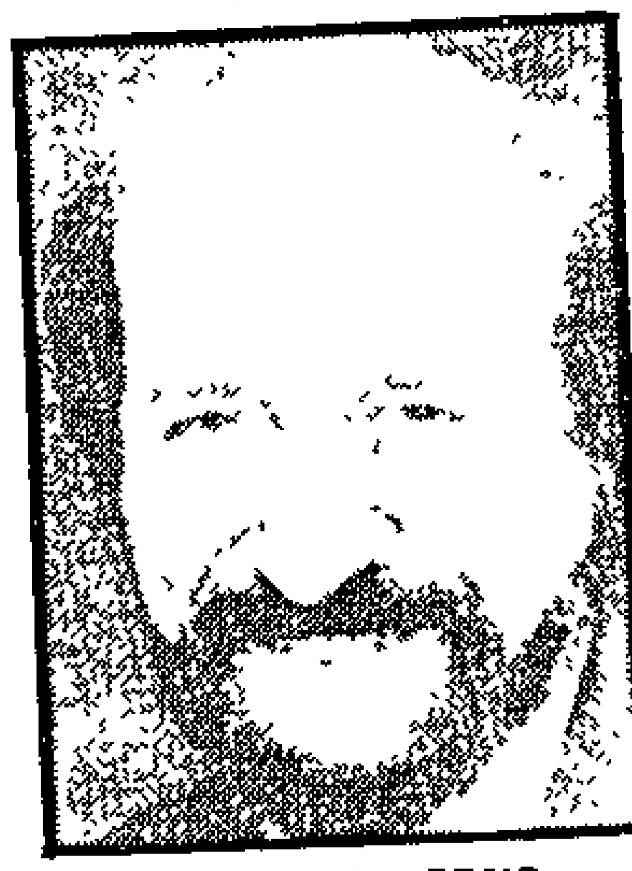
"Some employees want to have greater control of their own affairs , especially younger employees who could find the money purchase (fixed contribution) fund more acceptable."

While some complex issues are involved, the greatest would appear to be the lump sum available to the employee when he/she stops working, says Berns Block MD Arnold Berns.

Many employers fail to realise black retirees tend to go back to rural areas where postal and banking services are not available.

Contrary to belief, they do not squander lump sums on luxury goods but are traditionally settled and responsible.

Having been bred in poverty they have learnt the savings ethic and most have stable savings accounts and are not job hoppers like whites



ARNOLD BERNS

Berns says it makes sense for employers to channel their black employees' retirement money into a provident fund

Moreover, a provident fund should be tailored to meet the requirements of the black workers.

Berns says the objectives should be to·

☐ Make withdrawal benefits as large as possible;

☐ Achieve the maximum degree of flexibility — provision could even be made in certain circumstances for retirement before the age of 55;

☐ Foster a desire to stay on the job for as many years as possible,

☐ Structure the fund's investment portfolio in such as way that it would benefit the blacks of SA.

Business Day SURVEY

Legislation to simplify and codify the present Pensions Act is under consideration and will be tabled early next year. Draft proposals call for measures to prevent the misappropriation of contributions by intermediaries and the adoption of a set of rules applicable to all funds.

***LYNN CARLISLE** reports.*

Amendments to regulations can improve returns

(58)

B/Day 16/10/91

AMENDMENTS to the retirement industry's investment regulations should enable pension and provident fund administrators to improve returns for members and sponsors of funds.

Describing the new regulations as providing greater investment freedom, Life Officers Association pensions, legal and technical sub-committee chairman Chris Newell says funds now have greater exposure to growth assets.

Increase

Funds may increase their equity holdings from 65% to 75%, while exposure to property has been reduced from 30% to 25%.

Of further significance is that the changes allow funds more opportunity to build up growth asset exposures in an illiquid Johannesburg Stock Exchange.

This is made possible as funds may also invest up to 15% of their assets in equities with a market capitalisation in excess of R2bn.

It is noteworthy, however, that no mention has been made of regulating exposure in new generation investment instruments such as options and futures.

Old Mutual GM, employee benefits, Garth Griffin says the most significant aspect of the amendments is the greater measure on investment flexibility allowed.

"Although retirement funds can now invest in assets to match the nature of their liabilities more effectively, with this greater freedom of investment discretion comes the responsibility not to take hasty decisions."

Sage Life, employee benefits, executive director Colin Tomsett says pension fund trustees and managers have become more sensitive to the investment performance of their funds over the years.

"Our role as fund managers is to provide superior investment performance over the longer term and to aim at making investments grow faster than inflation."

COLIN TOMSETT

According to an independent survey published by First Bowring, all 11 funds sampled produced inflation-beating return over the 10 years to March 31, 1991.

The lowest return was 18,7% while the highest — Sage Managed Fund — was 22,2%, with inflation at 13,01%.

Diploma courses to upgrade standards

B/Day 16/10/91 (58)

MINDFUL of the need to improve pension fund administration, the restructured and re-named Institute of Retirement Funds of Southern Africa (IRF) is to introduce courses which will lead to a diploma in pension fund management and administration.

Formerly the Pensions Institute of SA, the IRF is the only body of its kind representing the retirement provision movement in SA, says IRF executive director Ben Burger.

Supported by the Insurance Institute of SA, the curriculum will comprise 10 courses.

Promote

He says the principal objective of the institute is to promote common interests of pension, provident, retirement annuity and similar funds and of persons associated with these in southern Africa.

"We also act as spokesman for the industry.

The IRF has established a council in which there is representation of all the disciplines and organisations which have an interest in retirement benefits provision.

Committees

"We have established committees consisting of our councillors and of representatives of constituent organisations."

The latter include:

- The Life Officers' Association of SA;
- The Actuarial Society of SA;
- The SA Insurance Brokers' Association; and
- The Institute of Pension Consultants and Administrators.

—Pension fund industry

Revised Act will improve control of retirement funds

B/Day 16/10/91. (58)

PENSION fund members stand to benefit from improved administrative and management control of retirement funds after the submission of a fifth draft Bill for a revised Pensions Fund Act in 1992.

These proposals stem from the combined findings of the Mouton commission and the new Pensions Advisory Committee, while more could flow from individual fund administrators and trustees.

Financial Services Board (FSB) director Piet Badenhorst says legislation to simplify and codify the Pensions Act is under consideration and will be tabled early next year.

Among other issues, draft proposals call for measures to prevent the misappropriation of contributions by intermediaries and the adoption of a set of rules applicable to all funds.

He says one also needs to distinguish between retirement annuity (RA) funds and other funds in order to prescribe a more effective way for the remittance of members' and employees' contributions.

CHRIS NEWALL

The proposal also brings transfer values within a seven-day period for payment from one fund to another and makes provision for reporting non-compliance by the principal officer of the fund.

From an industry perspective, Life Officers' Association pension and legal sub-committee chairman Chris Newell says some of the key features of the fifth draft include the need to:

□ Clearly define the role of a professional fund administrator;

□ Prescribe what rules pension and provident funds must follow.

"As there are concerns about controls following instances where money from funds has been misappropriated, the Registrar of Pensions has seen a need for all fund administrators to be approved by the Financial Services Board," says Newell.

FSB deputy executive officer André Swanepoel says provision has been made for the registration of two types of fund administrators — benefit administrators and investment administrators.

"It will be an offence to carry on the business of an administrator if not so registered."

Swanepoel says some other objectives of the proposed 1992 amendments include the need to remove the distinction between various categories of funds and establish only one kind of fund.

It is also necessary to limit to three the possible exemptions from the Act that may be given to funds.

In determining the value of members' benefit for transfer to another pension fund, or the liquidation of a fund, it is important reasonable benefit expectations be taken into account.

"These amendments endeavour to protect the vested benefits of members in cases of amendments to rules, amalgamations, acquisitions and the dissolution of funds — either voluntary or through court action.

"More and more case of asset stripping of funds by employers occur and the present Act does not provide adequate protection to the vested rights of members," says Swanepoel.

'SOCIALLY USEFUL' SCHEMES WILL NOT FIND VOLUNTEERS

CALLS for retirement funds to be channeled into "socially useful investments" would find little voluntary favour from life assurers and fund trustees.

This response follows an appeal by ANC secretary general Cyril Ramaphosa at a recent Alexander Forbes seminar for assets held in retirement funds to be mobilised for the advantage of members of those funds.

It would place the emphasis away from maximising returns to maximising job opportunities, housing development and promoting education, says Alexander Forbes Negotiated Benefit Consultants joint-MD Peter McCulloch.

"No assurer wants to be the first to introduce an element of socially useful investment into the high profile portfolios, the returns on which are highly publicised."

Lower

Social investments are likely to generate lower-than-average rewards and it thus seems unlikely that, without legislative impetus, the views would be taken up by investment managers.

Apart from Ramaphosa, Finance Minister Barend du Plessis has also suggested pension funds consider job creation investments via the Small Business Development Corporation, the Development Bank of Southern Africa and the Independent Development Trust.

Fedlife Industrial Pensions GM Dick Otto says pension fund trustees are wary of advancing money where — due to growing lawlessness, bond boycotts and unrest — they may have to repossess many houses.

However, McCulloch says before legislation is passed to compel assurers and other investment managers to invest in socially desirable areas, a trend may emerge from one part of the pension industry.

Standards

"Those few pension/provident funds with employee trustees on their boards could set the standards for future investment policy.

"In particular, provident funds implemented by negotiation between unions and management could find themselves leaders and innovators in investment management.

He says the emergence of these funds has already had an impact on the way employers view their employee benefit arrangements.

"Similarly, we will begin to see a shift from investing purely to maximise returns.

"Instead, investment managers will be told to place some funds in areas which will benefit society at large by improving living standards for the majority."

While overall investments may fall, McCullugh says members of those funds could be happy to contribute in this way to the wellbeing of the community.

Need to nominate beneficiaries

IN VIEW of a recent change to the Pension Funds Act, fund members should update their beneficiary nominations for the day death benefits are paid out from their schemes.

The need to nominate a beneficiary applies to all pension, provident and retirement annuity (RA) funds.

Berns Block employee benefits manager Steve Mangold says this is important where a pension fund member has no dependents.

Failure to update could result in pension benefits becoming payable to an estate, with benefits likely to be lower than those payable to dependents or nominated beneficiaries.

"It is important to nominate dependents as beneficiaries in specified proportions, if the appointed fund manager is not allowed to decide on the split of the benefits.

"If you have dependents, but elect a nominee as a beneficiary, your dependents will share in the benefits regardless of your nomination," he says.

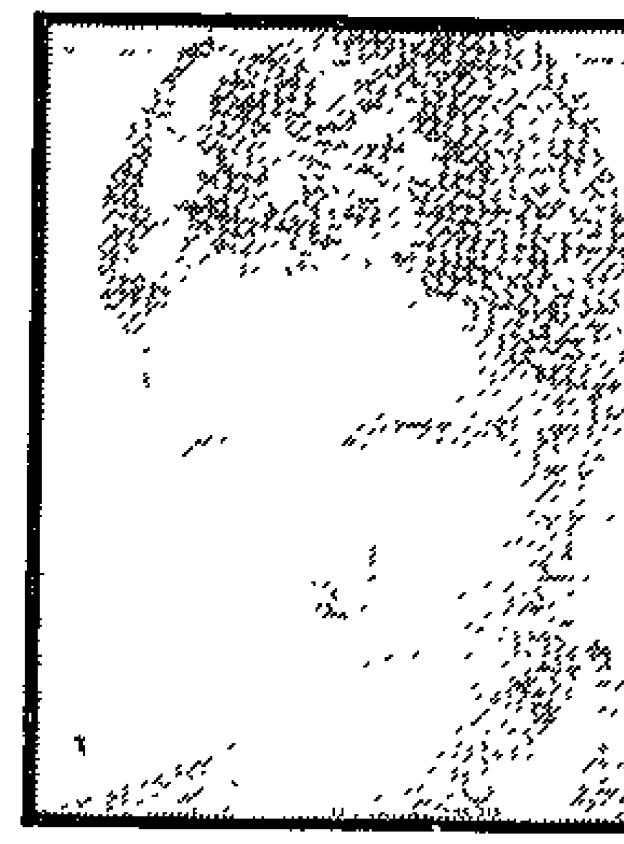
Financial Services Board deputy executive officer André Swanepoel says a proposed 1992 amendment is that the benefit due to a nominee may also be paid to a trustee on the nominee's behalf.

Mangold says while a fund member is free to nominate anyone as a beneficiary, his/her dependents take priority.

A dependent is defined as:

- A person whom the member is legally liable to maintain;
- The spouse of a member and a person whom the member is not legally liable to maintain, but who is dependent on him/her for support;
- Anyone the member would have been liable to support had he/she not died.

Thus, dependents include an ex-wife receiving maintenance and their children, as well as children borne out of wedlock for whom the member has paid maintenance, and an unborn child.


STEVE MANGOLD

Mangold says where a member has dependents, but has designated a nominee to receive death benefits from his fund, they will automatically be distributed to both the dependents and the nominee.

Spread of AIDS will impact on costs and payouts

B/Day 16/10/91

AIDS is spreading rapidly and will impact on pension/provident funds and assurance policies as the disease changes mortality estimates.

Set to threaten the contractual savings of everyone, payouts by pension funds may be reduced and life assurance become more costly.

The problem could apply equally to existing fund members and policy holders, whose fund contributions and premiums stand to be increased, as well as to people taking out new cover.

Old Mutual assistant GM, employee benefits, Chris Newell says the effects of widespread AIDS on pensions could bring about a reduced cost in the retirement benefits offered by the fund.

"On the other hand, the cost of death cover would go up, while there may have to be some restructuring of these benefits."

Newell, who chairs the pensions and legal subcommittees of the Life Officers' Association and Institute of Retirement Funds, says it may be better to convert a lump-sum benefit into a widow's benefit.

"This meets the needs of the widows and could give a lower cost."

The widow of a man who dies of AIDS may have a shorter life expectancy as she may have contracted the HIV virus from him.

Impacts

Meanwhile, current models indicate that 10 years from now one in four adults could be an AIDS carrier.

Fedlife Industrial Pensions (FIP) actuary Vivian Cohen says if AIDS impacts as heavily as suggested, many now in the sexually most active 20 to 40 age group may not enter their pension years.

"Pension fund managers may face cost escalations and some anti-selection as those who realise they are infected enter an industry to get the protection of their group benefit schemes."

First Bowring Consulting & Actuarial Services alternate director Deneys Mann says many employers require a negative HIV test as a pre-condition to entering their employ.

"Pension and provident funds may follow suit."

Southern Life, employee benefits, senior manager Don Brown says the increasing incidence of AIDS-related claims in future would require careful determination of premiums.

"On current projections for AIDS sickness and deaths, the average cost of death benefits to a company providing these would have risen four-fold by the year 2000."

The cost of disability claims is also be expected to quadruple by then, says Brown.

"This increased cost of death benefits will mean companies must reallocate funds from retirement benefits, resulting in smaller pensions — unless employers pay more into pension funds."

Risk needs to be weighed up

B/Day 16/10/91 58

PENSION fund trustees should place emphasis on the risk profile of their investment managers in view of the JSE's increased volatility.

Such trustees, says Liberty Life, investment marketing, senior manager Chris van der Post, can no longer afford to look at nominal returns only.

He says the aftermath of the crash in world equity markets in October 1987 led to a greater awareness of risk.

"But, with memories of the crash starting to recede, trustees are starting to overlook the risk inherent in a portfolio when they decide who should manage the assets of their fund."

Van der Post says it is not always possible for members of a pension fund to choose exactly when to enter or leave a portfolio.

No one can predict when a portfolio is going to hit a high or plunge to a low.

Historically, Liberty Life's equity investment has been towards more stable, quality industrial counters as opposed to more volatile mining shares.

In addition, it claims a greater exposure to superior property investments which are stable.

He says it is an axiom of investment that high return is normally associated with high risk.

"The trick is to obtain the highest possible return at an acceptable level of risk.

The most commonly used measure of risk is "standard deviation."

This concept measures the extent to which the returns fluctuate around their mean or average — in other words, it measures the volatility of investment performance.

Masterbond: protecting R420m stake a priority

B/Day 16/10/91. (58)

LINDA ENSOR

CAPE TOWN — The major issue facing the government task force investigating the collapse of the Masterbond companies was how to safeguard the investments made in R420m short-term debenture bonds, Masterbond director Johann Brits said yesterday.

"I expect that this will occupy most of their time, especially the more complicated properties," Brits added.

Members of the government-appointed committee under the chairmanship of Finance Minister Barend du Plessis' special adviser Japie Jacobs met the liquidators yesterday.

The committee is attempting to find ways to prevent the final liquidation of the six provisionally wound-up Masterbond companies at the end of the month.

Brits said only two of the short-term debenture bond properties had been affected by the liquidations. There were, however, quite a few bonds, valued at about R150m, which were not development bonds and which were solid interest-paying properties. In this case the need was merely to replace the financing arrangements.

Strategy

Properties incorporated into the short-term debenture bond scheme included Mykonos, Fancourt, Marina Martinique and Penda. Brits said the R50m Penda bond was not affected at all as it had been underwritten by a large bank and an insurance company.

He said no new liquidations were contemplated until the committee had decided upon its strategy. However, there were service companies in the group with no independent sources of income which would in all likelihood be wound up, Brits added.

He regarded Monday's application for the winding up of Masterbond Investment Trust Holdings (MITH) — the holding company in the Masterbond group — as "vexatious" saying there were no grounds for bringing it as the company was solvent. The application is being opposed and Brits believed the matter would be resolved before the return date on October 30.

The application was brought by a MITH non-executive director, Ross van Reenen on the grounds that the company no longer had any source of income.

Brits said yesterday the MITH board had rejected an offer to purchase MITH's 40% stake in Health and Racquet Club for R1,2m as it was not regarded as good enough.

Absa takes stock, rationalises R1,4-bn portfo

58

Reports by
Alison Goldberg

Amalgamated Banks of SA (Absa) has embarked upon a rigorous stocktaking programme to rationalise its R1,4 billion property portfolio.

The results of the exercise will be known in March 1992, though much has taken place already since the merger of Volkskas with the United and Allied building societies early this year.

Absa Properties general manager Hannes van der Merwe said, in his first interview since the merger, that he was about to sell two office buildings and was in the process of acquiring another.

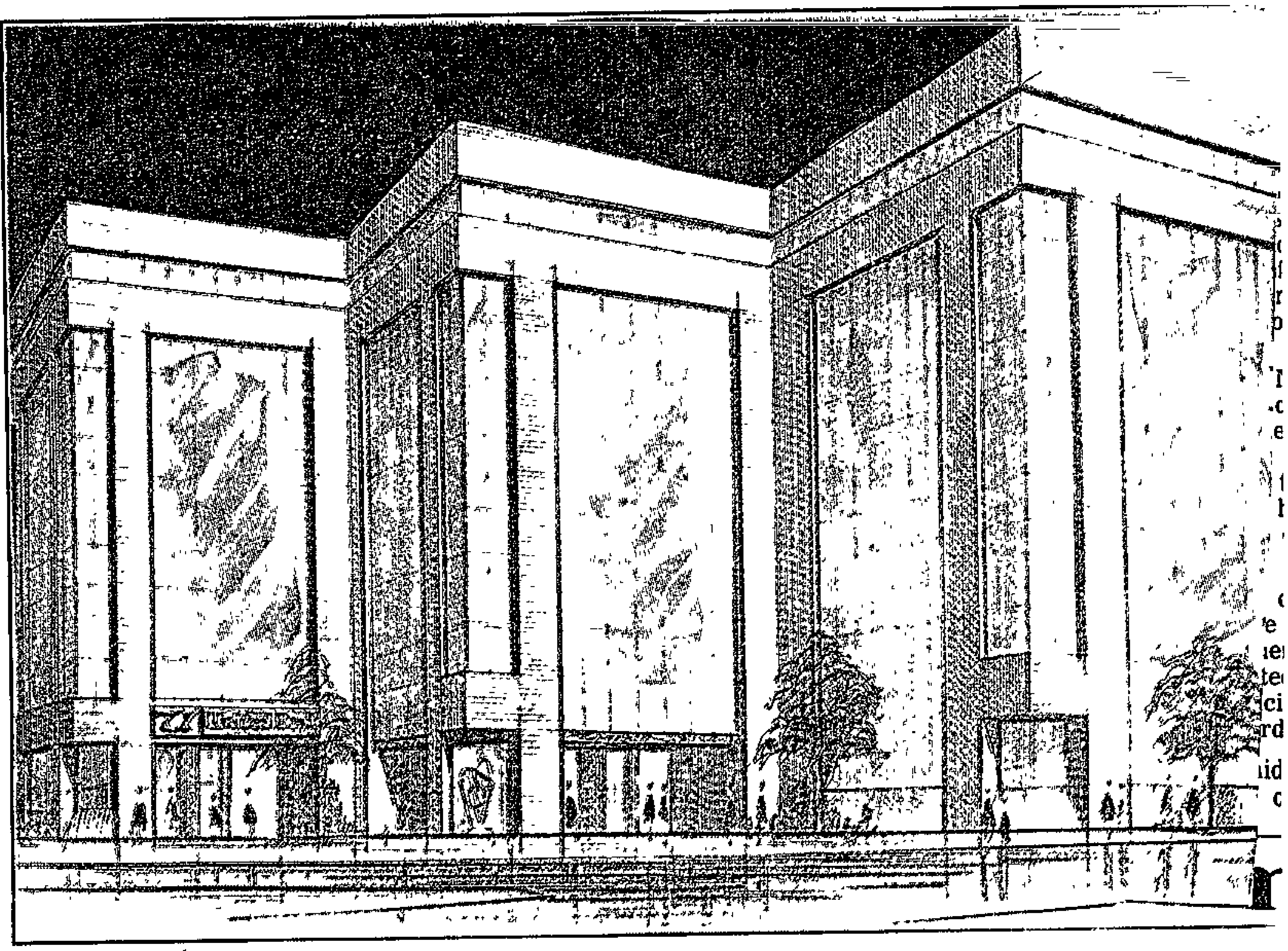
Mr van der Merwe said the rationalisation of the portfolio had called for the adoption of a common policy and goal relating to Absa's 431 buildings. For the most part, the portfolio comprises office buildings (they account for 90 percent of the R1,4 billion), with the balance made up by retail and industrial property.

So far, management has singled out one criterion which must be met by these properties, that of profit generation — regardless of the fact that 70 percent are owner-occupied.

The second area of scrutiny is duplication, a matter which will be more easy to assess once stocktaking is complete.

The former United property deputy general manager says a third priority for the combined property divisions is to agree on a total strategy for each building, a task being facilitated by the creation of 11 regional centres around the country. Staff to manage these centres have been drawn from Absa.

At Absa Properties'shead office, eight divisions have recently been established to manage different functions. Notable among these are leasing, headed up by Rassie Erasmus; portfolio investment management under Ron Jackson, a former United man; a property trust section administered by Mike Rice — Absa controls 16 of the 17 listed property trusts on the JSE; new developments to be handled by Andre du Plessis, and building management and planning under Flip Welthagen.



Towers East — showing skylinks (right) linking up with United Towers.

Star 16/10/91

Staff at Absa Properties currently numbers 81 and the merger has called for a flexible approach by the new man at the helm to the question of property ownership. Traditionally he says the banks followed different patterns relating to the issue. Where United preferred owner-occupation, Allied found renting more convenient — while Volkskas did a bit of both.

Mrvan der Merwe says that while renting makes sense in areas that are not feasible for investment, owner-occupation is still the most economical option for the group.

In addition to its current sales and purchases, Absa Properties has three office blocks in various stages of development, all intended for owner-occupation

The first of these is a R75 million office block to be called Towers East on a block bound by Main and Polly streets in Johannesburg to house Absa's headquarters, and possibly its property division in the future The latter has only now moved into 41 Kruis Street.

Stocks and Stocks Building has begun work on Towers East's three-and-half basement parking levels, and should complete the seven-floor building by March 1993. Skywalks will link it to United Towers across Polly Street, concentrating the banking group's control into a city area similar in scope to that of FNB's Bank City.

The second new development is a R23 million office tower in Roggebaai, Cape Town's foreshore. The complex is situated opposite the power station site on Long Street and will be ready in October 1992.

Mr van der Merwe says he is also currently buying land on Goldman Street in Florida to erect a R25 million office building to house Absa staff in the area.

The amount of space available to other retailers in the Florida development, Mr van der Merwe says, will be determined by that taken by Absa's own retail banking requirements.

The last item on Absa Properties's list of major developments is a R9 million extension to its United office building on Main Street, Port Elizabeth. This will be finished next month.

On the investment side, Absa services two insurance companies (Allied and United) and three pension funds (Volkskas, Allied and United) now attached to it, by taking equity in property. Absa will consider syndications with approved partners.

Call to zero rate housing

Sowetan 17/10/91

58

VARIOUS political groups, trade unions and business organisations have made the suggestion that property purchases should be zero-rated for VAT and payment of bonds should receive tax relief. Sowetan 17/10/91

By JOSHUA RABOROKO

Camdon's Group managing director, Mr Scott McRae, put forward the suggestion on the basis that housing was an essential commodity which should not be taxed and pointed out that the homeowner is "reeling" under the onslaught of increased bond interest rates, double-digit inflation, high taxation, and the imposition of VAT.

Massive industrial and protest actions are looming countrywide following altercations between the Government, trade unions and political organisations regarding VAT.

The groups have requested the Government to zero rate various items, including basic foods, water, electricity, medicines and medical supplies.

They have also demanded negotiating satisfactory poverty relief programmes; provisions for small business not be prejudiced by VAT; end to unilateral economic decision-making by the Government and big business; establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

McRae said the decision by the institutions to increase mortgage rates again was dismaying. Bank profits were excellent right now and the hard-pressed homeowner would find it extremely difficult to reconcile that fact with the need to increase his bond payments yet again.

He said: "Abolishing VAT for property purchases would provide a hefty 'kick start' for the economy by boosting the property market and the construction industry with its massive employment potential, and creating demand for a multitude of service industries.

"The VAT concessions announced by Minister of Finance Barend du Plessis last month would provide temporary relief for the homebuyer.

"However, thereafter VAT would be charged at the full rate of the new 10 percent level announced by the Government.

"Originally VAT was set to 12 percent. The reduction to 10 percent is therefore a concession in itself. But the case for eliminating VAT completely is very strong.

"An economist will almost certainly tell you that any revenues lost to Government by way of VAT will be more than made up by the stimulus to economic activity that will follow.

"While the Government slice of each individual piece of VAT cake will be smaller, the cake itself will be larger. Just as importantly, the move would stimulate employment and possibly even help defuse unrest."

He noted that in granting the VAT concessions, the Government recognised the importance of providing housing and of assisting contractors and homeowners.

He said: "This may signal a change of attitude in the Government where, in the past, there has been at best, indifference to the worsening plight of the homeowner. But I would now call on the Government to take the concessions to their logical conclusions and make them general and permanent."

LIBERTY LIFE

FM 18/10/91 (58)

Gordon goes for the big time in London

What more has Donald Gordon up his sleeve in the remaining 10½ weeks of 1991 for Liberty Life and its UK subsidiary, TransAtlantic Holdings (TAH)? TAH's deal with Union des Assurances des Paris (UAP), which brought Sun Life firmly under joint control, looked a climactic conclusion to the year after the spate of activity — from Richemont's departure to the rights issues by TAH subsidiary Capital & Counties and First International Trust (FIT).

But the pioneering Euro-equity issue by Liberty Life caps the lot for boldness, not least by its London underwriters, S G Warburg (which has done the lion's share), Paribas, UBS Phillips & Drew and N M Rothschild. Undeterred by three conspicuous failures to launch SA equity funds in London, Liberty is to issue 12m shares at the lower of US$11,78 (R37) or a 5% discount to the average market price between October 28-November 4 — as presaged in the *FM* (Cover story September 27).

That portion has been fully underwritten. Barring accidents, Gordon has $141m in the bag to add to TAH's cash of about £150m ($257m). More important, as the *FM* went to press, Mark Katzenellenbogen of Warburg Securities revealed: "We have found demand for the shares. Most of the underwritten portion has been placed."

The 48-hour feat of selling an SA share — even one with Liberty's record — on a 2,5% yield, when UK life assurers languish on yields of close to 6% in a buoyant market, is a tribute to the Warburg sales force, headed by Oliver Baring. And the roadshow had not started. It will take Gordon and his team from London to Edinburgh and Glasgow, Zurich, Geneva and Paris to talk to institutions to see whether demand will stretch to an additional 8m shares.

If it does, the new issue will total $236m and increase Liberty's share capital by 9,3%.

Gordon's ultimate aim is the recognition which will enable him to use Liberty paper for European acquisitions and hard currency earnings. TAH, while quoted in Luxembourg, is unlisted in London because of its pyramid status. Meanwhile, the cash, funnelled through TAH, will come in useful in a market littered with opportunities, especially in the ruins of the UK property sector — where some desperate landlords are offering office space rent-free for one to two years.

And, of course, Sun Life is now a considerable platform from which to pick up offerings in the whole financial services area. *Financial Times* columnist Lex notes that several UK mutual assurers could use "a helping hand."

In selling Liberty Life, Warburg has played heavily on the record and gone trawling for hidden treasures. A dollar investment via the financial rand (then US75c) in 1981, would have outperformed an inflation-adjusted stake bought in rands. The total return (capital gain and dividends) to an SA investor of 36% compound over the past decade, compares with almost 24% to a dollar buyer.

Liberty's Gordon ... *more up his sleeve?*

But in relative terms, while the SA investment has beaten the consumer price index average annual rise of 14,7% by a factor of 2,5 times, a dollar investor has enjoyed five times the US CPI average increase of 4,5%.

In terms of hidden value, Warburg has emphasised Liberty's conservative "cash accounting" culture. New business costs go straight through to the profit and loss account. By comparison, 90% of new business strain in UK with-profit insurance is borne by policyholders. "We estimate that new business strain reduced the net taxed surplus in 1990 of R218,1m by approximately R120m (excluding the impact of any release of strain on prior years' sales)," it says.

The bottom line is also struck after financing general growth.

Liberty does not equity account strategic stakes in Stanbic, Premier and SA Breweries, while capital appreciation goes straight into reserves. Nor is there any accounting for the premium these holdings would attract under "Texas auction" arrangements with JCI and Anglo American.

Overall, the suggestion is that Liberty's true p:e ratio at R37 is not 37 but something under 15. As to net worth, Warburg estimates that about half the R2,6bn total reserves in the life fund is attributable to shareholders and sees "substantial embedded value in the existing book of business" — though no attempt is made to quantify this.

Warburg, which considers the issue "a big feather in our caps" and is confident it will be followed by other SA equity offerings, believes the share will be a more liquid market in London than in Johannesburg, where even in an active period a £1m buying order could take a fortnight or more to execute. But Gordon's objective of "alpha stock" status must remain a long-term target.

London no longer uses the terminology of alpha, beta, gamma to denote shares by capitalisation or liquidity. But the constituents of the *FT*-SE 100 index are broadly the old alpha list. With market capitalisation of £1,5bn, Liberty would feel at home there. However, it remains to be seen whether it can qualify on liquidity: the top 100 shares' "normal market size" for market-makers ranges from 5 000-200 000.

At most, 20m Liberty shares will be held offshore. The promoters' wish for a liquid market may conflict with their hope that the stock will find firm holders and not drift back to Johannesburg — as happened with the Barlow Rand shares placed in connection with the Bibby takeover in 1984. *John Cavill*

KANHYM

Adding value

FM 18/10/91

For most of Kanhym's history, earnings closely followed the red meat price cycle. Last time this collapsed, 1983-1985, Kanhym made losses. But since executive chairman Dirk Jacobs took over in 1987 it has become more resilient. Meat prices were on average 3% up on the year yet EPS rose by 10%. Moreover, excluding discontinued mining operations, earnings from remaining businesses rose by 19%.

Improved performance can be attributed to a swing towards branded products. Kanhym has been scaling down feedlot throughputs and building up Enterprise processed meat. It bought Hanni Leathers at the beginning of last year, the Mielie-Kip chicken business and Herti deli meats. At year-end it acquired a tannery in Bophuthatswana.

Added value accounted for just 7% of operating income five years ago — it's now 61%. In that time Enterprise's share of the

MEATY RESULTS

Year to Aug 31	1990	1991
Turnover (Rm)	979	987
Operating income (Rm)	41	44
Attributable (Rm)	30	33
Earnings (c)	50,6	60,1
Dividends (c)	20,0	20,0

continue →

FM 18\10\91 (58)

AA LIFE BUILDING

End in sight

The AA Life building, one of the largest assets of the liquidated short-term business of the AA Mutual Association, finally looks set to be sold — five years after liquidators took over management of the property.

One of the liquidators, Syfrets regional GM David Rennie, says sealed bids have been invited both locally and from abroad for the purchase of the 23 000 m² building in Johannesburg. Closing date is November 20 but the liquidators could opt to negotiate a deal if no realistic bids are received.

Sale of the property has been held up. Nearly two years ago it was conservatively valued at R40m-R60m (*Property* January 26 1990) but then came an ownership dispute between the liquidators and the AA Mutual company, settled in favour of the liquidators in November last year. "Since then we've been doing some reorganisation and exercising certain options in order to make it more saleable," Rennie says.

According to the schedule of tenants the building, in a prime location at 27 Diagonal Street, next to the JSE, is almost fully let (just over 2 000 m² is vacant). It has basement parking for 460 cars and brings in a monthly rental of nearly R500 000. Operating costs run at just over R100 000 a month.

Most tenants are on five-year leases with 15% escalations. They include Deales Restaurant on the ground floor, stockbrokers, a bank, other financial services companies and the AA Life insurance company — the largest tenant, occupying nearly 5 700 m².

Of the liquidators' decision to invite tenders from abroad — through advertisements in US, British, and Far Eastern financial publications — Rennie says: "Several inquiries were received from abroad while the ownership issue was being resolved, and we've decided to offer them an opportunity to bid for the property. To date the liquidators have handed out about 100 tender forms and brochures on the building."

Market slump

The liquidators could get a good price because of the standard and location of the building together with the high level of occupation.

Against them is a slump in the property market at home and abroad which might just encourage institutional buyers — the most likely bidders — to sit on the fence or at best offer a low price.

Rennie concedes it may not be the best time to sell the property but the liquidators can't simply hold on and wait for the market to improve. "It is very seldom that buildings like this come on to the market so it really is an opportunity to buy," he argues. ■

(58) FM 18/10/91

Into the deep blue sea

Responsibility is being evaded even as the effects ripple out

The collapse of Masterbond Trust (MBT) has shaken the investment community and will take months to unravel. Heated debate has arisen over what happened — and why. Are the directors personally liable? And what of the role of professionals such as attorneys and others involved on the selling side of the whole business?

The ramifications of the debacle are spreading.

MBT was formed in 1984 as a participation bond company — but it had a clear intention of casting its net far wider than that. A rapid decline in investor confidence stopped the flow of funds essential to the group's momentum and it came down like a house of cards. Now those involved in the management of the interlocking schemes are looking for a scapegoat.

MBT chairman Koos Jonker blames the Deposit-Taking Institutions (DTI) Act, which outlaws (with obvious reason) the very core of Masterbond Trust's business — short-term debentures. But there are also other reasons for the disaster.

The failed merger with Pretoria Bank (*Economy* July 5) and an outcry at attempts to increase levies for unit-owners at the group's Club Mykonos resort, near Langebaan, undermined investor confidence. Inept management and serious miscalculation of the leisure property market appears to have played a significant role in this.

The result has been the provisional liquidation of six MBT companies — five involved in the development of Mykonos. Applications for the liquidation of Marina Martinique at Jeffreys Bay, for which MBT provides development finance, and for the group's holding company, Masterbond Trust Investment Holdings, have been postponed until later this month.

MBT's partbond operation — in terms of the Participation Bond Act — appears to be unaffected and is being administered for the moment by the Board of Executors.

At risk are about 12 000 investors who pumped R420m into short-term debentures — more than 56% of the R740m under MBT's administration.

Government has appointed a committee of experts under Finance Minister Barend du Plessis' special adviser Japie Jacobs to assist the liquidators. While the committee's main aim is to protect the interests of investors, Jacobs will hold talks with the provisional liquidators of the six affected companies next Tuesday. Jacobs stresses that a bale-out is not intended and there is no intention to pump State funds into MBT.

The group went under mainly because it could no longer attract sufficient funds to facilitate the issue of short-term debentures by property-owning companies needing development capital. The debentures were issued for 6-60 months with interest paid monthly. Bonds were registered in favour of MBT subsidiary Masterbond Participation Bond Trust Managers, which also acted as trustee for short-term debenture holders and managed the schemes.

Among the main borrowers were companies controlled by MBT directors or in which they had a substantial share. At least R175m went into Mykonos and Marina Martinique, according to court documents, but the figure could be far higher.

The group dominated the short-term debenture market, offering good interest rates, advertising aggressively and selling services through IPC brokers, a nationwide network of 30 independent financial services brokers closely linked to MBT.

But it was always controversial. Short-term debentures operated in a "grey" area under the Companies Act; and the leisure property market where its main borrowers were active was high-risk indeed.

About five years ago, MBT was investigated by the office of the then Registrar of Financial Institutions and a report was forwarded to the Cape Attorney-General who was apparently asked to assess the legality of some of its practices. No action was taken, though Jonker says the issues referred to the Attorney-General were "technicalities" and the group complied with suggested changes.

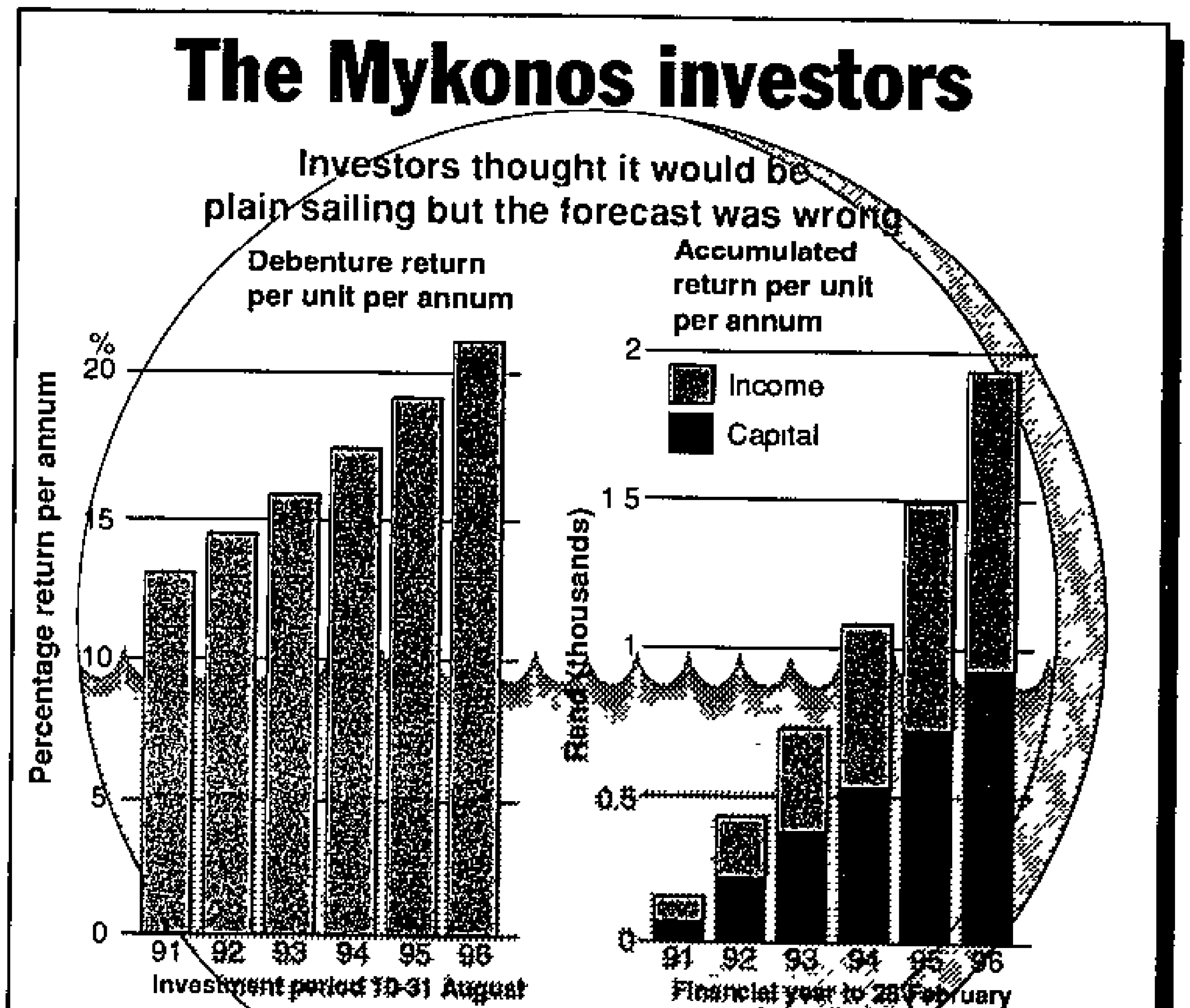
In general, there are two views of MBT:

☐ That it was an innovative company that exploited a market gap for short-term debentures, but ran foul of a bad press because of inept public relations, bureaucrats determined to either regulate the company or close it down and an unexpectedly long recession; or

☐ That Masterbond Trust is a morally questionable operation run by incompetent managers who nevertheless attracted huge investments and used them to finance high-risk developments by subsidiary companies. They did not adequately explain the risks to investors who were often unsophisticated.

Naturally, Jonker holds the first view. He and group MD Johann Brits took the partbond industry by storm seven years ago and considered themselves market leaders (see *People*). But then, three years ago, they were warned of pending deposit-taking legislation and advised to merge with a bank. Jonker says that, at about that time, DTI Registrar Hennie van Greuning investigated MBT's debenture operation and had no objection to it — but then the DTI Act removed the platform on which the group did business.

In July, Jacobs, as deputy chairman of the Financial Services Board (FSB), told Jonker the board believed it was risky for banks to be too exposed in the property development market. Jonker says the board also refused to sanction the rationalisation of the balance sheets of Pretoria Bank, Spectravest and Finanzhaus — two MBT subsidiaries that financed the sale of leisure products, mainly timeshare, at Club Mykonos and Park Avenue Hotel in Cape Town.



Restating a ruling

Jacobs told Jonker that the FSB's view was that banks and building societies could provide short-term bond finance, but this was risky and should not comprise a significant share of the institution's total book. Jacobs confirms this, but says he was merely restating a ruling already made by the Registrar of DTI. It was not a board function to make such decisions.

Earlier, however, the authorities had agreed to MBT selling its

ANC ECONOMIC MUDDLE

Taxing the poor

FM 18/10/91

Spare a thought for the ANC and its troglodytic economics. Without threats of nationalisation and a wealth tax, how else could it scare the whites? Or must it threaten total dispossession to win an economic argument against them?

However painstakingly the facts of economic life are explained to ANC leaders, they come bouncing back parrot fashion with the same worn *non sequiturs*. They have a grasp of economic logic equalled only by that of the Cabinet.

So we're back to having to explain to Comrade Nelson, as we did long ago to Gauleiter Verwoerd, that there is no alternative to nationalisation if the object is to redistribute wealth. For nationalisation doesn't spread largesse. It takes it from the thrifty and gives it to government — which uses it to perpetuate the myth that its actions are always in the interests of the people.

Nobel Prize winner James Buchanan has shown up that argument for what it is: sheer fabrication. Government is a constituency of its own, acting inevitably in its own interests, not in that of the people. Ordinary blacks will get no bite of any nationalised cherry. The chaps in the Union Buildings get it all; you can bet your last rouble on that.

What will redistribute wealth is economic growth, encouraged by stable prices, political peace, no sanctions, a capital inflow, low taxes — and hard work. Growth at 5% for three years will see the lowest-paid worker something like three times better off than he is now. That is wealth redistribution.

Growth was the essence of the Industrial Revolution, which brought about massive redistribution of wealth. Before that, getting rich was a zero sum game. In medieval times you got rich by robbing your neighbour. Later, in socialist economies, where the State ran everything, everybody faced equal destitution. Only democratic capitalism has consistently created and distributed wealth. That's no egalitarian myth.

A wealth tax won't redistribute wealth. How does a man with a house pay 33%, or even a lesser amount of its value to government? He, like most other house-owners, after inflation has eroded his savings, has to be a forced seller in a falling market. And anyway, who is to say what the value of his house is?

By the time comrade commissar at the Exchequer has something to distribute, it's a fraction of what it was. And it will take R30bn to pay each black person R1 000 a year.

Meanwhile, there will be a massive loss of jobs, shops will empty of goods, housing will fall into ruin, disease and misery will predominate — and Comrade Nelson, like Comrade Nyerere of Tanzania, will say: "Sorry, we made a mistake. We've redistributed all we have." That is when the World Bank will take over. ■

COSATU'S 'GENERAL STRIKE'

When the iron is cold

FM 18/10/91

If Cosatu is fool enough to want to call a general strike in November, then let it go ahead. For the chances of its bringing about economic chaos and forcing the F W de Klerk government to grant it participation in policy-making without responsibility are remote.

On the contrary, it could set Cosatu back irreparably as a political force. The relatively minor gains in wages that it has been able to win for its members this year and the tenuousness of its present cause, suggest that it simply won't be able to rally the masses.

If it goes ahead, it stands in danger of doing to the trade union movement here precisely what Arthur Scargill did for the coal miners in Britain in the early days of the Thatcher administration.

Simply put, they dashed themselves in vain upon the steady ranks of public self-interest. The coal mining industry in Britain then was no more healthy than the gold mining industry is here now. Ordinary people could not identify their own interest with the extravagant claims of the coal miners.

It is possible that Jay Naidoo, if he cares to follow Scargill, will find himself in an even worse situation. For the issue he has chosen to champion is the largely benign value-added tax which will probably be a politically dead letter by November.

Not that it is the tax itself that Cosatu is against — rather the manner of its implementation and its reach. And that is far too insubstantial a brew for the *realpolitik* of Soweto and the general mayhem of the squatter camps, where the struggle to survive admits only immediately pressing issues.

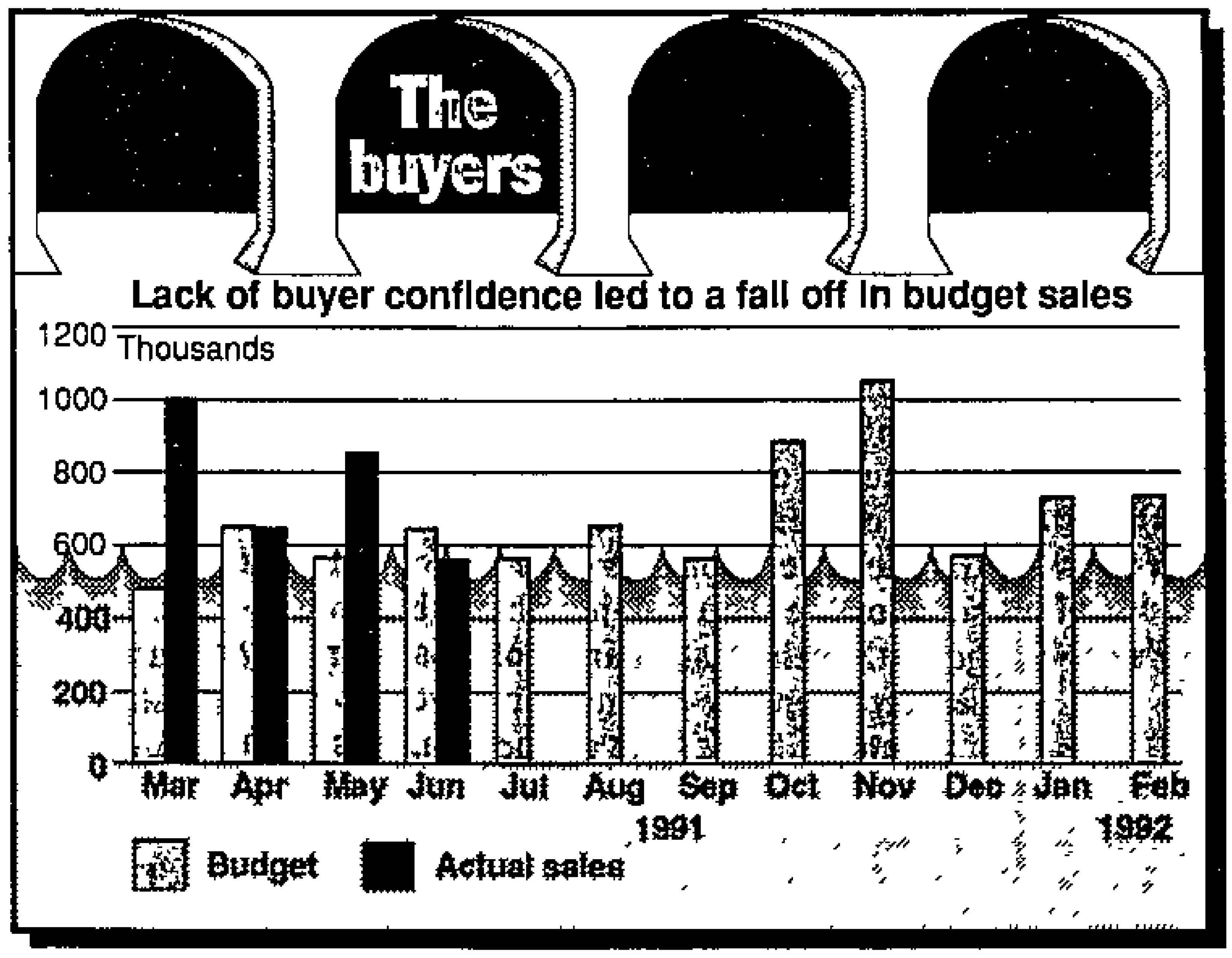
Nor does Cosatu have the advantage of the soaring membership it had six years ago. Even then, when there was some buoyancy in the economy, mass labour action proved to be a damp squib. Now, as the economy drags itself along in a protracted if not particularly severe slump, the chances are that net trade union membership is on the way down.

A November general strike is not only going to be a challenge for Cosatu; it could have Naidoo himself fighting for the leadership. But if Cosatu thinks it worth the cake . . . well, the country will face it with fortitude. ■

financial services to Pretoria Bank and merging with it to form Novabank, which had already been registered. The deal died when Masterbond sniffed trouble at Pretoria Bank. At the time, says Jonker, the attitude of the authorities seemed to swing against MBT.

Brits says the problem was compounded when the sale — concluded last year — of the R60m debtors' books of Spectravest and Finanzhaus, to Pretoria Bank, was cancelled by the bank's curator and MBT had to take them back.

In court papers, Brits said the sale would have facilitated the issue of new debentures for up to five years and given the directors "ample time" to re-establish confidence in the group and raise investment levels.



Jonker believed the authorities wanted the cessation of Masterbond's debenture operation — regardless of whether it merged with a bank or not. He says this wrecked every attempt the group made to negotiate with financial institutions following the collapse of the Pretoria Bank plans.

Earlier this year, MBT understood that it could wind down its short-term debenture business over three to five years; but later learnt there was no provision in the DTI Act for a period of grace. In effect, the operation had to cease immediately, or move under the umbrella of a deposit-taking institution. However, the Registrar had ruled against such a move unless MBT changed its structure fundamentally.

That sealed the group's fate, says Jonker.

However, MBT was probably doomed anyway. The capital-hungry developments financed by short-term debentures kept demanding more funds — but the market for leisure property had collapsed. Some of the many balls in the air were bound to fall.

Brits disagrees. There wasn't a continuous demand for funds: there was also a "turnaround factor" and the situation was being carefully monitored. In addition, attempts were being made to wind down the short-term debenture business. The securitisation of the Spectravest and Finanzhaus books — which was being negotiated — and the pending repayment of substantial loans by the Phinda game reserve development in Zululand and Fancourt at George would have reduced the book to about R300m.

A strategic view had also been taken not to fund any new developments until a long-term debenture structure could be introduced.

Other serious criticisms of MBT are the complex inter-company dealings and the way in which holiday units at Club Mykonos were sold. Many buyers were apparently mesmerised by the slick and professional sales pitch and didn't read the fine print. Now they could lose everything (**see *Property***).

This raises the issue of professional liability. To what extent could lawyers and brokers who purportedly represented and protected the interests of buyers shoulder the blame for recommending the purchase — or for not investigating the fine print when acting as conveyancer?

André van Vuuren, Director General of the Association of Law Societies of the RSA, is cautious. He accepts that if an attorney is employed to represent the buyer, his responsibility includes implementing searches to ensure that everything is legal; but he maintains that, in practice, most transactions are based on pre-printed forms and attorneys are not involved.

A client who feels an attorney was negligent is free to sue for damages. Van Vuuren comments: "If an attorney is negligent, that per se is not unprofessional conduct. It is a different matter if the attorney grossly neglects duties. Then the Law Society will act.

"If the lawyer failed, for example, to register 1 000 bonds and, as a result, the public suffered, that may well constitute unprofessional conduct."

He adds that the Law Society can initiate its own investigations into possible gross negligence or unprofessional conduct.

Like the legal profession, the SA Insurance Brokers Association stresses that it has to be established just how brokers were involved in selling financial or other products before culpability is established. However, it points out that, in terms of its code of conduct, brokers — who may also be actuaries — will offer advice and service only in areas where they are proficient. A wide interpretation of this code implies that the broker should thoroughly research any product before he recommends it to a client.

Meanwhile, not even Jonker can explain some of the anomalies that have emerged in court papers, filed by Brits.

For example, CML Developers (CMLD), the builders of Club Mykonos, had a loan account of R78,2m with Club Mykonos Langebaan (CML), the company that owned the property. In his affidavit, Brits said it was a result of an accumulated shortfall in the R1,5m CMLD had to pay CML, every month, for CML to pay interest to debenture holders. The R1,5m CMLD had to pay CML was supposed to be generated by the sale of units — which Jonker says totalled R9m in May alone — so why was there a monthly shortfall of such magnitude that a loan account of R78,2m was accumulated?

Brits says the R78,2m loan account was for tax purposes and was in keeping with CMLD's nature as a development company. While sales were good, figures quoted were gross and, after costs were deducted, the inflow from sales and the outflow to new development balanced out

Jonker disputes suggestions that it was morally questionable for MBT to be owner (or part owner), developer, borrower, financier and trustee of investors' funds all at the same time. He says the outstanding amount on three bonds over the Mykonos properties totals R108m while the "wholesale" value is R154m. The bond owing on Marina Martinique is R65m, but is valued at R92m.

However, court papers show that loan accounts of companies operating at Mykonos total R87m. Jonker adds that all deals involving MBT companies were financially and legally sound and the values of bonded properties were independently verified. However, the *FM* understands that there was a dispute over methods of valuation between MBT and outside valuers. It is also clear that MBT misread the leisure property market and was totally exposed in a high-risk area that depended for success on a buoyant economy and political stability.

It's hard to say what will emerge from the MBT saga. New regulations are unlikely. The DTI Act effectively outlaws the type of operation that sank the group and anyone else operating similar short-term debenture schemes will surely have taken note.

Greater care by investors is likely — but then what checks could have been carried out to warn of MBT's collapse? The interest rate was good and interest and capital were paid on time for nearly seven years. The developments were upmarket and sold well while the economy held up.

The inter-company wheeling and dealing could have been attributed to the ever-changing needs of a dynamic and rapidly expanding business.

Early market rumours of trouble prompted some investors to withdraw and they are now wise after the event. But it's difficult to determine if the rumours were linked to misfortune or mismanagement. Some of the best brains in the country are trying to establish which is correct.

Their report is eagerly awaited — no doubt by all concerned. ■

Masterbond probe team digs deeper

(58)

LINDA ENSOR

CAPE TOWN — The task group appointed by government to probe the Masterbond collapse said yesterday it had broadened its investigation into the flow of funds within the entire group and that court actions were expected to follow within a "few days".

A statement released jointly by the Finance Minister's special economic adviser Japie Jacobs and the provisional liquidators said an application was to be made in the Cape Town Supreme Court on Monday for the lifting of the provisional liquidation order on Masterbond Participation Bond Trust Managers.

"The appointment of a curator is at this stage considered the best course of action," Jacobs said. B/Day 18/10/91.

The task group was also investigating the Masterbond Participation Mortgage Scheme, the short-term debenture bond scheme and the money market operation, the statement said.

"It appears that there may have been considerable losses within the Masterbond Group," Jacobs said.

"The investigations and actions being undertaken and contemplated are intended to limit the extent of existing losses and to prevent further losses.

"Various Press reports have created the impression that intervention by the regulatory authorities will result in investors being repaid the whole or a substantial portion of their investments," Jacobs said.

He said investors were ultimately responsible for their investment decisions.

"Accusations levelled at regulatory authorities that they are to blame for liquidations in the Masterbond Group are devoid of any substance."

Jacobs appealed to investors not to contact members of the task group or the provisional liquidators about the payment of interest or the repayment of capital on their investments as the processing of these inquiries was hampering their work.

"When relevant information becomes available this will immediately be communicated on television, radio and in the Press."

SASRIA FM 18|10|91

New helmsman

(58)

Sitting on SA's largest short-term insurance fund of R3bn, Willem Swanepoel, CEO of SA Special Risks Insurance Association (Sasria), says the organisation is still technically underfunded.

Swanepoel took over this month from Rodney Schneeberger, who had held the post

Continue

FM 18|10|91 (58)

since Sasria's inception in 1979. Previously, it operated without its own secretariat, as an adjunct to the SA Insurance Association. His appointment, says Swanepoel, does not herald big changes, it's just that the complexity and size of the business made a formal administration structure advisable.

Sasria's swollen resources have been the subject of comment. There's been speculation that a future government might cast envious eyes at a fund no-one owns. Established as a co-insurer for the short-term industry to pay out on political (and, later, riotous) material damage, the association's free reserves have grown inexorably. Theoretically, though Sasria calls itself a co-insurer, taking risks the short-term industry would not contemplate after the Seventies' unrest, government effectively stands behind it as ultimate reinsurer.

With the diminution of special risks affecting large investments, it has been argued that Sasria may be heading for redundancy. That could be supported by the fact that the largest single pay-out it has been called upon to make is R22m.

The limit of any single pay-out is R200m, which Swanepoel says is inadequate for firms that can have R1bn invested in a single plant.

Nor does the size of the reserves impress him. Taking a world industry norm, that an insurance fund should not be exposed to a single risk exceeding 1,5% of reserves, Sasria should have about R13bn standing behind it, he points out.

Swanepoel, a former State actuary whose private-sector experience includes spells with Swiss Re, Sun Life and ACA, believes the time when Sasria does become redundant is still a long way off.

In the current state of flux, anything could happen. "But if peace breaks out all over, and Sasria becomes superfluous, that would be wonderful." ■

BANKING FM 18/10/91

Making the grade

(58)

Representatives from International Bank Credit Analysts (IBCA), which rates more than 300 banks worldwide, are due to visit

FM 18/10/91 (58)

SA at the end of next month. IBCA MD Robin Monro-Davies says a "significant number of inquiries" about SA banks is coming from corporations and financial institutions, mainly because of the changing political environment and the consequent new trade and investment opportunities.

Monro-Davies says he recently wrote asking SA banks if they want to be rated. Those which accept will have a rating which can be given to IBCA's international subscriber base of more than 700, including banks, central banks, institutional investors and multinational corporations.

IBCA started as a subscription-based bank rating agency and at first didn't charge banks for its ratings. The agency gives four types of rating: legal, individual, long-term and short-term.

Legal ratings define whether the institution would receive support from the central bank or shareholders if it runs into difficulties. Ratings 1-3 mean support would be forthcoming. A 1 rating means there is a legal guarantee, in a developed country, that the State will provide support because the bank is locally and internationally important; a 2 legal rating means that there is no legal guarantee but the State would support it because of its importance to the domestic economy; a 3 means shareholders who have sufficient resources would support the bank; a 4 is given to a bank for which support from owners or outside authorities is likely but not certain; and a 5 is given to a bank that cannot rely on outside assistance.

Individual ratings are based on the financial standing of the bank if it cannot rely on outside support. An A-rated bank, for example, would have a strong balance sheet, favourable credit profile and consistent record of above-average profitability. On the other end of the scale, an E rating means the bank has serious problems and will need external support.

Ratings of long- and short-term borrowings assess the borrowing characteristics of banks and their capacity to repay debts. Short-term ratings relate to debt with maturity of less than one year and long-term to debt maturing over a longer period.

IBCA has recently diversified into rating corporates and plans to add German and Spanish companies to its rating service. In August it opened an office in Paris. It also has offices in London, New York and Tokyo. Its main service is rating but subscribers can also make use of a database of financial information on 3 000 banks. ■

CAPITAL RESOURCES

FM 18/10/91 (58)

Battle on the home front

An application for the liquidation of home loan, administration and management company Capital Resources was submitted to the Witwatersrand Division of the Supreme Court by one of the company's founders, Bernd Pichulik, on September 25.

Pichulik wants Capital Resources' assets distributed among shareholders but the company intends opposing the application and has until October 29 to file an answering affidavit.

Existing bonds granted by Capital Resources are held by SA Mortgage Securities No 1 — a vehicle created especially for the securitisation, so not directly owned by Capital Resources.

There is a dispute over whether the application for liquidation is founded. The issue hinges on whether Pichulik is a creditor of Capital Resources. Liquidation would be prejudicial to the main creditor, Prima Bank, because Capital has no real assets. It could also lead to the liquidation of both Pichulik and the third party in the venture, Roland Ackerman, because both provided sureties against Prima's loan.

Pichulik, a major shareholder when Capital Resources was formed, who designed its computer system, says Capital owes him R539 000 — including salary, provident fund and car allowance from April 1991-January 1993, the date when the shareholders' agreement will end.

In his affidavit, Pichulik accuses Prima and Ackerman of reneging on the shareholders' agreement, signed by the three, and of unlawfully forcing him out of the venture.

Bellingan

His affidavit also claims he developed the concept of securitising endowment-linked mortgage bonds within the SA legal, financial and taxation framework. He and Ackerman conceived the idea of forming a single company which would provide both mortgage finance and endowment bonds.

Prima Bank was approached to finance the operation. Once Prima had evaluated the viability of the project and decided to enter into a joint venture, an agreement was concluded between Pichulik, Ackerman and Prima (signed by MD Johan Bellingan). Prima appointed Bellingan and Prima GM Louis Greyling to the board in terms of the agreement.

Both Pichulik and Ackerman were required by Prima's credit committee to sign personal sureties for Capital Resources' debts to Prima. During June 1990, Prima provided the first funds for the venture.

Pichulik says the company started on August 6 1990 in new offices in Wierda Valley, Sandton. Over the next six weeks he supervised the installation and commissioning of computers, furniture, and so on.

Business was slow and, on February 25, it became obvious that additional funding would be needed to pay overheads of about R70 000 a month.

Prima was apparently willing to provide more funds if it could increase its stake but Pichulik was not prepared to sell shares to Prima.

On March 26, Pichulik was given the option of resigning but refused and was subsequently summarily dismissed in terms of the directors' resolution "due to gross misconduct comprising a breach of trust and rules." Pichulik says this was in contradiction of the shareholders' agreement as there had to be written consensus between Prima, Ackerman and himself on decisions like this.

He says an argument that arose over the loan account was "a ruse" to take control of a potentially viable business. (The credit limit was based on his original projection of funding needed.)

He says he was told in March that Prima would "pull the loan" unless he "chipped in." He also alleges he was told he would not be welcome on the board and was made a settlement offer of R36 000 and commission on the securitised book. Pichulik refused.

There is now disagreement over who owns the shares in the company. Pichulik alleges he still owns 35%, Ackerman 35% and Prima 30%. Prima claims it owns 62%.

At the AGM on June 12, when Pichulik was voted off the board, the 3 900 unissued shares were put under the control of the directors and then issued in terms of the memorandum and articles.

According to the register, shareholdings are now: Pichulik 35 (under 1%); recently appointed MD Hannes van der Berg and nominees 480 (12%), Ackerman and nominees 1 000 (25%); and Prima and nominees 2 485 (62%).

However, Pichulik says the shareholders' agreement prevented the issue of unissued shares without his approval and claims the AGM was unlawful because he was not told of it and financial statements were not attached to the notice sent to other shareholders. He claims further that, on September 19, the allocation was not reflected in the register. He says he attended the AGM only because he learnt of it from an independent source.

Pichulik alleges that both Ackerman and Prima attacked him on the basis that the computer system didn't work properly.

Pichulik says his computer system was running in late October. From January, he claims downtime was about 4% of the working day.

This, however, was never proved as the system never worked at full capacity.

Prima declines to comment, saying the case is *sub judice* ■

A quick buck's out

S Times (Buss) 20/10/91 (S8)

ROWLAND CHUTE faced an unenviable task when he became portfolio manager of Old Mutual Investors' Fund three years ago.

There had been only three predecessors and the last incumbent had achieved outstanding growth.

Mr Chute has not let the side down. He attributes the success of the unit trust to several factors.

"We have never tried to be too smart by jobbing the market. If you are in and out, it builds up excessive costs and is not really what an investor looks for.

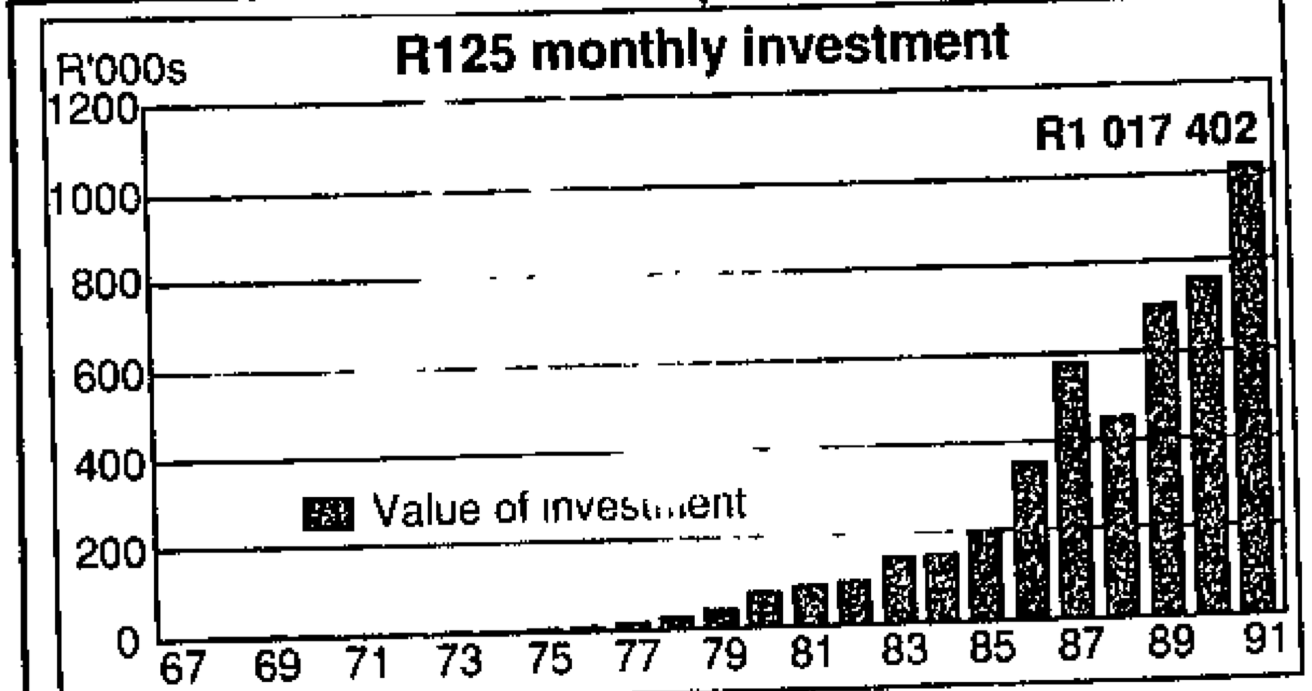
Bounces

"Unit trust investment is not about the short-term gain and there is no need to buy and sell for a quick buck.

"Another reason is that we have always adopted a heavy equity weighting in the portfolio. There are bound to be a few bad bounces, but over time they smooth out."

There is always a big versus small fund argument. Those in favour of large funds claim they have stability. Those who prefer small funds say they are more flexible than the big ones.

"Flexibility is a neutral characteristic," says Mr Chute. "Used properly, it can be of benefit. But used badly, and it will be to the detriment of unitholders, no matter what the size of the fund.



A monthly investment of R125 since Old Mutual Investors' Fund was launched in October 1966 would have made a millionaire out of the unitholder by today. Admittedly, R125 was a lot of money 25 years ago, but even R50 a month would have grown to more than R400 000.

The compound annual rate of return from the fund has been 21,6%. The average rate of inflation in that time was 11,3%.

"The proof of the small funds' merits will be seen only a few years hence. But Old Mutual Investors' Fund has a 25-year history of stability."

Mr Chute says there has never been any onus on the portfolio manager to buy shares in Old Mutual-backed companies.

"If the portfolio seems to favour them, it is because we believe they are good companies in the first place, or Old Mutual would not be backing them.

"For example, we did not buy Nedbank when Old Mutual underwrote a rights issue in 1986 and it underperformed for a few years until recently."

Mr Chute says unit trusts offer value for money when the costs to unitholders are taken into account.

"Private portfolio management companies often charge 10% of your capital up front merely to take you on as a customer. They can only promise you they are good, whereas we have been in the public eye, outpacing inflation for 25 years."

Another plus for institutionally backed unit trusts is continuity.

"The Old Mutual has a team of 45 people. So if any leave, there is always somebody trained to take their place."

OLD MUTUAL INVESTORS' FUND

SA's biggest mutual tames inflation, tax

58

S|Times (Buss) 20|10|91.

BASTIAAN van der Westhuizen draws an interesting comparison between placing your money on fixed deposit or in a unit trust fund.

"If you were in a small aircraft that was going down and there were two parachutes, one of which would not open and the other which might, you would take the one that might open.

"So if your money could be invested in a fixed deposit which definitely would not outperform inflation, or a unit trust that might, you would select the unit trust."

To give strength to his argument, there has hardly ever been a five-year spell in which Old Mutual Investors' Fund has not beaten inflation.

There have, of course, been individual years in which the value of the units has fallen. But the reasons behind the fall are endemic to the stock exchange and are beyond the control of fund managers.

Damage

Mr Van der Westhuizen says: "For many years, South African investors have been assailed on two fronts — inflation and taxation. They need to preserve the buying power of their capital if their future is to be secure."

Mr Van der Westhuizen attributes Old Mutual Investors' Fund's success in 25 years to its performance in selecting the right shares and to the marketing efforts that have enabled it to attract 284 853 unitholders.

Between 1980 and 1990, SA's unit trust industry grew 32 times, but Old Mutual's grew by 52.

Mr Van der Westhuizen says that over the years investors have become more sophisticated about placing their money in unit trusts. For example, it took 10 years for the damage done by the 1969 equity crash to be repaired among unit trusts. But when the equity market dived again in 1987, it took a relatively short time for recovery.

The sheer size of the inflow of cash to the fund means that there would have to be an enormous collapse in the stock market before the fund was obliged to sell shares to meet repurchases.

About 100 000 investors use a debit order to make monthly investments.

The cash inflow averages R2-million a day.

Another key to the success has been Old Mutual's objective of being relatively fully invested. It has never been afraid of the market. When share prices look top heavy, it holds back until value returns.

Mr Van der Westhuizen says: "We never seek to be 25% or 30% liquid like some funds. We do not believe investors buy unit trusts for the management company to earn interest only. People can earn their own interest without paying a fee for the privilege."

Mr Van der Westhuizen believes that it is time to review the regulations governing fees as set out in the Unit Trust Control Act.

At present, there is a maximum initial fee of 5% — decreasing as the amount invested rises. Then the portfolio management company can charge 0,5% per annum of the portfolio's value as a management fee.

In a R1-billion fund, the annual management fee is R5-million — plenty to service a full research and investment management team. The Investors' Fund pays a fee to Old Mutual's own equity research, investment management and dealing staff. This means that the unit trust gets the best possible management.

Competition among fund management companies of all unit trusts in SA means that they are always on their toes.

Mr Van der Westhuizen's concern is for newer and smaller funds. A portfolio worth R20-million yields only R100 000 with which to fund the entire management — hardly the salary of a decent fund manager.

Although Old Mutual Investors' is the largest fund and therefore in the best position with regard to fee income, Mr Van der Westhuizen says it is not in the interests of the unit trust business as a whole to have inadequately funded management companies.

"Those that charge too much at the expense of their portfolio performances will lose ground and be unable to attract new unitholders. The market would be best left to find its own carrying cost level."

Other regulations are up for review. Mr Van der Westhuizen hopes the three 5% rules will be amended.

The first 5% rule is that no fund can invest more than than 5% of its portfolio in a single share. This means that the portfolio must contain at least 20 shares, but a dozen has been shown to be sufficient.

Limited

The second is that a unit trust may not own more than 5% of the equity of any one company. It is okay for large companies like De Beers. But for good-quality companies whose capitalisation is small, it poses a problem for really big funds like Investors'.

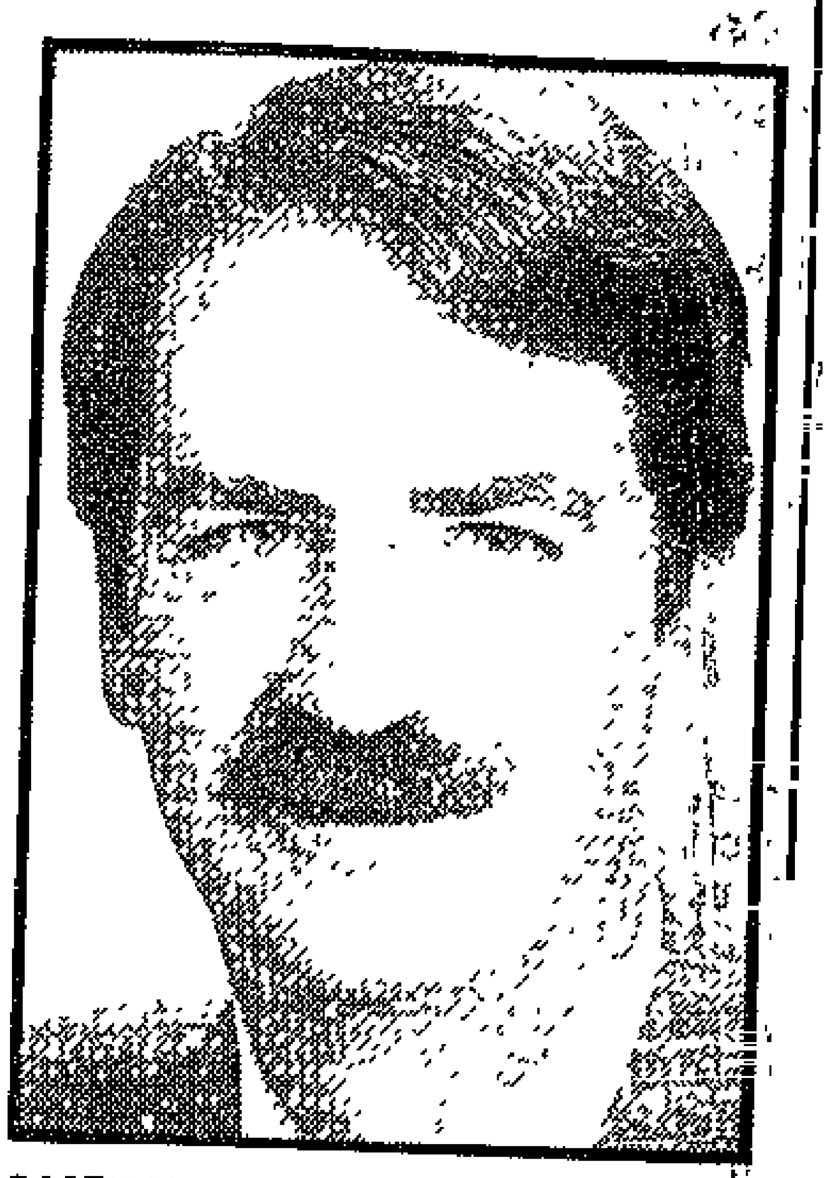
The rule limits the fund's holding of a company capitalised at, say, R1-billion to R5-million — hardly worthwhile in a R3-billion fund.

The third rule is that 5% must be kept in cash or near cash and is not in dispute.

Finally, with the suite of funds offered by the Old Mutual, Mr Van der Westhuizen says people must know what they want and what they are buying.

"When they come in to the Investors' general equity fund, they give the mandate of choice of investments to the fund manager. When they go for a particular specialist fund, they themselves are choosing the sector, and the Old Mutual is acting on their instructions as well as it is able.

"First-time investors ought to start with the Investors' Fund unless they know what they are doing."

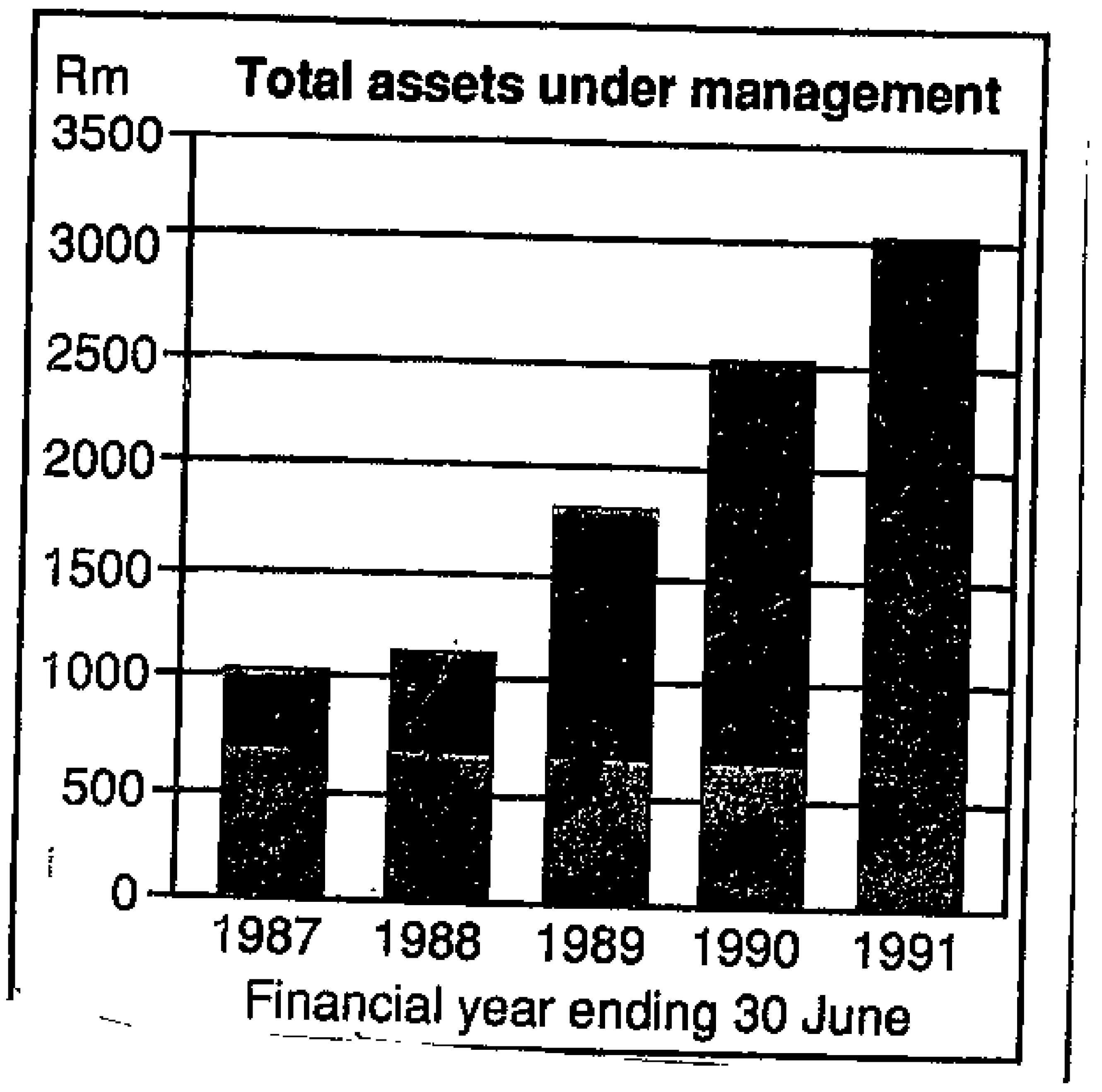


BASTIAAN VAN DER WESTHUIZEN, assistant general manager, unit trusts

TWENTY-FIVE years ago when inflation was only 2% a year, the Old Mutual launched what has become South Africa's largest unit trust.

By June this year, the assets of Old Mutual Investors' Fund topped R3-billion.

JULIE WALKER tells what led to the success of this unit trust.



It's a simple method of saving

S/Times (Buss) 20/10/91 (58)

OLD Mutual commissioned a survey recently and was surprised to find that in spite of a general awareness among the public about unit trusts, there was still confusion about how people should go about actually buying a stake in them.

All you have to do is fill in an application form and you will acquire units based on the ruling price on the day that your payment is received by an Old Mutual office.

Old Mutual's consultants and supporting brokers comprise the marketing force and will help you to plan your investment needs overall if you wish.

More than 100 000 of the 270 000 unitholders in Old Mutual Investors' Fund make a regular monthly saving by debit order.

The minimum monthly amount is R50. If you start at that amount and find that you want to invest more, you need only advise Old Mutual in writing. You can even arrange for your monthly payments to be raised by a certain amount annually to make sure your personal investment amount keeps up with the rise in the cost of living.

But it is all very well to say that you will acquire units based on the ruling price. What units, what ruling price?

The units are, if you like, your pro rata shareholding in the unit trust company.

Larger

The unit selling price is arrived at by dividing the net asset value of the fund — incorporating the JSE market prices of all the holdings in the investment portfolio, all the cash, all the gilts, less the expenses — by the number of units that have have been issued.

The selling price is the price you pay Old Mutual Investors' Fund for units.

The repurchase price is the price Old Mutual will pay you to buy back your units when you want to cash them in.

The selling price is always 5% larger than the repurchase price because it includes an inital up-front fee to cover commission and administrative costs.

The yield is the fund's distribution to unitholders of the dividends and interest income it earns on the investments in its portfolio, divided by the unit selling price.

When the stock market is highly rated, the yield on the fund will be low because the dividends paid by companies are a smaller percentage of their share prices.

Another way to invest in unit trusts is to make a lump-sum deposit. The minimum amount that Old Mutual Investors' Fund will accept is R1 000.

The units are all bought at the ruling price on that day, so if the money was invested when the market was relatively cheap, the appreciation will be faster than if the money was put in when the market was expensive.

It has been noted that when the stock market booms, investors rush in and pay top prices.

This is one reason why a regular monthly investment can benefit you in the long run.

The principle of rand cost averaging means that the number of units bought with your fixed amount each month will vary according to the price of the units.

Fewer

When the market is cheap, you get a lot of units and when it is dear, you get fewer.

Over time, you will have paid a lower average price for your total holding than the average price quoted.

Many people choose to reinvest the distributions from their investments in unit trusts. Reinvesting buys more units with the money instead of taking the cash out of the fund.

The distributions made in the years to June 1990 and 1991 were greater than the initial cost of the units in 1966.

A Business Times Corporate Feature

A trip down the quarter-century

S Times (Buss) 20/10/91. (58)

OLD MUTUAL is the second oldest unit trust institution.

It took until 1978 for the fund to become the No 1 medium in terms of value and number of investors.

What was the mood 25 years ago? A good crop of the most numerous Old Mutual unitholders today were only children or teenagers when the fund was launched.

Pick & Pay was still an unlisted family business — and inflation was 2% a year.

Mainstays

A trip through Old Mutual Investors' Fund annual reports provides an interesting insight into the past quarter of a century.

The portfolio at June 30, 1967, a few months after its inception, contains many shares one would expect — and almost as many no longer in existence.

Life-long members of the fund include mining financial mainstays Anglo American, Anamint, Anglovaal, De Beers, General Mining, Johnnies, Rand Mines.

Barlow Rand was then known as Thos Barlow & Sons.

Only three banks were worthy of inclusion, Netherlands Bank of SA, Trust Bank of SA and Volkskas.

SA Breweries was among a quartet of shares under the sector breweries, wines, mineral waters and hotels, which later gave way to beverages, hotels and leisure.

The building shares all look familiar, but Anglo-Alpha, Cullinan, Everite and Vereeniging Refractories are shares of yesteryear — only PPC merits a place in the 1991 portfolio.

AECI is still in there and ICS is common to both years. The other stalwart shares are those in the Rembrandt group.

Gone are almost all the publishing, printing, packaging, iron and steel, engineering and clothing companies.

Among the other securities in the 1967 portfolio was City of Durban 6,5% stock, Electricity Supply Commission 6,875% stock and Industrial Development Corporation 7% stock, all dated 1992.

The total value of the fund's assets in June 1967 was R2 799 455.

The first chairman's statement was signed in August of that year by G C D Werdmuller, chairman of Old Mutual itself at the time.

His maiden statement contains the startling admission that investment in the trust fund had initially been confined to policyholders of Old Mutual and to such institutions as privately managed pension and provident funds.

Furthermore, the amount anyone could invest in units depended on the sums assured of his or her policies and the length of time they had been in force.

But widespread demand from the public led to the scrapping of all restrictions by February 1967.

Another interesting point in the first statement is that increasing amounts of money was being received from the marketing of equity-linked policies by Old Mutual and by bonuses on policies being applied to the purchase of units.

Even then, when the competition for investment funds was a fraction of today's, the Old Mutual believed it necessary to market the unit trust in a responsible way.

Important

The chairman said: "Such a policy has as its basis the principle that investment in shares is a most rewarding form of investment, but that such purchases should not be made unless other important needs have first been met.

"These needs have been listed by the JSE in its booklet Common Sense About Shares, and are:

1) The need to cover living expenses — food, clothing, education, shelter.
2) The need for adequate insurance.
3) The need for ready cash to meet emergencies that may arise.

"Your directors are happy to associate themselves with these views that have been so well expressed in the Stock Exchange booklet."

Women look after their own security

S/Times (Buss) (58)

20/10/91

MORE than 40% of unitholders in Old Mutual Investors Fund are women.

More than ever before, women realise the need to plan for their own future and not to rely on their spouses to do it for them.

Unit trusts are a good way of saving for many things and accumulating retirement capital in particular.

There is no penalty for age or state of health when you invest in a unit trust.

Actuary Peter de Beyer became manager of the Old Mutual unit trust management company this year. His responsibilities include overseeing marketing and administration.

PETER DE BEYER: Pensioners like our package

Relevant

Mr De Beyer expresses some concern that there are relatively few unitholders between the ages of 20 and 30 years. There is a reasonably high proportion of under 20s in the fund and most are aged between 30 and 50.

Something that Old Mutual did not expect is the number of retirees who have placed their retirement capital in the Investors' Fund.

Mr De Beyer says: "We packaged our marketing in the areas we believed would have most relevance to people — retirement itself, home ownership, educational costs, starting a business.

"We now find that the growth of our trust funds is appealing enough for pensioners to entrust some of their money to them

"A retirement pension that seems sufficient in the early years is soon eroded by inflation. People need to increase their capital to provide for long retirement."

About a quarter of Old Mutual's sales force is black. Inroads are being made into the black market to promote the benefits of unit trust investment.

Mr De Beyer says it often happens that several small savers club together and make a monthly investment in a unit trust.

He believes that the unit trust industry has reached a mature phase and that its growth will continue.

In America, one in every four households has an investment in unit trusts. But in SA it is estimated that only 6% of people have a unit trust stake.

There are about 800 000 unitholders, of whom 350 000 — by far the largest number — are with Old Mutual. In 1985 there were only 50 000 holders.

Mr De Beyer says. "When you are the market choice it tells you that you are doing things right.

Computers

"There is no real price comparison because the fees and charges are laid down in the Unit Trust Control Act. Our performance, our marketing and our reputation are enough in themselves to attract so many investors.

"Our mission is to provide value for money to investors and that is recognised"

Old Mutual has spent heavily on putting in computer systems to improve the speed of service to customers.

The road to becoming a millionaire

S\Times(Buss) 28\10\91 (58)

A REAL return is a little-understood term.

In short, it means that if your capital, or the value of your investment, has not grown at a rate faster than that of inflation, you have not achieved a real return on investment.

So if your money has been on fixed deposit and earned, say, 18% in interest and tax has taken up to 43% of that, the new sum with which you start the next year's investment has not kept pace with an inflation rate of more than 15%.

If you started with R1 000, after a year on fixed deposit you would have R1 180 before tax. If tax took 43% of that interest, the amount to start the next year would be R1 103.

But what could have been bought for R1 000 a year ago now costs R1 155 at 15,5% inflation. So savers lost ground and the compound effect over years is that the value of their capital is eroded.

Old Mutual Investors' Fund has consistently beaten the inflation rate soundly in the past 25 years.

Salary

More particularly, in the past decade the compound annual rate of return from the Investors' Fund was 27%. Inflation in that time averaged 14% a year. This means there was a real return of 13% a year to investors.

A monthly investment of R122 since the Old Mutual Investors' Fund was established would have grown to R1-million by now. The annual total return was 21,6%.

Of course, 25 years ago R122 a month was a good salary, let alone a leftover amount for investing.

On a more realistic and affordable level, and assuming investors increased the monthly amount they put away each year by 15%, they would have had to have started saving R40 a month in 1966 to achieve millionaire status now.

That was four times the minimum monthly sum in those days. Today's minimum is R50, so it can be roughly compared with starting a R200 a month investment now, escalating at the rate of inflation.

WHAT IT LOOKS LIKE FROM THE TOP

Jo'burg rents on a Vienna waltz

S|Times (Bus) 11 20|10|91

58

JOHANNESBURG, a gateway to Africa, could have a similar experience to Vienna in the late 1980s when rents rocketed and investment yields fell several percentage points as Eastern Europe opened its doors to the West.

I believe that expanding trade and tourism, movement of embassies from north to south and concentration of business, in major SA urban areas will put pressure on rents and prices in all categories of real estate.

Although rents and values are on a plateau, everything points to a large increase soon after the next economic upturn.

Johannesburg, like Vienna, is pivotally placed at the entrance to a major developing market and it would not be surprising if rents increased dramatically — as they did in Vienna between 1986 and 1990 when they quadrupled.

LES WEIL, chairman of JH Isaacs property group, contributes to an occasional series by experts on factors affecting the economy.

Neither should one be surprised if, subject to a reasonably settled socio-political environment, investment yields from SA properties were to fall — perhaps by as much as two percentage points.

Modern

Vacancies have increased in the past 12 months because of the economic downturn, and this has enabled tenants to negotiate more favourable terms.

As a result of many major banks and institutions having moved to new and more modern facilities, there is a greater oversupply of B- and C-grade space in the main urban centres, compared to A section.

If, however, there is an upturn in 1992, available space is likely to be taken up over 24 months and rents could rise hugely from 1993.

In real terms, office rents have fallen since the early 1980s and now stand at 75% of their 1982 values.

In the prime financial area of Johannesburg and sought-after locations, such as Rosebank and Sandton, rents for A-grade office accommodation are about R30 a square metre a month gross — it includes operating costs of about R6m² a month.

Annual increases on rent average 12% and on operating costs 15%.

Important

Although there is some expansion of office and retail developments in the financial area of downtown Johannesburg, decentralisation is accelerating.

Since the mid-1970s, about 25% of office space has moved out of the main central business district. Notwithstanding that the relative percentage of decentralised development is likely to escalate, the CBD will remain important, especially in relation to development in or around the financial node.

Prime industrial and warehousing accommodation close to the highway systems averages R10/m² a month gross for 1 000m² units. Rents for increasingly popular mini-units tend to be higher and were up to R14/m² a month early in 1990. But they have dropped to about R12/m².

A new strategy by the Government relating to industry and export is likely to stimulate industrial investment, which has been on a downward trend for some time. When the economy improves, industrial property rents could rise rapidly.

It is interesting that last month the rate of inquiry for smaller industrial units increased. Because this type of inquiry usually leads the other sectors, it could represent an early indication of the new upward trend.

In spite of depressed consumer spending, retail rents remain in demand. Medium-size stores in prime locations are about R80/m² a month and up to R120/m² a month is being paid for smaller stores. Most retailers report poor sales in the past two to three months and the warm winter could not have helped.

Mixes

A continuation of low turnovers could force landlords in some centres to "accommodate" tenants if strategic mixes are to be maintained.

The property unit trust sector represents an index of commercial properties of all types. The average investment yield in the past decade has been slightly more than 9%.

The current historical yield is slightly above 10% and relative to the financial and industrial index the sector represents excellent value.

The spread of forecast yields, which is the norm for the property business, ranges from about 9% for a top-class office building to 10,5% for good-quality industrial lease-backs. Lesser properties would carry yields of more than 12%.

Having regard to the costs of replacement, existing buildings generally offer better value than new developments — provided they lend themselves to adaptive use.

There is a general shortage of good-quality investment properties, in part caused by the closed nature of the South African economy. Too much money is chasing relatively few hard assets.

Although competition among contractors has reduced the annual escalation cost in building below the inflation rate, this can be expected to change when the turnaround comes, thereby further increasing costs of development, which must be reflected in major increases in rents.

Now, a timeshare credit card

Star 20/10/91. (58)

FIRST National Bank, in association with Resort Condominiums International (RCI), the world's largest vacation exchange organisation, is to introduce the country's first travel and entertainment credit card specifically for people who own timeshare.

The RCI LeisureCard is also an international Visa Credit Card.

Steve Grissel, managing director of RCI, comments: "One of the most significant benefits of the LeisureCard is a holiday guarantee. This means that if a resort experiences financial difficulty and an owner finds that rights to occupy have been revoked, RCI guarantees a holiday for the next 15 years.

"All the owner has to do is to pay his levy to RCI at a rate linked to inflation and continue to meet his loan repayments in the normal way."

Jon Wildman, FNB deputy general manager, adds: "RCI LeisureCard represents FNB's first true affinity card. We have taken great care in our choice of affinity group and believe that the benefits which RCI is able to offer to LeisureCard holders will be of great value to the customer.

"This is the pillar of success of any affinity card programme.

"Having extensively researched the RCI membership base we have determined that existing members will all qualify for the card without going through usual credit assessment procedures.

"Although new timeshare buyers will be assessed for credit worthiness prior to the card being issued, we are confident that based on the profile of existing timeshare owners we will grow a substantial quality cardholders base."

RCI LeisureCard will offer timesharers a variety of privileges, including timeshare purchase finance, revolving credit, automatic levy payments and a guarantee against the loss of timeshare.

Mr Wildman: "In the past it has sometimes been difficult to obtain finance. Now, through RCI LeisureCard, a family can secure a timeshare holiday as easily as buying any other large purchase using a credit card.

"RCI LeisureCard allows the payment of levies to be spread though revolving credit. Even better, the automatic debiting of levies through the card will allow owners a discount at any participating resorts.

"A further benefit is immediately available credit of a minimum of R3 000 for travel and entertainment costs while on holiday."

RCI now has a membership base of well over 100 000.

"We confidently expect that the majority of our members will take up the card to which they are automatically entitled," says Mr Griessel.

The card will be offered to all new timeshare buyers at RCI-affiliated resorts.

To coincide with the launch of the card, RCI in conjunction with M-Net, will run a million-rand holiday-giveaway competition in November.

Crusader Life lifts income

Star 21/10/91 (58)

Anglovaal's insurance arm, Crusader Life, has reported an increase in gross premium income of 50 percent for the 18 months to June.

The group said at the weekend that the figure was on an annualised basis.

Net premium income for the period was up by 39 percent, while the increase in surplus was 42 percent.

Policyholders' funds were up by 84 percent.

Dividend growth was maintained at 20 percent.

Net premium income and annuity considerations rose to R118,6 million, compared with R57 million for the year to December 1989.

After adding net investment and other income of R9 million, total income came to R127,7 million.

The net taxed surplus available to shareholders was R6,1 million (R2,8 million), which gave earnings per share of 26,75c (14,38c).

A final dividend of 9,5c is to be declared.

This will bring the total payout for the period to 26,75c a share, compared with 14,38c a share previously — Sapa.

THE MONEY MARKETS by Andrew Gill

Drop in short-term rates makes gilts look attractive

B/Day 21/10/91. (58)

PLAYING pictionary, going home early, considering the future and fighting off drowsiness are all in a day's work on the money market at the moment, but things could change before too long.

The continued drops in short-term rates are beginning to make gilts look relatively attractive despite the current bearish grip on the long-term market.

While it may take some time to entrench itself, the risk of huge capital losses on long-term paper looks more remote and even the bears are saying another 30-point hike in gilt rates is probably on the extreme side of forecasts.

At the same time demand for short-term rates continues to intensify.

Last week, however, was not the start of the changing scenario as dealers found little to write home about apart from the envious sneak at a relatively volatile capital market.

If one didn't know Reserve Bank Governor Chris Stals's intentions better it might have been thought conditions were ripe for a change in monetary policy. One does, however, know that his stubborness will match that of the inflation rate.

As a result, a shortage struggling to stay above R1bn and rates continually on the decline are having no impact on sentiment.

Other factors are playing their part in the decline in rates on the short side of the market.

Banks' attempts to reduce their cost of funding are apparently reaping benefits, albeit small, on the retail deposit side. Larger investors are seemingly far from happy about yielding almost 20 points less on retail than wholesale. The psychological aspect of banks stating their intention to bring rates down has also had an impact on the move to wholesale.

Those who weren't taking the wholesale route before are now looking more closely at that option as real interest rates decline and every part of interest income helps to boost recession-battered earnings.

An example is the latest Treasury Bill (TB) issue which was issued at a low 16,36%. That yields over 17% for the three month paper compared to retail deposits yielding about 16,80%.

With capital market rates at or about those levels they probably don't offer sufficient returns for the risk, but further declines in short-term rates due to strong demand. Another quarter of a percentage point increase in capital market rates could make the longer paper a more realistic option in the not too distant future.

Downward pressure on short-term rates has also come in the form of the lower shortage with call at between 16% and 16,25%. Even the R800m in tenders during the week was insufficient to have an effect on the shortage which registered just over R1,1bn by Thursday.

Continued forex inflows and government spending are apparently behind the shortage, which in effect is in surplus once the TB's and dollar swaps are stripped out.

Curatorship

BDay 21/10/91

From Page 1

the other companies would continue to operate. There was also a need for other companies in the group to be provisionally wound up.

However, Finance Minister Barend du Plessis's special economic adviser Japie Jacobs, who is heading a committee investigating the Masterbond Trust collapse, would not comment yesterday.

It is believed the committee decided to go the curatorship route as this would make possible the adoption of flexible strategies.

"Whereas liquidation means the selling off of all the assets, the curator would have the freedom to look at each company to see if it has a viable future.

"In some cases the sale of assets could be deferred to get them into shape, so that more could be realised on behalf of investors," the source said.

Bonds' legal status doubtful

BDay 21/10/91

LINDA ENSOR

CAPE TOWN — There is some doubt about the legal status of millions of rand invested in Masterbond Trust Participation Bond Managers (MTPBM) just before the provisional liquidation of the company.

Provisional liquidator Sanek's Stephen Gore disclosed at the weekend that no debentures had been issued for these investments and they had not been allocated to any specific bond by the time the winding-up order was obtained.

"We are seeking legal advice on the status of these unallocated investors funds," Gore said, adding that some funds in the participation bond scheme could also be affected.

Meanwhile, it has emerged that the investigation by special economic adviser Japie Jacobs's task group into the flow of funds between Masterbond companies and its holding company Masterbond Trust Investment Holdings (MTIH) arose from the fact that the holding company was financially sound, whereas some of its subsidiary companies had been provisionally wound up.

"The holding company has substantial net asset value and irregularities are suspected," one informed source said.

No reason for the incongruity had been established, but the source said that one theoretical possibility was that the holding company was awarded greater dividends than the profits of the subsidiary companies warranted and to which it was not entitled. There was also a complicated system of intercompany loans and it was necessary to establish the pattern of cash flow within the group, he said.

58

Gore would not comment on the prospects of Masterbond investors getting any of their money back.

"There have been substantial investments made in the borrowing companies and it will be the ability of those companies to pay back the debt which will decide the extent of the losses."

Gore said attempts were being made to find alternative finance for Fancourt, which had a bond of about R70-R80m. Masterbond Trust chairman Koos Jonker said an offer to take over a large part of the Fancourt bond finance had been received and that an announcement could be expected within weeks.

The Board of Executors, brought in to advise on the participation bond scheme, has submitted two reports to the Financial Services Board.

BUSINESS

Premiums set to keep increasing

BIPOW 21/10/91. 58

SEAN VAN ZYL

SHORT-TERM insurance companies expect premium rates to continue rising next year. This is despite a levelling off in the crime rate, a spokesman for the industry said at the weekend.

He said the reason behind an expected 10% to 20% increase in premiums, due early next year, was "inflationary costs".

Personal household and motor insurance rates have climbed on average by 30% over the past nine months. This increase takes into account the cost of VAT and follows the dramatic 50% increase in 1990.

Insurance companies said these increases were necessary because of the poor underwriting conditions caused by soaring crime. Only two insurers reported underwriting profits for the six months ended June, and they were modest.

Insurance companies did not expect personal insurance rates to be adjusted before February next year. Most companies expected rates would rise overall between 10% to 20%, with the first adjustment likely in February.

The SA Insurance Association (SAIA) said last week that the industry would not exploit the introduction of VAT to push through further premium increases. However, the statement noted that an increase in claims, mainly from worsening crime, would "necessitate an adjustment in rates in the months ahead".

Independent sources noted a number of insurance companies had recently notified policy-holders of rate adjustments because of VAT and inflationary cost increases. Motor insurance rates, which have been the most severely affected by crime, were increased between 5% to 20% in October, said Compuquote MD David Hersch.

He added that this year's sharp rate increases were introduced mainly by small insurance operators who had previously undercut rates to capture market share.

Insurers felt, however, that market premium rates were currently adequate relative to their claim loss ratios. Assuming the claim experience did not deteriorate further, insurers did not expect the dramatic rate increases of 1990 and 1991 to be repeated next year.

Aegis Insurance MD Brian Seach said that while claims seemed to be levelling off, insurers were having to contend with escalating claim costs far in excess of the annual CPI of 15,6%.

The short-term insurance industry is heavily exposed to motor industry inflation, said Santam senior GM underwriting Jack Terry. Repair and spares costs are estimated to have climbed by more than 28% this year.

Terry said regular premium rate adjustments would be inevitable until inflation was brought under control.

SA Eagle MD Peter Martin felt rates in the personal lines market were adequate to cover claims. He expected a 10% inflationary increase in rates from February next year.

COMPANIES

Sasfin starts expansion into Africa

SEAN VAN ZYL

TRADE and equipment financing group Sasfin is well positioned to take advantage of new trade opportunities in southern Africa, chairman Martin Glatt said in his 1991 annual review. B/Day 21/10/91

Glatt said an expected drop in interest rates next year combined with growing trade opportunities in southern Africa had motivated the group's expansion into Africa. Sasfin has established a wholly owned subsidiary Sasfin (Central Africa) in Malawi to co-ordinate two-way trade.

The group also opened an equipment financing office in Cape Town and acquired Techrent Natal, an equipment financing brokerage.

Glatt said the group was now concentrating on equipment financing rather than providing a mere broking service in instalment finance deals. (58)

The group recently concluded the flotation of SA's second securitisation issue in conjunction with the Discount House Group. Glatt said the group was "particularly proud" of the first issue, housed by Sasfin's Asset Securitisation (SAS).

Sasfin has achieved an annual compound growth in earnings of 36,8% over the past seven years and enjoyed a compound growth rate of 24,3% since its listing in 1987. The group disclosed a 20% increase in earnings to 21,3c (1990: 17,7c) a share for the year ended June.

Fidelity assets spurred by rights issue

310 ay 22/10/91.

SEAN VAN ZYL

58

FIDELITY Bank's R21m rights issue, details of which were announced yesterday, would allow the Port Elizabeth-based bank to achieve future growth in assets and meet its capital reserve requirements to 1995, MD Jules Langenberg said.

The rights issue of 4,2-million ordinary shares at R5 a share would boost Fidelity's capital base to R50m.

The capital reserve requirements, made statutory by the introduction of the Deposit-Taking Institutions Act earlier this year, demand that deposit-taking institutions maintain a capital to assets ratio of at least 4,5%. The capital requirements are to be adjusted annually to a maximum capital reserve of 8% by 1995.

The capital reserve regulations were tightened to further protect depositors' funds following the alarming number of small banks which ran into financial difficulties due to unchecked asset growth.

As a result, bank analysts have questioned whether small banking concerns will be able to meet future capital reserve requirements and sustain adequate growth in assets.

Although the rights issue would ensure Fidelity met the 1995 capital requirement target, Langenberg said the bank would have to look at raising additional capital to achieve its asset growth objectives after 1995.

Fidelity's present capital ratio of 7% is well above the statutory requirement of 4,5%, he noted.

In his annual review, Langenberg said the bank maintained a stringent risk management policy to limit its exposure to any particular risk. "The greatest area of risk lies in the main business of the bank, that of lending money against security. If this is not conducted meticulously then not only will the bank be at risk, but so will the depositors who have invested in it."

Fidelity has also adopted a conservative view to taking on new credit business and "has never pursued a policy of competition for marketshare", he added.

Langenberg said Fidelity's prudent business and cost control policy had enabled the bank to achieve a 35% increase in earnings to R5,4m (1990: R4m) compared with a more modest asset growth of 13,5% during financial 1991.

He said the rights issue would also free Fidelity of its "small bank" stature.

Personal savings 'not at risk'

SHARON WOOD

SCALING down tax privileges given to contractual saving institutions would not necessarily change the composition or level of personal savings, Finance Department special economic adviser Japie Jacobs said yesterday.

Addressing a marketing managers' seminar in Pretoria, he said the move towards contractual savings and away from discretionary savings was part of a worldwide trend.

However, SA's contractual saving institutions were more prominent in financial markets than those in other countries.

It was quite possible that pension funds' tax relief would eventually be phased out internationally, said Jacobs.

"But it is difficult to visualise such a change in SA," he said.

Government paid out between R6bn and R8bn a year in tax incentives to the pension industry.

"This is substantial but nevertheless regarded as worthwhile as the demands on state finances for social pensions would otherwise be much higher," he said.

SA pension funds also enjoyed greater freedom in deciding on the composition of their asset porfolios than in other countries, and were often criticised for not financing new productive investment.

In view of extensive socio-economic backlogs, the contractual savings industry would have to expect their employment of savings to become subject to critical scrutiny, he said.

"The modern sector of SA is adequately served with office buildings and shopping centres, and it is ... difficult to justify additional outlays on these structures," he said.

"Discussions have been held with the industry to find ways in which the institutions can provide finance for socio-economic projects."

However, proposals for prescribed investments were ill-conceived and fraught with unresolved issues.

TOM expected to start running soon

ROBERT GENTLE

SIMULATED trading in options on equities has started at the JSE, sparking speculation in the market that the R15m Traded Options Market (TOM) is finally set to start operating.

A consultant who worked at the London Traded Options Market as head of market operations is helping out with the simulated trading.

Brokers said the simulated trading involved 16 firms and included six of the big-name stockbrokers. It was aimed at seeing how the system coped with various trading volumes and patterns.

Their impression was that though the system was shaping up and things were moving forward, it would be another couple of months before TOM was ready to be formally opened.

December was ruled out because it is normally a quiet month.

"It will probably open early next year," a broker ventured.

JSE chief operating officer Mike Thompson said yesterday: "I believe we will be ready before year-end. We are doing final system testing."

Two Cape-based institutions said yesterday they were not aware of any recent indications about when TOM would start.

They are expected to be the major users of options on equities.

Syfrets portfolio-manager Rob Nichol said: "We will wait until TOM is actually operating before we decide whether or not to use it. Based on what the JSE has told us on the cost of the options, TOM will be too expensive to be worthwhile."

TOM will offer investors options on key blue chip shares and indices. According to the latest JSE handbook, equity options will be traded on Anglo-American, Barlows, De Beers, Rustenburg, Sasol and Vaal Reefs. Index options will be traded on the all share, all gold and industrial indices.

B/Day 22/10/91

Personal savings 'not at risk'

SHARON WOOD

SCALING down tax privileges given to contractual saving institutions would not necessarily change the composition or level of personal savings, Finance Department special economic adviser Japie Jacobs said yesterday.

Addressing a marketing managers seminar in Pretoria, he said the move towards contractual savings and away from discretionary savings was part of a worldwide trend.

However, SA's contractual saving institutions were more prominent in financial markets than those in other countries.

It was quite possible that pension funds' tax relief would eventually be phased out internationally, said Jacobs.

"But it is difficult to visualise such a change in SA," he said.

Government paid out between R6bn and R8bn a year in tax incentives to the pension industry.

"This is substantial but nevertheless regarded as worthwhile as the demands on state finances for social pensions would otherwise be much higher," he said.

SA pension funds also enjoyed greater freedom in deciding on the composition of their asset porfolios than in other countries, and were often criticised for not financing new productive investment.

In view of extensive socio-economic backlogs, the contractual savings industry would have to expect their employment of savings to become subject to critical scrutiny, he said.

"The modern sector of SA is adequately served with office buildings and shopping centres, and it is . . . difficult to justify additional outlays on these structures," he said.

"Discussions have been held with the industry to find ways in which the institutions can provide finance for socio-economic projects."

However, proposals for prescribed investments were ill-conceived and fraught with unresolved issues.

B/Day 22/10/91

58

creased from R10m to R182m and manag...

'Industry could handle huge housing plan'

PETER GALLI

THE Old Mutual/Nedcor housing scenario to kick-start the economy could see an additional 100 000 people employed if it were implemented, SA Building Industries (Bifsa) executive director Neil Fraser told delegates at its annual conference at the Wild Coast Sun yesterday. (58)

One of the proposals in the Nedcor-/Old Mutual economic plan was that 200 000 low-cost homes be built a year for three years; that 400 000 plots be serviced and a million houses be provided with electricity annually over the same period.

Fraser said the industry could handle the task.

A Bifsa analysis showed that about 55 000 people would be employed as supervisors, skilled operators, semi-skilled and unskilled workers to provide services and civil engineering facilities. B/Day 22/10/91.

In addition, about 90 000 people, including 4 000 supervisors, would be employed on building work.

At least 800 small companies could be established as a result of the programme, he said.

Fraser then detailed what would be involved in such an initiative. Bifsa based its analysis on a house of 42,25m² with two bedrooms, a living room/kitchen and bathroom.

"While such a house is too sophisticated for very low income earners, it is within the affordable levels of many others and thus represents an average demand."

The analysis included a complete programme for the operation, based on the completion of 80 houses countrywide each working hour, Fraser said.

Bifsa has programmed the building of single houses at 18 days a house, not including site clearing and electrical reticulation.

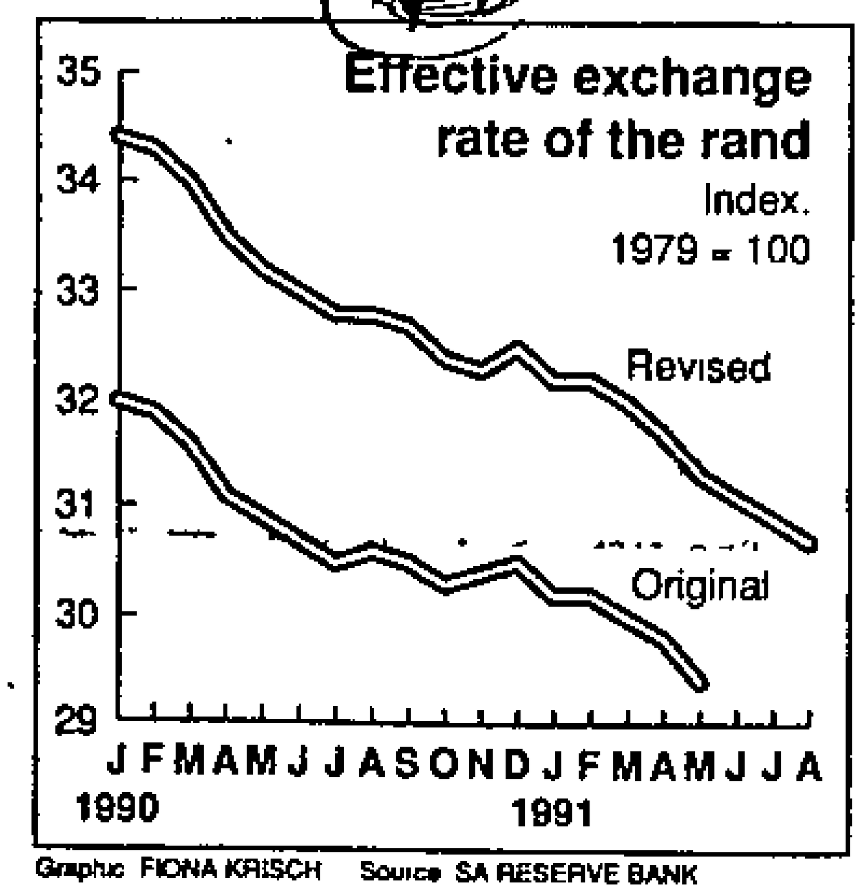
"The manufacture of the materials required would provide thousands more jobs and promote small business.

The 286-million concrete blocks required could be almost entirely produced by labour-intensive small entrepreneurs," Fraser said.

Rand more resilient against 'new' basket

B/Day 22/10/91.

SIMON WILLSON



Graphic FIONA KRISCH Source SA RESERVE BANK

THE rand is noticeably more resilient on average against a basket of trading partners' currencies since the Reserve Bank's changes to the trade-weighted rand's currency basket.

The trade-weighted, or effective, rand shows the rand's value against a cross-section of currencies weighted by trade flows rather than as a bilateral rate against one or other of the major currencies.

The rand's trade-weighted value is expressed as an index, where January 1979 equals 100.

The basket of currencies against which the effective rand is measured contains the currencies of SA's six biggest trading partners. The top four currencies in the basket have changed little over the years: US dollar, British pound, Deutschmark and Japanese yen.

The bottom of the currency basket ranking is more volatile.

Static

The change enacted by the Reserve Bank during the third quarter was to toss the Swiss and French francs out of the basket and replace them with the Italian lira and the Dutch guilder.

The switch implies a shift in trading patterns over the 12 months since the Reserve Bank last examined the composition of the currency basket. Trade relationships with Italy and the Netherlands would seem to have burgeoned, while those with Switzerland and France have remained static or fallen off.

Official figures detailing SA's trade with individual foreign countries have been classified since the mid-1980s to avoid sanctions pressure. SA Foreign Trade Organisation (Safto) economist Bruce Donald said commercial relations with Italy and the Netherlands had indeed expanded recently.

"Italy stands out as a major growth point for SA exports, and the Italian market has moved up considerably recently among SA's other export markets," Donald said. Precious metals constituted the main SA export to Italy, followed by coal, base metals, metallic and non-metallic ores and hides and skins — highlighting Italy's buoyant jewellery and leather consumer goods industries.

Donald added that the importance of the Netherlands was centred on its role as a gateway to Europe through the giant entrepôt of Rotterdam.

"SA exports to Rotterdam cover a wide spectrum and include huge amounts of bulk minerals and containerised cargo. This traffic can be expected to increase substantially in the years ahead in view of the removal of political trade barriers within the EC."

The growth of SA freight traffic through Rotterdam may also have been helped by the more compliant attitude of the Dutch dockworkers. Trade union sensitivity over handling products of SA origin had been overcome earlier in Rotterdam than at some other European ports.

Donald said the importance of France as a supplier had declined since 1988, while there had been a parallel decline in the significance of Switzerland as a market over broadly the same period.

The dramatic improvement in SA's commercial relationship with Italy seems to have been visible during last week's visit to Italy by Trade and Industry Minister Org Marais.

Court appoints curators for Masterbond company

B/Day 22/10/91

(58)

LINDA ENSOR

CAPE TOWN — Masterbond Participation Bond Trust Managers (MPBTM) was yesterday placed under provisional curatorship by order of the Cape Town Supreme Court.

The ex-parte application was brought by Financial Services Board (FSB) CE Piet Badenhorst with the support of the government appointed task group investigating Masterbond's collapse. The provisional liquidation order has been lifted.

In his affidavit Badenhorst said that as the inner-workings of the Masterbond Trust group were not known he wanted leave to apply again to the court for the extension of the curatorship to other companies within the group.

He said the Masterbond Group's business was vast with total investors' funds as at August 11 totalling R523m. "The massive amount of money involved and the impact which this could have on the economy make it imperative that curators be appointed without delay."

He added that Masterbond's activities in fact extended beyond SA's borders. He said the FSB had been informed a few months ago by Masterbond chairman Koos Jonker that British bank Hambros had underwritten the placing of R128m worth of shares in the northern Natal game reserve of Phinda on the overseas market.

Another of the reasons given for the urgency of the application was that there was about R12m "pooled" but unallocated funds in the Participation Mortgage Bond scheme.

In a report by the Board of Executors (BOE) on the R72m Participation Bond scheme it emerged that R12m in investors funds went into a pool which was lent to various borrowers from the pool.

Its report continued: "Valuations have been poorly carried out which may result in 75% of the valuation being exceeded. We must advise that on BOE's normal credit criteria only R21m of the R72m loans should have been granted.

"In addition we are concerned that there may be investors that are not shown on the records at Masterbond."

BOE said it would only be prepared to permanently take over the participation mortgage bond scheme on the understanding that investors were linked to their existing security and that the value and performance of their investment was linked to the value of the security.

"BOE is unwilling to stand behind the investors," the report said.

Badenhorst said the authorities had investigated the Masterbond group's activities over the years and had intervened on several occasions to ensure its compliance with the legislation. "A number of technical contraventions of legislation were detected in addition to unsatisfactory commercial practices."

He said Masterbond directors had repeatedly assured the FSB in the months prior to the provisional liquidations that the group was not experiencing liquidity or solvency margin problems.

Coopers Theron du Toit auditor, Willem Wilken, and attorneys Arnold Galombik and Jozua Malherbe have been appointed curators and mandated to consider the best interests of investors and other creditors and to conserve the business. They will only be able to sell assets with the permission of the court.

The curatorship relates to all MPBTM's short-term debenture bond business, short-term money market business, participation bond business and all other business involving the receipt of money from investors.

Justice W van Deventer also ordered a stay on all actions against MPBTM until the return date on February 12.

Assurers rapped over policy details

B/Day
23/10/91 LINDA ENSOR (58)

CAPE TOWN — Complaints have been received about the failure of life assurers to disclose all the requirements or limitations of the life cover they offer on toll free telephone numbers, life assurance ombudsman G P C Kotze said in his 1990 annual report released yesterday.

"Assurers should be careful to furnish crisp and precise information of all preconditions when conducting business by telephone," Kotze said.

About 345 complaints were received by the ombudsman in 1990, 152 more than the previous year.

Kotze said virtually all life assurers supported the ombudsman and nearly always followed his advice, there being only two cases in 1990 when his advice was disregarded.

Misleading or dishonest conduct by life assurance representatives or employees was responsible for 32 complaints, with one individual responsible for 15 cases. The ombudsman found in favour of the complainants in 19 cases. Low surrender values gave rise to 24 complaints.

Several cases dealt with chronic fatigue syndrome or "yuppie flu".

"Its permanence or duration is still uncertain with the result that settlement of disablement claims are often delayed," Kotze said.

Kotze also stressed the importance of life assurers properly advising illiterate people about the nature of life cover, citing the case of numerous labourers who took out policies without proper understanding.

Property fund Sycom ups provision for debt

B/Day 23/10/91 (58)

PETER GALLI

THE SYFRETS and Commercial Union Property Fund (Sycom) has reported income for the year to end-September barely changed at R43,924m from R43,417m previously.

According to fund managers UAL Property Fund Managers, the provisions against doubtful debt recovery were increased, which reduced the income budgeted for distribution.

Dividend income rose 11,5% to R39,587m in the period under review, but interest dropped 45,2% to R4,337m.

A net income of R41,818m was declared for the year (R41,243m previously).

The fund managers had budgeted to pay a final distribution of not less than 12,5c, giving a total distribution of at least 76,5c (76,31c).

Merged

However, a net distributable income a unit lower at 75,18c was declared on an increase in the number of units in issue to 64,85-million from 54,04-million.

Sycom held a rights issue to raise R75,66m during the year.

Sycom and Tricom Property Fund were merged on October 1, 1990 and the comparative figures for 1990 reflect the combined results of the two trusts for the year.

On September 30, 1991 Sycom had about R50m cash available for investment. Project Northwards was sold with effect from that date for R4,07m.

According to the directors of UAL Property Fund Managers, the property market has deteriorated over the past three months and trading conditions are unlikely to improve in the near future.

In addition, more than half of Sycom's leases have expired or will expire in this and the 1992 financial years.

As the letting environment is difficult at present, this would have an adverse effect on Sycom's short-term growth potential, they said.

Distributable income is therefore only expected to rise by 6% in the current year.

PROPERTY

Sage believes in a phased approach

(58)

B|Day 23|10|91

CHARLOTTE MATHEWS

SAGE Properties' guiding principles in commercial and industrial property ventures are to undertake projects on a phased basis to ensure the company is not over-exposed.

It also develops properties in such a manner that they can accommodate small and large tenants.

Sage Properties executive director Simon Mills says: "We have two developments coming on stream shortly, but a depressed letting market means it will take longer to let the space. The locations and designs are good, and we have no fear about letting them in the longer term."

Sage is putting up 16 500m² in phases in an office park, Sandhurst Park, in Sandton, at the corner of Katherine Street and Rivonia Road. Partners in the project are Mines Pension Funds.

The first two buildings of about 5 500m² each are nearing completion.

On land behind the Sunnyside Park Hotel, bought from Southern Suns, Sage is planning an office development with a bulk of 30 000m². There are four buildings of about 7 000m² each and work on clearing the site for the first has begun. Completion is scheduled for 1993.

Each building will be multi-tenanted.

"All Sage's buildings are designed to be sub-divisible, on the philosophy that there are more small space users than large ones," Mills says.

"We prefer smaller tenancies because we don't like being held to ransom by one large tenant.

"A small tenant is not necessarily a small company."

In Hatfield, Pretoria, Sage is developing most of a city block on the corner of Schoeman and Hilda streets.

Schoeman is the main street running from Pretoria to the eastern suburbs.

The development will also have good access to the N4 Witbank and N1 Eastern Bypass.

Sage proposes six buildings and a filling station on the block.

Two buildings totalling 5 000m² of the planned total of 20 000m² in Hatfield Gardens are nearly finished. The park is designed in turn-of-the-century style with white buildings trimmed with green.

"Embassies spring to mind as tenants but we are talking to professional groups as well," Mills says.

Sage is also looking at possible extensions to Sage Centre in Johannesburg CBD.

In Rosebank, on the corner of Jellicoe and Sturdee, behind the Rosebank Hotel but within the Rosebank block, Sage is planning an office development with a London mews atmosphere, designed by MV3 architects.

Win justifies optimism of Southern Life

B/Day 23/10/91

SOUTHERN Life believed it had a good chance of winning the Gold Award this year because the company does not discriminate and equality of opportunity has pride of place, says MD Jan Calitz.

"You could say I was cautiously optimistic, knowing as I do that all staff, irrespective of colour, creed or sex, compete on an equal footing for positions, that there is no differentiation in terms of salary and fringe benefits and that both recognition and remuneration are determined with impartiality on the basis of the contribution made by the individual concerned."

Contributed

Calitz says the company's equal opportunity remuneration policies as well as its maternity leave benefits probably contributed towards the judges' decision.

"We allow staff a fair degree of flexibility in determining the pattern of their working day, which is of immense help in meeting the needs of employer and family," he says.

Several interesting trends have begun to manifest themselves at the Southern regarding the upward mobility of its female staff.

An increasing number of women are being appointed to positions in areas previously regarded as all-male domains — security guards, stores clerks, mail and record room staff, for example.

"What makes this development even more interesting is that the majority of these new appointments are the result of promotions from within the company."

There are five female chartered accountants in Southern's employ, a profession which men have traditionally dominated.

Southern also has three of only six female actuaries in SA in its employ.

One area the company has excelled at is the provision of training and advancement opportunities for all its staff.

There are only six women actuaries in SA and three of them work for Southern Life in Cape Town. They are, from left, Margaret Stevenson, Nikki Franklin and Janine Slawski.

Management is committed to improving the lot of all its employees, Calitz says.

Unlimited

"We have instituted a personal performance management system which makes each employee the master of his or her corporate destiny, with unlimited scope to exercise individual creativity in achieving goals negotiated by them with their immediate superiors," he says.

Calitz is proud that the Southern has successfully eliminated every policy-related obstacle in the way of female advancement.

"We acknowledge that women and their special skills are wanted and needed in the workplace.

"We will continue to use all the ingenuity at our disposal to devise ways of supporting them and meeting their needs," he says.

Aida's path to success was a long, hard pull

WHEN property broker Aida Geffen started her business in 1958, she only had a scooter to her name.

In addition, being one of South Africa's first women to break into this traditionally male domain, she faced more difficulties. It took her eight years, for example, to get her own building society branch.

But from humble beginnings, Aida Real Estate has grown into a multi-million rand business which has almost 100 head office staff — most of them women — and hundreds more women are involved through the 70 franchises.

Bday
23/10/91

Majority

The Aida National Franchise organisation has 335 agents and a head office staff of 65. The majority of them are also women.

The company was the first to introduce franchises to the property business, the first to pioneer show houses and the only estate agency listed on the JSE.

Three of the company's most senior positions are held by women: chairman and MD Aida Geffen, Aida National Franchises MD Charlene Lea, and sales director Joan Richter.

Develop

All have served in these positions for many years. Five women sit on the company's board of directors.

Richter says: "We feel we can acknowledge and develop the skills of women in order to realise an evolving career for them and for women to be able to carve a niche for themselves in a field which has great importance in the new SA."

COMPANIES

Old Mutual health-care policy

SEAN VAN ZYL

OLD Mutual has followed a number of life companies in creating a health-care policy in the light of soaring medical aid costs.

Old Mutual yesterday announced the launch of a range of individual health-care products under "flexicare", which will be made available to the public from early next month. (58)

The products are designed to supplement medical aid cover and help meet unexpected losses resulting from disability, extended stays in hospital and expensive operations.

Old Mutual chief medical officer Ivan Lockyer said many South Africans could be limited to basic medical care by the turn of the century because of inflationary pressures.

He added that medical costs were rising faster than the consumer could accomodate them, "with or without medical aid".

Lockyer said the technological explosion in the medical industry was largely responsible for escalating costs.

He noted, for instance, that a coronary heart bypass, which cost R30 000 today, could rise to about R200 000 by the year 2000, based on present medical cost trends.

He expected SA to follow a medical cost trend similar to that in the US where, as a percentage of GNP, it had climbed from 6% to 12%.

SA's current medical costs accounted for 6% of GNP.

"Someone will have to pay and it won't be the government."

AIDS, Lockyer said, would also have a major impact on the country's future medical costs.

"Against this background, the average man is going to have to consider his options if he is not prepared to compromise on the standard of his medical care."

Foreign input encouraged

Sowetan 24/10/91

(58)

PERM'S chief executive yesterday told visiting foreign diplomats that their governments' input into South Africa's transition was critical.

Welcoming diplomats to a Necor/Old Mutual presentation at Permpark, Perm's Mr Hugh Maclachlan said foreign countries could make an impact by persuading major players in business and politics to help rejuvenate the South African economy.

Speaking later in the day at Emaphupheni near Benoni, a holistic housing scheme developed by Perm, he cited the complex as an illustration of the social units suggested in the Nedcor/Old Mutual presentation.

He said the development was a "a living demonstration that social compacts can work if the required amount of managerial commitment is given by all parties concerned".

Metro gets stake in African Bank

58

By JOSHUA RABOROKO

IN a move posed to set an industry trend, JSE-listed insurance company Metropolitan Life has obtained an equity stake of around 17 percent in the African Bank Limited.

Sowetan 24/10/91

The chief executive officer of the African Bank, Mr Jack Theron, said the new link would be mutally beneficial and would improve the credibility of both institutions who catered for the same market.

He said: "The bank is going to widen its scope of activities and will be able to reach an expanding pool of its chosen clientele.

Beneficial

"I predict that this relationship will deepen and become even more effective. Co-operation of this kind is of special value when it is achieved between two institutions committed to the development of the new South Africa."

A spokesman for Metropolitan Life said: "This move has proved doubly beneficial to us in that is has enabled us to extend our reach, as well as representing a secure investment.

"Synergy between banks and insurance companies is on the increase today and, in fact, it was the African Bank's excellent track record and phenomenal growth - a network doubled in less than a year - that attracted us in the first place," he said.

Futures agency diversifies

ROBERT GENTLE

THE SA Futures Industry Association (Safia), which was instrumental in getting futures up and running more than four years ago, is to diversify into the rest of the financial market, including equities and bonds.

Safia MD Brenda Greyling said the reason for the move was that the movement's initial task — to set up a futures industry in SA — was now completed.

The body will still be known as Safia, but the abbreviation now stands for SA Financial Instruments Association.

It will use its educational products and services as a basis for education, marketing and public relations.

Banks must rationalise to survive, says Absa

B/Day 24/10/91 (58)

ROBERT GENTLE

THE financial services sector is chronically overstaffed compared to the industrial sector and some major rationalisation will have to take place over the next few years if banks are to remain competitive.

That is the conclusion that emerges from statistics released on banking productivity by Amalgamated Banks of SA (Absa).

During the '80s, the manpower employed by the banking sector increased by 47,6%. There are now just under 450 000 people employed in the broad financial services sector.

This growth in staffing requirements occurred at the same time as a sustained technology drive — mainly in computers and automated teller machines (ATMs).

First National Bank — a tight ship by big banks' standards — had staffing costs of R838m during the 1990 financial year. This was 41% of total net interest and other operating income of R2,03bn.

Standard Bank Investment Corporation (Stanbic) has about 27 000 employees and 1 100 ATMs. The other banks are Absa (26 500 employees, 1 100 ATMs), First National Bank (25 000 employees, 700 ATMs), Nedcor (17 700 employees, 920 ATMs) and Bankorp (14 800 employees, 350 ATMs).

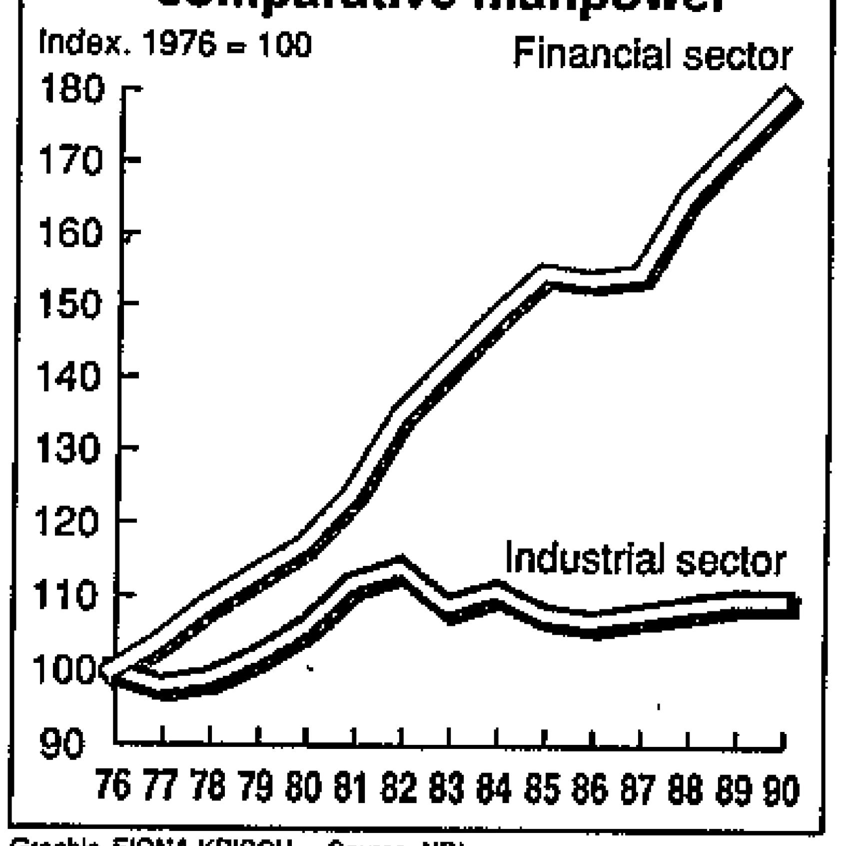
"The productivity of the financial services industry is out of line with other sectors," says Absa deputy CE Danie Cronje.

"An improvement in productivity of 20,8% is required relative to the industrial sector merely to get back to the 1976 level when the two indices were the same."

Banks continue to spend between 3,7% and 4,6% of their interest income on information technology — an annual budget of about R2bn, according to Absa statistics. The estimated replacement cost of the existing technology is R4,2bn.

"Significant economies of scale are required for banks to survive," says Absa executive director resources Mike de Blanche.

Financial and industrial sector - comparative manpower



Graphic FIONA KRISCH Source NPI

Brokers worried about life companies' muscle

A legs
2/10/91 SEAN VAN ZYL (58)

A GROWING number of irate life assurance brokers are concerned that life companies have gained excessive influence over the broking industry.

A recent court case, which was brought by a life brokerage against a Johannesburg-based life assurer concerning the life industry's reverse commission agreement (RCA), has sparked discontent in broking circles.

The controversial RCA is a non-statutory agreement enforced by life companies through the Life Offices Association (LOA) as a last resort to reclaim unearned commissions from brokers on lapsed or cancelled policies. Life brokers are normally paid commission upfront by life companies on business placed with them.

The RCA is imposed by the life industry on brokers who do not pay back unearned commission within a specific period.

Life broking sources claimed that the RCA had been misused on numerous occasions by life offices which reacted too hastily and without giving sufficient notice before enforcing the agreement.

Brokers said inter-industry business agreements should be supervised by an independent body such as the Financial Services Board (FSB) instead of the LOA which represents the life companies. At present the FSB monitors and sets out legislative commission structures for brokers and agents.

Although there are a number of general broker bodies like the SA Insurance Brokers' Association (Saiba), life brokers do not have an exclusive organisation to represent their particular interests.

They said moves by the FSB to deregulate the broking industry were centered on "commission disclosure" and not on freeing the industry to determine its own commission structure.

One broker noted the regulated commission structure had not been adjusted over the past decade despite inflationary pressures. He said the "equivalence of reward agreement" introduced to ensure brokers' and agents' remunerations remained proportionate had become unfairly weighted against the broker because of inflationary costs.

Brokers claimed the LOA had established "too much pull" with the FSB regarding commission remuneration for life assurance. They said the reclaimed commission procedure, which is not regulated by the FSB, was being used as a "money racket" by life companies.

Competition Board chairman Pierre Brooks said he had been keeping a close watch on the situation but was powerless to act unless brokers were prepared to come forward and voice their complaints.

FM 25/10/91 (58)

IMPERIAL HOLDINGS FM 25/10/91 (58)

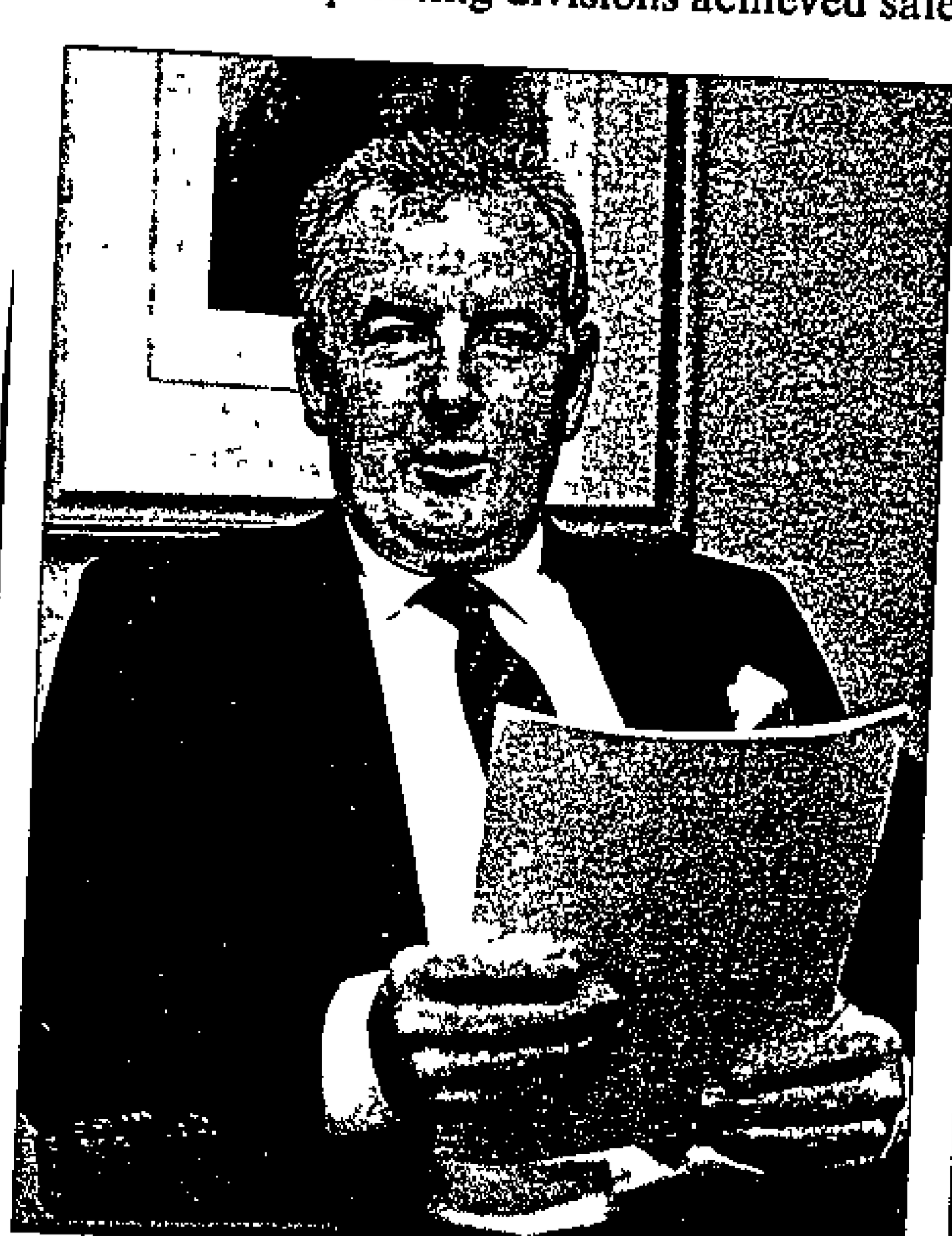
Strong defences

Activities: *Motor trading and related interests.*
Control: *Imperial Group (74,7%).*
Chairman: *W G Lynch.*
Capital structure: *56,2m ords. Market capitalisation: R253m.*
Share market: *Price: 450c. Yields: 3,4% on dividend; 8,5% on earnings; p:e ratio, 11,7; cover, 2,6. 12-month high, 500c; low, 220c. Trading volume last quarter, 39 000 shares.*

Year to June 30	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	1,9	13,3	29,2	14,6
LT debt (Rm)	8,9	13,4	12,5	24,1
Debt:equity ratio	0,18	0,28	0,40	0,27
Shareholders' interest	0,26	0,39	0,40	0,42
Int & leasing cover	6,9	7,8	6,6	9,1
Return on cap (%) ..	17,4	20,5	22,6	22,2
Turnover (Rm)	321	447	546	598
Pre-int profit (Rm) ...	18,6	38,8	50,1	56,8
Pre-int margin (%) ..	5,8	8,7	9,2	9,5
Earnings (c)	15,3	25,1	30,2	38,3
Dividends (c)	6,25	10	12,1	15
Net worth (c)	55	91	107	135

A cursory glance at Imperial's 1991 results could leave the impression that the group had decided not to participate in the recession. Closer examination reveals that it is indeed participating but has managed to prevent the effects from filtering to the bottom line.

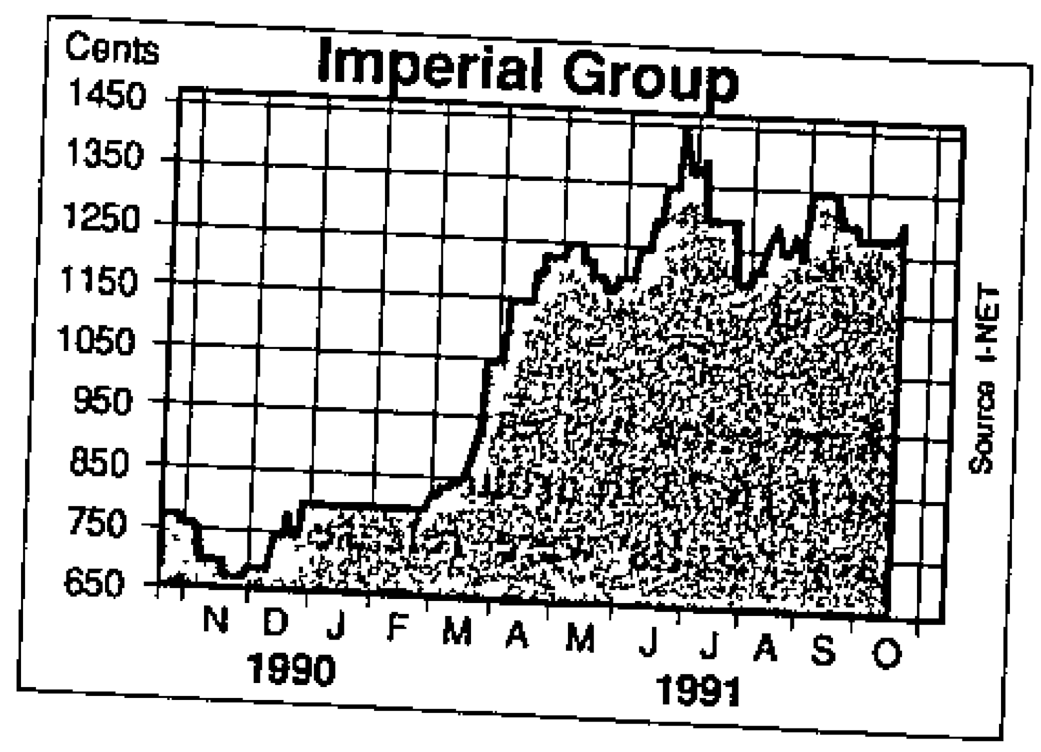
As far as the financial statements are concerned, the impact of the recession is largely confined to the fact that none of the three main operating divisions achieved sales growth anywhere near the inflation rate, indicating a decline in real activity.



Imperial's Lynch ...
still optimistic

On the other hand, every division saw pre-tax profits beat inflation. The across-the-board improvement in margins meant that aggregate pre-tax profit growth of 19% was almost double the turnover gain. Attributable earnings benefitted also from a proportionately smaller minorities charge, and a much-improved contribution from associates (mainly finance and leasing companies). EPS grew by 27%, a growth rate seven percentage points better than in 1990, when sales were up by 22%.

Results such as this can be achieved only through meticulous attention to asset management, thereby ensuring that whatever business is available is conducted as profitably as possible. Less obvious, but perhaps more important, are the benefits being derived from sound forward planning in years past, leading to the development of cohesive, balanced business units which are better able to withstand present trading conditions.



An example would be the 1989 decision to enter the short-term insurance sector with the launching of Regent Insurance Company and, division-wise, the grouping of this operation with the panel shops. On the face of it, these two activities may seem strange bedfellows, but in practice their operations are complementary and, to a degree, mutually supportive. For instance, a high accident claims experience will be negative for the insurance sector, but positive for the repair shops. Where both operations are in-house, at least some of the claims paid out will turn up as profit on the other side, minimising the damage to the group as a whole.

Though Regent's business is confined to motor insurance, it has shown an underwriting profit in each of the two years since its establishment, when most other short-term insurers have suffered badly in this sector. Together with investment income, Regent reported pre-tax profit of R3,6m against R2m in 1990. This R1,6m gain accounted for almost a fifth of Imperial's total profit improvement last year — and this is before taking into account the enhanced results of the panel shops, which benefitted from a higher level of activity.

Another example is the truck rental operation. In contrast to McCarthy, which decided to withdraw from this sector after losing R1,6m net in 1990, Imperial's combined truck systems division (which includes new

Continue →

FM 25/10/91 (58)

vehicle sales) improved its pre-tax profit contribution by 15% and retained its position as the group's biggest single profit earner. Imperial's operations in this field are largely confined to the provision of dedicated transport and full maintenance leasing. Both of these are based on long-term contracts rather than casual transportation which, apart from being overtraded, is highly sensitive to economic conditions.

A noteworthy feature of last year's results was that most profitability ratios were maintained at high levels. The only significant exception was asset turn, which dipped from 2,5 times to 2,3, indicating the group was adding to its asset base at a rate faster than the gain in turnover. To some extent, this reflects expansion of certain activities towards the financial year-end with a view to generating additional business.

Benefits have not yet made an impact on the income statement, but should do so this year. This is among the reasons why chairman Bill Lynch is optimistic the group will achieve another "solid" set of results.

PROFIT SOURCES

	Turnover		**Pre-tax Profit**	
	Rm			
	1990	**1991**	**1990**	**1991**
Car Rental	135,7	141,2	12,3	14,3
Motor Trading	237,9	259,5	12,0	14,3
Truck Systems	156,4	165,3	14,4	16,5
Insurance etc	14,5	31,3	3,8	5,5

Unless the economy picks up sooner than expected, or unless the upturn when it comes is stronger than now seems likely, 1991's 27% improvement in earnings is going to be difficult to repeat — there are limits as to how much blood you can get out of a stone. But shareholders can probably count on earnings at least being maintained in real terms. For Imperial Holdings, that would probably mean EPS of 44c-45c against last year's 38,3c.

At 450c, this would give a forward p:e of 9,8, while if dividends rise in line (as they should) the resulting 17,25c distribution would give a corresponding forward yield of 3,8%. These multiples indicate the share is not overpriced despite its 60% appreciation over the past year.

Brian Thompson

HEALTH (58)

Insurers take over

FM 25/10/91

Old Mutual is the latest financial institution to seek more of the health market. In the past year, over 30 health packages have emerged from the sector. Those from the Mutual and Liberty Life, introduced a month ago, seem the most comprehensive.

There are two reasons for life assurers' surging interest.

Firstly, conventional medical cover schemes will not be able to cope with rising costs — theoretically, as was pointed out at the launch of Old Mutual's Flexicare range of products, it will soon absorb the entire earnings of some workers if traditional levels of medical aid cover are to be maintained.

Clearly, these standards will have to drop.

The other reason is the sheer potential of the health market, in which SA deploys about 6% of GDP. Liberty joint MD Dorian Wharton-Hood has estimated total health-spend at more than R17bn annually; the health insurance segment is growing by more than 25% a year.

Both the Old Mutual scheme and Liberty's "Medical Lifestyle" can be tailored to individual needs. Both are founded in policies which have ultimate investment value.

At the Flexicare launch this week, Old Mutual assistant GM Dave Hudson said some consensus is at last emerging on how medical care could be structured in SA, though several scenarios can be painted. A likely one is a national fund with compulsory membership for those in the formal sector, offering basic benefits, while the State will provide elementary services for the unemployed. People wanting more sophisticated benefits would need to top up, giving life companies their marketing opportunity.

Legislation which would alter the status of medical aid societies could be introduced soon, Hudson hints. ■

LIFE ASSURANCE

FM 25/10/91

Yuppies must wait

(58)

Misleadingly dubbed "yuppie flu", myalgic encephalomyelitis (ME) is posing problems for life assurers. So little seems to be certain about the disease that it throws into question claims under disability clauses.

Life industry ombudsman Judge G P C Kotze looks at the dilemma in his annual report for 1990. He quotes the case of a chiropodist who, after ME was diagnosed by her doctor, was unable to follow her occupation, ceased playing golf, stopped mountaineering and was often confined to bed. The assurer delayed settlement of a disability claim by reason of its complex nature.

After Judge Kotze's intervention, the assurer did admit the claim but noted "there is currently no definite diagnostic test which conclusively proves ... ME. Under these circumstances (we are) unable to pay any claim on this diagnosis. Your claim has therefore been admitted by us on the grounds of your depressed state... "

The life industry sells some 2m policies a year. Ombudsman Kotze handled just 345 complaints. Most dealt with repudiation, misleading or dishonest conduct by salesmen and low surrender values.

Of particular concern is the trend towards telesales marketing of life policies — a marketing ploy which the ombudsman says has its place. Yet "complaints have been received that assurers have failed to disclose all requirements or limitations of the cover offered in a brief telephone conversation. Assurers should be careful to furnish crisp and precise information of all preconditions when conducting business by telephone."

Judge Kotze does not specify the case, but there has recently been a judgment against an assurer which attempted to repudiate a claim on a policy, sold by the direct response

FM 25/10/91 (58)

method, offering cover without evidence of medical condition. Though the assured had not admitted some medical conditions, it was held that the promise of assurance without evidence of health means just that. ■

MASTERBOND FM 25/10/91

Tangled web

(58)

The depth of the Masterbond Trust (MBT) crisis remains unknown. Applying to court for the appointment of curators, Financial Services Board CE Piet Badenhorst says MBT's affairs are "still largely obscure." Its business interests are "enormous" and include the administration of 70 short-term bonds "running into millions of rands."

The appointment of curators to manage the affairs of core companies means buyers will probably pay market-related prices for assets. But that doesn't mean investors won't lose because MBT's inhouse valuations are regarded as well above market value in most cases and funds secured by bonds over the properties may be threatened.

The Board of Executors, which investigated aspects of MBT's business, says that its "normal credit criteria" would allow only R21m of the R72m partbond loans granted

Continue →

by MBT.

Court papers also show how a massive liquidity crisis in the past four months, and inability of financial authorities to stage a rescue, forced MBT to the wall.

Worst off at this stage are the 20 000 investors of more than R500m who still don't know what will become of their funds. Many are pensioners and most investments are in the R20 000-R40 000 bracket.

Neither the government committee probing the collapse, chaired by the Finance Minister's special adviser, Japie Jacobs, nor the curators have any word of comfort. Both ask investors not to contact them but to wait for press statements for information.

Badenhorst says bonds are registered against five major projects: Club Mykonos (R127m); Silverhurst in Cape Town (R27,5m); Fancourt in George (R88m); Marina Martinique near Jeffreys Bay (at least R66m); and Phinda game reserve in northern Natal (R38m).

As at August 11, investors' funds in MBT totalled R523m, of which R417m was in short-term debentures; R36m in short-term money market funds mainly with Pretoria Bank; and R70m in partbond funds.

Badenhorst says MBT has been under close scrutiny by authorities since 1985. At least three inspections of the group's activities were carried out under the Inspection of Financial Institutions Act.

"Technical contraventions" of legislation and "unsatisfactory commercial practices" had been found, but corrected by MBT directors when asked to do so. A report was sent to the Cape Attorney-General in 1989 but he declined to take action.

Badenhorst says a liquidity problem became evident in July when the Reserve Bank was asked to release, prematurely, investments totalling R89m by MBT clients in Pretoria Bank — which is under curatorship.

MBT director Laurence Perrin said early redemption was needed because placing the bank under curatorship has had a negative impact on MBT by undermining investor confidence and slowing the inflow of new investments. Investors are also asking for the immediate repayment of funds. "Given the above scenario, we are deeply concerned that MBT could become illiquid."

Badenhorst says that, apart from this application, MBT directors gave "repeated assurances" that the group did not have liquidity problems and the authorities agreed conditionally to the early release of the Pretoria Bank funds.

At a meeting with the authorities in Pretoria, on August 9, MBT directors agreed to wind down the STD business and submit details of progress by August 31. In a letter to Jacobs, in his capacity as deputy chairman of the FSB, on August 27, MBT chairman Koos Jonker said the plan included:

- ☐ The sale of Phinda for R87m to clients of Hambros Bank in the UK. The bond of R55m was due to be repaid in November;

Continue →

(58)

- ☐ Negotiations for the takeover of Fancourt's R75m bond by another institution. The pending registration of sales would reduce the bond to R35m;
- ☐ Negotiations to convert bonds over Marina Martinique and Silverhurst to five-year debentures; and
- ☐ Negotiations for alternative finance for Club Mykonos, to reduce the bond ~~to~~ R25m and eventually convert it to five-year debentures (see page 76).

However, Jonker said MBT had a "short-term problem" because of the cancellation by Pretoria Bank's curator of the bank's purchase of the debtors' book of Specravest, an MBT company that financed the sale of leisure property. This meant a R60m drain on liquidity.

He asked Jacobs to intervene with the curator and the Reserve Bank to finance at least part of the sale of Spectravest's book.

In a terse reply, three days later, Jacobs expressed concern at Jonker's comments about the Spectravest book and its implications for MBT's liquidity. "You should have known that Pretoria Bank did not have the funds to take over the debtors' book. Neither the curator nor the Reserve Bank can help you in any way in this matter."

Jacobs suggested the book should be sold to a financial institution. He continued: "Our talks on August 9 were aimed at your formulating a strategy to deal with your threatening liquidity problem and attempting to raise finance elsewhere. It seems you have failed. The projects causing liquidity problems seem to have no bearing on the participation bond business, but are related to the property projects being developed.

"In this regard there is no way the authorities can help you overcome your liquidity problems. Please keep us informed of further developments."

The FSB was informed of the proposed liquidation of six MBT companies on October 2 — the day of the court applications. ■

Money supply growth powers on (58)

By Sven Lünsche Star 25/10/91

Money supply growth in September continued at its recent high levels, with the broad measure, M3, rising by a provisionally estimated year-on-year 15,06 percent to R177,58 billion.

This compares with a revised growth rate of 15,21 percent in August and 14,38 percent in July, according to Reserve Bank figures released yesterday.

Change from the fourth quarter 1990 base, which is the base for the Reserve Bank's guidelines this year, was 15,07 percent, well outside the Bank's upper target of 12 percent.

However, these figures are slightly distorted by the inclusion of commercial banks' returns under the revised DTI requirements introduced in February.

The narrowly defined M1A money supply measure increased by 29,58 percent to R33,93 billion in August, M1 was up by 25,66 percent to R59,43 billion and M2 rose 21,35 percent to R150,17 billion.

FINANCIAL INSTITUTIONS

FM 25/10/91

Black power

(58)

A further link between a bank and an insurance company has come about with Metropolitan Life's purchase of 17% of African Bank. The deal, worth R1m, is small in terms of the value of the assurer's investments, but large in terms of the shareholding it gets in return.

Prompting the deal is that both parties feel synergy is created by the fact that 70% of Metropolitan's net premium income is written in African Bank's target market.

Metropolitan Life MD Marius Smith says the purchase is primarily an investment decision. "African Bank gives an 8% dividend yield and has recently shown a high growth pattern," he says.

African Bank will continue selling short-term insurance through its subsidiary, African Brokers, but MD Jack Theron says it is

continue

ECONOMY & FINANCE

FM 25/10/91 (58)

still to be decided whether African Brokers will continue its life business.

The purchase of 17% has been approved by the authorities. Last year, African Bank raised its authorised share capital. ■

Big boys 'are squeezing banks'

BDay 25/10/91

(58)

ROBERT GENTLE

HUGE corporations are using their financial muscle virtually to extort favourable financing terms from banks, thus eroding their already paper-thin margins and seriously undermining their financial health, say a number of leading bankers.

Absa executive director resources Mike de Blanche says these deteriorating terms of trade have even raised the possibility of banks moving out of the corporate market and concentrating on retail banking. "This has already happened in the UK," he says.

The favourable rates at which SA corporates finance themselves are way below those that ordinary customers can command, and effectively result in the latter subsidising the former.

Bankorp chairman Piet Liebenberg, in his 1991 annual review, says the increasing competition in SA banking "gives major corporate clients tremendous bargaining power over the banks in terms of inducing them to trim already paper-thin margins".

It is against this background that SA banks need to consider their strategy for meeting additional banking competition from foreign banks now that international links are being normalised.

Standard Bank deputy MD Denzil Busse says big corporates are undoubtedly able to gain favourable financing terms, but that this probably exists in other sectors of the economy as well — for example supermarkets vis-á-vis their suppliers.

But he says it is up to banks to turn down this corporate business if they think it is not profitable enough.

Supporting that view is First National Bank group treasurer Ken Russell, who says competition is a fact of life and corporate treasurers have a duty to obtain the best possible borrowing rates.

Arthur Goodman, senior manager in the treasury of Gencor's mining arm Genmin, says it is a case of certain banks trying to undercut each other rather than corporates playing banks off against each other.

He says big corporates like the mining houses are currently strong cash generators and are not heavy borrowers. They have continuing relations with a number of house banks and will not necessarily switch banks just to save a few percentage points on a deal.

As far as foreign loans are concerned, big corporates prefer to deal directly with foreign banks "for strategic and cost-saving reasons".

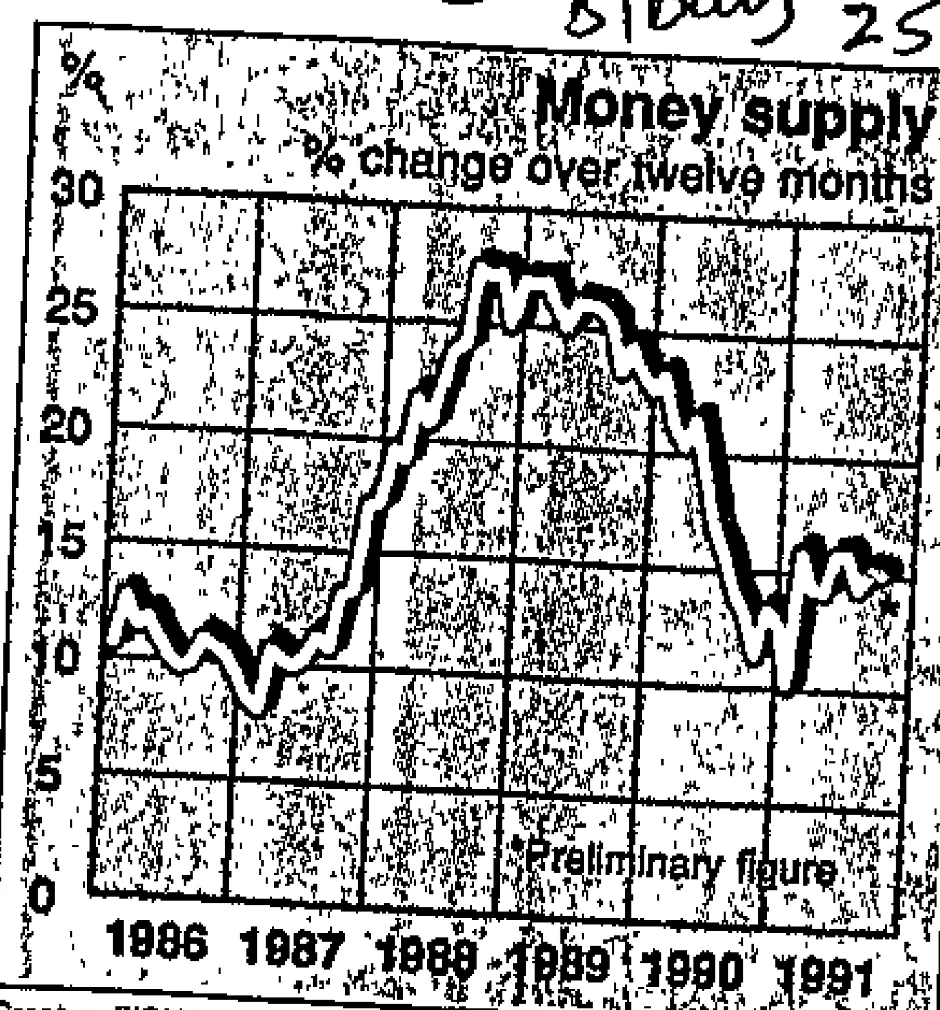
However, for one-off funding transactions, it is "normal business practice to shop around for the best price", says Goodman.

Competition Board chairman Pierre Brooks says undue influence by corporates on banks' lending policies is "within the bounds of possibility". Furthermore, the size of these conglomerates can mean that certain subsidiary or associate companies obtain funding they will normally not obtain on their own.

However, the board will only act if it receives specific complaints that competition has been allegedly restricted. No such complaints have been received.

M3 figure moving to target

B/Day 25/10/91



Graphic FIONA KRISCH Source SA RESERVE BANK

58

SIMON WILLSON

BROAD money supply growth remains well above the authorities' guidelines for calendar 1991, but the rate of monetary expansion most keenly watched by the Reserve Bank continues to dip towards the Bank's target range.

Figures released yesterday by the Bank show the annual rate of growth in M3, the broad measure of money in circulation, at a preliminary 15,1% in September against growth in the year to August of a final 15,2%, revised from a preliminary 14,5%.

Although the change in year-on-year M3 growth is minimal, the rolling increase in M3 based on the average for the fourth quarter of 1990 has been falling steadily

☐ To Page 2

I... figures

B/Day 25/10/91

58

☐ From Page 1

tow...s the 8%-12% guideline set by the aut... es earlier this year. The rolling M3 increase to September slowed to 15,1% from 16,7% in August — it stood at 23,4% as recently as May.

Bankorp chief economist Nick Barnardt said it was clear from the September M3 figures that the year-on-year increase in the aggregate for the fourth quarter of this year would be above the 8%-12% guideline, with an outturn close to 15%.

This figure was, however, still highly distorted by reintermediation associated with the Deposit-Taking Institutions Act. A more accurate picture was gained by looking at the underlying trend between February and September this year.

"The seasonally adjusted, annualised rate of increase in M3 between February and September looks like a single-digit figure. We foresee that the year-on-year change in M3 will also decline to single digits during the first and second quarters of next year."

Barnardt said such a slowing underlying trend should contribute to a reduction in official lending rates during the course of next year, as it would reflect a slowdown in the demand for credit.

A possible further distortion to the money supply aggregates mentioned by Barnardt was the impact of the introduction of VAT. There had been a clear trend of postponement of capital expenditure until after the implementation of VAT. There was a matching expectation that corporate spending on capital products would, therefore, rise once the tax was levied.

Merchant banks object to bond transaction proposals

B/Day 25/10/91 (58)

ROBERT GENTLE

MERCHANT banks were yesterday up in arms over proposals that would force them to have their bond transactions monitored by the five big banks.

The proposals are part of the rules and regulations which will govern the trading of bonds when the market — known as the Bond Market Assocation (BMA) — becomes formalised next year.

The proposals have been circulated to BMA members. Although they have been known for some time, they have taken on a certain urgency now that a formal bond market draws near and final decisions have to be made.

The controversy concerns the specific clause that all bond transactions be guaranteed by a well capitalised company known as a risk manager.

These are the big five banks — Amalgamated Banks of SA (Absa), Nedcor, Bankorp, First National Bank and Standard Bank.

Gripe

These risk managers would determine the extent to which bond market players would be able to trade, based on standard risk parameters like capital adequacy and market exposure.

The gripe of the smaller trading banks — notably well known merchant banks — is that they are quite capable of handling their own risk management, which they say is in many cases better than that of certain commercial banks.

"We've been managing our own risk for years," said one merchant banker, who like the others spoke on condition of anonymity. "We don't see why we should now pay to get it done by someone else."

Another fear expressed was that these risk managers could well trade on the privileged information they would have on their clients. Confidentiality might not be achieved.

Greg Grigoratos, vice-president corporate banking at Firstcorp and representative of the clearing banks on the BMA, said the concept of guaranteeing bond trades was important to achieve a high level of security and liquidity on the one hand, and the elimination of counterparty risk (the risk of one party defaulting on a deal) on the other.

"Security and guarantees are the norm in international markets today, and new overseas investors will not invest here without them," he said.

Provision

Grigoratos said it was no different in concept from the SA Futures Exchange where trades are also guaranteed through well capitalised clearing members, most of whom are also big banks.

Fears of lack of confidentiality were unfounded, he said. In SA's competitive banking market, any bank exploiting its privileged client information would run the risk of its clients turning elsewhere.

BMA CE Graham Lund said the issue of risk management should be seen in the wider context of the Financial Markets Control Act, which already governs futures and will cover bonds next year.

Section 17-1-u of the Act says provision shall be made "for ensuring the performance of transactions effected on the financial market in question either by the financial exchanges' own arrangements or by means of arrangements made by the exchange with a recognised clearing house".

He said the present list of risk managers was not permanent, and there was no reason why other firms — including certain merchant banks — could not join later on subject to BMA rules.

Lund added that there was a further group of risk managers who, by virtue of their financial standing, would be allowed to manage their risk themselves. These included parastatals like Eskom and Transnet, insurance giants Sanlam and Old Mutual, and the JSE.

Lloyd's sees SA income rise

B Day 25/10/91 (58) (49)

SEAN VAN ZYL

LLOYD'S of London's premium income from the SA market was expected to rise by at least 31% to more than £100m in 1991, chairman David Coleridge said in Johannesburg yesterday.

Coleridge is the first Lloyd's chairman to have visited SA since the market's initial involvement in the country 100 years ago. Coleridge's stay in SA includes a dinner appointment with President F W de Klerk.

Coleridge said he was not perturbed regarding the massive £500m loss which the market disclosed earlier this year for its 1988 account. He said the loss was offset by the £500m profit which Lloyd's reported for its 1987 trading period.

He also dispelled speculation sparked in the UK Press that Lloyd's was experiencing problems meeting its underwriting commitments. "Lloyd's has disclosed assets of £17,6bn compared with liabilities of £12,9bn." Furthermore, Lloyd's members' total assets were probably around £88bn, Coleridge noted.

However, he conceded a number of syndicates, mostly in the high risk bracket, had suffered major losses over the past two years, resulting in several Lloyd's members resigning this year. Of the 30 000 Lloyd's members, Coleridge expected about 4 000 to resign by the end of 1991. However, he said an additional 200 members were expected to come on to the books this year while 6 000 existing members had already indicated their willingness to increase underwriting capacity for 1992.

As a result, Coleridge anticipated a 10% drop in Lloyd's capacity to £10bn for 1992 compared with this year's £11bn.

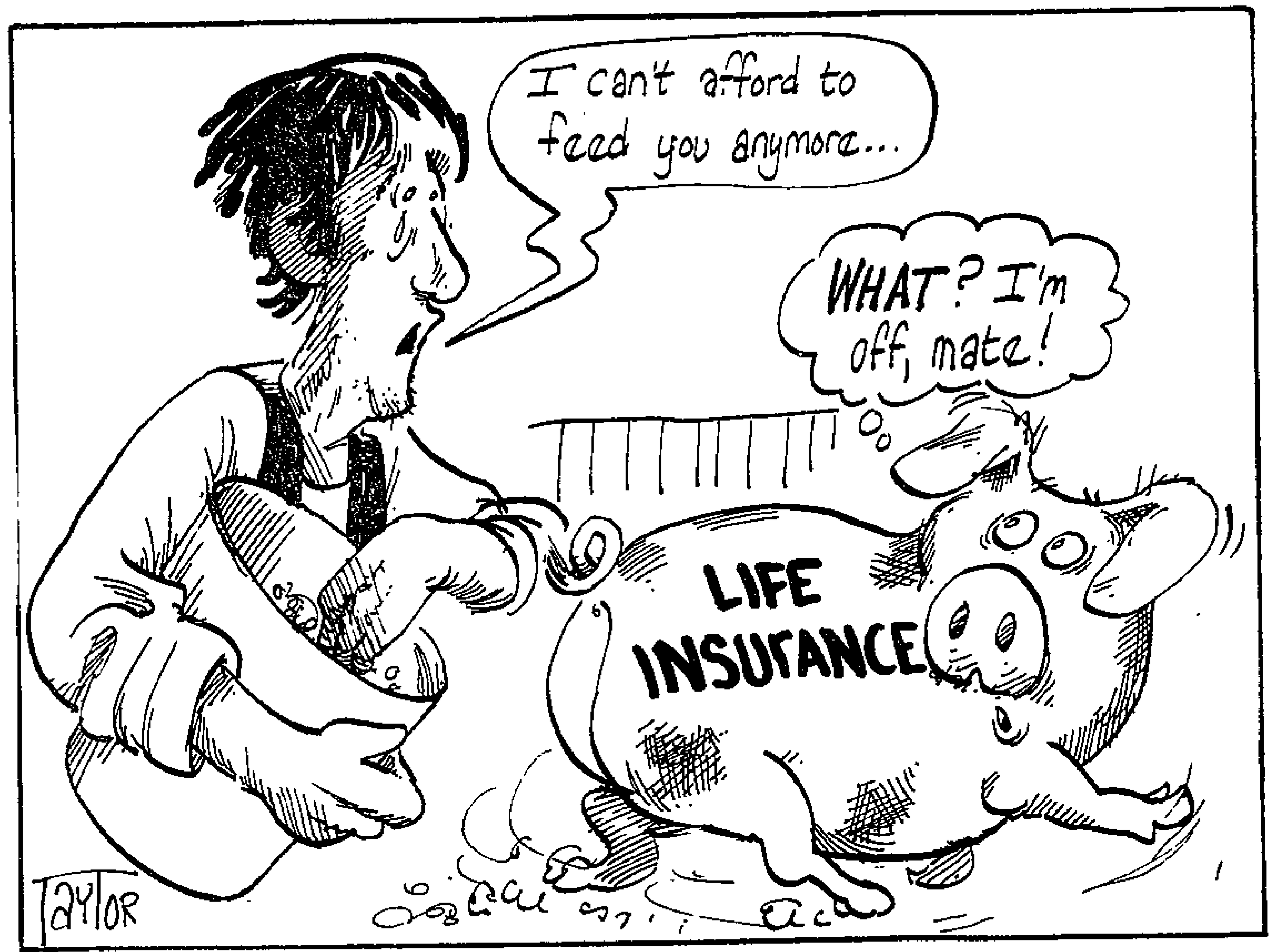
Lloyd's is currently ranked as the seventh or eighth largest insurer in SA. However, Coleridge said the market had no intentions of launching "an all out attack" on the local market to capture market share from local operators. He noted Lloyd's had maintained roughly a 6% share of the SA market in recent years.

Coleridge said local premium rates, applying to both commercial and personal business, would climb in 1992. However, he expected a major upward correction in industrial and commercial rates worldwide in the coming year due to major catastrophe losses and the extremely low level of rates.

Life policy holders are opting out

Star 26/10/91 58

. . . and throwing away millions of rands a year



MAGNUS HEYSTEK

POLICY lapses are costing the South African public hundreds of millions of rands a year.

Of all the policies written by South Africa's life offices in 1987 almost 30 percent have lapsed (see table).

At some companies as much as 60 percent of policies written in 1987 have since lapsed, an article in Insurance Times, reveals.

Sanlam had the lowest lapse ratio for the industry in 1987 with only 9,4 percent.

This is money down the drain so far as the policy holder is concerned as any policy cancelled within two years of inception carries no value for the holder.

The policy isn't worth anything because all the premiums in the first two years of any policy goes towards recouping agent's commission and other administrative costs of the company.

Apart from policyholders who find they cannot afford to keep up payments, other lapses occur when the policyholderdecides it wasn't what he really wanted after all.

The shocking state of affairs begs a number of questions, some of which may cast doubt on standards of the industry — particularly where sales and marketing are concerned.

Most pertinent is whether assurers and their agents are sacrificing client service and satisfaction for the sake of sales. However, industry spokesmen point out that when analysing lapse rates, it's important to consider a number of factors.

Troubled years

For instance, the socio-economic position of the client base of a particular company as well as the economic situation of the country as a whole needs to be taken into consideration, they say.

A spokesman for AA Life also points out that the very high policy lapse rate for the company can be directly atttributed to the demise of AA Mutual in 1986 which had a negative impact on policyholders' perception.

The lapse ratios in the two years preceding the collapse of AA Mutual was only 21 and 22 percent respectively, says Mr Bruce Howard, managing director AA Life.

Since the troubled years of 1986 and 1987 lapse ratios have come down to more acceptable levels — 34 percent in 1988 and 16,8 percent in 1989.

The financial position of the client can also have a bearing. The policyholder may also allow a contract to lapse after finding another product which is more appropriate to his needs.

But this option is nothing more than a waste of money and can be avoided by better guidance from insurance intermediaries and life companies. It is a common cause of complaint by consumers that they land up with a totally different product from the one they thought they were getting.

Savings goal

Alternatively, they purchase contracts that they very often don't understand.

According to Mr Jurie Wessels, deputy director of the Life Offices Association (LOA) a policy lapse represents the collapse of somebody's financial planing and should be avoided at all costs.

"It will mean that the person will find it far more difficult to reach his or her long term savings goals, especially in a country with high inflation. It also means the loss of insurance cover for the dependants of the insured life. And, off course, it means the loss of premiums already paid," he said.

"In times of financial difficulty people should weigh their options very carefully. Allowing a life policy to lapse should be the very last option," he added.

Poor selling techniques are, however, a consideration and included here would be the switching of policies following the influence over the client by an opposition agent. A clause in the LOA's code of conduct specifically prevents such switching ploys.

Life office bashing is not a new pastime and is certainly not restricted to the South African market. Assurers here have come under fire for a number of reasons, in particular the high commission levels paid during the first two years after the policy is issued.

Commission

Although commission structures in South Africa are available to the public, life companies have never been particularly open about what proportion of their client's premium goes to the agent or broker.

But the commission level and the way it is paid can have a significant bearing on policy sales and lapses. Where life policies are concerned, commissions can be paid to a maximum of 85 percent of the first year's premiums in the first year of the policy's life.

The agent or broker can receive up to a further 33 percent of the first years' commission as payment in the second year.

However, some companies, concerned about the high lapse ratio will reverse the full commission paid to an agent or broker should the policy lapse within the first six months of its life. Thereafter commission continues to be reversed on a diminishing basis until the end of the first year.

Adds Howard: "It's in no one's interest to have a policy lapse. The client, the company and the salesperson are disadvantaged.

" Like most life assurers AA Life needs a policy to run for at least four years before the company starts to make a profit," he says.

Company lapse rates for 1987

ANNUAL PREMIUMS (R000)

Company	New	Lapsed	Lapse rate(%)
AA Life	10 324	5 974	57,9
African Life	4 613	1 643	35,6
Allied Insurance	2 890	874	30,2
Anchor Life	4 257	1 493	35,1
ACA	3 217	1 247	38,8
Charter Life	5 550	1 977	35,6
Commercial Union	13 923	2 235	16,1
Crusader Life	6 534	828	12,7
Fedlife	20 501	2 336	11,4
IGI Life	6 196	2 581	41,7
Liberty Life	114 552	13 161	11,5
Lifegro	49 701	14 124	28,4
Metropolitan	45 410	14 574	32,7
Momentum	8 088	3 195	39,5
New Era	165	99	60,0
Norwich Life	30 105	4 852	16,1
Protea assurance	4 957	781	15,8
Prudential	16 546	1 735	10,5
Rand Life	287	132	46,0
Rentmeester	3 745	1 826	48,8
Old Mutual	337 133	38 623	11,5
Saambou	739	190	25,7
Sage Life	21 193	5 159	24,3
Sanlam	379 885	35 836	9,4
Southern Life	80 455	14 694	18,3
StanGen	8 378	1 533	18,3
UBS Insurance	6 057	2 100	34,7
Industry average			**28,4**

SOURCE. Registrar of Insurance Annual report RP 53/1989

Bank stake for Metlife (58)

Business Times Reporter

FOLLOWING an industry trend, JSE-listed assurer Metropolitan Life has taken a 17% stake in the African Bank for an undisclosed sum.

African Bank chief executive officer Jack Theron says the link will benefit both institutions. St Times (Buss)

"We are widening our activities and will be able to draw on a bigger client pool," says Mr Theron. 27/10/91.

Group had R30m bond on R1m land

S Times (CM) 27/10/91 (58)

27/10/91

Sunday Times Reporter

BONDS of R30 million were granted on two properties adjacent to Club Mykonos that were probably worth only R1 million and had "no commercial or other value" to a Masterbond Trust Group company.

This emerged in papers handed to Mr Justice W E Cooper, in the Supreme Court, Cape Town, on Friday in an Ex parte application by the executive officer of the Financial Services Board, Mr Petrus Badenhorst, to obtain curatorship of Masterbond Holdings.

Protect

In papers, Mr Petrus Johannes Badenhorst said it was vital that curators take control of Masterbond Holdings as soon as possible.

He claimed it was imperative that the curators be able to examine the affairs of the Masterbond Trust Group "without obstruction" so a strategy could be devised to best protect the interests of investors and creditors of the Masterbond Trust Group.

In an affidavit attached to the application, Mr Horton Griffiths, a chartered accountant, claimed a R30-million bond had been granted for properties adjoining Club Mykonos on the West Coast and registered in the name of Mykonos Weskus Beleggings (Pty) Ltd, a company in the Masterbond Group.

"Apart from its potential as a future development area, the land in question has no commercial or other value, save for recreation purposes, and I believe it is probable its value is R1 million," Mr Griffiths said.

The bonds in question were in favour of Masterbond Participation Trust Managers, in which Masterbond Trust had a 10 percent interest.

He also said the liquidator of Club Mykonos Langebaan Ltd, a Mr Rossouw, had told him that "large amounts" of the R30 million had been paid out in "consultancy fees".

The funds used for the bond appeared to have been trust funds which were under the control of Masterbond Trust as part of its group activities and subsequently placed with Mykonos Weskus Beleggings, Mr Griffiths said.

Troubled

Mr Justice W E Cooper ordered that Masterbond Holdings be placed under the curatorship of Mr Willem Johannes Wilken, Mr Jozua Francois Malherbe and Mr Arnold Galombik.

The court also ruled that the Masterbond Trust Group directors, Mr Koos Jonker and Mr Johan Brits, be stripped of their powers to run the troubled company.

The return date of the application is February 12.

House repossessions soar 80% to R430m

S/Times (Buss) 27/10/91

By TERRY BETTY

HOUSE repossessions by major building societies reached R430-million in June this year — an 80% increase on March last year.

Bankorp economist Emile van Zyl says the trend is expected to continue until mid-1992 when the hoped-for upswing is expected to gain momentum.

Financial institutions that previously functioned as building societies have been hit harder than newcomers to the home-loan business, largely because they have older books.

NBS assistant general manager, finance, Paul Leafwright says his company's repossessions increased by 430% from R17-million in March 1989 to R90-million now. The figure is 1,6% of the NBS mortgage book.

Market sources say UBS, the Perm and Allied have been affected to a similar extent, but the trio refuse to disclose figures.

Allied managing director Bob Aldworth says repossessions have been across the board, but are concentrated in the under-R100 000 range.

Burden

Mr Leafwright says growing unemployment is largely to blame.

It has caused property prices in some mining towns to drop because retrenched workers have have left to seek jobs elsewhere.

High interest rates have also taken their toll, especially among borrowers with bonds from the old building societies.

Mr Leafwright says many people took out bonds when the rate was about 13% in the mid-1980s. With interest rates now about 20%, there has been a 50% increase in monthly repayments.

An added burden for borrowers with bonds subsidised by employers is that such subsidies are now fully taxed.

Banks are generally unwilling to repossess houses because it costs about them R9 000 a month until a R100 000 property is sold, says Mr Aldworth.

Among the costs are legal fees for attaching the property and having the family evicted. Others are the opportunity cost of lost revenue, insurance, vandalism and installing a guard on the site.

Mr Aldworth says that as long as a member of the family is receiving an income, payments can be rescheduled. But little can be done to prevent increasing repossessions while unemployment grows.

Mr Aldworth says if a lender allowed a family stay in the house, there would be no incentive for others borrowers to meet their payments.

Mr Leafwright says NBS always tries to sell the house as soon as possible. It is generally willing to take a 20% knock before looking at other options. On average, NBS loses 10% when reselling repossessed houses.

The other option is to rent out the house which yields a return and avoids the need for a guard. If neither option is possible, the house stands empty.

Mr Leafwright says NBS has had some houses on its books for about five years.

Banks have not been in the business long enough to make many repossessions.

Impact

A First National Bank spokesman says the company became active in the house loan market again only at the beginning of the year. It was little involved in the mid-1980s when most of the defaulting loans were issued.

But he expects FNB to feel the impact in the year ahead because borrowers are beginning to feel the pinch.

FNB has repossessed 206 properties worth about R11-million — less than 1% of its housing loan book.

Bankorp group restructuring operations

(58)

CT 28/10/91

Own Correspondent

JOHANNESBURG. — Bankorp has transferred 1,2m accounts involving R5bn in assets and R3,5bn in liabilities between divisions.

More than 100 branches have been closed and 80 new offices and service points opened.

A glimpse into the mammoth task of restructuring the Bankorp group was given by executive chairman Piet Liebenberg in his annual review.

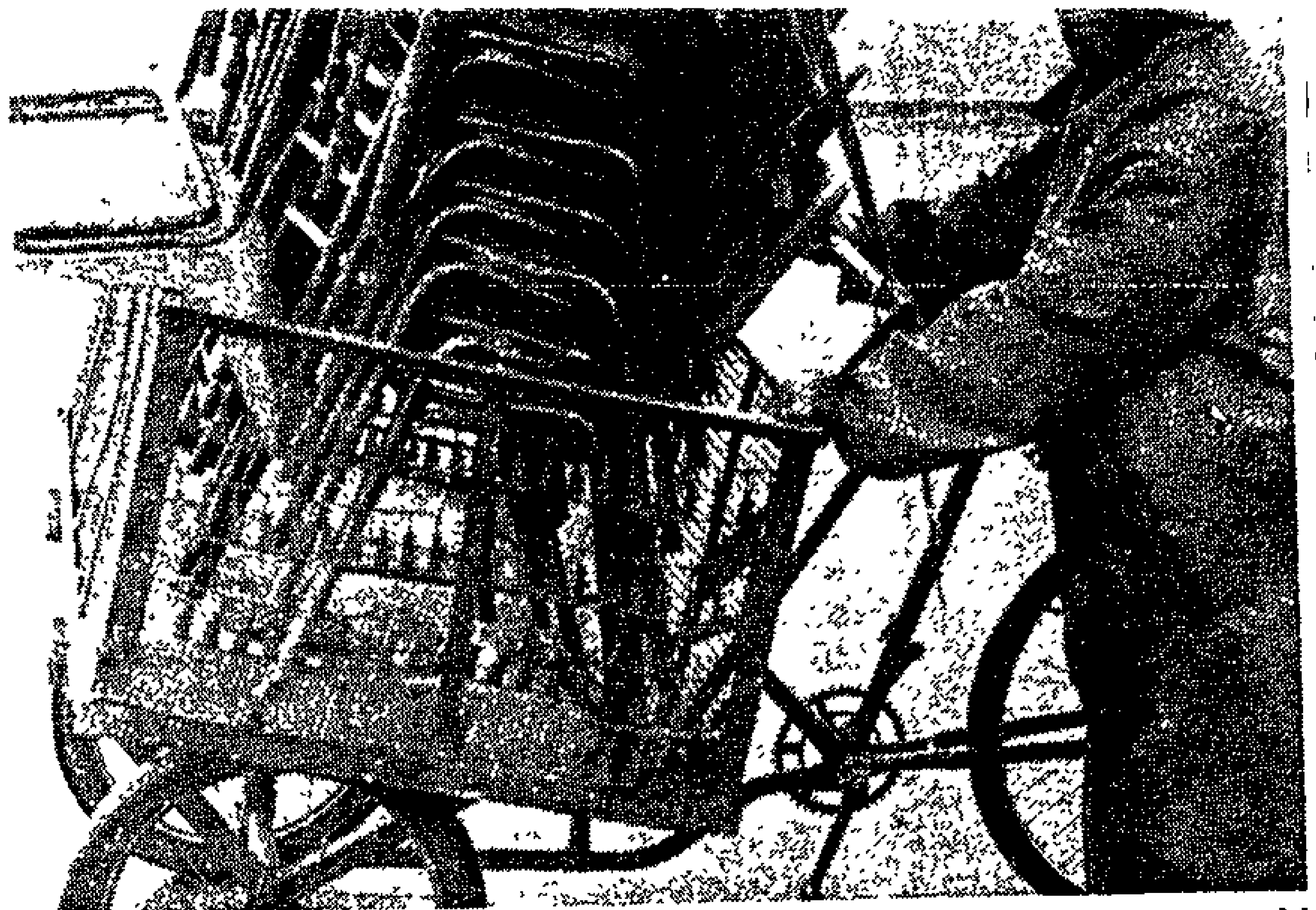
Activities

The restructure resulted in the grouping of activities into six divisions, leading to improved focus on operations and reducing duplication of services.

The rationalisation generated additional training needs, and 4 500 personnel transferred within the group had had to adapt to new procedures.

Liebenberg said the time scale for the achievement of Bankorp's recovery was still three to five years from July 1990.

Liebenberg's contract as executive chairman was extended by three years to 1997.



It's business as usual, come rain, wind or sun for Daveyton's 65-year-old Mrs Jane Twala as she peddles her wares, chairs for hire, with the aid of a three-wheeled bicycle.

Fewer first-time buyers than before

Sowetan 28/10/91.

By JOSHUA RABOROKO

THE first-time home owner is an endangered species, according to Camdon's Group Marketing Director, Mr Bryn Hossack.

Reacting to the news that home subsidies are effectively being phased out by taxing them at almost the same level as the current bond rates, he said there was a distinct lack of support from Government for the first-time owner.

A fresh approach to the situation was called for, he said. Rising home costs, expensive bond finance and high taxation rates have put home ownership beyond the reach of thousands of South Africans.

A potential brain drain to other parts of the world was one possible consequence.

Home ownership was one of the greatest aspirations of South Africans. There was now a strong possibility that only existing home owners would be able to afford to buy property by trading into another property, using the appreciated value of their property to do so.

He said: "There are already far fewer first-time home owners and ultimately this is unhealthy for the vitally important property market - and for the long term prosperity of South Africans in general.

"First-time home ownership is literally the first step towards long-term wealth creation. For the majority of South Africans property ownership is the one certain route to creation of an asset in their retirement years.

"With the dubious compliments of inflation, that asset appreciates more rapidly than most other investments open to the average man in the street.

Hurdle

"However, the initial hurdle towards property ownership is often the most difficult one and the authorities, in my view, should be bending over backwards to make it possible for first-time home owners to acquire a stake in property.

He said that developers and banks have stepped in at their own initiative and have introduced various plans to make first-time ownership easier.

Laudable though that might be, he did not believe it was the developer's problem or for that matter the task of the institutions to provide such assistance.

Don't complain about competition, banks told

BDay 28/10/91

ROBERT GENTLE (58)

INSTEAD of complaining about competition, banks should consider it an opportunity to diversify and come up with new products, Association of Corporate Treasurers (Actsa) chairman Bruce Sinclair has said.

He was reacting last week to remarks by leading bankers that corporates exploited the competitive banking system to extort favourable financing terms from banks, putting pressure on their thin margins.

"Competition is a way of life," said Sinclair, who is also financial director of furniture-listed Amrel, in the SA Breweries stable. "It should be seen as an opportunity rather than a threat."

He conceded that the huge cash resources of corporates meant they were able to obtain better financing terms, but said this was merely a reflection of the risk-reward profile.

"A better financial situation means less risk, which in turn translates into a more favourable price for the borrower," said Sinclair. "However, just as it is a corporate treasurer's duty to obtain the best financing terms, it is also a banker's duty to turn down these terms if he is uncomfortable with them."

He also disputed the notion that corporates used their financial muscle to play bankers off against each other. Corporates were into relationship banking, said Sinclair, and looked at a whole range of factors besides price.

"It is good to have a spread of banks for reasons of variety of service and risk management," he said. "This diversification is mutually advantageous for both banks and corporates from a risk exposure point of view."

On the view that certain companies within huge conglomerates obtained finance merely because of the presence of a "big daddy", Sinclair said it was irresponsible for any bank to grant credit to a company without running creditworthy tests or obtaining a guarantee from the holding company.

Bankorp moves 1,2-million accounts

MERVYN HARRIS

BANKORP has transferred 1,2-million accounts involving R5bn in assets and R3,5bn in liabilities between divisions. More than 100 branches have been closed and 80 new offices and service points opened. (58)

A glimpse into the mammoth ~~task~~ of restructuring the Bankorp group was given by executive chairman Piet Liebenberg in his annual review. B/Day 28/10/91

The restructure resulted in the grouping of activities into six divisions, leading to improved focus on operations and reducing duplication of services. The rationalisation generated additional training needs, and 4 500 personnel transferred within the group had had to adapt to new procedures.

Liebenberg said the time scale for the achievement of Bankorp's recovery was still three to five years from July 1990. Liebenberg's contract as executive chairman was extended by three years to 1997.

Senbank props up flagging Rusfurn

B/Day 28/10/91 (58)

MARCIA KLEIN

A SENBANK-led consortium of banks hopes that a major refinancing package will turn the tables for ailing furniture group Rusfurn.

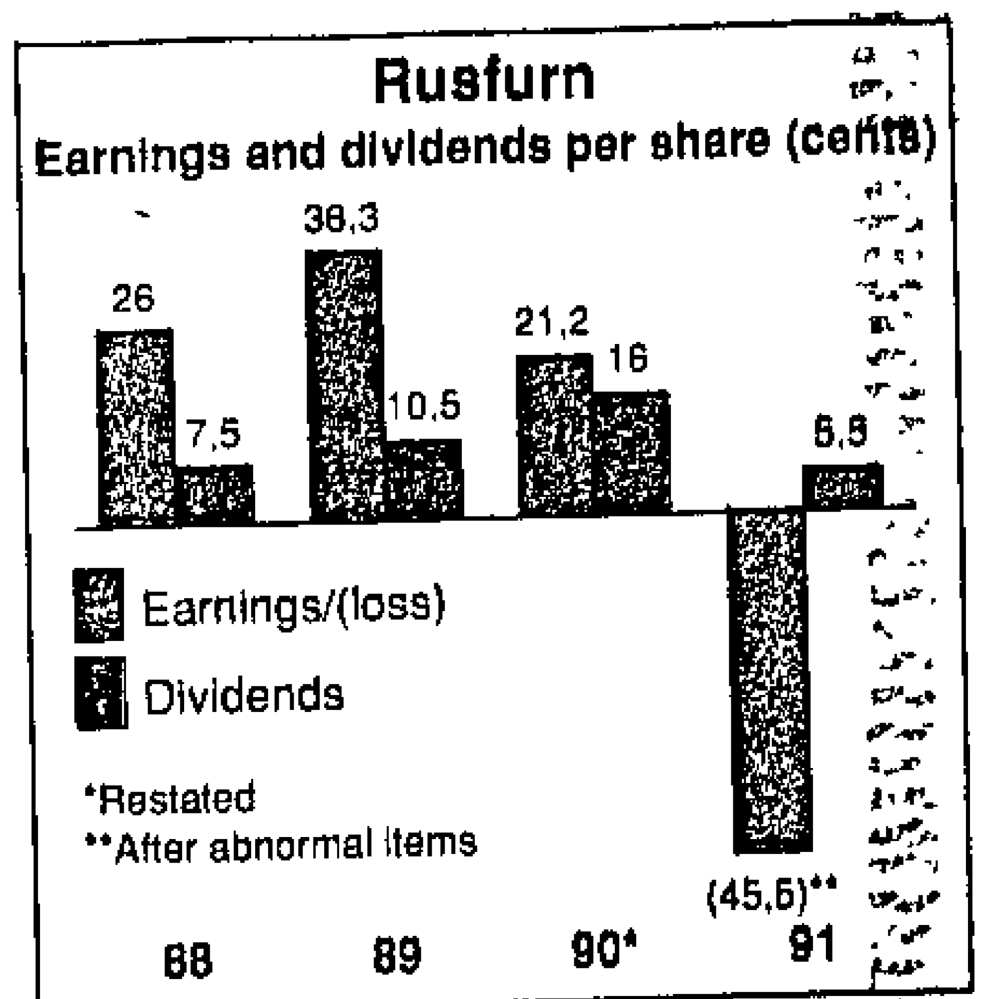
Announcing an attributable loss of R79,2m for the year to end-June, new executive chairman Laurie Korsten said the refinancing package would "re-incentivise" management by relieving it of its intolerable debt burden and its cash flow crisis.

The recovery package includes a R250m rights issue of convertible debentures underwritten by Senbank, which will acquire control of the group from its directors and Unidev.

Bankorp chairman and Senbank CE Piet Liebenberg said it also included a funding agreement which would see a continuation of existing bank lines of R461m for at least four years, and fresh debt funding of R200m.

Top executives had been released from their 1989 management buyout obligations (in which certain earnings and dividends had to be achieved for them to increase their stakes), but were obliged to remain with the group until 1994. Being free of funding problems, management could focus on the business, Liebenberg said.

In order to improve operational focus, the group would be reorganised into three divisions reporting directly to Korsten.



Graphic FIONA KRISCH Source RUSFURN

Financing and banking activities would come under executive director Bill Pienaar, furniture and household goods trading would be restructured under Ian Sturrock, and Dion would be run separately under MD Jannie Els.

Senbank has taken control of Rusfurn directors' 25,8% stake and of the 16,4% stake of Unidev subsidiary Gillis Mason, giving it 42,2% of the issued share capital of Rusfurn.

Senbank has been exempted from the

☐ To Page 2

Rusfurn

B/Day 28/10/91.

obligation of making an offer to minorities due to the serious financial position of the group and the extent and nature of the support Rusfurn will be getting from Senbank and other banks.

Last year saw earnings for the group leap 54,5% to R92,9m, and a full year dividend of 16c declared. Directors attributed the group's success solely to internal efficiencies and market share gains, and were confident of a real growth in earnings in financial 1991.

This year the financial situation of the group paints a different picture.

An abnormal item of R154,9m refers mainly to revised provisions for bad debt arrears, bringing the bad debt provision from 19% of gross debtors to 30,1%. Turn-

(58) ☐ From Page 1

over, which had increased by 37,8% in the previous year, showed a pedestrian 9,5% growth to R1,41bn (R1,29bn).

A squeeze on margins and increased provisions for bad debt levels reduced operating income by 17,2% to R128,3m (R154,9m), off a pedestrian 9,5% growth in turnover to R1,4bn (R1,3bn).

Increased borrowings to fund the growing debtors ledger resulted in an 87,5% hike in financing costs to R73,6m (R39,3m), and a 52,7% decline in pre-tax income to R54,7m (R115,6m).

After the abnormal item and a R47,3m provision for deferred tax, Rusfurn showed a R57,3m loss after tax compared to restated earnings of R56,1m in the previous year.

THE MONEY MARKETS by Sharon Wood

Nothing on the horizon to upset money markets

B/Day 28/10/91.

NOT even a Halloween pumpkin or the imminent month-end look as if they will break the endless monotony in money markets.

Rates remained static, with the BA rate cemented at 16,65% throughout the week and NCD rates easing only slightly on Thursday.

Demand for assets remained strong but there was not enough to meet the demand. The demand is based on current low call rates, which at 16,26% are a full 74 points below the rediscount rate and are ~~yielding~~ less than 17%.

(58

Matured

Call rates tried to kick up to 16,5% but held at about 16%.

The emphasis was on the three-month area with Treasury Bill rates at 16,26% down from last week's 16,36%. The R500m Treasury Bills which matured last Thursday were not rolled over, leaving them in the market.

A source of interest was higher money market shortages during the week, which moved up to within the usual R1,5bn and above range. The previous week saw shortages below R1bn and markets at one stage thought the Reserve Bank had changed its thinking and was happy with the smaller shortages, but last week's events wiped out this wishful thinking.

On Thursday the shortage reached R1,9bn but analysts say they do not think the Reserve Bank wants the shortage to be as high as R2bn and is content with a shortage of R1,5bn.

No one in the money market is holding his breath for movement over the month-end. In fact, October and November are relatively easy month-ends and only December will give markets some activity.

October is devoid of any tax payments and nothing is going out of the system, other than interest payments on stock. Shortages are not expected to change through the month-end.

Lack of movement in the money market saw dealers looking at another bull run on the capital market on Friday afternoon which made gilts even more attractive.

JSE trade volumes in the capital market were more than R1bn higher than usual at R2,8bn on Friday. The bull run was seen as a technical correction with no quality buying of stock and a dearth of supply.

As long as Reserve Bank Governor Chris Stals ignores business calls to relieve the pressure by bringing down the Bank rate and high government spending remains out of kilter with the Bank's tight grip on monetary conditions, it will be optimistic to look forward to an eye-catching money market.

Conduct of warders queried by judge

29/10/91

B/Day

Own Correspondent

DURBAN — The judge presiding over the inquest into the shooting to death of Chief Mhlabunzima Maphumulo, Mr Justice Page, said yesterday he was not satisfied with explanations given by Westville prison officials for allowing police access to inquest witness Const Lucky Mntambo while he was being held in protective custody.

The judge said he had referred the matter to the attorney-general for his decision and also instructed the docket be sent to the director-general of correctional services to take whatever departmental disciplinary steps he might deem fit.

Mr Justice Page said after considering written statements he was not satisfied that the conduct of the prison officials concerned in admitting police to Mntambo while he was in protective custody was merely the result of "negligence or stupidity". It was arguable that they at least foresaw the possibility that their conduct could amount to contempt of court, he said.

The judge ordered an investigation after being told on October 23 by Mntambo's advocate that his client was approached in prison by members of the SAP who attempted to obtain a statement from him and that a scuffle had broken out.

Mntambo was granted protective custody on September 27 after claiming he feared for his life because he had implicated police in alleged "hit squad" activities. He has recently been released from protective custody at his own request.

Under cross-examination by Kobus Booyens SC for the police yesterday, Mntambo insisted his arm was broken in September when he dived into a ditch in Hesketh Drive while fleeing from SAP members who allegedly fired shots at him.

Booyens said according to medical records at Edendale Hospital Mntambo did not sustain any fracture.

Mntambo also disputed allegations yesterday that he had never been attached to the SAP security branch but had joined the SAP on two occasions.

It was suggested he was discharged once as a result of frequent absences from work, and was again discharged in December last year as a result of allegations that he was involved in a "variety of crimes".

Booyens also quoted passages from affidavits of various security policemen implicated by Mntambo, denying involvement in attacks detailed by him.

The hearing continues today.

Bid for dismissal in Allied trial

B/Day 29/10/91 (58)

SUSAN RUSSELL

ALLIED Bank, one of its senior managers and an Austrian businessman yesterday applied for a dismissal of charges relating to an allegedly fraudulent R5,5m finrand transaction.

The bank as a corporate entity, a senior manager, Ulrich Leitich, 49, and businessman Rainer Moringer, 48, have pleaded not guilty in the Rand Supreme Court to one count of fraud and an alternative charge of contravening exchange control regulations.

They have applied for a discharge on both counts on the grounds that the state, which has closed its case, had not proved the charges against them.

It is alleged that Moringer obtained Reserve Bank permission for a R5,5m finrand investment in his companies, Ciskei Air Transport Investment Corporation and Ciskei Aircraft Industries, by misrepresenting that the investment was to be made by an Austrian company, Agroprojekt.

The state alleges there was in fact no foreign investor and that Allied provided the $1,67m for the purchase of finrands in contravention of exchange control regulations.

Applying for an acquittal, counsel for Leitich submitted that the state had failed to prove there was no foreign investor or that Allied itself was the de facto investor.

Allied never intended to be the investor, the court was told. It was also argued that the state had not proved any fraudulent misconduct or non-disclosure on Leitich's part and that he too should be acquitted on both counts.

The state will continue argument today in opposition to the application.

Mr Justice Zulman said because Moringer conducted his own defence, he would allow the businessman an opportunity to make submissions on points with particular reference to himself raised by the state.

COMPANIES

HCI to go for Luxembourg listing

8 10 ~~ 29/10/91 (58)

SEAN VAN ZYL

INSURANCE group Hosken Consolidated Investments (HCI) has followed the rush of SA companies to the European financial market through a proposed listing of its offshore interests on the Luxembourg stock exchange.

Chairman Michael Lewis said the listing would serve as a springboard for the group to get access to foreign funds for its future growth objectives.

HCI, which forms the holding company of JSE-listed IGI Insurance and Safrican Life, today announced the reshuffling of its foreign interests. These will be housed under a new company Amity Internationale SA (Amity).

The restructuring would require a listing of Amity on the Luxembourg exchange with an issued share capital of 6,02-million ordinary shares, valued at about $12m. Furthermore, there would be a private placing for cash of 978 000 ordinary shares at $2 a share with private investors.

Lewis said: "The flotation of Amity will accordingly comprise 6,02-million ordinary shares of $2 each, which includes 50 000 founder shares at $2 per share which were issued prior to the implementation of the proposals announced today."

Further details of the listing and placing would be available shortly, Lewis said.

He added the private placing of the shares with individual investors had already been completed. Although the offer was only available to non-residents, he added that HCI might consider a listing of Amity on the JSE, depending on future developments.

Lewis said HCI would receive 4,9-million ordinary shares in Amity for its interest in unlisted HCI (UK), valued at $9,9m. After the private placing, HCI would end up with an 84% stake in the newly listed company.

Lewis said the proposed number of shares on offer through the placing was kept at a minimum. "We needed to establish a position in the market to develop investor confidence in the group for future capital growth needs."

HCI would look to expanding its offshore interests through acquisitional growth.

NBS gets its slice despite adverse effects of recession

8/0 ~~ 29/10/91 (58)

ROBERT GENTLE

DURBAN-based banking group NBS has reported a 29% increase in interim attributable earnings to R30,9m (R24m) for the half-year ending September 1991.

NBS MD John Gafney described the performance as satisfactory given the generally poor state of the economy, which had an adverse effect on arrears and repossessions.

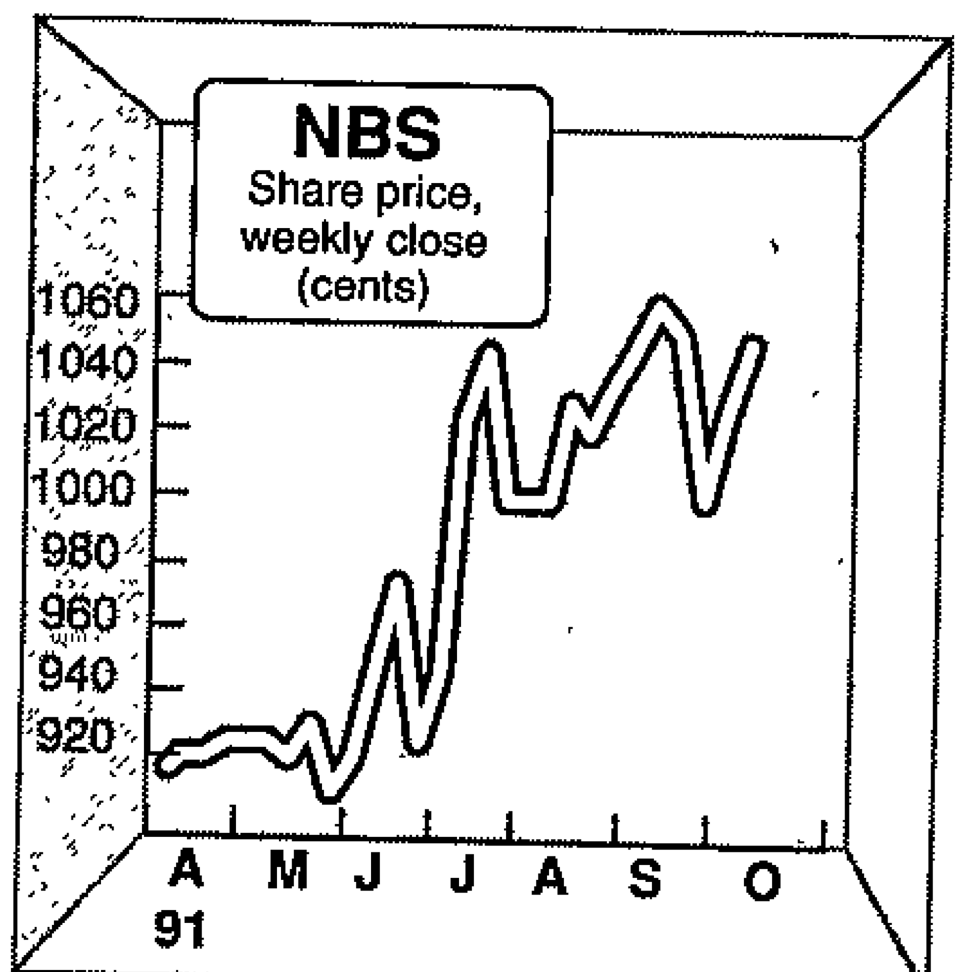
Interim earnings a share rose 21% to 49,7c (41,2c). Interim dividend a share rose a more modest 15% to 15c (13c), leaving dividend cover slightly higher at 3,31 (3,17).

Gafney said the acquisition of a 39% stake in French Bank earlier this year had bedded down well, but no contributions to attributable income had yet been made.

The group's share of French Bank's earnings for the half-year ending December would be equity accounted in the second six months.

"There are indications that the worst of the recession may have passed as we have seen an improvement in the incidence of mortgage arrears in the past few months," said Gafney.

Quantifying the trends, NBS executive director Mark Farrer said arrears had fallen by more than 10% in the past three months. This was "fairly significant" given that the trend had been in the opposite direction for some time before that.



Graphic: LEE EMERTON Source: I-NET

Similarly, while repossessions were still increasing, their rate of increase had slowed down "quite dramatically", raising the possibility of it levelling off or even turning the other way by year-end.

Focus on NBS's core business had resulted in solid growth despite prevailing interest rates, Farrer said. Mortgage advances had grown steadily and the group's market share had increased. Asset growth was 19%, putting total assets at R7,8bn (R6,5bn).

The group's shares closed 25c higher yesterday at R10,50.

BA rate tumbles to 16,6%

B/Day 29/10/91

(58)

ANDREW GILL

MONEY market rates slipped to their lowest levels since early 1989 yesterday as "tremendous" investor demand and banks' attempts to push funding costs down sent the key 90-day liquid BA rate to its two-and-a-half-year low of 16,60%.

With liquidity in the market at heady levels and creation of paper limited because of low credit demand, investors are attempting to pile their cash into short-term instruments.

Also, banks' attempts to reduce their cost of funding after the implementation of the R200m levy in lieu of VAT have apparently been successful.

The fall in the BA rate follows Friday's 10-point drop in the Treasury bill rate at the Reserve Bank's R150m weekly tender to 16,26%.

It brings the BA rate 90 points below the rate at which banks can rediscount the paper at the Reserve Bank.

The capital market failed to follow suit yesterday as it corrected the 30-point fall in rates recorded during the second half of last week. The rate for the benchmark E168 climbed 10 points to 16,71%.

Foreign buying, institutional interest, dwindling money market returns and some holding back by major stock issuers have been cited as reasons for the recent strength on the capital market.

Many players yesterday disagreed that the market had made a fundamental shift, but recently converted bulls were convinced the high levels of long-term rates of the past few months would not be repeated.

This was despite concerns about government finances, inflation and uncertain

□ To Page 2

BA rate

B/Day 29/10/91

(58)

□ From Page 1

political outlook. Foreigners have seemingly shrugged off the negatives and have been net sellers of SA gilts only twice in 1991, JSE statistics show.

"They have rocks in their heads," one dealer said of the foreign buyers who had come into the market in spite of the currency, capital and political risk of the past few months.

Last week's 30-point fall was said to be aided by strong orders from abroad on Friday afternoon.

Some dealers said the falls were seif-perpetuating, having been sparked by a high-profile buy order on Wednesday morning.

Jobbers scrambled to cover themselves, options had to be hedged and some buyers saw it as the top of the market. The major issuers apparently also got in on the action, holding stock back from the increasingly cost-unconscious buyers.

French bank 'discussing' bond issues by SA

ROBERT GENTLE

BANQUE Paribas was discussing possible involvement in future bond issues by SA, the head of the French bank's Johannesburg office François Gelinet said yesterday.

Paribas was involved in the DM400m issue which catapulted SA back into the international capital markets last month.

BD 29/10/91

Gelinet was reacting to a Press report from London which said that SA was planning a new Eurobond issue in ecu that would be lead-managed either by Paribas or Swiss Bank Corporation.

However, Gelinet said the discussions were of a general nature and not necessarily confined to the rumoured ecu issue.

Market observers expect that if the ecu issue does materialise, Paribas will probably play an important role in it. It is considered the leading European bank in ecu issues (mainly by governments and institutions) and has an estimated 40% of the total.

Officials at the Finance Department were tight-lipped yesterday, saying the only person who could comment on the matter was director-general Gerhard Croeser. He is apparently in Geneva and is expected back on Friday.

The head of the local office of Swiss Bank Corporation was not available for comment.

Frame's discount of price to net asset value widens

B/Day 30/10/91

WILLIAM GILFILLAN

THE discount of Frame shares to net asset value has widened further with the price of the textile group hitting new lows of around 200c a share.

In the group's annual report at June 1990, net asset value was published as 3 282c a share. This figure was reduced to 2 846c a share at December 1990 after the group had recorded extraordinary losses which followed from the closure of mills and operating losses.

Analysts believe that the group's net asset value would have dropped even further since December, as they expect the operating losses experienced up to December to have continued this year. They are also of the opinion that it would record a further large extraordinary loss following its announcement in August that it would dispose of its blanket operation.

Ordinary shareholders' interest at June 1990 was recorded as R622,3m which, with the 18 963 280 shares in issue held outside the group, gave Frame a net asset value of 3 282c a share. At December this was down to 2 846c as ordinary shareholders' interest had dropped to R539,7m.

An attributable loss of R48,8m for the six months to December and extraordinary losses following the closure of three mills (one in Harrismith and two in East London) had contributed to this drop in net asset value.

But since December the group's blanket operation and its hand-knitting yarn operation have been sold. Also the group announced in September that a spinning mill in East London was to close. Industry sources expect these developments to result in further extraordinary losses. This, with the expected continuation of operating losses since December, would have reduced the net asset value from its 2 846c a share at December. But by how much?

They expect Frame would receive between R80m to R100m for the blanket operation. As they estimate the blanket operation was valued in Frame's books at about R170m, they expect the extraordinary loss resulting from this disposal to be between 475c and 369c a share.

Attributable losses for the period from December to the end of this month would be about R81m, on the assumption that losses recorded to December continue at the same pace this year. This works out to an attributable loss a share of 427c.

Taking into account the losses from the blanket disposal and the assumed operating loss, Frame's net asset value is probably down to between 1 944c and 2 050c a share. Extraordinary losses arising from the disposal of the hand-knitting yarn operation in April and the East London spinning mill operation, announced in September, would also need to be taken into account.

New unit trust from Old Mutual

SEAN VAN ZYL

58

OLD Mutual has launched its sixth unit trust — the Top Companies Fund — based on the view that blue-chip industrial shares are still sound in the medium- to long-term, portfolio manager Adrian Allardice said yesterday.

Allardice said trading in the new specialist fund would begin on November 1. He added the fund would provide investors with a means of investing in the JSE's top performing shares, although it would avoid investing directly in gold and property counters.

"The fund is designed for investors who want a diversified portfolio which does not include direct gold and property developments. Investors who require a gold content can select their exposure to that sector by investing in the Old Mutual Gold Fund."

Allardice said income from the fund would be distributed twice a year — at the end of February and in August.

B/Day 30/10/91

Although industrial shares were expected to ease back in the short-term, Allardice said continuing demand for quality shares by financial investors would limit the down potential of industrial shares, many of which are currently trading at all-time highs.

Furthermore, he did not expect a major comeback in gold shares which appeared too expensive relative to the gold price.

Analysts expect strong performance from FNB

B/Day 30/10/91. (58)

ANALYSTS are looking for a strong rise in earnings from First National Bank (FNB) Holdings today and the company's management says they are not likely to be disappointed.

Earnings for the year ended September for the banking group — SA's third-largest — are expected to increase 18% to 535,3c (453,3c) a share, according to the average estimates of analysts.

While FNB chief financial officer Viv Bartlett declined to be specific on the bank's own estimates, he said the market would be "reasonably pleased". A double-digit rise in earnings for the latest year would follow the 20% jump in per-share earnings reported for fiscal 1990.

SA banks are prospering despite a two-year-old recession and 15% inflation. Analysts say the banks have managed to read the Reserve Bank's policy objectives correctly and have positioned themselves for continued high interest rates. In general the banks have contained costs while maintaining balance-sheet growth.

Standard Bank Investment Corp (Stanbic), the country's second-largest banking group and the most recent to produce earnings, reported an increase in net income of 25% for the fiscal 1991 half-year report in June.

SA's largest bank, the Amalgamated Banks of SA (Absa), has yet to report earnings.

Analysts say FNB has fared well in the tough environment because of its credit risk tracking system and contained non-interest expenditure. At the same time, it has managed to get its bad-debt provisioning largely out of the way.

FNB's divisions represent all facets of retail, electronic, corporate and industrial banking activities. Its merchant banking arm, First National Corporate and Investment Bank (Firstcorp), which was sold to FNB by Citibank in 1987, is expected to be the star performer of fiscal 1991.

James McKenzie, senior GM, public affairs, says Firstcorp's performance this year has been "absolutely brilliant".

"On a recent visit to the US we were able to say to Citicorp that we were delighted they had disinvested," McKenzie said.

Analysts say FNB's core business, its commercial banking operation, is now in a position to start increasing its market share which, they say, has slipped to 18% from 20% in 1988.

FNB's major push in the past six months has been in the home-loan business. They have increased mortgage advances by 33% in the half-year ended March 1991 from a year earlier, analysts say. — AP-DJ.

BoE has maintained its excellent track record

BDay 30/10/91 (58)

LINDA ENSOR

CAPE TOWN — A significant increase in funds under management saw financial services group, the Board of Executors (BoE), maintain its excellent track record in the year to end-September when it achieved a 28% rise in attributable income to R11,8m (R9,2m previously).

Attributable earnings an ordinary share rose 25% to 128c (102c) and to 93c (75c) on a fully diluted basis.

A final dividend of 25c brought the total to 38c (32c).

Operating income increased 44% to R15,53m (R10,8m) and after tax profit rose 54%.

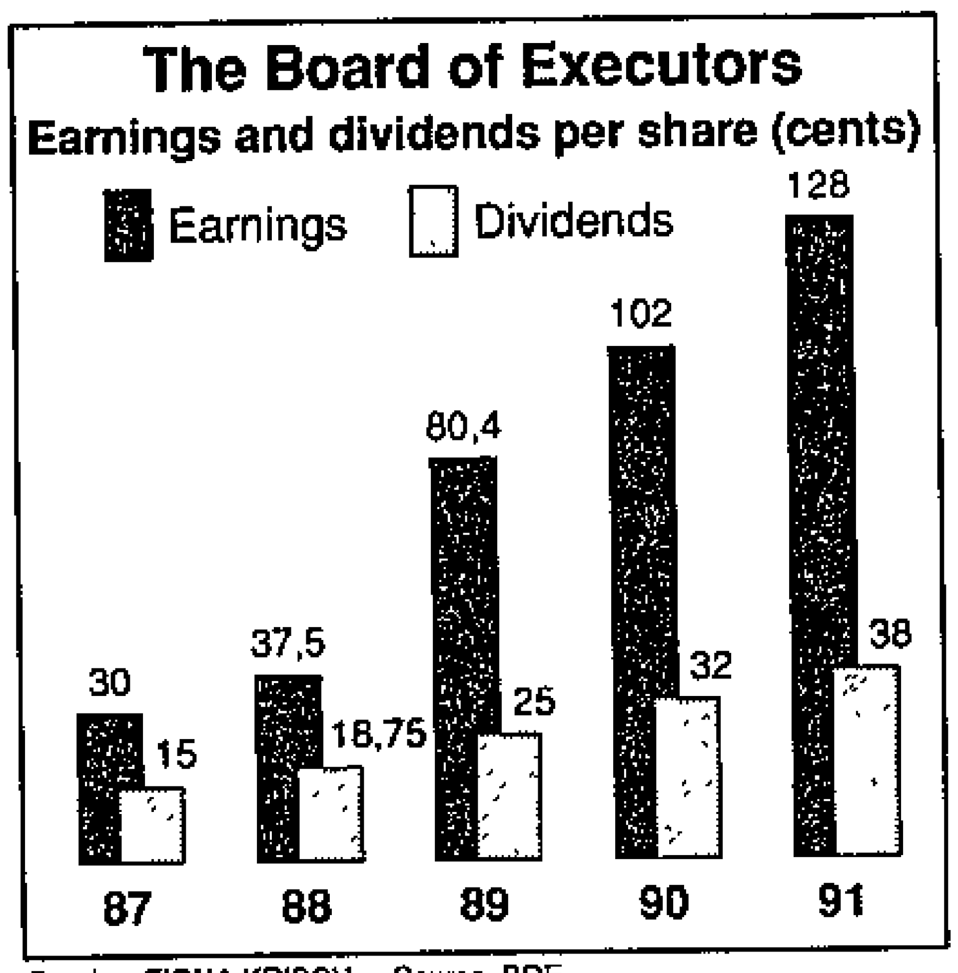
The group, which derives about 75% of its income in the form of recurring income, ended the year in a cash-flush position, with about R46m invested in redeemable preference shares.

It had a keen eye on possible acquisitions in the financial services sector.

BoE MD Bill McAdam said the results were achieved despite the increased administrative burden flowing from the registration of BoE Merchant Bank, formed to meet the requirements of the Deposit-Taking Institutions Act.

About 50% or roughly R500m of the off-balance sheet banking business previously conducted by BoE Money Market had been consolidated on balance sheet. The rest would be transferred by the end of the year.

McAdam said the group's treasury and corporate finance divisions had performed well.



Graphic: FIONA KRISCH Source BOE

BoE's traditional trust company activities prospered, with income derived from private clients and mortgage activities exceeding budget.

"The market value of private client portfolios under administration has exceeded R1bn for the first time, marking a major milestone in our history."

Assets under administration of the fund management division, which manages pension funds and corporate portfolios, also exceeded R1bn for the first time, reaching R1,1bn (R626,7m).

The unit trust, BoE Growth Fund, increased its assets to R43,3m (R10m) and generated a return of 36%. The property division administered about R200m in investment funds.

Executive director Philip Biden said BoE had budgeted for a real increase in earnings in the current financial year, which had kicked off reasonably well. BoE had executed Pepkor's takeover of Checkers, and this would be accounted for this year.

An extraordinary item of R5,8m relates to the surplus on disposal of Storeco and Speciality Stores, a transaction that also caused the retained earnings of associated companies to decline.

Sanlam achieves 11% rise in income

BDay 30/10/91. (58)

SEAN VAN ZYL

SANLAM achieved an 11% rise in income to R11,6bn on the back of steady growth in premium and investment income for the year ended September.

The mutual assurer's premium income for the year rose 10% to R8,1bn, from R7,4bn written in financial 1990. The largest growth in premiums was achieved through new individual business and recurring premiums. Single premium business showed a decline.

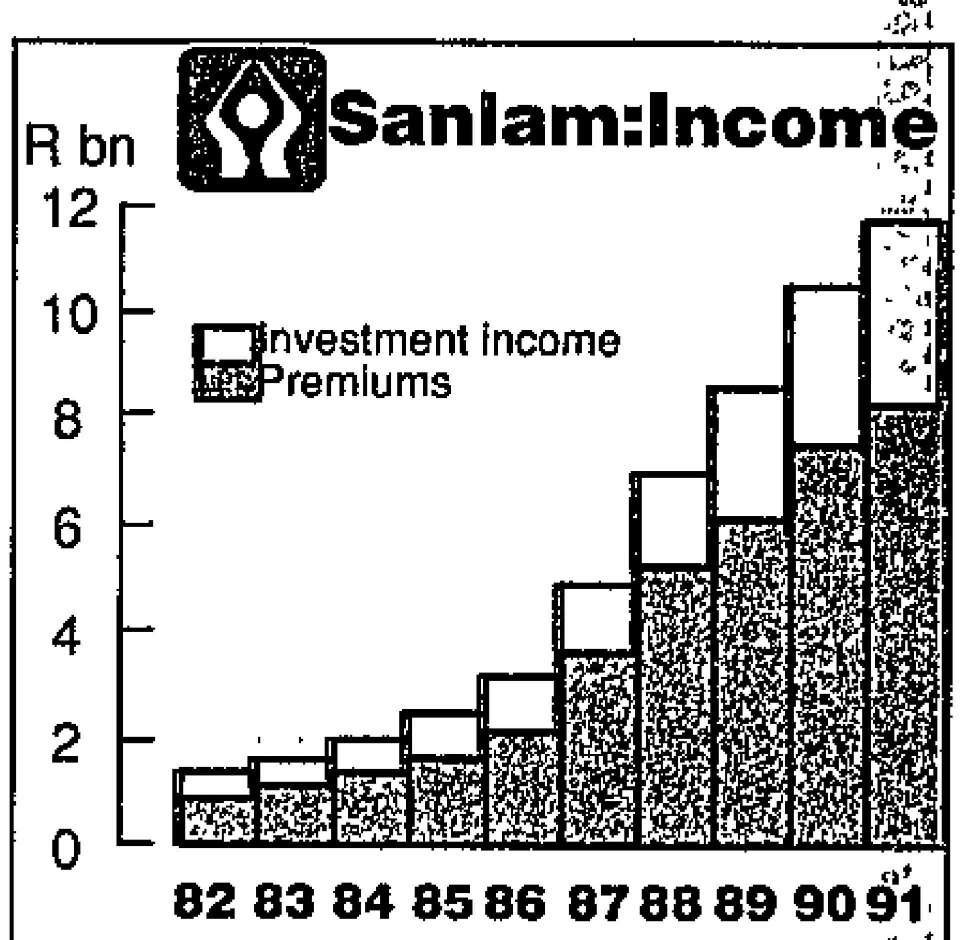
Investment income, derived from dividend and interest earnings, rose 15% to R3,4bn. The growth reported for the year was slower than 1990's 22%.

Deputy chairman Pierre Steyn attributed this slowdown to a drop in dividend payments by many undertakings as a result of the recession.

The assurer's investment income of R3,4bn represented a 6,8% return on the R50bn managed on behalf of policy holders at the end of the financial year.

In 1990 the return was 8%.

Steyn noted that Sanlam's total assets, of which its share portfolio represents about 52%, had increased by 34% to over R50bn. The market value of the share portfolio



Graphic: LEE EMERTON Source: SANLAM

rose by 46% to around R26bn.

Benefits paid during the year amounted to R4,2bn (R3,8bn) which equated to more than R17m for each working day.

Sanlam's total premium income, represented by group business of R2,8bn (R2,7bn) and individual business of R5,2bn (R4,6bn), rose 10%. The assurer's combined individual and group business reflected roughly a 33% share of the market's total premium, he said.

□ To Page 2

Sanlam

BDay 30/10/91. (58)

□ From Page 1

Steyn added that the modest growth achieved on group benefits reflected the year's poor economic conditions. "As a result of financial problems many businesses granted relatively low salary increases or reduced staff."

However, he noted individual recurring premiums, often regarded as the backbone of the life industry, showed a significant 27% increase to R3,3bn (R2,6bn) on the previous year.

Furthermore, new individual recurring business written during the year rose to R1bn which, Steyn said, was a record for an SA assurer.

This growth compares with R300m lost during the year in matured and surrendered policies. Steyn said he was happy with the fairly low lapse rate which accounted for roughly 16% of total market lapses.

Steyn was confident of Sanlam's future growth in new business and noted everything indicated that the economy was approaching a turning point which enhanced growth prospects for the industry.

No buyers for African debt

58

ROBERT GENTLE

SA banks have turned down discreet offers to buy billions of dollars of debt owed to the Soviet Union by its former African allies.

According to a report in the London newsletter Africa Confidential, the $10bn of debt, owed by countries like Benin, Mozambique, Ethiopia and Angola, is up for sale by the Soviets at bargain basement prices of around "five cents in the dollar".

African Confidential, quoting "financial sources in Johannesburg", said a group of SA banks had already bought much of the debt with a view to obtaining lucrative debt-equity swaps (exchanging the debt for an equity stake in a given company) in the countries concerned.

But enquiries at the major banks yesterday established that while informal approaches had been made, not all banks were aware of them and, in any case, were not interested.

One banker said privately that African countries' credit ratings were so bad he would not touch their debt. Another likened it to playing Russian roulette.

Standard Bank MD Mike Vosloo said he would rather foster trade with corporate clients in Africa than enter speculative ventures.

Nedbank executive GM Derek Muller said while debt-equity swaps were a theoretical possibility, there was very little new direct investment taking place in Africa.

FNB group treasurer Ken Russell said he would be surprised if the Reserve Bank allowed such transactions while SA was a debtor nation.

30/10/91

Sowetan Business

Lapsing life policies cost people dearly

Millions are thrown away each year

Sowetan 31/10/91 (58)

POLICY lapses are costing the South African public hundreds of millions of rands a year

Of all the policies written by South Africa's life offices in 1987 have since lapsed, an article in Insurance Times, reveals.

Sanlam had the lowest lapse ratio for the industry in 1987 with only 9,4 percent.

This is money down the drain so far as the policy holder is concerned as any policy cancelled within two years of inception carries no value for the holder.

The policy isn't worth anything because all the premiums in the first two years of any policy goes towards recouping agent's commission and other administrative costs of the company.

Apart from policyholders who find they cannot afford to keep up payments, other lapses occur when the policyholder decides it wasn't what he really wanted after all.

The shocking state of affairs begs a number of questions, some of which may cast doubt on standards of the industry - particularly where sales and marketing are concerned.

Most pertinent is whether assurers and their agents are sacrificing client service and satisfaction for the sake of sales. However, industry spokesman point out that when analysing lapse rates, it's important to consider a number of factors.

For instance, the socio-economic position of the client base of a particular company as well as the economic situation of the country as a whole needs to be taken into consideration, they say.

A spokesman for AA Life also points out that the very high policy lapse rate for the company can be directly attributed to the demise of AA Mutual in 1986 which had a negative impact on policyholders' perception.

The lapse ratios in the two years preceding the collapse of AA Mutual was only 21 and 22 percent respectively, says Mr Bruce Howard, managing director AA Life.

Since the troubled years of 1986 and 1987 lapse ratios have come down to more acceptable levels - 34 percent in 1988 and 16,8 in 1989

The financial position of the client can also have a bearing

The policyholder may also allow a contract to lapse after finding another product which is more appropriate to his needs.

But this option is nothing more than a waste of money and can be avoided by better guidance from insurance intermediaries and life companies.

It is a common cause of complaints by consumers that they land up with a totally different product from the one they thought they were getting.

Alternatively, they purchase contracts that they very often don't understand

According to Mr June Wessels, deputy director of the Life Offices Association a policy lapse represents the collapse of somebody's financial planning and should be avoided at all costs.

"It will mean that the person will it far more difficult to reach his or her long term savings goals, especially in a country with high inflation.

"It also means the loss of insurance cover for the dependants of the insured life.

"And, of course, it means the loss of premiums already paid," he said.

"In times of financial difficulty people should weigh their options very carefully.

"Allowing a life policy to lapse should be the very last option," he added.

Poor selling techniques are, however, a consideration and included here would be the switching of policies following the influence over the client by an opposition agent.

A clause in the LOA's code of conduct specifically prevents such switching ploys.

Life office bashing is not a new pastime and is certainly not restricted to the South African market.

Assurers here have come under fire for a number of commission levels paid during the first two years after the policy is issued.

Although commission structures in South Africa are available to the public, life companies have never been particularly open about what proportions of their client's premium goes to the agent or broker.

But the commission level and the way it is paid can have a significant bearing on policy sales and lapses.

Where life policies are concerned, commissions can be paid to a maximum of 85 percent of the first year's premiums in the first year of the policy's life.

The agent or broker can receive up to a further 33 percent of the first year's commission as payment in the second year.

However, some companies, concerned about high lapse ratio will reverse the full commission paid to an agent or broker should the policy lapse within the first six months of its life.

Thereafter commission continues to be reversed on a diminishing basis until the end of the first year.

Adds Howard: "It's in no one's interest to have a policy lapse.

"The client, the company and the salesperson are disadvantaged.

"Like most life assurers AA Life needs a policy to run for at least four years before the company starts to make a profit," he says.

Company lapse rates for 1987

ANNUAL PREMIUMS (R000)

Company	New	Lapsed	Lapse rate(%)
AA Life	10 324	5 974	57,9
African Life	4 613	1 643	35,6
Allied Insurance	2 890	874	30,2
Anchor Life	4 257	1 493	35,1
ACA	3 217	1 247	38,8
Charter Life	5 550	1 977	35,6
Commercial Union	13 923	2 235	16,1
Crusader Life	6 534	828	12,7
Fedlife	20 501	2 336	11,4
IGI Life	6 196	2 581	41,7
Liberty Life	114 552	13 161	11,5
Lifegro	49 701	14 124	28,4
Metropolitan	45 410	14 574	32,7
Momentum	8 088	3 195	39,5
New Era	165	99	60,0
Norwich Life	30 105	4 852	16,1
Protea assurance	4 957	781	15,8
Prudential	16 546	1 735	10,5
Rand Life	287	132	46,0
Rentmeester	3 745	1 826	48,8
Old Mutual	337 133	38 623	11,5
Saambou	739	190	25,7
Sage Life	21 193	5 159	24,3
Sanlam	379 885	35 836	9,4
Southern Life	80 455	14 694	18,3
StanGen	8 378	1 533	18,3
UBS Insurance	6 057	2 100	34,7
Industry average			28,4

SOURCE Registrar of Insurance Annual report RP 53/1989

Sowetan Business

Lapsing life policies cost people dearly

Millions are thrown away each year

Sowetan 31/10/91 (58)

POLICY lapses are costing the South African public hundreds of millions of rands a year.

Of all the policies written by South Africa's life offices in 1987 have since lapsed, an article in Insurance Times, reveals.

Sanlam had the lowest lapse ratio for the industry in 1987 with only 9,4 percent.

This is money down the drain so far as the policy holder is concerned as any policy cancelled within two years of inception carries no value for the holder.

The policy isn't worth anything because all the premiums in the first two years of any policy goes towards recouping agent's commission and other administrative costs of the company.

Apart from policyholders who find they cannot afford to keep up payments, other lapses occur when the policyholder decides it wasn't what he really wanted after all.

The shocking state of affairs begs a number of questions, some of which may cast doubt on standards of the industry - particularly where sales and marketing are concerned.

Most pertinent is whether assurers and their agents are sacrificing client service and satisfaction for the sake of sales. However, industry spokesman point out that when analysing lapse rates, it's important to consider a number of factors.

For instance, the socio-economic position of the client base of a particular company as well as the economic situation of the country as a whole needs to be taken into consideration, they say.

A spokesman for AA Life also points out that the very high policy lapse rate for the company can be directly attributed to the demise of AA Mutual in 1986 which had a negative impact on policyholders' perception.

The lapse ratios in the two years preceding the collapse of AA Mutual was only 21 and 22 percent respectively, says Mr Bruce Howard, managing director AA Life.

Since the troubled years of 1986 and 1987 lapse ratios have come down to more acceptable levels - 34 percent in 1988 and 16,8 in 1989.

The financial position of the client can also have a bearing.

The policyholder may also allow a contract to lapse after finding another product which is more appropriate to his needs.

But this option is nothing more than a waste of money and can be avoided by better guidance from insurance intermediaries and life companies.

It is a common cause of complaints by consumers that they land up with a totally different product from the one they thought they were getting.

Alternatively, they purchase contracts that they very often don't understand.

According to Mr Jurie Wessels, deputy director of the Life Offices Association a policy lapse represents the collapse of somebody's financial planning and should be avoided at all costs.

"It will mean that the person will it far more difficult to reach his or her long term savings goals, especially in a country with high inflation.

"It also means the loss of insurance cover for the dependants of the insured life.

"And, of course, it means the loss of premiums already paid," he said.

"In times of financial difficulty people should weigh their options very carefully.

"Allowing a life policy to lapse should be the very last option," he added.

Poor selling techniques are, however, a consideration and included here would be the switching of policies following the influence over the client by an opposition agent.

A clause in the LOA's code of conduct specifically prevents such switching ploys.

Life office bashing is not a new pastime and is certainly not restricted to the South African market.

Assurers here have come under fire for a number of commission levels paid during the first two years after the policy is issued.

Although commission structures in South Africa are available to the public, life companies have never been particularly open about what proportions of their client's premium goes to the agent or broker.

But the commission level and the way it is paid can have a significant bearing on policy sales and lapses.

Where life policies are concerned, commissions can be paid to a maximum of 85 percent of the first year's premiums in the first year of the policy's life.

The agent or broker can receive up to a further 33 percent of the first year's commission as payment in the second year.

However, some companies, concerned about high lapse ratio will reverse the full commission paid to an agent or broker should the policy lapse within the first six months of its life.

Thereafter commission continues to be reversed on a diminishing basis until the end of the first year.

Adds Howard: "It's in no one's interest to have a policy lapse.

"The client, the company and the salesperson are disadvantaged.

"Like most life assurers AA Life needs a policy to run for at least four years before the company starts to make a profit," he says.

Company lapse rates for 1987

ANNUAL PREMIUMS (R000)

Company	New	Lapsed	Lapse rate(%)
AA Life	10 324	5 974	57,9
African Life	4 613	1 643	35,6
Allied Insurance	2 890	874	30,2
Anchor Life	4 257	1 493	35,1
ACA	3 217	1 247	38,8
Charter Life	5 550	1 977	35,6
Commercial Union	13 923	2 235	16,1
Crusader Life	6 534	828	12,7
Fedlife	20 501	2 336	11,4
IGI Life	6 196	2 581	41,7
Liberty Life	114 552	13 161	11,5
Lifegro	49 701	14 124	28,4
Metropolitan	45 410	14 574	32,7
Momentum	8 088	3 195	39,5
New Era	165	99	60,0
Norwich Life	30 105	4 852	16,1
Protea assurance	4 957	781	15,8
Prudential	16 546	1 735	10,5
Rand Life	287	132	46,0
Rentmeester	3 745	1 826	48,8
Old Mutual	337 133	38 623	11,5
Saambou	739	190	25,7
Sage Life	21 193	5 159	24,3
Sanlam	379 885	35 836	9,4
Southern Life	80 455	14 694	18,3
StanGen	8 378	1 533	18,3
UBS Insurance	6 057	2 100	34,7
Industry average			**28,4**

SOURCE: Registrar of Insurance Annual report RP 53/1989.

Civics slam Housing Trust

58

Sowetan 31\10\91

THE National Civics Association has criticised the South African Housing Trust for withdrawing bond finance to new homeowners in Khayelitsha, near Cape Town.

The association's national co-ordinator, Miss Zorha Ebrahim, yesterday said the withdrawal of bond finance was viewed in a serious light at a time when much had been said about the poor and the need to redress the imbalances caused by apartheid.

Repayment

She said the correct way would have been to discuss with the community ways of addressing the problems which led to the decision.

The trust decided to stop granting loans in Khayelitsha because of a boycott on the repayment of bonds.

Sapa

Bid to lure blacks to unit trusts

Sowetan 31/10/91.

58

By JOSHUA RABOROKO

INSURANCE companies and financial institutions are to embark on a massive campaign to introduce blacks to unit trusts.

The move is likely to enable millions of blacks to participate in the Johannesburg Stock Exchange - a place they regard as a glass palace where only the rich may enter.

Unit trusts are a communal way of buying shares in South Africa's public companies. Each participant in a unit chips in a small amount and the group shares the dividend.

Senior portfolio manager at Sanlam Mr Stafford Thomas says unit trusts sell shares at a minimum of R100 or R50 a month.

He says when the money of all the investors in a unit, big and small, is put together, the total may be millions of rands. This money is used to build a profitable portfolio.

"Most blacks who have already bought insurance policies may improve their participation by buying units trusts if they talk to their brokers," he says.

Leading life insurer Metropolitan Life publicly has launched its first unit trust, with funds already under management totalling more than R10 million.

Metro's managing director Mr Marius Smith said they intended launching a massive campaign to attract as many blacks as possible.

He said the mutual fund represented an important addition to the range of sophisticated products Metro had been introducing to the South African market in a major restructuring programme first embarked on in 1987.

Announcing the formation of the unit trust, Smith said investment philosophy was to keep it as a general mutual fund, with a portfolio spread focusing on blue chip and good second-string South African equities, with the balance in fixed interest securities and cash.

Old Mutual's spokesman said that the company was already involved in selling units trusts to blacks, but the process would have to be accelerated if good results were expected.

The unit trust institutions were not afraid of the nationalisation lobby in the so-called new South Africa and said most of their assets belonged to the public.

But, they all expressed fears that nationalisation would ruin the country's economy.

A warning for SA as bankers meet

MBABANE - Uncertainty about South Africa could force Preferential Trade Area governors to reconsider the PTA's monetary and investment strategies for the country, an official has warned.

Secretary-general of the PTA for eastern and southern Africa Dr Bingu Wa Mutharika issued the warning at a meeting of PTA central bank governors in Swaziland this week.

Sowetan 31/10/91

He also said recent developments in global finance, particularly the shift of resources towards the Gulf and eastern Europe, presented serious challenges to eastern and southern Africa.

Dr Mutharika urged central bank governors of the 23 member states to bear in mind "the impact of global developments on our weak financial structures, so as to implement a monetary programme for our survival". - *Sapa.*

Azapo to talk to PAC, ANC

PATRICK BULGER

AZAPO — expelled from the patriotic front by the ANC and PAC organisers — said yesterday it welcomed talks with the two organisations to get it into the front. B Day 31/10/91

However, Azapo found it disturbing that the front had undertaken to enter negotiations with government, Azapo said yesterday in a statement on the conference held in Durban at the weekend.

"To Azapo a front has always been a front to oppose and force the regime to relinquish power and not a front necessarily to negotiate," the statement said.

It said, however, it welcomed the support organisations had shown for a constituent assembly. It said it was prepared to discuss with government only the transfer of power through a constituent assembly. Such talks should take place at a neutral venue and be convened by a neutral party.

Meanwhile, the Workers Organisation for Socialist Action (Wosa), a participant at the conference, said the front was "nothing but a negotiations bloc under the dominance of the ANC and PAC".

Wosa said it did not accept negotiations constituted a viable path to the democratisation of SA.

It said it rejected all-party talks and an interim government and said negotiations at this stage would mean the co-option of some black middle-class elements into the existing power bloc.

2% of SA cheques bounce each year

B Day 31/10/91

58

ROBERT GENTLE

ABOUT 2% — or R100m worth — of cheques issued in SA bounce, compared with 0,5% in the US, statistics released by Veri-Cheque, a division of the Information Trust Corporation show.

Veri-Cheque maintains a register of all cheques that bounce for the benefit of subscribers.

MD David Rosin said in a statement that between 1-million and 1,5-million cheques are written daily by about 3,5-million account holders — about 500-million a year.

He said about 2% of these would bounce. This did not appear unreasonable until compared with the US where only 0,5% of cheques were classified "refer to drawer".

Banks offer 26 types of current accounts. In the "scramble" for a growing share of the market, they were often keen to open accounts on the assumption that account holders were aware of the correct use of cheque books.

Rosin said that while institutions in the US had more sophisticated systems of checks and balances, these systems were also available in SA.

He cited a retailer system that prevented a till from opening if a customer's cheque account number, after being punched and processed, was not verified as acceptable. Another point-of-sale system ran a cheque through a magnetic scanner which checked it against computerised files.

"To date, most people dealing with cheques have simply passed the 'buck,'" said Rosin. "When a cheque bounces, the bank is generally free from risk, the merchant simply writes it off as bad debt — an inflationary measure — and the consumers continue to abuse the privilege of a cheque book."

Amalgamated Banks of SA deputy CE Danie Cronje said that while account holders were responsible for their cheques, the first responsibility was with the banks. "We are tightening up our screening procedures in view of the high incidence of bouncing cheques."

Standard Bank deputy MD Denzil Busse disputed the notion that banks did not do enough in their screening procedures. "We are just as concerned about bad debts as anyone else, if not more so, because we have to pick up the tab when an overdraft cannot be repaid."

He said banks should possibly provide clients with more information on the correct way of drawing cheques as they were often returned for technical irregularities. He said clearing banks no longer accepted non-transferable, uncrossed cheques.

'Conveyancing too dear'

Sowetan 31/10/91

58

Property Reporter

SOUTH Africa should follow the United Kingdom's example and permit estate agents to do conveyance in house, thus cutting costs for the homeowner and forcing attorneys to offer their services competitively, said one estate agency head.

Group managing director of Camdon Mr Scott McRae pointed out that attorneys enjoy what he politely calls "a highly privileged position" protected by law.

Rates are set by the Law Society with no open competition.

McRae said: "It seems to me that this is an unacceptable situation. Attorneys receive millions of rands every year for what is in reality a very basic function which takes no legal skills and can be handled by relatively junior staff.

"The UK has recognised this and has legalised conveyancing by estate agents. Inevitably this will lead to a drop in costs for the home buyer. Savings are solely needed at the moment in view of rising building costs, VAT, and higher transport costs due to the petrol price increase."

FNB helped by cut in bad debt provisions

(58)

By Ann Crotty Star 31/10/91

In this economic climate a reduction in bad debt provision looks like a challenging decision.

First National Bank's 10,7 percent drop in bad and doubtful debts — against the industry norm — has helped it to produce a 17 percent hike in earnings to 529,3c (453,3c) a share for the 12 months to end-September. The total dividend payment is 175c (150c) a share.

(The increase in earnings was achieved after allowing for a special tax provision of R32,5 million.)

The lower bad debt provision includes a 21 percent drop in specific bad debt provisions.

Group MD Barry Swart notes that this reflects the benefits of the tighter credit management process designed to give much stronger early warning signals.

In financial '90 when the system was first introduced, it resulted in a staggering 64 percent hike in bad debt provision.

He points out that the benefits were seen in '91's specific bad debt showing. General bad debt provisions increased in line with the group's 21 percent hike in assets.

Also crucial to the group's strong performance was the improvement in the interest turn. Although the increase in interest income (6,7 percent) and interest expenditure (3,7 percent) looks small compared with the increase in asset base, the turn was considerably improved.

The effect was a 15,4 percent advance in net interest income to R1,6 billion (R1,4 billion).

The increase in other operating income was fairly flat — up 12,9 percent to R1,1 billion (R978 million). This reflected the drop in income from foreign exchange transactions and also the squeeze on service fees.

Operating expenditure was up 17,2 percent to R1,8 billion (R1,5 billion) but Mr Swart notes that if once-off marketing expenses are stripped out, the increase is around 15 percent.

Taxed income was up 27,7 percent to R408,9 million (R320,3 million).

The special tax provision of R32,5 million relates to income generated by a Swiss-based finance company owned by FNB. Only R5,8 million of this amount relates to '91 income, the remainder relates to earlier years.

Total year-end assets were up 21 percent to R36,6 billion (R30,3billion). Total advances grew 25 percent to R29 billion (R23,2 billion).

Home loans provided most of the growth in advances. Aggressive marketing saw these up R1,3 billion to an end-September figure of R5 billion.

According to Mr Swart Wesbank also performed well and there was a small increase in the card business.

FNB earnings rise of 16,8% no surprise

(58)

B/Day 31/10/91.

ROBERT GENTLE

FIRST National Bank (FNB) boosted earnings a share for the year to end-September by 16,8% to 529,3c (453,3c previously) on the back of sound asset/liability management and reduced provisions for bad debt.

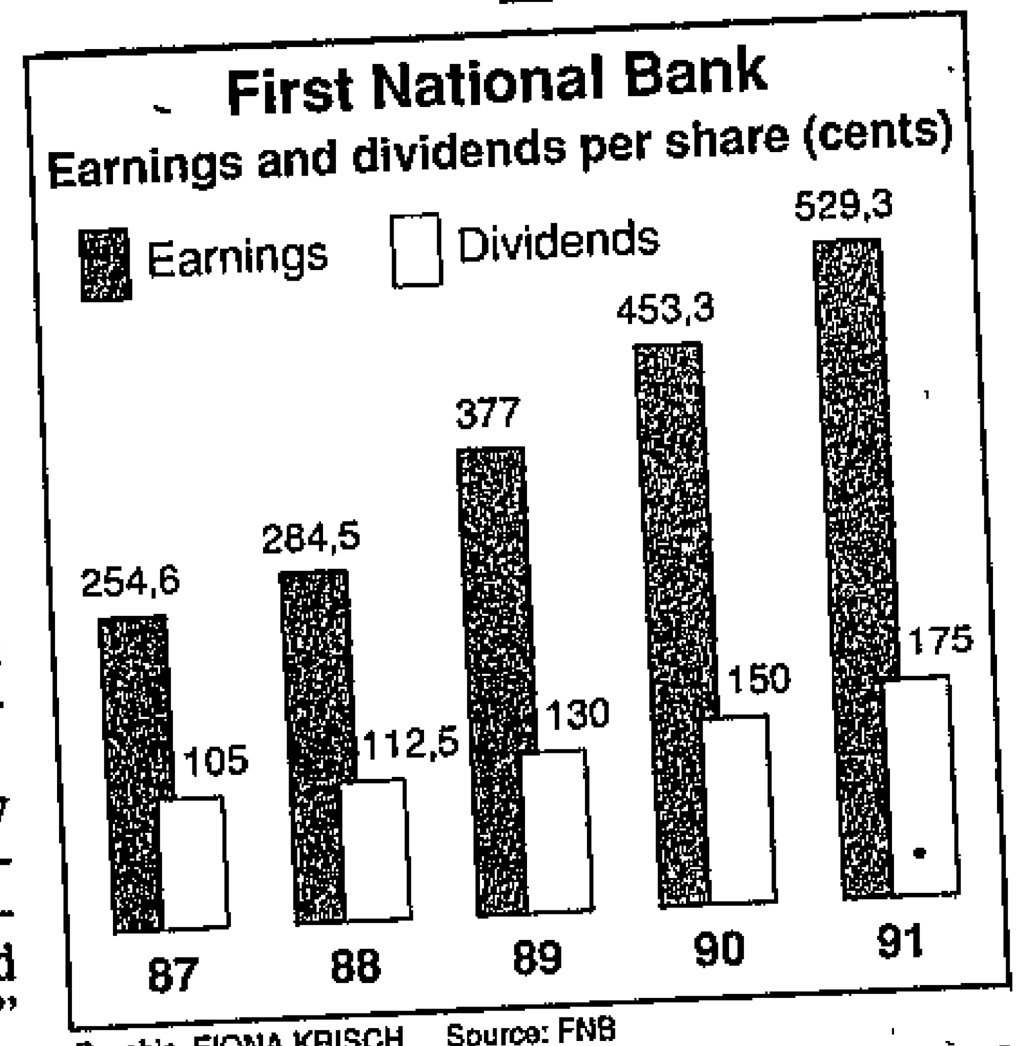
The performance, in line with market expectation, produced a 16,7% rise in dividends a share to 175c (150c). This left dividend cover unchanged at three times.

FNB senior GM Jimmy McKenzie called the results "excellent" after what he described as an extremely difficult year.

McKenzie said FNB had already reached the 1995 capital adequacy requirement of 8%, as laid down in the Deposit-Taking Institutions Act. The bank would start "stretching its capital resources" only if it grew in excess of 14% annually. Return on assets of 1,05% meant FNB was top of the big five banks in this key performance parameter.

FNB's Botswana office, opened about two weeks ago, was doing well, McKenzie said. FNB had also been given approval to apply to the Bank of England for a full banking licence.

Capital expenditure on the new premises at Bank City was in line with planned costs. Staff had already started moving in and completion was scheduled for March next year. Bank City would result in considerable cost savings, McKenzie said.



Graphic FIONA KRISCH Source: FNB

A sound operational showing was reflected in interest income (up 6,7%) rising faster than interest expenditure (up 3,7%),

□ To Page 2

FNB

B/Day 31/10/91.

□ From Page 1

(58)

leaving net interest income 15,4% higher at R1,58bn (R1,37bn).

"We read the market right and got our cost of funding down," said McKenzie.

He said the two subsidiaries Wesbank (vehicle financing) and Firstcorp (merchant banking) had performed exceedingly well. Other operating income rose 12,9% to R1,10bn (R978m).

Total advances grew 25,4% to R29,1bn (R23,2bn), mainly due to aggressive marketing in the home loans sector. The proportion of Wesbank's activities in the total pie was about R6,5bn, he said.

Provisions for bad and doubtful debt fell 10,7% from R294m to R263m, thanks to an intensified credit management process aimed at weeding out problem debts at an early stage.

"We expect this reduced bad debt provision trend to follow through to the next year," McKenzie said.

FNB saw a larger-than-expected 17,2% rise in operating expenditure. McKenzie attributed this to certain one-off unbudgeted expenses, mainly in the marketing of home loans. Total staff costs were R934m (R838m), rising less than inflation.

A dispute with the tax man over the treatment of certain offshore interest receipts meant FNB had to put aside R32,5m as a special provision. McKenzie said FNB was contesting the matter with Inland Revenue, and that the provision was "in the interests of prudency".

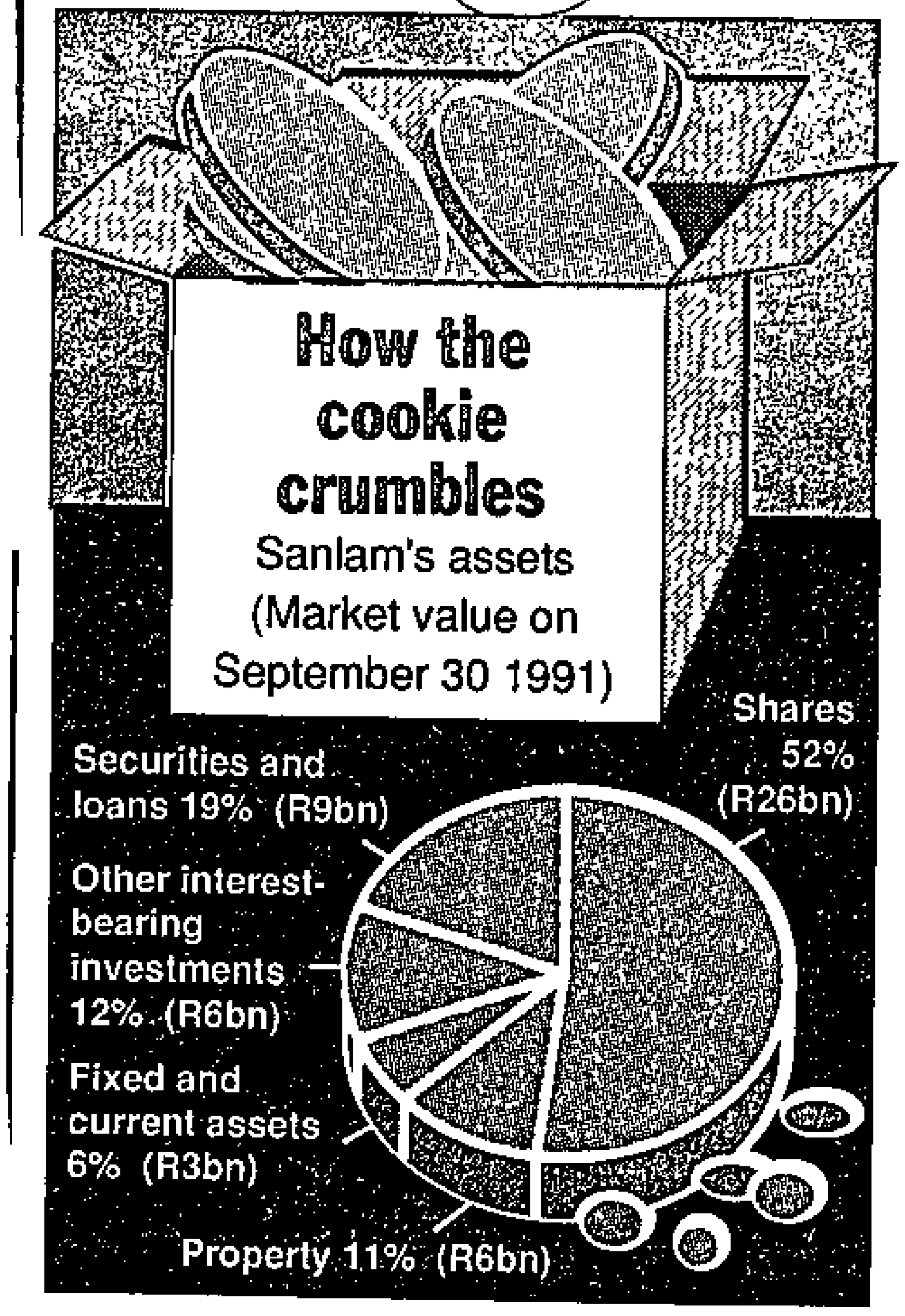
FINANCE – GENERAL

1991

NOVEMBER.

FM 1\11\91

58



SANLAM FM 1\11\91

Open book (58)

By reporting assets at market value, Sanlam has for the first time conformed to other life offices' practice. This week the Bellville-based mutual reported assets of more than R50bn, up 34%.

Sanlam's reluctance to deviate from book values had become a feature of the life industry. MD Pierre Steyn says the shift in policy was a reluctant one because he feels the true test of an assurer's base, which is best measured on book values, is the ratio of assets and liabilities

Sanlam, unlike some competitors, has a fairly heavy portfolio reliance on strategic investments, like those in banking, mining and energy. In the past, some have been investment dogs. In the year to September 30, says Steyn, these strategic investments, taken as a group, actually outperformed the ordinary share content of their various portfolios. That must, in part, account for the changed form of presentation.

But all Sanlam's profit-sharing portfolios beat inflation, with investment returns of 20%-plus. GM investments Ronnie Masson says the mutual read the share market correctly and reaped benefits from buying hugely during last year's downward correction.

Group benefits business remained in the doldrums, with some employers even taking contribution holidays (using up surpluses in their pension funds) while battling the recession. It was in individual life business that Sanlam scored most. Individual recurring premiums, the backbone of a life office, increased to R3,4bn, a doubling within three years and a 27% increase on 1989-1990. New recurring premiums for individual policies topped R1bn. Sanlam claims this is a record for the industry.

Perhaps more significantly, the low lapsing rate indicates the new business written was of high quality. Writing 30% of new recurring premiums, Sanlam endures only 16% of life policy lapses, Steyn says.

Masson welcomes the new investment requirements for life offices, which give greater investment flexibility, he says. But the arrangement which allows an assurer to devote more to a mix of equities and property will not herald any rush into property. With R6bn already invested in that direction, Masson comments, it is more and more difficult to find prime stock. ■

BOARD OF EXECUTORS (58)

Small is beautiful

FM 1/11/91

There are times when it pays to be relatively small. It bespeaks a flexibility not available to larger participants. In banking, adroit management of a smaller entity can take advantage even of bad times to turn in an earnings performance that bucks the trend. The Board of Executors (BoE), though

cont →

FM 1/11/91 (58)

growing apace, has managed, yet again, to turn in a strong performance.

Unaudited figures for the year to September, show that EPS rose by 25% to 128c. But it is income before taxation, loan stock interest and after internal reserve transfers, which posted a rise of 44%, that is of main interest: it suggests that earnings growth was even higher than the 44% disclosed.

Since the introduction of the DTI Act, BoE is now a bank holding company. Like others in the category, it can, with impunity, tuck away as much as it likes in internal reserves. This is likely to cease in terms of proposed legislation.

It was an interesting year. There was the bedding-down process with its new partner, Anglovaal. The controlling stake in Specialty Stores was sold. And the introduction of the DTI meant that the money market operation has been converted into a merchant bank: BoE Merchant Bank. The consolidated balance sheet now incorporates about 50% of this business.

MORE GROWTH

Year to Sep 30	1990	1991
*Income before tax (Rm)	10,8	15,5
Attributable (Rm)	9,2	11,8
Earnings (c)	102	128
Dividends (c)	3,2	3,4

*Before loan stock interest and after internal reserve transfers

Much of these activities involve costs rather than increased revenues. How then was the creditable performance achieved? MD Bill McAdam reports that the treasury division of the new bank performed admirably and the corporate finance department also did well (it was an adviser to the Pepkor transaction with Tradehold and Tradegro, among others). Traditional trust company activities produced above budget results and private portfolios and pension fund and corporate portfolios each exceeded R1bn market value for the first time.

Thanks to the Specialty sale, the group is more liquid than ever, says McAdam. NAV has moved up to 748c from 575c. The share price has stood firm around R14 for some time, reflecting a p:e of 10,9 and dividend yield of 2,7% covered 3,4 times. The p:e equates exactly with the average of the Banks and Financial Services sector. If performance over the past five years is compared with others in the sector, on the p:e ratio alone, either this share is underpriced or many others are dear. *Gerald Hirshon*

MONEY SUPPLY FM 1\11\91 (58)

Second thoughts

August figures for growth in money supply have been revised upwards. Latest figures show that the broad monetary aggregate, M3, grew 15,21% in the 12 months to August, and a seasonally adjusted annualised 16,74% from the base of the current target year (mid-November). Original estimates were 14,51% and 15,85%.

There are several reasons for the revision. "There are always adjustments as banks obtain fuller information from their branches and systems," says a Reserve Bank spokesman. "And preliminary numbers don't fully pick up the effects of fluctuations in the amounts of certificates of deposit held by the banks — as they move from the banks to the private nonbanking sector they become part of money supply.

"In addition, as happens from time to time, there were also adjustments to remittances in transit — cheques that have not been fully cleared."

Cont →

FM 1/11/91 (58)

Preliminary figures show that seasonally adjusted M3 grew 4,5% between February, when a large technical increase took place, and September. This amounts to 7,7% annualised — lower than the 8%-12% guidelines set by the Reserve Bank. The figure may, of course, suffer the same fate as the August estimate, which showed annualised growth of only 7,7% in the six months to August; the revised estimate is 9,1%.

In the 12 months to September M3 grew 15,06% to R177,9bn; from the base of the current target year in mid-November, a seasonally adjusted 15,07% to R177,6bn.

In the 12 months to August, other monetary aggregates grew by:

- M1A 29,58% to R33,9bn;
- M1 25,66% to R59,4bn;
- M2 21,35% to R150,2bn.

Net claims by all monetary institutions on government in August soared to R4,3bn, from July's R1,5bn. The rate of credit extension between February-August was 13,3% annualised, well up from 11,3% annualised in the five months to July. ■

INSURANCE FM 1/11/91

Curate's eggs? (58)

Saiba, the recognised body for major insurance brokers, wants to polish its image. It's likely, says national president Paul Heinamann, that a register of all employees of Saiba firms will be constructed and transgressors against the code of ethics to be agreed upon will find it difficult to get further work in the industry. The concept of self-regulation is similar to that practised for some years by the Life Offices Association, where offenders are "S-registered."

Government, represented by the Financial Services Board, is keen to see some self-

FM 1/11/91 (58)

regulation, which it feels is preferable to imposing more statutory controls. Saiba has a subcommittee working on the problem and hopes to have a recommendation ready for implementation by its AGM next September. Heinamann, who is CE of the largest broking firm, Price Forbes, is being careful not to prescribe how the system will work but thinks it may be necessary to register every employee in Saiba firms, from chairmen to messengers, a total of 8 000 people. Clearly, a register would lead to a complaints procedure and a disciplinary tribunal.

After registration, any employee found guilty of misconduct would be deregistered and prevented from obtaining employment with any other member of the association.

One difficulty may be defining misconduct. Heinamann says cases where money is mishandled are fairly easy to define. Gross incompetence or constant neglect of duty to the client may be less definable. That, he says, is why definitions could take most of next year to be concluded.

While Saiba represents the major brokerages and accounts for most corporate business, any regulatory process cannot exclude the Independent Brokers' Council (IBC). This has more than 1 500 members, mostly small firms which are intermediaries for life offices but write short-term business as well.

Heinamann says it's too early to talk about a common registration system — "We must get it right ourselves, first." But IBC national president Ben Swart has few reservations. "If Saiba can start a register, I would welcome it." Saiba and IBC have had desultory talks about common problems.

IBC does not have its own secretariat. Though there is a strong divergence between the interests of the two groups, they have a common ground in the image presented by insurance intermediaries. Of registration, Swart says: "The sooner, the better."

IBC is working on a programme leading to minimum qualifications for members. Once in place, it may be easier to present a joint front with Saiba, which already has pretty stiff entry qualifications. ■

CORPORATE PAPER

Catch 22

FM 1/11/91 (58)

The bank endorsement requirement in the position paper on the proposed corporate paper debt market, put out by the Deposit-Taking Institutions (DTI) office, has raised eyebrows in London. Derek Ross, corporate treasury specialist at accountant and management consultant Touche Ross, is blunt: "Having to obtain a bank endorsement for commercial (corporate) paper destroys the whole point, which is to disintermediate the banks. Issuing bank-endorsed paper is tantamount to taking out a bank loan."

Admittedly, the DTI office sees bank involvement as an interim measure but, if a rand corporate paper market is to develop into a meaningful way of selling and buying debt, the advantages need to be available from the first day.

For the borrower these are lower cost, diversification of cash sources, flexibility and higher profile in the market and, for the investor, improved return, diversification of risk, liquidity and flexibility.

But the pivot is price and return which, typically, in the sterling commercial paper market, is 20 basis points better than that available via the banks. Ross reckons that will largely be lost if banks are inserted between issuer and investor. "In any case most investors would regard bank endorsement as unnecessary. BP or ICI do not need to be guaranteed and paper issued by most of the bigger companies carries a rating equal to, or often better than, bank debt," he says.

The Association of Corporate Treasurers of SA, which will have to live with the authorities' decision for the moment, says: "These compromises will result in inefficiencies and costs which will preclude the full benefits of a commercial paper market."

The sterling commercial paper market dates back to 1986, but in the US it dates back to the 19th Century.

Development of the Euronote and Eurocommercial paper markets in London stimulated interest in a shorter-term sterling instrument. While eligible bill finance, which the Bank of England was willing to buy in its money market operations, seemed to meet most UK needs for short-term funding, the Bank decided to allow a sterling commercial paper market with safeguards for investors.

"The Bank took the view that, given such demand, unnecessary restrictions were not only undesirable in themselves but could also

continue →

FM 1/11/91

lead to a shift of business offshore, fragmenting the London sterling market, or to the use of artificial devices to evade existing restrictions," it said. The presence in London of 600 foreign banks clearly influenced the decision.

The sterling commercial paper market has grown steadily from total outstanding debt of £2,1bn at the end of 1987 to £7bn in August.

(58)

The outstanding total ~~of~~ eligible bills has fallen from £15,8bn to £3,6bn over that period.

So far, 229 companies have issued sterling commercial paper of which 202 issues are still extant. About 86% of issues are by UK corporations (including those guaranteed by foreign parents), 2% by foreign groups (guaranteed by UK parents) and 12% by other foreign companies. A breakdown of investors shows 46% in the hands of managed funds, 30% with corporations, 15% with insurers and 9% with other financial institutions.

☐ People interested in the development of a local corporate paper market are invited to a meeting of the Independent Coporate Paper Forum, founded by Deloitte Pim Goldby's financial services team. Contact Robin Marsden at (011) 833-7500. ■

Finrand to stay for a while, says Stals

(58)

B/Day 1/11/91

SIMON WILLSON

RECENT narrowing of the financial rand's discount to the commercial rand was the result of market forces and not of Reserve Bank intervention to support the finrand, Reserve Bank Governor Chris Stals said yesterday.

Addressing the Financial Mail Investment Conference in Johannesburg, Stals also effectively ruled out abolition of the finrand until at least end-1993 when the current interim arrangements covering foreign debt repayments expired.

Stals noted that the shrinking of the finrand discount from 25,3% at end-1990 to 8,6% this week had led to speculation that the Reserve Bank had intervened in the financial rand market to support the finrand.

Encouraging

There was no truth in these rumours, he said.

"It is indeed encouraging that the contraction in the discount between the two exchange rates came about entirely by market forces, and particularly by the improvement in the international perceptions of the SA political and economic situation."

Responding to questions, Stals downplayed expectations that the finrand might be abolished if the exchange rates of the commercial and financial rands matched.

"We don't like the finrand system. We would like to get rid of it. If the two exchange rates do come together the question arises: is it necessary to retain the finrand? Unfortunately, I think we must keep the present arrangement.

"It would be difficult to change the financial rand system while we have a debt rescheduling arrangement with our foreign creditors. You can't abolish one without changing the other."

The present interim arrangement covering debt repayments lasted until end-1993, and that would probably be the most appropriate time to look at the future of the finrand.

In addition, Stals cited greater domestic political stability and normalised relations with the IMF as essential forerunners to any reassessment of the importance of the finrand.

Stals rejected suggestions that the commercial rand was overvalued and a discouragement to exporters.

It was difficult to define an overvalued exchange rate, but one way of doing so was to look at the results of an exchange rate. A current account surplus of R5bn-R6bn indicated that the current level of the commercial rand was appropriate, Stals said.

The Reserve Bank could not be expected to adjust the exchange rate for sectoral reasons. The size of the current account surplus showed that the exchange rate was appropriate for the macro-economy.

Stals said the improvement in the capital account of the balance of payments should enable the monetary authorities to persist with a policy of maintaining relatively stable exchange rates for the rand.

"This does not mean that the rand's exchange rate against any individual foreign currency should remain fixed, but only that the average weighted value of the rand against the basket of currencies of SA's major trading partner countries will be maintained within a relatively narrow range," he said.

African Life's policy on premiums proves its worth

8 Today 1/11/91 (58)

SEAN VAN ZYL

AFRICAN Life Assurance posted a 30% rise in bottom-line earnings to R4,3m for the six months ended September in its first full financial year as a listed company.

However, a slightly larger share capital base diluted the strong growth in attributable income to reflect a 23% increase in earnings to 7,4c (1990: 6c) a share. An interim dividend of 4,9c (4c) a share has been declared.

Total income, combining investment and premium inflows, rose by 32% to R48,9m (R37,1m). The assurer achieved a 35% rise in net premium income to R40,3m (R29,8m) of which recurring individual business showed the strongest growth, MD Bill Jack noted.

Group benefit business increased by 20% to R600 000 (R500 000) while individual premiums rose by 37% to R16,6m (R12,1m). Although group business was growing steadily, Jack said African Life would concentrate on specialist individual products such as education savings. It had developed a niche market as a low premium operator. "African Life is more like a financial supermarket than a boutique."

The company had identified the need for education savings as a future growth market. "Most people accept that secondary and tertiary education costs are going to soar in the near future. Adequate provision for these costs is going to become essential."

Investment income showed an 18% rise to R8,6m (R7,3m) on the previous period while the market value of total assets increased by 19% to R217m (R183,2m). Jack said African Life's fairly conservative investment portfolio performed well. Investments at the interim stage were 53% equities, 11% properties and the remainder cash, bonds and other securities. He did not expect any major changes.

The assurer's life fund was increased by 16% to R139,1m (R120,6m) while additional funds were allocated to its AIDS reserve. Jack said the AIDS reserve relative to its liabilities was probably one of the highest in the industry. Although provision for AIDS claims seemed adequate, premium rates eventually would have to be adjusted upward as the claims experience worsened.

Reserve Bank closes down venture company

Star 1/11/91.

By Magnus Heystek (58)

The Reserve Bank has stepped in and closed the business of Selected Portfolio Brokers, a venture capital company, for accepting investments from the public without registration as a deposit-taking institution.

The company is now being wound up under the supervision of June Schultz of Deloitte Pym Goldby, who took control of SPB's affairs on October 4.

All accounts have been frozen and no dividends have been paid out since that date.

If the company does not have sufficient assets to repay all investors, the Registrar of Deposit-taking Institutions will apply to the court to wind up the business.

It is believed the preliminary amount of money involved is some R3,5 million. This figure could however be substantially more and will only be known once the inspection has been completed, the Reserve Bank said in a statement.

SPB, which has been operating from its Parktown offices for more than three years, offered its services as a broker for venture capital schemes providing higher yields than available elsewhere on the market.

Yesterday Maggi Payne, who has been running the company, assured me that all investors would get their money back.

However, she declined to comment on how many investors were affected or how much money was involved.

Ms Schultz, who is currently "sorting out SPB's affairs" said there was nothing to suggest at this stage that investors would lose their money.

African Life boosts income

Star 1/11/91

Finance Staff

(58)

African Life, one of the largest assurers in the black market, continues to make new ground, increasing new business by 36 percent to R17,7 million in the six months to end-September.

Recurring premium income rose by 35 percent to R40,3 million, while total income, at R48,9 million, was up by 32 percent. The interim dividend was raised by 23 percent to 4,9c.

Shareholders have the alternative of taking two bonus shares for every 100 shares held.

MD Bill Jack attributes the good results to the acceptance by its target market of a new range of products.

"Group business is increasing steadily and this will have a positive impact on the new business figures in the long term," he said.

City centre flatland 'no go area for granting bonds'

Star 1/11/91

By Jo-Anne Collinge (58)

Major financial institutions have virtually called a halt to the granting of bonds in Johannesburg's central flatland area on the grounds that the risk is too high for them to take.

Confirming that they have declared Hillbrow, Joubert Park and most of Berea as areas where new home loans would not be approved until matters improved, spokesmen for Amalgamated Banks of South Africa — embracing the United and the Allied — and First National Bank blamed the physical deterioration of the area in the last five or six years and declining property values.

Standard Bank divisional general manager Eric Tomlinson denied that his bank had turned off the tap entirely.

Perm marketing manager for home loans Dave Wright said the Perm had reached its limit on overall market share — at around 30 percent — and "if you look at our exposure, we're as far as we want to go".

Estate agents have branded the ban as indiscriminate. They claimed that loans made by institutions which denied a blanket ban were few and far between.

By making home ownership impossible, the banks and building societies were promoting the physical decay of Hillbrow, Berea and Joubert Park, estate agents claimed.

"They are creating a vast slum between the northern suburbs and the city centre," charged the director of one estate agency.

Julio Luccarda of Hometeam said the decision flew in the face of experience which showed that "if people can actually buy a home — no matter how small — they will look after it a lot better".

Some agents felt that the targeting of Johannesburg's flatland had racial undertones, although the restriction applied to both white and black buyers.

FNB senior manager Andre Latre said the bank had continued to lend in the Hillbrow/Berea area long after other institutions had stopped.

Lloyd's ditches albatross image

W/Mail 1/11 - 7/11/91. 58

Like one, that on a lonesome road
Doth walk in fear and dread,
And having once turned round
walks on.
And turns no more his head;
Because he knows, a frightful fiend
Doth close behind him tread.
The Ancient Mariner — Samuel Taylor Coleridge

Ancient and venerable insurance market Lloyd's has been through a bit of a bad patch, according to its chairman. For the sake of the 550 or so wealthy South Africans who put their assets on the line to be members, he had better be right.
REG RUMNEY reports

THE setting could not have been more apt. In the refined and literally exclusive confines of the Rand Club last week the equally refined David Coleridge waxed if not poetical surely quite philosophical about another grand institution — Lloyd's of London.

As the portraits and photos of early colonial figures looked on, Coleridge told a tale of woe which would have been worthy subject matter for his direct ancestor, the poet Samuel Taylor Coleridge.

Coleridge, the first chairman ever to have officially visited South Africa, took over the reins of Lloyd's in 1990 at the tail end (one hopes) of an unlucky time.

A lot of Lloyd's business worldwide is insurance against catastrophes like huge and ruinous storms. Coleridge observed that for three years of catastrophes — from the October windstorm of 1987 through the Piper Alpha disaster in Britain's North Sea, Hurricane Hugo and severe windstorms of the early 1990s and beyond — the insurance industry had had claims which defied the law of averages.

This year it was Coleridge's duty as chairman to announce for the 1988 year (there is a three-year delay to take account of all claims) that Lloyd's overall made a loss of around £500-million. That there was an overall profit of £500-million the year before was consolation to some members, but not to all.

This is where Lloyd's famous "unlimited liability" comes in. The capital Lloyd's uses to underwrite insurance business comes from individuals who have to pass a means test showing unencumbered assets of a certain amount.

If a member, or "name" is liable for a loss he has to pay. Likewise, any profits made pass to the member for

David Coleridge at the helm in stormy seas

doing little other than providing the capital. Some names would have made a loss in 1987, and in 1988. Others would have made a profit in both years. Members could and should have built up reserves against stormy days in times of high profits. Not all have. As one South African name remarked to me: "We didn't expect the profits to stop."

Average loss worldwide in 1988 would have been around £15 000, but, again, it wasn't spread equally.

Of the 500 names in South Africa, 442 — or 1,7 percent of Lloyd's total active membership — are South African nationals.

To be a name means that you have to be pretty well off — in South African terms, at any rate. The means test is £250 000 of assets. With the value of the rand fast approaching £1 = R5, this means South African names must be millionaires.

Lloyd's doesn't only get some of its names here — it provides quite a lot of insurance as well.

Lloyd's is the seventh or eighth largest insurer in South Africa, having provided insurance here for around a century. Lloyd's premium income — the actual money Lloyd's gets for providing insurance — from South Africa this year is, on present trends, expected to be around £100-million, or R500-million. This is 33 percent more than last year.

Coleridge reckons Lloyd's business has grown as the South African insurance market has grown and it will keep its market share.

Premium rates on industrial and commercial insurance business, ie insurance for the corporate world, are fairly low, Coleridge remarked, but they are likely to rise. However, of more interest to the consumer, motor vehicle and "personal lines" — eg household insurance rates — have gone up considerably in the past two years, he reckons.

Coleridge believes commercial and industrial premiums will have to rise. The "lemming-like dash down the premium slope", to use Coleridge's colourful turn of phrase (who says artistic ability isn't inherited), appears to have been halted.

Coleridge glosses over the allegations of corruption by managers of "syndicates" — a number of names who accept insurance as a group — and warnings of doom by no less a magazine than *The Economist*, which cites scandals, frauds, mass resignation by names — and worst of all assault by the legal fraternity.

Coleridge accepts that what he calls a bad press will lead to a number of names dropping out. The number of names dropped from 32 433 in 1988 to 28 770 in 1990. Coleridge expects another 3 000 to 4 000 to resign. Gross insurance capacity will also shrink by about 10 percent, from £11,2-billion at the start of this year to around £10,2-billion.

But he argues that they are leaving at just the wrong time. The market has bottomed, rates are on the increase, and there are profitable times ahead for insurers. Not this year, but in 1992 profits should be good. So the names that do stick it out should no longer have to fear the fearful fiend of large insurance claims and poor premiums.

UNIT TRUSTS FM 1/11/91

Launching into the wind

Market conditions are hardly ideal for launching a unit trust. In the last quarter repurchases of units from unitholders doubled because it is widely believed that the market is due for a correction.

Yet Metropolitan Life launched the Metlife unit trust on October 17 and on Friday Old Mutual launches its sixth fund, to be called the Top Companies Fund.

Both institutions say the launches have been driven by client needs. Old Mutual assistant GM unit trusts, Bastiaan van der Westhuizen, says the launch of a new fund does not mean that Mutual has a bullish view of the market. The Top Companies Fund is being launched to complement existing funds, which include the Investors, Mining,

FM 1/11/91 **FOX**

Income, Gold and Industrial funds.

Top Companies will invest in all sectors except property and direct gold. It will manage liquidity more aggressively than other funds. As a rule Mutual's funds are fully invested but Top Companies will stay up to 30% liquid, when the portfolio managers take a bearish view. It will select what it sees as tomorrow's winners, though all investments will be in companies with proven management and operations.

Portfolio manager Adrian Allardice says that some industrial sectors have over-extended. He believes, for instance, that retail shares are too high; mining financials and shares tied to Gross Domestic Fixed Investment and exports offer better value.

Allardice expects "significant" government spending on infrastructure, which will boost construction and engineering shares.

Initially the fund will have a 40%-45% mining weighting. He sees banks as a defensive sector because high interest rates will keep their margins high.

Metlife was launched into the black market, which is almost untapped. Research showed that the average Metlife policyholder could save R47 a month with unit trusts, so a minimum of R50 a month has been set and a R500 lump sum, half the minima for the Top Companies Fund.

Portfolio manager Jannie van der Westhuizen says the fund will concentrate on traditional blue chips which have proved capable of weathering the storm ■

Brokers hold talks on nationalisation

(58)

SEAN VAN ZYL

THE SA Insurance Brokers' Association (SAIBA) has met a number of leading black political and business organisations to avoid misunderstandings imposed by the threat of nationalisation. BDay 1/11/91

The SAIBA announced recently that a special affirmative committee had been formed to assist the industry through the necessary transitional changes for a new SA.

The association had also scheduled a strategic meeting for February next year to formulate an overall strategic policy for SAIBA, affirmative committee chairman Peter Walters said.

Walters said informal dialogue had already been held with organisations like the ANC, Azapo, PAC and black business representatives. He hoped these discussions would eventually embrace all major black representative organisations and insurance firms.

Increased black membership of SAIBA and encouragement of new entrants to the broking community was a major issue being addressed by the association, Walters said.

The means of educating new entrants to the field was also being considered.

He said SAIBA would be able to provide a formulated strategy of its future role next year.

SENBANK FM 1/11/91 (58)

Playing white knight

TrustBank's chickens are coming home to roost — at Senbank. Senbank, which took over all TrustBank's corporate business, when executive chairman Piet Liebenberg restructured the Bankorp group last year, has rescued four major companies this year alone. Each had crippling gearing problems: Arwa; Cortech; Unidev; and this week Rusfurn. It has also restructured a number of smaller unlisted companies in the hope of restoring them to profitability and stabilising their debt exposure.

All these companies are hangovers from the days when TrustBank went on an asset chase and took on business without, in many cases, proper risk assessment. All have been in serious difficulties. Where Senbank has been the largest creditor, it has taken the lead in addressing the problems to secure its interests, says senior GM Estienne du Toit.

He explains that the bank had a number of choices: to put the companies into liquidation; under judicial management; break them up and sell off the assets; find a white knight to buy them; recapitalise; or restructure — the route taken.

"We started the restructuring by ensuring the right management was in place," Du Toit says. "In most cases, companies had either recently acquired new management or we introduced it."

Restructurings involved injections of new equity or, to an extent, capitalisation of debt which Du Toit admits was a necessity rather than a choice. "We're in the banking business and have no strategy to become long-term majority shareholders in industrial concerns," he says. The idea obviously is to return the company to profitability and for Senbank to sell its stake once a going concern price can be realised.

Du Toit says the problem with selling ailing companies in a weak economy is that people perceive they can buy at a discount. "Do you sell a company for nothing or try to turn it around and take the upside potential?" he asks.

In its latest rescue, Rusfurn, Senbank has acquired 42,2% of the issued equity in the furniture group, is underwriting a R250m rights issue and, with other bankers, will fund the group at current levels for at least four years. Senbank's exposure is likely to be around R500m, including its share of Rusfurn's R400m trade finance, which is probably around R100m.

Senbank's attempt to salvage investment holding company Unidev in March was similar. It acquired 40% in Top Hi, the holding company of Unicon which, in turn, is the holding company of Unidev. Top Hi underwrote a rights issue which injected R13m into Unidev and R23m into Unicon.

Unidev's total borrowings at December 1989 year-end were R86,1m, against shareholders' funds of R65m. There were also redeemable preference shares of R49,4m. Unidev held 23% of Rusfurn — according to an agreement, TrustBank and Finansbank were obliged to pick up R44,4m of this R60m investment if things went wrong.

In February, computer group Cortech was revamped. Senbank stepped in with a loan of about R11m and took a majority stake — estimated at 75% — in Cortech, management taking the other 25%. Some subsidiaries were placed in voluntary liquidation and viable ones were revitalised. Senbank put in an additional R10m to refinance the group.

Controlling stake

Senbank also restructured and recapitalised the Arwa Group and gave management a controlling stake. In April, it backed a management buy-in in the viable Arwa Leisurewear, in which it initially took a majority shareholding. The cost of this and the size of its debt were undisclosed. Five Senbank representatives sit as non-executive directors on the nine-man board.

Du Toit says Senbank has the strength to manage these types of rescue operations. He believes restructuring has been possible because TrustBank's corporate assets have been brought under the Senbank umbrella and therefore exposed to the joint expertise of merchant bankers and commercial bankers. He points out that most companies which Senbank has restructured or recapitalised have again become viable. ■

MASTERBOND FM 1/11/91

Last resort

Sun International (SI) isn't riding to the rescue of Masterbond Trust. MD Ken Rosevear denies that SI is interested in taking over Club Mykonos, Masterbond's biggest headache.

Masterbond chairman Koos Jonker had claimed that what he called agents of SI had been negotiating with his group for six months. He said SI wanted to buy the development and turn it into a casino resort.

Rosevear emphatically denies the claim. "We have not negotiated with Masterbond whatsoever for the purchase of Club Mykonos. All that has occurred is that a certain party approached us to ascertain if we would be interested in looking at it, but we have not pursued it at all. I have not seen Club Mykonos, so cannot say if we would be interested, but it is probably unlikely."

Rosevear says it's speculative to consider Club Mykonos being suitable because the law prohibits casinos.

The entire Masterbond group has effectively been taken from the control of its directors. The holding company was placed under curatorship last week but a number of associated companies, including the Silverhurst development in Constantia in Cape Town, which are effectively controlled by Masterbond directors, have not yet been brought under the curators' wing. ■

IDT BOND ISSUE

Next round

FM 1/11/91

The ANC and Independent Development Trust (IDT) were due to meet on Thursday to discuss the IDT's projected US$100m Eurobond issue. This was confirmed by Thabo Mbeki, the ANC's head of international affairs, as the *FM* went to press.

In September, the IDT announced its plan to raise funds to build schools and provide clinics and clean water for rural communities. Director Jan Steyn believed the project had the backing of the ANC. However, on October 16, the ANC dissociated itself from the project because the issue would be backed by government.

The ANC put out a press release disclaiming the "bogus ANC-IDT statement." The press release said ANC secretary-general

continue

US prosecutors to indict Armscor

BIDay 1/11/91

WASHINGTON — Federal prosecutors are preparing the first criminal charges accusing Armscor of smuggling sensitive US military technology to SA, say law enforcement officials.

The Wall Street Journal reported yesterday that in addition to Armscor, these officials say the US attorney's office in Philadelphia intends to seek a pair of indictments naming a host of individuals and smaller companies in a case involving illegal export of missile parts, gyroscopes and other military hardware for SA.

Prosecutors have targeted James Guerin, the disgraced founder of a former Pennsylvania-based global defence conglomerate, and a number of his associates.

Investigators, says one official, also intend to seek charges against an SA businessman who served as an important link between the military and Armscor during the 1980s.

The climax of the three-year probe by the US Justice Department, customs service and Pentagon criminal investigators, is expected to be the filing of export-violation charges against Armscor. Only a last-minute change of heart by prosecutors or the grand jury could change those plans, says one official involved.

Believed to be among the most sweeping international arms-smuggling and financial fraud inquiries in years, investigators in the US and elsewhere are still trying to unravel what they contend is a network of front companies, 39 bank accounts and fraudulent profit reports used to create more than $1bn in fake defence contracts.

The alleged scheme masterminded by Guerin almost destroyed Ferranti International plc, one of Britain's most respected defence firms, in the late 1980s.

Law enforcement officials also say that they have targeted more than 20 companies and individuals as potential defendants in the case, including R Clyde Ivy, one of Guerin's former confidantes. Ivy, according to persons familiar with the investigation, at one point served on Guerin's payroll while working for a missile-making subsidiary of Armscor.

In a telephone interview from his Lancaster, Pennsylvaina, home, Ivy denied that he engaged in illegal conduct. He said during the 1980s he was regularly debriefed by the CIA on matters related to SA's military.

In addition, Ivy said that it was his understanding that shipments of sensitive equipment were made by a Guerin-connected company, Gamma Systems, to SA. One aspect of the broad-ranging investigation involved certain SA weapons Iraq acquired and then used during the Gulf war.

LINDEN BIRNS reports that an Armscor spokesman says it is not corporate policy to comment on the procurement or sale of arms. A Defence Ministry spokesman also declined to comment on the US developments. — AP-DJ.

Brokers ordered to pay back funds

BIDay 1/11/91

ROBERT GENTLE

A BROKERAGE firm which takes deposits from the public for investment purposes has been ordered by the Reserve Bank to return all monies obtained or risk a winding-up order by the courts.

The firm, Selected Portfolio Brokers (SPB), a Parktown-based company made headlines last year when police were called in to investigate irregularities in a collapsible wheelbarrow venture it was promoting.

A Reserve Bank statement said yesterday that SPB had been found to be in contravention of the Deposit-Taking Institutions (DTI) Act after an investigation undertaken in terms of the SA Reserve Bank Act.

Following the inspection, SPB was directed to repay to investors all monies so obtained, including any interest or other amounts owing.

The statement said that June Schultz of chartered accountants Deloitte Pim Goldby had been appointed to manage and control the repayment of the money.

Her work would also include further investigation into the affairs of the company to establish "the true amount of money unlawfully obtained ... as well as the identities of all persons from whom such money was so obtained".

In the event of the company being unable to fully comply with the repayment requirements, the DTI registrar was empowered to apply to the court for the winding up of SPB.

Approached for comment, Schultz said she was still carrying out an audit and was not yet able to establish the amount that had to be repaid.

SPB officials were unavailable for comment.

Property versus unit trusts

Star 2/11/91

Money Matters
S8
MAGNUS HEYSTEK

WHAT has been the better investment over the past decade: unit trusts or property?

A straight comparison is not possible as a number of assumptions have to be made. A further complication is the fact that one has to make use of average figures. And as we all know there is no such thing as an average.

I arbitrarily selected a period of nine years to make the comparision, going back to October 31 1982.

The average house price then, according to Absa, was R59 511. In order to simplify matters I have rounded it off to R60 000.

By October this year the average house price had increased to about R110 000. Not a great performance.

However, R60 000 invested in the Sage Growth unit trusts (no, I'm not endorsing Sage or any particular unit trust, it's just that livewire marketing manager at Sage, Beverley Barkhuizen has these facts at her fingertips) on October 31 1982 would on Thursday this week have been worth R450 691.

Round one to unit trusts.

But very few people buy a house for cash. They use mortgage bonds to finance their purchase. This introduces the element of gearing, also known as leverage. This greatly improves the return on equity.

Assuming a 20 percent deposit (ie R12 000) there would be a bond of R48 000 to which must be added R2 000 in legal costs, a total of R50 000.

After nine years, assuming constant bond payments of R622 a month at an average mortgage rate of 16 percent, R43 000 (rounded off) would still be outstanding.

So the house buyer's R12 000 has been turned into R110 000 minus R43 000 which leaves R67 000.

Had the same investment been made in a unit trust (with income reinvested) the value on Thursday this week would have been R88 715.

Round two to unit trusts.

But, a 10 percent deposit (R6 000) alters the picture. However, a smaller deposit requires a larger bond, namely R56 000. After nine years of constant bond repayments of R705 per month the outstanding bond is down to R49 000 which leaves a capital gain of R61 000.

R6 000 invested in the unit trusts would have been worth only R45 069 on Thursday this week.

Round three to property.

So the higher the gearing, the better the overall return.

Hang on, hang on, you no doubt are shouting. What about the bond repayments and rentals paid over the nine year period? Doesn't this affect the calculation?

It certainly does.

Total bond repayments in the second example come to R67 176. This is a straight-forward calculation — R622 times 12 times 9.

Now the person who invested R12 000 in a unit trust had to live somewhere and pay rent. On the assumption that rentals are normally about 70 percent of bond repayments but escalating at 15 percent a year, the total rental payments over a nine-year period amounts to R86 884.

So the person who rented paid about R20 000 more than the person who bought the property. This upsets the odds once again.

However the house owner has expenses the tenant doesn't have, ie rates, upkeep etc. Let's assume an average additional cost of R1 000 per annum over a period of nine years for this. That still means that the person who rented paid R11 000 more than the person who bought.

So let's go back to the first example of R12 000 invested in unit trusts that yielded R88 700. From this now must be deducted R11 000 which leaves R77 700, which is still more than than the R67 000 earned in property.

Another round to unit trusts.

In example two, namely R6 000 paid into unit trusts, the deduction of R11 000 leaves only R34 090. The R6 000 investment in property, however, was turned into R61 000.

No contest. Property wins on a knockout in the fifth round.

So based on the fairly general assumptions that I made (other assumptions would probably lead to other conclusions) I'm still fairly convinced that by using a mortgage bond, residential property is still the best investment for the man-in-the-street, especially when a small deposit is paid using leverage to the maximum.

First National in a tax battle

S/Times (Buss) 3/11/91. S8

By JULIE WALKER

BANKS and financials continued to shine among the week's crop of results.

First National Bank was able to raise its ordinary dividend to the same as that on preferred ordinaries in the year to September.

Chief executive Barry Swart says the good performance is a result of lower bad debts because of a new early-warning system. The bank also foresaw a long spell of high interest rates two years ago and took longer-term deposits at lower rates to improve returns.

The bank's assets rose by 21% to R36,6-billion. Growth in advances — mainly in home loans — was up by a quarter. Income before tax provisions was 28% higher at R409-million, but the Commissioner for Inland Revenue has said that certain interest income from a foreign source should be deemed as coming from SA.

The Commissioner wants R32,5-million, which First National disputes. But it has provided for a special tax charge. The bank disputes it on the grounds of a judgment in favour of Lever Brothers on a similar issue.

First National's capital ratio has righted itself, but Mr Swart says that to expand, the reserves will have to increase. He does not specify the method.

NBS Holdings continues to impress. In the six months to September the group raised earnings a share by 21% to 49,7c and the dividend by 2c to 15c.

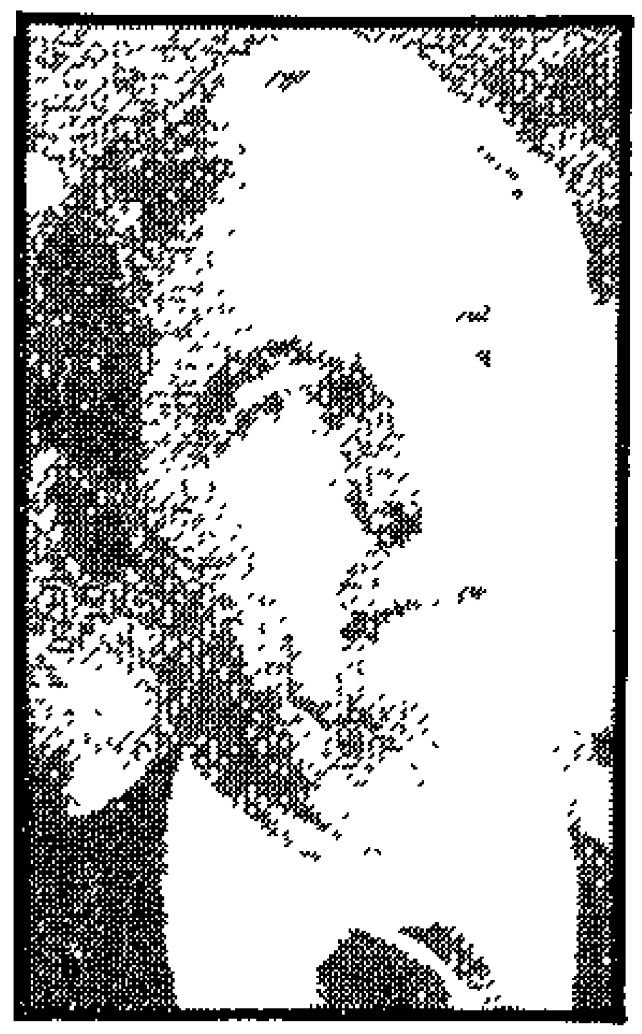
Suffered

NBS has suffered from the economy's effect on arrears and repossessions, but has maintained adequate provision. It expects to continue to achieve real growth.

NBS bought 39% of French Bank of SA effective from July.

Boland Bank managed 11% growth in earnings in the six months to September. The directors were obliged to increase provisions against bad debts because of the large number of insolvencies and liquidations.

Board of Executors continued its strong run in the year to September. Attributable earnings rose 25% to 128c a share and the dividend was raised 19% to 38c.



GEORGE BEETON: Steeper spending decline than expected

An extraordinary profit of R5,8-million arising from the sale of BoE's holdings in Storeco and Speciality Stores was transferred to reserves.

The money-market division was renamed BoE Merchant Bank and is changing from an agent to a principal.

The group expects further real growth this year.

Pink

Barlows companies produced a mixed bag for the year to September 30.

In the pink was Adcock Ingram, the pharmaceutical company, which raised profit at a faster rate than turnover. Earnings attributable to ordinary shareholders rose by 29% to 235c a share and a dividend of 88c will be paid.

Group chief executive Don Bodley says established major brands and demand for new prescription products grew well, raising turnover to R774-million.

The group was reorganised into six business units. Adcock Ingram's management expects satisfactory earnings growth in the current year.

Oceana Fishing and Wit Colls, which reported two weeks ago, could not raise their earnings a share at the bottom line.

But Romatex had its second bad year. Carpets incurred a loss and fabrics a smaller profit. The industrial division improved, and bulk storage made about the same as last year.

Sales were sought at the expense of margin and bottom-line income suffered a 77% drop to 34,9c a share. The dividend was smacked a similar amount to 14c

Another R8,7-million extraordinary loss arose from discontinued operations. Romatex awaits the economic upturn.

Rand Mines Properties property did better than expected, but profit fell 6%. Gold income dropped because of a lower metal price and higher working costs. Earnings a share were 10% below 1990's.

Gases

Nampak's packaging divisions helped the group to achieve a 16% increase in earnings to 491c a share. The tissue division's real growth is not to be sneezed at, but printing and paper profits declined.

The board forecasts a modest improvement in operating profit in the current year, but high interest and more tax will probably lead to results lower than this year's. Barlows group results are a week away.

Afrox continued to do no wrong in the year to September 30. It is one of the few companies to present inflation-adjusted earnings, which were 29% higher than last year's.

The gases, welding, healthcare and specialised engineering group turned over R1-billion — 16% more than last year.

Improved operating efficiency improved margins and the lower corporate tax rate boosted the bottom line.

BARRY SWART: Early warning beats bad debts

Chairman and managing director Peter Joubert says the domestic economy will stay flat. But Afrox's sound base, diversity and new developments will produce growth, albeit at a lower rate than 1991's.

Edgars, the leading light among retailers for several years, felt the pinch in the six months to September.

Chief executive George Beeton reports a steeper than expected decline in consumer spending. Only 9% more was spent on the national clothing, footwear and accessories markets compared with a rise of 18% in the previous comparable time.

Edgars sales grew by 13% to R1,3-billion, but despite additional markdowns and promotions, the bottom-line climb was limited to 10% at 155c a share.

The Edgars chain did okay, and Sales House succeeded. But cash store Jet struggled. The group expects a tough second-half year.

Other companies to show growth include Spur and Spurhold, Boumat and ABS.

Of the 22 companies reporting interims, Unidev returned to profit, Cargo carriers lost, 16 made more money than previously and the balance less.

Among the 16 prelims, two incurred losses, nine made more profit than last year and the rest fared worse.

holding.

FilmNet, which has about 500 000 subscribers, is valued at between R396,5m and R419,8m.

Richemont's statement said it was expected other industry participants would be invited to join the consortium "in the near future".

FilmNet president Martin Lindskog is to remain head of the operation.

He said the new backing would encourage its growth.

FilmNet operates in Sweden, the Netherlands, Belgium, Norway, Denmark and Finland.

REPORTS: Sapa

Wool Board spokesman Jan Bezuidenhout said that during the previous season growers had made use of the board's promise to continue voorskot payments despite the collapse of the Australian market, boosting local production. Many farmers sent a second clip to auction.

There was now less wool to shear as a result, he said.

The drop in receipts would have little effect on the market as clearance at auctions had not once reached 100%. The board's stockpile stood at a solid 124 873 bales.

Australian wool prices dropped 8,9% at auctions this week, retracing after last week's 21,3% surge, AP-DJ was causing the current volatility.

Drysdale said he "wouldn't be surprised if there was some small degree of collusion between buyers, but that was an imperfection in any auction market whether it be for property, cars or wool.

"However, there was no evidence of manipulation on the scale that would be necessary to cause the current level of volatility in the market."

Bezuidenhout said prices surged 19,5% in Port Elizabeth in the previous week, following demand from Japanese and European buyers, but the market indicator fell 8,3% to R11,26/kg at last week's auction.

About 87% of the 17 107 bales on offer were sold, the board said.

Saflife to focus on individuals

8/Day 4/11/91

SEAN VAN ZYL

SAFRICAN Life (Saflife), the HCI group's life assurance arm, has disclosed a 13% rise in attributable income to R7,5m for the six months ended September.

Earnings came in at 25,5c (1990: 22,5c) a share. An interim dividend of 15c (12,5c) a share was declared.

Chairman Michael Lewis attributed a decline in net premium income to a drop in group benefit business. "The recession has resulted in a number of companies retrenching staff, which impacted on our pension business," he said.

However, Saflife's recurring premiums were up by about 20% on the previous period.

Individual business showed strong growth and Saflife would focus on developing new individual-based products, he said.

Policy lapses had not increased dramatically compared with the previous period.

Lewis said he had a bullish outlook of the SA economy and expected Saflife to achieve real growth in earnings during the second half of the trading year.

(58)

Although a 20% increase in dividend exceeded growth in earnings, dividend cover remained fairly constant at 1,7 times against with 1,8 times during the previous period.

An 8% decline in net premium income to R86,4m (R94m) was offset by an impressive 30% rise in investment income to R33,2m (R25,7m). As a result, the assurer's consolidated income after operating costs climbed 13% to R10,1m (R8,9m).

A tax bill of just more than R2m (R1,9m) and deduction of minority share of profits of R610 000 resulted in attributable income of R7,5m (R6,5m).

Dorbyl in venture with Taiwanese

8/Day 4/11/91

PORT ELIZABETH — Taiwanese company, TSK and Port Elizabeth company Dorbyl Automotive Products (DAP) have started a R14m vehicle parts joint venture, a DAP executive said.

The first of three plants has started manufacturing, the second is due to start in April 1992 and the third is due to start at the end of 1992, said P R Lavery, general manager of DAP Automotive Steering Wheels, a DAP unit. (172)

He said the R14m would cover the cost of bringing the plants into production. DAP has 50% of two of the plants and 51% of the third.

"TSK is already servicing accounts in the US and we believe this venture is going to mean a lot for Port Elizabeth," he said. "There is a possibility of us taking over some of those accounts." — Reuter.

Presmed rights issue for debt and expansion

8/Day 4/11/91

WILLIAM GILFILLAN

PRIVATE hospital group President Medical Investments (Presmed) is to raise R7,5m in a rights issue. This was announced on Friday when the group disclosed interim results which saw earnings up 45% at R1,6m (R1,1m) for the six months to August.

Higher occupancy levels and a reduction in fixed costs helped the earnings jump on a turnover up 41% at R34m from R24m.

Earnings a share were up 45% at 14,5c (10c). The group does not declare an interim dividend.

The group manages five private hospitals and seven day clinics.

Presmed MD Carl Grillenberger said the strong turnover growth flowed from management's effort to optimise the group's facilities. To illustrate, he said, they had been actively encouraging surgeons to operate during weekends.

Increased occupancy levels and reduced fixed costs were experienced at the Cosmos hospital in Witbank, the Rosepark in Bloemfontein and the Jan S Marais in Bellville.

On the rights issue, Grillenberger said part of the R7,5m to be raised was to be used to pay off debt and the rest to finance future expansion.

Expansion

"With the opening of the Bedfordview and Rustenburg hospitals in this past year, debt levels have risen. However, this is not apparent in the group's half-year balance sheet as much of the expenditure took place since then.

"Presmed's exacting feasibility studies on the location of new hospitals and day clinics and their commissioning only when previous ones are well-established place the company in a favourable position for further expansion."

As the group's market capitalisation was about R33m, the R7,5m rights issue would increase shareholder's funds by 20%. He said institutions had responded favourably to the rights issue.

He was optimistic on the group's prospects. "The board was able to commit itself to a compound annual profit growth of 20% over the next five years. With the ever-increasing cost of health care, the demand for Presmed's facilities — which are operated at the contracted tariffs of the medical aid movement — can only increase.

"The planned day clinic in Kempton Park should open within a year. Also, approval has been obtained for the reopening of the Witbank day clinic, which had to be closed in terms of the licence conditions for the Cosmos hospital."

MacAdams has a good year

8/Day 4/11/91

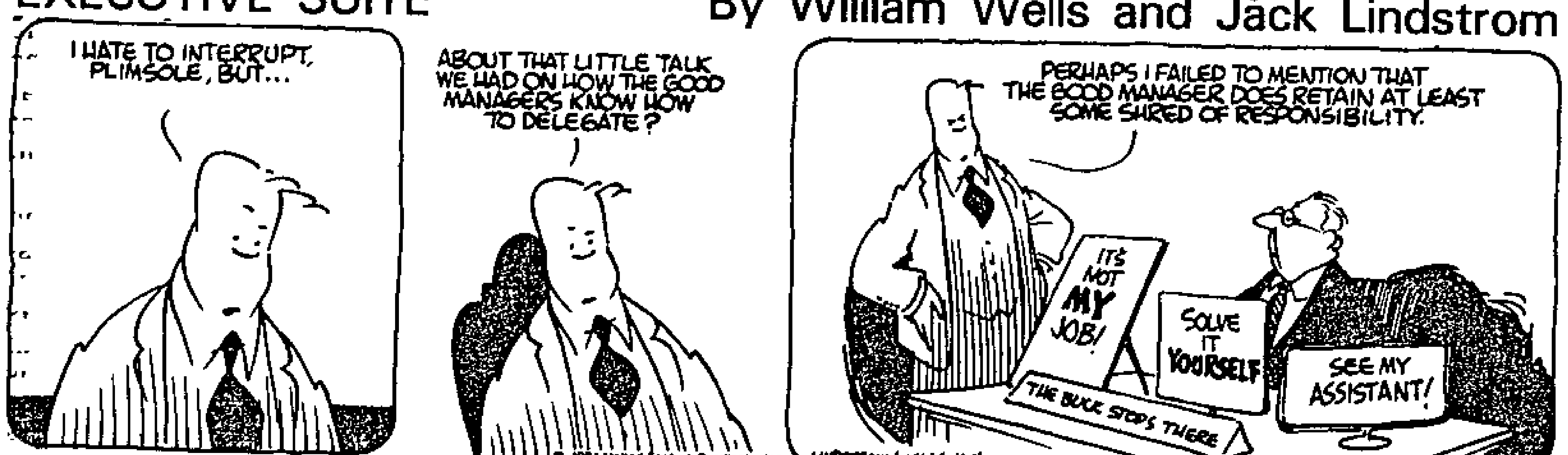
CAPE TOWN — Bakery and confectionary equipment manufacturer MacAdams has turned in a 30% increase in turnover to R17,764m for the six months ended August 31.

Net income for the period amounted to R801 000 compared with R161 000 in the corresponding period last year. (192)

Earnings per share increased to 5c a share compared with 1c a share previously and 2,9c a share for the year ended February 28. — Sapa.

EXECUTIVE SUITE

By William Wells and Jack Lindstrom



Aflife beats the best

Business Times Reporter (58)

SECURE in its niche as a low-premium assurer, African Life has continued to outperform the market.

In both annualised new business and recurring individual life premium income African Life beat the averages for small, medium and large life companies in the year to June 30.

African Life is classified as a small assurer by the Life Offices Association of SA. S/Times (Buss) 3/11/91

The company, listed last November after a special drive to attract a spread of small investors, produced attributable income of R4,3-million in the half-year to September 30.

In spite of an increase in the number of shares in issue, earnings increased by 23%, from 6c a share to 7,4c.

The dividend has been increased from 4c to 4,9c. Shareholders are given the option of receiving two new shares for every 100 held instead of a dividend payment.

African Life's new business jumped by 36% to R17,7-million and recurring premium income increased by 35% to R40,3-million.

Investment increased 18% to R8,6-million.

Daring Marc set for the last laugh

58

St Times (Buss) 3/11/91

By IAN SMITH

MARC WAINER can remember vividly the alarm on the faces of Investec group directors when he said he wanted to spend R90-million on buying flats in Bedfordview.

After all, institutions had been shedding their investments in apartment buildings for years and no block had been built anywhere near central Johannesburg in a decade.

But entrepreneurial Mr Wainer, 43-year-old head of independent banking group Investec's new property division, convinced the board that his dream of introducing a different lifestyle could produce profits.

He was given the green light and Investec Property Group led a consortium of investors in the purchase of 11 blocks with 964 flats on 10 ha in Bedfordview.

A total of R5-million was committed to refurbishing and establishing a "village estate" with entertainment and recreational facilities, landscaped gardens and high-level security.

Option

The market's view of the deal is shown by the 30c jump in the share price of the seller, Stanprop. But Investec and its consortium partners look as if they will have the last laugh.

Sales of the flats in Bedford Gardens started in May, and after only four months more than a third have been sold.

Investec's annual report says returns in the next two years are expected to be large.

Johannesburg-born and educated Mr Wainer, who dropped the option of a university degree to become a rep for a company selling display equipment, says he had no doubt that the time was ripe for an entry to the residential property market.

MARC WAINER: Property boldness pays off
Picture: SUE KRAMER

The gap between purchase prices and replacement costs has never been bigger and is still widening, he says. Rising rents will increase demand and there are people who can afford to buy in spite of high interest rates.

There is a growing opinion that interest rates are likely to soften. The scrapping of the Group Areas Act will strengthen the market.

Mr Wainer says a typical two-bedroom flat in Bedford Gardens selling for R160 000 would cost R240 000 to build today, without any allowance for the price of land.

Investec Property Group's commitment extends beyond the refurbishment and sale of the Bedford Gardens flats.

The management company is trying to foster community spirit and social activity by residents.

"We want to bring back a way of life enjoyed by families 20 years ago," says Mr Wainer.

Security is vital, and the grounds are patrolled 24 hours a day.

Investec's involvement in the property business stems from the merger with Metboard, which brought the Incity property trading company into the group.

Mr Wainer started Incity after a spell with the family-owned grocery shop in Yeoville and as a shopping centre manager. He and his two partners sold a large part of the business to Metboard before Investec came on the scene.

Major

Mr Wainer says: "When the merger with Investec came about I did not think I would stay long. But I have learned far more from Investec that I ever believed possible.

"I now wish I had been involved with a group like Investec much earlier in my business life."

He says the bankers were a little worried about the property business in the early days, but once they were convinced that ideas were sound they gave their full support.

Only over a year ago the property business became a major force when I Kuper & Co was bought and merged with Incity to form Investec Property Group.

They were complementary companies, Incity concentrating on buying property, adding value and selling. Kuper is a market leader in property management and administration.

In the year to March 31 the property business contributed nearly 23% to Investec group, which has assets R2,8-billion and funds under administration of R6,8-billion.

Insurance giant to sponsor Ramaphosa's birthday bash

S Times 3/11/91 (58)

By STEPHANIE HULL

ANC secretary general Cyril Ramaphosa will be honoured with a lavish farewell and birthday party — courtesy of the Southern Life insurance company.

Company sources confirmed the party would be held for Mr Ramaphosa, former general secretary of the National Union of Mineworkers, at the Old Edwardian's Club in Houghton, Johannesburg, on November 17.

They said the NUM had approached the company to sponsor the event. Originally 500 people were to have attended, but the guest list has since been trimmed to 250. Guests will be treated to a braai and an open bar from 10am until late that night.

Sources at Southern Life said the company had decided to sponsor the event because "the NUM has a provident fund with us which provides benefits for about 300 000 members. It was felt it would be beneficial to future business".

Southern Life is organising the event and has sent out the invitations. It has budgeted R20 000 to cover costs.

But a NUM spokesman said the event was "very private" and had been paid for mainly by NUM staff members from their "own pockets".

She said some individuals and companies connected with Mr Ramaphosa had also provided "small sponsorships" and that an official party would be held for Mr Ramaphosa in January next year.

A spokesman for Southern, Mrs Lorraine Sassenberg, said she could not comment.

Sanlam goes for the big earners

S Times (Buss) 3/11/91. (58)

By CURT VON KEYSERLINCK

MORE than 40% of people taking out policies with Sanlam for the first time were other than white in 1990, says managing director Pierre Steyn.

"We once had the image of being an Afrikaans-oriented organisation," says Mr Steyn. "But we believe growth lies primarily with upper-income individuals. Our new strategy is to concentrate our efforts there.

"The number of English-speaking policy-holders rose by 40% last year as opposed to 25% in Afrikaans-speakers."

Life-assurance needs of other income groups are met by Metlife, in which Sanlam owns a large stake.

Mr Steyn made these comments in a discussion about Sanlam's results, published this week.

In the year, premium income exceeded R8-billion for the first time, a threefold increase over the past five years.

Individual recurring premiums rose R1-billion to R3,4-billion. Sanlam believes this is a record for the assurance business.

Assets held by Sanlam increased by 34% to more than R50-billion.

Hesitant

Investment income rose 15% to R3,4-billion. With market value appreciation taken into account, its profit-sharing portfolios achieved an investment return of 20%.

Income from investments and premiums rose by 11% to R11,612-billion and payouts by 10% to R4,264-billion. Administrative expenses rose by 32% to R540-million.

Income from single premium policies dropped 3% to R1,944-billion during the year.

Mr Steyn says: "This is partly because people are hanging on to their cash due to uncertainties about the economy arising from what certain politicians say.

"Some are hesitant to commit large sums for 10 years, the minimum period for which we can accept investments.

"There is also less discretionary money available for the ordinary person because of inflation and relatively low salary increases."

Premium income from employers' contributions to group pension schemes rose only 4% to R2,882-billion. Mr Steyn says the cause was retrenchments at many companies. Many employers are also feeling the pinch and some with well-funded pension schemes have temporarily suspended their contributions.

PIERRE STEYN: Shedding an image

Sanlam senior general manager Ronnie Masson says the returns from Sankorp easily outperformed its portfolio investment returns, even though holdings in Bankorp and Tradegro took a knock.

Mr Steyn says Sanlam has begun to invest in low-cost housing only where adequate security is provided by institutions such as the SA Housing Trust and where returns are market-related.

Sanlam is also putting money into office and commercial properties in the homelands and in black and Indian townships. One of its most recent is an investment in a mega-shopping complex in Cape Town's Mitchell's Plain.

SA party leaders welcome Chiluba

658 ARG 4/11/91

Political Staff

THE Democratic Party (DP) has welcomed the election of Frederick Chiluba as Zambia's new president, saying it was "right" that former President Kenneth Kaunda was removed from power.

In an interview, DP leader Dr Zac de Beer said Dr Kaunda, like many leaders of his generation, "fell under the spell of socialists and believed that politicians, by interfering in a major way with the economic process, could help the poor and disadvantaged people".

Dr De Beer, who said Dr Kaunda was a "good friend" of his when he lived in Zambia and that he retained "very considerable personal affection for him", added events in Zambia, eastern Europe and the Soviet Union had clearly shown the failures of socialism.

"But it would be unfair to blame Kenneth Kaunda personally. He was a product of his

Dr Zac de Beer

time. As a human being, I found him charming and kind, and his behaviour in a moment of defeat only confirms my liking for him as a man," Dr De Beer said.

Dr De Beer said he believed Zambia would be "better off" as a result of the outcome of the election. South Africa, he said, had to realise that President Chiluba faced "a long and difficult task ahead" and would need all the help he could get.

The DP leader said he did not believe the outcome of the Zambian election would have "far-reaching" implications for South Africa. He said that in spite of his "strong and sometimes militant opposition" to apartheid, Dr Kaunda had never stopped trading with South Africa, and that would continue to be the case under the new government.

Azanian People's Organisation (Azapo) president Mr Pandelani Nefolovhodwe, who said he knew President Chiluba personally in their respective days as trade unionists, said Azapo and the Black Consciousness Movement of Azania would send the new Zambian president a message of congratulations today.

Inkatha Freedom Party (IFP) spokesman Ms Suzanne Vos said her party wished President Chiluba well and applauded Dr Kaunda and his party for "accepting the will of the people".

Election results still to come in

Argus Africa News Service

LUSAKA. — Results from rural constituencies in the Zambian elections are still to be received four days after the poll.

The authorities said last night the delay was due to transport and communication problems.

Counting of votes in remote parts of the country has not yet been concluded.

So far the Movement for Multiparty Democracy (MMD) which is to form the new government, has won 110 seats and the former ruling party, Unip, was successful in 20 constituencies. Unip has been reduced to a regional party.

It won almost all its seats in The Eastern Province. Meanwhile President Frederick Chiluba, who was sworn into office on Saturday, is expected to announce his cabinet either today or tomorrow.

THE MONEY MARKETS by Andrew Gill

Keeping a tight rein on liquidity and banks could be a nightmare

BDay 4/11/91 (58)

KEEPING a rein on liquidity, and in turn on the banks, could become nightmarish if current rate patterns are anything to go by.

Friday's Treasury bill tender came in a point lower despite increasing the allocation to R200m from R150m. At 16,25% banks might find the Reserve Bank less inclined to adopt a *laissez-faire* attitude against the background of an intended stubborn monetary grip on the economy.

The banks are doing their best to get rates to lower levels and make up the margin lost on the R200m tax levy in lieu of VAT.

However, the Reserve Bank is not yet ready to loosen its grip, as Bank Governor Chris Stals said at last week's FM Investment Conference.

The boost will be fiscal, not monetary, so no dramatic drop in official rates is in the offing.

Stals in effect last week admitted defeat in the battle against government spending.

The upturn is unlikely to find its way into the private sector as quickly as it appears in official statistics.

Often unproductive government spending will wind its way through the bureaucracy looking aged and probably a little smaller. By the time it flows through to the projects for which it is intended and starts to boost sectoral interests such as housing, profits can dwindle.

There will be no direct boon for the private sector, and in keeping monetary policy tight in an expansive fiscal environment, this is where the squeeze will be.

Stals has to continue his juggling act in the coming months but is going to find it increasingly difficult to keep all his balls in the air.

Government spending appears to have been the first to fall.

The item that now needs the most attention is forex inflow, which continues unabated. If this is not adequately controlled Stals could lose all semblance of control.

Against this background banks will take advantage of any Reserve Bank laxity to try to edge rates lower.

Getting Treasury bill (TB) and associated rates down to such low levels has allowed banks to drop deposit rates and make up the lower margin. The Reserve Bank is attempting to stem the tide through its special tenders and by increasing the weekly TB allotment. It had no real effect on Friday, but if an extra R50m is drained each week there could be a slight correction.

Demand is strong on the short-term side and appears set to continue even if rates drop further, despite the increasing attraction of long-term rates because of the softer short side.

An indication of the attraction of shorter-term instruments has been government stock.

The R144s dated 1996 are now 10 points below the longer-dated R150s. Previously they traded 10 points higher.

There is little doubt that a 16%-plus inflation rate is in store in October because of VAT. The optimists, however, believe that it will be the peak.

After that rise, the inflation battle could start to reap the rewards of a long-suffered policy.

Reserve Bank urged to relax interest rates

SHARON WOOD

NEDBANK chief economist Edward Osborn has called for the relaxing of interest rates, saying the Reserve Bank's tight monetary policy is damaging the economy.

Speaking at the Financial Mail 1992 investment conference on Friday, Osborn said: "There is little doubt as to the damage that is being wreaked on business.

"Many of the smaller and more highly geared have or are going to the wall ... this in a country which has accepted the crucial role of small business in the development and employment process."

Real interest rates should be negative, or below the rate of inflation, to get the economy going again, he said.

The Bank said high interest rates were not inflationary if they remained constant, but Osborn said they had an inflationary effect on costs. (58)

He said the Bank had failed to inflict the slightest dent on the inflation rate in the 18 years since it went into double digits.

● See Page 14

Nedbank economist slates monetary policy

Star 4/11/91 (58)

Nedbank chief economist Edward Osborn has slated monetary policy as ineffective in its attempts to curb demand inflation.

In his address to the FM's Investment Conference at the weekend, Mr Osborn said the Reserve Bank had "demonstrably failed in achieving the slightest dent on the inflation rate since it entered double-digit inflation 18 years ago".

He said the Bank's pursuit of positive interest rates was only relevant in terms of its impact on investment demand.

However, high interest rates, taxes, import duties and the treatment of depreciation in the tax system had pushed capital costs to tremendously high levels.

This policy, he said, had emerged from advice given by the Reserve Bank based on the "strange notion" that negative rates resulted in capital formation at the expense of labour.

He said that according to a recent study the cost of capital in SA was 23 percent, compared with 15 percent in Australia and 3,4 percent in Japan.

He said the central bank had maintained high interest rates as an incentive to save and fund fixed investment, but said there was little evidence to support this.

Savings were the residual of income after consumption and therefore a real function of income — rather than interest rates.

The decline in savings reflected the decline in capital formation. — Sapa.

IGI cuts back on underwriting losses

By Derek Tommey Star 5/11/91

IGI Insurance cut its underwriting loss to R37 000 in the six months to September from R7,65 million in the same period last year after firm action by management. (58)

Chairman Michael Lewis says the company stated last year that it intended to apply sound underwriting principles.

He says the results must be regarded as satisfactory.

"IGI is essentially a consumer-oriented company primarily serving the blue-collar market." This is a tough market in which to work, particularly in view of socio-economic conditions.

Attributable net income was R12,95 million (R12,89 million) — equal to 85,9c (85,3c) a share. The interim dividend has been raised from 17c to 20c a share.

Short-term premium income was R354,4 million (R295,5 million), while long-term premium income was R91,6 million (R96,7 million).

Net short-term premium income was R272,5 million (R228,8 million) and net long-term premium income was R85,4 million (R94,0 million).

Net income before tax was R20,1 million (R18,5 million). Tax took R3,45 million (R2,66 million).

Investments rose more than R200 million to R806,75 million, while "cash and bank" dropped from R297,9 million to R118,5 million.

Absa man takes charge at Finansbank

BI Day 6/11/91

ROBERT GENTLE

IZAK BOTHA, senior GM international at Absa Merchant Bank (formerly Volkskas Merchant Bank), has been appointed MD of Finansbank, informed sources say. 58

Botha takes over from Johannes Hamman, who is understood to be retiring to look after his interests in the Cape.

Finansbank deputy MD Jan Kleinloog declined to comment yesterday. At Absa Merchant Bank, Botha's former secretary confirmed the move, saying he had been at Absa Merchant Bank for 14 years. Botha could not be reached for comment.

Banking sources speculated that the move could indicate a shake-up within Finansbank as a prelude to a wider rationalisation within the Nedcor group.

A widely held view in the market is that Finansbank will ultimately be absorbed into UAL Merchant Bank. Details of the appointment are expected to be made public tomorrow with the release of Nedcor's annual results.

Botha's appointment was seen as logical in the light of Absa's rationalisation programme.

Liberty happy with offshore share placing

SEAN VAN ZYL

LIBERTY Life had successfully placed its minimum offer of 12-million new ordinary shares at R37 each with offshore investors by the close of the offer on Monday, chairman Donald Gordon said yesterday.

Gordon said he was comfortable with the results of the offer, considering the problem of violence and the unpredictable political situation in SA, which had deterred foreign investors from taking up local investments.

Liberty originally made allowance for a maximum of 20-million ordinary shares in its offshore offer in case of excessive investor demand.

Gordon said the R440m raised by the offer would be used to develop Liberty's existing offshore interests, housed in TransAtlantic Holdings, and reduce the group's offshore gearing.

"Our offshore operations have always been highly geared because of exchange control regulations."

Although no specific information was available on Liberty's new shareholders, Gordon said more than 100 top European investment institutions had taken up the new shares.

He added that the offer was made to establish Liberty in the international investment arena.

Liberty Life is listed on the Johannesburg and London stock exchanges.

Although Liberty Life reached a peak of R39 a share on the JSE on Monday, the closing date of the offer, the share traded thinly yesterday at 3 850c.

This was at a 4% premium to the offshore offer price.

(58)

BDay 6/11/91

Institutions lobby for offshore investments

BDay 8/11/91

(58)

ROBERT GENTLE

INSTITUTIONS had approached the Reserve Bank for permission to invest some of their billion-rand cash flows offshore in an attempt to diversify their risk and spread their investments, institutional sources said yesterday.

Total institutional cash flows in 1992 are expected to top R40bn, about half of which is earmarked for the relatively small JSE.

This mismatch of demand and availability of quality scrip artificially inflates equity prices.

A number of portfolio managers, who declined to be identified, said they believed such approaches were of a continuing nature.

They said the issue had also been broached in August when Reserve Bank Governor Chris Stals addressed institutions in Cape Town and said the Bank was examining ways of allowing institutions offshore.

Stals was not available for comment yesterday. However, Deputy Governor Chris de Swardt said no decision had been taken to allow institutions offshore as this would constitute "a major change in exchange control policy".

At the FM conference last week, Southern Life MD Jan Calitz said during a brief interview that approaches had been made, but nothing conclusive had come of them.

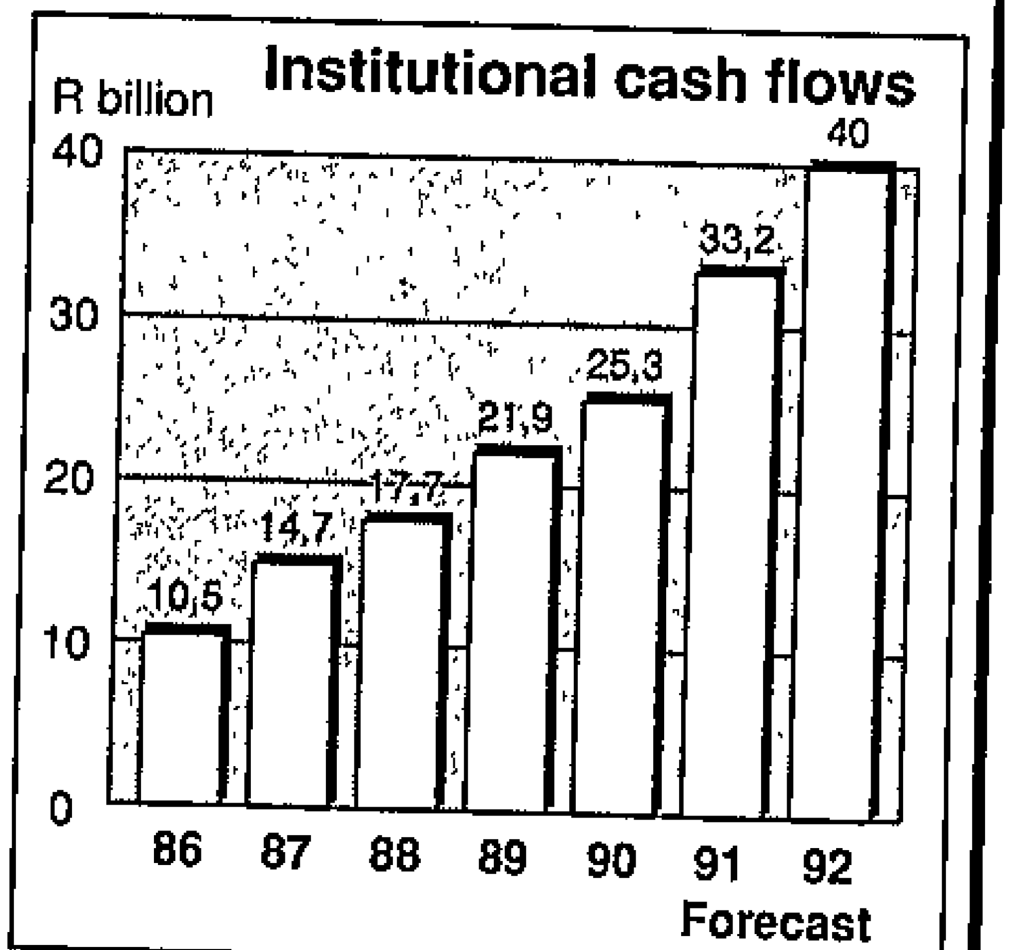
He told delegates during his address that there was "no doubt" that if institutions were permitted to invest abroad, if only in the interests of global diversification, a portion of their cash flows would leave the country, causing an erosion of share price levels on the JSE.

"However, at this delicate stage of SA's political and economic development, I do not believe that the authorities would contemplate such a move," he said.

Syfrets portfolio manager Rob Nichol said yesterday: "From a fund manager's point of view, and especially in the interests of spreading risk, a portion of offshore investment would be positive for the fund and its beneficiaries. However, I would expect it to attract much criticism."

Nichol was referring to "the view in certain quarters" — for example, unions — that SA funds should be invested locally for the benefit of the country.

Old Mutual portfolio manager Rowland Chute said people often overestimated the extent to which institutional funds would go abroad if exchange control were eased.



Graphic. FIONA KRISCH Source MARTIN & CO

The effective rate of non-resident shareholders ...

lifts earnings 13%

Star 6/11/91

by a change in the operating-income mix, with higher margin items, particularly pharmaceuticals, providing a relatively higher contribution to operating income.

A strong performance from exports also helped margins.

Interest payments were up 37 percent to R89 million (R65 million), in line with the group's heavy capex spend.

This topped R300 million over the year. Although group cash flow funded most of it, there was some recourse to bank borrowing.

Despite this, there was a marginal reduction in gearing to 38,8 percent.

Pre-tax profit was up 23 percent to R348 million (R284 million).

There was a more than doubling in earnings attributable to minorities — up from R29 million to R59 million.

The sharpness of this increase helps to highlight the source of Tiger's profit improvement.

The bulk of the minorities are accounted for by Adcock-Ingram, Langeberg and Beacon Sweets.

Adcocks' figures are known and although this pharmaceutical group put in a very strong performance, Langeberg's improvement is thought to be a major factor in the extent of the hike in minority interests.

In addition, Beacon, which performed well, was in for the full year.

Attributable earnings were up 13 percent to R289 million (R255 million).

Reviewing the figures, chairman Robbie Williams says that in the light of tough trading conditions, he is pleased with the results.

"The recession and the significant increase in unemployment contributed to reduced consumer spending and placed pressure upon food volumes and margins."

According to one analyst, the bottom-line figure compared to the operating-profit figure indicates that Tiger's basic foods contributed around 10 percent less than expected to operating profit.

On the food front, the difficult areas were edible oils, broilers, eggs and bakery.

Fishing also had a tough year, with low anchovy quotas and reduced lobster catches.

Hosken in good form

58

Star 6/11/91

By Derek Tommey

Hosken Consolidated Investments, the holding company of IGI, has reported attributable income of R19,8 million for the six months to September (R18,4 million for the same period last year).

The interim dividend has been raised from 15c to 16c on increased share capital.

The directors say they are confident all four major operating companies will have improve profitability in the second half.

Chairman Michael Lewis says the short-term insurance market has never been more difficult, particularly in the consumer areas in which Hosken operates.

But the life activities continue to produce better results.

Perskor explores prospects of expansion in electronic media

Star 6/11/91

By Jabulani Sikhakhane

Printing and publishing group Perskor, which is part of the consortium controlling M-Net, is exploring possibilities of further expansion in the electronic media.

Chairman Koos Buitendag says in the annual report that preparatory studies of some significance have already been done in this area.

He adds that there are many prospects for improvement in the publications and related operations sector, especially if the group is able to participate in further expansion in electronic media.

Perskor's general manager, finance, Andries van der Walt confirms that Perskor is looking at establishing a radio station, but adds that nothing significant has yet evolved.

He says Perskor will be looking to take advantage of the proposed deregulation of the broadcasting industry in accordance with the report of the Viljoen Commission.

Perskor's share price continued to attract interest yesterday, rising 200c to a new high of R27, taking the gains to R15 over the past 12 months.

The gains have largely been due to the strong rise in M-Net, which closed at 815c yesterday.

Perskor holds a 15,14 percent stake in unlisted Electronic Media Network Holdings, giving it an effective 12,27 percent stake in M-Net.

At current price levels, the market values Perskor's stake in M-Net at R25,54c per Perskor shares, which leaves 146c a share for other Perskor interests.

Offshore subsidiaries boost HCI's earnings

58

B/Day 6/11/91

SEAN VAN ZYL

DESPITE a modest performance from its local operations, insurance group Hosken Consolidated Investments (HCI) has almost doubled attributable income from offshore subsidiaries for the six months ended September.

Although HCI's net income generated from its holdings in IGI Insurance and Saflife showed a modest 4,5% rise to R19,4m (1990: R18,6m), the group's offshore operations contributed R4m (R2,4m) to total taxed income of R19,7m (R18,4m).

Chairman Michael Lewis expected the foreign holdings, recently hived off under Luxembourg-listed Amnity, would in future become an important source of group income: "The lifting of European sanctions combined with the consolidation of our offshore holdings under Amnity has provided the foothold for us to really start building in Europe."

As a result, he added the offshore arena had been earmarked as a major growth area for the group.

HCI's growth in income was adversely affected by IGI Insurance, which was dogged by poor underwriting conditions. However, Lewis expected the local operations would achieve acceptable growth in earnings for the remainder of the trading year.

Bottom-line, HCI achieved a 9% increase in attributable income to R9,7m (R8,9m). However, a larger share base of 14,1-million (10,8-million) shares in issue resulted in earnings a share dropping to 69,9c (82,6c) a share. A dividend of 16c (15c) a share has been declared, reducing the dividend cover to 4,3 times from the previous period's 5,5 times.

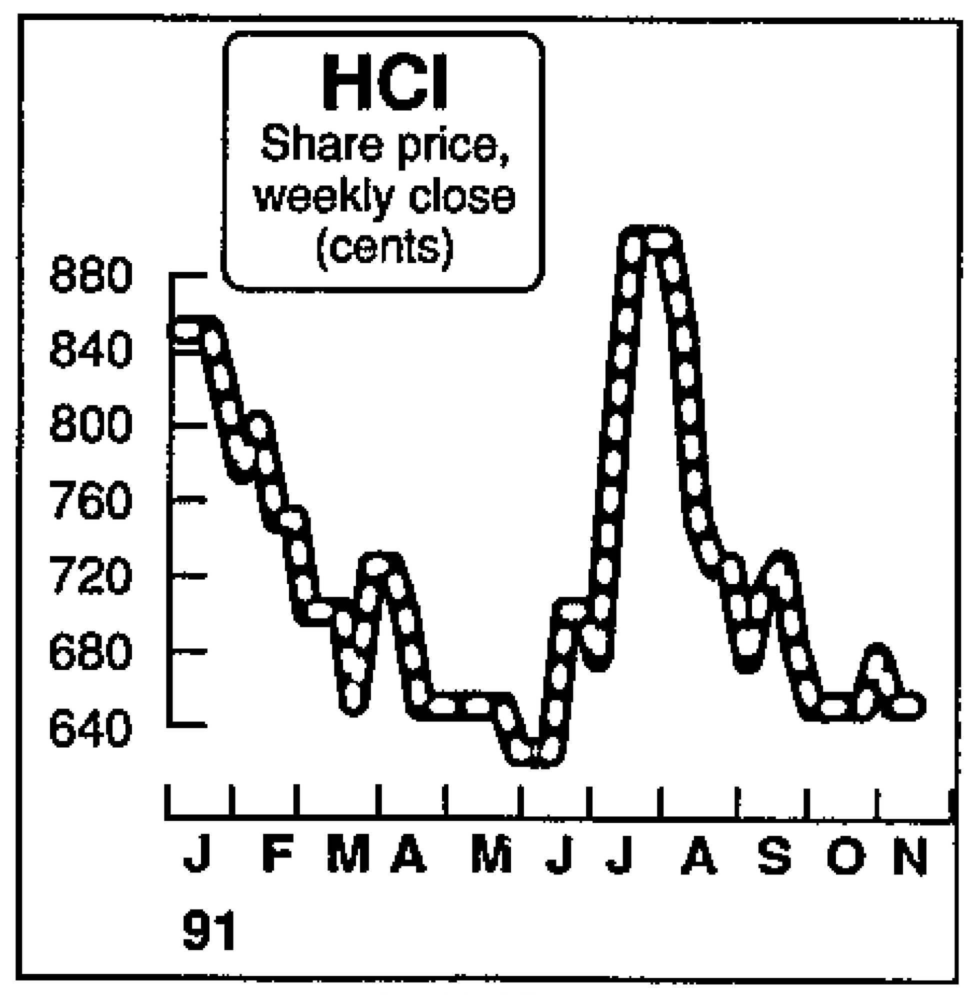
Lewis noted the additional shares were issued to acquire an 82% holding in Crendell Holdings earlier this year.

He added Crendell presently holds a 24% stake in Saflife and 5% of HCI's issued share capital. Its remaining interests are held in cash.

Lewis said the company would eventually move to the investment trust sector to house a mix of quality share investments.

Crendell reported net income of R949 000 (R693 000), derived from interest on cash resources, for the six months ended September. A dividend payout of R1,9m received from its holding in Saflife boosted attributable income to R2,8m.

Overall, Lewis expected the group to achieve a real return in earnings for the current financial year. "The group will definitely outperform its first half year earnings," he said.



Graphic: LEE EMERTON Source: I-NET

Reserve Bank under Stals acquiring the look of independence

BDay 6/11/91

(58)

SIMON WILLSON

WHEN Bank of England governor Robin Leigh-Pemberton mentioned in a speech a couple of months ago that the UK recession appeared to be bottoming out, he earned hoots of derision from the British opposition parties and parts of the Press.

His perceived offence was to have echoed the ruling Conservative Party's own analysis of the British economy at a politically sensitive time — within months of the next general election.

Last week SA Reserve Bank governor Chris Stals performed almost exactly the same feat: at a time of high political sensitivity — within months of the start of multiparty constitutional negotiations — he told a conference that there was "ample reason for being optimistic and even for getting excited about the prospects for the economy".

The reaction was markedly different. Commentators soberly reported the substance of his remarks in the Press, and not a whisper was raised among local opposition movements of any suspicion that the governor was fulfilling any political expectations.

This sharp contrast, together with the Reserve Bank's thinly veiled but increasingly frequent reproof of government for the growth of public spending, strengthens the perception that the Bank has assumed a role fully independent of the executive.

SA's monetary authority thus finds itself in a slightly unfamiliar position — in the vanguard of a growing trend among Western industrialised countries for the full and statutory independence of the national central bank.

Leigh-Pemberton's bona fides in making what was probably a straightforward statement of economic fact were questioned only because of the system in which the Bank of England operates. The UK central bank makes no pretence at independence. It is, in effect, an arm of the Treasury and is legally bound to implement instructions from the Treasury. The Treasury, in turn, is a government department run by the Chancellor of the Exchequer — the minister who holds the finance portfolio in the cabinet.

When the Bank of England changes its money market intervention rate — the key short-term money market rate that underpins commercial banks' base rates — it does so only on a signal from the Treasury. Although the Bank ostensibly moves the rate, the Treasury tells it when, by how much and in which direction.

Hence the uproar when Leigh-Pemberton issued his opportune pronouncement about economic performance. Because the Bank of England governor had no nominal veneer of independence to cover him, he was seen as a high-profile Treasury functionary making a convenient intervention on behalf of his political masters.

Stals's standing in the eyes of political opposition, Press and, indeed, his foreign counterparts, could hardly be more different. In his two years in office he has turned around the image — and perhaps, now, the reality — of the Reserve Bank from one of being an arm of the Department of Finance to one of *de facto* independence.

The Reserve Bank of the 1980s had a distinctly Bank of England look about it. "Primrose prime" has entered money-market folklore as the classic local example of the executive trampling on the monetary authority. Over a two-month period in late 1984 the prime rate dipped from its 25% peak just before a sensitive by-election and then rose back to 25% again, where it stayed for another four months.

Then in the mid-1980s the Reserve Bank participated in chopping real interest rates down to negative levels as the government of the day opted to prompt the economy into spending its way out of its last cyclical downswing.

But as soon as Stals took office towards the end of 1989 he appeared to set about changing the Bank's role — if only by defining it more clearly. Within months it had adopted and publicly declared a "mission": the protection of the domestic and external value of the rand. This formal goal is restated often and has become a kind of monetary mantra.

The frequent and open reaffirmations of this ultimate goal are possibly the strongest manifestation of the Bank's newly asserted independence, and a totem which distinguishes it from other, less independent central banks.

The Bank of England cannot pretend to have had any such mission as it presided over the rate-cutting of the third Thatcher government in the late 1980s that stoked up a consumer boom that then had to be stifled by credit squeeze and recession. The Bank of England may soon join the swelling ranks of its more independent counterparts; however, the treaty on European Monetary Union to be signed next month requires that the Bank of England become independent by 1994.

The SA Reserve Bank, then, currently finds itself at the independent end of the world central bank spectrum, not far behind assertively autonomous institutions such as the Bundesbank, the Swiss National Bank, the Bank of Japan and the US Federal Reserve. By its statements and actions it has set itself apart from the extensions of government that are the central banks at the other end of the spectrum — those of Italy, Spain, Britain and France.

But it cannot claim to be among the most independent central banks until the government openly calls on it to change interest rates. The Bush administration, seeking re-election next year, is putting public pressure on the Federal Reserve to cut US interest rates; as a new prime minister takes office in Tokyo, the Japanese government is publicly urging the Bank of Japan to cut its discount rate. Could the Reserve Bank join this illustrious group if rates are still at penal levels ahead of a constitutional referendum?

The Bundesbank chose a unique way of showing its independence from Bonn a couple of years ago. Amid ripe conditions for a monetary tightening in Germany, the French had asked the Germans to delay a rate rise temporarily as the French would have had to match any increase to protect the franc. The Germans duly took note of the French representations.

A short time later German chancellor Helmut Kohl went on an official visit to Paris. He had no sooner set foot on French soil than the Bundesbank announced a hike in German rates, forcing Kohl and his hosts to wear rather wintry smiles. Now that's independence.

OVERALL ASSESSMENT :

EXAMINER

Bonus from Old Mutual tied to Guaranteed Fund

BDay 6/11/91 (58)

SEAN VAN ZYL

OLD MUTUAL has declared a 21% bonus of R1,2bn for pension and provident funds participating in the assurer's Guaranteed Fund.

The Guaranteed Fund, which has more than 1-million members, acts as a "smoothing out" vehicle to give investors a stable return regardless of investment market fluctuations. The fund also guarantees the capital investment of members.

The record 21% bonus was achieved during a year which the all-share index increased by 12% in comparison.

Old Mutual employee benefits GM Chris Newell said the high return proved the fund was effective in smoothing out returns between a high and lacklustre market.

Furthermore, he added, the fund did not allow cross-subsidisation between the different investment portfolios.

The fund has also boosted its portfolio equity exposure to about 74% — one percentage point below the statutory limit — of which industrial shares constitute the larger portion, Newell noted.

Although marketwatchers have become jittery regarding the sharp price increase in shares, Newell expected the equity market to continue gathering steam in the long term. "We expect equities to continue their past performance in the medium to long term as economic prospects improve and the post-sanctions benefits filter through."

Although the international rating of SA equity dividend yields was average, he said any inflow of offshore funds would be largely influenced by the political process.

In addition, Newell expected the "hothouse effect", resulting from excessive institutional demand for quality stocks, to enforce further share price gains.

He noted institutional cash flows for 1991 had almost doubled to R40bn from last year's R25bn due to the privatisation of state pension funds.

"We expect 40% to 50% of the 1991 cash to flow into equities, with rights issues only partly satisfying demand and share prices consequently finding themselves under upward pressure."

IGI Life 'tops up' existing benefits

B/Day 7/11/91

SMALL companies and self-employed individuals can get a new medical and health care policy from IGI Life which "tops up" existing medical aid benefits or replaces self-insurance.

IGI Life MD Paul Cushway says the Intensive Care policy provides an ideal alternative route for those faced with having to pay high premiums for medical aid cover.

The shrinking umbrella of medical expenses protection that medical aid schemes have had to make in recent years to offset their ever-rising cost structures has driven many people to seek protection elsewhere.

58

Augment

"They are turning more to medical and health care insurance packages to either augment medical aid cover or to replace it."

Many large company employees with medical aid are among those starting to take out insurance policies against emergencies and high expenditure occurrences such as heart attacks, operations and serious disease.

"Intensive Care is ideally suited for 'topping up' existing medical aid benefits as well as a self-insurance alternative," he says.

IGI Life's sister company Hoskens has also developed a comprehensive package of benefits for employees in medium- to large companies.

Life begins for Institute of Financial Markets

ROBERT GENTLE (58)

A NEW body called the Institute of Financial Markets became operative this week with promotion of ethics and professional standards as its central mission.

Similar to professional organisations in the insurance or accountancy professions, membership of the Institute is dependent on successfully passing the first in a series of three professional examinations.

Successful completion of all three entitles members to carry the title of Fellow and to have the letters FIFM (Fellow of the Institute of Financial Markets) behind their names. BDay 8/11/91

The Institute already boasts nearly 100 members, about 36 of whom are Fellows. Members come from across all markets and include stockbrokers, futures brokers, bankers and portfolio managers.

The Institute's code of ethics and standards of professional conduct cover such areas as integrity, skill, care, diligence, accurate information and acceptable promotional material.

Among the requirements are that members refrain from overcharging, insider trading, twisting (shifting profits and losses between portfolio to falsify performance), churning (buying and selling for the sole purpose of notching up brokerage fees) and a host of other kinds of professional misconduct.

Institute secretary general Brenda Greyling (who is also MD of the SA Financial Instruments Association) said it was her hope that eventually all practitioners in financial markets would become members of the Institute. "While professionalism can never be guaranteed, members of the public can at the very least use Institute membership as a guide to the skill and integrity of the people they entrust their money to."

The institute is self-financing, funding itself through membership fees, examination fees and the sale of text books and other literature.

CU to get a new look

8 Day 8/11/91

Business Day Reporter

SA's largest combined life and short-term insurance company, Commercial Union Assurance (CU), has proposed restructuring to separate its business interests.

The restructuring, which is subject to approval by the Registrar of Insurance Piet Badenhorst and CU shareholders at a general meeting on November 29, will result in separate life and short-term companies being formed, with CU retaining its JSE listing as the group's holding company. The deal will come into effect from January 1, MD John Kinvig said yesterday.

CU, to be renamed Commercial Union of SA, would house three operating subsidiaries — Commercial Union Life Assurance, Commercial Union Insurance and Commercial Union Group Services.

Kinvig said the restructuring was aimed at repositioning the group as a major competitor in the financial services sector.

INSURANCE FM 8|11|91 (58)

Enigma variations

Compuquote, the Cape-based bureau that compares general insurers' rates as a service mainly to brokers, believes competition for market share might be hotting up again.

In recent months most insurers have paused to consider the effects of competition on premium rates — which became artificially low just as crime peaked. The financial results for the industry were alarming.

Compuquote MD David Hersch sees the decision by market leader Mutual & Federal not to increase rates next month — its traditional revision time — as significant.

"M&F may be signalling the beginning of a thrust for more market share as well as an attempt to put pressure on the weaker insurers, and thus eliminate them or force them into mergers or takeovers."

M&F, Hersch points out, has more than 18% of the industry's net premium income (with a score of insurers competing for the rest) and one of the highest solvency ratios. The company, he feels, is flexing its muscle.

Not so, says M&F assistant GM Peter Darcy-Jones. "We totally reject Hersch's reasoning." Nine months ago, he argues, M&F's rates were said in the market to be too high and out of line. "All that happened was, we got it right, made underwriting profits and now clients are seeing the benefit."

Hersch remains unconvinced. The other

FM 8|11|91 (58)

industry-watcher, Quest Insurance Advisory Services, would also not be surprised if some smaller insurers are squeezed into "rationalisation." Hersch worries that fewer insurers will mean less competition. Instead of a contraction in the number of players, he believes the industry needs to become more efficient, reduce manpower and innovate

There is a third point of view. Actuarial Society of SA president John Rich, who is also MD of Cologne Re, has cited short-term insurers in an indictment of the pay-as-you-go syndrome (See **Offering aid**). It may be that Hersch is wrong, that there are too many general insurers and that fewer, stronger underwriters are needed to create a mature market in which the cost of insurance stays in touch with reality. That has seldom been the case in recent years. ■

MONETARY POLICY

Lost cause

Fm 8/11/91 (58)

"Monetary policies, designed to curb inflation through their influence on demand, are spitting into the wind," Nedbank chief economist Edward Osborn told the *FM Investment Conference*. "They are ineffective unless there is a combination of circumstances when job security becomes more important than maintaining real incomes."

He described monetarism as "the simplistic, and in our SA context, naive faith in the effect of monetary demand on prices. Theoretically, it is so straightforward: in the money equation, prices are proportional to total demand, given a constancy in the velocity of circulation. But this is elevating a truism into a causal dynamic, with some *deus ex machina* pulling the string connecting money supply and prices."

He cited the discrepancy between the reduced rate at which money supply is growing and the "vigorous" rate at which prices are rising as proof that causation has failed.

He argued this was because "the only markets in SA that are free, in the sense of the price being determined by supply and demand, are the vegetable and flower markets, but even the latter, I am told, are rigged." Monopolistic and oligopolistic manufacturers and the labour costs of distributors, constrain competition.

High nominal interest rates are not only powerless to change the behaviour of consumers but they also have little effect on savers because saving is influenced by the level of disposable income rather than by interest returns. He added the decline in capital formation was due not to a shortage of investment funds but to "complicated reasons of lack of confidence and a hang up in the public sector."

Osborn pointed out that "if anything, there is an embarrassing level of contractual savings flowing through the institutions, embarrassing because of a lack of investment opportunities. This has manifested itself in the hot-house conditions of the stock ex-

Continue →

FM 8/11/91 (58)

change and illusions of great self-fulfilling success on the part of unit trusts, insurance companies and the like, beating inflation."

He identified fiscal bracket creep as a savings disincentive and a powerful inflationary force in the economy (see leaders).

In esssence, he argued inflation in SA was so deeply structural and the process of self-perpetuation was such that it was immune to monetary control methods — short of killing the economy.

Though monetary policy has little direct effect on inflation, he said, "indirectly, there should be a measure of success next year because of the inability of employers to accede to the expectations of labour. Retrenchment throughout the economy is so serious and visible to all employees that there must be a strong shift towards job security. In combination, this should start the whole process of reducing cost pressures and therefore the rate of inflation." ■

FIRST NATIONAL BANK FM 8/11/91

Waking up

(58)

After two years of battening down the hatches, First National Bank (FNB)'s management took a more active approach in the 1991 financial year.

While the most dramatic event was the abortive bid for Allied, which perhaps helped the group to shed some inertia, the year also saw a resumption of growth in the asset base, a sharp improvement in the interest margin and tighter control of bad debts and expenses.

Favourable trends at the halfway stage — when earnings rose by 18,8% — were maintained and in some respects even accelerated in the second half. The pace would have been considerably faster had there not been a special tax provision of R32,5m relating to a disputed liability.

Effects for shareholders have been salutary. Leading bank shares have been favourably rerated over the past 18 months, but FNB has done best. At 4 950c, the price is 75% up on the 2 825c low for 1991 and about 133% up on the 2 125c low since the beginning of 1990. In contrast, SBIC is 67% up on its 1991 low, followed by Nedcor (49%), Absa (43%) and Bankorp (5,8%).

FNB's Swart ... *more active approach*

FM 8/11/91 (58)

The widening interest margin led to interest income rising by 6,7% while interest costs were only 3,7% higher. This partly reflects a general recovery in margins for the industry, but senior GM Viv Bartlett says that "at least 0,25%" was attributable to getting the deposit mix right at an early stage.

He says the margin is now very high and is likely to start declining towards the end of this financial year — though in percentage rather than rand terms. But it is probably

Cont'd →

too early to start changing the deposit mix.

Total assets grew by some 21%, with advances rising 25,4%. Volumes evidently grew more rapidly as the year progressed, as assets rose by a more sedate 12,5% in the first half. Much of this growth was in the home loan book, following management's stated plan of taking an aggressive stance in this market after the Allied bid failed.

In early February, during the bid, FNB's home loan book was valued at about R3,6bn; Bartlett says by year-end it increased to almost R5bn. He estimates the group now has a 10% market share and gained share during the year and contends that bad debts on the home loan book have been "very low."

This contrasts with some other banking groups. Nedcor, in particular, reported sharply rising bad debts in this sector when it released interim results. However, FNB may have been helped by the geographic spread of its mortgage exposure, which remains predominantly in the PWV — particularly areas such as northern Johannesburg and Sandton — Cape Town and Port Elizabeth.

BETTER TURN

Year to September 30	1990	1991
Net interest inc (Rbn)	1,37	1,58
Other operating inc (Rbn)	0,98	1,10
Other operating exp (Rbn)	1,52	1,78
Net income (Rm)	329,8	385,1
Earnings (c)	453,3	529,3
Dividends (c)		
— ordinary	150	175
— pref ord	157,5	175

Another factor that boosted the overall performance was the 10,7% drop in the charge for bad and doubtful debt, which — in a recession — fell by R31,4m, from a historically very high R294,3m to R262,9m. With the general provision largely formula-related, the reduction was essentially in specific provisions, which dropped by 20%.

Bartlett attributes this largely to systems put in place a couple of years ago. These, he says, removed much of the subjectivity from branch managers and require a rigid and conservative approach. He describes the 1991 total charge as encouraging, but higher than budgeted — though at the interim stage, MD Barry Swart was targeting a total charge of R230m for specific provisions, which would have been a drop of R60m, and this was achieved.

The normal tax charge rose by only 8,5% owing to the reduction in the company tax rate from 50% to 48%. Had this been the only tax charge, taxed income would have risen by 27,7%. Unfortunately, the R32,5m special tax provision cut the figure to 17,5%.

This relates to interest received on funds sourced from outside SA, which, on the precedent of a recent unreported case, the Commissioner for Inland Revenue believes should be deemed to be from a local source. FNB disagrees and is to contest the matter. Resolution will probably take a long time and could be expensive, but Bartlett says the

(58)

group will spend as much as necessary to ensure it does not pay more tax than it has to.

On the 175c payout, the 3,5% dividend yield compares with 3,6% for Absa, 3,6% for Nedcor and 2,8% for SBIC. The share may be fully priced for now but the market is clearly anticipating further good growth.

Andrew McNulty

MUTUAL & FEDERAL FM 8/11/91

Familiar liturgy

58

The annual report lists all the by-now familiar problems of the short-term insurance industry: inadequate premiums, competi-

FM 8/11/91 58

Activities: *Short-term insurance.*
Control: *Old Mutual 78%.*
Chairman: *G A Macmillan; MD· K T M Saggers.*
Capital structure: *46,7m ords. Market capitalisation: R1,17bn.*
Share market: *Price: R25. Yields: 2,1% on dividend; 8,7% on earnings; p:e ratio, 11,5; cover, 4,2. 12-month high, R25; low, R12,70. Trading volume last quarter, 91 000 shares.*

Year to June	'88	'89	'90	'91
Total assets (Rm) ..	898	1 369	1 764	2 091
Solvency ratio (%) ..	73,9	115,1	140,0	126,7
Underwriting profit (Rm)	45,4	54,0	11,6	19,0
Inv income (Rm) ..	58,3	91,0	109,7	118,2
Pre-tax profit (Rm)	102,6	143,8	121,3	137,2
Earnings (c)	138	195	190	217
Dividends (c)	22,5	30	40	52
Net worth (c)	943	1 684	2 251	2 715

tion, the substantial rise in claims (especially in respect of crime-related losses) and so on.

But it omits one point which would probably be of interest to investors, namely that despite this M&F achieved record earnings. True, EPS of 217c were only 11% up on the previous high in 1989. The significance, however, is that the previous high was recorded before the latest round of rate-cutting and reflected a period when underwriting profits were at a cyclical peak. The 1989 underwriting surplus, at R54m, was almost three times last year's R19m.

That the group could nevertheless generate record earnings underlines the strong growth in investment income, which has been enhanced by a structural shift within the portfolio in favour of equity. The effect

cont →

M&F's Saggers . . . *investment income to the rescue*

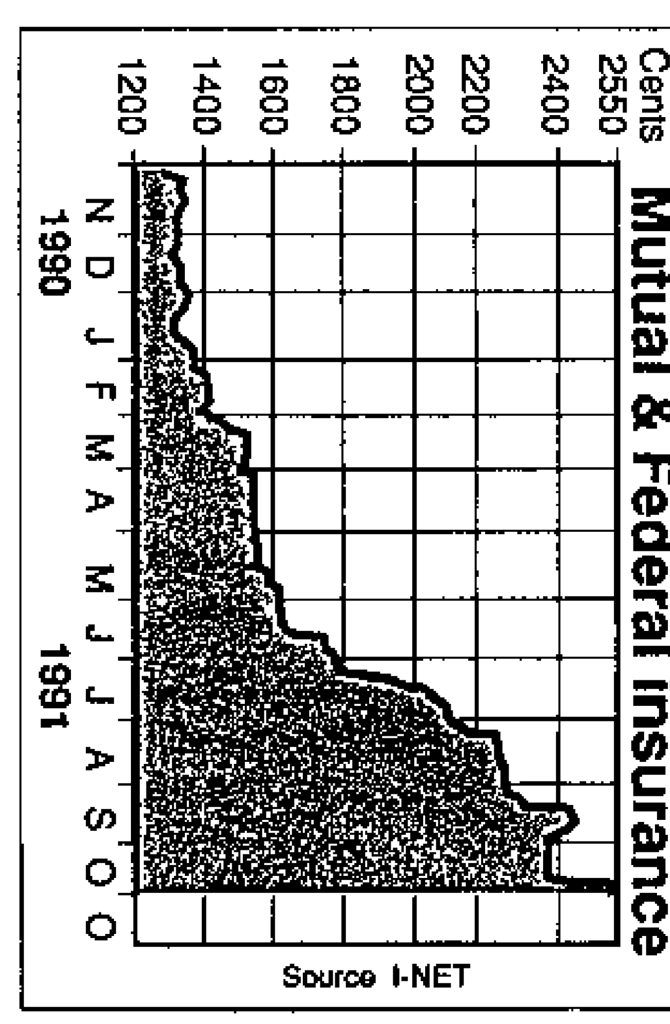
has been to reduce the tax rate from 37% to 26%, so whereas gross investment income has risen 29% since 1989, the increase after tax was probably closer to 43%.

Because of the first-time inclusion of National Employers' General, acquired at the end of financial 1990, underwriting results are not strictly comparable with the previous year's. Net premium income (after reinsurance) rose almost 36% which, all else being equal, would indicate that market share was well up. Of this increase, however, roughly one-third is said to have been due to the acquisition, leaving a net 35% that can be attributed to organic growth.

Though escalating claims costs are cited among the industry's main problems, in M&F's case the 29% increase in claims (net of related admin expenses) was the smallest gain in categorised insurance expenses. By comparison, commissions paid to insurance brokers jumped 40%, indicating that a greater portion of business was obtained through brokers, while total admin expenses (including those relating to claims) were up 32%.

In a more general sense, the whole question of costs is — or should be — of major concern to both the insurance industry and policyholders. Using M&F as an example, and from the point of view of the policyholder, it would appear that the company can afford claims of only 75,4c out of every R1 it receives in premiums if it is to break even. The rest is absorbed by commissions (13,8c) and admin expenses (10,8c including claims-related expenses), which means in effect that the insured is required to pay about R1,33 for every R1 received in benefits — before providing the profit to which the company is obviously entitled.

cont →



In the circumstances, it is hardly surprising that the industry has a poor image and that there is strong resistance to the higher premiums that it believes are justified.

Fortunately, however, this problem does not extend to the investment sphere, since the only earnings of any real concern to shareholders are derived from the investment portfolio. In M&F's case these, after tax, cover the annual dividend cost almost four times, which is one reason why the company has been able to increase its payout by an average of more than 30% in the past five years despite the roller-coaster pattern of the underwriting account.

This is excellent by any standards and accounts for the very high rating — a 2,1% dividend yield is lower than Liberty's 2,4%, despite life assurance being a very much lower risk and more stable business. But at the same time M&F's rating, whether measured by earnings or dividends, is way above the rest of the short-term sector, indicating not only that further upside is probably limited, but also that the share could be vulnerable to a general downturn.

Brian Thompson

Star 8/11/91

CU plans restructure

58

Commercial Union, SA's largest composite insurer, is to restructure in order to separate its long- and short-term business into distinct entities.

From next year the business of the company will be transferred to three wholly owned operating subsidiaries: CU Life Assurance, CU Insurance Company and CU Group Services.

The group will retain its listing on the JSE as a holding company. — Sapa.

PENSIONS 380 58

Showcase trial? FM 8/11/91

Life offices and pension administrators are wrestling with the Financial Services Board (FSB) circular PF74, which seeks to enforce timeous payment of employers' pension contributions. While they study its intricacies, at least one prosecution, involving a JSE-quoted company, is expected.

According to the FSB, all reported cases of late payment are referred to the Attorney-General for possible prosecution under section 13A of the Pension Funds Act, but no cases have yet come to court.

Penalties can be heavy: even if no criminality is established, a fine of R200 for every individual contribution can be imposed — so R200 000 in the case of a 1 000-member fund. But what is not clear is whether every report of late payment, involving the same employer, will be treated as a separate issue; this would involve multiple prosecutions.

Institute of Life & Pension Advisers president Joe Gates says the regulations are complex but the prosecution of a wilful offender, to make an example, "would, in a broad sense, have a salutary effect on employers and trustees who need to be reminded of their responsibilities."

Taken together, S13A and PF74 make

380 58

FM 8/11/91

confusing reading. Institute of Retirement Funds executive director Ben Burger says he, together with the Life Offices Association, has raised a number of queries. The FSB's written response was being considered at a joint meeting on Wednesday, while a senior official of the board was due to hold talks at Old Mutual on Thursday this week.

Essentially, PF74 tightens procedures for passing on pension contributions. It instructs administrators of pension, provident and RA funds to report late payments. Underwriters and principal officers are required to report any payments which are overdue more than seven days; the report to be made within two months of due date. The object is to protect the investment income to which members are entitled. The onus for payment rests with the employer or his intermediary.

Points which the industry has asked to be clarified include whether arrangements can be made by an employer to pay off arrears over a number of months.

PF74 is designed to give immediate teeth to S13A. In the latest draft of the proposed Pension Funds Amendment Bill there are provisions to certify contribution payments and to establish that payments were made on time. Old Mutual says this will require more data in future. "Though the industry will go out of its way to ensure that any new requirement is not only practical but also cost-effective, member records may have to be expanded and updated substantially." ■

SELECTED PORTFOLIO BROKERS

FM 8/11/91 (58)

Coming home to roost

The Rooster Group chairman Carnie Matisonn has pipped the Reserve Bank at the post by placing Selected Portfolio Brokers (SPB) in provisional liquidation.

Last Friday he applied for SPB's liquidation through MTC Folly, a company he controls. He says: "It is hoped this will allow a provisional liquidator to investigate and report on the affairs of the company in the interests of creditors."

However, this might not stop SPB from operating — it had already informally changed its name by Tuesday to Investment Centre. It seems this is not the first name change. SPB manager Wim Schulte was formerly employed by Share & Property Brokerage, which operated in the same premises as SPB — SPB House in Parktown, Johannesburg.

The brokerage sold shares in:

☐ A silver recovery company, Silvercorp;
☐ Transvaal Distillers; and
☐ Rico Breweries.

All have been placed in liquidation. Clients who lost on shares in the three were given a direct share swap by SPB into The Rooster Group, plus a 5c credit. (Matisonn says he was not involved in this swap.) Share & Property Brokerage also sold shares in the Swiftsure boat-building company.

Last Thursday the Bank announced it had been inspecting SPB's affairs and found it had been accepting money from the public for investment purposes — a contravention of the Deposit-Taking Institutions (DTI) Act. It directed SPB to repay investors all money received from them, including interest. If it could not repay investors the Registrar of DTIs would apply for the winding up of the company.

Matisonn says he applied for provisional liquidation because a cheque for R100 000 he received from SPB was returned to him last Thursday marked "account frozen."

SPB offered shares directly in The Rooster Group — a chicken franchising company — and received a 10% commission from the chicken company. It also offered shares via SPB's investment syndicate, which pooled investors' funds. This would contravene the DTI Act in terms of a discussion paper on money broking, now in circulation.

A letter to a client signed by investment consultant — and sometime actor — Ted Leplat says funds placed in the investment syndicate are held in the name of attorney Steven Wolberg — Account Selected Portfolio Brokers, at Nedbank Parktown branch number 1944 063676. Nedbank would not comment, citing client confidentiality, but it is known it stood as guarantor and co-principal debtor for an amount of R2 000 it promised to pay each investor on a set date.

An investment in the syndicate can be made for one to three years. The syndicate promised a dividend of at least 27% a year, paid monthly, quarterly, bi-annually or annually. This could be construed as paying interest on funds accepted from the public — contravening the DTI Act. In addition, it is suspected the returns were financed from new funds, causing a liquidity crisis when new funds dried up or slowed down.

Matisonn denies any involvement with SPB. "They acted only as brokers to sell shares in The Rooster Group," he says.

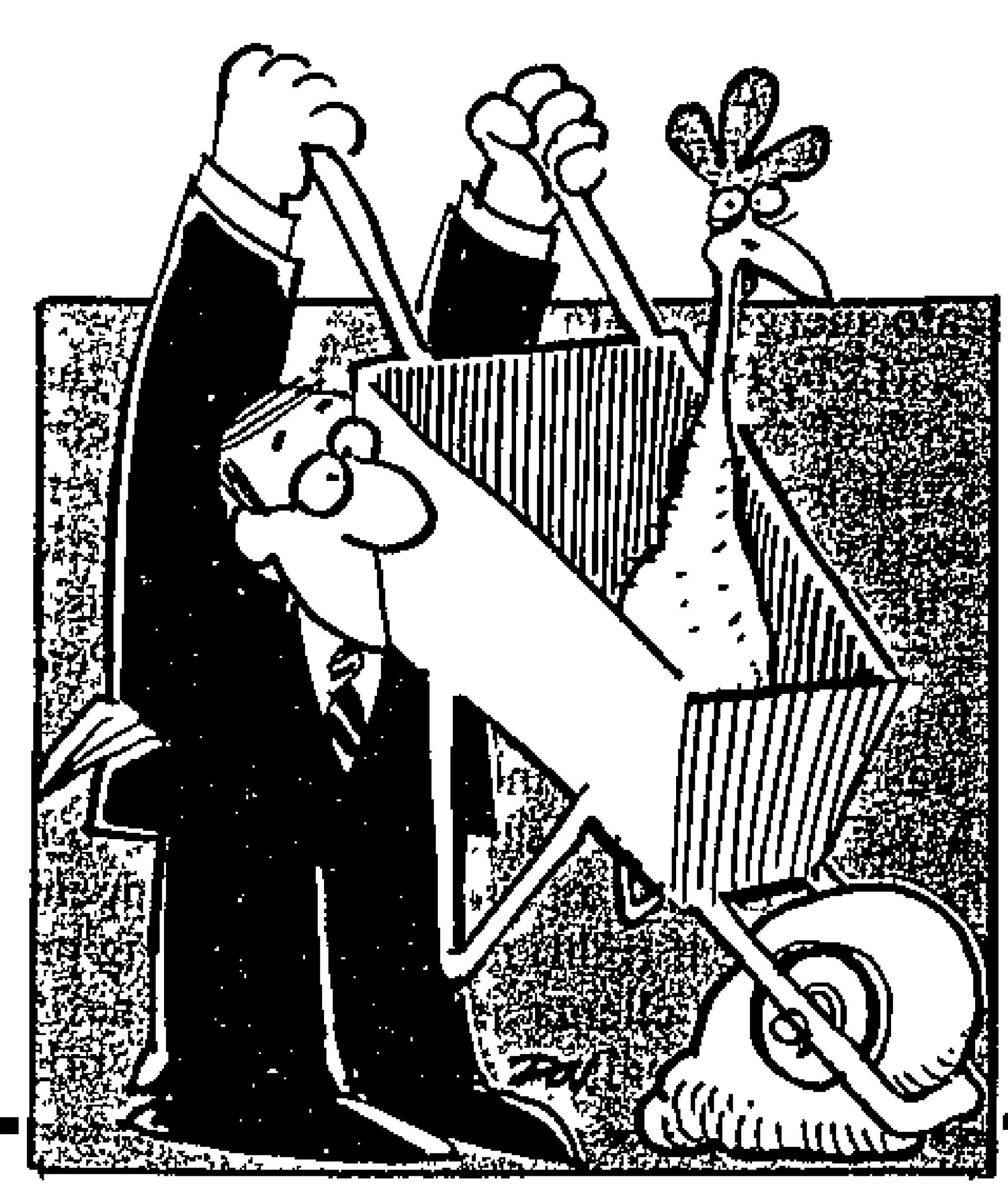
The *FM* asked Matisonn what his links are with SPB via a company called General Guarantee & Trust, of which he is MD. General Guarantee's letterhead lists SPB House, Parktown — where SPB operates — as well as Ipanema Close in Sandown — where Matisonn's offices are. He says General Guarantee's only function was "to offer SPB the facility of establishing bank guarantees for its investors."

He says the only reason SPB's telephone number and address are on the letterhead is because he operated from SPB once a week. General Guarantee's directors are listed as Matisonn, Prof P Steyn and C E Hewitt; Rooster Group's are Matisonn, M Gottlieb and Hewitt.

SPB offered a First National Bank guarantee on direct investments in Rooster shares, through General Guarantee & Trust.

Leplat's letter says clients can borrow against the bank guarantee — portions of borrowings against the bank guarantee can be written off against tax. The letter also points out the advantage of realising a 6% margin between the 21% paid to the bank and the 27% earned through the syndicate.

When the *FM* called General Guarantee & Trust some months ago, it was put through to an SPB employee who said that Standard Bank also guaranteed capital and profits. Standard Bank denied this. In fact, Standard Bank had taken legal action against General Guarantee to force it to change its name — it was operating as Standard Guarantee & Trust.



MD Maggi Payne is listed as the only director of SPB. She was not available for comment. Nor was Schulte, who did not reply to a faxed copy of this article.

Recently, SPB acted as broker for Barrowmate, a franchising company which sold collapsible wheelbarrow franchises for R15 000 each. SPB's contract said the franchisees should pay R5 000 on signing the agreement, R5 000 not later than 30 days after, and the remaining R5 000 on delivery of the first 85 wheelbarrow units.

A caller to the *FM* said she and her husband paid SPB R10 000. When they wanted to buy stock, they were told none was available. SPB had decided to stop selling wheelbarrows because not enough profit could be realised. Their money was not returned. She says they did not take the matter to court because of lack of funds.

SPB also offered options in Barrowmate at R3 640 each. It promised a 73% profit after six months. Option holders received a free wheelbarrow. *Heather Formby*

FOREIGN DEBT

FM 8/11/91

Now you see it . . .

A second set of figures on government-backed foreign debt, has been published in the *Government Gazette*. The schedule, published on October 18 (amending figures published a week earlier), breaks down the various currencies in which the debt is denominated. A conversion into US dollars, by UAL economist Dennis Dykes, shows total capital commitments, according to the schedule, fell from \$7,1bn on March 31 1990 to \$4,6bn at the same date this year.

This debt, which is both in and outside the standstill net, consists of the liabilities of government and public-sector corporations, mainly Eskom, Transnet and the Post Office.

For more than two weeks the *FM* tried to get an explanation for the dramatic fall. Finally, Corrie Pretorius, Accountant-General in the Department of Finance, identified a mistake in Swiss-denominated debt. The schedule shows that the SwFr2,1bn owing in March 1990 fell to SwFr400m in March 1991 (US\$1,4bn to \$270,8m). A SwFr1,3bn error occurred in the previous year, says Pretorius, which inflated the 1990 figure. Actual paybacks during the year to March 1991 amounted to SwFr434m

In addition, dollar debt figures were af-

Cont ->

African Life gives a fat bonus

58

C Press

10/11/91

AFRICAN Life Assurance Company has increased new business by 36 percent to R17,7-million for the six months ended September 1991.

Recurring premium income for the year amounted to R40,3-million, a 35 percent increase compared to last year. Total income, at R48,9-million, increased by 32 percent.

Investment income rose 18 percent to R8,6-million and administrative expenses have been contained within budget and well below the rate of increase in total income.

A dividend of 4,9 cents (a 23 percent increase) has been declared. In line with company policy, shareholders can take the dividend in the form of two bonus shares for every 100 shares held.

Commenting on the results, managing director Bill Jack said the results reflected the determined efforts of all staff and the acceptance by their target market of their new range of "People's Policies".

Merger forms huge new property group

S/Times [CM], 10/11/91.

By FRED ROFFEY (58)

THE merger of the commercial and industrial arms of Durr Estates and Steer and Co has created one of the largest and most versatile property groups in the Western Cape — to be called Realty 1 Commercial and Industrial.

It aims to be as flexible as possible and has plans for a project management division which will identify properties for refurbishment and development.

The new group now forms part of the R1,5 billion a year nationwide Realty 1 Property Group.

First-year turnover of the new group is expected to top R100 million.

"But we have targeted a 50% increase on this figure in our follow-up year as our combined systems and strengths come into operation and are streamlined," said the managing director, Mr Wally Hart.

He stressed that the merger of the two commercial/industrial divisions would not affect the residential arms of Realty 1 Durr or Steer and Co, which would remain separate and autonomous.

"A merger between Durr commercial and Steer and Co commercial makes good business sense," said Mr Hart. "Steer and Co had a strong operation in the central business district and periphery, while Durr's commercial and industrial penetration extended throughout the southern and northern suburbs."

The wider range of services now available would allow for expansion without increasing costs or staff.

But there would be some staff reshuffling to concentrate skills and know-how where they were most needed.

Directors Mr Richard Berrisford and Ms Hylma Smit would retain control respectively of the southern suburbs market and of the Bellville office and surrounding industrial areas.

"For Realty 1 Commercial/Industrial the merger represents a major advance in cost rationalisation, opportunity, power of negotiation, and of marketing, advertising and public relations muscle," said Mr Hart.

"For our clients, existing and potential, the advantages are enormous. We can now offer better service and can extend this far beyond basic sales and leasing. Already we offer a specialist busines broking division under Bob Verhave, and a separate syndication department headed by Richard Berrisford and Donald Deary. These will tie in with our property management section which offers everything from valuation to lease supervision."

Mr Hart pointed out that the real strength of Realty 1 Commercial/Industrial was not only its ability to identify market opportunities and exploit them but to create new markets by offering innovative professional services.

THE MONEY MARKETS by Andrew Gill

Government deposits up R1,85bn

A PEEK at last month's reserves figures reflects the current state of the money market to a tee. B/Day 11/11/91

Government deposits were up R1,85bn on the month, with two possible reasons for the move — increased activity on the short-term side from the Bank and an uptick in government revenues after the implementation of VAT.

It is still too early to tell whether VAT receipts are going to save government from funding an unruly deficit with the first six month's running R2,8bn over budget on a pro-rata basis.

Any hope of redressing this looks bleak but fingers must be crossed in Pretoria that this early jump in deposits represents a change for recession hit revenues.

The Bank appears to be ready to counter any further revenue shortfalls in issuing Treasury bills (TBs) through to end-March sometime later in the year, a move which could take care of the short-term financing needs ahead of next year's Budget and squeeze the wind out of a market more than ready to drop the BA rate a full percentage point below the rediscount rate.

Reserves-related inflows show forex inflows continue to add to the liquidity growth — to the tune of R107m in October. Added to this, producers received more than R500m for their gold in October. 58

The liquidity that these factors have created has resulted in declining rates, much to the glee of banks hit by the R200m tax levy, and some players from the long-term market are misreading the moves.

With the 90-day liquid BA rate 95 points below its rediscount rate as of the middle of last week the "sixth floor rumours" came out with a vengeance.

Strong demand nevertheless continued on Friday at the weekly tender with over a three-times subscription for the R200m on offer. The rate climbed a point to 16,26%, a reasonable rate considering the second extra R50m a week on offer.

Stals warns on money supply

B/Day 12/11/91 (58)

SHARON WOOD

MONEY supply growth which exceeded the real economic growth rate would inflate prices and jeopardise financial stability, Reserve Bank Governor Chris Stals said yesterday.

Money supply grew at an annualised 8,7% in September from February when the Deposit-Taking Institutions Act was implemented. This was well above present levels of economic activity and the estimated potential economic growth in SA of between 2% and 5%.

Speaking at a Bureau for Economic Research conference in Somerset West yesterday, Stals said monetary policy had not been restrictive enough and SA's real interest rates remained much lower than in most industrial countries.

The Reserve Bank had succeeded in bringing money supply growth down to lower levels,even though it remained higher than real economic growth.

"Until now greater financial stability has perhaps reduced the upward monetary pull on the inflation rate but has not succeeded tempering the non-monetary factors," he said.

Creating financial stability would be the most important monetary policy objective during the 1990s.

Stals said the objectives of the Reserve Bank did not conflict with the future economic environment.

"Optimum economic growth becomes possible only in an environment of financial stability.

"Financial instability ... leads to greater poverty, to a greater maldistribution of resources and to an erosion of the efficiency of the market system," he said.

It would also deter foreign investors, reduce local producer competitiveness and inevitably lead to a lower economic growth rate.

Sacob director-general Raymond Parsons told the conference the independence of the Reserve Bank should be secured in the new constitution because it was important to give the Bank a high degree of autonomy in deciding monetary policy.

"The position of the central bank needs to be institutionalised and clarified in the constitution.

"Inflation tends to be lowest in countries in which the central bank enjoys the greatest degree of independence."

Inflation could only be kept under control if strict monetary policy was underpinned by an equally conservative fiscal policy, he said.

Nedcor turns in a solid performance

Star 12/11/91

By Derek Tommey (58)

Nedcor continued to make solid progress in the year to September, increasing its net income 20 percent from R287 million to R344 million before taking into account the sale of Mibsa, the insurance broking arm.

If Mibsa's figures are excluded from the 1989/1990 earnings, the increase in net income was 21 percent — from R284 million to R344 million.

The increase came after raising the provision for specific and general risks by R233 million (1990: R158 million) owing to the need to provide R114 million against possible losses by the Perm.

Earnings a share rose from 154c to 185c and the final dividend has been lifted from 34c to 38c, making a total payment of 57c (51c) for the year.

Shareholders are to be given the option of taking a scrip dividend.

The income statement, after excluding Mibsa's figures, shows that interest received rose 16 percent to R5,9 billion, while interest paid increased by 15 percent to R4,5 billion.

This resulted in net interest income rising 20 percent to R1,365 billion.

Other income increased 21 percent to R911 million and total income rose 21 percent to R2,27 billion.

Expenses rose 22 percent to R1,49 billion, resulting in operating income rising 19 percent to R790 million.

Chris Liebenberg, Nedcor's chief executive, says the rise in expenses was partly the result of a refurbishing programme at the bank's branches and partly because the bank was in a computer spending cycle.

After provision for specific and general risks, Nedcor's pre-tax income rose 11 percent to R557 million.

Because of previous tax losses, Nedcor was not liable for tax last year. Instead it paid a notional tax almost equal to the maximum tax rate of R219 million.

However, Nedcor has now utilised almost all its tax losses.

This has made it worthwhile for Nedcor to engage in tax limitation policies, resulting in the tax lability this year falling to R213 million.

The effective tax rate dropped from 43,3 percent to 38,2 percent.

Nedcor's capital and reserves rose 16 percent to R2,1 billion.

From January 1, the ratio of capital and reserves to assets, which banks have to hold, will rise from 4,5 to five percent.

Nedcor's ratio was already 7,35 percent and would be over eight percent if it revalued its buildings, as it is entitled to do.

Total assets rose to R41,6 billion, with advances and liabilities increasing 26 percent from R24,4 billion to R30,8 billion.

Deposits rose 23 percent from R28,9 billion to R35,4 billion.

Chairman Dr John Maree says the bank came come through a difficult year with good results.

The main focus was on the growth of soundly performing assets and the careful evaluation of areas in which increased risk was evident.

He expects an improvement in the business climate next year.

But interest rates will remain high and, as political negotiations get under way, uncertainty will temper business confidence.

Mr Liebenberg says it has been necessary to re-evaluate exposure to clients.

This has resulted in significant increases in the amount set aside for provisions on bad and doubtful debts.

He says that in the coming years the bank is likely to invest more of its capital in inflation-hedges.

Mr Liebenberg says there is no question of UAL taking over Finansbank, as has been rumoured. Finansbank will continue as a merchant bank. It is doing very well in a significant niche market, he says.

COMPANIES

Standard's home loans grow by 30%

58

B/Day 12/11/91

ROBERT GENTLE

STANDARD Bank's home loans book grew 30% to R7,5bn for the year ending September 1991, divisional GM Eric Tomlinson said yesterday.

The increase in loans granted, running at the rate of R350m a month since February this year, was attributed to increased advertising, co-operation with estate agents and the bank's large customer base.

"The total value of loans on our book will probably reach R8bn by year-end," he said.

He said that at R350m a month, the bank was pulling in business about twice as fast as at the same time last year, with a significant portion of business coming from existing bank customers.

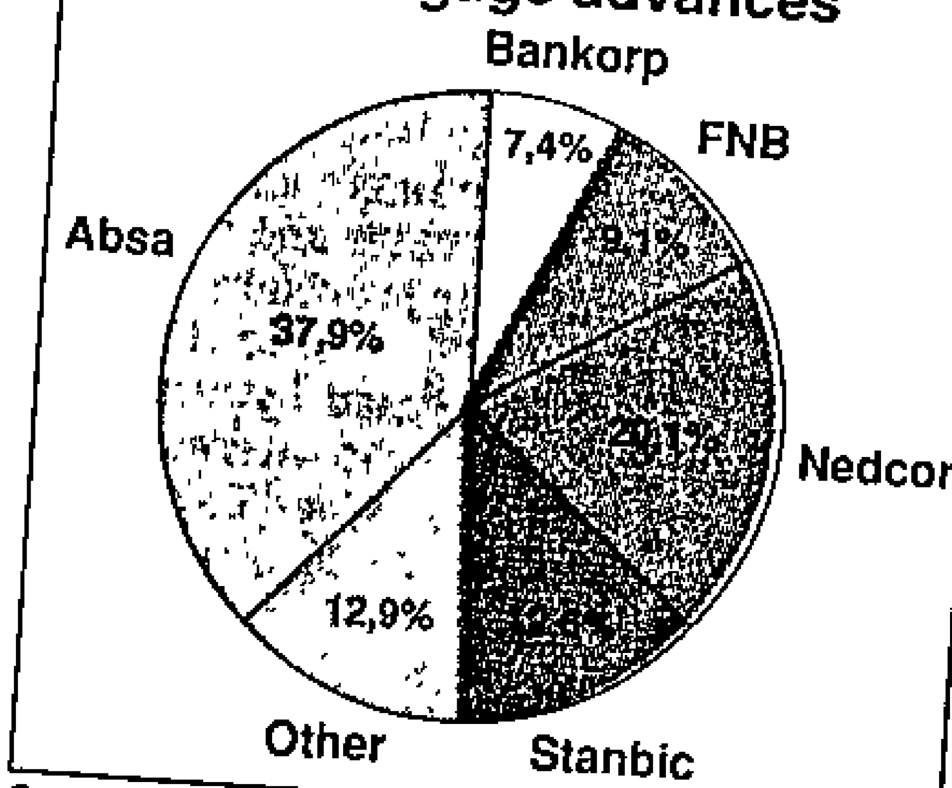
Asked if Standard was not over-stretching itself, given the generally high level of bad debts in the banking industry over the past year, Tomlinson said: "We have the reputation in the market of being cautious in our lending criteria."

Overall arrears rates had come down in the past few months, while the level of repossessed properties was "lower" than industry norms, he said.

The PWV region accounted for about R3,5bn of the R7,5bn total home-loans book. Other important regional areas were the Cape (R1bn) and Natal (R1bn).

Amalgamated Banks of SA (Absa) is still the dominant force in the home loans market. Comparative market-share figures, as of end-December 1990, gave Absa 37,9% of the total market, followed by Nedcor (20,1%), Standard (12,6%), First National Bank (9,1%) and Bankorp (7,4%).

Comparative market share of mortgage advances



Graphic FIONA KRISCH Source ABSA

High rates hit jeweller

WILLIAM GILFILLAN

A WEAK economy combined with high interest rates caused earnings for the Arthur Kaplan jewellery group to plummet 56% to R304 000 from R691 000 for the six months to August.

B/Day 12/11/91

Earnings a share were down 58% to 2c from 4,8c.

Although a turnover figure was not given the financial statements show that there was a nominal 4,3% turnover rise year on year for the six-month period.

Operating income fell 31% to R1,1m from R1,6m which, after the higher interest charges of R573 000 (R376 000), saw profits before tax decline by 56% to R538 000 from R1,2m.

The higher interest charges were linked to the jump in long-term liabilities. In August long-term liabilities were R3,6m.

Insurance brokers expect dip in market share

SEAN VAN ZYL

A RECENT study has shown that 44% of independent life brokers expect a drop in market share while more than 65% of corporate operators anticipate stagnation or a decrease in new business.

The Delphi report on insurance — conducted by Andersen Consulting and the SA Insurance Institute — said short-term brokers were expected to experience a similar contraction in business.

The report noted banks and building societies had entered the fray, resulting in additional competition.

However, Garry McCreesh, MD of corporate life brokerage FPS, felt there would still be place for the broker in the industry.

He said independent operators would be pressed into developing niche quality markets in the domestic arena.

Price Forbes Group MD Paul Heinamann said he did not perceive the growing trend of self-insurance by large corporates as a threat to the industry but expected the corporate broker to become less reliant on the selling of insurance products with a shift to risk management services.

Mibsa Domestic Insurance Brokers MD Pierre van Blommestein said the short-term domestic insurance market operated on a low margin and brokers required high volumes of business to survive. As a result, independent operators would experience increasing difficulties maintaining market share against the larger firms and banking groups.

Heritage Insurance Brokers MD Ronald Gordon said larger firms were gaining market share from independent brokers.

Brand looks at bank's future

SHARON WOOD

THE Development Bank of Southern Africa was bound to be a prominent player once a single development institution was created, chairman Simon Brand said this week. B/Day 13/11/91 (58)

Speaking at the Bureau for Economic Research conference in Somerset West on the role of the bank in SA's reconstruction he said: "The question inevitably arises of whether, even if there should be such an institution in the future, it would necessarily be the present Development Bank."

New players with wholesale development funding functions had entered the field, such as the Independent Development Trust and the Kagiso Trust. Thus, it seemed logical to expect a rationalisation of their activities from which a single institution could emerge.

The bank would play an important role because of its track record and the body of specialists it had developed. Brand said a new development bank would not inevitably mean in increase in the role of the public sector in the economy.

"A reconstituted or new development bank would, on the contrary, be an important mechanism to bring about more effective use of public expenditure on development programmes."

The bank had often been accused of being an apartheid institution and would lose this image only when the constitutional transformation in SA took shape

"Under a new constitution there will still be a need for an institution such as the Development Bank ... but without being forced to direct its lending along racially determined lines," he said.

Regarding southern Africa, Brand said the bank would give priority to programmes and projects in SA so as long as it was funded exclusively by SA.

The bank had also reached the conclusion that a development bank for the whole of southern Africa would not be simply an extension of the present Development Bank It was more likely to be an institution created by governments in the region.

"The Development Bank would, however, be able to provide support both for the setting up and operation of such an institution, if asked to do so," he added.

Life offices told to 'adapt or die'

(58) B Day 13/11/91

SEAN VAN ZYL

LIFE offices, faced with increasing consumer sophistication and inflationary pressures, would be forced to adapt their traditional operating methods to remain competitive, Momentum Life chairman Herc Hefer said in the 1991 annual review.

Hefer said stronger competition for the public's saving funds would compel life companies to rationalise their operating structures to provide a better and more cost-effective service.

Momentum had embarked on a "quality programme" during financial 1991 to enhance customer service and efficiency, he noted.

A more aggressive marketing drive had resulted in the company exceeding its business target for the year ended June.

Hefer said financing Momentum's expansion plans would place a considerable burden on its surplus funds.

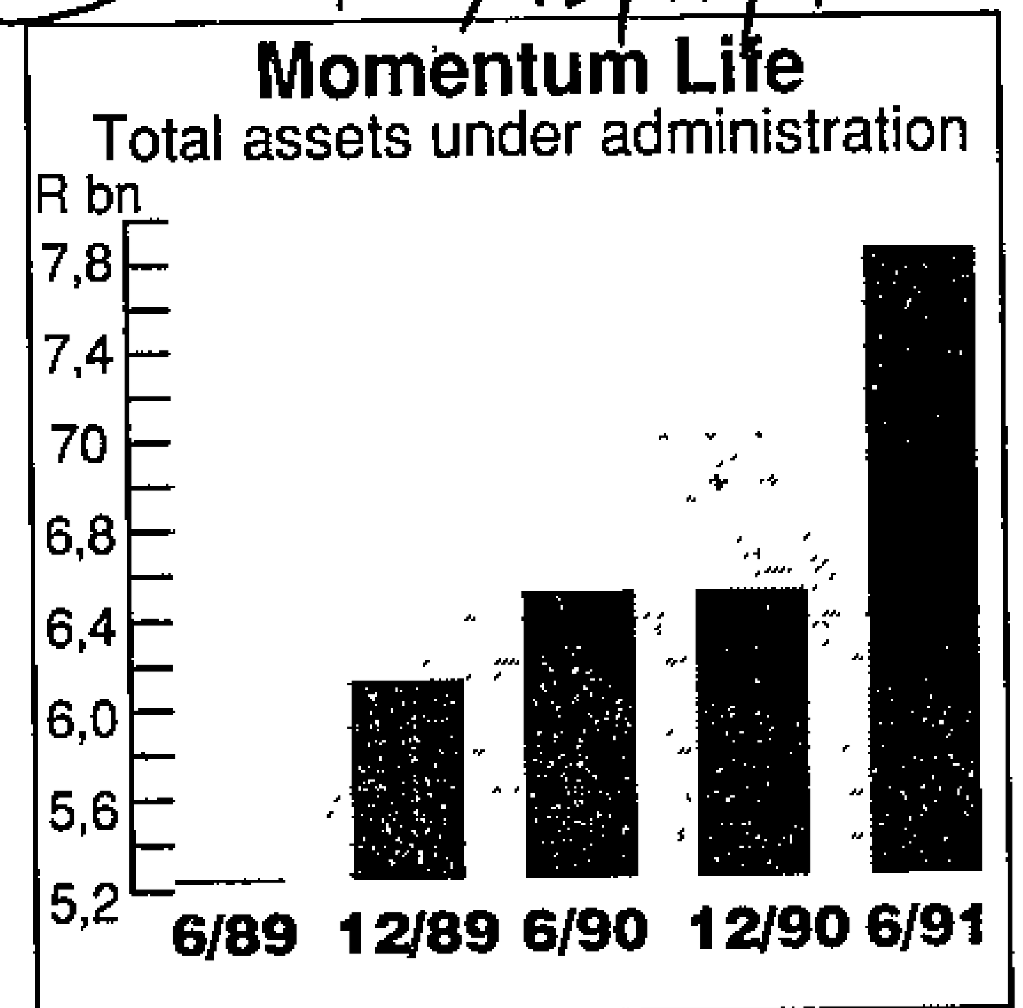
As a result, the directors were reviewing Momentum's long-term growth strategy, which would require a strengthening of the company's capital base.

"The possibility of a rights issue is being investigated."

Furthermore, Hefer noted, Momentum's financial year-end had been changed to end-March to coincide with that of the Absa group, formed recently by the amalgamation of the Rembrandt Group's financial services interests.

Hefer expected business conditions in the current trading year — which covers a nine-month period — to remain restrictive because of recessionary pressures.

However, he was confident Momentum would achieve its new-business-growth objectives for the year.



Graphic LEE EMERTON Source: MOMENTUM LIFE

Momentum's total premium income for the 1991 financial year broke through the R1bn mark.

Recurring premium income increased by 25% on the previous year to R825m.

Investment income for the year climbed by 22% to R540,9m.

This boosted total income to R1,5bn from R1,3bn.

The total outgo for the year, including operating expenses, commission paid, and claim and benefit payouts, amounted to R849,4m.

A massive R701,2m transfer to the life fund boosted Momentum's life fund by 20% to R6,9bn.

Total assets, including managed funds, rose to almost R8bn.

Momentum disclosed a 12% increase in earnings to 25,7c a share.

Shareholders were rewarded with a 15c a share dividend.

PROPERTY

Sound guidance needed for potential property owners

(58)

BDay 13/11/91

Reports by PETER GALLI

THE low level of exposure to property ownership of the majority of consumers has created a large gap in the knowledge of the benefits and obligation of property ownership, which seriously needs to be addressed, says SA Housing Trust corporate communications head Mike Fowlds.

"There is a direct correlation between the willingness of the individual to accept his financial and other commitments and his understanding of all aspects pertaining to property ownership," he says.

Research conducted by the trust among low-income homeowners who had fallen into arrears with their bond repayments showed a lack of knowledge about and the understanding of the housing delivery process and their ownership obligations, he says.

The need for an information programme and controlling forum is quite obvious, particularly if estimates that SA will have a backlog of about 1,8-million new houses by 2000 are taken into account, Fowlds says.

"Of this, probably more than 90% have previously not been subject to the regular financial discipline of monthly bond repayments.

"A significant number of the 1,8-million new entrants into the housing market need information relating to housing to ensure their long-term enjoyment of secure accommodation and orderly community development," he adds.

Sound guidance in property ownership holds some clear advantages for many people and organisations involved in attempting to solve the SA housing crisis. This will lead to more trust in and acceptance of products and services.

Financial institutions have long cited the need for their clients to be guided in their decision to obtain property, which will greatly reduce its long-term risks, he says.

"Employers can also benefit from increased productivity levels and greater stability from a workforce that is housed according to its needs and understand their responsibilities as homeowners."

A careful guidance process will contribute to a secondary market in affordable homes. This, in turn, will not only have a positive influence on property values, but also create an environment where property owners will experience the real benefits of home ownership.

"A well-informed property owner will enhance community stability in SA and future economic growth," he says.

The establishment of a controlling forum and its activities needs to be approved by representative structures operating within the community. Such a forum cannot dictate and must consult on a widespread basis, with its approval by the community it hopes to serve mandatory to give it establishment and acceptance.

Rand hits five-month high against dollar

Bday 13/11/91 (58)

ANDREW GILL

THE rand ended at its strongest level in more than five months yesterday as the US dollar continued to be pounded by speculation that Germany would soon raise its interest rates.

It finished at R2,7983 from Monday's R2,8063, its strongest level since late May's R2,7963.

Dealers said the dollar was suffering from generally poor international interest rate differentials and that Germany would soon be implementing more investor-friendly legislation.

Current speculation is about a new German investment tax exemption for foreigners and a raising of the tax-free threshold for Germans. Dealers said the dollar had also come under pressure on the back of a higher gold price.

Other currencies gained in tandem with the rand, indicating the local unit's gains were not hindered by Reserve Bank intervention.

Speculation was that the Bank had seen R2,80 to the dollar as the bottom of the trading range for the rand.

SA not alone in its battle to hit money supply targets

B/Day 13/11/91 **SIMON WILLSON** 58

HOLDING the growth in monetary aggregates to levels within specified target ranges is proving a difficult task for central banks in many countries besides SA. In Western and Eastern industrialised countries, in growing and slowing economies, monetary authorities are struggling to meet money supply targets they have set themselves.

Monetary aggregates have become fickle variables, vulnerable to a wide range of distortions which tend to erode their validity. Authorities seem to spend as much time explaining why money supply data are so wide of their target ranges as they do in setting the ranges and trying to keep to them.

Reserve Bank statements on SA's monetary aggregates, for instance, constantly have to refer to the distortion on the 1991 money supply figures of the Deposit-Taking Institutions Act. In meeting the provisions of the Act, banks have artificially swollen the monetary measure that the Bank targets.

Aggregates across the spectrum of money measurement have been missing the mark in other countries too. Criticism of the SA authorities over domestic money supply outturns missing the target range could equally be directed at the central banks of the US, Japan, and Germany. Hardly any of the major industrial countries with money supply targets have been able to keep the growth of the targeted variable within the required range this year.

Each divergence from the target range comes complete with an explanation from the authorities. Laments about abrupt changes in legislation, perfidious borrowing patterns, political upheaval and financial instability have become familiar as central banks have sought to rationalise erratic money supply figures. Any admission that, in unstable economic or political conditions, the targeting of monetary variables might in itself be a mistake, is far more rare.

Beleaguered by inflationary pressure on the one hand, or by the threat of recession on the other, central banks with off-target money supply growth have tended to persist with their guideline ranges irrespective of distortions. By leaving the targets in place, monetary authorities have sought to discipline markets into accepting the ultimate and distant objectives of their credit policies.

Revisions of monetary targets in major industrial countries have seldom been more frequent than once a year, irrespective of fresh, potentially distorting factors entering markets. Even the unification of Germany led to only one, grudging adjustment of a money supply target. It prompted no thought of suspending monetary targeting until the inevitable distortions of unification had worked themselves out.

Thus the Reserve Bank finds itself in fairly illustrious company. The US Federal Reserve has had the same targeting problem for most of 1991, as has the Bank of Japan more recently this year. The German central bank, the Bundesbank, looks as though it will encounter difficulties before the end of the year.

The Fed and the Bank of Japan target M2, a relatively narrow measure of money that covers cash and short- and medium-term savings deposits. The Reserve Bank and the Bundesbank target M3, a broader definition of money that includes long-term private-sector deposits with banks, building societies and other institutions such as the Post Office. Each monetary authority has the nominal autonomy to choose which variable to target.

Only the Reserve Bank has the problem of an overperforming money supply relative to target; the Fed, Bank of Japan and Bundesbank are all tackling monetary measures which are undershooting their targets. This is mainly due to the different stage of the business cycle prevailing in each economy.

The Reserve Bank has been lowering its M3 range, from 14%-18% in 1989 to 11%-15% last year and 8%-12% this year. As if in recognition that the desired range is unlikely to be hit for the time being, its title was changed from target to guideline range two years ago. Based on the fourth quarter of 1990, M3 growth was close to 30% in the first quarter of the year as banks reintermediated — brought certain off-balance sheet transactions back onto their books — to meet the requirements of the Deposit-Taking Institutions Act. Although M3 growth has slowed during the year, it still stands at about 15%.

The official 8%-12% guideline still stands, but most analysts are trying to strip out the Act's effect by using a February base for M3 growth and annualising the figure to arrive at a more realistic measure of money supply growth. The guideline range, therefore, has lost its validity.

Much the same applies in the US, where the Fed is trying to encourage economic recovery without reigniting inflation. The Fed's disinflationary caution led it to trim its M2 target range from 3%-7% last year to 2,5%-6,5% this year, which would have allowed recovery as long as M2 was at the top of the target range. Instead, after briefly hitting the middle of the range when the Gulf war ended, US M2 has slumped below it.

But there is a popular explanation for that, too. Analysts blame "portfolio shifting" — savers withdrawing funds from the many bankrupt or financially unsound savings and loan institutions and transferring funds into longer-term instruments. So although US M2 is below target, it cannot be assumed that the economy needs stimulus, because of the distortion of portfolio shifting. Again, the target is effectively made redundant by a short-term distortion.

In Japan, M2 is growing at barely 2% — way below its target range of 7%-9%. Some commentators are sounding alarm signals similar to those ringing in the US that an economic slump will result if money supply growth does not accelerate soon. But there is also a trite explanation for the M2 undershoot in Japan. The distortion this time arises from savers moving en masse to transfer bank deposits to post office savings accounts, where rates are higher. Bank deposit rates are liberalised and market-related under the creeping deregulation of Japan's financial system, while post office savings rates are still controlled and pegged to the Bank of Japan's official discount rate. This may be a temporary distortion, but it totally invalidates the bank's M2 target range — which is nonetheless allowed to stand unaltered.

The Bundesbank started this year with a 4%-6% target range for M3 but, in an unusual move for a central bank with a money supply target, cut this to 3%-5% in July as monetary trends in eastern Germany distorted the aggregates. Steadily buoyant money supply growth in the west is being offset by a preference for capital formation and not liquidity in the east, which is holding back the national M3 figure. German M3 is therefore bumping along the bottom of the lowered target range and, as growth in the west comes off the boil, is quite likely to fall below it by the end of the year: another target missed due to temporary distortion.

The Bank of England is one of the few major central banks curre[illegible] on target with its money s[illegible]. That may be largely becaus[illegible] gets the narrowest meas[illegible] ey, M0. This consists of [illegible] and coins which are under the [illegible] trol of the bank. Small wo[illegible] that UK M0 growth stands in [illegible] middle of its 0%-4% target ra[illegible]

The concept of moneta[illegible] ing is viewed with amused detachment in many of the world's major financial markets. Targeting could, however, be of some use to monetary authorities in their thankless trade-off between inflation and recession. Central banks setting a target seem to be showing markets the direction in which they would like to proceed, rather than the precise point at which they want to arrive. Although few pay attention to money supply targets any more, South Africans, along with the Germans, the Americans, the British and the Japanese, might as well get used to them.

that policy," he said.

The future government needed to look carefully at ways of making more land readily available for housing and the bureaucratic red tape, accompanied by sheer inefficiency in some cases, characterising housing objectives, important adjustments in housing technology and design will be required, in addition to adjustments in the financial and construction sectors if the housing needs and demands of the new SA are to be adequately met," Brand said.

A concentration that makes Johannesburg a power base

(180) (80) (58)

B10 cuy 13/11/91

THE Johannesburg CBD remains the power base of the economy with about 52% of the country's top 50 organisations, ranked by total assets in the latest FM Top Companies survey, having their head offices there, property economist Neville Berkowitz says.

"The location of these head offices determines the concentration of decision-making power and economic influences. The concentration of power is evidenced in the 50km strip from Johannesburg to Pretoria, where 84% of the top companies are located," he says.

Good infrastructure in the form of transport, parking, access to retail facilities and hotels all play a part in selecting a head office location. The suburban locations of office blocks are limited in the bulk they can supply.

"A trend among top companies is to develop head offices in out-of-the way areas near good freeway infrastructures and, in this way, achieve low- to medium-rise bulk buildings with sufficient parking provisions," he says.

The 21 head offices located in the Johannesburg CBD predominantly feature mining and banking houses, including Anglo American, Stanbic, JCI, Anglovaal, Allied and FNB.

The Sandton area is second, with 14% or seven of the major corporations having their head offices there. These include Eskom, Barlow Rand, Tiger Oats and Malbak.

"The sprawling grounds of Megawatt Park and Barlow Rand Park provide the out-of-town location large enough to accommodate the 'bulk' required," Berkowitz says.

Pretoria has six of these head offices, accounting for 12% of the total. However, most of these are public-sector bodies like the Reserve Bank, the Post Office, Iscor, Armscor and the Land Bank. Saambou is the only private sector company with its head office in Pretoria.

Cape Town, with 8% or four organisations, is the home of the insurance corporations, housing Old Mutual, Sanlam and Southern Life. Durban hosts 4% of the top 50 organisations, including NBS and Tongaat Hulett.

"Braamfontein has 6% or three head offices, with Crown Mines, Parktown, Rosebank and Midrand all housing a head office each," he says.

'ERTY

New look needed at capital subsidy scheme

THE proposed capital subsidy scheme in SA should be re-evaluated in the light of international experience as subsidy design is crucial to achieving national housing goals, Murray & Roberts Construction executive director of housing Gavin Hardy says.

The principle of capital subsidies is unacceptable as scarce state resources cannot be maximally geared in this way. Unless accompanied by equity from the participant, capital subsidies are inherently socialistic, unsustainable and therefore discriminatory, he says.

"The De Loor inquiry into housing will most likely recommend a capital subsidy unless alternatives present themselves," Hardy says.

Endorsing some of the key findings on housing subsidies of the May 1991 World Bank Reconnaissance Mission, Hardy says the repeal of legislation and regulation and the freeing up of land and financial markets are not enough to undo the distortion of apartheid.

It would require what was referred to by the World Bank as "aggressive strategies to achieve satisfaction levels of integration".

"In this regard, Murray & Roberts' views converge with the World Bank's reservations about current proposals to kick-start the economy through massive subsidisation of the housing industry," Hardy says.

A workable alternative is to encourage private sector financial institutions to provide mortgage financing to well-located housing for the upper end of the black market and to foster broad participation in collateralised funds for lending to the mass market, he adds.

"M & R urges that the proposed capital subsidy scheme be re-evaluated and that state assistance for the severely disadvantaged be explored as well as the provision of an interest subsidy on a total mortgage package up to R75 000."

Ampros's Finance House Building 60% let

ANGLO American Property Services (Ampros) Finance House Building in the Bruma Lake Office Park — officially opened last week — is about 60% let and designed for tenants providing financial and related services, Ampros Bruma leasing executive Stan Davies says.

The office block accommodates tenants such as First National Bank, Standard Bank, Nedbank and the Perm, as well as travel agencies and airlines.

"They are serving the surrounding office buildings and shoppers and tenants from Fisherman's Village across the lake," he adds. B/Day 13/11/91

☐ Due to an editing error, Business Day reported last week that the Bruma Lake Office Park was being developed by Old Mutual Properties. The building is being developed exclusively by Ampros.

Japanese keen to invest in property

Sowetan 14/11/91

By JOSHUA RABOROKO

THE property market could see an inflow of Japanese capital now that trade and investment sanctions against South Africa have been lifted.

This could result in a bigger demand and subsequent increase in prices for up-market property in particular, according to Camdon's group managing director, Mr Scott McRae.

He said: "The Japanese are ardent believers in the long term investment value of property. Their forays into the United States, Australia and Europe have been professional and astute.

"One hears of mass buying expeditions by Japanese investors. In terms of their strong currency, South African property is absurdly cheap compared to their own, where it is said that a handkerchief dropped on a Tokyo pavement would cover land worth tens of thousands of rands.

"Now it seems South Africa's turn may come and an influx of Japanese buyers could well spur interest among buyers from elsewhere in the world

"Potential Japanese property investors have been in the country over the past few months, probably in anticipation of sanctions being lifted," he said.

Their interest will be in property from coastal to commercial, provided it has an investment potential. It's fascinating to speculate that, even if a small percentage of Japan's 10 million tourists bought property in South Africa, it would represent a major boost for the market.

"South Africa should avoid the mistakes made by other countries. In Australia, for example," MacRae said, "unbridled Japanese buying had sent prices spiralling, generating great resentment among Australians.

"It is difficult to see how a similar situation could be prevented here, although South Africa could perhaps take its cue from Australia, which introduced a foreign investment control board.

"Inevitably foreign buyers will discover that SA is the best kept secret in the property world." he said.

FW launches insurance inquiry

(58) Sowetan 14/11/91

A COMMISSION of inquiry into the activities of the Multilateral Motor Vehicle Accident Fund has been appointed following "disquieting allegations".

Transport Minister Dr Piet Welgemoed announced that the decision by State President FW de Klerk to appoint the commission follows on the heels of a report compiled by the Auditor-General, who was assigned to audit the accounts of the MMF earlier this year.

Welgemoed said he had noted that the MMF activities warranted closer investigation in April.

"Since then my inquiries have revealed disquieting allegations in regard to the MMF, the handling of claims by its agents and other parties, which led to a request to the State President that the Auditor-General audit their accounts," he said.

A commission of inquiry was appointed under the chairmanship of Mr Justice DA Melamet with Mr KG Raine and Mr FSH Ochse as members.

The terms of reference of the commission, among others, include to inquire:

Whether existing legislation applicable to the MMF provides adequate protection to those insured;

Whether those associated with the MMF neglected their duties;

Into malpractices in the running of the MMF and which authorities should be involved in further investigation;

Whether a ceiling should be placed on the damages any one insured person may be awarded; and

To make recommendations regarding steps to better protect the insured and to place the affairs of the MMF on a sound financial footing.

The commission was also requested to consider the findings of previous commissions to simplify and curtail procedures, particularly with regard to determining damages in actions against the MMF and its appointed agents.

The Minister said further details would be published in tomorrow's Gazette.

He invited people with relevant information to contact the Commission of Inquiry. - *Sapa.*

Property

Invest in homes say the experts

Sowetan 14/11/91

(58)

By JOSHUA RABOROKO

SOUTH AFRICANS have been urged to invest in property and put less money into interest-bearing accounts.

The appeal came from developers and experts in the property market who slammed some investment advisers for "blinkered" thinking.

Property has performed consistently well as an investment through the recession and has appreciated some 220 percent in the past decade according to figures from one of the leading institutions.

Funds

One of the experts, Camdon's group manager Mr Scott MacRae, has cited an instance he came across where an individual had inherited a reasonably large property estate.

He explains: "This woman was advised by her banker to sell off the property and put funds into interest-bearing accounts.

"To do so would be guarantee that within 10 years the woman would be poorer by 75 percent and within 15 years the purchasing value of her original inheritance would have shrunk to virtually nothing - courtesy of South Africa's high inflation rate."

He advised her to retain her properties, rent them out, obtain the benefit of the rental income which in the present climate is roughly equivalent to the current rates of interest, and still enjoyed the benefits of appreciation of the value of the property.

A Mepco property developer executive, Mr J Ndzipho, said it was strange that bankers could advise people to sell their properties when it was difficult for them to offer loans to buy property.

"There is a lot of red tape when blacks get loans and buy property, yet bankers encourage people to sell their property and put the funds into interest-bearing accounts," he said

Thinking

Both developers agreed that bankers were thinking purely as bankers and not as investment advisers.

They believed investment advisers of whatever ilk should be fully aware of the need to have a part of any investment portfolio in property.

SOWETAN
Building the Nation

Property market set for recovery

(58)

Sowetan 14/11/91

By JOSHUA RABOROKO

THE property market is poised for an economic boom which can mean or even preceed that of the overall economic recovery, according to experts in the market.

They say adverse political and economic factors are still bringing strong influence to bear on buyer confidence.

Camdon's group MD Mr Scott MacRae says: "Nonetheless the fundamentals for an upturn are in place.

"The economy has bottomed out, there is pent-up demand for all types of housing, inflation continues to bring "buy now" pressure to bear and the governor of the Reserve bank, Dr Chris Stals, has indicated the need to kick-start the economy.

Upheaval

"Negative influences are the continued high bond rates, the erosion of buying power because of inflation and political upheaval," MacRae says.

He adds: "Without doubt the biggest disincentive for property investment right now is the high bond rates. We have seen worse. In 1985/86, they were touching 23 percent."

If the situation is interpreted in terms of recent Government statements however, there is a possibility that rates will be lowered next year.

He says: "There is even some indication that the battle against inflation is beginning to bear fruit, although the moot question is whether this has not been at the expense of severe damage to the economy."

The average homeowner is already severely pressed merely to keep up with his existing bond repayments and any relaxation of interest rates would go a long way towards improving his lot - and provide a psychological boost at the same time.

Those who were encouraged to take on bonds at 13 percent have seen their bond repayments virtually double, placing an enormous strain on household budgets.

The results are a creeping incidence of repossessions - figures indicate this is still not a major factor but the institutions should be aware that they cannot indefinitely increase rates and expect the market to simply absorb them.

On balance however barring major political or economic catastrophe, industrialists would expect the positive influences winning through in 1992. The stage is therefore set for a recovery of the market.

New call to builders to be realistic

By JOSHUA RABOROKO

Sowetan 14/11/91

A NUMBER of developers have "responded positively" to a call for more realistically priced property projects.

The response is timely in that the cluster homes and sectional title market has become more discerning and overpriced developments are not selling.

Overpriced

Developers are faced with overpriced land for such projects and sellers of land must now also be more realistic.

A projects manager for a leading firm of developers, Mr Jonathan Watchman, says two of the main elements of a cluster project - the developer's profit and building costs - leave very little room for manoeuvre.

If, in addition, land costs are at a premium, the overall project becomes simply overpriced in terms of current market acceptability.

"There is still tremendous demand for cluster homes for reasons of their security, aesthetics and financial practicalities of owning the land on a freehold basis," he says.

Modest performance by Sage property funds

61 Pcy 14/11/91 (58)

SEAN VAN ZYL

THE Sage group's two property trust funds — CBD Property Fund and Pioneer Property Fund — have disclosed modest earnings growth in line with the directors' forecasts for the interim period to end-September.

The CBD fund reported net distributable income of R17,1m (1990: R8,4m) for the period while the Pioneer fund generated R19m (R17,5m). But the figures are not strictly comparable as the funds changed their year ends to March from June.

The CBD fund's investments are concentrated in office and retail properties situated in Johannesburg, Sandton and Pretoria. The Pioneer fund's holdings cover a wide spread of industrial properties in the broader PWV area.

The two funds' investment portfolios were restructured during the present trading year to dispose of underperforming properties for reinvestment in quality holdings. The reshuffling of investments resulted in a higher cash holding which affected the two funds' earnings potential, Sage Property Trust Managers MD Noel Mills said.

However, he noted the modest growth reported in the first half of the current trading year had been anticipated and the directors were confident the funds would achieve their earnings targets for the full year to end-March 1992.

The directors expected the CBD fund to achieve 10% growth in earnings and dividends for the year and the Pioneer fund a "modest" increase.

Mills noted the portfolio restructuring resulted in an amalgamation of the CBD and Federated Property Trust which boosted the number of CBD units in issue to 122,1-million from 61,5-million units. Despite the dilution, the CBD fund posted an increase in net distributable income and dividends to 14,03c (13,75c) a unit.

In turn, the Pioneer fund disclosed net earnings and dividends of 17,06c (15,71c) a unit.

Mills said the CBD fund's cash holding at the interim stage was R27m compared with the fund's total market capitalisation of R330m. The Pioneer fund's cash stood at R39m to a market capitalisation of R390m.

He expected "bright prospects" for the industrial property sector and said there were already signs of increased interest in the market. However, the central office rental market looked to be oversupplied and would take a longer time to reflect rental growth.

Norton joins Bankorp as Senbank CE

ROBERT GENTLE

JSE president Tony Norton will become Senbank CE when he leaves the JSE in April, said a statement released yesterday.

Senbank is the merchant and corporate banking division of Bankorp, the banking group now edging its way back to profitability after attributable losses of R379m in 1990. Bankorp is engaged in a programme to clean up the group's lending book, entrench sound risk management policies and focus banking activities.

Norton, a former banker with 11 years experience at Standard Merchant Bank, will take over on May 1 from Piet Liebenberg, Bankorp's executive chairman who has been heading Senbank.

"Tony Norton will play a key role in Bankorp's recovery phase," Liebenberg said in an interview.

Norton will join the boards of Bankorp Holdings and Bankorp, and will also chair Bankorp's strategic planning co-ordinating committee.

58

Liebenberg said: "His experience at the JSE, plus his corporate experience, all adds up to give him a broad base. He understands financial markets. He can talk to corporate clients in their language."

There was no indication whether the position would be a step up or down in terms of salary. Merchant banking sources estimated a package of about R500 000.

Norton was unavailable for comment.

His appointment coincides with that of Pieter van der Merwe — former senior GM in charge of TrustBank's Witwatersrand division — to the post of CE of Bankorp's risk control division.

Nedbank Corporate expands its horizons

58

By JOSHUA RABOROKO

NEDBANK Corporate Division has opened a regional office in Pretoria to service government and semi-government institutions, local authorities, agricultural boards and the growing business sector.

Nedbank has established corporate regional offices in Durban and Cape Town. Sowetan 14/11/91.

Expanding

The bank's corporate division executive Mr Willem Frost said: "Because privatisation is increasing, the corporate market is expanding and large institutions are turning to commercial banks for their banking needs, the time is now right for a stronger presence in Pretoria."

The new Nedbank corporate office would put clients in touch with a range of corporate banking products, including current facilities, electronic banking systems, forex and money market services and corporate project finance.

Market is growing rapidly

(58) Star 15/11/91

THE health insurance market is estimated to be as large as the life assurance market, and its growth rate has been more than 25 percent a year, says Liberty Life joint MD Dorian Wharton-Hood.

"Health insurance forms a large proportion of the long-term insurance industry in the US, where that business has grown at a rate steadily above inflation," he says.

"In addition, the growth has been more stable than that of the life insurance industry. We believe that SA is on the same track."

Mr Wharton-Hood says the potential market runs into billions of rands, and includes that currently financed by medical aids (R6 billion) and the self-insured market (R3,6 billion). In addition, the State spends R8 billion, which is largely aimed at the lower income group.

According to Yves D'Malluin, executive director (individual life marketing), the emergence of health insurance will change the face of health care in SA.

"With the health care environment in disarray it was inevitable that life assurers would enter the health insurance market as major competitors to medical aids and other health insurance providers," he says.

"Health care is no longer the preserve of medical aids."

Liberty's Medical Lifestyle package offers two basic plans. Its high cover programme is designed to replace a medical aid scheme.

NEDCOR FM 15/11/91

In from the cold (58)

Looking at the Nineties-style Nedcor, whose operating and financial ratios match up to — and in some cases beat — those of its major competitors, it's hard to remember that this was the group so entangled in the debt standstill in 1985 that it had, in effect, to be bailed out by Old Mutual. Three years later, Nedcor mounted a quasi-rescue of its own (though many would no doubt dispute the term) when it "merged" with the SA Perm

But in the long run, Mutual has no reason to regret the money it pumped into the rights issue 3½ years ago, at 630c a share — less than half the current R14,65. And it's the traditional banking interests that have made the running, with Nedbank, Nedfin and the Nedcor banking division kicking in R220m, or over 60%, of the latest R344m net profit. Net profit of the Perm was barely changed, at R63m (R65m).

The sale of MIBSA affects some of the comparative figures, but as its net profit contribution in 1990 was only R3m, it does not really alter the overall picture.

There are several features in the accounts. First, perhaps, is the impact of a relatively modest shift in interest margins on profitability. For while interest received, up 16% (with contributions from both higher rates and larger books), rose only slightly more than the 15% increase in interest paid, the result was a 21% gain in net interest income.

Then, "other" income (largely fees and commissions) grew a similar amount. CE Chris Liebenberg finds this particularly pleasing, as such business generally carries no capital requirements and is also a better hedge against inflation. He would like to see this trend extended and also a greater investment in inflation-hedge instruments.

Cont →

FOX FM 15/11/91 (58)

Expenses (after stripping out MIBSA) rose 22%, faster than income — as they did the previous year. Liebenberg says they are starting to top out and points out that they include substantial branch refurbishment and computer spending (software is written off against income immediately). Also, there was a substantial (but unquantified) increase in the Perm's home loan book, which carried heavy initial charges.

Liebenberg claims that, as a percentage of income, expenses are still lower than at other leading bank groups.

The Perm was also responsible for R114m of the R233m debt provision, against only R52m of R158m in 1990. The other disproportionate increase in this item was R17m from Finansbank, whose net profit contribution for the year accordingly fell.

Liebenberg says the business environment required a conservative approach to bad debts and this is confirmed by the increase in the provision as a percentage of net interest income: 10% in financial 1988, 9,6% in 1989, 14% in 1990 and now 17%.

The capital position remains strong and will be strengthened further if shareholders take the option of scrip in lieu of the cash final dividend (an increasingly popular practice, it seems). Liebenberg expects the current year to remain tough; but there's no reason to expect Nedcor to do any worse than its competitors. It could even do better, as the figures suggest that there's room for improving the return from the Perm.

On the latest dividend, Nedcor offers the highest yield of any major bank group It could be marginally undervalued

Michael Coulson

BANKORP

FM 15|11|91 (58)

Waiting for the medicine to work

Activities: *Banking and related financial services.*
Control: *Sanlam through Sankorp (85%).*
Executive chairman: *P J Liebenberg.*
Capital structure: *401,6m ords. Market capitalisation: R1,1bn.*
Share market: *Price: 275c. Yields: 9,1% on dividend; 5,8% on earnings; p:e ratio, 17,3; cover, 0,6. 12-month high, 370c; low, 260c. Trading volume last quarter, 2,8m shares.*

Year to June	'88	'89	'90	'91
Total assets (Rbn) ...	19,3	27,0	30,0	28,2
Advances (Rbn)	13,8	20,5	21,8	22,2
Deposits (Rbn)	16,3	23,8	25,9	24,3
Taxed profit (Rm) ..	112,1	131,6	18,1	164,5
Attributable profit (Rm)	95,5	113,3	(378,5)	48,8
Return on assets (%) .	0,58	0,49	0,06	0,58
Return on equity (%) ..	16,5	16,4	(55,5)	3,8
Earnings (c)	108,6	125,8	(267,5)	15,9
Dividends (c)	34	25	25	25
Net worth (c)	656	796	383	330

In general terms, the annual report does not add much to the debate on Bankorp and its recovery prospects — mainly because there is not much to be said at this stage.

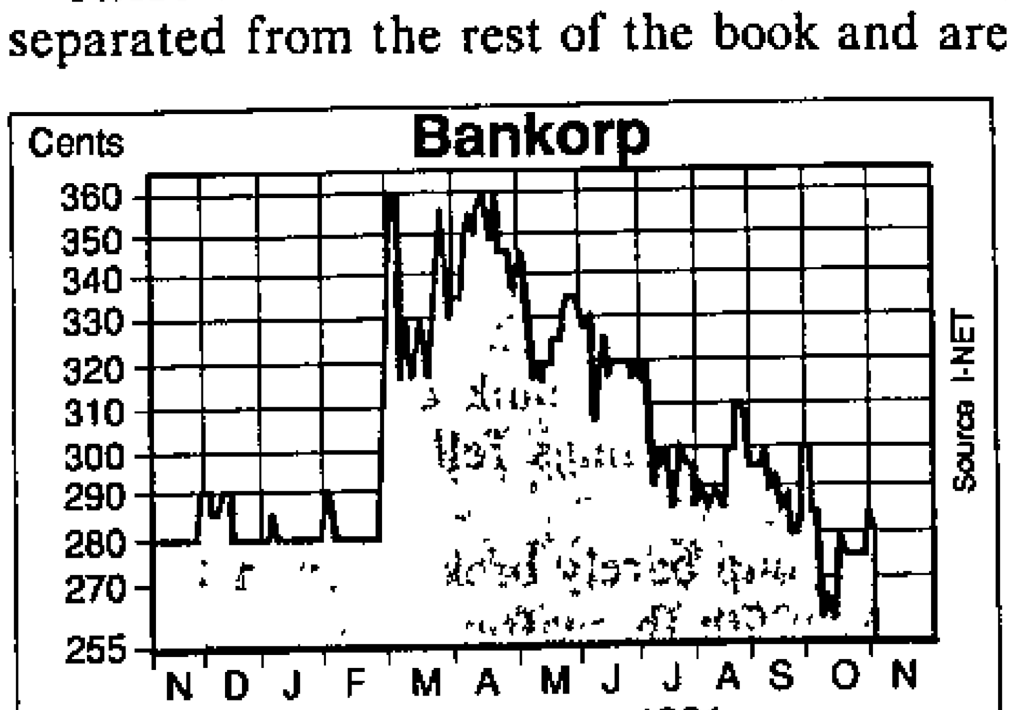
Most of the action took place about a year ago when CE Piet Liebenberg and his new executive team went through the group like a dose of salts. The present state of play, having administered the corrective medicine, is simply a waiting game until it does its work.

While investors might have wished for something a little more positive, the mere fact that there have been no major new developments is, in its own way, positive to the extent that it indicates the initial clean up was thorough and management is reasonably satisfied with the way things are going.

Liebenberg said from the outset there could be no quick fix; he still believes his time-scale of three to five years for full recovery is a realistic target.

The main reason is that it will take time to complete the upgrading of the overall debtors' book and, more specifically, to get non-performing assets and doubtful debts inherited from TrustBank — what Liebenberg calls "the old bad debts" — out of the system.

These have been identified and, in effect, separated from the rest of the book and are being amortised over five years.



Bankorp's Liebenberg . . . *still upgrading the debtors' book*

In terms of write-offs, they will have no further effect on current earnings (the knock was taken last year when, in addition to undisclosed adjustments to inner reserves, the group wrote an additional R386,5m off the carrying value of assets).

But there is still the continuing annual cost of funding these assets, expected to peak this year before tapering off progressively.

Unfortunately, these costs, together with those directly associated with the restructuring, are not disclosed, precluding any meaningful assessment of the results. This also complicates any realistic valuation of the share and could account for the static share price over the past 12 months while the banking sector index gained almost 50%.

Part of the problem is that there is no way of assessing whether the 25c dividend is anything more than a number. Accepting there will probably not be any change during the recovery, the first observation — an obvious one — is that the payout was 9c more than the group earned; the second is that, even without last year's abnormal write-offs and provisions of R100m, EPS would still not have covered the dividend twice, which is clearly inadequate in an industry where the norm is at least 3,5.

The question begs as to what the group could have earned on its R28,2bn asset base had it been operating normally. Working on a 1% taxed return and based on the full 401,6m shares in issue at year-end, EPS could have amounted to 66c, against the 15,9c actually achieved. At the 66c level, they would have conformed to Liebenberg's view that the group should be able to show a 5% real return on shareholders' funds (that is, about 20% of year-end NAV of 330c).

Extending this line of thought and assuming 10% annual growth in the asset base, EPS three years down the line could, but for the effect of abnormal costs relating to the funding of the "old bad debts," be in the region of 88c, bringing cover into the same range as for other major banking groups.

On paper, this suggests the 25c dividend, while unjustified by present earnings, could be a realistic assessment of medium-term prospects, provided recovery remains on track. However, there are so many *ifs* and *buts*, not to mention the past record, that the market has every right to be wary — as it obviously is in rating the share on a yield of over 9%.

Brian Thompson

MINORCO (210) FM (210) 15|11|91

Changing state

Activities: *European-based natural resources group.*
Control: *Anglo American 39%, De Beers Centenary 21%.*
Chairman: *J Ogilvie Thompson; Joint MDs: A W B Lea, J R B Phillimore.*
Capital structure: *169,3m ords. Market capitalisation: R7,5bn.*
Share market: *Price: R44,30. Yields: 3,2% on dividend; 7,2% on earnings; p:e ratio, 13,9; cover, 2,2. 12-month high, R59; low, R38,50. Trading volume last quarter, 1,85m shares.*

Year to June 30	'88	'89	'90	'91
LT debt (US$m)	—	—	—	287
Turnover (US$m)	—	—	28,9	771,0
Pre-tax profit (US$m)	348	369	260	244
Net profit (US$m) ..	262	280	229	194
Earnings (USc)	154	164	135	114
Dividends (USc)	30	42	48	51
Net worth (USc)	1 308	2 063	1 806	1 687

The days when Minorco was the JSE's top rand hedge stock are long past. Discontinuity of management and apparent changes of philosophy combined to create the image of a floundering whale and a number of its acquisitions turned out ill-timed and overpriced.

In retrospect, the subsequent performance of the bullion price may leave the company relieved that its bitter bid for Consolidated Gold Fields was lost to Hanson — though, also in retrospect, Gold Fields' now unemployed and retired executives may regret that the egos of their ex-boss Rudolph Agnew and Minorco's temporary steward Michael Edwardes clashed so irreconcilably.

Chairman Julian Ogilvie Thompson now identifies three main areas on which the company intends to focus: gold and base metals in North America and aggregates in Europe. The aggregates are likely to bring it

cont —>

FINANCIAL MARKETS (58) FM 15/11/91

Tweaking the bull's tail

For the first time since the invasion of Kuwait in August last year, there is an air of expectation in the money market. Optimists are hoping the Reserve Bank will reduce the official rate at which it lends money to the banking sector by Christmas — it has been at 17% since March.

Market veterans who have seen this bullish sentiment ebb and flow over the past two years are more cautious — though pleased that the rumours have prompted some action in the money market. A more conservative projection is that the rate will come down only in February.

There has been a scramble for assets, as investors try to lock in at current rates. At the same time, the supply of bankers' acceptances (BAs) has fallen, as underlying transactions fall away in the recessionary climate.

So a shortage of instruments in the money market is reflected in key market rates. The three-month BA rate has fallen 20 points in a month to 16,55%. And since October 11, six-month and nine-month certificates of deposit have moved down 25 points to 17,05% and 17,10%, while 12-month rates have moved down 30 points to 17,15%.

More telling, perhaps, is that longer rates are coming down. "We have seen a bull run," says Simpson McKie's Marilyn Visser. "But confirmed bears are proving more resistant to changing sentiment than on previous occasions, so the run has been less dramatic."

The benchmark Eskom 11% (E168) has been falling since October 23, when it dropped 16 points. That day, with gold over US$360/oz, the market absorbed the news that Japanese sanctions were to be lifted. That it has continued to fall to a closing 16,52% on Monday, despite a sagging gold price, is partly due to the absence of government borrowing. But it could also say something about confidence and expectations regarding inflation.

Meanwhile, RSA stock has been in demand. "Foreign buyers are attracted by the higher yield," says Visser. The gap between the E168 and the RSA 12% has narrowed from more than 50 basis points to 37 at Monday's close.

How realistic are expectations about official interest rates?

To some extent, this depends on how much emphasis Reserve Bank Governor Chris Stals places on the rising consumer price index. If price increases over the past few months reflect a premature VAT-related shift, the post-VAT effect should soon work its way through the pricing pipeline. No judgment can be made on this for some months.

At all events, the re-weighting of the basket of consumer goods, on which the index is based, will have a positive impact Because food prices generally rise ahead of the inflation rate, a smaller food component in the index will reduce the effect of these rises.

A harbinger of better things to come is that producer price inflation continues to fall (see P40). At some point, the traditional relationship between producer and consumer prices must re-assert itself.

Perhaps a more valid concern is the shortfall in government revenue in the first six months of the fiscal year. If, as seems likely, the Budget deficit is higher than originally expected, additional funding will be needed in the market.

Caution is also required on the current account. With official reserves not yet high enough to fund three months' imports, there will be caution in official circles. Imports are proving unusually buoyant in a recession (see below) and an economic recovery will cause a strong acceleration in import growth.

The governor's decision depends, then, on what weighting he attaches to these factors — and to the absence of any unexpected event overshadowing fundamentals. In mid-1990, the scene was set for a fall. Money supply growth was subsiding, the rand was stable and inflation was falling. In June, with the 12-month rate of increases in consumer prices 13,6% and the nominal prime rate at 21%, the "real" prime rate was 7,4%.

Then Saddam Hussein invaded Kuwait.

All things considered and assuming no new Saddam Hussein makes an appearance, a fall in Bank rate by February seems as good a guess as any. ■

CONSUMER SPENDING FM 15/11/91

Pressure points

Consumption spending is under pressure, says the latest Old Mutual *Economic Monitor.* Apart from continued high interest rates, this is due to a decline in employment and a slowing in "per capita remuneration adjustments." Growth in the aggregate wage bill "had, by the second quarter, dropped below the prevailing inflation rate."

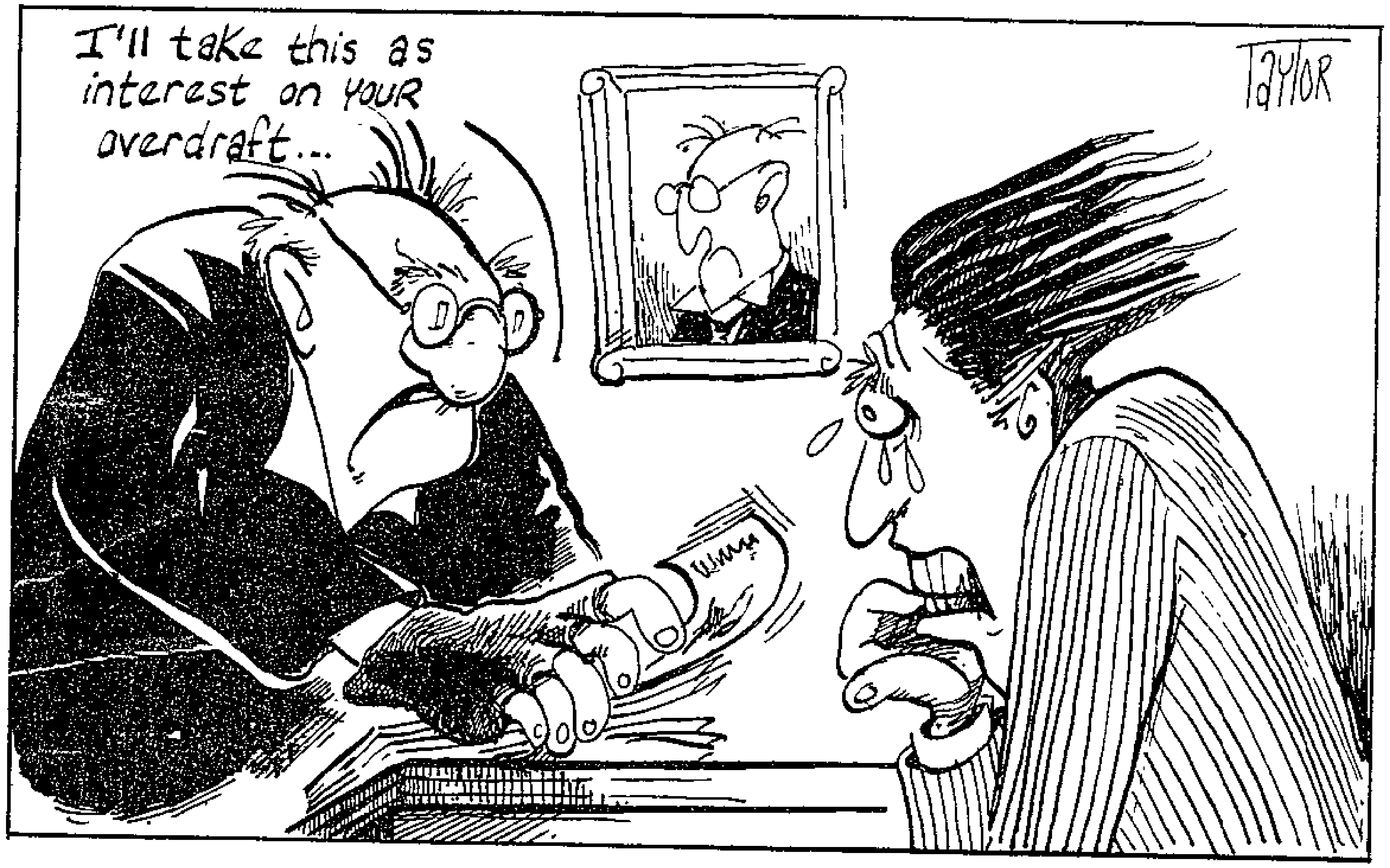
Old Mutual says "no meaningful recovery in this component of final demand is expected until the anticipated recovery in profit and production levels."

However, imports remain surprisingly high for a recession. Old Mutual calculates that import propensity — the proportion of consumer demand satisfied by imports — has averaged 28,6% throughout the recession (see graph). "This is in striking contrast to the two previous downswings which saw import propensity fall from 32% to 24% and

Beware the great overdraft rip-off!

Star 16/11/91 (58)

MAGNUS HEYSTEK,
FINANCE EDITOR



BEWARE! Your bank could be overcharging you on your overdraft. And the chances are very good that you don't even know it.

The issue has once again been forced into the spotlight by a new survey claiming that at least 90 percent of 1 300 bank accounts checked were overcharged.

J Spelt from business consultants Wespro, a company that specialises in this field, claims banks are illegally overcharging thousands of clients with punitive overdraft rates.

"Our company has checked more than 1 300 overdraft accounts countrywide and discovered that more than R5 million has been been taken illegally from clients."

Mr Spelt says overcharging could run into hundreds of millions of rands if the results of the survey are extrapolated.

"A trust relationship normally exists between bank managers and clients. This relationship is mostly impaired when clients are not given fair rates and the banks capitalise on the fact that clients are not well informed about interest rates and the other charges levied for services offered," he says.

He says banks are normally loath to discuss interest rates, with the result that roughly 65 percent of clients with overdraft facilities are ignorant of the rate being applied to them.

This has led to many unsuspecting prime clients being charged maximum rates.

Rates, he says, are often increased or adjusted without prior notification. Article 10.6 of the Usury Act stipulates that any changes in rates must be conveyed in writing.

A common practice among banks, Mr Spelt claims, is that rates are not reduced when the prime rate comes down.

In this way the benefit of the lower prime rate is not passed on. In certain cases, which he claims are documented, interest rates are adjusted upwards instead of downwards.

He cites a case study where a client had an arrangement to pay prime plus one percent in 1985. However, by 1987 the unsuspecting client was paying prime plus 7 percent.

Rates charged by many banks sometimes exceed the maximum allowed by the Usury Act, Mr Spelt says.

Banks, he claims, are reluctant to repay overcharged clients. If, however, consensus on the rate charged exists, whether verbally or in writing, banks will refund the money.

Mr Spelt has supplied me with several documented cases where clients were refunded several thousands of rands — one was refunded more than R17 000 by a well-known bank — after Wespro, which has developed a special software programme, revealed overcharging.

This is despite the many public pronouncements made by bank managers that clients are not overcharged.

Banks also argue that claims older than three years are not refundable. But legal opinion suggests that a claim only expires three years after a client has become aware of the ground for it.

Mr Spelt advises clients to negotiate the most favourable rates on both credit and debit balances, as well as all other charges levied on various bank services. These rates should be put in writing and kept in a safe place.

Secondly, he says, bank statements should be kept for at least five years and verified to check the interest rate charged.

Metropolitan launches unit trust

METROPOLITAN Life has given details of its first unit trust, which has funds already under management totalling more than R10 million. S Times [CM]

Metropolitan's managing director Mr Marius Smith said at the official launch in Cape Town that the investment philosophy was to keep it as a general mutual fund, with a portfolio spread focusing on blue chip and good second-string South African equities, with the balance in fixed interest securities and cash. 17/11/91

The initial start-up investment was R1 million and the fund's subsequent growth came from the sale of units.

Mr Smith said the new unit trust, to be known by the short form of Metlife, was aimed mainly at black subscribers although it would be marketed to investors of all races through Metropolitan's extensive network of offices and by insurance people and stockbrokers. 58

The minimum lump sum investment will be R500 and the minimum monthly investment R50.

A separate company has been created to manage the unit trust, with the French Bank appointed as trustee.

Portfolio management and investment decisions will be handled by Metropolitan's existing investment team

Eric Turner, until recently general manager, marketing, at Metropolitan, has been appointed managing director of the unit trust company.

Liberty cries foul over market share

S/Times (Buss) 17/11/91 (58)

LIBERTY LIFE joint managing director Dorian Wharton-Hood says figures claiming that Liberty is losing market share to Sanlam and Old Mutual, are misleading.

From 1981 to 1986 Liberty's share of net premium income (NPI) in SA fluctuated between 13,4% and 15,1%.

It has since declined to 8,5%, Sanlam and Old Mutual showing the greatest growth from 25,6% to 35,4% and 29,5% to 31,3% respectively.

Mr Wharton-Hood says NPI figures include individual single premiums and pension funds which are extremely volatile.

If a pension fund portfolo, which can be worth millions, is moved out of or into an insurance company there will be a huge distortion in the NPI.

Mr Wharton-Hood says some pension fund portfolios have been moved from Liberty Life into Liberty Asset Management (LAM), causing a reduction in Liberty Life's premium income.

But he cannot say how much business has been lost and how much has been transferred into LAM.

Liberty deputy general manager Herschel Mayers admits the JSE insurance sector star has lost market share of individual single premiums.

By TERRY BETTY

But it does not want certain types of this business anyway because it is so volatile.

Insurance companies, which are sensitive to comparisons, are notorious for juggling figures to present themselves in the best possible light.

Liberty has withdrawn from some comparative surveys because it says they are misleading.

Prudential

Other explanations have been suggested for Liberty's decline.

Insurance brokerage FPS managing director Garry McCreesh says that after 1986 Liberty was less aggressive in providing innovative products. Brokers placed their business with insurers that bombarded the market with new products.

Volkskas Brokers general manager Charles Erasmus believes that Liberty's takeover of Prudential in 1986 caused administrative problems.

Mr Erasmus says brokers were wary of placing new business with Liberty because it was bogged down with administrative aspects of the takeover. As a result, many brokers took their business elsewhere.

A market observer says Liberty lost out as Old Mutual and Sanlam increased their market share by gunning for business.

He says the mutuals can afford this because their costs are not closely scrutinised and they do not have to report to shareholders.

But the future looks rosier for Liberty. Frankel Kruger Insurance director Steve Navra says Liberty has introduced a medical policy that will boost its market share. It has opened a huge market for the insurance business.

Fedsure, Investec in courting game

ST Times (Buss) (58)

17/11/91.

By IAN SMITH

NEGOTIATIONS between the aggressive Investec group and fast-growing Fedsure could clear the way for the entry of a powerful player in financial services.

A deal which is likely to involve an exchange of shares would bring together two major independents in a sector dominated by the large groups.

It would also be a move in line with the trend to greater co-operation between banks and life assurers.

Fedsure chief executive Arnold Basserabie and Investec managing director Stephen Koseff will not comment on the negotiations disclosed in a warning notice on Friday.

Soon

Mr Basserabie says it will probably be several days before final decisions are made.

"Now that shareholders have been warned, it is in everyone's interest that an announcement is made as soon as possible."

Analysts say that if acceptable terms can be worked out a deal would be good for both groups.

Investec Holdings has as its main asset a 76% stake in Investec Bank, which brought in attributable earnings of R24-million in the year to March 31.

ARNOLD BASSERABIE: An early decision on link-up

About half came from banking and merchant banking — an area in which Fedsure has made strategic investments this year.

Fedsure's attributable income of R23,6-million in the year to December 31 last came almost entirely from life assurance. But it has a property portfolio worth well over R500-million. Investec's property division contributed about 25% of group earnings.

Both groups have been on the acquisition trail and their shares have moved to higher ground.

There were buyers for Investec at 2 050c, slightly under its peak early this month of 2 100c.

Fedsure stood at 775c, only 50c short of its 825c high

Fedsure would probably particularly value an association with Investec to give it an opening to merchant banking which would enhance its moves earlier this year into Saambou and the Eastern Cape-based Fidelity Bank.

Fedsure acquired 30% of Saambou by exchanging its Planet Finance for convertible debentures in a disputed deal. Investec used its voting rights over 12-million Saambou shares to help decide the ballot in Fedsure's favour.

Arm

The assurance group also bought Eastern Province Building Society's 30% controlling stake in Fidelity Bank last February, but it views this as an equity investment which produces good returns.

Saambou and EP Building Society each hold 10% of the management company of Fedsure's Fedgro unit trust.

Investec strengthened its merchant bank arm last year with the acquisition of Corbank, which brought in a large asset base and a complementary client list

It also moved into trade finance by taking over a leader, Reichmans, as sanctions started to fall away

Unibank finds a place in retail credit

By IAN SMITH

THERE is still room for niche players in the crowded financial services market.

Newcomer Unibank, which is breaking new ground in a whole range of retail credit services, has completed its first year firmly in the black and with a capital:asset ratio nearly three times the required level.

The bank's innovative moves have attracted heavyweight shareholders, including First National Bank, Fedlife and OK Bazaars.

Unibank came into formal existence a year ago by bringing together the operations of the 130-year-old British Kaffrarian Bank of King William's Town and the co-operative buying operation established 40 years ago mainly for public servants by Pretoria businessman Eric Chapman.

Managing director Gerrit van der Merwe, who comes from the more formal banking environment at Allied, says the acquisition of BK Bank's R77-million assets and liabilities brought the banking licence and ensured that BK would meet the capital:asset requirements of the Deposit-Taking Institutions Act (DTI).

Few

Mr Van der Merwe says: "It was obvious that we could not consider going into mainstream banking. We decided to specialise in small to medium corporate banking, focusing on the financing of movable assets.

"Few banks set out to serve small and medium business."

The result has been a maiden year of consolidation and firm growth. At the same time Unibank is developing retail credit facilities which offer prospects of quick growth and a means of entry for retailers to the huge black market.

In the year to September 30 Unibank recorded operating income of R11,7-million and net income of R1,7-million.

The return on average assets was a creditable 0,99, and the capital:asset ratio at the yearend was 14,34% compared with the DTI minimum reuirement on January 1 of 5%.

Mr Van der Merwe says: "We are very happy with the first year's results, which are slightly above budget. We have ample capital for growth and we want to focus on profits while developing our niche markets."

58

Vetting

Unibank's shareholders are First National Bank with 28,9%, Fedlife 26,7%, Eric Chapman 17%, OK Bazaars 5,13% and the Fabcos black business organisation 4,67%.

OK Bazaars' involvement comes through Unibank's Bonus Card, which is based on Mr Chapman's old buy-aid operation. OK Bazaars has a 30% interest in Bonus Card.

The emphasis has been changed and it has become a full-fledged credit and debit card.

A revolutionary move is to enable the card to be used by commuters to pay taxi fares. It is also recognised by more than 2 000 specialist retailers and it gives OK Bazaars access to a ready-made market.

Unibank is also developing "private label" credit cards for retailers who do not have the resources to launch their own cards.

"We do the vetting and carry the risk, the card holder gets a credit facility and the retailer wins a new market," says Mr Van der Merwe.

Nedcor steps up property drive

(58)

S Times (Buss) 17/11/91.

By IAN SMITH

NEW-LOOK Nedcor is set to enter the property and equity markets more aggressively.

This is the core of a strategy by the group, which commands assets of R41,6-billion, to make its huge capital base work harder.

Chief executive Chris Liebenberg hopes it will provide the answer to demands that banks give shareholders fair returns in the heavily traded and highly competitive financial services market.

Banks face a tough challenge to maintain profits in the face of their need to meet the Deposit-Taking Institutions Act's requirement to increase the ratio of capital and reserves to risk-adjusted assets to 8% by 1995 and the levy introduced in place of VAT which can increase the effective tax rate to slightly under 60%.

At the same time bad-debt provisions are likely to remain high as the recession runs through its cycle and margins could be reduced as interest rates decline.

"We have to invest more of our capital in inflation hedges," says Mr Liebenberg.

The first opportunity will come in property where Nedcor has a portfolio worth more than R450-million before revaluation.

Test

Senior executive Glen Smart has been given responsibility to set up a property division to manage the investment.

At the same time Nedcor will look for strategic investments in quoted shares, which have consistently provided returns higher than inflation.

Mr Liebenberg says: "We will not rush in. We will test the water and will enter the market smoothly."

In UAL and Syfrets the group has the advantages of some of South Africa's largest portfolio managers, controlling funds of R26-billion.

Nedcor has been heavily rerated since the debt standstill problems in the mid-1980s. The share price moved up to a new high of 1 600c after this week's sterling results — an inflation-beating 20% increase in net income and earnings in the year to September 30.

The group continued the trend of steady improvements in successive six-month periods. Income increased to R344-million, translating to earnings of 185c a share.

Dividends increased by 12% to 57c a share. Dividend cover has risen every year since 1986 when the payout was covered 2,5 times to the current 3,2 times, which is where Mr Liebenberg would like it to remain.

Nedcor's capital:assets ratio is 7,37% — well above the DTI requirement of 5% by January.

Revaluation of Nedcor's property holdings could take the group above the Act's final 8% requirement, but Mr Liebenberg's target is a more conservative 10%.

Mr Liebenberg is happy with income growth in recession and at a time of social unrest.

But the group has shown caution by increasing the bad-debt provision by R233-million, R21-million going to general provisions and R211-million to specific write-offs.

Expenses

In the group as a whole the banking division improved its contribution by 21% to R271-million.

Finansbank and Cape of Good Hope Bank showed a R4-million fall in net income after a R17-million provision. Syfrets group earnings were static at R20-million after the loss of the contribution from MIBSA, which has been sold, and UAL recovered strongly to contribute R39-million.

CHRIS LIEBENBERG: Cautious

Nedcor's expenses effectively rose by 22%, but Mr Liebenberg says the heavy spend on technology will leave the group with one of the most sophisticated networks in SA.

Benefits will flow from the linking of the Nedbank and Perm systems in the next six months. There has also been big investment in user-friendly automatic teller machines.

Branches have been refurbished and security is costly.

Nedcor's moves are designed to enable the group to take advantage of opportunities as SA moves back into mainstream world trade and to face international competition.

Investec, Fedsure set to clinch deal

SEAN VAN ZYL (58)

SA's two remaining major independent financial services groups, Investec Bank and Fedsure, are set to conclude a R200m share-swap deal and create a new banking and insurance services conglomerate, sources said at the weekend.

The deal — an announcement is expected this week — would result in Investec acquiring about 21% of Fedsure's ordinary issued share capital, worth R100m, while Fedsure would receive a 25% stake, also valued at R100m, in Investec.

Investec already holds a 4% stake in Fedsure, acquired earlier this year, which would result in the life assurer and bank each holding a 25% interest in the other. Investec and Fedsure published a joint cautionary announcement last week which the directors of the companies would not comment on. B/Day 18/11/91

Sources said the equity swap would create a banking-insurance organisation able to compete in the financial services sector, which has undergone extensive consolidation in the past two years.

And market analysts said the equity swap would also make Investec and Fedsure "bid proof" against potential raiders.

Market sources expected Fedsure would sell its 31,5% stake in Saambou to Investec. Investec already holds 13% of Saambou's issued shares which, combined with the Fedsure holding, would result in the bank acquiring almost a controlling interest in

☐ To Page 2

Investec B/Day 18/11/91

(58) ☐ From Page 1

the building society.

Fedsure acquired convertible debentures in Saambou valued at R55m earlier this year in an attempt to ward off what Saambou's management perceived as a hostile bid by Trafalgar Portfolio Managers and the Prestasi Group.

Following approval by Saambou's shareholders for the issue of the debenture stock — which was hotly contested in the courts by Trafalgar and Prestasi — Fedsure later converted the debentures into ordinary shares amounting to 30% of issued share capital. Investec voted in favour at the Saambou shareholders' meeting for the issue of debentures to Fedsure.

Sources said an offer by Investec to buy out Saambou's minority shareholders in order to delist the building society could also be on the cards.

Besides providing Investec with an already established book in the home-loans market, Saambou's R2,7bn home-loan advances would almost halve Investec's present capital to asset requirements — thus freeing capital for future development purposes. Investec's total advances at June stood at R2,1bn.

Soaring shares in bank sector touch new highs

B/Day 18/11/91 (58)

ROBERT GENTLE

THE banks index continued its giddy run last week, with many individual banking shares touching new highs.

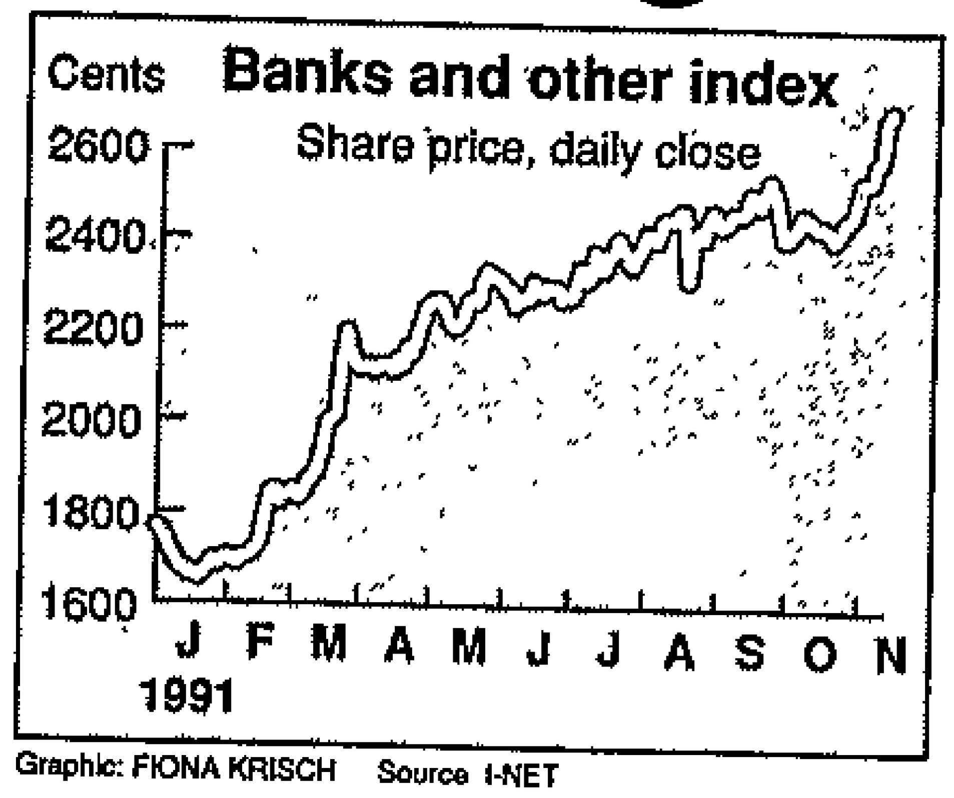
Nedcor, still enjoying market reaction on record results last week, touched a new high of R16 before slipping back to close at R15,75 on Friday.

NBS hit a new high of R11,25 and Amalgamated Banks of SA (Absa) touched a new peak of R10,55 on Thursday before falling back to close at R10,50 on Friday.

Standard Bank Investment Corporation (Stanbic) went to a new high of R53; First National Bank (FNB) was trading at R53 after briefly rising to a peak of R53,50 and Investec was well bid at R20,50, just below its early November peak of R21.

Analysts ascribed the new enthusiasm for bank shares to the fact that the sector had for some months been underrated relative to [illegible]

For example, the price to earnings ratio of the industrial sector was at 14,8 on Thursday, considerably higher than the 10,9 for the banking sector.



Graphic: FIONA KRISCH Source I-NET

Furthermore, industrials have reported pedestrian or disastrous year-end showings while banks have been beating inflation despite setting aside hundreds of millions of rands in bad-debt provisions.

Thus Barlow Rand's main profit-generator C G Smith this week reported earnings per share up only 9% and SA Breweries' furniture arm Afcol saw its earnings per share plunge 47%.

Nedcor, however, boosted earnings per share 20% despite provisions of R233m. FNB's rose 17% despite a R32m taxation pro- [illegible] in bad debt provisions. NBS raised interim earnings per share by 20,5%.

Ed Hern Rudolph's Alan McConnochie said: "Bank shares are increasing in relative value as their vastly superior profit outlook for the next 12 months underpins their performance."

Martin & Co's Richard Jesse said that while banking shares traditionally traded at a discount to the overall market, the present discount was too wide and needed to be corrected.

French Bank adopts higher profile as curbs are lifted

BDay 18/11/91

ROBERT GENTLE

FRENCH Bank of Southern Africa, one of the oldest foreign-held merchant banks in the country, is finally coming in from the cold and raising its profile after years of sanctions-induced discretion.

"The changing political situation and the ending of European restrictions on investments in SA have allowed us to reassert our image more clearly than perhaps we were previously able to," says MD Francis Klein.

While Klein is French, the bank employs only about six native Frenchmen, and barely one in 10 of its 240 staff members has a working knowledge of French.

"We are essentially an international bank and all communications with our worldwide network are in English," says Klein.

French Bank's parent company is Banque Indosuez, the Paris-based banking group active on all five continents in banking services, capital markets, financial engineering and investment services. Banque Indosuez is itself part of the French multinational Groupe Suez, nationalised in 1981 by the incoming socialist government and privatised again in 1987.

French Bank, unlike foreign representative offices in SA, is a fully capitalised deposit-taking institution that subscribes to Reserve Bank capital adequacy requirements. Klein says the capital base now stands at about R85m and is set to reach R100m by year end, with total assets of R1,5bn. By comparison, Rand Merchant Bank has a capital base of R121m and total assets of R2,7bn.

Despite French Bank's relatively small size, Klein says it has carved itself a niche in areas like foreign exchange, trade finance, offshore financial engineering and clearing/settlement of JSE transactions. It also has a London branch.

"We deal with about 80 of the FM Top 100 companies."

French Bank sees itself as having an edge over other merchant banks because of the advantages of belonging to a worldwide banking group providing access to international markets, expertise and competitive pricing — free of the type of risk premiums usually charged by intermediaries.

It has started to tap the client base of the NBS banking group, which is a 39% stakeholder. "We are starting to provide forex operations to some of NBS's larger clients," says Klein.

French Bank made net profits of R7,6m in 1990. Klein says these will increase "well above inflation" for 1991. There were "very few" provisions for bad debt because of the bank's blue chip client base. Return on assets is a comfortable 0,8%, in line with the successful big five banks.

French Bank feels its wider range of services and experience of the local market enable it to head off any competitive threats from other foreign banks.

Klein says there are no plans to change the name of the bank. "What we will do, however, is highlight more prominently our association with our parent company Banque Indosuez."

58

Threat to stop bond repayments

THEO RAWANA

THE SA Housing Trust (SAHT) was trying to contact Vaal civic leaders at the weekend following a threat by the Civics Association of the Transvaal (Cast) that about 240 Sebokeng households would boycott bond repayments.

Cast assistant general secretary Tsepo Sebusi said on Friday the Sebokeng Civic Association had begun boycotting bond repayments because of the unwillingness of SAHT subsidiary Khayalethu Agency to address complaints raised by residents of Sebokeng Zone 16.

"As from the end of this month, the residents will not be paying anything to Khayalethu towards their bonds," Sebusi said in a statement.

He said there were complaints that the houses built for the residents were inferior and repayments "very high".

Other complaints were that:

- Houses were not built to specification;
- Foundations were shallower than specified on architectural plans;
- Roofs were leaking;
- Interior walls and ceilings were unpainted;
- Walls cracked within 10 months of the residents occupying the houses;
- Promises that monthly rates would be reduced on payment of deposits higher than required were never honoured.

Residents were demanding that their houses be repaired and interest rates reduced to a reasonable level.

SAHT head of corporate marketing Mike Fowlds said he could not comment because there had been no official contact with the local civics yet.

"The project managers were taken by surprise and we are not sure what is happening there yet," he said.

High rates 'may be here to stay'

B/Day 19/11/91

ANDREW GILL

INTEREST rates close to 20% could remain a fact of life for years to come, Bankorp warned in its November issue of Econovision.

While lower inflation in 1992 should provide scope for two cuts in lending rates, the accelerating economic recovery foreseen in 1993 — and its pressures on credit creation, imports, the balance of payments and exchange rate — could prevent prime falling below 18%.

Towards 1994, moderate increases were possible from this level, it said.

Next year the economy was likely to be dominated by five important structural features, while undergoing patchy business cycle improvement in the first half and a broader upswing in the second.

The five features were political change, domestic economic co-operation, internationalisation, fiscal expansion and high interest rates.

In response, business should be prepared for ongoing instability while communicating with all political groupings and improving co-operation with labour.

Interest exposure should be limited by strict inventory and cash flow policies, using production facilities to maximum before expanding capacity.

Internationally marketed rights issues for expansion purposes were another consideration.

Business should expand exports and other international involvement and provide for "almost inevitable" increases in certain taxes while finding ways to profit from government's development spending and tax incentives.

Constraints on SA's "re-internationalisation" during 1991 because of the domestic recession on imports and world slowdown on exports should begin falling away next year.

This, the further lifting of sanctions, rising international tourism and the setting up of offices by a growing number of international organisations would add to the "re-internationalisation" trend.

Growth rates of exports and imports should exceed the overall growth rate considerably.

The trend should continue for some years with positive implications for transport, banking, hotel and insurance services. It should also induce fiscal expansion because of increased financial resources at government's disposal.

Bank focuses on returns

ROBERT GENTLE

NATAL-based New Republic Bank, 30% owned by JSE-listed Merhold, has lifted interim attributable income for the half year ending September a slender 2% to R1,29m (R1,26m previously).

A 31% increase in net interest income and a 25% jump in other operating income left total income 19% higher at R11,1m (R9,31m).

The main reason for the solid operational performance not filtering through to the bottom line was a 31% hike in operating expenditure, which included sharp rises in staff costs and provisions for bad debt. This, coupled with interest payable to debenture holders, left interim earnings per share up 2,3% at 22,4c (21,9c), with the interim dividend unchanged at 7c.

New Republic Bank, which operates on full disclosure, finances assets, bonds and loans.

MD Mac Mia said expenditure had been incurred in upgrading the bank's computer facilties and moving and upgrading certain branches.

The bank had continued to focus on return rather than asset growth.

A JSE listing and an increase in the bank's capital base were possible next year, he said. Total shareholders' funds stand at R18,4m and the balance sheet at R380m.

Banks find robbers an elusive foe

Star 19/11/91 (58)

Tighter security may be helping to contain bank robberies in some areas on the Reef, but at what cost to staff and customers in banking halls in less-protected areas? GUY JEPSON reports.

SIX MEN wearing balaclavas burst into the banking hall carrying automatic rifles. Pandemonium breaks out as staff and customers are forced to hand over money and jewellery. A teller is too slow and is casually gunned down.

Dozens of violent attacks on bank customers and staff over the past few years have left little doubt that a scenario such as this could be acted out in any bank in South Africa today.

Less spectacular, but no less demoralising to staff or damaging to the economy, are the hundreds of non-violent bank robberies which take place countrywide each year.

It is perhaps here, where they do not have to contend with mindless, gratuitous violence, that bank security officials and the police have a chance of turning the tide.

Comparative statistics provided by the Witwatersrand police on bank robberies on the Reef last year and this year suggest that a start has been made.

In the period January to December 1990, according to police liaison officer Colonel Frans Malherbe, 30 bank robberies took place on the East Rand, netting R3 492 156.

In the first nine months of this year, bank robbers struck 10 times in the region, escaping with R1 810 129.

The statistics for the West Rand are less encouraging: four robberies in 1990 (R240 439 stolen); five so far this year (R288 493 stolen).

In the Witwatersrand police district (defined by 23 police stations in Johannesburg, Johannesburg North and Randburg) there were 77 bank robberies last year (R9 631 009 stolen) and 44 so far this year (R4 337 288 stolen).

Although still disconcertingly high, the statistics suggest that bank robberies are, at worst, being contained on the Reef, particularly in the Johannesburg area.

Colonel Malherbe argues that more efficient policing and sophisticated security measures employed by banks in the region have eroded the belief among criminals that banks are "soft targets".

"There is definitely a much more efficient service from the SAP. We are looking at the problem now in a strategic manner. The police force has been restructured and various crime-combating units have been established in the past few months.

"Devices such as time-delay locks have also been installed by the banks. When there's a robbery, the guys tend to hit the cashiers — and get less money."

Gerry Christy, First National Bank senior general manager (internal audit and security), agrees that the number of hold-ups at banks decreased this year, but points out that there had been 16 robberies at FNB branches nationally in the past seven weeks.

Contrary to the police statistics for the Reef, robbers who held up FNB branches across the country were also escaping with more money in hold-ups.

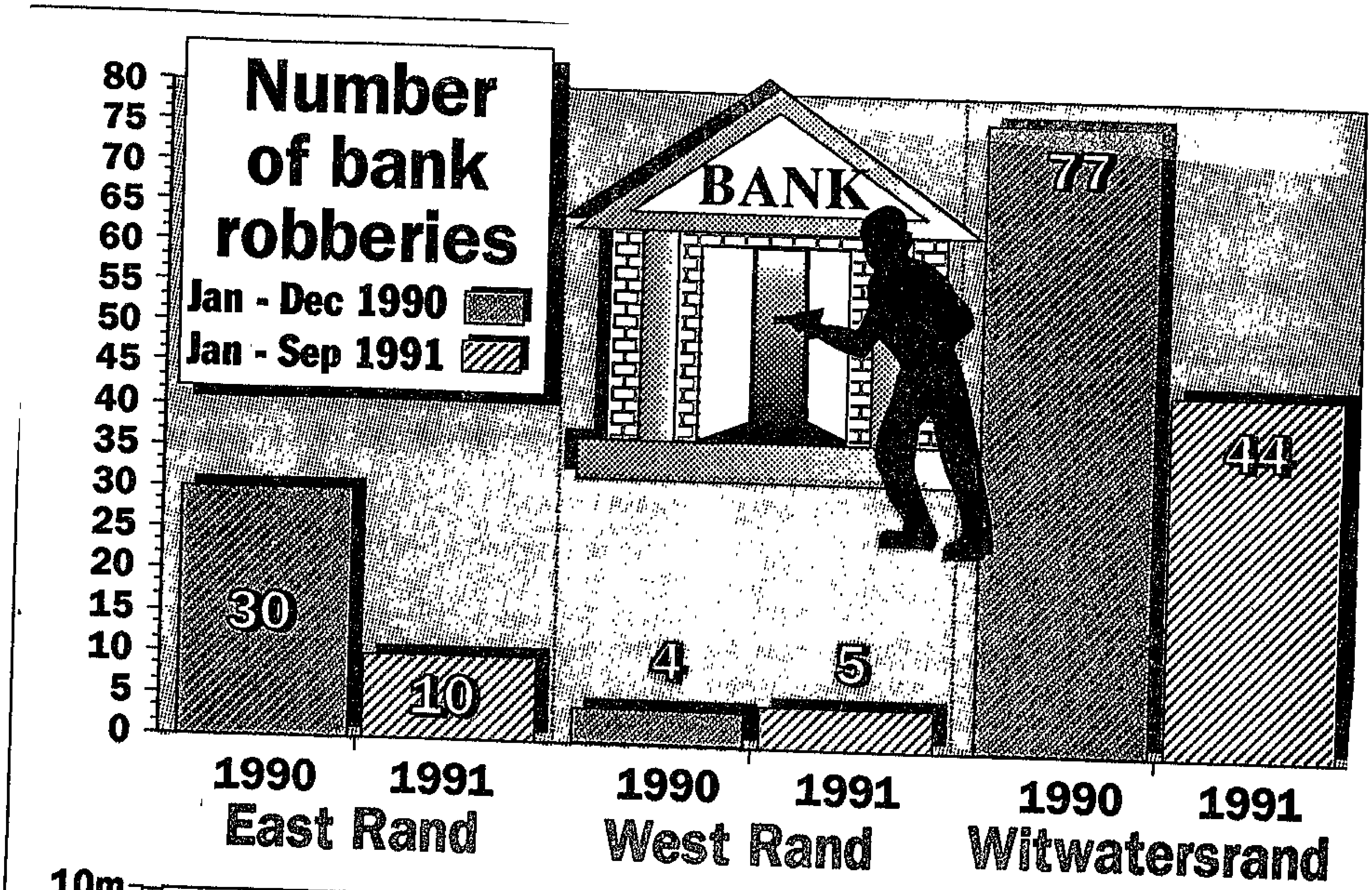
"While we have had fewer robberies than over the last financial year, we have lost much more money," said Mr Christy.

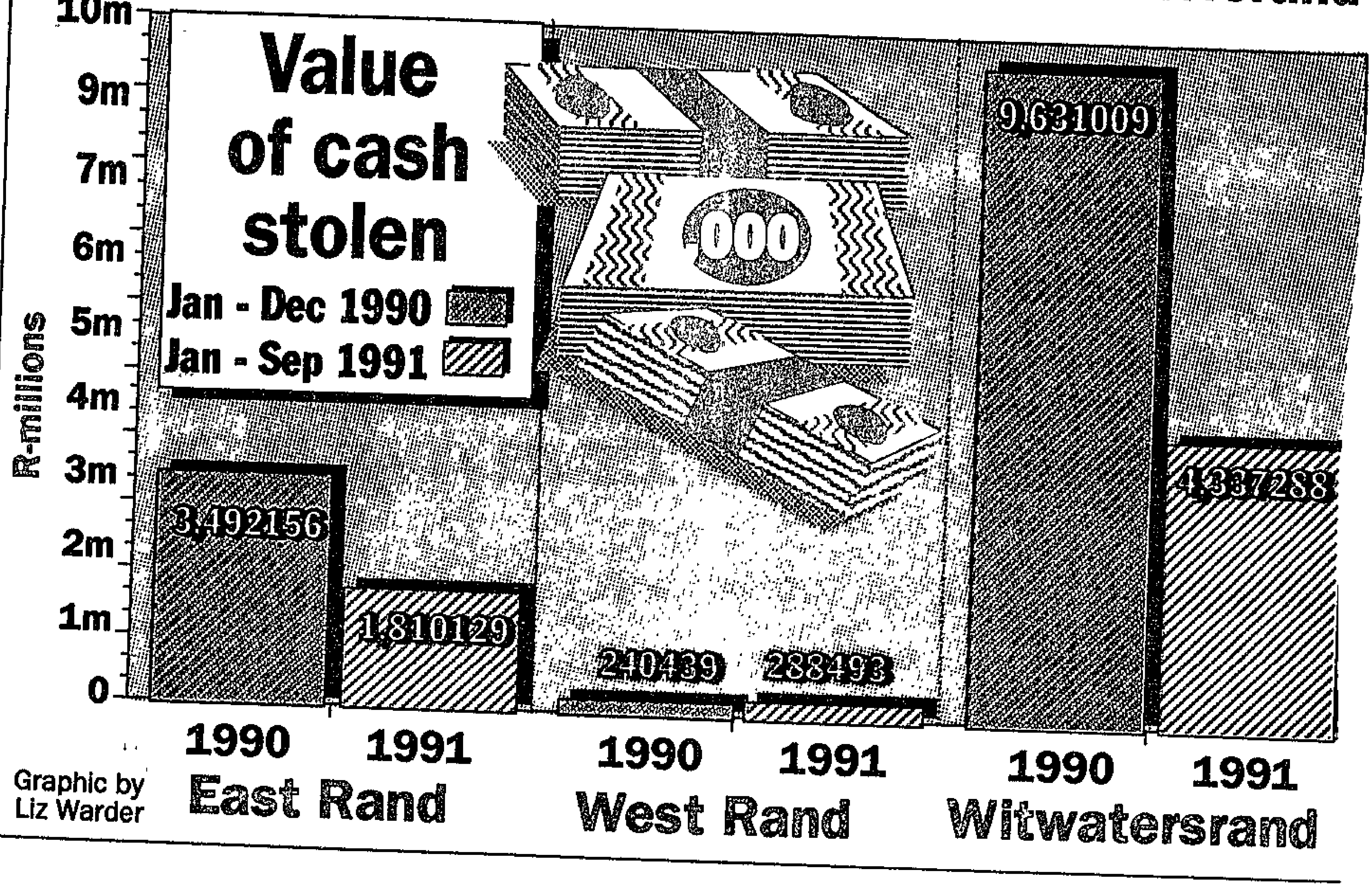
He conceded, however, that this tendency might have been reinforced by two "particularly nasty" robberies at FNB branches this year in which robbers escaped with substantial amounts of money.

Mr Christy also warned that better policing and security in cities was encouraging robbers to strike at banks in less-protected areas.

Ultimately, it was the responsibility of the State to provide the resources to enable the SAP to act decisively to protect bank staff and customers.

"Unless the bad guys are put away, the robberies will continue. The police have actually said that if you make things too hot for the criminals in the cities, they will concentrate on the rural areas. And this is exactly what is happening." □





Graphic by Liz Warder

Liberty takes up all Sun Life shares

Star 19/11/91. 58

Liberty Life's offshore operation TransAltlantic Holdings is to acquire indirectly the remaining 40,2 percent shareholding in UK-based long-term assurer Sun Life it does not already own.

Liberty said in London yesterday an offer of £11,60 per share was being made to minority shareholders, through Rockleigh Corporation, of Sun Life, who collectively own 27,34 million shares valued at £317 million (R1,57 billion).

The offer follows on the joint acquisition by TransAtlantic and French-based Union des Assurances de Paris (UAP) of 3,02 million shares (4,4 percent) in Sun Life in September for £35 million (R173,2 million).

Subsequently, the two companies formed Rockleigh Corporation into which their respective holdings of 18,835 million shares each in Sun Life were transferred, bringing their total holdings to 59,8 percent (40,69 million shares) valued at £472 million (R2,34 billion).

TransAtlantic and UAP have equal voting shares in Rockleigh.

Rockleigh was formed to acquire and manage the investments of UAP and TransAtlantic in Sun Life.

Any acquisitions by Rockleigh of Sun Life shares, including the present offer, will be funded by either UAP or TransAtlantic through cash subscriptions for restricted voting shares in Rockleigh — unless both companies agree to subscribe for an equal number of voting shares.

Liberty said yesterday the holder of the majority of the restricted voting shares in Rockleigh would have the right to nominate the chairman of Sun Life.

The representation of UAP and TransAtlantic on the Sun Life board will be increased from two to three directors each.

In the year to December 1990, Sun Life had a total premium income of about £1 billion, with taxed profits of £32,5 million.

Insurance funds amounted to about £7,3 billion.

In terms of the shareholders' agreement, UAP yesterday also subscribed for 35 million new ordinary shares in TransAtlantic and acquired a further five million shares from Conduit Insurance Holdings at £3,50 per share.

This brings UAP's total shareholding in TransAtlantic, on a diluted basis, to 16,8 percent.

Liberty Life's fully diluted interest in TransAtlantic has been reduced to 55 percent.

First International Trust holds 42,9 percent, while Liberty Life directly holds 12,1 percent.

Last month Liberty said it was making an international offer of 12 million shares to raise some $143,4 million for expansion of its overseas operations. — Sapa.

Bankorp moots R3bn jobs scheme

B/Day 19/11/91 (58)

ANDREW GILL

A 500 000-strong national community service corps should be set up to counter the escalating youth unemployment crisis facing the country, Bankorp said in its November issue of Econovision.

About R3bn (1% of gross domestic product) should be allocated to the programme which could provide basic skills as well as improve the national infrastructure.

Bankorp estimates about 4-million adults could not be accommodated in the formal sector in 1990, 90% of them below the age of 30. This is forecast to increase to 5-million by end-1992 and 8-million by the end of the decade.

The programme would result in an increase of about 3% in government spending, which could be covered by a one to two percentage point increase in VAT and a decrease in expenditure on less productive forms of spending.

Bankorp chief economist Nick Barnardt ruled out increasing the deficit before borrowing or increasing company or personal tax rates to finance the programme.

Barnardt pointed out this was not an entirely new concept but rather a development of other scenarios.

The programme would have to supplement sustained employment growth through dramatic export growth, aiming at doubling non-gold exports every five years.

☐ To Page 2

Bankorp

B/Day 19/11/91 (58)

☐ From Page 1

It could accommodate about 500 000 people at a cost of R3bn and should concentrate on a carefully structured basis ensuring medium- to long-term sustainability.

The corps could incorporate a military service component involving school leavers of all races in a national community service corps providing basic skills.

Cosatu recently proposed special youth programmes which drew on experiences — "positive and negative" — of such programmes in Cuba and Nicaragua, as well as the "New Deal" Civilian Conservation Corps set up for 2,5-million young men in the US in the Depression.

However, it said the programmes should not be militarised.

A Development Bank spokesman agreed with the Bankorp concept but said it should not be militarised.

Bankorp proposed the programme should tackle projects such as low-cost housing, water and sanitary services, countering erosion by building weirs and dams, building and repairing roads, building rural health and literacy centres and upgrading squatter areas.

It could also serve as a basis for small business development.

● See Page 3

Santam profits up despite difficulties

B Day 20/11/91 (58)

LINDA ENSOR

CAPE TOWN — Santam's underwriting profit grew significantly in the year to end-September as a result of remedial action to adjust underwriting practices to parlous conditions in the short-term insurance market.

But the performance came off a low base and with the return of underwriting profit on gross premium income running at only 1,2% — a return of about 3,5% is regarded as acceptable — the short-term insurer still has some way to go on the path to recovery.

MD Oosie Oosthuizen said he was pleased with the operating results considering difficult market conditions.

Across-the-board premium increases in all portfolios together with an increase in the number of policy-holders saw gross premium income break through the R1bn mark, rising 22% to R1,036bn (R849,5m). A final dividend of 19c a share has been declared bringing the total for the year to 33c (27c) on earnings of 71,3c (60c) a share.

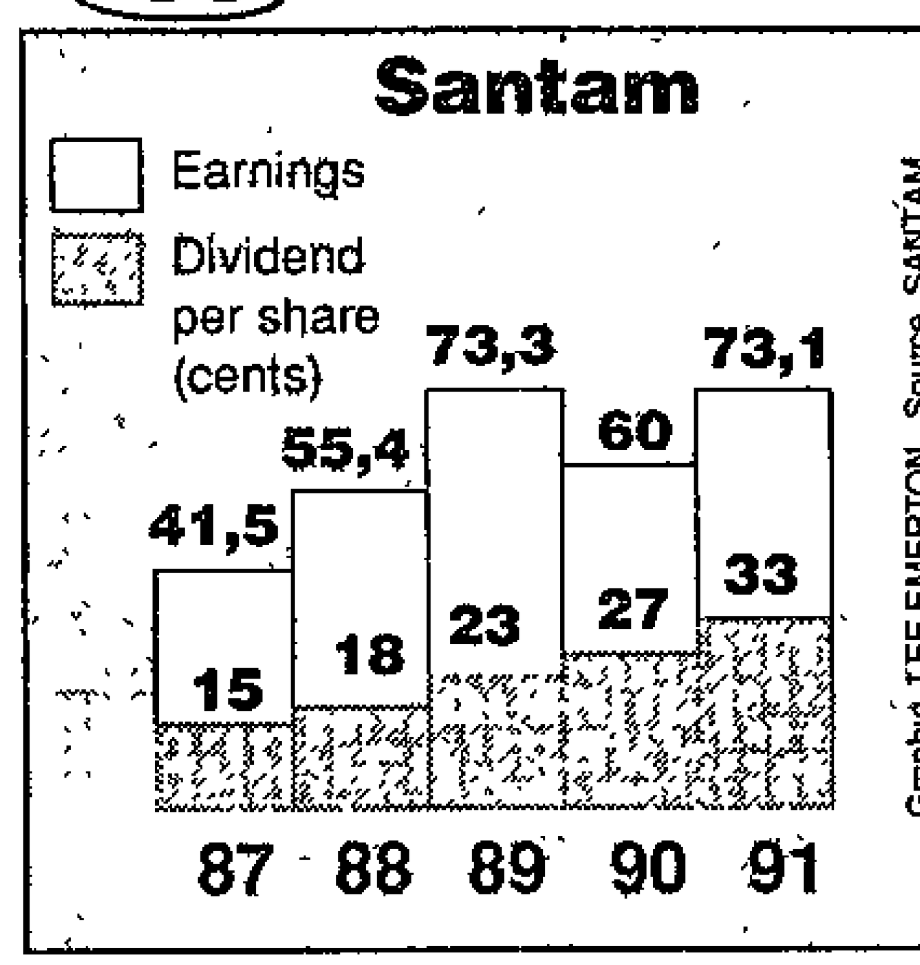
Net premium income rose by 21% to R933,2m (R771,4m) with the pre-tax underwriting profit increasing by 490,5% to R12,4m (R2,1m).

Senior marketing GM Jurie Geldenhuys said there was a slowdown in the acceleration of crime with the exception of motor car theft, the incidence of which continued to rise sharply.

The total number and value of claims did not increase as dramatically as in the previous year — net claims rose by a relatively modest 17% to R651,2m.

However, the results of the commercial portfolio were "disastrous" with underwriting losses being suffered in some areas. The increase in hijackings of inland freight was alarming, Geldenhuys said.

Growth in investment income did not keep pace with other aspects of the performance, rising 13,7% to R76,5m



(R67,3m). Senior finance GM Koos Van Tonder said substantial investments were made in equities and while this generated a handsome capital growth, the growth in investment income slowed down. At year-end about 34% of Santam's investment resources were invested in listed shares, with the company maintaining a high level of liquidity.

The bottom-line result was a 19,2% increase in after tax profit to R50,9m (R42,7m).

Oosthuizen said the new financial year had started off well and he forecast a growth of about 20% in gross premium income in the current year.

Geldenhuys added the first month of this year showed the benefits of remedial steps taken and he was optimistic the 1991 year would show further improvements in underwriting performance. However, he cautioned the commercial portfolio could continue to be a problem.

The company begins the year in a much stronger financial position — the solvency margin has improved to 43,1% (34,9%) and shareholders' funds have been boosted by 49,5% to R402,6m. The technical reserves have also risen 20,2% to R480,4m.

New service aims to help the buyer

B\Day 20\11\91

(58)

Reports by
PETER GALLI

A NEW property service company, Marksman Property Services, has been established primarily to cater for and look after the interests of the buyer rather than the seller.

Director Richard Batchelder says: "Agents are employed by the seller of a property. Marksman offers a service that looks at the prospective deal from the buyer's perspective."

Marksman is offering a consultancy service to which the commercial, industrial and residential property buyer can go for advice and information. It will cover the problem areas to be aware of before an agreement is signed, and what buyers' rights are.

"Services offered include a structural analysis of the property, a town planning evaluation, access to the title deeds and official plans as well as an analysis of the offer document," Batchelder says.

On the commercial and industrial side, finance and feasibility studies can be carried out. "Our service attempts to cover all issues that can have a material impact on the value or utilisation of a property from a buyer's perspective".

In addition, Marksman is looking at finding existing properties for potential buyers but, should this not be possible, playing a development-type role as well.

Depending on the level of service required, buyers will be charged a professional hourly rate of around R175 for consultations, or a percentage of the purchase price for property acquisitions, he says.

"Many people are unaware of their rights and what to look for when buying a property. Our service can either point clients in the right direction and identify areas they need to be aware of, or evaluate the property and source the required documentation," Batchelder says.

A back-up team of professionals including an architect, lawyer, accountant, engineer and quantity surveyor has been set up.

"A recent Markinor survey showed that the public rated estate agents low on the list of people to be trusted. This service will hopefully help change this.

"Offering a buyer the option of an impartial evaluation of the deal will make him feel more secure and, we hope, assist in changing the image of estate agents."

However, the service has not been particularly well received by estate agents, who seem to feel there is no need for it.

Future plans include a consultancy service for people wanting to sell their own homes without working through an agent.

FNB to open high-tech dealing room in January

ROBERT GENTLE (58)

THE most sophisticated dealing room in the country, a high-tech environment costing between R15m and R20m and boasting state-of-the-art technology, will become operational at First National Bank's new Bank City headquarters soon. B/Day

FNB group treasurer Ken Russell said in an interview that the technology represented a new stage in dealing room development and would carry FNB forward over the next decade. 20/11/91.

"We are getting in at the right time," he said.

Russell said the dealing room contained a delivery platform which allowed dealers access to Reuter, Telerate and different PC and mainframe applications on a single screen.

The system would have two of the latest Racal recorders, which permit the simultaneous recording of up to 256 different lines. Fibre-optic based dealer boards would enable dealers to establish their own personal configurations.

Other features of the high-tech dealing room, which will initially cater for 120 trading positions, include ergonomically designed desks with built-in power points, non-reflective lighting, a raised floor with docking points and white sound for acoustic purposes.

"We believe this gives FNB the most sophisticated dealing environment in the country," said Russell.

The switchover is scheduled for late January.

"It'll probably take place on a weekend," said Russell. "They'll move out of the old dealing room on Friday and be ready to start working in the new one on Monday."

Rival banks like Standard Bank or Rand Merchant Bank also have modern dealing rooms boasting many of the same features. However, FNB's is expected to be the most up to date, if only because it is the most recent. "At the end of the day, it's not the equipment you have but how you use it," said a banker.

Banks 'raking in illegal millions'

B\Day 20\11\91 (58)

ANDREW GILL

BANKS are raking in millions of rand "in illegal profits" by overcharging clients on accounts and contravening the Usury Act, according to a recent survey.

However, despite many cases being forwarded to the offices of attorneys-general, not one prosecution has taken place since the Act's introduction in 1968.

The survey, by Wespro Business Consultants, said that more than R5m was charged illegally by banks on more than 90% of the 1 300 overdraft accounts surveyed. Wespro said banks were contravening the Usury Act through various actions.

Wespro MD Jaap Spelt warned that there were many other cases involving other forms of finance.

Unsuspecting prime clients were charged maximum rates of interest on their overdrafts. Also, rates were often increased or adjusted without the prior notification and agreement of the client, which was a transgression of Article 10.6 of the Act. Other cases included rates not being reduced when prime rate came down.

Cases had also arisen where the rate charged exceeded the maximum rate stipulated by the Usury Act. In terms of the Act, amounts up to R6 000 could attract a maximum rate of 32%, and between R6 000 and R500 000 the rate was 29%.

Clearing Bankers' Association executive director Nico Van Loggerenberg called on Wespro to substantiate the claims so they could be investigated. He said the organisation was the first to admit that mistakes were made, but believed all of them could be solved.

Consumer Federation CE Karel Gevers said in a letter to the Finance Department that financial institutions were illegally overcharging clients by hundreds of millions of rand.

In its reply, the Finance Department said it agreed with the contents of the letter.

The overcharging included bonds, administration costs, inspection fees and overdraft accounts, Gevers said.

Spelt said he was investigating bonds, instalment sales and lease agreements for overcharging.

One of the reasons for the overcharging, said Gevers, was that the SA public did not understand consumerism.

It was strange, he said, that after banks had ignored certain aspects of the Usury Act, it was covered up with retrospective legislation.

Van Loggerenberg said he did not believe any of the overcharging was intentional.

"The banks can't afford to have that kind of taint against them."

Gevers questioned whether prime plus 1% could be lifted to prime plus 10% by accident.

Santam (58) passes R1-bn mark

year 20/11/91.

Finance Staff

Premium income for short-term insurer Santam has for the first time in its history passed the R1 billion mark on the back of an improvement in the underwriting surplus.

Gross premium income for the year to September rose 22 percent to R1,037 billion (last year: R849,5 million).

Net premium income rose 21 percent to ~~R933,2 million~~ (R771,4 million), while the increase in net claims rose 17 percent to R651,2 million (R556,7 million).

Pre-tax underwriting profit was R12,4 million (R2,1 million).

Earnings per share rose from 60c to 71,3c, while a higher final dividend of 19c (15c) brought the total for the year to 33c on an unchanged dividend cover of 2,2.

Santam's investment income increased 13,7 percent to R76,5 million (R67,3 million), while net taxed profit was R50,9 million (R42,7 million).

MD Oosie Oosthuizen says the balance sheet has been strengthened with total assets, at market value, rising 31,3 percent to R931,9 million.

The insurance fund rose 20 percent to R480,4 million, while the solvency margin increased from 34,9 to 43,1 percent.

Mr Oosthuizen says the new financial year has started well, with the company looking for growth of about 20 percent in gross premium income — a real growth of four to five percent.

Wentzel testifies on dairy policy disputes

B|Day 20|11|91

+ milk

LINDA ENSOR

CAPE TOWN — Former Agriculture Minister Greyling Wentzel admitted in the Cape Town Supreme Court yesterday that he had had repeated disagreements with the Dairy Board over policy during his seven years in office in the 1980s.

Wentzel was giving evidence in the civil action brought by Homestead Independent Dairy against the Agriculture Minister, the National Marketing Council and the Dairy Board to have the milk levy system declared null and void because it is unfair to small independent milk distributors.

He agreed he had tried repeatedly to persuade the board to lower the level of subsidies and levies but the board had been reluctant. It saw its role as being to remove milk surpluses and maintain industry stability through subsidies to butter and powdered milk manufacturers.

Wentzel said in 1988 and 1989 he had had to take the "drastic step" of refusing to approve Dairy Board applications for increases in subsidies on butter and butter fat on the grounds they were unjustified.

In March 1988 the board was informed that in the light of the prevailing supply situation of milk and expected shortage of butter, there was no justification to grant R26,8m for butter and butter fat subsidies.

Wentzel said in court the Agriculture Department felt butter should not be subsidised too much as this would benefit certain sections of the industry at the expense of others.

Allegations were made in court that about three quarters of Dairy Board representatives had links with dairy manufacturers and co-operatives.

Homestead's legal representative Advocate W Thring suggested the reason the Dairy Board was reluctant to lower subsidies was because it was not in the interests of those sitting on the board.

Wentzel agreed it was possible this was the reason for the tardiness and admitted there was always the danger manufacturers' interests would hold sway on the board.

Another source of conflict between the department and the board was the use of the stabilisation fund. Thring put it to Wentzel that the board wanted to use the fund for subsidies but Wentzel wanted it used for advertising of milk products which would have benefited the whole industry. Wentzel agreed this was his long-term view.

Bank 'breached confidentiality'

B|Day 20|11|91

MARCIA KLEIN

THE dispute between sports sponsorship company Tytherley Investments and the SABC and Absa has taken a new turn, with Tytherley director Peter Mancer claiming that Volkskas handed over confidential documents on his financial affairs to Allied Bank without authority. (58)

Mancer and Allied have been in dispute over sponsorships Tytherley handled for the bank before Allied merged with Volkskas and United to form Absa.

Allied's MD Bob Aldworth and Koos Wepener, Absa's senior legal consultant, would not discuss the alleged disclosures with Business Day.

Mancer said that before Absa's new operating divisons were created, Volkskas released confidential information on his financial affairs — including bank accounts, foreign exchange and other private information — to Allied.

Mancer and his attorneys said they discovered the disclosure when Allied inadvertently annexed private documents to a legal reply to Mancer. The reply concerned Mancer's application for R1,5m owed to him by Allied Bank for his part in Allied's promotion of the BOC round-the-world yacht race. Mancer said the attached confidential documents constituted a breach of confidentiality.

Dan Rosengarten of law firm Bell, Dewar & Hall said yesterday that, in drafting its affidavit, Allied Bank had included various documents obtained from Volkskas, which included bank statements, applications for Reserve Bank approval and other documents which dealt specifically with Mancer or his company's private dealings with Volkskas, and this constituted a breach of the banker-customer relationship.

Blueprint for new style of education

MC 56 21/11/91

PRETORIA. — Languages should be offered at advanced, ordinary and basic levels, says a recommendation made in a discussion document released by the Committee of Heads of Education Departments (Ched) here.

And only five subjects should be written in the final year of secondary study.

Ched chairman Dr Johan Garbers said the document, which follows the Education Renewal Strategy document released in June, was a model which could form the basis for the further development of a curriculum for primary, secondary school and technical college education.

Proposals include:

- Nine years of general formative education — the first seven compulsory;
- New exit points from formal education with certification;
- A shift of emphasis from academic-oriented education towards vocation-oriented and/or vocational education;
- Making education relevant for all learners;
- Rationalisation of the number of subjects and elimination of overlapping to make education more affordable;
- A new approach to language lessons, taking into account the multilingual country;
- An emphasis on technology;
- Teaching entrepreneurship and productivity;
- A contribution toward satisfying the need for scientists, engineers and technologists;
- Promoting formal education and training outside school;
- Only five examination subjects in the final year of secondary school; and
- Uniform naming of the education year levels from Grade 1 to Grade 12.

Dr Garbers said the development of the model, which the government has not yet "adopted a position on", was being released for comment.

The Democratic Party has welcomed the curriculum model.

Education spokesman Mr Roger Burrows said: "The particular emphasis on a shift towards vocation-oriented education, and especially the relevance of subject content to societal needs, is to be welcomed.

"We would welcome particularly the change in language instruction policy and the reduction to one compulsory language for matric." — The Argus Correspondent and Sapa.

Affordable quality homes needed

Sowetan 21/11/91

By JOSHUA RABOROKO

AFFORDABILITY is the key factor in the present property market and developers will have to adjust to demands for quality homes at prices which the average hard-pressed South African can cope with.

Competition for the available market is hotting up and developers are seeing for the first time the mass housing builders moving into the market for individual homes with their ability to shave margins to the bone and provide a reasonably priced quality product.

People would prefer to buy a home rather than rent one. The suppliers of housing therefore have to make it possible to do precisely that by providing housing at prices that are closely comparable with the cost of rented accommodation.

These are the views of black and white developers, who warn that the nature of the market has changed.

Mepco developers' managing director Mr JC Mtshali said developers must realise that goalposts have shifted. The volume of sales were now at the middle to lower end of the market and they have to provide for that need accordingly.

Another developer said the danger was that in the process, South African property development would evolve into a series of dreadfully uninteresting, tacky little box-like homes, with dreary [illegible] systems [illegible]

UAL Merchant Bank bounces back again

(58)

B/Day 21/11/91

ROBERT GENTLE

UAL Merchant Bank, part of the Nedcor banking group, has boosted taxed profits for the year ending September by a solid 57% to R39,1m (R24,8m last year).

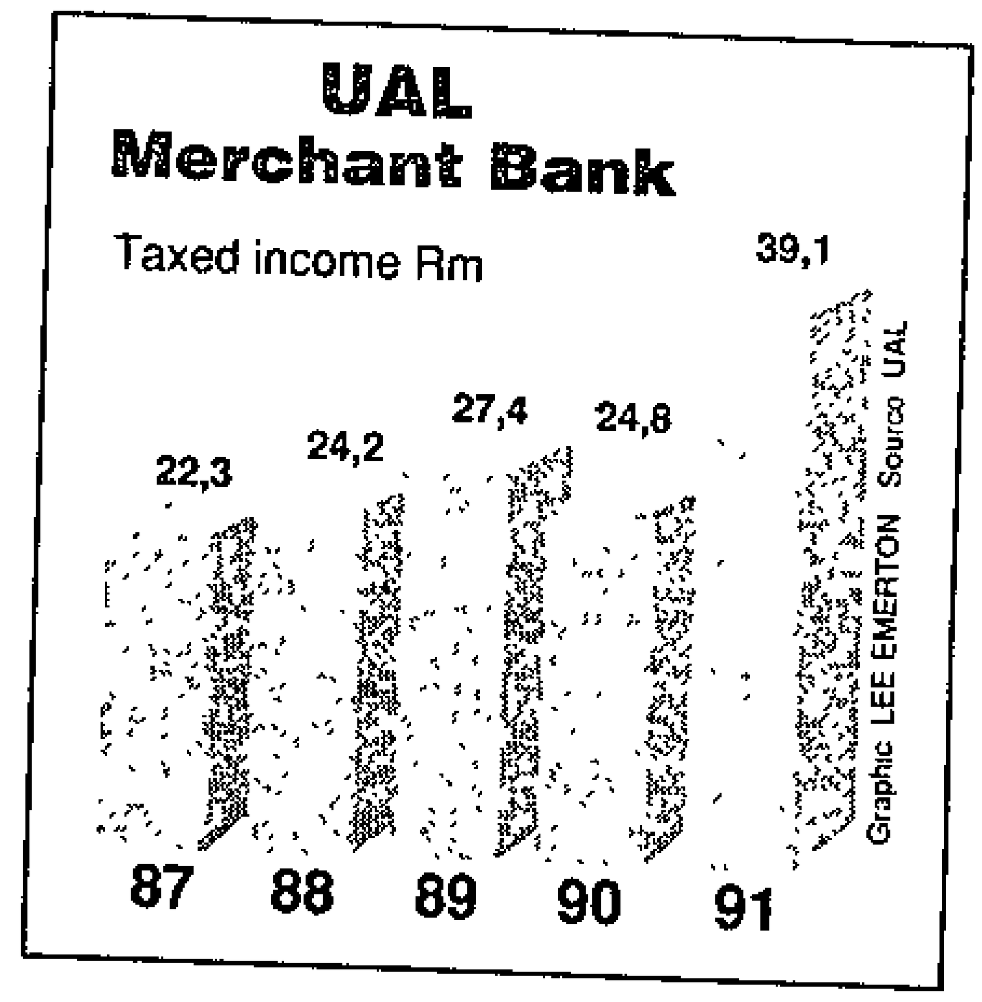
The results came off a low base after last year's taxed profits were hit by a R15m write-off because of a loss stemming from a counter-party failure on a major forex deal.

MD Geoff Richardson nevertheless expressed satisfaction at this year's results, which he said translated into a return on shareholders funds of 36% and a return on assets of 1,4% — both figures being comfortably above industry averages.

The Investment division had "a good year" on the back of the buoyant equity market. Funds under management now stood at more than R14bn.

The International Treasury division maintained its "significant share" of the volatile and active finrand markets, while several large projects — like the Lesotho Highlands Water Scheme and the Sua Pan soda ash project in Botswana — came to fruition.

The highlight of the securities division, Richardson said, was the structuring of a low cost housing financing scheme called CHIPS (Collateralised Housing Investment Paper) on behalf of the Independent Development Trust. A total of R120m had been secured from the institutional market to date.



The bank's surplus statutory capital position, on a fully phased-in basis, stood at R42m. This demonstrated the low risk applicable to the bank's asset mix, said Richardson.

Total assets rose from R2,1bn to R3,5bn, with growth coming largely from short-term opportunities in the money markets. This is reflected in the balance sheet, which shows cash and short-term funds up from R719m to R2,3bn.

Richardson said these opportunities would not necessarily continue in the long run.

He described the outlook for the year ahead as problematic. "Continued high nominal interest rates, an equity market which appears not to offer value, and economic activity likely to do little more than bottom out, combine to produce an environment in which merchant banking will not easily flourish," he said.

EXECUTIVE SUITI

Insurance group plans rights issues

B/Day 21/11/91 (58)

SEAN VAN ZYL

ANGLOVAAL Insurance Holdings (Avins) — which houses the group's life interests of AA Life and Crusader Life — indicated in its year-end report to June that the two life offices were finalising terms of rights issues of R26m and R20m respectively.

A statement released by the Anglovaal group said the decision to raise new capital resulted from the strong growth in new business written by the two life companies over recent years. It added the new capital would enable the life companies to reduce their recourse to reinsurance financing to offset new business strain.

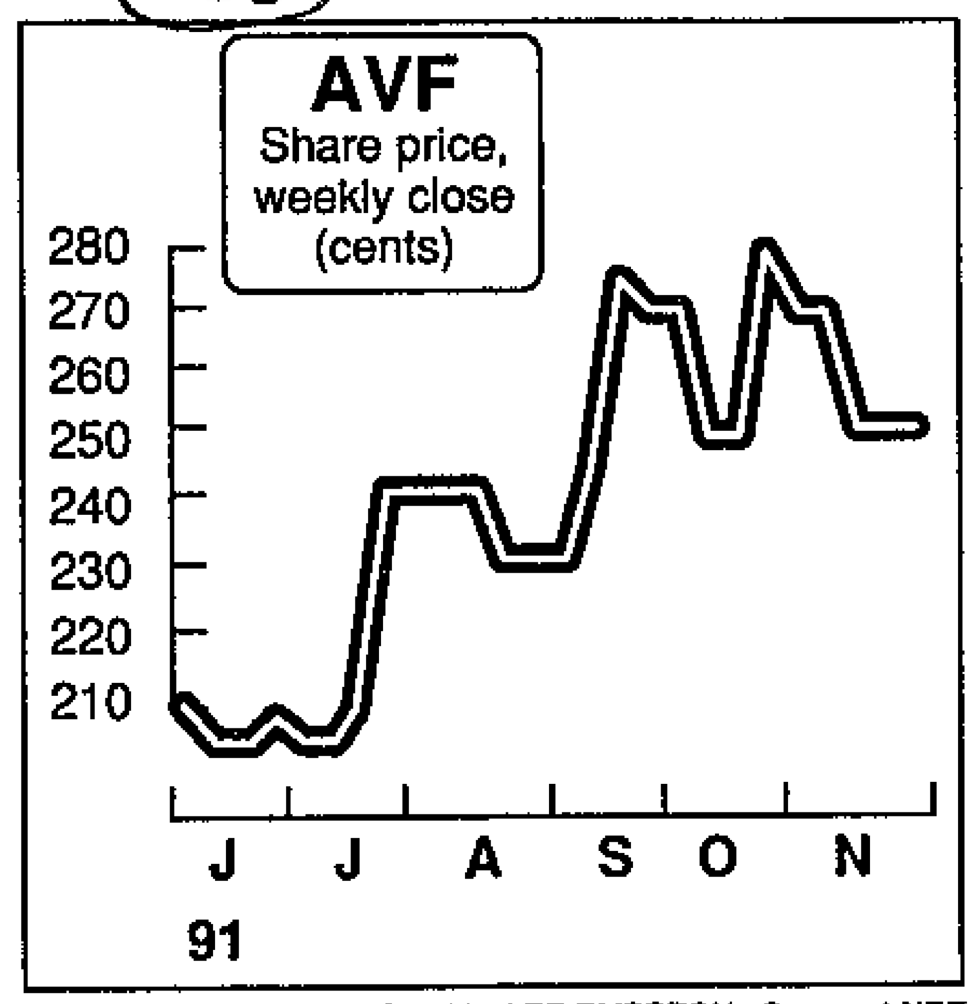
Avins also plans to hold a rights offer — the amount has not been disclosed — to enable it to follow its rights in the two companies. Further details regarding the rights issues will be announced shortly, the statement said.

Avins' net premium income for the 18 months ended June climbed more than threefold to R246,3m, compared with the R57m achieved in the previous 12-month period ended December. The June 1991 results reflect the combined income of AA Life and Crusader Life.

Avins taxed income for the period rose to R8,2m (R4,1m)

Of that amount R8,1m (R1,6m) has been allocated for dividends after outside shareholders' interest.

Avins' holding company AVF Group reported taxed earnings of R6,41m (R6,46m) for a 14-month period ended June. An additional R2,1m, resulting from the share of associated company earnings less outside shareholders' interest, boosted AVF Group's total income available for dividends to R7m (R18,5m).



Graphic: LEE EMERTON Source I-NET

Crusader Life achieved strong growth in new business with net premium income rising by more than R118m (December 1989: R57m) for the 18-months ended June — reflecting annualised growth of 39%.

AA Life, in turn, reported a 40% increase in net premium income to R127,5m from R90,5m for the 14-month period.

Crusader Life declared an annualised 20% increase in its dividend to 26,7c (14,3c) for the period.

The statement noted that AA Life had not declared a final dividend for the year.

As a result, Avins and AVF Group have decided not to declare final dividends, the statement said.

COMPANIES

Bankorp dividend 'to stay 25c'

BANKORP Holdings aimed to maintain its dividend at 25c a share for the current and next financial years, executive chairman Piet Liebenberg said. (58)

"We will continue ... with 25c," he said, commenting on prospects for the coming two years in a presentation to the Investment Analysts Society of Southern Africa yesterday. B|Day 21|11|91

"I would like to have that uncertainty out of the way," he said.

The group paid a 25c dividend for the year to June 30 1991, when it reported a return to profit equal to earnings a share of 15.9c versus a 267.5c loss the year before.

Liebenberg warned yesterday it would take three to five years to achieve objectives of restoring profitability, returns to shareholders, and becoming one of the country's top banks.

Despite its predicament, attributed largely to imprudent asset growth of some 40% in 1988 and 1989, which resulted in provision for doubtful advances of R296m and R284m respectively, he said: "We are not concerned (now) about size — we are concerned about quality."

The target over the next three to five years was to improve the quality of the debtors book to the extent that bad debts would be reduced by about half, or R150m.

In efforts to improve asset management, the group intended not only to upgrade the quality of its book but also pricing.

He said leading assurer Sanlam held 85% of Bankorp shares, and controlled portfolios with a significant further interest.

Assuming current relevant legislation remained in force in five years time, it would have to reduce its stake to 49%.

By then the group would be healthy, and it should be possible to place those shares locally and abroad, he added.

He envisaged that total assets, which were reduced by 8,5% in the 1990/91 financial year, would in the current six months slip further to a level 14% in total below the R30bn posted at the end of the 1989/90 financial year. — Reuter.

Actuarial liability dents Avins' performance

By Sven Lünsche (58)

Star 21/11/91.

Anglovaal Insurance Holdings (Avins) has set aside R40 million to cover an underprovision for its actuarial liabilites in the 18 months to June.

Avins is the holding company for insurance groups AA Life and Crusader Life and is controlled by Anglovaal financial subsidiary AVF Group.

Avins and AVF yesterday reported their results to end-June, the first since the groups were restructured to include the investment in the Board of Executors (BoE) and the acquisition of Crusader Life.

Avins results were adversely affected by the R40 million provision mainly relating to problems at AA Life.

While AA Life's net premium income rose to R127,5 million in the 14 months to June from R90,5 million in the previous financial year, "the consequent new-business strain — particularly for single-premium business — and the high level of expenses, had a negative impact on results, made worse by investment performance," the directors state.

"Consequently, the management of the company's investments was placed with BoE and already this has resulted in considerable cost-savings."

The board says that since the year-end, AA Life has received an independent actuarial report, which indicates that there had been an underprovision for its actuarial liabilities.

"Although the company has met its statutory obligations, the board decided to strengthen the life fund by transferring R40 million from shareholders' funds."

AA Life, Avins and AVF are passing their dividends.

Crusader Life boosted its dividend to 26,75c a share in the 18 months to June (14,38c in financial 1989) after boosting net premium income from R57 million to R118,6 million.

AVF taxed profits fell slightly from R6,5 million to R6,4 million as a result of Avins lower contribution.

However, AVF received R2,2 million from BoE — its portion of profits since the investment six months ago — after BoE showed a 24 percent rise in earningsr.

The board is finalising the terms of rights issues of R26 million and R20 million for AA Life and Crusader Life respectively, to be used to reduce recourse to reinsurance financing.

As a result of these issues, Avins and AVF will proceed with rights offers to enable them to follow their rights.

UAL shows record growth

Star 21/11/91

Finance Staff (58)

UAL Merchant Bank has reported strong results for the year to end-September, with taxed income up 57 percent to R39,1 million.

This is 43 percent above the previous highest profit level reached in the year to September 1989 and gives an adjusted return on average shareholders' funds of 36 percent, says managing director Geoff Richardson.

Mr Richardson says UAL's growth in total assets was a major feature of the year, rising from R2,1 billion to R3,5 billion.

"Demonstrating the low risk applicable to the mix of its assets, UAL continues to run a surplus statutory capital position on a fully phased-in basis. At year end this surplus was R42 billion."

The investment division had a good year, helped by the buoyant equity market, ending with total funds under management exceeding R14 billion.

The outlook for the year ahead, however, was problematic, Mr Richardson said.

"Continued high nominal interest rates, an equity market which appears not to offer value and economic activity likely to do little more than bottom out, combine to produce an environment in which merchant banking will not easily flourish.

"Our aim is to show an increase in profits, but this will not be achieved without a reasonable financial environment," he said.

Good Hope Bank lifts profits by 59%

58

Finance Staff Star 21/11/91.

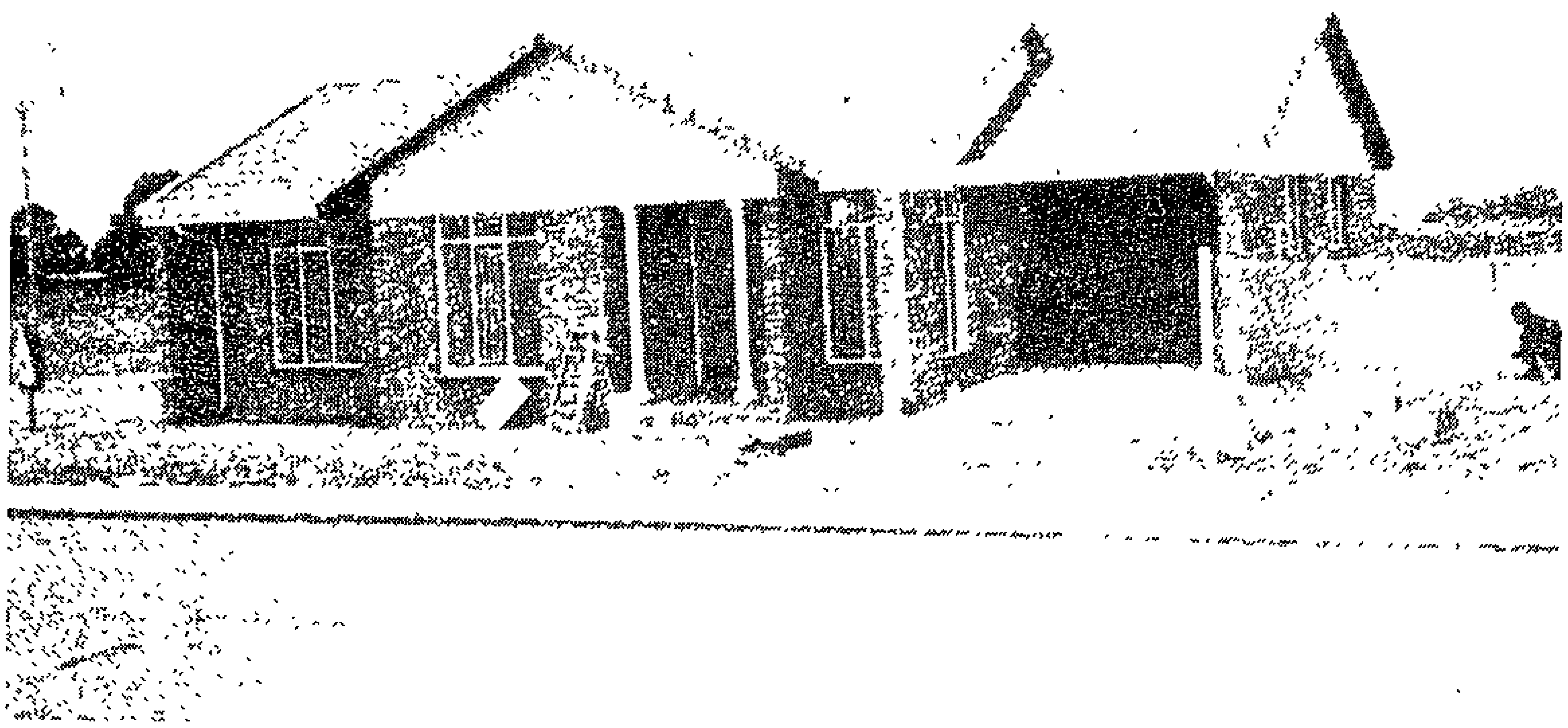
Cape of Good Hope Bank lifted taxed profits by 59 percent to a record R13,1 million (R8,2 million) in the year to September.

The bank, part of the Nedcor group, boosted total assets by 15,2 percent to R892 million and capital and reserves by 29,5 percent to R41 million.

MD Ron Rundle says the commercial and industrial property division made a major contribution to profits.

"The property boom in Cape Town enabled the bank to improve its commercial lending base," he says.

PROPERTY



Black building constructors and developers have complained that financial institutions often turn down applications for housing loans, despite the crisis surrounding housing shortages.

Nedcor to enter property market

58

Sowetan 21/11/91

By JOSHUA RABOROKO

THE new-look giant financial institution, Nedcor, has promised to enter the property and equity markets more vigorously.

This is the basis of a longterm strategy by the group - which controls assets of R41,6 billion - to make its large capital base work aggressively.

At a media conference chief executive Mr Chris Liebenberg said he hoped it would provide the solution to demands that banks give shareholders fair returns in the heavily traded and highly competitive financial services market.

Banks face a challenge to maintain profits in the face of their need to meet the Deposit-Taking Institutions Act's requirement to increase the ratio of capital and reserves to risk-adjusted assets to 8 percent by 1995 and also the levy introduced in place of VAT which can increase the effective tax rate to slightly under 60 percent.

The entry by the bank into the property market is likely to cast away suspicions and criticism - mostly from blacks - that banks regard them as risk factors when asking for finance in order to build homes.

Liebenberg said the bank had many opportunities to flex its muscles. The first opportunity will come in property where it had a portfolio worth more than R450-million before revaluation.

The bank's senior executive, Mr Glen Smart, has been given responsibility to set up a property division to manage investment.

At the same time the bank will look for strategic investments in quoted shares, which have consistently provided returns higher than inflation.

Liebenberg promised: "We will not rush in. We will test the water and will enter the market smoothly."

However, the bank has continued the trend of steady improvements in successive six month periods. Income increased to R344-million, translating to earnings of 185c a share.

Revaluation of Nedcor's property holdings could take the group above the Deposit-Taking Act's final 8 percent requirement, but Liebenberg's target is more conservative.

But the group has shown caution by increasing the bad debt provision by R21-million going to general provision and R11-million to specific write-offs.

Japanese brokerage establishes SA links

B/Day 21/11/91 (58)

LESLEY LAMBERT

NOMURA Securities, the largest of Japan's four big brokerage firms and the biggest financial services institution in the world, visited SA this week to establish financial links and apparently to consider the possibility of future debt issues here.

Japanese consul-general in SA, Masatoshi Ohta, confirmed the visit yesterday, saying a Nomura delegation had met "some sectors in government" during a three-day stay in Johannesburg.

The delegation was led by London-based Nomura International plc president, John Howland-Jackson, who was accompanied by leading officials from the group's corporate finance and capital market divisions in Tokyo and London.

They met the capital market divisions of public utilities, such as Eskom and Transnet. It is understood they also had discussions with the Independent Development Trust and the ANC.

Nomura's visit is regarded as highly significant. It is the first Japanese financial institution to visit SA since Japan lifted virtually all sanctions last month and it could become a major international player on the local market. The visit was preceded earlier this year by other major Japanese brokerage firms, Daiwa Securities and Yamaichi Securities.

Nomura has 150 offices in Japan and 59 in 23 countries. Last year its assets in custody amounted to \$450bn — massive compared even with Japan's biggest banking group, Dai-ichi Kanyo, which has deposits totalling \$305bn.

As an example of its market share, Nomura was the book-runner for almost 62% of all Tokyo-registered, yen-denominated Samurai bonds last year while it underwrote 97% of all foreign stock investments registered in Tokyo during the same period.

But its fortunes took a knock this year,

☐ To Page 2

Japanese broker

B/Day 21/11/91 (58)

☐ From Page 1

as a result of a series of scandals and a stagnant stock market.

First, the Japanese finance ministry placed a two-month ban on Nomura's underwriting of government bonds after disclosures that it had broken the law with an excessive sales campaign for shares of a railway firm in 1989. The ministry also ordered Nomura to suspend stockbroking business and investment research at 79 of its offices.

Then, Nomura and the three other giant Japanese securities houses — Nikko Securities, Yamaichi Securities and Daiwa Securities — were asked to restrict their corporate divisions' business for periods of one to three weeks' as punishment for improperly covering favoured clients' investment losses in the year to end-March 1991.

Nomura recently reported a 64% decline in its interim current profits.

Southern reports 20% earnings rise

(58)

B/Day 22/11/91

SEAN VAN ZYL

SOUTHERN Life increased attributable earnings 20% to R68,3m for the six months ended September.

Earnings came in at 40,5c (1990: 33,8c) a share and a dividend of 27c (22,5c) a share has been declared. Dividend cover remains at 1,5 times.

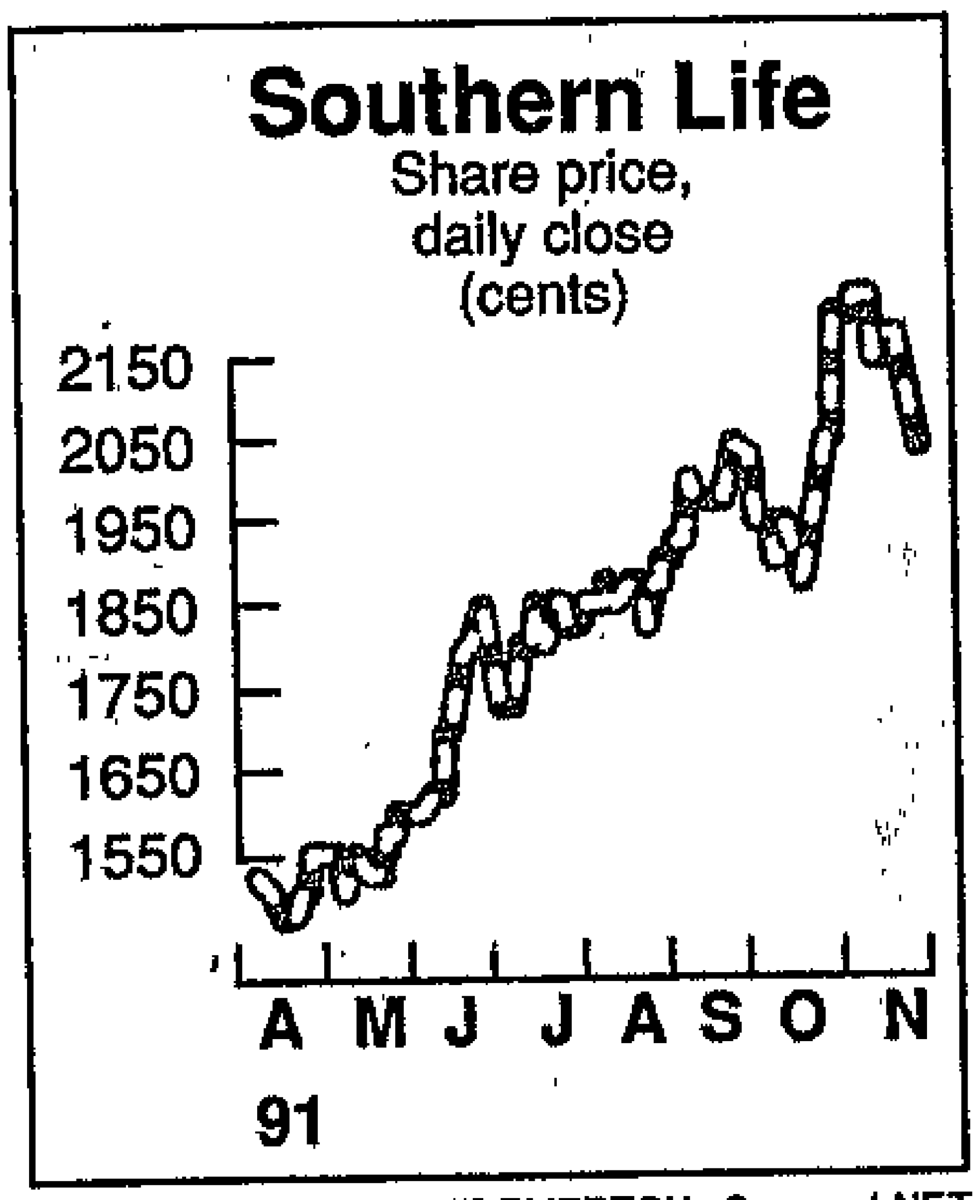
MD Jan Calitz said Southern had, as was its practice, set the interim dividend and earnings figures at 50% of the total of the previous financial year.

The assurer achieved an 8% increase in total income to R1,49bn (R1,38bn) on the back of steady growth in investment and net premium income. Net premiums written for the period showed modest growth to R953,2m (R898,5m), while investment income, derived from dividend and interest earnings, increased by 11% to R542,5m (R488,9m).

New business written for the six months came to R372m, of which single premium business accounted for R190m and recurring new premium income for R182m.

Southern's new business for the 1991 financial year totalled R863m, compared with R372m in the first half of the current trading year.

Southern's total assets climbed by 22% to R16,4bn (R13,4bn), of which investments at market value showed growth of 24% to R15,4bn (R12,4bn). Caltiz said Southern's assets had grown by more than R1,5bn since the year-end in March.



Graphic: LEE EMERTON Source: I-NET

Top equity investments at the March year-end were De Beers, First National Bank, Anglo, Richemont, Rembrandt, Gencor, Barlows, Wooltru, Iscor and Foschini, which have all performed exceptionally over the past year. Chairman Neal Chapman said the assurer planned to hold its current equity exposure.

Calitz expected the life company to achieve satisfactory growth in earnings and dividends to end-March 1992

FM 22|11|91 (58

REINSURANCE FM 22|11|91

Heap big scam

(58

It's just conceivable that an SA insurance premium could end up in the bank account of an ex-soccer referee calling himself Wise Owl or some other fabricated Cherokee title. It is also highly likely the authorities would not know where the money had gone.

There have been, for instance, two reinsurance companies styling themselves Euro Re. One, based in Bermuda, has been in operation for years and used for certain types of reinsurance by at least two SA short-term insurers, Hollard and Auto & General. Its balance sheets are sound and it is monitored from the London market.

The other Euro Re has had more than one domicile and more than one name. Currently, without assets and staff, it is in Ireland. So, unnaturally, when the influential publication *The Re Report* associated it with a spurious Cherokee Nation in Texas, some confusion followed. "But definitely not the Euro Re we deal with," says Hollard MD Miles Japhet, adding that his firm's financial director has physically inspected the Bermuda reinsurer.

Tracking the other Euro Re is nightmarish. An agency in Atlanta, Georgia, called World Re, acts for a number of reinsurers whose financial backing is suspect. Their asset backing has been described as consisting largely of unmarketable penny stocks. Two World Re reinsurers have been Helensburgh of Ireland and Euroam Re BB of The Netherlands. Subsequently, Euroam seems to have called itself Euro Re, at that time backed into the operation of Helensburgh.

In both cases, substantive backing came from Treasury bills issued by a nonrecognised American Indian nation. The bills, each for US$22,3m, were issued by the Cherokee Nation Tejas, a Dallas outfit which has vacated its offices and cannot easily be traced. The claim was that it was formed by an act of God in the aftermath of Hurricane Beulah in 1967.

Never recognised as a tribe by US federal authorities, it was denounced for imposture by other Cherokee tribes. Leaders, mostly white and including an ex-referee of the English Football League, assumed names such as Wise Otter and Chief Bear Who Walks Softly.

Their activities are a sordid scam. That they operated for some years, unexposed, highlights some of the difficulties in assessing reinsurance arrangements.

Exchange control authorities accept it is necessary for certain classes of insurance to be reinsured, which means that portions of the premiums must leave the country.

Seven so-called professional reinsurers, all highly visible and mostly associated with prominent European groups, are domiciled in SA. They get much of the local reinsurance business but have to compete with the suitcase brigade, representing literally hundreds of reinsurers who flit in and out of markets wherever they see opportunities.

Market watchers such as Standard & Poor issue ratings on the more visible reinsurers. Hundreds more operate in obscurity. It is impractical to assess their true financial base and they can appear to operate legitimately as long as their cash flow is sufficient to meet claims.

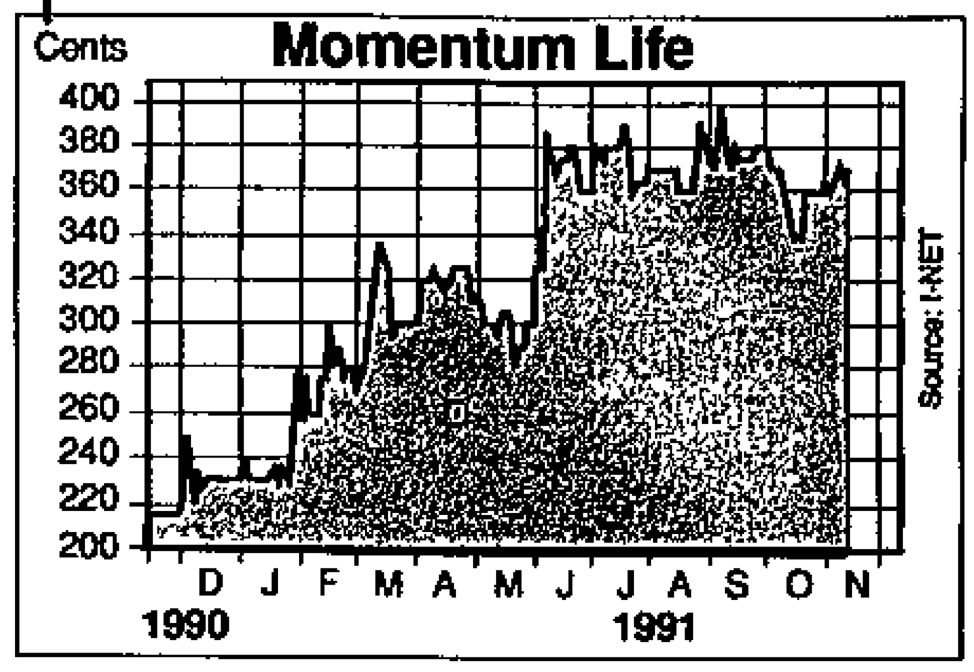
Apart from offering insecurity, some of the dubious operations have been used as money launderers. In countries where exchange control is stringent, reinsurance proffers opportunities for rolling money.

The Financial Services Board, watchdog of the insurance industry, acknowledges it cannot police the ultimate destination of reinsurance premiums — which is one reason why, in assessing insurers' important solvency margins, it penalises those that have not gone through the "professional" market.

The new STI(1) returns aim to obtain more information but at present only the quantum of reinsurance, not all ultimate destinations, can be ascertained.

Major reinsurers keep general risks for their own account but in the wider industry, where much is accomplished through retrocession agreements, where risks are laid off in much the same way as wagers, total monitoring remains impossible. *Bryan Deans*

FM 22|11|91 (58)



MOMENTUM LIFE FM 22|11|91

Building capital (58)

Activities: *Life assurance and related financial services.*

Control: *Absa 30%; Rembrandt 30%.*

Chairman: *H V Hefer; MD: R B Gouws.*

Capital structure: *70m ords. Market capitalisation: R259m.*

Share market: *Price: 370c. Yields: 4,1% on dividend; 6,9% on earnings; p:e ratio, 14,4; cover, 1,7. 12-month high, 400c; low, 210c. Trading volume last quarter, 1,1m shares.*

Year to June 30	'88	'89	'90	'91
Total assets (Rm)	501	5 061	6 017	7 133
Premium income (Rm)	80	452	946	1 010
Investment income (Rm)	52	239	442	541
Taxed surplus (Rm)	64	180	505	701
Earnings (c)	7,0	11,6	23,0	25,7
Dividends (c)	7,0	7,5	13	15
Net worth (c)	82	104	146	157

As expected, Momentum Life shares have performed well on the JSE over the past year. Since the *FM* reviewed the 1990 annual report, the price has jumped from 230c to a high of 400c, before easing to its present 370c. In the process, the 20% discount at which Momentum was trading relative to the other listed life assurers has narrowed to about 5%.

However, it was a case of being right for the wrong reasons. The underlying premise a year ago was that the share should outperform the sector, not only because it was undervalued but because the group was seen as having above-average earnings growth potential as the full rationalisation benefits from 1988's absorption of Lifegro flowed through.

Instead, last year's profit apportioned to shareholders was up only 12% — a decidedly disappointing outcome considering, firstly, that the total taxed surplus was up 38% and, secondly, that the growth benchmark considered normal for equity-based life assurers is closer to 20%.

There are two possible reasons for this. The first is that the main factor behind the 38% improvement in the total taxed surplus was an outright reduction in total outgo (being the sum total of claims, management expenses, commissions and taxation), which in turn resulted from a reduction in claims and other benefits paid out — something that may not be sustainable in the future. And, as far as income is concerned, a growth rate of only 12% was achieved (matching the increase in profit deemed to be attributable to equity), comprising a 7% increase in premiums and a 22% improvement in investment income.

However, the slow growth in premium income did not reflect an inability to attract new business. It was the result of what appears to have been a deliberate cutting back on single-premium business (which carries high up-front costs) which was reduced by R100m last year, whereas growth in the more profitable recurrent business amounted to 25%, according to chairman Herc Hefer.

This, in turn, created a more solid business base, with single premiums now accounting for only 18% of the total against 30% in 1990.

The second possible reason for the relatively slow growth in earnings attributed to shareholders is a factor noted last year — shareholders are still getting a disproportionately large slice of the cake relative to their stake in the overall funding of the group.

At June 30, equity funds represented only 1,7% of total capital employed, against which they received 2,6% of the total taxed surplus. This was an improvement on the position the previous year when the profit split was 3,2% to equity, which at that stage accounted for 1,9% of capital employed. But it nevertheless reflects a marked shift from the pre-Lifegro days, when equity's funding contribution was close to 4% while their share of profits was no more than it is today.

There are, of course, no firm rules as to how profits of an equity-based assurer should be apportioned between policyholders and shareholders. But, in this instance, the significant change in the mix since the acquisition of Lifegro highlights the enlarged group's somewhat weaker capital position, which is undoubtedly one reason why Momentum is considering the possibility of a rights issue.

Momentum's Hefer ... *considering a rights issue*

While an injection of fresh capital would contribute to correcting the imbalance between equity funds and their share of profits, servicing a greater number of shares could place a damper on EPS growth in the short-term. Management, however, disagrees with this view, and cites recent issues by Liberty Life and Metropolitan Life as examples.

Still, the market is probably correct in pricing the share at a small discount to the sector. But one should not lose sight of Momentum's position in the Absa stable, and the potential this offers for further acquisitions and rationalisation, which could give the share some speculative appeal.

Brian Thompson

FEDSURE/INVESTEC

FM 22/11/91 (58)

Willing to share

Talks on a possible deal between Investec Holdings and FeJsure Holdings, following a cautionary announcement last week, are likely to lead to a straight swap of ordinary shares between the two independent groups, possibly resulting in a new financial and banking organisation, in line with the trend established by bigger banks and life assurers.

Neither will comment at this stage but an announcement is expected next month.

Acquisition-hungry Investec, whose 76%-owned Investec Bank unsuccessfully bid for Board of Executors in September 1989, has remained aggressive. It bought Corbank and Reichmans, as well as the rental assets of electronic service group TR Services. Inves-

FM 22/11/91 (58)

tec also has a 13% voting interest in Saambou, which it used to help Fedsure acquire just under 30% of the bank and building society in a disputed deal earlier this year.

With a bigger asset base, Fedsure will want the bigger slice, and something like a 20%/25% swap seems likely. At present share prices, each side of the deal would be worth at least R100m, but depending on how the deal is structured it could be a lot more.

But Fedsure is obviously keen to move deeper into banking. It also owns 30% of Fidelity Bank.

The new Deposit-Taking Institutions (DTI) Act allows any acquisition up to 10%, but requires permission from the DTI Registrar for an acquisition of up to 17,5%, with a 12-month holding period.

Further permission is needed for an interest up to 25%. Fedsure, which went through a similar exercise with Saambou, probably feels that, as both parties presumably want the deal to go through, the regulations could be relaxed.

A joint operation could show promise.

For Investec, a stake in the insurance group would offer access to its client base and strong cash flow.

Fedsure, on the other hand, has already shown its interest in banking. With more than 25% of Investec Holdings' income coming from banking, a share swap would significantly lift its exposure. *Shaun Harris*

FM 22/11/91 **LIFE TAX WRANGLE** (58)

Some life assurers, headed by Fedlife, have objected to the proposals for separating their investment income into three prongs, paving the way for corporate income to be taxed at normal rates, to be followed by a reduction in tax rates for income on policyholders' funds.

There is little objection in principle, as the new structure would strengthen the trustee principle under which policyholders' earnings should be taxed at typical individual marginal rates — probably about 30% instead of the current 43%.

But, as proposed, the new structure would prejudice some life offices more than others. There could be a considerable increase in the immediate overall tax burden for an office that writes large volumes of group business.

Other offices have expressed doubts about the role of the two mutual giants, Old Mutual and Sanlam.

Though there is some agreement about what constitutes the equivalent of corporate funds in a mutual, rivals are dubious that an in-house actuarial certification of "free reserves" would be acceptable. The disagreements seem likely to affect the timing of the final recommendations to Finance Minister Barend du Plessis from his special adviser, Japie Jacobs.

FM 22/11/91

LOBOLA PROBLEMS

(58)

Rationalisation of some smaller life assurance companies seems inevitable. The main problem may be a shortage of suitors for companies which offer rather light dowries.

The majors, especially those with a large group business, have managed to contain expense ratios, usually below 20%. Their results also indicate quality of business written, with lapse ratios below 15%. Further down the table of life assurers, both cost and lapse ratios fluctuate considerably. Where both are out of line with industry norms, the strain is beginning to show.

By those yardsticks, two assurers that now form the Avins (Anglovaal Insurance) stable, AA Life and Crusader, feature prominently. The ratios offer reasons for their recent rationalisation (*Economy* November 1).

By the end of 1989, the latest year for which meaningful comparison can be made, AA Life's total expense ratio was 56,6%. Crulife's 37,8%. The industry average was 28,7%. Their lapse rates were 55,1% and 25,3% — industry average was 21,2%.

Protea's total expense ratio of 41,7% and Stangen's 45,5% were also unsustainably high, but Protea's lapse rate was below the industry average, suggesting it was spending heavily but acquiring sound business.

Though ratios are important, they are crude measures and do not necessarily describe an assurer's complete condition. Some smaller assurers have carved niche positions — for example, where reliance on direct reponse is heavy and the acquisition costs are correspondingly high.

Industry analysts say, also, that balance sheets can be overridden when it comes to marriage: if a company has, for example, a strong agency division it could be attractive to a partner which does not want the start-up costs associated with such an operation.

Yet with the top six, particularly Old Mutual and Sanlam, dominating the market, a shake-out among smaller players is likely.

House prices show drop in real terms

58

B/Day 22/11/91

PETER GALLI

SINCE the end of 1983 house prices have fallen in real terms by an annualised average of 7,5% every quarter. This is disclosed in the latest Absa quarterly housing review released yesterday.

The price of medium-sized houses rose by a year-on-year 14% to about R120 900 during the third quarter of 1991 from a year ago, which translates into a year-on-year fall of about 1,5% in real terms, it says.

Smaller and larger house prices both rose by 13% to R100 300 and R167 000 respectively. However, the increase in building costs has been slowing since the beginning of the year, rising by 12,9% during the third quarter compared with a year ago.

"This compares well with the average rate of 20,5% during 1990. This trend is also reflected in the 3% decline in the year-on-year average price of new houses during the latest quarter," the review says.

With inflation remaining in excess of 15% and "bound to increase" over the short term due to VAT, there is little likelihood of interest rates coming off before the end of 1991, it says.

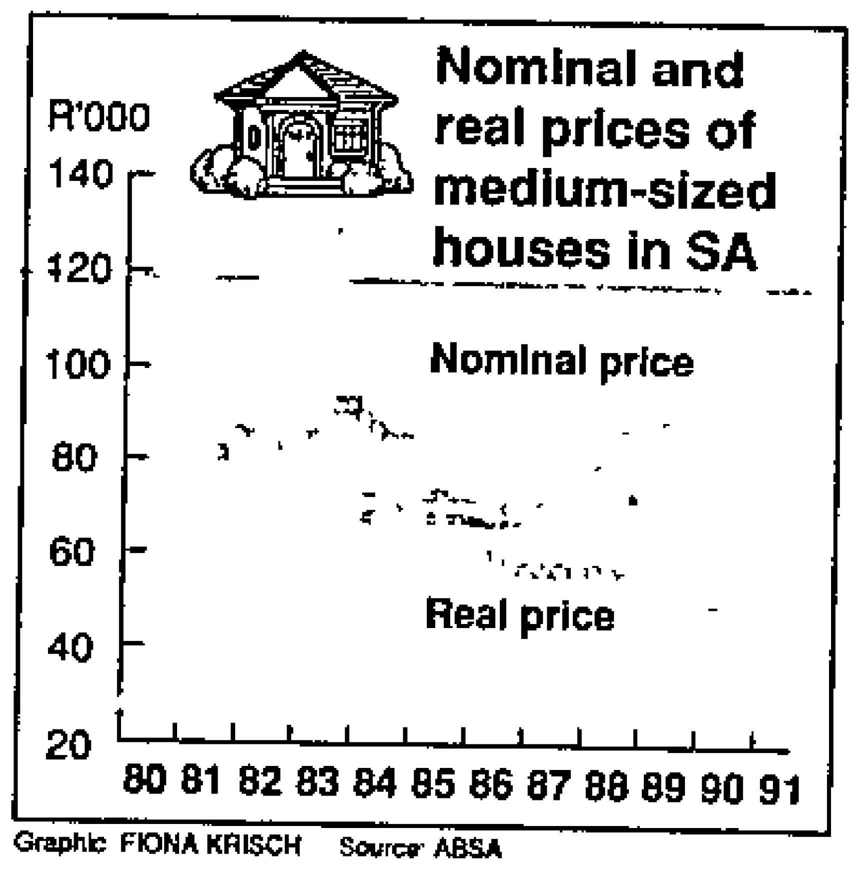
Provided inflation is brought under control during 1992, the Bank rate could be lowered by about two percentage points, with mortgage rates about 18% by the end of 1992.

The price of medium-sized houses in the Free State/northern Cape rose by 6% between the second and third quarters of 1991, by 5% in the western Cape and Durban-Pinetown areas, by 4% in the rest of Natal, by 3% in the Johannesburg, West Rand, Pretoria and Eastern Cape regions and by 2% on the East Rand.

"Prices in the rest of the Transvaal remained unchanged, while those in the Vaal Triangle fell by 2%," the review says.

Activity in the residential market can be expected to remain depressed for a few more months as the changeover to VAT takes effect and recessionary conditions persist.

"However, market conditions are bound to improve by the second quarter of 1992 in line with the general economic recovery expected to emerge from then on," it concludes.



Graphic: FIONA KRISCH Source: ABSA

ANGLO/UAL

(58)

Cat among the pigeons

FM 22/11/91

Complaints by some irate stockbrokers over Anglo American Corp's tender sale of about R700m worth of Gencor and FNB shares raises the complex issue of what kind of share dealing done off the market contravenes the Stock Exchanges Control Act.

The JSE has referred the issue to the Registrar of Financial Institutions, Piet Badenhorst, who tells the *FM* that he had taken the matter up with Anglo and UAL Merchant Bank before the tenders closed. Badenhorst says he pointed out to both companies that the tender appeared to conflict with both the spirit and letter of the Act. He asked certain questions and is awaiting replies.

Some brokers are concerned that if this kind of tender action became widespread it could result in an equity market being established outside of the JSE and beyond the control of the Act. But off-market trading between institutions is not new. Brokers have been muttering about the commissions lost in this way for years. The muttering gets louder when times are tough, prompting some to say this is the real reason for the protest over Anglo's tender sale.

Not so, says JSE president Tony Norton. He says the Act provides for a central market which does allow for limited private deals between parties to take place off-market.

"The Anglo tender was not a private sale and this is the first such tender offer I have heard of," he says. "They were asking the world to put in a bid for their shares and the agent, UAL, would decide who got what. That amounts to a possible breach of the Act which has to be referred to the Registrar."

Registrar Badenhorst ... *awaiting replies*

A broker says Anglo and UAL were using market mechanisms to get the best prices but avoiding paying for this.

UAL Merchant Bank GM Nico van Heerden denies the deal contravenes the Act and says UAL has replied to the Registrar's queries and presented a legal opinion backing up UAL's standpoint. Van Heerden says UAL was not involved in dealing in shares, as the bank merely advised Anglo, which allocated shares and received payments directly.

Rupert Pardoe, a divisional manager in Anglo's chairman's office, declines to comment on Anglo's viewpoint on whether the tender contravened the Act. Neither he nor Van Heerden will specify the amount Anglo raised from the sale but Pardoe claims estimates of R700m — the approximate market value of the shares — are "meaningfully wrong."

Anglo sold the shares because it wants the money to pay for its share of the acquisition of Middelburg Steel & Alloys (MSA) by Highveld Steel & Vanadium and Samancor. The Gencor and FNB shares were not strategic investments and will not be subject to tax because the house has held them for longer than 10 years. Pardoe says Anglo informed Gencor chairman Derek Keys in advance about the house's intentions. He adds the deal was done off-market to avoid an overhang of shares depressing the Gencor market price.

Highveld and Samancor are issuing shares to raise R1,1bn cash for the MSA purchase. Anglo/De Beers will contribute R550m for their share. Most of that will come from Anglo, which does not appear to have the ready cash available.

Anglo's latest balance sheet, at March 31, showed group deposits and cash on hand of R1,56bn, but R1,5bn of that is accounted for by loans from associated companies and others. That reflects Anglo's role as a banker to its associates and managed companies, such as the group's gold mines which have to bank their cash with Anglo.

Anglo, in fact, had only R60m in cash that it could call its own. In contrast, Anglovaal at June 30 showed deposits and cash of R1,33bn against managed companies deposits of just R253,6m. *Brendon Ryan*

AA Life's shortfall hits AVF and Avins shares

BDay 22/11/91 (58)

SEAN VAN ZYL

INVESTORS took a dim view of Anglovaal's listed insurance interests, AVF Group (AVF) and Anglovaal Insurance Holdings (Avins) yesterday when the shares came under pressure on news of AA Life's R40m shortfall in the provision for liabilities.

AVF's share price plunged 20% to 200c from 250c with no buyers in sight while the Avins share lost 10% of its shine to close at 90c with buyers holding back at 70c a share. The group's subsidiary Crulife eased 20c to 210c and looked set to go lower.

The sharp fall in the share prices reflected poor investor confidence in the companies following disclosure of a massive underprovision to liabilities in AA Life's life fund for the year ended June, market analysts said.

The year end figures released yesterday showed a R40m special provision on the Avins income statement denoted as a transfer to the AA Life life fund which had in the past been inadequately provided for.

The shortfall in the AA Life life fund resulted largely from poor investment performance and rapid new business growth for the year, Avins MD Dave de Beer said yesterday.

De Beer said an independent actuarial team had been appointed by Avins to investigate the soundness of the life fund following claims in the Press earlier this year that AA Life's liabilities exceeded assets.

Ron Howroyd, a former consulting actuary for AA Life, disclosed information to the Financial Mail in March which suggested the assurer's life fund had then accumulated a R10m deficit to liabilities.

De Beer said the actuarial investigation partly supported Howroyd's concerns although the life fund still complied with the legislative requirements of assets exceeding liabilities.

He admitted, however, that Avin's capital base had been eroded by the deteriorating position of the life fund.

Although AA Life's annualised new business growth for the year amounted to about 20%, which market analysts noted was relatively modest, De Beer said new business strain was one of the prime reasons for the life fund's shortfall to liabilities.

Various cost-cutting measures had also been recently implemented which, coupled with the R40m transfer and the upcoming AA Life R26m rights issue, would correct the present poor state of the balance sheet, De Beer noted.

He said AA Life's operating cost structure to premium inflows had also been far too high. As a result, the company's telemarketing division had been shut down.

The corrective measures implemented plus statutory limitations on the company's assets to liabilities would restrict AA Life's new business growth in the present financial year, De Beer said.

Bank intervenes to counter falling rates

(58) B | Day 22 | 11 | 91

ANDREW GILL

THE Reserve Bank drained R500m from a cash-flush money market yesterday as rates continued their downward jaunt.

The Bank called a special seven-day Treasury bill tender to complement the R800m drained earlier in the week as the market shortage dipped below R1bn and the key 90-day BA rate dropped 10 points to 16,40%. The fall followed Wednesday's tentative five-point drop in the BA rate.

Dealers said strong demand for liquid assets and little creation of BAs because of the slowdown in bank credit were sending rates to levels way below official rates.

Commercial banks' successful attempts to cut deposit rates to make up a portion of the margin lost on the R200m levy imposed in lieu of VAT were sending investors into the money market to find better returns.

The money market shortage dropped to R849m from R1,49bn.

Long-term rates returned to the bull run after two days of correcting upwards. The key Eskom 168 fell five points to 16,35% and government's RSA 150 stock dipped to 16,76% from 16,82%.

Sage Holdings lifts interim figure 16%

B|Day 22|11|91 (58)

MARC HASENFUSS

FINANCIAL services group Sage Holdings reported a 16% increase in interim earnings a share for the six months to end September.

The previous comparative interim reporting period was to end June 1991, as the company's financial year end was changed from end December to end March.

Attributable earnings were lifted 22% to R13,3m (R10,9m) while earnings a share rose to 53,6c (47,7c) on a fully diluted basis. The dividend payout was maintained at 20c, covered 2,77 (2,38) times.

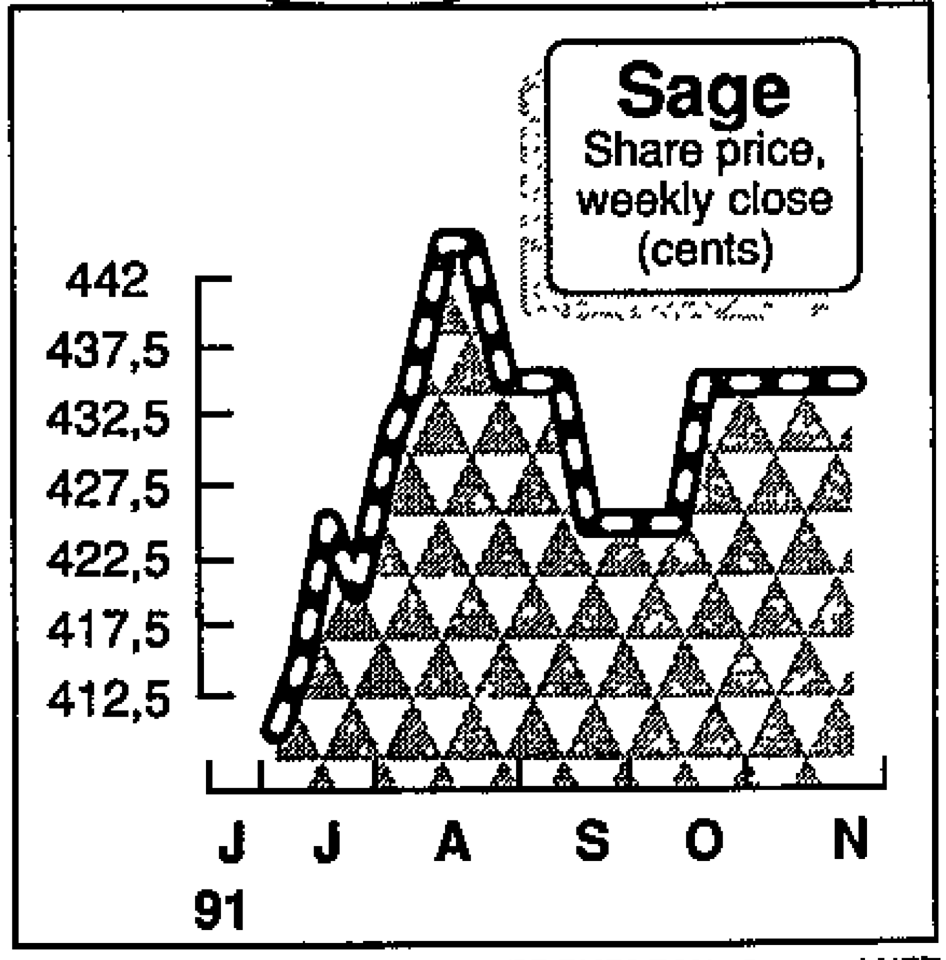
As the bulk of the group earnings stem from associated companies within the banking sector, which maintains a high dividend cover, directors deemed it appropriate to increase the dividend cover.

Directors said that discussions regarding the capital restructuring of the group, which may go hand in hand with the possible rationalisation of certain interests of common shareholders in Sage Holdings and Absa, are expected to be concluded in the near future.

Sage Financial Services (SFS) posted a 23% increase in attributable earnings to R20,8m in the period under review from R16,9m in the six months to June 1991.

Like Sage Holdings, directors considered it appropriate to increase the level of dividend cover and the interim payout was restricted to 12c (11c), a 9% increase.

Sage Property Holdings (SPH) showed a 10,5% drop in earnings to R4m (R4,5m) on the back of a hefty increase in the tax bill to R1,6m (R500 000) in the interim period. SPH declared an unchanged dividend of 4c a share from earnings a share of 7,3c (8,3c).



Graphic: LEE EMERTON Source: I-NET

Director's said that the group's core homebuilding activities performed satisfactorily despite the protracted recession and abnormal losses incurred through the restructuring of coastal activities.

SPH has significant investments inland ready for development and in current development projects which are not yet income-producing but had excellent potential, they said.

The group's land trading division made progress during the review period in implementing its program of disposing of land not required for homebuilding activities.

Although the group's total land holdings continue to reflect substantial surpluses over book values, realised profits will inevitably fluctuate in line with activity, they said.

In the current year, earnings from this source are not expected to be material.

Insurers deal new blow to medical aid schemes

58

W/m ail 22/11 - 28/11/91.

By MONDLI MAKHANYA

LIFE assurers' forays into medical insurance may speed up the establishment of a compulsory national health fund.

Medical insurance schemes — as opposed to medical aid schemes — have proliferated. There are now more than 30 in South Africa.

This is set to deal yet another blow to the medical aid movement, which is already threatened by excessive and fraudulent claims.

Medical aid schemes will not take this lying down. The Medical Schemes Bill — due before parliament soon — will allow medical schemes to venture into assurers' territory and they have indicated they will do so.

Precipitated by rising health care costs — medical inflation is running at 23 percent — the policies are being as marketed as "top ups" to existing medical aid schemes.

Two good examples of comprehensive insurance schemes are those of Old Mutual and Liberty Life.

Old Mutual stresses that a medical aid member who has to undergo a coronary bypass would have to make up the difference between the cost of the operation — about R28 000 — and what the medical aid scheme will pay. This can range from R2 500 to R13 000.

The Old Mutual Flexicare policy and the Liberty scheme provide for the full cost of hospital stays and also cover 100 percent of operation costs. An "income replacer" benefit substitutes for one's income where illness or injury causes temporary or permanent paralysis.

Medical aid schemes concede the insurance houses' innovation is plugging the gap between rising health care costs and inadequate cover, but Representative Association of Medical Schemes director Rob Speedie says the playing fields are not level.

For instance, legislation bars them from providing health care insurance. However, once deregulation as envisaged by the new Bill has been passed, they will be free to provide a much wider cover.

Speedie points out: "At the moment our hands are tied. We cannot be innovative and we cannot bring new products on to the market."

Whereas medical insurance certainly fills a market gap, it also has its flaws. Notes Cedric de Beer, of the University of the Witwatersrand Centre for Health Policy Studies: "In the marketing of their products they have omitted to say that premiums will rise with medical inflation. Although the premiums are relatively low right now they may be hiked by 23 percent next year."

What the assurers' bite into the health care cake might do is to usher in the restructuring of health care funding in South Africa. About R4,5-billion a year is spent on national health by government. Total expenditure of health care represents 6,5 percent of gross national product.

From the ashes of the medical aid system could arise a compulsory national health care fund with the state contributing on behalf of the unemployed.

Another scenario — one favoured by medical aid schemes — is of health maintenance organisations being organised under their auspices.

Star 22/11/91

Southern Life lifts earnings 20 percent

58

Southern Life has increased its interim dividend by 20 percent to 27c per share for the six months to September.

Southern Life managing director Jan Calitz said yesterday earnings had risen 20 percent to 40,5c per share.

He said the company had continued its practice of setting the interim dividend and earnings figures at 50 percent of the totals for the previous financial year.

Southern's total assets rose by R2,98 billion — an increase of 22 percent — over the past 12 months to reach R16,44 billion.

Within this, investments increased by 24,5 percent to R15,5 billion (R12,4 billion).

Over the first six months of the financial year asset growth was R1,58 billion.

The group's total income increased to R1,496 billion, representing net premium income of R953 million and investment revenue of R543 million.

New business income totalled R372 million for the six months, with single premium business accounting for R190 million and recurring new business for R182 million.

Mr Calitz said that earnings and dividend growth for the full financial year should be maintained at satisfactory levels. — Sapa.

Vacant schools will be 'open'

(58)

ARG 23/11/91

State opens up wasted classrooms

Weekend Argus Correspondent

PRETORIA. — Just months after sending in police to evict black pupils occupying a disused white school, the government has backed down on its refusal to make under-utilised educational facilities available to pupils of all races.

In a move which seems to be aimed at alleviating overcrowding at black schools, the Minister of Education and Culture Mr Piet Marais and the Minister of Education and Training Mr Sam de Beer have jointly announced a new school model — "Model D".

Mr Marais, while not dismissing the announcement of "Model D" schools as a move toward a single education body in South Africa, said it was "a single part of a process to manage in as evolutionary manner as possible a new negotiated system in South Africa".

"Model D" schools — disused white schools now open to all races — would be for "all pupils within reach and who have need for the education which such a school provides".

The announcement said "certain" schools which have already been closed or which have notified of closure would be run as Model D schools by the Department of Education and Culture. Buildings and staff would be provided by the department.

"We aim to see that wherever possible schools will be used for education purposes and not transferred to the department of public housing and works as in the past," Mr Marais said.

"Although Model D has been instituted primarily to meet the needs of the Department of Education and Training (black education) any pupil who satisfies the admissions requirements could be admitted to the schools," the statement said.

The director general of the DET, Dr Bernhard Louw, said the department would "endeavour to to give all possible support" to the new model.

"We have co-operated in the planning stages of the initiative and welcome the move. Symbolically it is of substantial value," Dr Louw said.

The first Model B schools will be opened next year and schools that will be used are Orange Grove Primary School, Johann Rissik and Malvern lower schools in the Transvaal; Northcrest Primary School and The Grange Primary School in Natal; and the Tweespruit higher building school in the Free State.

Mr Marais said Model D schools were part of "a new approach" the department was going to follow and that various communities had been involved in the "joint effort".

No schools in the Pretoria area have initially been targeted, but Mr Marais said this was only the beginning and the process would continue.

"We have to take into consideration the needs of the various communities," he said.

"With the co-operation of the school communities concerned, both departments are determined to make a success of this project to help satisfy the great need for quality education."

In June the Orange Grove Primary School, Johannesburg made headlines when the National Education Co-ordinating Committee was halted in a bid to occupy the school.

Mr Marais said he could not comment on the brouhaha and the earlier action as at the time he was not the minister responsible.

CAST opposes call for Vaal bond boycott

Star 23/11/91

(58)

MUSA MAPISA

THE Vaal Civic Association is at loggerheads with its parent body, the Civic Association of Southern Transvaal (CAST), over its call for a bond boycott.

The VCA this week confirmed that the bond boycott, due to start at the end of the month, would go ahead despite CAST president Moses Mayekiso saying his organisation had no plans for such a boycott.

He said a bond boycott would be a last option because it was not viable. "Such a strategy could be detrimental to the people and we would not encourage it," he said.

The boycott call by the VCA follows complaints by residents of Zone 16 Sebokeng about the poor quality of their newly built homes.

VCA spokesman Tsepo Sibuse said a demand would be made to the South African Housing Trust and Khayalethu Home Loans at a meeting today, that interest not be charged while the boycott was on.

The general manager of Khayalethu Home Loans, Ben Peters, confirmed that his company would have a meeting with VCA today. He said he was optimistic that an agreement with VCA would be reached.

Estate agents at war

Star 23/11/91.

MAGNUS HEYSTEK 58
Finance Editor

THE estate agents' commission debate rages on.

Most estate agents have been up-in-arms since the debate opened some two weeks ago.

However, some have admitted since then the issue needs attention.

The reaction from the public was unanimous: estate agents' commission should be open to negotiation. An inflexible fee of 7 percent of the purchase price of a house is too high.

Secondary issues like sole mandates, advertising methods used by some estate agents (see letter on page 16) and the easy entry level into the industry have also been raised.

In pursuit of fairness we publish today the views of both Mr Geffen and Mr Barry Cribb from The Alternative Agency.

Mr Geffen asks, inter alia, what proof do I have that the image of estate agents needs some polish.

Well, the reaction both on Radio 702 where it was first aired, as well as in private is proof enough as far as I'm concerned that the public is not happy paying 7 percent on the sale of a house.

Using the average price of R224 000 for a house in the Johannesburg-area it amounts to more than R16 000 in commission. In the northern suburbs of Sandton the average house price is closer to R350 000 and a whopping R24,500 take.

Here's more proof. A recent survey by market research company Markinor underlines that fact that estate agents do not rate very highly in terms of credibility. In fact, estate agents rate second from the bottom in the table.

An MBA-thesis at the Wits Business School has found that the perception of estate agents changes dramatically — from positive to negative — once a mandate has been signed by a member of the selling public. Estate agents, this survey finds, are guilty of not delivering the "goods", so to speak.

A soon-to-be-published book entitled Selling Your Own Home by Ian and Dianne Holding is highly critical of the conduct of some estate agents. "About 70 percent of the acitivity of estate agents is geared towards obtaining houses to sell," say the authors.

There is a growing trend, especially in Natal and on the Reef, for people to sell their own homes. This is a reflection of the dissatisfaction with estate agents, they claim.

Other estate agents also wrote in reaction to my first column two weeks ago. In one Mrs Aida Geffen, chairman of Aida Holdings, claims that the average estate agent "only earns between R1 500 and R2 000 per month".

That figure I also dispute.

LEW GEFFEN

MY main gripe with the article is that Estate Agent's commission has been debated without illuminating the facts. With due respect to Mr Barry Cribb of The Alternative Agency, I wish to know how many houses Mr Cribb sells per month.

This is very pertinent because, if the number is only a handful, Mr Cribb is not a major player and should not be taken seriously.

I quote Mr Cribb: "Estate agents could cut out a lot of needless time-wasting activities, such as sitting in a show-house all day, and rather concentrate on getting really interested buyers to view those houses.

"This could be done by a careful pre-selection of prospective buyers and giving them as much information as possible. Mr Cribb showed me (Magnus Heystek) an example of his company's advertising, which is factual and to the point without all the amazing puffery that normally accompanies estate agent advertisements".

Mr Cribb has a blatant cheek to make the above comments. Apparently, he is the only good estate agent in the country as he can sell properties without infrastructure and without showdays and specifically condemns all us "silly" estate agents for needless time-wasting activities such as show houses.

Therefore, out of approx 40 000 registered estate agents throughout the country, Mr Cribb is the only one who sells houses properly for the right commission.

Mr Cribbs' comments are so ludicrous that it leaves one openmouthed — almost stuck for an answer. The bottom line Mr Cribb is, how many houses do you sell a month? If they are a few, which I suspect they are — please get off the platform.

I disagree with Mr Heystek on 'the image of estate agents". He makes a bland statement that the image of estate agents among the general public is not what it should be. What facts and figures does he have to support this statement? He also states that many people successfully sell their own properties. Again, what are the facts and figures?

"If agents refuse to negotiate on commission, more people will take the trouble to acquire the little bit of legal knowledge they require and do the job themselves", he wrote.

I take exception to your undermining of estate agents by quoting "a little bit of legal knowledge", as if this was the main criteria in selling homes.

Where does Mr Heystek get his facts that an average house in Johannesburg remains on the market for just over 30 days? The true situation is as follows: It is taking between three and six months to sell an average property. It is also taking between four and eight showdays.

I do not have the space to elucidate what an estate agent does to earn his daily bread but if Magnus will allow me a follow up article, I will be glad to explain. All I can tell you is that the public should not pay The Alternative Agency even three percent commission because they could simply put an advertisement of their home in the paper themselves at a much cheaper cost because this is the sum total of the service offered.

BARRY CRIBB

IN response to Mr Geffen's letter, we, The Alternative Agency take the view that the task at hand for the professional estate agent is to sell houses efficiently, not to increase rates to justify selling only a few houses and being unproductive because of having to compete with so many others trying to do the same.

The Alternative Agency has rationalised the process used by importing a century old UK method of sales It provides all the important services of an estate agent and has eliminated only the unnecessary, unproductive tasks.

In simple terms there are four major stages to the "life cycle" of the average residential property transaction.

The financing phase or valuation which is most often frustrated by hungry agents overvaluing either deliberately or unintentionally due to poor information.

The Alternative Agency's computer systems are used to track all properties that come to the market whether they are either sold or remain unsold. We can quickly list all sales in an area in any given price range and with specific criteria including the number of bedrooms or size so as to accurately value by detailed comparison.

The viewing phase is where most of the agent's time is wasted, since home buying is emotional rather than rational. In the majority of cases, buyers walk in to the house and either like it, or not. The agent really has no influence.

Our motto says. Agents don't Sell Houses — People Buy Them.

Critical stage

Negotiation is the most critical stage in the buying process and one where an agent with strong negotiating skills can make all the difference. There is little room for rationalisation in this phase.

We offer a no obligation service, and using our computer system can produce accurate reports very quickly.

We show the buyer the house in detail on paper before he physically views it (pre-qualification of property)

We use the best person, the owner, with some tips from us, to show the property both on an appointment basis and on showday. We can therefore multiply the number of showhouses we can manage, rather than man.

We are able to respond quickly should we be required to complete an offer document on the day.

We pay for all advertising and use the same medium and formats as our more expensive competitors.

We handle all negotiations and offer documentation.

We assist as far as is possible with obtaining finance as other agents do.

We liaise with transferring attorneys in order to keep both parties fully informed on progress.

In effect The Alternative Agency puts the agent in the position whereby he or she maximises productive time and minimises unproductive time. Because of this we sell more houses and earn more by charging a fair commission.

We assure Mr Geffen that in our two years, we have achieved formidable success in numbers of sales and size of operation.

Accident fund allegations: Inquiry set up

58

CT 14/11/91

PRETORIA. — A commission of inquiry into the activities of the Multilateral Motor Vehicle Accident Fund (MMF) has been appointed following "disquieting allegations", Minister of Transport Dr Piet Welgemoed announced early this morning.

The decision by President F W de Klerk to appoint the commission follows hard on the heels of a report compiled by the Auditor General, who was assigned to audit the accounts of the MMF earlier this year.

Dr Welgemoed said he had decided in April that the activities of the MMF warranted closer investigation.

"Since then my inquiries have revealed disquieting allegations in regard to the MMF, the handling of claims by its agents and other parties, which led to a request to the President that the Auditor General be assigned to audit the accounts of the MMF," he said in a statement.

Information from the Auditor General's report as well as "other information" prompted the minister to ask Mr De Klerk to appoint a commission of inquiry into the affairs of the MMF, he said.

Mr De Klerk appointed the commission under the chairmanship of Mr Justice D A Melamet with Mr K G Raine and Mr F S H Ochse as members.

The terms of reference of the commission include:

- To inquire into the present basis on which the affairs of the MMF are conducted.
- To inquire whether existing legislation applicable to the MMF provides adequate protection to those insured.
- To find out whether those acting as managers or agents or who were otherwise associated with the MMF neglected their duties towards the MMF.
- To inquire into malpractices in the running of the affairs of the MMF and which authorities should be involved in the further investigation arising from such malpractices.
- To inquire into whether a maximum limit should be placed on the damages any one insured person may be awarded and paid by the MMF.

The minister said further details would be published in the Government Gazette of tomorrow.

He invited those with relevant information to contact the commission of inquiry. — Sapa

SPECIAL REPORT

Property syndications

Star 2/11/91. (58)

FINANCE STAFF

PROPERTY syndications are proving extremely popular with investors.

They give the investor the security of a property together with both income and capital appreciation.

Property syndications operate by acquiring a business or office property and then selling units in that property to individual investors.

The property itself is usually managed by an independent property administration company and the syndicate is managed by the promoters and representatives of the investors.

Investors receive a pro-rata share in the rents of the property after provision for expenses.

As rents are raised in line with inflation or the growing market demand for accommodation, the value of the investment also increases. This enables the investor eventually to sell his units at a profit.

However, an investment in a property syndication is not free from risk. A great many factors have to be taken into account.

Saturday Star commissioned Neville Berkowitz, a well-known consulting property economist, who advises clients on investing R600 million a year in property, to look at the property syndication for Lochner Park in Midrand.

The promoter is offering a cumulative return of capital and income over five years of 157,7 percent or 489,63 percent over 10 years.

These figures are equal to an annual compounded return of 20,8 percent over five years and just above 19 percent over 10 years. These figures include both capital and income.

Mr Berkowitz says the promoter of Lochner Park is the Anglo Dutch Finance group. The company is headed by John Field, a chartered accountant and MBA.

Mr Berkowitz reports: Lochner Park is situated in Richards Drive, Midrand. Although it is not a prime location, it is acceptable. The building is "A" grade and could easily be sited in Parktown, Rosebank or Sandton. The property is attractively secured and has a gatehouse.

There are not enough parking bays, and this could become a problem, he adds.

The building has 19 tenants and three premises are vacant. The tenants are of average quality and have three-year to five-year leases escalating annually between 12 and 13 percent.

The average rental is R26,20 a square metre which appears not to have as much growth potential as rentals in Rosebank, which are probably the highest in the Northern Suburbs, and are limited to R30 a square metre.

Mr Berkowitz feels that insufficient provision has been made in the financial statement for vacancies, operating costs and office refurbishment. He also believes that some provision should be made for tax.

At present the property is managed by the promoter and he suggests it should be managed by an independent organisation to ensure that provisions are made for vacancies and renovations and that all the income is not paid out to shareholders.

He is critical of the wide powers of the directors and that investors are offered a choice either of equity alone in the property or of equity and mortgage in order to obtain leverage.

He says that investors who selected a pure equity investment could suffer losses if the mortgage holders had to sell the property.

NEVILLE BERKOWITZ: Disputes valuation.

Mr Berkowitz also points out that no pro-forma balance sheet is available, and therefore in his view the investor is buying blind.

He adds that the legal documentation is extremely complex and potential investors should not sign any agreement until it had been checked and explained by his attorney and accountant.

The promotors value the property at R18,7 million. Mr Berkowitz believes that a figure of R15,48 million is closer to the mark. As a result he believes the public is paying a premium of 17,2 percent.

The total annual return of 18,4 percent being offered compares with a "guaranteed" return of around 19,5 percent from participation mortgage bonds, while selected property unit trusts and loan stock units have provided an average return of around 19,5 percent over the past 10 years.

Commenting on Mr Berkowitz's report Mr Field of Anglo Dutch Finance said:

"We sincerely believe that in these inflationary times property is an excellent investment media.

"Lochner Park was fully investigated and we believe and still do that it is ideally suited for syndication.

"The proposal was taken to Werksmans (a well-known firm of attorneys) to prepare the documentation with the specific instruction that the syndication be beyond reproach.

"We were determind that this would be the best property syndication yet put to the market".

Mr Field says that the parking facilities are far in excess of municipal requirements. The building was fully let until 1994 and rental increases would cover the vacancy factor.

The provision of 23 percent of gross income for costs was conservative and increased rentals should cover the capitalised costs of refurbishments.

Provision had been made for outside directors to be appointed to represent the investors.

Mr Field said the property was bonded to give a choice of a geared or ungeared investment but he would be prepared to remove the ungeared option.

Referring to the absence of a balance sheet, Mr Field said that a declaration of assets and liabilities had been made which was in line with the legal requirements.

Although the legal documents were complex, they were the correct legal structure requirements.

Mr Field disagrees with Mr Berkowitz's valuation of the net profits and therefore with his value of the property. He also says that Mr Berkowitz has confused the participation mortgage bond lending rate with the borrowing rate.

Mr Field says a comparable alternative investment would be the purchase of a flat or small factory for rental. The returns for flats and houses are in the region of eight percent and for small factories up to 14 percent.

Capital growth should be added to these returns and the cost of administration deducted.

Bankorp on the mend

St Times (Buss) 24/11/91

(58)

THE analysts almost all agree that Bankorp shares have to be a buy sooner or later.

But as any good investment banker knows, the time value of money is as important as buying a share at the bottom.

The best return depends on how long Bankorp's recovery takes — three to five years before full health is restored, according to chief executive Piet Liebenberg.

He impressed the audience at a presentation to the Investment Analysts' Society in Johannesburg this week. The soul was bared, the problems highlighted, the solutions hinted at.

Mr Liebenberg was called in to rescue the Sanlam-controlled banking group 18 months ago.

Results for the year to June 1990 showed what a mess the group had fallen into. In the year to June 1991, at least a profit was recorded.

To achieve Mr Leibenberg's target of a minimum real return of 5% on equity, the group will need to fulfil the strategic plan. By 1995 the group will need to have raised its capital-to-asset ratio from the current 5% or so to 8%.

Mr Liebenberg says secondary capital has not been used in the calculations, but this avenue will be brought in over the next three years.

He assured investors that no more equity capital would be sought.

Mr Liebenberg says Sanlam, which controls 90% of the equity, is not a seller of Bankorp because it has dispensation to exceed the 49% equity limit for another five years.

By then, the rules might have changed. But if they have not, the position will be such that Bankorp equity could be placed with selected shareholders both domestic and foreign.

Parent Sankorp will also accept scrip instead of dividends, of which Mr Liebenberg promises 25c in the current year.

Mr Liebenberg amused the audience with his gold-mine project "Bankorp Deep Levels". The one-three-five-year gold-mine project is designed to restore profitability to the group.

Productivity is too low, staff turnover too high. Iron out these problems and expenses can be cut out.

Mr Liebenberg says the group accepts that some debt is irrecoverable. It has been written off, but the carrying cost is being amortised over five years.

Obviously the highest costs are incurred in the early years. This is currently the second.

Without those costs, Bankorp would have been closer to its targeted return on equity.

Bankorp expects the economy to grow at about 2% in 1992, 3% the next year and 4% the following year.

On a 9% dividend yield and a rating that can only improve, Bankorp looks underpriced at 275c.

THE MONEY MARKETS by Andrew Gill

Reserve Bank faces uphill battle

B10ay 25/11/91 (58)

THE big tussle is on.

Can the Reserve Bank stem the tide of growing liquidity and sliding rates, or will it all be spitting against the wind?

The Bank again lost Friday's battle in the weekly Treasury Bill tender. Despite a high tender amount of R200m, the allotted rate was down another five points to 16,19%.

To cap it all, a massive oversubscription of R1bn reflecting the hunt for quality liquids posted a warning to the Bank that a turbulent run-in to the New Year was on the cards.

There is almost no hope of a cut in official rates, but solid downward pressure on market rates looks set to continue unabated.

Attempts to drain the market were stepped up last week with a R500m rollover and an extra R300m being taken out early in the week, and Wednesday saw a R500m tap.

Dollar swaps were also being used extensively in an attempt to rein in liquidity.

One of the major factors in the rate slide has been the stringency of monetary policy. By slowing money supply growth, and in turn credit demand, the Bank has almost dried up demand for BA financing.

The liquid state of the market, however, has seen demand rise in a paperless environment and pushed rates to current levels.

Commercial banks have taken advantage of the situation in dropping deposit rates on the retail side.

Those with premium liquid paper are losing between 20 and 30 points on the yield against rediscount rates but could be in for a capital gain if Governor Chris Stals decides to drop the Bank rate within the next three months.

Stals is likely to find the next few months the toughest of his tenure.

It is going to become difficult to justify current policy in the light of the recession, socio-economic developments and the recession-battered revenue account of government.

However, the last two years would prove to be wasted if he cuts the Bank rate too soon.

One thing that Stals has managed to do is tame wage increases. If this year's settlements prove to be as low as initial estimates suggest, lower inflation next year may herald a general lowering of inflationary expectations.

Interest rates 'set to drop early next year'

B/Day 25/11/91.

SHARON WOOD

INTEREST rates would probably be cut in February or March next year and decline to about 17% by the end of 1992, Sanlam said in its latest Economic Survey released on Friday.

Sanlam expected the fight against inflation to receive continued high government priority in the year ahead. There would be only a gradual relaxation in monetary policy.

The inflation rate was expected to decline to 12% by December next year, and average inflation for the year would be about 14%, it said.

Relatively high wage increases of about 14% to 15% next year would exert upward pressure on the inflation rate, along with a higher fuel price, rapid rises in food prices and depreciation of the rand. Sanlam expected the rand to depreciate to an average of R3,05 to the dollar during 1992, compared with R2,77 this year.

"In addition, the danger exists that the high level of government expenditure — especially if this cannot be financed without the excessive use of bank credit — could impede the monetary authorities' attempts to curb inflation," the report said.

However, Sanlam said, the expected retention of monetary discipline should help force inflation to lower levels through the maintenance of high interest rates, slower money supply growth and a relatively stable performance in the effective exchange rate of the rand.

Business conditions were expected to improve next year with indications of a lower technical business-cycle turning point developing. But available information showed economic activity was still weak in most industries and the recovery phase would be sluggish at first, it said.

"A marked increase in the prosperity of businesses and individuals is not foreseen prior to about the middle of 1992."

Sanlam forecast a decline of about 0,6% in GDP this year and a growth rate of about 2% next year.

The prospect of relatively low real economic growth next year meant the number of unemployed would rise further.

Insurer 'meets standards'

THE Consumer Council and the Auto and General Insurance company had agreed on standards for conducting telephonic insurance business, council director Jan Cronje said at the weekend.

Sapa reports that the agreement followed allegations by Cronje on Friday that advertisements claiming valid comprehensive short-term car and home insurance could be arranged over the telephone were misleading.

Cronje later withdrew Friday night's statement and an urgent meeting was organised between the Consumer Council and the insurance company.

On Saturday, after the meeting, the council's director issued a statement saying: "The Consumer Council is satisfied that all the standards which they have set are being complied with by Auto and General".

He said: "At this meeting Auto and General's methods of operation were fully discussed and all misconceptions regarding telephonic insurance were clarified.

"Certain standards of telephonic insurance were agreed on. The Consumer Council is satisfied that all the standards which they have set are being complied with by Auto and General." (58)

GERALD REILLY reports the council's statement said advertisements which said that valid comprehensive short-term nsurance could be arranged over the telephone should be banned. B|Day 25|11|91

Cronje said there was a growing number of complaints from consumers alleging that insurers were refusing to meet claims.

The council had made representations to the ombudsman for short-term insurance, the Advertising Standards Authority and the Business Practices Committee.

"Consensus is a prerequisite for concluding any valid agreement. The chances of reaching this consensus in a phone conversation are extremely remote since all the terms of the written agreement, which is sent to the insured later on, are not read to him during such a conversation."

Two killed in mortar blast are named

DURBAN — The two people killed in a mortar explosion near Mtubatuba in Zululand on Saturday have been named. B|Day

They were Debby Jameson, 25, of Richards Bay and Roy Malcolm Campbell, 58, of Maritzburg. 25|11|91

The two died when a mortar picked up by children at the Dukuduku shooting range exploded.

Thirteen other people, two of them young children, were admitted to the Empangeni Hospital. Several underwent emergency surgery. They were all in stable condition yesterday.

And according to the latest SAP unrest report, two men were killed and 14 men and women — including three policemen — were wounded at the weekend.

A man was shot dead and eight women wounded at Gamalake near Port Shepstone. A youth was killed and a woman seriously injured by a mob at Malagazi near Maritzburg. — Sapa.

COMPANIES

Japanese bank looks into SA

JOHN CAVILL

LONDON — Sumitomo Bank, one of Japan's Big Three, yesterday confirmed it was exploring the possibility of doing business with SA.

"We will probably resume contacts with South African banks from whom we have had a number of approaches," said an official at Sumitomi wao declined to be named.

"But we are keeping a low key approach and only considering the situation at the moment." BDay 26/11/91

He could not confirm a report that Sumitomo would be making an on-the-spot assessment of SA as a prospective investment but added: "We like to keep every door open."

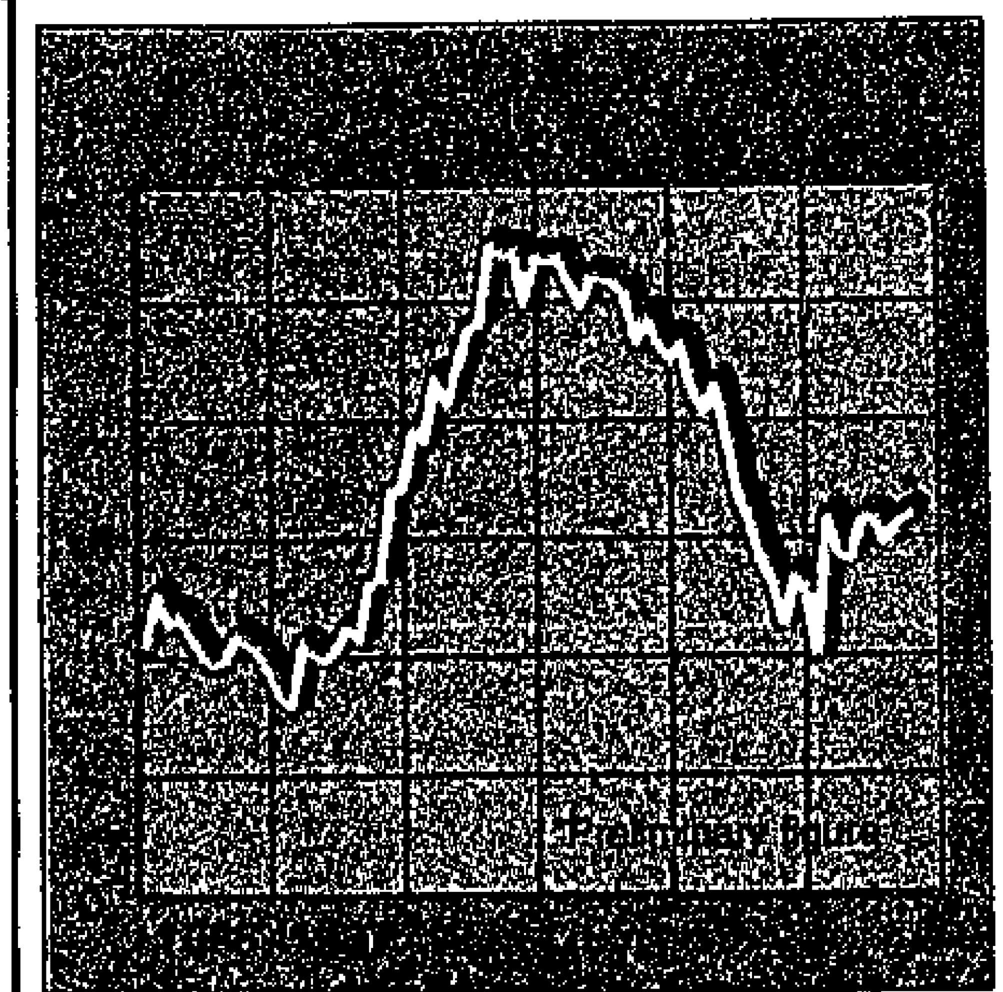
Sumitomo Bank's interest follows fact-finding visits by Nomura International, a subsidiary of the world's biggest securities house, and Mitsubishi Finance.

Commenting on the discussions in SA by Nomura International's president, John Howland-Jackson, a spokesman said: "It was exploratory. Mr Howland-Jackson met a wide range of people but nothing was agreed or signed. (58)

"Now that sanctions are ending we regard SA as a new business area which has opened up for us. There is a lot of interest," she said.

During its visit to SA, a Nomura delegation met several government agencies, the Independent Development Trust, Eskom and the ANC.

It is also reported in London that Dalas Securities, another giant Japanese investment group had already visited SA but no official confirmation was obtainable here yesterday.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Money supply closer to target

ANDREW GILL (58)

THE Reserve Bank's key assessment of money supply growth started edging towards the Bank's guideline range of 8% to 12% in October, figures released yesterday disclosed. B/Day 26/11/91

While the broad indicator of money supply growth (M3) climbed to 15,96% year on year on the back of technical factors from a revised 15,68% in September, the growth from the base of the guideline year (mid-November 1990) slowed to 14,51% from 15,77%.

The figure has fallen steadily from June's high of 20,39%.

In terms of broadly defined money supply, money in circulation stood at R179,9bn from September's R178,8bn.

The most reliable figure of money supply growth, according to economists, is the annualised growth rate from February, which strips out the effect of the bringing onto balance sheet of previously off-balance sheet items through the Deposit-Taking Institutions Act.

The growth rate from February was a meagre 7,85%, reflecting the general slowdown in money supply growth.

The relatively high 15,96% growth was a result of October 1990's low figure, which was distorted by a delay of figures from the Automatic Clearing Bureau at the end of that month.

Bankorp chief economist Nick Barnardt said the figures were not bad, especially when considering the single-digit growth from February. November's growth rate was likely to show a decrease because of the high base of November 1990.

Gilbeys moves to recoup R45m

Huge debts sink another property trust

(58)

B/Day 26/11/91

LINDA ENSOR

CAPE TOWN — Another Cape-based property trust fund has collapsed with debts said to be in the region of R65m.

Court papers claim that the downfall of fund managers and property developers Fundstrust was sparked by the Masterbond debacle which led to a "general lack of confidence" in the investment market.

On Friday an urgent application was successfully brought for the provisional liquidation of the company before the Cape Town Supreme Court.

One of the main investors is liquor producer and wholesaler Gilbeys Distillers & Vintners which is owed R45m by Fundstrust, which also acted as financial and insurance brokers.

Provisional liquidator Lawrence Stein of Lawrence Stein Trustees said between 300 and 400 other people, mostly ordinary investors and pensioners, were affected.

Prominent Cape Town businessman Jan S Marais is a director of Fundstrust.

The application was brought by Fundstrust shareholder and director Ansi Kamfer on the grounds that the company was unable to pay its debts.

Gilbeys intervened as a co-applicant in the court action. It claims that its R45m invested in Fundstrust was an unauthorised investment made by its now suspended bookkeeper, Margaret Harding.

Harding allegedly made the first investment of R20m on February 28 1991, a further R5m on July 22, R10m on September 11 and R10m on September 23. She reinvested the total R45m on September 23 and received R900 000 in commission from Fundstrust for the investments.

Gilbeys financial director Mark McLoughlin also claims that Fundstrust was acting in contravention of the Deposit-Taking Institutions Act in accepting the funds, although Fundstrust disputes this.

In her affidavit Kamfer said the consequences of the Act "and in particular the liquidation of Masterbond have led to a general loss of confidence in the investment market and a reluctance on the part of investors to invest to the extent to which they previously did".

Kamfer said R45m had been reinvested by Gilbeys on a fixed-term maturing on February 28 1993 and therefore Fundstrust was unable to meet Gilbeys' demand for immediate repayment of the full amount. Its other assets, namely bank deposits, fixed deposits, shares, loans, mortgage bonds and property developments, were such that it could not immediately pay back the R45m.

Kamfer said an agreement was made with Gilbeys to repay the R45m but difficulties had arisen and Gilbeys had threatened legal action. Any such action would cause a run on Fundstrust by the other investors that had invested R20m.

She said a forced sale of the firm's assets would realise only R10m and that the interest payment on the Gilbeys' investment amounted to R700 000 monthly and on the other investments to R10 000 monthly.

In his affidavit McLoughlin said during the negotiations with Fundstrust on the repayment of the R45m — R1m has been repaid — it had "grossly, recklessly or fraudulently misrepresented its financial situation" as its liabilities in fact exceeded its assets "by a huge amount".

26.05.52 — 26.05.12

26.05.91 — 26.05.41

Growth in money supply over target

STAR 26/11/91

By Sven Lünsche

(58)

Money supply growth continues to run well ahead of levels required to support the Reserve Bank's anti-inflation campaign.

The Bank's release of monetary aggregates for October shows that the benchmark money supply measure, M3, was almost 16 percent up on an annualised basis, its fourth successive monthly rise.

Seasonally adjusted M3 increased by a year-on-year 15,96 percent to R178,82 billion last month, compared with a revised growth rate of R15,68 percent in September and 14,83 percent in August.

These figures are distorted by the inclusion of off-balance-sheet transactions under the Deposit Takings Institutions (DTI) Act since February, but Reserve Bank officials had hoped for a decline in the rate of increase to below 15 percent.

Money supply growth is also running well above the eight to 12 percent target range set by the Bank for growth in M3 between the fourth quarters of 1990 and 1991.

In terms of this measure M3 is now 14,5 percent up on last year's fourth quarter base of the current guideline year, compared with 15,77 percent in September and 16,25 percent in August.

Economists stress, however, that a more useful and encouraging analysis of money supply growth is presented by looking at the annualised growth rate since February, that is excluding the DTI requirements.

Since February, when it stood at R170,029 billion, M3 has grown by 5,16 percent or, on an annualised basis, by just under seven percent.

However, Reserve Bank officials have stressed that this figure would not be used to determine the Bank's short-term monetary stance.

Among other key figures released by the Bank yesterday the narrowly defined M1A money supply measure showed a 26,18 percent rise in September to R32,39 billion, M1 was up by 24,4 percent to R58,07 billion and, M2 increased by 22,94 percent to R152,02 billion.

Total domestic credit extended was up by 20,14 percent in September (August: 18,45 percent), while claims on the private sector rose to 18,82 percent (16,12 percent).

House prices fall 7,5 pc a year in real terms

STAR 26/11/91 (58) (#23) (359)

By Frank Jeans

The price of medium-size houses rose 14 percent to average about R120 900 in the third quarter of this year, says the Quarterly Housing Review of the country's biggest home lender, Absa.

The prices of smaller and larger houses rose 13 percent to R100 300 and R167 000 respectively.

The review says: "The increase in the price of medium-size homes represents a year-on-year drop of about 1,5 percent in real terms, which means that house prices have been falling in real terms since the end of 1983 by an average of 7,5 percent (annualised) every quarter."

While Absa sees little chance of a bond rate reduction before the end of the year, it is hopeful of some relief in 1992.

With inflation remaining high — above 15 percent — and bound to increase in the short-term owing to the effect of VAT, a drop in mortgage rates cannot be expected.

"However, a relatively stable rand, a strong decline in credit demand and a healthier foreign exchange reserve position could motivate a lowering of interest rates in the first half of next year.

"Provided inflation is brought under control during 1992, the bank rate could be lowered by some 2 percentage points, which implies that mortgage rates could reach about 18 percent by the end of next year."

141 insurance claims for AIDS

B/Day 26/11/91 (58)

LINDA ENSOR

CAPE TOWN — The insurance industry had received 141 AIDS claims, 94% of them from male policy-holders, as at October 28 1991, statistics compiled by reinsurer Mercantile & General (M & G) show.

The total amount of life claims was R9,9m.

While single people still constituted the highest category of claimant (85 of the total), there was a definite increase in the number of married people lodging AIDS claims, the latest report said.

The average age of claimants was 38 years, with 46% in the 31 to 40 age group and 29% in the 41 to 50-year category.

The statistics show that individual life policies made up about 60,5% of the total AIDS claims.

There was no apparent anti-selection as far as the sum assured was concerned.

Ensuring the highest standards

THE South African Institute of Valuers was established in 1909 to develop the profession and ensure professional standards are maintained. (58)

Initially it was a voluntary body whose objective was to raise the status of valuers by fostering education, establishing a code of ethics and a common tariff of fees and lobbying for legislation to control the activities of valuers and protect the public.

It was not until the '50s that the it began exerting real authority over its members.

At that stage, membership was still voluntary. B Day 27/11/91

In 1983, the Valuers Act laid down the basic standards of the profession and made it obligatory for valuers to be registered by the institute before they could practise.

Over the years, membership of the institute has grown from the 31 founder members to approaching 2 000 and a steady flow of new entrants ensures the continuance of the profession.

The institute plays a diverse role in serving its members and the public.

It arranges education programmes, workshops and seminars for members and the public; it sets and marks the practical valuations undertaken in the final year of study for the national diploma; and it contributes towards the cost of some university courses in valuation.

It publishes a quarterly journal which contains authoritative papers on topics related to valuation.

Nedcor buys investment firm

B/Day 27/11/91 (58)

LINDA ENSOR

CAPE TOWN — Nedcor has taken over money market and investment management company, Capital and Asset Management Holdings (CAM) — formerly 40% owned by Masterbond Trust — which will be operating as Accuma Investment Managers from December 1.

Accuma will also take over CAM's staff and the assets of clients.

Accuma MD Mike Wells said he bought the Masterbond stake in July/August before the collapse of the Masterbond empire but public perception of the two companies' historical connection had nevertheless led to a loss of investor support.

Previously CAM was handling about R600m in funds monthly but this had fallen to about R300m since the demise of Masterbond.

Wells said CAM did not act as a fully fledged agent for Masterbond, although 15 months ago Masterbond appeared on its menu of investment options presented to clients. He added less than 1% of CAM's clients put money into Masterbond companies.

Wells stressed that Accuma would function independently of Nedcor but would include Nedcor on its menu. Clients would have the discretion about where their money was placed with no obligation to invest funds with Nedcor. Accuma would, however, benefit from a cross referral of clients from Nedcor.

Accuma is to create a fully fledged financial consulting division to meet client's tax planning and share portfolio needs.

Accuma's directors include Cape of Good Hope Bank MD Ron Rundle, Wells and a Nedcor appointee.

Hungry Investec takes over the Provincial

(58)

STAR 27/11/91

Finance Staff

Acquisition-hungry Investec has taken over the Natal-based Provincial Building Society. The deal is subject to approval by the relevant banking authorities, Investec said in an announcement last night.

Investec is offering holders of subscription and paid-up shares in the Provincial Building Society a one-off cash payment equivalent to 73c for every 100c they have invested in the Society.

Investec executive chairman Bas Kardol says Investec was in the process of developing a home loan packages for its target market and that the acquisition of Provincial would short-circuit the implementation of the product.

He added that the rationalisation of the financial services sector had made it increasingly difficult for smaller players to grow.

Joining the Investec Group stable would enable the Provincial to offer its clients a variety of products from instalment sale to personal portfolio management.

Mr Kardol said: "Also the Society has been cautiously managed, well run and with its 12 000 clients is an ideal fit into the Investec group".

The Provincial Building Society, which has total assets exceeding R140 million, has one of the highest ratios of reserves to total assets in the industry. This ratio increased from 4,23 percent in financial 1980 to 9,99 percent in financial 1990. It has offices in Durban, Cape Town and Johannesburg.

Investec is currently involved in negotiations with insurance group Fedsure which could result in the creation of a new banking and insurance group.

Two weeks ago both Investec and Fedsure warned shareholders that they were involved in negotiations which could have an impact of their share prices.

PROPERTY

Agents concerned about overvaluation

BDay 27/11/91

58

Reports by
PETER GALLI

ESTATE agents are voicing their concern about the emerging trend of overvaluing houses, either to win a mandate or in a bid to obtain an unrealistically high price for the property.

Alternative Agency MD Barry Cribb says the only way to overcome the problem of estate agents overvaluing property to win a mandate is to enforce a penalty on commission if the property is sold for less than the projected figure.

If the difference between the selling price and the mandate price is between 5% and 10%, the agent should be forced to take a 20% drop, and so on, Cribb says.

Realty 1 - Elk MD Basil Elk says sellers can seriously damage their chances of receiving a good price for their homes if they start off by overpricing.

While it was understandable that sellers wanted the best price they could get, they should be wary of the agent who promised an unusually high price.

Reasons sellers overpriced included: they had over-capitalised and wanted to recover their money; they set a price to cover their needs and allow them to buy in a more expensive area; they lacked factual data, or they wanted to create bargaining room.

"One of the biggest drawbacks of overpricing is that the seller will attract buyers who are looking in a higher price range and have greater expectations," Elk says.

Cribb agrees, saying no matter what is promised, this does not change what the property is worth. The seller will eventually have to drop to the "real value".

"I believe the agent who uses underhand means to secure a mandate unnecessarily lengthens the period of the sale transaction. Because of this, the agent should take a drop in commission on a sliding scale if the price is not achieved," he adds.

Elk says proper pricing cannot be easily achieved by an owner alone. It requires the right agent with the correct information, resulting in the best price and a faster sale — with fewer problems.

COMPANIES

Milstan has tough six months

MARCIA KLEIN

CONSUMER electronic products retailer Milstan Holdings (Milstan) had a tough six months to end-August, when attributable earnings almost halved to R995 000 (R1,9m). BDay 27/11/91

The company, which trades as Stans and Miltons and has a controlling interest in Hi-Fi Specialists, increased its turnover by 13,4% to R68,4m (R60,3m), the rise being mainly due to the opening of four new stores in prime shopping centre locations, financial director Laurance Etkind said. Two stores were closed during the period.

Increased pressure on margins was reflected in a 41,2% reduction in operating profit from R2,8m to R1,7m. Milstan's bottom line performance was further affected by the fact that it paid interest of R32 000, after receiving interest of R96 000 at this time last year.

Profit after a reduction ~~in taxation~~ was 45,7% lower at R1,1m (R1,9m), and earnings declined by 47,8% to 3,6c (6,9c) a share.

Directors said "in view of the traditional strong cashflows, as well as the underlying strength of the business" and its long term market strength, an interim dividend of 2,0c was declared, 11,1% down on the previous year's 2,25c.

Etkind said Milstan remained "aggressively committed to building market share by placing consumer electronics within reach of a broad target audience". The company planned to open two stores over the next four months.

Milstan hoped for good Christmas sales.

Barprop sets out rules for more developments

BDay 27/11/91

PETER GALLI

BARLOW Rand Properties (Barprop), under current property market conditions, will undertake new property developments only if they are substantially pre-let or existing vacancies have been reduced, and the economy shows signs of recovery.

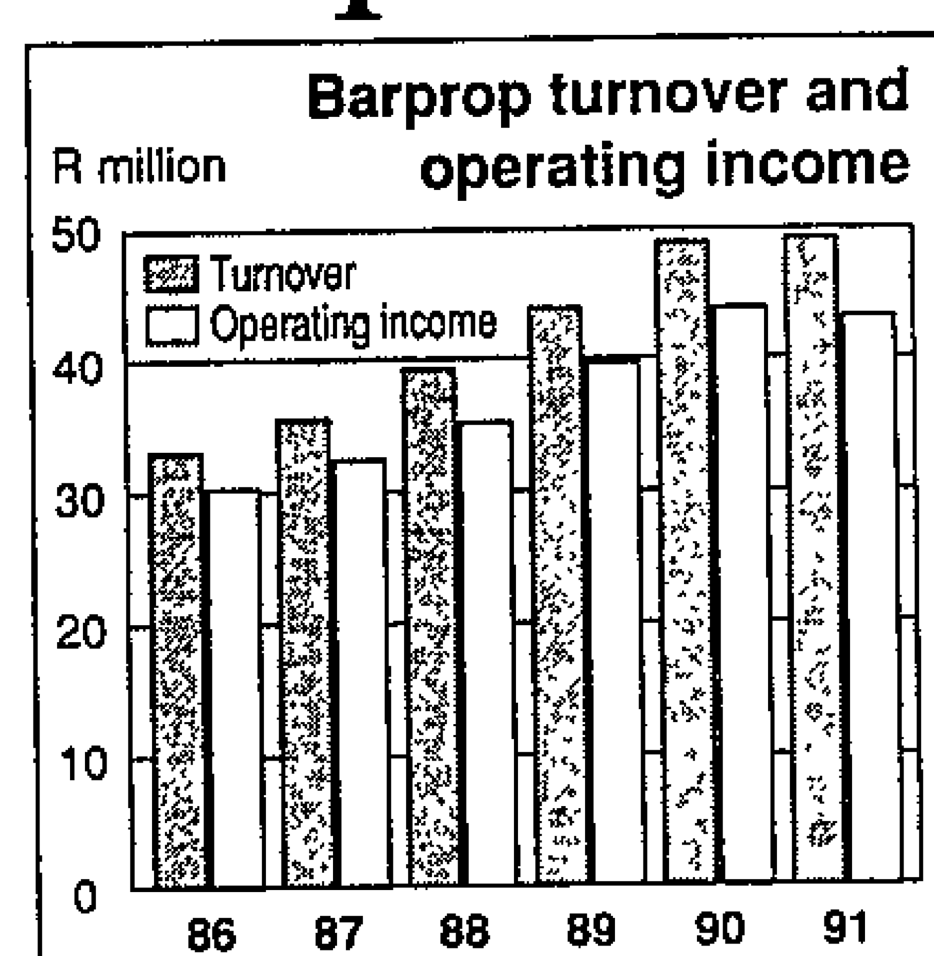
In his chairman's statement in the latest annual review, Evert Groeneweg said management continued reviewing its property portfolio in the light of market requirements and urban expansion trends so as to optimise growth over time.

"Balancing the spread of properties and concentrating the portfolio into the major centres continued, with R19,9m being realised from the sale of decentralised properties over the year," he said.

The weaker economy prevented the group from disposing of all property investments previously identified, with the remaining decentralised properties and vacant land, valued at R22m and R14m respectively, to be sold in 1992 should conditions permit.

"After these sales, Barprop will have almost completed its disposal of 75 identified decentralised and low-growth properties. The R114m cash realised over the three-year period from 1990 to 1992 will be reinvested," Groeneweg said.

Developments to the value of R10,9m were completed in the year under review, and have been leased on a long-term basis to the tenants. A number of property acquisitions were made over the year, and several new developments were started.



Graphic FIONA KRISCH Source BARPROP

Barprop's portfolio was 99% let at the year-end and it is not expected that any material vacancies will occur during 1992.

In the year to end-September, Barprop paid dividends 7,7% higher at 11,53c a share, with the annual rate of interest paid to loan stockholders rising to 16,91% from 15,71%.

Turnover rose to R48,882m from R48,531m, with operating income dropping to R42,979m from R43,796m.

Spescom reverses loss

BDay 27/11/91 WILLIAM GILFILLAN

ELECTRONICS group Spescom has reported earnings of R751 000 for the six months to October, having made a loss of R431 000 in the comparable period last year.

Whereas a 2,2c loss a share was recorded last year, earnings a share of 3,8c were turned in this year.

Turnover, at R18,6m, was 42% up on last year's R13,1m converting into an operating profit of R1,8m against last year's operating loss of R39 000.

MD Johan Steyn was bullish on potential growth in the export market. He hoped exports, which had generally accounted for no more than 10% of turnover, were to rise to between 20 and 30% by 1994.

EXECUTIVE SUITE

Clegg in Hortors deal

WILLIAM GILFILLAN

CLEGG Holdings has acquired the general packaging business of paper and packaging holding company Hortors for R1,2m, to be financed by the issue of 8-million Clegg shares to Hortors at 15c a share.

In terms of the deal, announced today, Clegg director Arnold Sharp has acquired 6,7-million shares from chairman Harry Clegg for just over R1m, giving effective control of Clegg to a consortium involving Sharp and Hortors.

An offer would be made to take out the minorities at 15c a share. B/Day

In an unrelated deal, an offshore consortium headed by John Henry Clegg had acquired 7-million shares in the company from the estate of the late A Bristow at 15c a share. 27/11/91

Clegg this week recorded a R980 000 loss for the year to June after reporting earnings of R476 000 last year.

Provincial sold to Investec for R11m

B/Day 27/11/91

58

ROBERT GENTLE

THE Investec banking group has bought the Natal-based Provincial Building Society for R11m.

The R11m cash consideration was by way of a payment of 750c in the rand to all qualifying holders of subscription and paid up shares in Provincial. About 1 500 shareholders are involved.

The deal was described by the two parties as mutually beneficial as each will be able to tap the other's key areas of expertise.

Investec, which has been working towards new home loan products for its target market, gains access to Provincial's diversified home loans book. Provincial, constrained in its operations by its mutual society status, is now able to diversify into unit trusts, portfolio management and other investment related products.

Investec executive chairman Bas Kardol called the price a fair one, especially as it was "a very successful business". While rationalisation benefits would eventually be looked for, it was "business as usual" for the time being.

The deal had been put together within the last four weeks, Kardol said.

John Russell, who will remain as Provincial MD, said Provincial was one of the last mutual societies to have changed its status. The only ones remaining in the Republic, he said, were Eastern Province Building Society and Grahamstown Building Society.

He said Provincial had total assets exceeding R140m, of which the home loans book accounted for R100m. Insofar as bottom line profits made any sense — as a mutual society, Provincial had no comparable equity to speak of — these were about R2m last year. This means Investec bought Provincial for about 5,5 times net earnings.

Russell said Provincial had some of the highest performance ratios of the industry. Reserves as a proportion of assets stood at 11,4%. Return on assets stood at 1,46%. By comparison, the successful big five banks have a return on assets of between 0,9% and 1,05%.

Russell said Provincial had been operating for 63 years and had a staff complement of 60. Its home loans book was "evenly spread" throughout the country. There are offices in Durban, Cape Town and Johannesburg.

BoE chairman expects improvement in profits

BIDay 28/11/91

58

LINDA ENSOR

CAPE TOWN — Board of Executors (BoE) is budgeting for further growth in profitability this year, chairman Paddy Wilson says in the company's annual report.

He says an end to the economic downswing is in sight, but he expects conditions to remain tight in the short term as a result of the high interest and inflation rates.

Wilson expects a drop in interest rates towards the end of the first quarter of 1992.

"The expected upswing is likely to be export and investment led, and accordingly, a more sustainable economic recovery and higher economic growth should be achieved internally."

Wilson says the BoE, which notched up a 25,5% increase in earnings a share to 128c (102c) in the year to end-September, is well positioned for continued growth.

The group's total assets in this period soared to R634,3m from R117,5m.

Assets under its administration have exceeded the R1bn (R626,7m) mark for the first time.

The balance sheet is strong — BoE has cash resources of R46m which have been invested in redeemable preference shares until required for investment in the financial services sector.

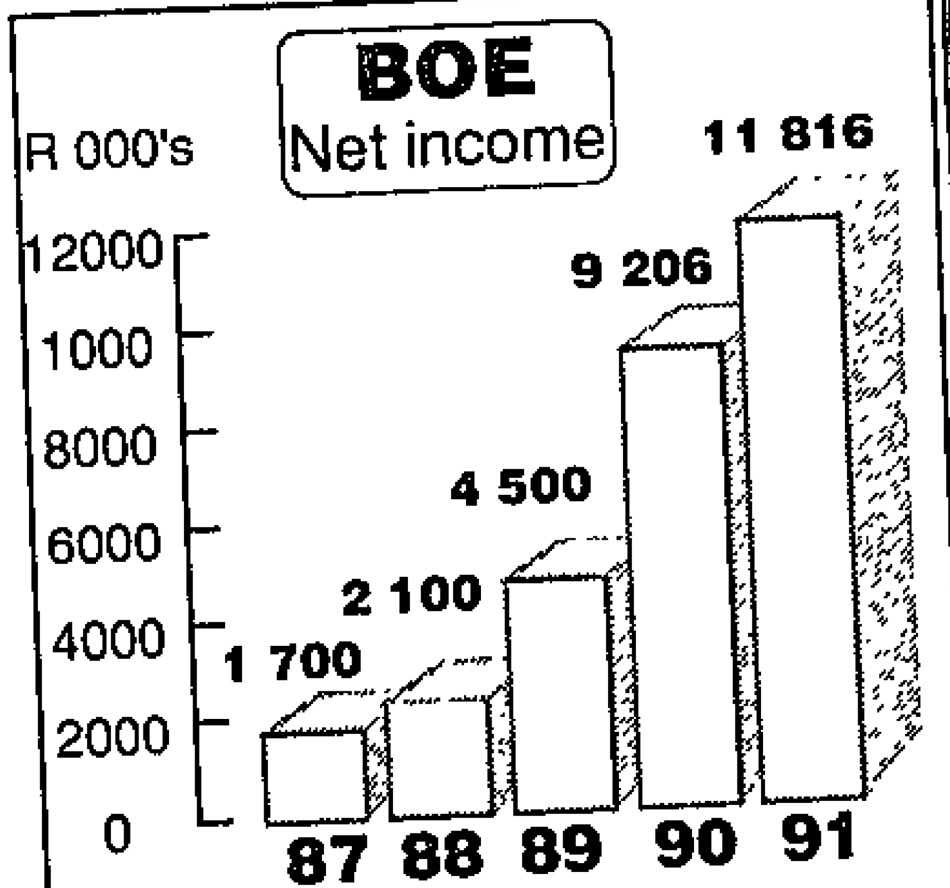
The highlight of the past financial year was the acquisition by Anglovaal of 35,9% stake in BoE.

Wilson says substantial benefits in the form of improved growth prospects, new business opportunities and greater influence are likely to result from this relationship.

BoE has already taken over the management of the investment portfolios of AA Life and Crusader Life.

During the year, BoE also sold its entire stake in Storeco and Speciality Stores for R29m in cash. This realised a surplus of R5,8m.

BoE Merchant Bank was registered to conform with the requirements of the Deposit Taking Institutions Act and BoE's agency business was switched to the bank. By year-end 55% of off balance sheet business had been brought onto the balance sheet, with the rest to follow by the end of December.



Graphic LEE EMERTON Source BOE

MD Bill McAdam said BoE's trust company operations performed extremely well last year, with income derived from private clients and mortgage activities exceeding budget. New mortgage loan and investor business also grew.

"As a result of our conservative credit assessment policies, problem bonds and arrears form a negligible percentage of our total book," McAdam said.

The treasury and corporate divisions performed well despite difficulties, and the assets of BoE's unit trust increased to R43,3m (R9m).

The year also saw the launch of the BoE Secured Growth Plan, a unit trust to cater for the needs of clients requiring security of capital.

By year-end BoE managed property investments worth about R200m.

McAdam said the group was investigating opportunities in securitisation and the commercial paper market.

Productivity is key to success

STAR 28/11/91 (58)

More than 90 percent of the broadly defined M3 money supply in South Africa was in some form of deposit with a banking institution that could be used for purchaing services or goods, says Reserve Bank Governor Dr Chris Stals.

In notes prepared for delivery at the launch of Future Bank yesterday Dr Stals said even though these deposits might not be used soon, they still represented potential purchasing power.

Banks, he said, through their activities exerted a major influence on the course of the economy and on the real economic growth — and the rate of inlation.

Dr Stals emphasised that in the new South Africa the rate of savings — presently less than 20 percent of GDP — would have to be stepped up.

"Funds will desperately be needed to finance new and additional real investments that will increase production and create more employment opportunities," he said.

He stressed it would be of no avail to try and create the additional funds by creating more money — reflecting the central bank's stance on continuing strict monetary control.

Dr Stals said funds would either have to be generated by internal savings or come from abroad.

"Not only shall we need more capital to enable us to employ more people, but we shall also have to produce more with each unit of labour and with each unit of capital employed."

Increase in the multifactor productivity, Dr Stals said, provided the key to success for many of the newly developed industrial countries of the world and South Africa now had a "wonderful" opportunity to follow their example.

He added that the banking sector faced many challenges in fulfilling this function.

Banks around the world were being squeezed by rising costs and narrowing margins coupled with increasing risks.

But, Dr Stals stressed that while there had been "unfortunate experiences" of bank failures in South Africa over the past year and that, in a few cases, the central bank had to step in with special assistance to offer partial protection to depositors, they could not rely on the Reserve Bank to always be prepared to bail them out.

Depositors, he said, should always be prepared to carry their own risks, and decide on their own responsibility — Sapa.

Unit trust legislation welcomed

B/Day 28/11/91

Business Day Reporter

SOUTHERN Life has welcomed the proposed changes to unit trust legislation which will allow portfolio managers to invest a maximum of 10% of the market value of the fund's assets in any company with a market capitalisation of more than R2bn. (58)

In a statement yesterday Southern's GM investments Carel de Ridder said the Unit Trusts Control Act allowed a fund to invest only 5% of its securities in any single share.

He said the proposed 10% ruling would influence share prices to rise in good quality companies as the unit trusts industry would be more active buyers.

"Large, underperforming companies, however, could see their shares sold as many unit trust fund managers may have been buying these shares because of a lack of suitable alternatives."

Increasing the limit to 10% would not increase the risk to the portfolio, De Ridder said.

Benefits

"Research done on the JSE as well as other stock markets around the world has shown that a portfolio consisting of 15 good quality counters is sufficient to cancel out most share risks and expose the fund largely to market risks."

Funds investing a maximum of 5% of assets (net of cash) in a share held a minimum of 20 counters and in practice the number of shares in a portfolio was usually more than 20. This did not add to the portfolio's diversification benefits.

"Share indices are constructed from a representative sample of shares and the weighting of the indices depends on the market capitalisation of shares in each sector. A share with a large market capitalisation will therefore play a bigger role in an index.

"Shares with a large capitalisation on the JSE could contribute more than five per cent to an index."

"By allowing fund managers to reduce the number of counters in their funds, the portfolios would also become more focused," he said.

"The new legislation can only serve to remove the anomalies and inefficiencies in the market and must be welcomed."

FUNDSTRUST FM 29|11|91

Biting the dust (58)

Property trust and money broker Fundstrust, which was put in provisional liquidation last Friday, was not registered as a property trust company under the Unit Trusts Control Act, says Registrar of Unit Trusts & Participation Mortgage Bonds Gerry Anderson.

The Cape-based company's problems

FM 29|11|91 (58)

seem similar to those of Masterbond Trust (MBT), under curatorship. Part of MBT's business was registered under the Participation Mortgage Bond Act but its short-term debenture business managed to escape the requirements of any Act.

The health — and sometimes solvency — of a company that invests in property depends on the valuation of properties on its balance sheet. If Fundstrust's investments prove to have been overvalued, the shortfall between assets and liabilities will be greater than the R8,5m reported.

Provisional liquidators Ralph Millman of Cape Trustees and Lawrence Stein of Lawrence Stein Trustees say most investments by around 500 private investors have ended up in property.

Total liabilities, including a R45m deposit by Gilbey Distillers & Vinters, are about R67,5m. A Fundstrust directors' estimate puts assets, which include 57 plots in Plettenberg Bay and 31 cabanas on Knysna lagoon, at R59m. An independent valuation of all properties is around R47m.

At least two recent cases have shown what can happen if properties are overvalued.

One company that overvalued its property investments was Pinnacle Holdings, which is a 10% shareholder of Alpha Bank, now in curatorship. A prospectus issued on July 1 1988 valued two portions of Grootboom farm, one of its investments, at a combined R1,8m. An inquiry into Pinnacle's affairs revealed that they had been bought a year earlier for R200 000 each. The liquidators later sold them for a combined R250 000.

MBT owned 38% of Phinda, a game farm in northern Natal, which in itself is a highly reputable project with international backing (see page 61). Masterbond chairman Koos Jonker told the *FM* in July that the property was valued at R70m, though bought last year for R26m. He attributed the difference to game bought for R13,9m, buildings of R15m and capital appreciation of R15m.

Fundstrust may have contravened the Deposit-Taking Institutions (DTI) Act by taking deposits from the public, as it was not registered as a DTI.

Gilbey MD Peter Fleck says Gilbey started dealing through Fundstrust as a money broker 10 years ago after meeting former director Jan Marais (ex-TrustBank chairman) The group used Fundstrust to place or borrow call money at the best rates

Fleck says the R45m fixed investment made by bookkeeper Margaret Harding was unauthorised. She falsified reports to management. It is estimated that Harding earned over R1m secret commission from Fundstrust. Once Gilbey discovered the unauthorised investment, it made an agreement with Fundstrust to recover its funds.

The agreement includes a statement that Fundstrust's only liabilities were Gilbey's R45m and R3,4m due to other creditors. Once Gilbey's auditors investigated the financial state of Fundstrust, it found the company owed an additional R19m to other creditors, giving a total of R67,5m. The same agreement stated that Fundstrust assets exceeded its liabilities by R766 020.

Fundstrust directors Ansi Kampfer and Barrie Engelbrecht did not respond to calls from the *FM*. *Heather Formby*

INVESTEC/PROVINCIAL

FM 29/11/91

Mutual benefit

(58)

Investec has bought mutual building society The Provincial, offering qualifying shareholders of subscription and paid-up shares a bonus of 73c for every rand — a total of R11m for the R15m qualifying capital.

The 73% bonus payment is the highest paid to mutual building society shareholders in the case of a cash or share offer. Perm shareholders were paid 10,5%, while those holding Trustbou shares received around 5%.

Provincial MD John Russell says a mutual status for building societies is no longer viable as these societies are restricted in the types of financial services they can offer. "These days, financial institutions need a wide choice of financial services," he says.

Provincial had the option of selling to a group like Investec or converting to an equity society. Russell says if the equity route had been taken, Provincial would have been susceptible to takeover because of its small capital base.

Investec gains Provincial's assets of R140m, including a home loan book of R100m. The society boasted a 1,46% return on average assets in its March 1991 financial statements and a capital:asset ratio of 11,4%.

Executive chairman Bas Kardol says the transaction will have little effect on Investec's ratios, as the amount involved is relatively small. Investec has share capital and disclosed reserves of R223m and a capital: asset ratio of 8%. Its organic growth is set to continue. An announcement between it and life assurer Fedsure is imminent. ■

SMALL BANKS FM 29/11/91

Surviving the storm

(58)

Financial statements released last week show there is still a place for small banks — provided they focus on specific niches. This comes at a time when the collapse of three small banks in a year has created poor market perceptions of these players.

Cape of Good Hope Bank (CGHB), a 100% subsidiary of the Nedcor group, concentrates operations in the western Cape, while one-year-old Unibank focuses on the small-to-medium corporate market. The latter has introduced a new concept in credit and debit cards in the retail market.

CGHB's profit rose 59% to R13,1m in the year to September. Income was buoyed by the property boom in Cape Town, which enabled the bank to improve its commercial lending base.

Ron Rundle, new MD of the 160-year-old bank, says it is now self-funding.

The lending book is made up of: R220m residential bonds; R325m commercial and industrial bonds; and R210m instalment and leasing credit.

To help meet the year-end capital:asset requirement of 5%, CGHB ploughed R9m into disclosed reserves, which are up 29,6% on the previous year to R28,2m. Together with share capital they total R40,9m. The bank now has a capital:asset ratio of 6%. A healthy return on average capital of 36,2% remains.

A new financial services arm will be introduced next month. A cheque account facility, operating on savings accounts, will be introduced, using Nedbank's cheque clearing facility.

Unfortunately for CGHB, it is lumped together with Finansbank in Nedcor's annual financial statements, so its performance was not adequately highlighted. Together, their net income fell 22% compared to the 1990 financial year. However, of the R14m profit declared from both companies, R13,1m comes from CGHB, leaving a contribution of just R900 000 which one must presume comes from Finansbank.

Unibank has been operating for only a year, so there are no comparative figures. It has capital and disclosed reserves of R23m and a capital:asset ratio of 14,3%. MD Gerrit van der Merwe says this is due to two rights issues. Shareholders include: First National Bank 28,9%, Fedlife 26,7%, EG Chapman 16,65%, OK Bazaars 3,61%, and Foundation for African Business & Consumer Services (Fabcos) 3,29%.

Unibank has issued "private label" credit cards, in conjunction with listed company Focus Holdings, the holding company for retailers such as Smiley Blue, Bachelors, menswear retailer Grant Mackenzie, Cashworths and Mattress World.

Unibank does credit assessment of the customer and carries the risk. The retailer benefits by upfront payments from Unibank. Unibank is also involved with the Smartcard concept, together with Fabcos and FNB

☐ Unibank received a rating of A3 last week on its unsecured short-term commitments from local rating agency Republic Ratings. According to the rating definitions, this means there is "a strong capacity for timely repayment, though this may be vulnerable to adverse changes in business, economic or financial conditions." ■

MULTILISTING

The empire strikes back

58

FM 27/11/91

The big banks' hi-tech battle to win the hearts and minds of estate agents — or more properly their business — is beginning to raise a few ethical eyebrows. Early in the new year, the first phase of Comprehensive Property Services' (CPS) grandiose plan to computerise the real estate industry will be launched — and questions are being asked about the business tactics employed.

CPS is backed by seven wholly reputable institutions: Bankorp/TrustBank, Standard, First National Bank, Nedbank, Natal Building Society, the Perm and EP Building Society. That isn't the problem. At issue is whether by getting into bed with CPS the 7 000-plus member Institute of Estate Agents of SA (Ieasa) has compromised its neutrality.

An exclusive agreement signed between Ieasa and CPS on September 3 gives CPS certain rights in terms of dealing with institute members. Of even more concern are the obligations to CPS which institute members have had foisted on them, even though many are affiliated to rival organisations.

One such set-up is the Absa-backed Multi Listing Services (MLS) — Absa has a 33,3% stake in MLS — which, though based in Natal, has made big inroads into the Reef and other metropolitan areas in the past 18 months. Some see the establishment of CPS as a move by the other institutions to blunt the Absa edge.

MLS MD Bruce Wilson is understandably more than a little peeved about the Ieasa-CPS contract. CPS has boasted about the superior electronic service it will be offering realtors (*Property* August 3) and CPS MD Stefan Swanepoel has stated that the industry will eventually be served by only one electronic service. Naturally, he believes it will be the CPS system. But, if he's right, CPS will face an uphill struggle. Wilson claims that about 50% of Ieasa members also belong to MLS. Furthermore, these MLS members employ thousands of other Ieasa members.

Wilson says: "Ieasa is a registered Section 21 non-profit-making company established to serve the interests of its members. However, this deal effectively makes it a commercial organisation. It is operating in direct competition with many of its own constituents."

Because of this, Wilson demands that Ieasa "gets out of bed" with CPS — otherwise MLS will treat it as commercial opposition. Is his complaint justified?

There have been suggestions that Ieasa has been in financial difficulties and that money from the CPS deal has helped bail out the institute. In return Ieasa has allegedly agreed to:

- ☐ Promote CPS;
- ☐ Not get involved with any other listing service such as MLS; and
- ☐ Allow CPS the use of its branch offices.

However, Swanepoel has sprung to the defence of the institute.

He argues that the Ieasa national council, with representation from every branch, debated the CPS-Ieasa agreement for more than seven hours. When it was put to the vote, only two councillors were against signing, he claims. "The other 18 were in favour."

Swanepoel stresses that no money has changed hands as a result of the agreement being signed. However, he does concede that the institute will be "remunerated" for enforcing the ethical standards of estate agents and various administrative functions. The fee, related to the number of CPS subscribers, will be determined annually.

Swanepoel adds that CPS is not a listing company. "It is a utility service organisation created to co-ordinate the task of computerising all facets of the property industry. There are many participants, of which banks and the institute are but two."

Furthermore, he asserts that while MLS is a listing company, CPS is a utility service organisation like Saswitch which will link all

 FM 29/11/91 (58)

participants in property on one national computer network. "Listing is ultimately considered less than 5% of the total service of CPS," he says. "There is no need for anyone to resign from any organisation. Membership of the institute in no way forces participation in CPS. Many believe that the institute has now become pro-active and is offering real and tangible benefits to members and the public."

While Swanepoel vehemently denies that the CPS emphasis is on multi listing, this seems to be a primary purpose. Most of the other services which it boasts it will provide (in phase one) are said to be already available on Beltel — through closed user groups. These include: a buyer referral service; access to the deeds office; electronic banking; and electronic mail. In addition, access to credit checking is available through Saponet and CPS's information bulletin will use the Beltel electronic mail facility.

Swanepoel argues that CPS will draw all these services together — as well as provide a bond application facility and standard documentation between the seven member institutions.

On that basis it must be assumed that CPS's real objective is to erode MLS's market share; who can blame it? But it does mean the ethics of Ieasa's CPS links are highly debatable and deserve closer scrutiny.

As for MLS and CPS, the enhanced competition *should* result in customers — homebuyers and sellers — being the real winners. There ought to be better, lower-cost all-round service. ■

Disappointing news for investors in Masterbond

STAR 29/11/91.

By Des Parker (58)

DURBAN — Investors in financially beleaguered Masterbond are growing desperate for real news of their fate after curators appointed by the Supreme Court asked interested parties to stop hassling them as they try to unravel the complicated web of property development deals.

Many of the estimated 20 000 investors who sunk a total of about R500 million into the property development group are pensioners with little or no other income.

There will be no interest or other payments while investigations continue.

Their alarm was compounded when the curators told them: "At this stage it seems there could be a conflict between the rights of the various investors and other creditors.

"Furthermore, the major portion of investors' funds is invested in various uncompleted developments, which at present do not produce income sufficient to service the bonds registered against the developments."

The curators said they were trying to see whether developments started by Masterbond could be completed without requiring additional investment from existing investors.

"Pending these investigations and, if necessary, a suitable application to the court, the curators cannot pay any amounts to investors or creditors.

"The curators realise the hardship placed on investors and will endeavour to complete the investigations with the minimum of delay.

"Again we appeal to all investors and creditors not to in any way contact the curators or any members of their respective firms in regard to their inquiries or in relation to payment of interest on investments or the repayment of moneys invested as such inquiries will only hamper and delay completion of the investigations.

Deadline

"As soon as the curators are in a position to deal with inquiries an announcement will be made through the media."

The curators have until February 12 next year to report to the Supreme Court, Cape Town, on the financial position of the eight associated companies and on the interests of investors and creditors.

Thelma Mann, a pensioner living at Scottburgh on the Natal South Coast, said she had met people who were suicidal because of the uncertainty about their savings.

Mrs Mann, who with her husband is waiting for news of a R200 000 participation mortgage bond investment, said she had listened to accounts of about 25 worried investors after placing an advertisement in a South Coast newspaper inviting Masterbond victims to make contact with her.

"The response was incredible. All these people are pensioners, and a lot of them have been left destitute.

"We want answers but we have been stonewalled by the curators. We want to know whether we can expect the government to support us until the curators sort out the mess.

"After all, the Reserve Bank had been scrutinising the affairs of Masterbond since 1989 and they put the screws on the company to fall into line with the new law (Deposit-Taking Institutions Act) earlier this year."

She asked why the group should have been able to get away with announcing outstanding profits less than a month before going out of business at the begining of October — thereby encouraging further investment in its schemes.

In addition, she said, investors wandered whether the role played by investment consultants, many of them with major banks, building societies and insurance companies, in encouraging clients to put money into Masterbond would be investigated.

Fundstrust heavily involved in property

(58) STAR 29/11/91

By Jean le May

CAPE TOWN — Fundstrust, the Cape finance company which was provisionally liquidated earlier this week, was involved in extensive property developments in the Peninsula and as far afield as the eastern Cape.

The liquidator, Lawrence Steyn of Lawrence Steyn Trustees, said Fundstrust developments in the Peninsula included Devon Park, a sectional title block of duplex flats in Table View, nearing completion; a planned housing development in Table View consisting of 15 vacant plots, and 254 vacant plots in Nooiensfontein.

Fundstrust also owned fairly extensive pieces of undeveloped ground in other parts of the Peninsula.

Other major projects were 31 cabanas at New Haven in Knysna and Solar Beach at Plettenberg Bay, a planned development of 57 plots on the beach near Robberg on which work had not yet started.

He understood that work had stopped on the New Haven cabanas.

Other Fundstrust investments included mortgage bonds and loans, but it had not yet been possible to assess the value of all property and investments.

FNB deals with the trauma of robbery

w/m and 29/11 – 5/12/91

Hardly a day goes past without a bank being robbed. To help employees cope with the stress, First National Bank has started a trauma unit. Now all other major financial institutions are following suit. By FERIAL HAFFAJEE

THE day had all the signs of a normal Tuesday morning at First National Bank's Johannesburg's Corporate Headquarters two weeks ago, until seven armed men stormed through the doors, jumped over the counters and pushed the bank workers on to the floor.

Wearing balaclavas, they screamed continually and used their guns to prod and butt bank workers mercilessly. One of the robbers systematically yanked jewellery off women employees.

The crack Robbery and Reaction Unit of the South African Police arrived within minutes and the robbers, caught unawares, fired wildly.

A woman was shot and her colleagues recounted how "the bullet entered her chest and left through her back". Another woman says a bullet flew past her head and she thought she was going to die.

Three of the men were killed in the shootout and their bloodied bodies were carried out of the bank past their former hostages.

The Hollywood-like drama was over in an hour but its horror and repercussions live on. Like a stuck record, the robbery repeats itself over and over again in the minds of staff caught in the crossfire of bank robberies. Many suffer repeated nightmares and flashbacks.

Sleep disturbances, tension and delayed shock are other problems facing those involved in bank robberies. Research has found that productivity declines, family life suffers, absenteeism increases and that bank staffers resign from banks which had been held up.

Hypervigilance with its symptoms of "continually looking over your shoulder, an inability to concentrate on your work and suspicousness" was also noted, say Professor Diana Schmukler and Dr Merle Friedman, of the Trauma Clinic based at the Psychology Department of the University of the Witwatersrand.

They undertook research for FNB into the effect of bank robberies on their staff. All their findings pointed to post-traumatic stress syndrome.

As a result of their findings, the bank two years ago established its Post Trauma Stress Unit, the first in the country. Since then every other major financial institution has approached FNB for assistance in setting up their own trauma units.

Nationally based, the unit is comprised of employees who are called out whenever there is a robbery. The counsellors are drawn from the bank and do trauma counselling over and above their normal work.

When a robbery occurs, the bank's group personnel division gets together the region's counsellors. Once or twice, counsellors have even been flown by helicoptor to robbery scenes.

Counselling takes place at the scene of the robbery because the sooner it is done, the less pronounced the trauma symptoms will be. The first step is to "normalise the situation", believe Schmukler and Friedman — "to make people realise that they are experiencing entirely normal responses to trauma".

Counsellors then go back to the bank the day after the robbery to help the employees back into the situation. Often they are fearful and hesitate to go back into the bank. Victims are encouraged to talk about the incident and they are assured that the symptoms will pass.

A week after the robbery, the counsellors return and everybody "from cleaners to managers go for further counselling".

The bank is keen to stress that the counsellors do not take over the work of professionals. They are trained to watch for danger signs like depression and suicidal tendencies and to alert people to the need for professional help. Their training is continually updated by way of quarterly meetings.

Data from counsellors reveal a great deal of success for the unit's work. Most of the employees who have been counselled do not need further therapy.

Apologise to Buthelezi or else ..

w/mail 29/11– 5/12/91

By CASSANDRA MOODLEY

AN Inkatha Central Committee member has been accused of forcing workers at his bus company to sign letters apologising to Chief Mangosuthu Buthelezi for joining the "ANC affiliated" Transport and General Workers Union.

Workers at Ulundi Transport Services have unleashed a string of allegations against the owner, BA Sithole.

TGWU Empangeni branch secretary Bheki Mthembu said Sithole had intimidated workers for joining the union, threatening them to sign letters of resignation or they would be dismissed.

Eight workers had already been dismissed since September for "union activities", according to Mthembu. The union also claimed that Sithole had said the bus company offices were in the Buthelezi tribal area so he ordered workers to apologise in writing to Buthelezi for "joining a trade union without his blessing".

Employees also allege that Sithole forced them to join Inkatha, and personally collected a R5 Inkatha membership joining fee from each worker.

When the union requested a meeting with Sithole, he referred them to the amakhosis (chiefs), indunas and counsellors in the area, Mthembu said. A meeting was then arranged for September 18 with the indunas, including Buthelezi's father and Sithole. But the meeting was called off when Sithole demanded that union officials produce their Inkatha membership cards before they entered the meeting.

The union warned Sithole that if he does not respond within 14 days to its letter detailing grievances, it would declare a dispute. Sithole has denied all allegations. He said his workers did not belong to TGWU but they could "apply for permission from the amakhosis".

Sithole is also the director of kwaZulu Transport. He is said to be a relative of Buthelezi and runs most of the businesses falling under the Buthelezi Tribal Authority, including the Ulundi Transport Services, Nkonjeni Fresh Poultries, Mahlabathini Bottle Store and the beer hall in Mahlabathini.

New bank for a new era

Sowetan 29/11/91

(58)

By JOSHUA RABOROKO

FUTUREBANK has been challenged to join other financial institutions in creating additional investment and more job opportunities in South Africa.

The governor of the Reserve Bank, Dr Chris Stals, said in the new South Africa banks would have to step up their present savings rate used to maintain the existing production capacity.

"We shall have to apply our scarce resources in a more productive way. Not only will we need more capital to enable us to employ people, but we will also have to produce more with each unit of labour and with each unit of capital employed."

He was addressing guests at the launch of the bank - a joint venture between First National/Wesbank and Fabcos - which will have black majority shareholding and Wesbank contracted to manage it.

Initially the new bank, with a capital of R18 million, will have branches in Johannesburg, Pretoria and Bloemfontein. The head office will be in Johannesburg.

Stals said that increases in multifactor productivity provided the key to success for many of the newly-developed industrial countries and "we in South Africa now have a wonderful opportunity to follow in their footsteps".

The banking sector played an important part in the allocation of resources and many challenges awaited the country in fulfilling this important function.

He warned that there was a temptation to believe that a banking institution was "very profitable" but recent experience in the world did not bear that out.

He said Futurebank was joining the banking fraternity at an interesting time as South Africa stood on the threshhold of exciting new developments.

"I am told that Futurebank sees itself not as a 'poverty bank' a 'black' or a 'white' bank, but rather as a bank for all South Africans which will offer certain unique products which will enable it to compete in less traditional markets. This mission must be applauded," he said.

The new chairman of the bank and chief executive of Fabcos, Mr Jabu Mabuza, said the birth of Futurebank came at a significant time when South Africa was poised to move to nonracial democracy.

INTERNATIONAL FM 29/11/91

A wider net (58) (123)

In what is believed to be the most ambitious campaign of its sort by an SA company, senior executives of the Seeff property group will leave on a world tour next month to market top-of-the-range residential and investment properties. The group believes the lifting of sanctions has sparked new interest in local property which they regard as undervalued in world terms.

FM 29/11/91 (58) (123)

The month-long tour, costing R130 000, will be led by Seeff Residential Properties (SRP) director Rob McKee and includes exhibitions in London, Zurich, Lucerne, Frankfurt, New York, Hong Kong, Taipei and Tokyo.

Since 1985 Seeff has exhibited annually in London and the response has been good in spite of the poor political climate. Sales valued at about R130m have been directly attributed to the London exhibitions. Total foreign sales by the group over the past six years have been about R100m, according to Seeff International Properties MD Carmella Seeff. She says foreign investors are interested in SA holiday homes because previously favoured areas like Spain and the south of France are overcrowded and expensive.

Properties on this year's exhibition will be in the R700 000-plus price bracket though lower priced houses with "something special" to offer have also been accepted, says SRP MD Samuel Seeff. He adds that the company has no doubt the lifting of sanctions will see buyers streaming back to SA from Europe, the US and the Far East.

However, he warns that local sellers shouldn't believe they can inflate prices and catch unsuspecting foreign buyers who "are not fools" when it comes to knowing the true value of SA property.

The exhibition will be in the form of a slide presentation of the properties on offer plus detailed information so that investors will know exactly what they're looking at. The exhibition will be backed by Satour material on SA's lifestyle.

Seeff says that though Cape property remains most popular with foreign investors, this may be because there has never really been a major effort to market Transvaal property — which this year's exhibition will do. "After all, the Transvaal enjoys one of the finest climates in the world, is the country's economic hub and is well placed to serve foreign businesses, particularly with the reopening of the SA market."

Properties on show will include game farms which Seeff says have become such popular investments locally and overseas that the company has opened a dedicated office in Hazyview in the eastern Transvaal to market them. He says potential buyers are an elite but growing group of wealthy people interested in wildlife. "The green movement is no longer simply a social fad. People are practising conservation in their private capacities and spending millions doing so."

The Hazyview office is managed by June Martin who previously managed SRP's biggest Cape Town branch at Wynberg. She says lobbying by conservationists to have the private game farms on the western boundary of the Kruger Park incorporated into the park (though left in private hands) is pushing up property values considerably. ■

FM 29/11/91 (58)

RESIDENTIAL FM 29/11/91

Hope eternal (58)

After years of biting the bullet and facing up to real value depreciations, homeowners could be in for a change of fortune over the next 12 months.

That is the optimistic message which emerges from Absa's *Quarterly Housing Review*, a research publication (formerly the *UBS Housing Review*) which tracks residential property buying trends and mortgage fluctuations.

Even if there is light at the end of the tunnel estate agents say, however, the market is as tough as ever.

The review says the third quarter showed a year-on-year average price rise of 14% for medium-sized homes (140 m² to 220 m²) to about R120 000. However, those of 220 m² to 350 m² increased by an average 13%.

Absa says this means a 1,5% drop in real terms of medium-sized properties when inflation is factored into the equation. So house prices have been falling in real terms since the end of 1983 by an average of 7,5% (annualised) every quarter.

Absa's Christo Luus believes that, despite the recession, residential property has shown remarkable resilience. What is more, he says, the tide could soon turn for the better. His optimism is based on an expected economic upturn beginning in the second half of next year.

Furthermore, though inflation remains high, the relatively stable rand, a strong decline in credit demand and a healthier foreign exchange reserve position could motivate a lowering of interest rates in the first half of 1992. Provided inflation is kept in check, the bank rate could drop by two percentage points and mortgage rates could fall to 18% within a year.

"This is encouraging for the housing market," Luus comments.

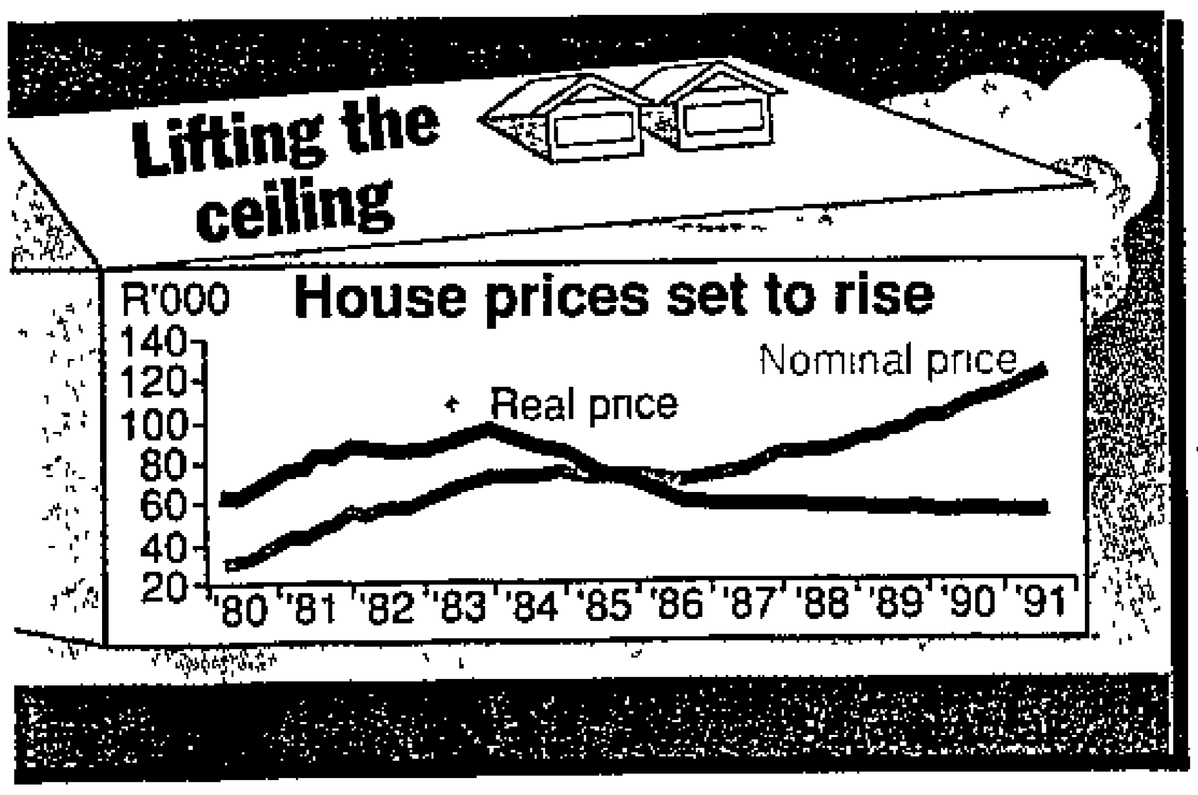
But, while Absa is optimistic, Pam Golding's Ronald Ennik says a huge oversupply of houses at the top end of the market is causing some desperate sellers to drop prices radically.

"This situation is exacerbated by about five or six cluster complexes which have just come on to the market with units priced at more than R1m. I doubt some of the developers involved have first-hand experience of the top end of the market and some certainly did no research before proceeding with their schemes," he claims.

He adds the situation is just as depressing in middle-income housing where properties around Johannesburg are being sold for less than was paid for them a year ago. "Only smaller houses are showing any signs of buoyancy," he maintains.

This view is endorsed by the Aida group which says property price increases in greater Johannesburg have not kept pace with the official inflation rate for two years. However, chairman Aida Geffen says this follows a 30% rise in 1989.

"Prices rose by 9% last year and 11% to October this year. There are, however, some areas which have performed well. These have generally been areas where houses are priced up to R300 000. Examples are Kensington (Johannesburg) and Germiston where the increases have been 24% and 30% respectively this year." ■



Monetary policy 'to stay'

LINDA ENSOR (58)

CAPE TOWN — Strict monetary policy would remain in place for a considerable time to come, advisor to the Reserve Bank governor, Roger Gidlow, told a gathering of businessmen recently.

Speaking at a combined meeting of the economic affairs committees of the Cape Town Chamber of Commerce and Cape Town Chamber of Industries (CTCI), Gidlow discounted any suggestion that a boom would occur in 1992. B/Day 29/11/91

Interest rates would remain high and recovery would not be fuelled by a credit boom as private consumption expenditure would remain under pressure.

Gidlow said the upturn would come from new investment spending on stocks and inventories on the one hand and fixed plant and machinery on the other.

AA LIFE FM 29/11/91 (58)

Wise after the event

When AA Life sent up an interim dividend of R6,5m to listed parent Avins (Anglovaal Insurance Holdings) in February, the *FM* suggested the cash effectively came from policyholders' funds.

After an independent actuary's report major shareholder Anglovaal denies this but concedes "with hindsight, the dividend may have been imprudent."

When the *FM* queried the prudence of the dividend, the action was vigorously defended by Avins' then CE Brian Benfield. He disputed the finding of Ron Howroyd, an actuary retained by AA Life, who estimated the deficit in the life fund as being at least R10m and said the company's capital base had been eroded. He subsequently reported Howroyd to the Society of Actuaries for breach of confidence.

Howroyd was later vindicated. Considered by other actuaries to be a brilliant eccentric, he approached the *FM* as a last resort only after he had tried to convince the executive directors of the problem and attempted to alert the Registrar of Insurance (now Financial Services Board) — where, he says, he got the brush-off. AA Life's non-executive directors appointed by Avins were never told of Howroyd's findings.

This week it was learnt that AA Life has its fourth MD in 18 months. Benfield, after his elevation to Avins, left to pursue an academic career. His successor, Rob Williams, MD when the dividend was declared, dissociated himself from the declaration in a letter to his co-directors — he had previously been the company's official valuator. He left early this year.

His successor, Bruce Howard, has also resigned. Joe Gates, previously an executive director and president of the Institute of Life & Pension Advisers, has taken charge.

Anglovaal, ultimate owner of AA Life, has now acted to clean up the mess, which came to light this year when the *FM* reported Howroyd's findings.

Last week's statement of results for Avins reported: "AA Life's net premium income grew from R90,5m to R127,5m during the 14 months ended June 30 1991, but the resultant 'new business strain,' particularly for single-premium business, and the high level of expenses impacted adversely on results. This was exacerbated by a below average investment performance.

"Subsequent to the balance sheet date, the board of AA Life received an independent actuarial report indicating that there had been an underprovision for actuarial liabilities in the current and prior periods. Though the company has met its statutory obligations, in terms of the Insurance Act, which imposes most stringent parameters on life

De Beer

companies, the board has nevertheless decided to strengthen its life fund by a transfer from shareholders' funds of R40m . . .

"While the portion of the underprovision relating to periods prior to the Avins acquisition of AA Life relates to goodwill, the information necessary to allocate the underprovision between accounting periods is not available; therefore the directors of Avins have decided it would be appropriate and prudent to disclose the entire provision in the income statement for the current period."

AA Life has passed its final dividend. But the pain does not end there. To help AA Life continue its growth path, it (like sister company Crusader Life) is finalising a rights issue. The new capital will in effect be an infusion from the AVF-Avins stable.

Anglovaal and Absa Merchant Bank (which holds 20% of the AVF group) are therefore picking up most of the tab for the fiasco but there are still some minorities who, clearly, have been prejudiced. There are also many questions still to be answered.

Avins CE Dave de Beer discussed some of them with the *FM:*

☐ How can the board of a life company be so misinformed about its assets and liabilities? De Beer says that after this experience, AA Life (and Crusader) will never again rely on an internal valuator. It will use independents;

☐ When AA Life and Crusader were reshaped into Avins, were there warranties and, if so, have they been breached? De Beer says warranties were given but he would have to study the agreements to establish whether all were fulfilled;

☐ Given that Howroyd's information, supported by former valuator and MD Williams, was available to the executive directors of AA Life, was the payment of a dividend not only imprudent but possibly illegal? De Beer, who was not directly involved in the dividend decision, points to provisions in the Insurance Act. To pay a dividend when the life fund is technically insolvent would have been wrong, he agrees. "But that's with hindsight."

At the time, the board believed there was sufficient surplus to make the declaration reasonable. Also, insists Avins director David Barber, the company at no time breached the statutory requirements; and

☐ Has consideration been given to delisting Avins, while the future of the insurance group is being clarified? De Beer says it has been considered but is not likely.

Since the problems became known, several steps have been taken to cut costs and redirect priorities.

AA Life's abnormally high expense and lapse ratios (*Economy* November 22) will be at least partially corrected since the high-cost investment department has been dissolved and the function moved to the Board of Executors; the reliance on telesales has been eliminated and the broker division passed to Crusader. So some of the benefits projected when Avins was floated may now be coming through.

AA Life's high-flying days are over and Gates is left to consolidate what's left.

When the *FM* originally queried the controversial dividend with Benfield, the answer was that life companies were expected to have a steady dividend record, essential if AA Life was to go eventually for an independent JSE listing. That prospect now seems far away.

Cont —>

FM 29/11/91 (58)

Four questions still remain:

☐ Who made the valuations which resulted in underprovision and is there a case for investigating the actuarial competence employed, possibly by the Society of Actuaries?

☐ Why is it not possible to allocate underprovisions to separate accounting periods? Current shareholders in Avins are carrying the total prejudice;

☐ Is the dividend to be reversed and returned to AA Life? and

☐ Why were Howroyd, a respected actuary, and company valuator Williams unable to sway the issue. And why was Howroyd given short shrift by the Registrar of Insurance?

Bryan Deans

RECOR

FM 29/11/c

Last month SA recorded a recorc trade surplus of R2,7bn.

Imports fell marginally from ber to R4,2bn while exports rose R6,9bn.

Nedbank chief economist Edw born suggests October exports clude an adjustment for previous "Probably September. This can b the pattern of unclassified export R2,8bn in October, after dipping tember to R1,9bn, from R2,5bn

 FM 29/11/91 (58)

BANKING

Full frontal

Part 5 of the Fourth Schedule of the Companies Act, which exempts banks from the stringent disclosure requirements imposed on other companies listed on the JSE, is to fall away in January 1994.

An exposure document circulated by the SA Institute of Chartered Accountants (Saica) to banks, which have until this week to comment, proposes:

☐ Disclosure of inner reserves;
☐ Identifying risk; and
☐ A description of risk management principles.

"Sustainability of a bank's earnings is significantly dependent on the effectiveness of its risk management," says the document, which identifies risks relating to:

☐ Liquidity — availability of funds to meet deposit withdrawals;
☐ Solvency risk — excess of assets over liabilities and adequacy of capital;
☐ Credit — counterparty default;
☐ Interest rate — losses which may arise out of fluctuations;
☐ Currency; and
☐ Price.

It suggests also that:

☐ Principal types of revenue should be recognised in financial statements;
☐ Investment and dealing securities and derivative instruments should be valued;
☐ A distinction should be made between assets and liabilities on balance sheet and those that give rise to contingencies;
☐ The basis of valuation of loans and advances should be published; and
☐ The conditions under which accrual of interest on loans or advances is not recognised as income should be explained as well as the basis used to determine the carrying amount of such loans.

A draft was first circulated a year ago for comment. Banks had until the end of June to respond. "The pros and cons were discussed at a workshop but no specific comments were received," says Saica's Monica Singer. The document has now been approved by Saica's Accounting Practices Committee.

By 1994, the proposals will become an accounting statement and therefore part of Generally Accepted Accounting Practices (GAAP). Its requirements will then automatically apply to banks, says Registrar of Deposit-Taking Institutions (DTIs) Hennie van Greuning, because the DTI Act obliges banks to comply with GAAP.

SA banks have already started to come into line with international disclosure standards set out in an International Accounting Standards statement — IAS 30 — published in August 1990. But a survey of 10 domestic banks this year by KPMG Aiken & Peat's Banking & Finance Group showed none complied fully — no income statement in the financial year ending 1990 provided all the details required.

The survey ranked First National Bank first, as it met 10 of 17 requirements, while Saambou failed to meet every requirement and Boland Bank failed all but one. This confirms analysts' feeling that, though bankers are not willing to put their opposition to the proposals on record, some smaller banks are reluctant to comply. ■

Standard cuts ATM subsidies

CT 30/11/91

(58)

Staff Reporter

CHARGES for using auto-teller machines (ATMs) other than those of your own bank are to increase following the withdrawal by a leading bank of a subsidy on service charges.

The Standard Bank of South Africa announced yesterday that as from tomorrow, subsidies on service charges for using Multinet and Saswitch ATMs would be cut or withdrawn.

A spokesman said Standard was the last major bank to withdraw its subsidies.

He said that Multinet and Saswitch charges had risen.

Saswitch charges an average R1,46 per withdrawal and, instead of paying R1,15 as has been the case, the customer would begin pay R1,30. Multinet customers would pay the full R1 service charge and not 75c as in the past.

He said that the service charge for using Standard Bank ATMs would still cost customers the normal 70c service charge.

Denying the claim that Standard was the last bank subsidising its customers, Mr T A Lamont, assistant general manager: banking of First National Bank, said it still subsidised customers by up to R1, depending on the amount withdrawn.

Mr Lamont added that there were no plans yet to cut or withdraw the subsidies.

A spokesman for Trust Bank, Mr Floyd Mongale, said that the bank did not subsidise its customers for using other ATMs.

Bank tries to gag Westpro

STAR 30/11/91

DEREK TOMMEY

58

ALLEGATIONS by Mr J Spelt, a Pretoria businessman which were reported in the Saturday Star two weeks ago that banks were illegally overcharging thousands of clients with punitive overdraft rates has taken a new turn.

First National Bank has threatened to take legal action against Mr Spelt unless he agrees by noon today to stop making what it says are defamatory statements.

Mr Spelt says he will not give the bank any undertaking to this effect.

Bank's letter

First Bank's lawyers, Rene Kruger Inc, in a letter addressed to Mr Spelt and his company Westpro Business Consultants says:

"We act for First National bank of Southern Africa.

"You have over a period of approximately six months and publicly in the media embarked upon a defamatory campaign intended to impair the commercial integrity and standing of our client. In particular you have stated of and concerning banks (of which our client is an eminent member) that:

"The said banks (obviously including our client) have acted illegally;

"The said banks (including our client) have overcharged clients on accounts, and have contravened the Usury Act;

"The said banks are guilty of malpractices;

"The said banks have charged interest on overdraft accounts in excess of the rates permissible in terms of the Usury Act.

"It has also been brought to our client's attention that on Wednesday night, November 27, 1991, you participated in a conversation on a public radio station, Radio 702.

"We have reason to believe that during the course of such conversation and/or radio programme you again made defamatory statements of and concerning banks, including our client.

"We are in the process of obtaining a tape-recording of this conversation and will address you further in this regard, if need be.

"It has also come to our client's attention that yesterday (Thursday) morning you participated in the recording of a proposed television programme due to be screened some time next week. Again our client has reason to believe that you made defamatory statements of and concerning our client.

"In the light of the aforegoing, it is our instruction to call upon you to provide us with a written undertaking by not later than 12 noon on November 30, 1991, that you will refrain from uttering similar statements of and concerning any banks including our client.

"We advise you that unless we receive your undertaking as aforementioned, our client will have no option but to launch an urgent application for interim relief interdicting you and any of your employees and/or agents from uttering such defamatory statements pending final relief."

Commenting in this letter Mr Spelt said that at no time had he mentioned a bank by name.

He knew of several documented cases where clients were refunded several thousands of rands — one was refunded more than R17 000 by a well-known bank — after Westpro, which had developed a special software programme, had revealed overcharging.

Mr Jimmy Mackenzie, senior general manager of First National Bank, said the decision to proceed against Mr Spelt followed country-wide allegations by him against the banks.

Usury rate

"We do not deliberately charge interest rates which exceed the Usury rate," he said. We have a computer which constantly monitors the rates clients pay and if it exceeds the usury rate it will pick it up.

"If any of our staff were to charge above the usury rate and we found out he would be fired immediately".

He said that the interest rates on overdrafts were determined by the local bank managers according to the risk involved. As the risk changed so were the rates charged.

"If any client of the bank had any complaints about the rate of interest he was being charged he should take up this matter immediately with his bank manager.

Interest rates: banks challenged to debate

STAR 30/11/91 (58)

THE Consumer Federation has sent a letter to five national banks challenging them to an open debate on allegations that they are constantly overcharging on interest rates.

In a statement yesterday, the federation said, although most banking institutions constantly denied the allegations, not one had applied for a declaratory order, or tried to interdict the Consumer Federation from venting the allegations.

In the letter, the consumer body said since it made its findings public last year on overcharging of interest on overdraft accounts, it had identified several problem areas:

- Banks avoided discussing interest rates with clients in order to levy the highest possible rates.
- Interest rates were changed without the consent of the client.
- In some instances it had been found that the maximum rate allowed by the Usury Act had been exceeded.

"It has also become clear that, when clients attempt to discuss overcharging with managers of certain banks, satisfactory explanations never seem to be forthcoming.

"An obvious solution, in the interest of the public, would be to discuss the apparently different issues in a public debate."

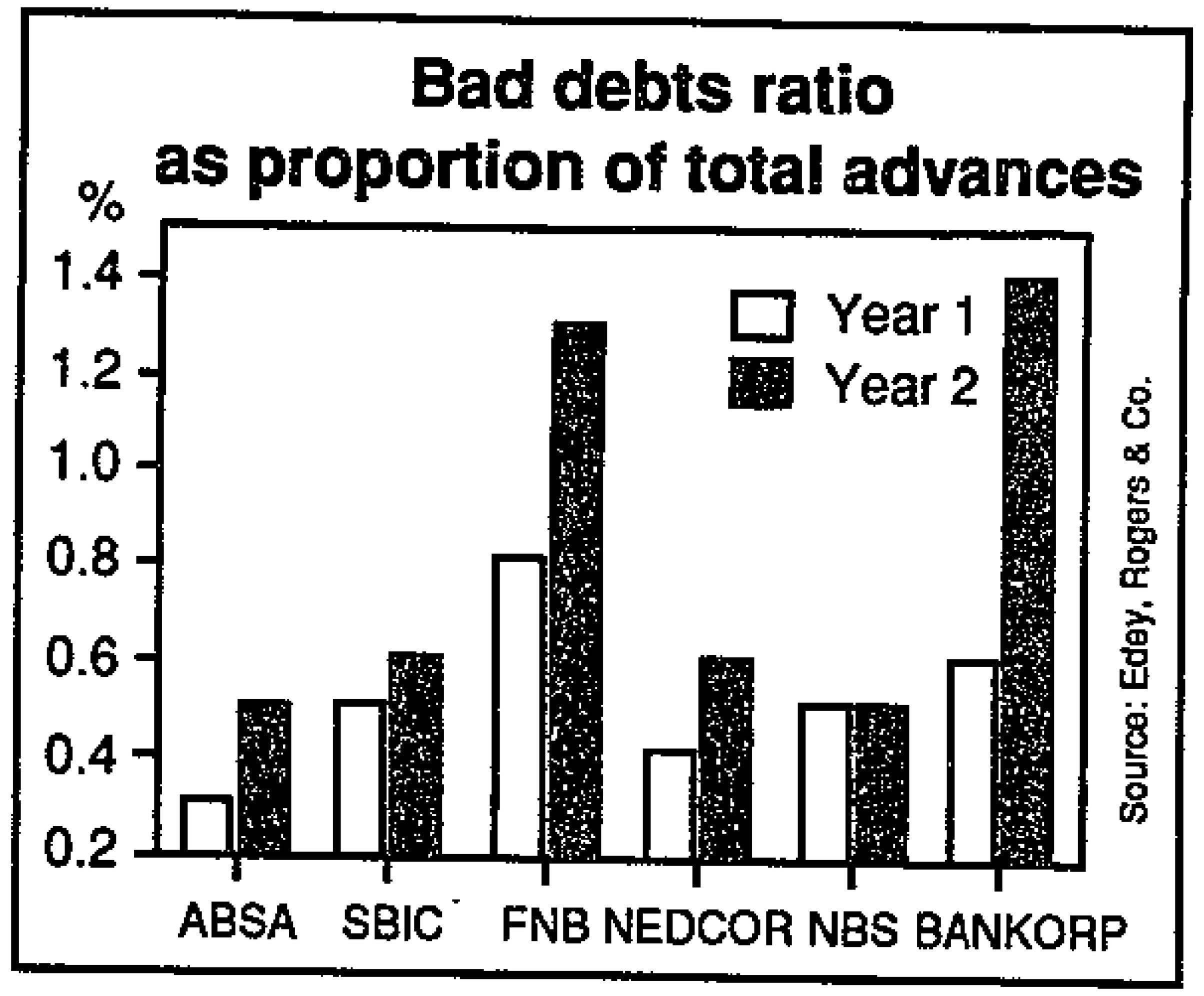
The letter was sent to First National Bank, Nedbank, Standard Bank, Trust Bank and Volkskas. They were asked to reply to the challenge within seven days. — Sapa.

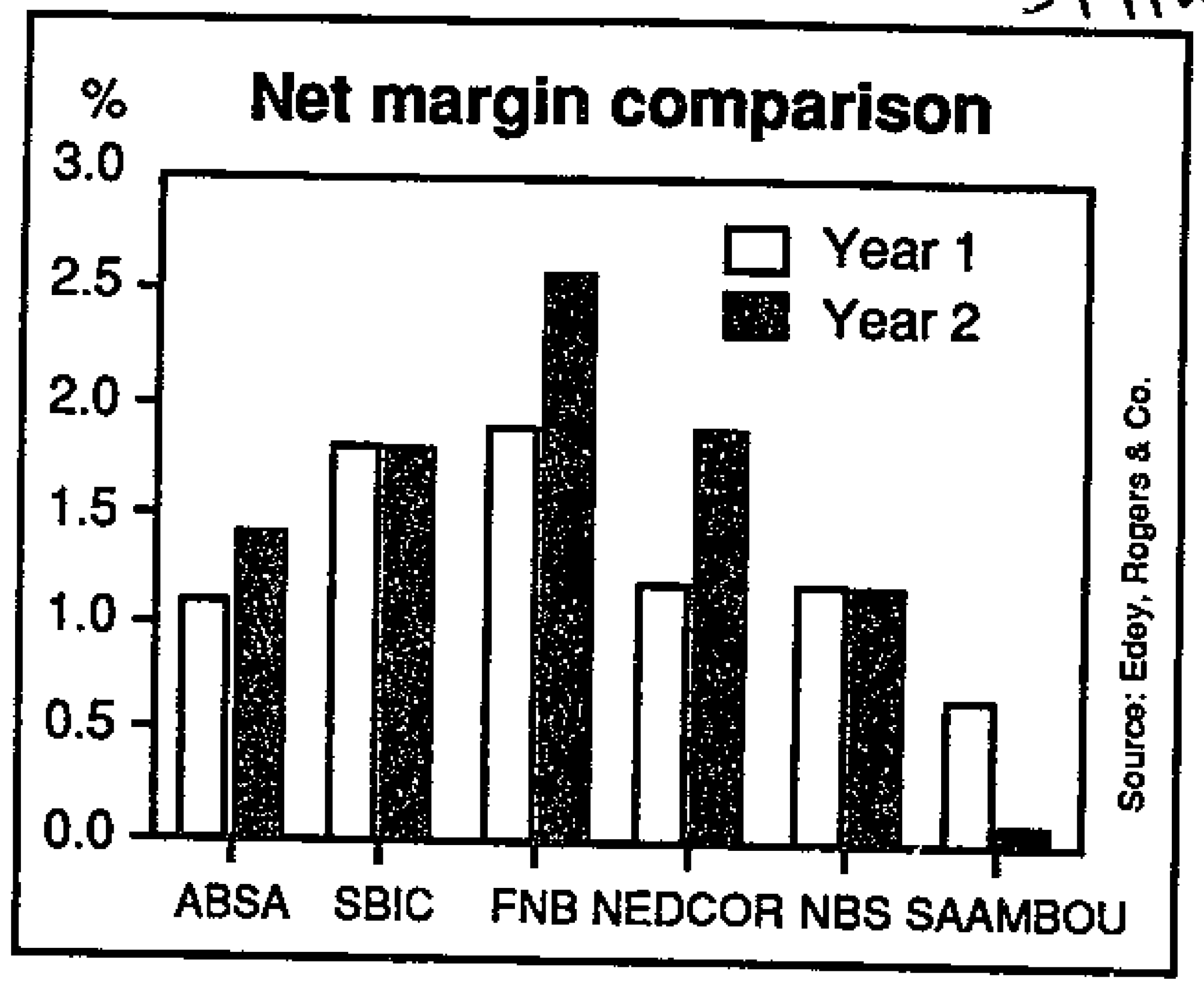
● See Page 18.

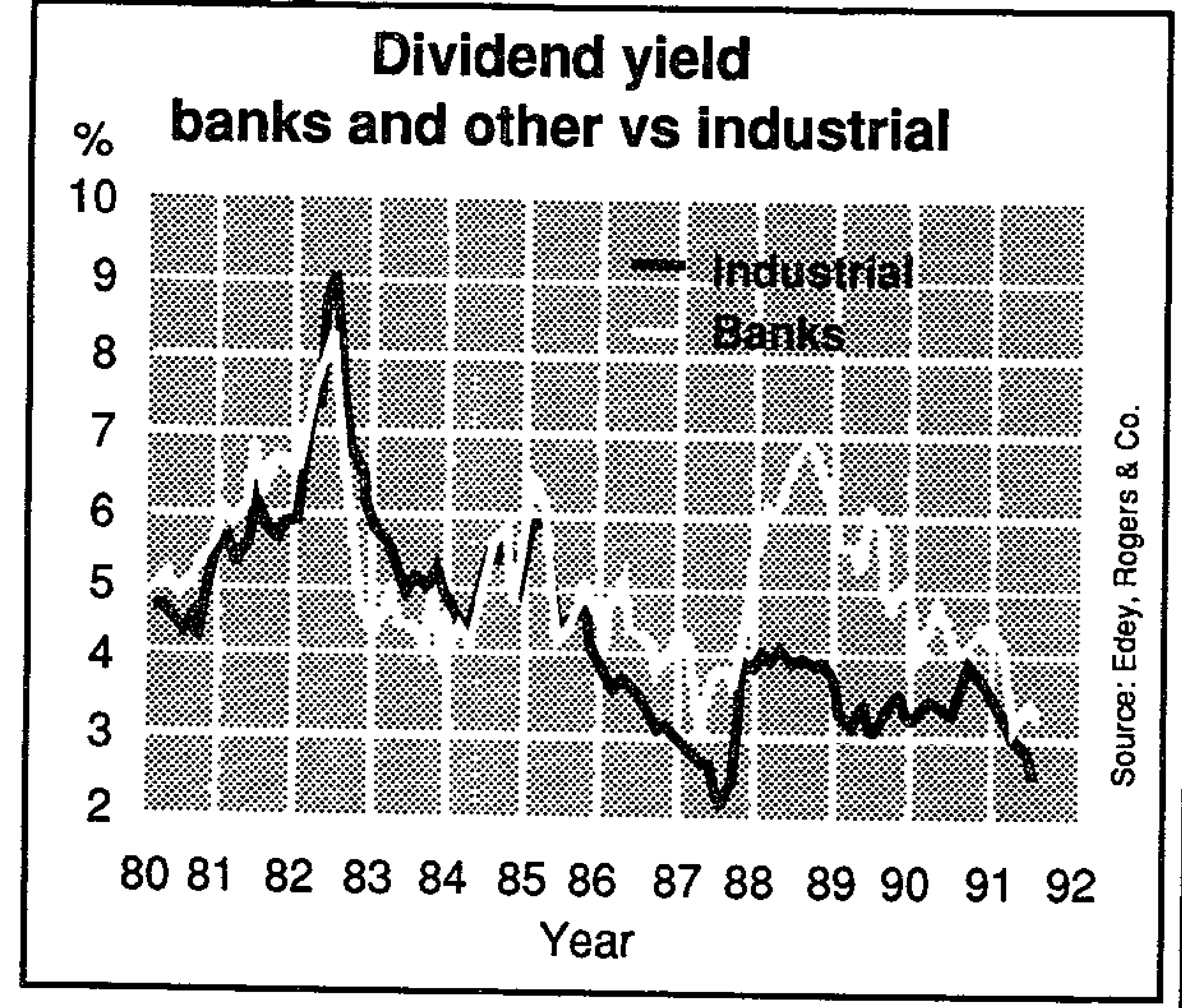
FINANCE – GENERAL
1991 – DECEMBER

BANKING ON A HIGH RIDE

S/Times (BUSS) 1/12/91 (58)







BANKING share prices have surged in the past year.

By DAVID SOUTHEY, investment analyst, Edey, Rogers & Co Inc

TOP 100 COMPANIES

The recent index level of about 2 550 represents a 47% appreciation on its early January mark of 1 695 and compares favourably with the industrial index rise (from 2 660) of 44% in the same time.

Indications for bank shares at the beginning of the year were decidedly positive. The Reserve Bank declared its intention to keep monetary policy as restrictive as possible. This signalled that lending margins for banks were likely to widen as the recession intensified.

The major concern was whether banks' healthier lending margins would compensate for the expected increase in bad debt caused by the recession.

It must also be remembered that at the beginning of the year there was considerable pessimism among major institutional investors about the industrial market's prospects. The most bullish forecasts suggested a mild appreciation in the index to about 3 400 by the end of 1991 and 4 000 by the end of 1992. As recession hedges, therefore, banking shares acquired a little more glister.

But there was some cause for caution: on dividend yield, bank shares had improved steadily in their rating from 7% in 1988 to about 4,5% in mid-1990. How much longer could the rerating continue — particularly if the industrial market was not expected to be that exciting?

In the event, the industrial market exceeded wildest expectations — and so did bank shares. The average dividend yield on bank shares is now only 3,3% compared with 4,4% in early January.

Do the results so far this year justify this rating for bank shares? In the light of the industrial market's performance this year the answer must be an unqualified yes.

While most industrial companies have seen earnings growth rates slide, those of banks have improved, or at least held 1990's sound levels.

- At the interim stage in June 1991, Standard Bank reported 23% growth in earnings, but bad-debt provisions jumped ominously by 160%.
- Reporting for the 12 months to June, Bankorp recorded a turnaround in attributable income from a loss of R379-million in the previous year to a profit of R49-million.
- Reporting for the year to September 1991, First National recorded nearly 17% earnings and dividend growth.
- At the interim stage in September, NBS reported 21% earnings growth.

Rein

Bank shares are likely to hold favour as long as the Reserve Bank keeps a tight rein on monetary policy. Falling retail interest rates tend to narrow margins because lending rates trend down faster than deposit ones (where banks are locked into time deposits).

The Reserve Bank has promised that 1992 will not be marked by significant interest-rate declines, which means margins will not be slashed. The major fear, though, is that liquidations will soar — and so will bad debts.

Looking to the longer term, there is plenty of room for further rationalisation in banking to reduce costs. Economies of scale are nowhere near where they should be, far too many banking assets being tied up in bricks, mortar and fancy computers.

These days there is precious little money to be made from corporate lending.

The survivors will be those that price their retail banking products correctly while managing to cut costs.

Quickly

Capital ratios for the time being are more than adequate, but if economic growth and inflation take off the way some predict, that will change quickly.

This year's major events were the formation of Amalgamated Banks of SA out of UBS, Allied, Volkskas and half of Sage Insurance, and the mad dash for Standard Bank Investment Corporation which overnight lifted the share price by R15 to above R50 and culminated in Remgro's selling its 10,5% interest to Liberty Life.

Stand by for more action in 1992.

Joe Gates steers AA Life on a new course

S/Times (Buss) 1/12/91 (58)

JOE GATES: Early maturity

By IAN SMITH

FOR someone who entered the life-assurance industry by accident, Joe Gates has gone a long way in a short time.

The young law graduate from Rhodes applied to be articled to several law firms after the Soweto riots, but found the pay would barely allow him to live.

That is when he saw an advertisement from Southern Life for a legal adviser. On the spur of the moment, he applied for the job. He has never regretted the change of career path.

Today, at 40, he is managing director-designate of AA Life, the assurer with assets of about R300-million and a patchy history in recent years.

Mr Gates will steer the company in the new direction it takes in the Anglovaal Insurance Holdings stable.

Mr Gates says he is aware of the challenge.

He joined what was then known as AA Mutual Life in 1983 as assistant general manager (marketing and development) and he has lived closely with the triumphs and trials of the past eight years while advancing up the corporate ladder.

Short-term insurer AA Mutual was riding high at the time. The life company, which was separately managed, had pioneered direct marketing of insurance in SA.

The dramatic collapse of AA Mutual in 1986 did not have a direct impact on the life assurer, which had been hived-off into Kirsh Industries a few months before.

"But there is no doubt that it caused some insecurity among policyholders," says Mr Gates.

Changing

"The life industry sells security. We put everything we had in terms of blood, sweat and tears into reassuring policyholders."

A subtle name change to AA Life and a public relations push to stress the company's separate existence helped to ensure that it emerged unscathed.

"At worst we remained static for a year, but we more than made up for it by growth in subsequent years," says Mr Gates.

The decision to retain the AA family name has been proven correct, although some in the company favoured a complete change after the AA Mutual crash.

Mr Gates recalls that one suggestion was that the name be changed to Consolidated Life. But someone pointed out that if the company ever went to the JSE the abbreviation would be Conlife — "not the right connotation for a life assurer", says Mr Gates.

AA Life went into an exciting spell, with a high profile as an aggressive innovator of products.

"Life assurance was changing. More sophisticated customers were looking for policies which offered something here and now. They wanted more than the best death benefits," says Mr Gates.

"At the same time we had to develop our own computer support operations and develop our own investment team.

"We were forced into early maturity. In many respects it was difficult. But we were able to install state-of-the-art systems. Our computers enabled us to issue policy documentation immediately, which gave us a competitive advantage"

AA Life's growth record made it an attractive target in 1989 when Anglovaal bought into the group renamed Avins. It holds about 60% of Crusader Life and 95% of AA Life.

The group has gone through the second stage of its restructuring in which Crusader took over AA Life's direct marketing and broker consultant operations.

AA Life will concentrate on direct field force and group benefits activities.

"We will be a sales oriented company," says Mr Gates. This means that he will take a much closer interest in marketing.

Wife

Mr Gates is president of the Institute of Life and Pensions Advisers and he is proud of the work ILPA has done to establish core values of good faith and integrity.

Mr Gates does not have much time for activities beyond work and his family — wife Lina, a five-year-old daughter and three-year-old son.

"But fortunately I do not have to divorce myself entirely from work to relax. Insurance is a dynamic and absorbing industry."

Firefighter Dave out to put AA Life right

58

S/Times (BUSS) 1/12/91

ANGLOVAAL Insurance Holdings (Avins) shares have done nothing but dive since I visited the then chief executive Brian Benfield six months ago.

I believed the group, which houses two assurers AA Life and Crusader Life among a few smaller investments, had a lot going for it.

The group had launched a telesales drive, it had come through a merger in good shape and it had secured the backing of highly desirable suitor Anglovaal.

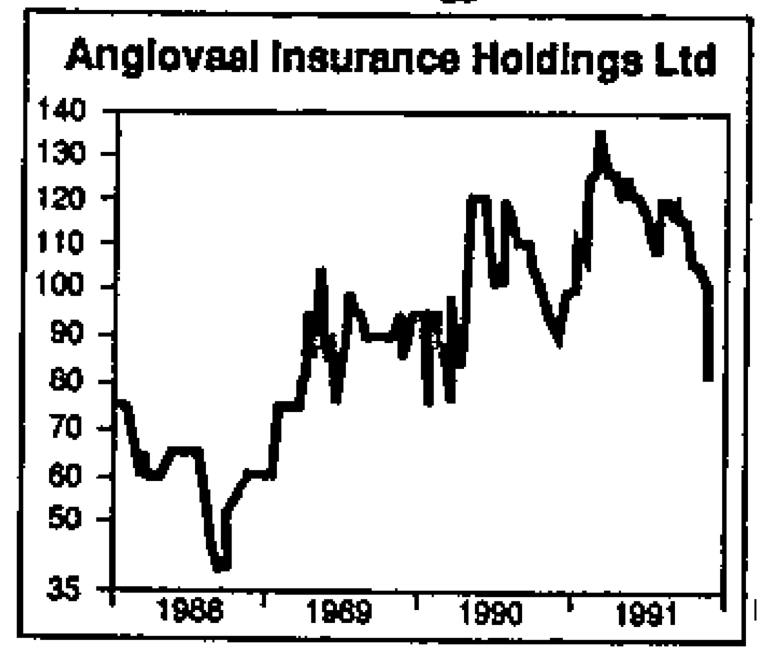
The cons were minor by comparison — new-business strain would require a rights issue or two and investment performance had not been up to scratch.

So it was surprising that Dr Benfield left suddenly in August. Even more surprising is that his year of consulting to the group has been discontinued and he is off its various boards.

The group announced rather cryptic results a week ago. It was unable to arrive at a valid earnings a share figure and disclosed that a special provision of R40-million had been made in 95% held-AA Life.

It is time for me to review the position.

New chief executive Dave de Beer has been in touch with AA Life for three years of a 13-year career in merchant banking. The first four months of this fresh start have been at best hectic for him. He admits having underestimated the position.



First, an independent actuarial evaluation of AA Life's balance sheet pointed to an underprovision against liabilities in the current and previous years.

In terms of the Insurance Act, AA Life was in the clear because assets exceed liabilities.

But in terms of the Companies Act, the life fund turned out not to be an accurate reflection of the actuarial liabilities So a transfer of R40-million was made from shareholders' to policyholders' funds.

It should be a one-off and is a correction of a situation which would not have arisen if prudence had been exercised earlier.

Mr De Beer says the poor investment performance was a significant force behind the necessity to make the adjustment.

Investment management has been farmed out to Board of Executors, in which Avins' major shareholder AVF Group has 35%.

Mr De Beer has been firefighting on other fronts. AA Life's general expense structure was too high in proportion to the size of the business. There was also room for improvement on rationalisation of the overhead structures of the two life offices. Grouping AA Life-Crulife under one umbrella has the potential to cut costs through common administration.

Initially, the two were to have carried on partly in competition with each other. But steps have been taken to give each its own identity.

Henceforth, AA Life will concentrate on agency-based business, such as group life cover. Crulife will take the broker-oriented path which has helped it to grow steadily for seven years.

The two tracks require different management in terms of rate books, marketing skills and so on. In addition, there is now scope for inter-group co-operation.

AA Life pioneered telesales of life assurance in SA, but unfortunately the ploy has backfired.

Mr De Beer says: "The group picked up the image of being in the business of issuing R15-a-month policies to the over 55s — not at all the right identity."

Market talk is that the percentage of lapsed policies written by AA Life is well above the norm.

The quartet of companies will have rights issues in the next few months. Crulife's will raise R20-million and AA Life will seek R26-million. Avins and AVF Group will also raise capital to follow their rights.

Mr De Beer says the issues will be attractively priced. He counts four influences that should restore AA Life in particular.

They are the R40-million transfer, the rights issue, rationalisation of operations and cost cutting.

Mr De Beer has moved from the AA Life Centre where he was isolated on one floor to the Crulife headquarters where there was an empty but adequate office.

Another plus is the appointment of current ILPA president Joe Gates as managing director of AA Life after many years with the company.

The benefits never arise all at once. There are rental agreements to cancel, contracts to be served out, retrenchment packages to be funded and so on.

Mr De Beer is grateful for a long association with Anglovaal — acquaintance was struck while he served at Volkskas Merchant Bank several years ago.

He says Anglovaal is a strong shareholder at a time when small companies find the going tough.

"We might be small, but we are innovative."

AA Life paid an interim dividend of 85c, but passed the final because of the actuarial report. Absolute earnings a share figures by Avins and AVF Group have not been given.

It is probably difficult since certain quoted life offices start calculations at the bottom line with a predetermined percentage rise on the previous year's figures and work backwards to make the top half of the income statement correspond.

The JSE's computer will not like it and shareholders can hardly be delighted either.

They should take comfort in the likelihood that the worst is behind and the directors expect an improvement in the year to June 1992.

PROFIT AT THE END OF THE PROPERTY TUNNEL

STimes (Buss) 1/12/91 (S8)

By NIKI VONTAS, managing director, Abcon Properties

PROPERTY unit trusts and loan stock companies are the distant mirror of the fixed-property business.

They discount rent returns and occupancy levels expected 12 to 15 months down the line. After bottoming in mid-November 1990, the two property investment sectors of the JSE still offer good value — for these reasons:

- The current high cost of other equities suggests an impending technical rerating of the listed property sectors of the JSE within six months.
- Long-term interest rates have peaked. Falling interest rates will benefit the pricing of direct and indirect property.

Major

- Real rental growth is not expected before 1993. However, a major technical adjustment of rents and consequently property investment yields in 1993 and 1994 is forecast. This process will be discounted as early as mid-1992 by the listed property sectors of the JSE while the fixed-property market will still be showing signs of weakness.
- High-quality property investment opportunities are relatively scarce and will hardly satisfy institutional demand.

The three major requirements for investment in the 16 property unit trusts (PUTs) and 11 property loan stock (PLS) companies are:

- High-quality property assets.
- Top-quality property management.
- Appropriate timing of the investment.

Currently, the relative dividend yield ratios for PUTs and PLS stand at 3,68 and 4, representing the highest relative yield ever reached (June 1986 — 3.2).

By any criterion, PUTs and PLS are extremely cheap at current levels, especially if one takes into account that in the past decade the PUT historical dividend yield averaged 9,2% compared with the present 10,3% and 11,2% for PLS companies.

When considering the performance of PUTs and PLS it is important to bear in mind that this is property and interest related and is generated by:

- Rent income from peoperty assets free of any borrowings (in most cases).
- Interest earnings from capital and income accounts.

The listed property portfolios on the JSE do not benefit from the capital appreciation that is generated from geared property. However, the listed PLS companies and PUTs offer a lower risk-higher return investment which over the long term is an inflation hedge.

For an astute manager, investments in PUTs and PLS are an integral part of a diversified portfolio and providers of real returns.

Today, listed investment property totals R6,7-billion — up from R2,29-billion five years ago. It is a growing industry.

Scarce

In 1991, CBD and Fedfund merged and three rights issues raised R222-million net (Tamboti R59-million, Capital R89-million and Sycom R74-million).

No PUT was listed in 1991.

The property loan stock companies sector has grown by more than 46% over 1990.

Compass held a R40,5-million rights issue in September 1991. The only property listing in 1991 was that of Abcon Properties with a capitalisation of R210-million.

The need for high-quality property investment in any diversified investment portfolio is fundamental.

The scarcity of good-quality real-estate stock persists. Combined with the growing demand for expert investment and management skills, this will enhance the attraction of listed property vehicles on the JSE.

The most important issue is change. In the past 10 years the property investment portfolios on the JSE have evolved into a lrage business.

The indices of the property trust and property loan stock sectors have been enriched with new and often good-quality portfolios. However, a real-estate portfolio changes much in the long term.

Investment, development and management expertise are the key to success, much more so than the original brick and mortar.

PUT AND PLS SECTORS
SYNOPSIS: MARKET CAPITALISATION AND PROFIT HISTORY

Property Loan Stock	Issued Shares R000	Issued Debentures R000	Market Shares c	Price: Debentures c	Market Capitalisation Shares Rms	Debentures Rms	Total Rms
Amaprop Mar	42 926	9 444	790	925	339,1	87,4	426,5
Barprop-Sept	74 587	30 000	150	1 150	111,9	345,0	456,9
Boeprop Sept		19 674		475		93,5	93,5
Compass-Mar	8 800	53 401	35	450	3,1	240,3	243,4
Growpnt-Oct		25 296		575		145,5	145,5
Hyprop Dec		30 610		650		199,0	199,0
KH Props Sept		20 947		500		104,7	104,7
Octodec-Sept		47 734		300		143,2	143,2
Panprop-Jun		41 388		700		289,7	289,7
RMS Prop-Sept		39 746		630		250,4	250,4
Saampro-Mar	8 676	17 353	80	325	6,9	56,4	63,3
Total Capitalisation of Property Loan Stock Companies							2 416,00

DIVIDEND YIELD AND RELATIVE RATING ASSESSMENT

	2 Jan 1991	13 Nov 1991
Property Trust Sector	10,8%	10,3%
Property Loan Stock	11,5%	11,2%
Financial/Industrial	3,9%	2,8%
Relative yield PUT/Fin Industr	2,77	3,68
Relative PLS/Fin Industr	2,95	4,0

TOTAL RETURN: CAPITAL AND INCOME

	Property Trusts	Financial and Industrial	All Share	Inflation	Call Interest Rates
1980-1991 Average	19,4%	22,8%	16,7%	14,6%	13,4%
1986-1991	15,8%	20,2%	16,7%	15,1%	14,1%

JSE ACTUARIES INDICES

	2 Jan 1991	13 Nov 1991	% Change
Property Trust Sector	152	162	+ 6,6%
Property Loan Stock	401	442	+10,2%
Financial/Industrial	3 007	4 332	+44.1%

PROPERTY UNIT TRUSTS

Property Trusts	Issued Units	Market Capitalisation CPU	Total (Rm)
Apex Mar	82 356	280	230,6
Capital Dec	129 285	290	374,9
CBD Fund-Dec	122 138	270	329,8
Cenprop-Dec	163 491	315	515,0
Brdprop-Feb	40 000	280	112,0
Higate-Apr	30 894	710	219,3
Histone-Apr	61 000	200	122,0
Mainprop-Mar	91 200	510	465,1
Metpro-Mar	58 956	290	171,0
Pioneer-Dec	111 396	350	389,9
Prima June	88 740	63	55,9
Sanland-June	194 400	82	159,4
Stanprop-Dec	280 140	160	448,2
Sycom-Sept	54 048	700	378,3
Tamboti-Sept	78 400	290	227,4
Umdoni-Sept	97 500	155	151,1
Total Capitalisation Property Trusts			4 349,98
Total Capitalisation Property Trusts and Property Loan Stock Companies			6765,9743

Property Unit Trusts	Total Performance	Period
Cenprop	28,5%	5 years
Stanprop	23,2%	5 years
Metprop	21,1%	5 years
Property Loan Stock Company	**Total Performance**	**Period***
Amaprop	41,0	3 years
Pangbourne	38,4	3 years
Hyprop	27,7	3 years
Barprop	24,3	3 years

* The above performance must take into account the low prices of the Property Loan Stock Sector in November 1988.

MARKET CAPITALISATION IN R MILLION

	1986	Listed Portfolios	1991	Listed Portfolios
Property Trusts	2 000	13	4 350	16
Property Loan Stock Companies	298	2	2 416	11
Total	2 298	15	6 766	27

Assurers full of life as shares rocket

(58)

S Times (Buss)

1/12/91

By DAVID SOUTHEY, investment analyst, Edey, Rogers & Co Inc

LIFE-ASSURANCE shares are seen as good defensive investments when the industrial market is expected to underperform. That is why most brokers retained assurance shares on their buying lists for the first half of 1991.

But the industrial market did not underperform — neither did assurance shares.

The overall insurance index — including short- and long-term insurers — rocketed by no less than 62% from 1 500 at the beginning of this year.

Big gains were recorded by all the major life offices, which was not surprising given their steady 20%-plus growth in earnings and dividends through thick and thin.

Liberty Life, which can more accurately he classified as an industrial conglomerate, opened the year at R23 and had reached R38 by early November. Southern Life rose by 80% to R22 by November.

Foreign

Spectacular gains were recorded by Fedsure and African Life, both of whose share prices more than doubled in the 10 months to November. Strong appreciation was also recorded in the share prices of Metpol (68%) and Momentum (57%).

Metpol, long the most-underrated counter on the insurance board, saw its rating improve significantly after Sankorp's reduction in its holding from 72% to 49% and its R190-million rights issue.

Liberty's foreign arm FIT was forced to buy back 43-million TransAtlantic shares from Richemont, but subsequently issued 35-million new shares to leading French assurer Union des Assurances de Paris (UAP) and consolidated its relationship with the latter.

At the same time, through TransAtlantic, it lifted its stake in British assurance giant Sun Life and then successfully placed 12-million new Liberty shares in London, in the process raising $141-million (R440-million) for further investment in property developments in the UK.

After a disastrous 1990, short-term insurers again increased their rates this year and appeared to have turned the corner on underwriting losses.

In the process they appear to have cemented their role as the prime agents for wealth redistribution in the new SA.

As crime reached unprecedented levels in major urban areas, it was insurance companies that once again found themselves at the receiving (or rather giving) end.

Nonetheless, some of the big insurers managed (just) to weather the storms and there were some surprisingly strong share peformances.

Cyclical

Blue-chip Mutual & Federal's share price jumped 92% to R25 and Santam's nearly doubled to 420c. M&F reported a 64% improvement in underwriting surplus to R199-million for the year to June. Santam recorded a small underwriting profit of about R2-million for the six months to March.

However, other companies fared less favourably, SA Eagle suffering an underwriting loss of R10-million for the half-year to June 1991.

Short-term insurers are highly cyclical profit performers — either making a fortune or losing one. Most insurance companies are tightly held by parent companies and are therefore unexciting traders. They consequently attract little attention from the broking community.

Buying recommendations are generally impossible to fulfil in quantities that would satisfy big institutional investors.

Offshore challenge for Liberty vice-chairman

BIDay 2/12/91.

SIMON WILSON

(58)

IMPROVING links with Liberty Life's 12-million new offshore shareholders is expected to be one of the main tasks awaiting the insurance and financial services group's vice-chairman-designate, Dorian Wharton-Hood, when he takes over the post in March.

Liberty chairman Donald Gordon announced at the weekend that Wharton-Hood, 52, currently joint MD, would take up the post of vice-chairman on the retirement of co-joint MD Mark Winterton, who turns 60 in February. Henri de Villiers remains non-executive deputy chairman.

In other moves in the group's management restructuring, all effective from March, Liberty Life FD Alan Romanis becomes group MD and Liberty Life Holdings executive director Farrell Sher becomes the holding company's MD.

Gordon said in a statement that the post of vice-chairman would cover links with government and industry, public relations, marketing and staff communications. Wharton-Hood singled out the group's relationships with its shareholders as an important function of his new post, following Liberty's Euro-equity issue in October.

The group, which is listed on the Johannesburg and London stock exchanges, raised R440m from the successful placing of 12-million new ordinary shares at R37 each among more than 100 European investment institutions in its recent offer.

"This is a new dimension for us, and shareholder communications will be a big part of my enlarged responsibilities," Wharton-Hood said at the weekend.

Absa provides for R220m bad debts

A STANDARDISATION of credit policy has seen Absa report a R220,3m provision for bad and doubtful debts for the six months to end-September.

ANDREW GILL

Releasing interim results at the weekend, the group reported an attributable profit of R209m to end-September to follow its debut R371m profit for the full year to end-March.

At the interim stage of United, Allied and Volkskas last year, United provided for R14,8m in bad and doubtful debts, Volkskas R76,5m and Allied talked of a large provision.

In their review of results, chairman Herc Hefer and CE Piet Badenhorst said there had been substantial increases in provisions at certain divisions, exacerbated by recession. Allied was adversely affected by more stringent debt management. This and inadequate margins from the historic structure of the bank's mortgage portfolio knocked profitability.

The group's R220,3m provision stood against R175,4m at year-end.

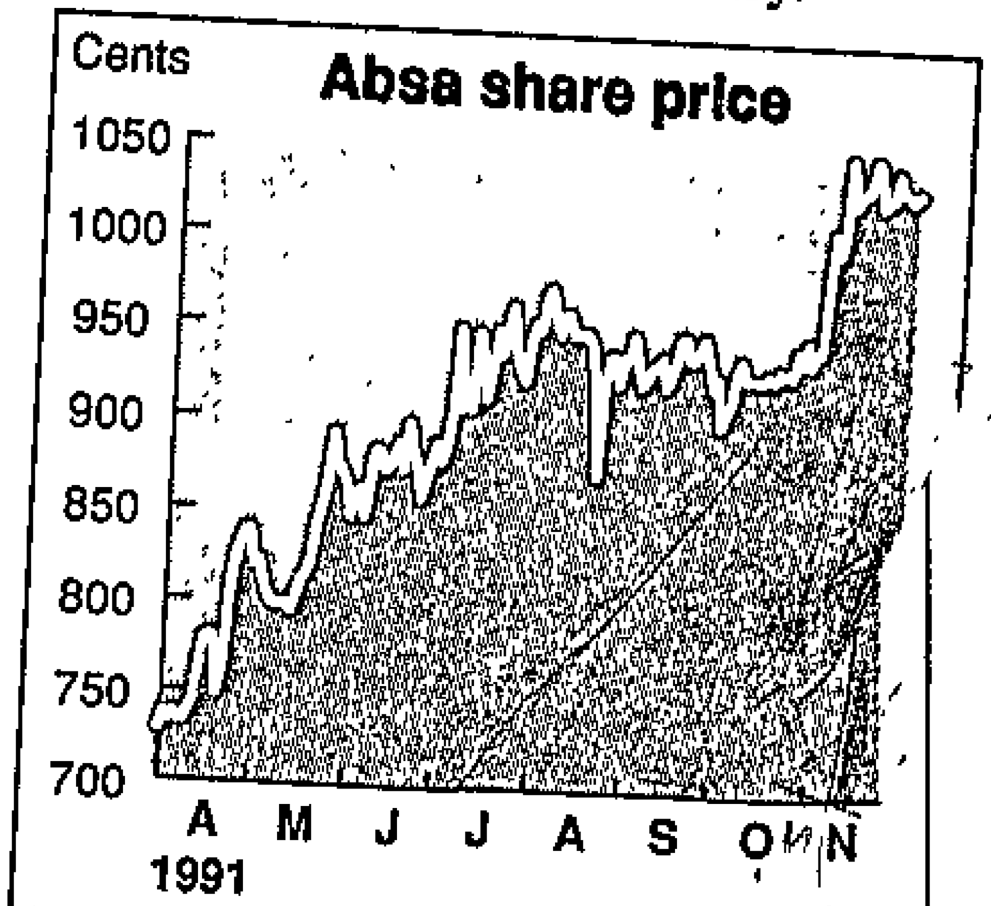
Based on an increased number of shares in issue after the merger, earnings were up to 45,4c a share from 39,4c. However, figures were not comparable because of the introduction of Volkskas and Allied since the last interim report.

The interim balance sheet shows loans and advances climbed by more than R3bn to R42,1bn — an 8% increase as total assets increased by over R1bn to R52,9bn.

Badenhorst and Hefer expect second-half performance to be satisfactory though conditions will remain difficult.

The interim dividend was lifted to 15,5c from 14c. Nevertheless, dividend cover rose to 2,9 times (2,8).

Badenhorst said the group performed well in the first half given the competition in the financial services industry.



Graphic FIONA KRISCH Source: I-NET

Life assurance assets reach R153bn

LINDA ENSOR 58

CAPE TOWN — Total assets of the life assurance industry stood at R153bn at end-June, 20% higher than the June 1990 figure of R127,7bn, according to latest statistics released by the Life Offices Association.

Total income of all life offices grew 10,5% to R34,6bn (R31,3bn) in the year to end-June 1991 with total premium income growing by R2,16bn to R23,3bn.

Income from individual premiums rose 13,6% to R15,3bn (R13,4bn), while total group premiums increased by 4% to R8bn (R7,7bn) and investment income to R11,3bn (R10bn). Benefits paid out by the industry amounted to R13,4bn (R11,5bn). The taxman collected R530m in income tax.

Largest contributor to the growth in premium income was Old Mutual which attracted premiums of R915m, compared with the total of R884m from the next six largest life assurers and R354m from the 21 medium and small assurers.

The seven largest life assurers — Old Mutual, Sanlam, Liberty Life, Southern Life, Momentum Life, Metropolitan Life and Fedlife — together account for about 90% of the industry's flow of premiums.

Old Mutual individual life GM Bobbie Jooste said in a statement the assurer's market share had reached a rate of growth double the average rate of the next six largest assurers.

Fundstrust investors left in dark

(58) Star 2/12/91

Finance Staff

Investors in Fundstrust, which has been provisionally liquidated, will have to wait until mid-February for any indication of how much they will recover of their investments.

Provisional liquidators Ralph Millman and Lawrence Stein of Cape Trustees say: "Many inquiries have been received from investors.

"We are at present not able to advise when and whether any funds will be paid to investors or how much they will be paid.

"While we are naturally sympathetic, we unfortunately cannot assist investors at this time."

Claim forms had been distributed to investors, who are asked to complete them and return them as soon as possible.

As far as can be ascertained, liabilities amount to R65 million to R69 million and assets are estimated by the directors, Ansi Kamfer and B J Engelbrecht, to be R59 million.

Since many valuable assets were held as nominees by Ms Kamfer and Mr Engelbrecht, the curators had successfully applied for their provisional sequestration and there would be close liaison with the provisional trustees of their estates.

It will also be established why the assets were held by them and not the company, the liquidators say.

Changes at Liberty Life 58

Top level changes have been announced at Liberty Life.

These follow the impending retirement of the joint managing director Mark Winterton next March. STAR 2/12/91

Dorian Wharton-Hood, the other joint managing director, will become vice-chairman of Liberty Life.

He will continue as executive chairman of Charter Life and be responsible for group public affairs, including government and industry interface, and communication with staff and group marketing connections.

He will play a role in broadening the marketing thrust, particularly in corporate areas.

Mr Wharton-Hood will join the boards of certain associated companies as a non-executive director and will report directly to group chairman Donald Gordon.

Alan Romanis, finance director of Liberty Life, will become managing director of Liberty Life . In addition, he will become a non-executive director of certain associate companies.

Yves d'Halluin and Steve Handler will continue as executive directors of Liberty Life, reporting directly to Mr Romanis.

Their future roles and responsibilities will be enlarged upon early in the new year.

Mr Handler will be appointed a non-executive direct of Guardian National in place of Ken Geeling, who retires in December.

Farrell Sher will be appointed MD of Liberty Holdings, responsible for all aspects of Liberty Holdings, excluding the operations of its subsidiaries, and will continue to be responsible for the group's corporate finance activities.

Roy McAlpine will continue as executive chairman of Liberty Asset Management and assume the chairmanship of the Gurdbank Management Corporation.

Wolf Cesman will continue as executive chairman of Libety Life Properties and have an increased role in certain associated companies.

James Inglis, currently an executive director of Liberty Asset Management, will become managing director of the copamy and report to Mr McAlpine.

Old Mutual leads field

58

Finance Staff STAR 2/12/91

The Old Mutual was responsible for a record 41,5 percent of all life assurance maturity claims paid in the 12 months ended June 1991, figures released by the Life Offices' Association (LOA) show.

Altogether, the life industry paid out R13,4 billion in the 12 months.

Old Mutual's individual life manager, Bobbie Jooste, says with one out of every three rand of premium income now flowing to the Old Mutual, its market share has reached its highest level since the LOA started recording industry statistics 18 years ago.

During the 12 months, the industry's premium income grew by R2,15 billion, with the Old Mutual contributing R915 million.

Absa performance justifies sharp rise in its share price

STAR 2/12/91.

By Derek Tommey (58)

Shares in Absa (Amalgamated Banks of South Africa) have jumped almost 100c, or roughly 10 percent, in the past month.

Absa's profit figures for the six months to September show that this rise would seem fully justified.

The results are for the first period in which all the components of Absa — the United, Volkskas, the Allied and parts of the Sage group — have operated as a single unit, probably making it SA's largest banking group.

The increase in net income attributable to shareholders rose by a highly satisfactory 15,2 percent.

But an analysis of the underlying figures shows that the group should be able to achieve even better growth in thé coming 12 to 18 months.

An interim dividend of 15,5c has been declared, 1,5c more than a year ago.

Comparisons of Absa's results are made difficult by the fact that figures for the year ended March 1991 and the six months ended September last year are not really comparable with the latest figures.

Nonetheless, some valuable conclusions can still be drawn. One is that Absa has been extremely successful in improving the margins on its lending activities.

The income statement shows that Absa paid R3,45 billion in interest in the six months ended September.

This amounted to 85,8 percent of the R4,03 billion it received in interest earnings. The profit margin of 14,2 percent compares extremely favourably with the 8,9 percent for the six months to September last year, and the 7,8 percent for the six months to March this year.

The 14,2 percent surplus resulted in net earnings from interest of R572,2 million. This compares (if it is comparable) with R113,9 million earned in the six months to last September and the R402,0 million in the 12 months to March this year.

Investment income at R554,5 million also appears to be running well ahead of previous years.

After taking investment income, interest income and interest payments into account, Absa had a net margin for the six months of R1,126 billion. The figure for the year to March was R1,354 billion.

However, bad and doubtful debts of R220,3 million absorbed a significant portion of the apparent increase in earnings.

The large bad-debt provision is the result of standardisation, which has substantially increased the provisions in certain operating divisions.

Absa's directors say that apart from prolonged recessionary conditions, the profitability of Allied was affected by the application of more prudent policies required by debt provisions and inadequate margins arising from the historic structure of its mortgage portfolio.

Other operating income was R449,6 million, while operating expenditure was R1,095 billion.

This resulted in net pre-tax income of R260 million, and a net taxed income of R192,7 million.

Contributions from associated companies, less minority interests, resulted in attributable earnings of R207,3 million.

The balance sheet shows shareholders' funds of R2,96 billion and deposits and current accounts of R46,1 billion.

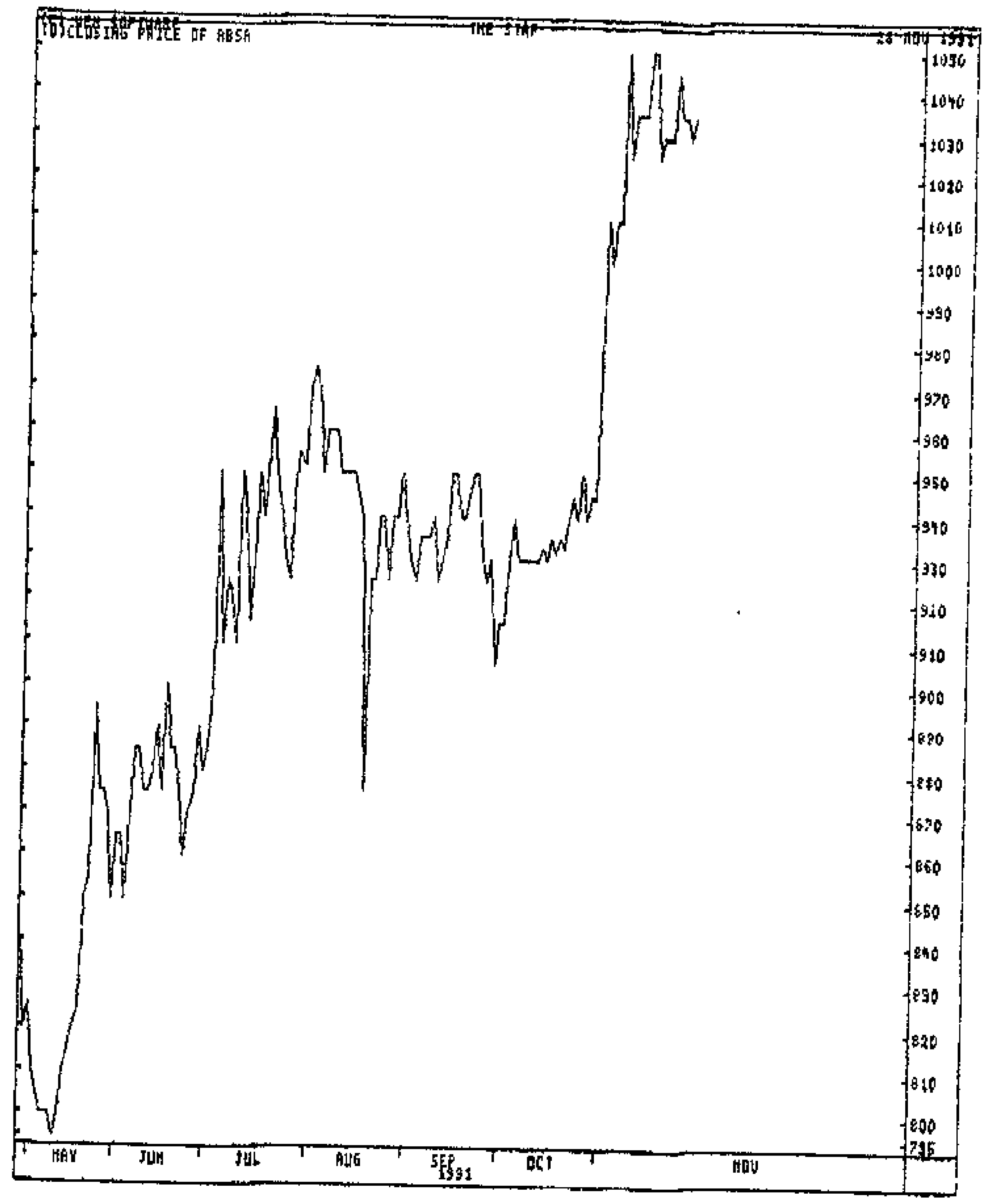
Loans and advances were R42,1 billion and total assets R52,9 billion.

The net asset value of Absa shares at September 30 was R647,2c.

The directors say that rationalisation of the group has progressed faster than expected. Some savings have already been achieved, but the full benefits of rationalisation will be realised only in future financial periods.

Although trading conditions are expected to remain difficult, the second half-year's performance should be satisfactory, the directors say.

Analysts point out that the improvement in Absa's financial operations, the expected benefits from rationalisation, and some improvement in the economy next year should see profits showing steady growth.



Absa shares have risen strongly this year

Little good seen in capital gains tax

STAR. 2/12/91

By Frank Jeans (58)

Real estate leaders have slammed reports about a capital gains tax on property deals, which they believe would have severe repercussions.

With affordability already being stretched to the limit, it is claimed that such a tax could worsen the problem as owners raise asking prices to compensate for the levy.

One of the industry's strongest critics, Keith Wakefield, national chairman of the selling network, Multiple Listing Services (MLS), sees the implementation of such a tax as having a severe impact on economic growth.

Urging the Government to abandon the proposals, he says: "It seems people cannot keep their hands off the property market.

"We have had laws restricting ownership, subsidy schemes skewing upper residential market values — and now they want to put another dampener on free market forces."

Scott McRae, MD of the Camdon's group, says the tax would be a blow to the market unless it was accompanied by tax relief on bond repayments.

Mr McRae believes that without some relief for the homeowner by way of bond repayment, should the tax be imposed, the authorities could see a severe shrinking of the market generally and a serious drop in turnover and construction activity.

Pat Lamont, assistant general manager, banking, of First National Bank, believes if such a tax were implemented, it would have an impact on the market.

There is an underlying need for homes, he says.

"The buying and selling days of the past are gone. People are no longer just in the market for fun. They are there because there is a need."

Consumer body confronts banks

B/Day 2/12/91

THE Consumer Federation has sent a letter to five national banks challenging them to an open debate on allegations that they are constantly overcharging on interest rates. (53) ( )

In a statement on Friday, the federation said although most banking institutions constantly denied the allegations, not one had applied for a Declaratory Order, or launched an application to interdict the Consumer Federation from uttering the allegations.

In the letter, the consumer body said it had identified several problem areas since it made its findings on overcharging public last year.

The letter was sent to First National, Nedbank, Standard, TrustBank and Volkskas. They were asked to reply to the challenge within seven days. — Sapa.

Insurers to monitor tow operators

Bday 3/12/91

SEAN VAN ZYL

THE SA Insurance Association (SAIA) has appointed a special advisory committee to investigate irregular activities — including excessive fees charged — by motor tow operators and panelbeaters.

The "malpractices" had been a major inflationary contributor to the sharp rates hike in motor insurance over the past year, insurers said.

SAIA motor committee chairman John Kinvig said that after an extensive investigation into the towing industry, the SAIA had forwarded corrective proposals to the Harmful Business Practices Committee earlier this year. It had not yet received a response from the authorities and the situation had not improved.

Kinvig said the association had proposed that central receiving depots for damaged vehicles be established in the main CBD areas to reduce storage costs and that a controlling body be appointed to standardise towing tariffs. (S8)

Automobile Association (AA) GM emergency road services Harry Pretorius said in many instances "pirate" tow operators had inflated accounts to insurance companies by up to 25%.

He said tow operators were known to monitor traffic police radio reports illegally and to be working in collusion with traffic officers.

Mutual & Federal's (M & F) assistant GM claims Percy Grohovas said M & F had taken several operators to court to contest the fees charged.

AHI calls for lower interest rates

The Arikaanse Handelsinstituut said yesterday it hoped the monetary authorities would react to market forces in the money and capital markets without discarding monetary policy, as speedily as possible.

AHI president Mr Attie du Plessis said in a statement it was clear the present sluggish tempo of economic activity, the good balance of payments situation and the improved money supply and inflation was increasingly being reflected in the interest rates on capital and money market rates. STAR 3/12/91

The problem South Africa faced, Mr du Plessis said, was how to rejuvenate the economy and to ensure the up-swing lasted long enough to sustain the neccessary economic growth and job creation — without stimulating inflation. 58

Mr du Plessis said the business organisation was of the opinion that an important part of the solution to the problem lay in fiscal policy and suggested that a restriction or even a reduction in the authority's current expenditure appeared neccessary.

In this regard the AHI recommended specific action such as the reduction of taxation in favour of increasing expenditure.

While the AHI placed great importance on the IMF's criteria that the fiscal deficit before borrowings should not exceed three percent of GDP — these goals, given the present domestic economic situation should possibly be given a once-off lower priority than normal.— Sapa.

ANC slates Cape NP official's 'party' offer

Political Staff

CAPE TOWN — The ANC yesterday said it could not stomach suggestions by a "brown Nat" at the weekend that the NP would like to boost attendance at its meetings by offers of food and drink.

The Cape branch of the ANC said it was astounded by the admission of prominent "new Nat" and western Cape MP Abe Williams, that if funds had been available he would rather have organised a party to attract the public following a poor turnout at an NP meeting.

Fewer than 40 people attended the first NP public meeting in a coloured area at Austerville outside Durban, on Saturday night.

Former Labour Party secretary and now Deputy Minister of National Education, Williams told reporters: "If we had the funds, we'd throw a party — that would attract the people."

The ANC said in a statement issued by assistant regional secretary Willie Hofmeyer that the ANC had always believed the purpose of holding political meetings was to explain viewpoints to the public. (5 Pav) 3/12/91

"It surely demonstrates a remarkable lack of faith in the National Party's policy when its leaders confess that they have to hold parties (with an implicit promise of free food and drink) to attract the public to their meetings.

"It appears that the NP, and the 'New Nats' in particular, still hanker after their old ways of organising when more effort was made to 'buy' voters through free parties and other forms of entertainment," he said.

Hofmeyer said the ANC hoped that future free elections would not be conducted in this way, but that voters would have the opportunity to make an informed choice.

TrustBank cancels cheque guarantee

5 (Pav) 3/12/91 (58)

ROBERT GENTLE

TRUSTBANK has withdrawn with immediate effect its automatic R200 guarantee on its ordinary cheques because of rising costs associated with fraud.

Letters to clients said: "Automatic cheque guarantees on ordinary cheques offer too many opportunities for fraud and misuse by criminals when cheques are lost or stolen."

However, the bank said clients would still be able to get guarantees on an individual basis.

A "more standardised" cheque guarantee system was being introduced which TrustBank said would provide greater protection.

The decision, the bank said, was "in the interest of ensuring greater security and curtailing the costs relating to fraud, and forms part of our programme of creating a safer banking environment"

Sources in the banking industry expressed little surprise at the move, suggesting TrustBank should never have offered such guarantees in the first place because of the risks of fraud. They pointed out TrustBank's ordinary clients were not in the same league as those of say, Nedbank, which also guarantees ordinary cheques.

Nedbank said in a statement that it would not withdraw its automatic R100 guarantee on its ordinary cheques.

"Nedbank has had very few instances of fraud, as we find our clients act responsibly with their cheque books."

The R100 guarantee could even be increased, the statement said. "In this case, guarantees fall in line with the standardised clause and guarantee system of all banks." Cheques on other Nedbank products, like the N5000, were automatically guaranteed up to R1 000.

Two other Big Five banks said they had no intention of withdrawing their cheque guarantees, which in any case applied only to the higher category — and therefore less risky — accounts.

Standard Bank divisional GM personal banking John Holloway said the bank would continue to offer guarantees on accounts like AchieverPlan, PrestigePlan, ProElite and MedElite. These guarantees were linked to the cheque holder's credit card. The fraud risk associated with these guarantees was "acceptable", he said.

First National Bank senior GM Jimmy McKenzie said FNB had guarantees only on high category accounts like Status and Prestige, and these would continue.

The tough economic climate and high interest rate environment has increased the incidence of even traditionally creditworthy clients failing to honour their debts.

This has resulted in high bad debt provisions throughout the industry. Yesterday Amalgamated Banks of SA (Absa) reported bad debt provisions of R220m for the six months ending September, representing 19,5% of its net interest income of R1,127bn.

Rembrandt co-founder Hertzog di...

Govt client base boosts Metropolitan

(58)

LINDA ENSOR

CAPE TOWN — Metropolitan Life has shown remarkable resilience in the face of declining personal disposal incomes, producing an excellent 24% growth in earnings a share in the year to end-September.

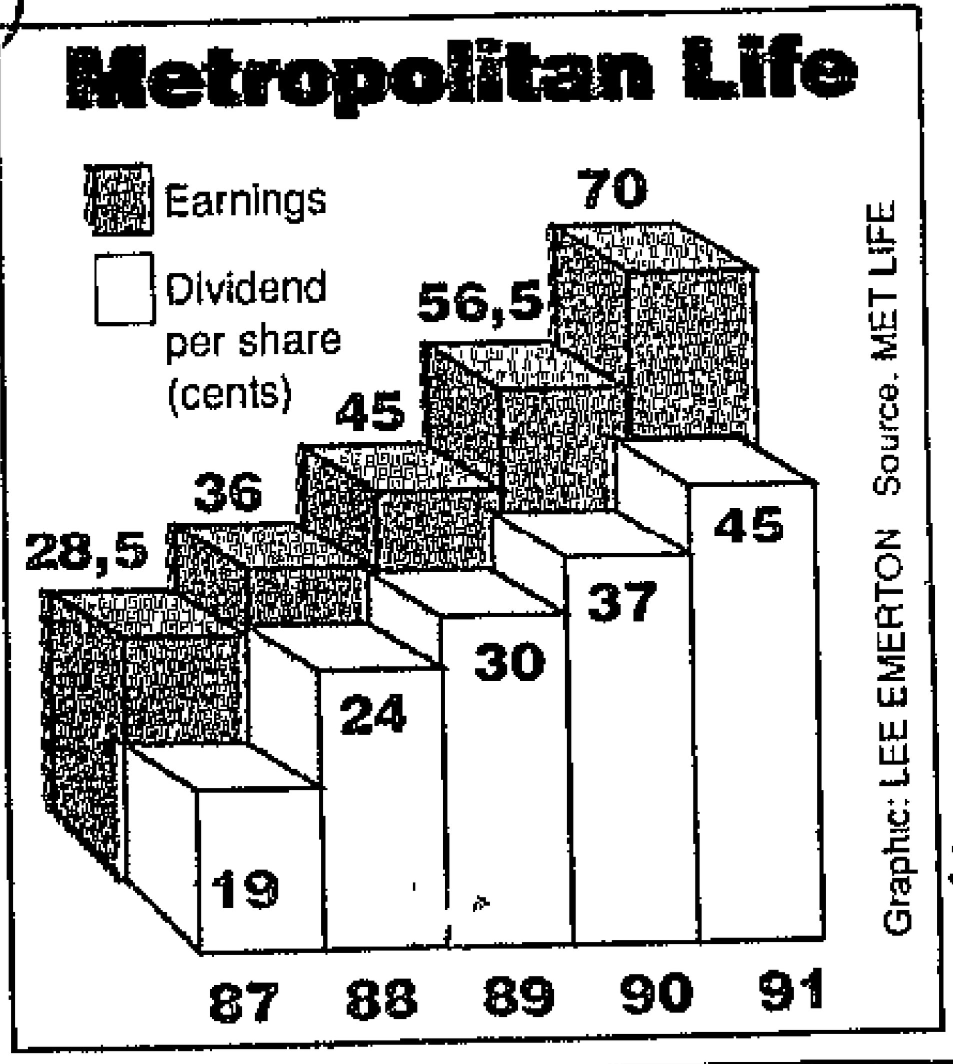
Earnings rose to 70c (56,50c) a share and a final dividend of 10,5c was declared, bringing the total (including the special interim dividend of 18c) to 45c. This was 22% higher than the previous 37c.

Total income rose 24% to R1bn (R819,7m) with premium income showing a strong 29% growth to R702,9m (R546,3m).

"This performance is most satisfactory given the depressed state of the economy," MD Marius Smith said yesterday.

Mergers and takeovers in the corporate

☐ To Page 2



Metropolitan

4/12/91 (58)

☐ From Page 1

market had resulted in the withdrawal of substantial pension funds. Nevertheless, group business grew faster than individual business.

Smith added that Metropolitan was protected from the recession to some extent as a large portion of its client base was in government or semi-government bodies. He estimated that 60% of existing and new business came from this sector.

Another strength and source of stability was that recurring premiums, which increased by 25% to R649,8m (R519,5m), constituted 92% of total premium income. Single premiums, moving off a low base, rose to R53m (R26,8m).

Growth in investment income was a lower 16% to R317m (R273,4m) which Smith said reflected the slower rate of growth in dividends and the relative increase in share investments.

The market value of the investment assets increased by 38% to R3,9bn (R2,8bn), with equities making up 44% (37%) of the portfolio, property 19% (21%), bonds 12% (6%) and the money market 22% (31%).

Policyholders received R291m (R224,6m) in benefits paid out.

Smith pointed out that the assurer's share price had increased to about 1 150c from 600c during the year and market capitalisation to R733m (R267m).

DBSA expands its capital base

(58)

B/Day 4/12/91.

LESLEY LAMBERT

THE Development Bank of Southern Africa (DBSA) has increased its capital base significantly over the last six months, with its growing emphasis on private sector loans reflected in a 91% advance in this source of funding.

Interim results for the six months to September 30 show the DBSA's decision to source more of its funding from the capital markets has resulted in an 82% increase in the value of its capital market borrowings.

These, coupled with short-term borrowings which grew by 417% to R55,8m, and government funding of R250m, boosted the bank's permanent capital by R1,1bn to almost R4,3bn.

Group finance manager Richard Kirkland said yesterday the purpose of the borrowings drive was to anticipate the effects of inflation and secure significant private sector funding of development projects.

"It is important that we continuously maximise and timeously deploy into development the financial resources at our disposal, particularly given the deleterious effects of inflation on purchasing power.

"Unutilised borrowing capacity represents an avoidable opportunity cost for development.

"The importance of securing meaningful private sector involvement cannot be over-emphasised, particularly at a time when the clamour is as much for a reallocation of resources as it is for redistribution," Kirkland said.

The Bank expects to disburse a further R582m on development loans during the second half of the year, chairman Simon Brand said.

This will bring the annual 1991/92 loan disbursement to marginally below R1bn and will push the published loan portfolio to almost R4bn by the end of March next year.

Default of loans has been limited despite the tough economic environment, Brand reports.

By the end of September, the bank was involved in 1 280 projects.

It expects to contribute a cumulative R8,6bn to these loans and has already disbursed R3,7bn of this amount in the seven years since its inception.

"Resources are available and continue to be marshalled and soundly managed to meet the balance, representing projects in the earlier stages of the project cycle.

The bank has a current and planned foreseeable loan disbursement rate of R1bn a year," Brand said in his commentary on the interim results.

The DBSA had intensified its interaction with clients in order to reach agreement on development priorities and the scheduling of related activities, Brand said.

It had become increasingly involved in structural adjustment programmes which focused on strengthening of capacity to formulate sound economic development policy.

DBSA support was provided by way of policy dialogue, development planning initiatives and technical assistance, he said.

In addition to these functions, the bank continued to facilitate negotiations between the SA government and regional governments.

In an effort to co-ordinate development, the DBSA was increasing its co-operation with other local development institutions such as the Independent Development Trust and the SA Housing Trust.

"Understandings" had also been reached with the Kagiso Trust and the Urban Foundation, Brand said.

In the field of regional electrification, a memorandum of understanding had been finalised between the bank and Eskom.

Political developments had also introduced new opportunities for co-operation with international development institutions, with the emphasis on development throughout the region, Brand said.

Gloomy set of figures forces Saambou onto the defensive

(58) BDay 4/12/91.

ROBERT GENTLE

SAAMBOU has passed its interim dividend for the half-year ending September after a period which saw bad debt provisions exceed operating profits and attributable earnings plunge deep into the red.

A R72,7m attributable loss was posted. Coming on top of the previous half-year's R7,3m loss, it means Saambou has turned in the worst set of figures in an otherwise good run of recent banking results.

The income statement was characterised by minimum disclosure, with the group giving no indication of net interest margin, overall income breakdown or cost structure — all considered of key importance in evaluating a bank's performance. This goes against the trend of other banks in the industry, which have been moving towards far fuller disclosure.

"We strive towards full disclosure," said group MD Johan Myburgh in a statement alluding to the problem.

Operational earnings of R11,7m (R8m) were whittled away by R14,6m in bad debt provisions and abnormal items, as well as by R68,5m in the diminution in value of investments and properties for resale.

Myburgh attributed the lower market value of properties for resale largely to continued poor economic conditions and unrest in certain areas. He said the R68,5m provision had been made to "expedite the group's recovery to profitability". Rationalisation costs of R6,4m were also written off.

He pointed out that even after these provisions, available capital still exceeded statutory requirements in terms of the Deposit Taking Institutions Act.

An "experienced and committed management team" was now in place. Staff had been reduced from 2 324 to 1 898. Controls and systems had been strengthened and improved. The capital base had been strengthened by R54,7m arising from the conversion of convertible debentures by Fedlife, the single largest shareholder.

"An improvement in operating profits can be anticipated in the second period of the financial year," Myburgh said.

COMPANIES

New company specialises in buyouts

ROBERT LAING

MERHOLD and Kirsch Maw Holdings have formed a joint corporate finance company, Merhold Kirsch Capital (MKC), specialising in leveraged and management buyouts as well as industrial and commercial investment.

The new company has an initial funding base of R25m committed by Merhold, the financial arm of the SA Bias group, and the Issie Kirsch family, the major shareholders of Radio 702. B/Day 4/12/91

The company will invest in transactions either as sole investor, or in larger transactions as lead investor for a syndicate involving other institutions and investors, chairman Chris Seabrooke says.

"SA investors should be encouraged to form partnerships and syndications to stimulate private investment and deals. The timing is also right, relative to the economic cycle". (58)

In addition to Seabrooke, the executive team consists of Issie Kirsch's son William, formerly of Sherson Lehman Hutton in New York, and Peter Maw, formerly of Standard Merchant Bank.

Maw said there was a growing demand for a company specialising in management buyouts.

William Kirsch said: "We need to create and enhance value. The American approach to business has encouraged this for years."

DBSA has R1-bn to lend

(58) STAR 4/12/91

The Development Bank of Southern Africa lifted private sector funding 91 percent and development loans 36 percent in the six months to September.

Dr Simon Brand, chairman and chief executive of the bank, said yesterday that despite the difficult economic climate, the bank expected to disburse about R1 billion in loans in the current financial year.

He said that at the end of September the bank had 1 280 projects approved or under consideration, to which it expected to make a contribution of R8,64 million.— Sapa.

Merhold sets up buyout company

(58) STAR 4/12/91

Merhold, the financial arm of SA Bias, has expanded its existing investment operations through the establishment of a specialist company, Merhold Kirsch Capital (MKC).

Jointly owned by Merhold and Kirsch Maw Holdings, it will specialise in leveraged and management buyouts, industrial and commercial investment and all aspects of corporate finance.

MKC has an initial funding base of R25 million committed by Merhold and the Issie Kirsch family.

It will invest in transactions either as sole investor, or in larger transactions as lead investor for a syndicate involving other institutions and investors.

"We are excited about this new partnership," Chris Seabrooke, chairman of MKC, said yesterday.

"South African investors should be encouraged to form partnerships and syndications to stimulate private investment and deals. The timing is also right relative to the economic cycle," he said. — Sapa.

Abnormal provisions of R68,5-m at Saambou

STAR 4/12/91.

By Roy Cokayne (58)

Saambou has made abnormal provisions of R68,5 million arising from the reclassification of long-term gilt investments and the revaluation of properties for resale.

This emerges from its interim report for the six months to September.

Provision has also been made for a further R14,6million — R6,4 million for the rationalisation programme within the group, which saw staff numbers drop by 22 percent from 2 324 to 1 898, and R8,2 million for doubtful debts.

With operating profit of R11,7 million (1990: R8 million), this meant the group showed a net deficit attributable to shareholders of R72,7 million.

The dividend is passed.

Group MD Johan Myburgh says the abnormal provisions were made to expedite a return to profitability.

"Saambou is aiming at far fuller disclosure. Due to the fact that Saambou is a small banking institution, it has to build trust in the company again.

"The figures in our interim report are the first steps in that direction.

"One of the group's biggest problems is to turn the ship around, but we believe we are succeeding in doing that.

"We are confident we are on the right track, but it is going to take time. Even after the abnormal provisions, the available capital still exceeds statutory requirements," he says.

Mr Myburgh says the strategic and action plans which will allow Saambou to play a significant role in South Africa's financial sector are in place and being implemented as planned.

He says that after the appointment of new top management, seven areas impacting negatively on the group's profit base have been identified.

Included among these are long-term gilt investments and properties for resale.

"Whereas in the past the policy was to keep gilts to maturity date, it was decided in the interests of the company to get rid of them.

"The expiry dates of the gilts investments were the years 2000 and 2004. If Saambou decided to carry the investment to maturity date, it also meant carrying the cost of it — the difference between the interest received and the cost paid for deposits.

"That would have been a burden to the company until the year 2000 because the larger portion of the gilts investment was to mature in the year 2000 and a smaller portion in the year 2004.

We decided to get it out of the system with the aim of getting a real return on capital," he says.

Masterbond aid only for 'penniless'

STAR 4/12/91

Political Reporter (58)

The State would financially assist only Masterbond investors who qualify for social pensions — poor people who had been left "down and out" by the failed investment scheme, the Department of Health Services and Welfare said yesterday.

Bail out

Willem van Wyk, chief director of social services in the House of Assembly department, was reacting to strong criticism of the Government's offer of aid to rescue victims of the failed scheme.

Political parties denounced the use of taxpayers' money to bail out private investors who had lost money after the provisional liquidation of six companies.

But Mr van Wyk said the political row stemmed from a misunderstanding, since most investors would not qualify for social pensions, aimed at the poor sector of the community.

None of the 16 people who had contacted the department for assistance qualified.

"There is a perception that the State would use taxpayers' money to help out any investor. That is not true.

"Investors take a risk and they must carry the consequences.

"This assistance is only offered to people who have lost every cent, who have been left down and out, because of the collapse of the Masterbond scheme," Mr van Wyk said.

"In our experience, people who invest are not needy people. They have other sources of income, property, jobs and so on," he said.

Nankan targets black property buyers

THERE is potentially a large group of middle to up-market black property buyers who are remaining in the townships because they are uncomfortable about buying property through white estate agents, says Nankan Real Estate director Vino Nankan.

"The black buyer often has to face a sceptical agent who questions whether he can afford the property, and does not attempt to provide the best service possible," she claims.

Nankan Real Estate, which is already operating but will be launched officially early next year, will cater for the black property buyer

"The black buyer does not want to be made to feel inferior and many prospective buyers have been waiting for an agency that they can be comfortable with," Nankan says.

Nankan is also MD of Venrich Housing, a construction company that employs about 300 people — 30 office staff, 200 site workers and 60 sales people.

While Venrich has been active in the low-cost market for the past six years, it is shifting its focus to include the upper end of the market. A cluster home development in Khyber Rock is under way and will come on-stream in the first quarter of 1992.

"The units are primarily directed at the black yuppie, but prospective white buyers are welcome. The units will cost about R700 000," she says.

This year Venrich has sold about 700 township units, ranging in price from R35 000 to R150 000. The company is active in Mamelodi, Tembisa, Spruitview, Dobsonville, Protea Glen and Diepkloof.

More and more developers are moving out of the low-cost property market as problems there are increasing Developers are continuously taking greater risks, not just financially, but also with the loss of life, and in some cases the financial institutions are refusing to grant bonds.

"These institutions have an obligation to take some risk as well. In addition, the township civic associations have to be consulted about possible developments," she says.

Government is also "passing the buck" and serviced land in new, less violent areas needs to be provided, where development can take place and loss is minimal, Nankan says.

"There is a good future for the black townships as there will always be a middle- to lower-income group that needs to be housed, and people of the same culture tend to want to live together."

FNB to sue over remarks on rates

STAR 4/12/91. (58)

By Helen Grange
Pretoria Bureau

First National Bank has launched a defamation suit against a Pretoria businessman following his remarks to the media about the rates charged by banks — and in the interim has acquired a court order by consent preventing him from making any further statements about FNB to the media.

Jaap Spelt, of Westpro Business Consultants, has claimed on several occasions to the media that FNB and/or other banks in general are acting illegally regarding the manner in which they deal with their customers.

He has claimed they are overcharging customers and thus contravening the Usury Act and that they charge interest rates in excess of legally permissible rates.

Mr Spelt yesterday said he could prove his allegations against FNB in court, adding he had not defamed the bank.

The court hearing is scheduled for February 25 next year.

He said he and his company had consented to not making further statements to the media and that FNB was also bound to refrain from commenting on him and Westpro.

Last week FNB's lawyers sent a letter to Mr Spelt threatening legal action if what it called defamatory statements were not stopped by noon on Saturday. Mr Spelt refused to give the bank this undertaking.

FNB senior general manager Jimmy McKenzie said the bank did not deliberately charge interest rates which contravened the Usury Act.

There was a computer which constantly monitored the rates clients paid and if these exceeded the usury rate, it would be picked up.

The interest rates on overdrafts were determined by the local bank managers according to the risk involved.

Students still mark matric exam papers

By Phil Molefe

STAR 4/12/91

The Department of Education and Training is still using students as markers and "examination assistants" for black matric scripts at the Pretoria marking centres.

A two-day investigation by The Star revealed that students at universities, technikons and teacher training institutions have been hired by some DET officials as part of the marking corps.

Although the DET denied that students were used as markers, at one of the marking centres at the Northern Transvaal Technikon in Soshanguve there is a notice at the entrance saying: "Students who have applied for marking are advised to come on Monday 02/12/91 for registration".

DET spokesman Corrie Rademeyer said the department hired only students who had completed their first year of study.

By Dik Browne

Saambou's asset value sinks

STAR 5/12/91

By Ann Crotty (58)

Extensive cleaning up at Saambou, combined with the issue of 39 million new shares at 140c a share, brings the net asset value at end-September down to 138c a share.

At the time that Fedsure launched its bid for a controlling stake in Saambou — going for a 30 percent holding at 140c a share — the nav of Saambou, according to the financial '90 balance sheet, was 233c.

Cleaning up by the new MD Johann Myburgh reduced this to 222c at end-March '91.

Not unusual

Mr Myburgh has been at the helm for the full interim period — six months to end-September — and has now reported write-offs and provisions of a further staggering R83,1 million.

An operating profit of R11,7 million and the R54,7 million increase in share capital (the equity issued to Fedsure) means that shareholders' funds at September '91 were R172 million — equal to 138c a share.

This sort of cleaning up is not unusual with a new MD especially where there's a change in the control situation.

It may be that from this cleaned up base, a steady improvement in operating profit will in future be reflected in the earnings figure and therefore gradually boost shareholders' funds.

If this is the case then the 138c a share that Fedsure paid for control was cheap — 2c is certainly an insignificant premium to pay for control of an asset with potential.

But if continued write-offs are necessary and the operating performance does not come up to scratch, then Fedsure's skimpy track-record on acquisitions will look even grimer.

According to Mr Myburgh, Fedsure's due diligence earlier this year revealed the need for the write-offs and provisions that were taken at the interim. So there are no surprises for Fedsure, which in June suddenly opted to convert its three-year debentures into shares.

The R43,6 million provisions for revaluation of property relate to properties in the group's development business.

Mr Myburgh says this is in line with the decline in the sale value of the sort of properties in the portfolio. He is keen to offload these properties by end-March.

It is difficult to know whether the property values will see an improvement or deterioration between the end-September level and the actual time of sale.

The R25 million knock from the sale of low yielding long-term gilts is staggering.

Boost profit

According to Mr Myburgh these gilts were yielding around 11 percent, compared with the average 17 — 17,5 percent that Saambou is paying for its deposits.

He estimates the carrying cost of the gilts at around R6,5 million a year. So their removal will boost operating profit.

Mr Myburgh's plans for improving the deposit mix, developing other products and services and improving productivity should enhance future earnings performance — assuming nothing unforeseen occurs.

● Saambou shares fell 20c to 90c on the JSE this morning.

'Left' turn signals change

South 5/12-11/12/91

WHEN A left-wing academic, who sold shares he had inherited because of his abhorrence of capitalism and of apartheid, admits he has been buying unit trusts, then times are a-changing.

It's not that the Johannesburg Stock Exchange and big capital have been rehabilitated politically and morally, but that as lefties of all races and sexes grow old and gather family responsibilities, they, too, want the best return for their money.

And unit trusts seem to be able to do just that.

However, there is still a niggling worry about the soundness of investing in the JSE, albeit at arms' length through unit trusts or directly through pension funds.

It is not surprising that attention is turning to ways of ensuring that unit trust and pension funds are invested only in listed companies that meet certain environmental, labour and other social criteria.

A quick whip around academic circles in Cape Town revealed that this has not yet taken any concrete shape. People are just starting to think about it. But precedents set in other countries are being examined.

In the United States and Britain, public pressure has resulted in unit trusts distinguishing between companies that are acceptable and those that are not when it comes to environmental and other issues. So far, the decision to drop those that are not acceptable has had no effect on the return on investment of the unit trusts.

It has also been suggested that more left-wing or grassroots organisations should join pension funds and create lobby groups of shareholders who can pressure for investment in socially responsible companies.

The unit trust managers and pension funds are somewhat dismissive of these views, saying it is their job to do the best for their investors across the board and not to make social or political judgements.

Lining up a long-term investment

South 5/12 - 11/12/91 58

THE UNIT trust field is as competitive as any in the financial services market, but there are some broad guidelines to follow when choosing which to invest in. There are nearly 40 unit trusts in South Africa, controlling investment funds of more than R10-billion, and each offers a different investment mix.

Some have general investment portfolios, buying shares from a spread of industrial, mining and other shares to ensure losses in one sector are balanced by gains in another. This is usually best for ordinary investors who want safety for their hard-earned cash.

Then there are unit trusts specialising in shares in mining or industrial companies or in top companies on the stock exchange. Because they have all their eggs in one basket, these trusts entail a bit more risk than the general trusts, but the portfolio managers again try and spread risks as widely as possible.

For example, not all mining companies are doing badly when the gold price is in the doldrums, and by investing in a large cross-section of mineral and metals producers, the trusts can offset the effect of a weak gold price.

The most highly specialised trusts are those that invest only in gold — and these are for investors willing and able to shoulder the risks and, sometimes, high returns of gold.

There are also unit trusts aimed specifically at helping people set aside money for their children's education, to buy a home or for their retirement.

Whatever you choose, unit trusts advise you take a long-term view of your investment. They don't encourage speculators and Old Mutual advises new clients they should have a savings as well as a unit trust account. The savings account can be used for short-term requirements while unit trust funds should be invested for at least five years.

There are several reasons unit trusts should not be used for speculative purposes. Most obvious is that the main aim of unit trusts is to help people save and realise capital growth. The best way unit trusts can do this is by having a stable pool of capital to work with — people moving money quickly in and out not only create a lot of paperwork, but make forward planning difficult.

Another is that unit trust holders pay small management charges, which are built into the buying price of their units, as well as yearly service fees. These vary from trust to trust.

But if trust holders suddenly see a boom in the stock exchange and a rapid rise in the prices of their units, they could decide to "make a quick killing" and sell them — without always taking into consideration whether their "profit" will cover the charges already paid or due, or the tax on their speculative fling.

On the other hand, when the stock market takes a dip, savers might get panicky and wonder if all their savings might not be wiped out as unit prices fall below what they paid for them. They might be tempted to pull out to salvage what they can — but perhaps leave it too late and sell at a loss.

The advice in both cases is to ride out the storm. The October 1987 stock market crash spooked many investors, but unit trust holders emerged virtually unscathed because of the wide spread of unit trust investments.

Those who make a regular monthly investment in a unit trust could also, in fact, benefit from a downturn such as experienced recently on the JSE. Because of "Rand Cost Averaging", investments made when the market is weak acquire more units than when it is strong. This strengthens capital growth as the market recovers.

58

OM 'largest in Africa'

ARG 5/12/91

TOM HOOD
Business Editor

OLD MUTUAL is the largest life assurer in Africa and the market leader in South Africa, Zimbabwe, Namibia and Malawi.

At Old Mutual's 146th annual general meeting in Cape Town today, chairman Mike Levett said for more than a century the life assurer had mobilised long-term savings and built financial structures in Africa.

In South Africa its market share of all life assurance premiums increased by 1 percent this year to reach its highest point since the LOA started recording statistics 18 years ago.

Mr Levett said with total assets under management of R72,4 billion Old Mutual was the largest life assurer in Africa and paid the most benefits at n average of R18 million per working day.

In Zimbabwe, Old Mutual had a market share of over 70 percent and assets of Z$4,7 billion.

A change in the Kenya Insurance Act now required all insurers to be locally incorporated proprietary companies and so Old Mutual was now busy registering the Old Mutual Insurance Company in Kenya.

Old Mutual's 4 000 Kenyan policies as well as its Kenyan assets of some R78 million would be transferred to the new company, which would open for new business next year.

Mr Levett was confident that Old Mutual would continue to deliver value for money to Kenyan policyholders.

"It is vitally important that South Africa improves on its recent growth performance as it will be impossible to improve living standards without higher growth," Mr Levett said.

In his address, seconded by Dr Karl Otto Pöhl, former president of the Deutsche Bundesbank, Mr Levett called for fiscal discipline and government spending restraint so that the tax burden could be lowered.

He said government spending accounted for too high a share of the economy, relative to other more successful economies at a similar stage of development, resulting in high tax rates.

"The social spending component has been growing fast, but should not continue to grow as a share of government expenditure.

"Spending priorities will therefore require substantial redistribution in favour of the less privileged. It will not be painless and will require real fiscal discipline, but the long-term benefits should outweigh the negative aspects."

Mr Levett said the expectation of high taxes had a negative impact on investment and savings decisions and was a disincentive in the growth process.

He warned against expanding the extent of deficit financing, as this would, in due course, lead to a lowering of living standards.

"The size of the budget deficit should be dictated by and should not be greater than the level of investment spending by government."

BUSINESS

Trustees' ignorance is a major problem

B|Day 5|12|91

(58(

ROBERT GENTLE

PENSION fund trustees owe it to their policy holders to overcome their conservatism and lack of knowledge of futures and options (derivatives) and start using them to increase investment efficiency.

This is the conclusion of an in-depth study conducted by I M Israelsohn and C Firer of the Wits Graduate School of Business, published in the latest Investment Analysts' Journal.

The study looked at 18 funds out of a total of 72, including funds managed by life assurance companies, merchant banks, specialist asset management companies, pension funds and stockbrokers.

"A third of the fund managers surveyed indicated that they had not made use of any financial derivatives instruments in managing their portfolios," the study concluded. "Of the two-thirds who had not used derivatives, a large proportion admitted they did not fully understand these markets, and for this reason traded very infrequently."

Although funds handled retirement money and sought to avoid risk, abstaining from futures did not necessarily imply conservatism, the study said. "One can be risk-averse whilst being pro-active. Indeed, both futures and options are ideal mechanisms for reducing the overall riskiness of portfolios."

Merchant banks and large life assurance companies were generally more active in these instruments than pension funds managed by stockbrokers — perhaps because of "the greater emphasis on performance".

The study found that the main reason for non-participation in futures was lack of education, conservatism, trustee resistance, skills shortages and administrative problems. "For many pension funds, obtaining the approval of trustees to trade in financial derivatives was considered a major problem."

The futures market was viewed as too risky. Reservations were expressed about rules and regulations. Presentations and courses were not "particularly effective" and the futures industry should make more of an effort to "sell their products".

Some fund managers quizzed on market instruments did not know the difference between a put option and a call option. The lack of knowledge among stockbroker portfolio managers was found to be "particularly disconcerting".

The study's findings support general sentiment in the futures market that institutions and funds are nowhere near as active as they could be, largely because of an absence of competitive pressures in SA's closed, illiquid financial markets. This is expected to change soon as foreign participation picks up. The SA Futures Exchange (Safex) opened its doors to foreign participation this week, and the first foreign trades are expected later this month.

SOUTH, DECEMBER 5 TO DECEMBER 11, 1991

UNIT TRUSTS

MAKING YOUR MONEY WORK

Unit trusts: The way to get BIG things

South 5/12 - 11/12/91 (58)

A unit trust is an investment scheme that invests a pool of money in stock market shares. The money comes from individuals or groups, who in return receive "units" in the pool. These units represent equal shares in the trust's investment portfolio, produce an income and fluctuate in value according to the interest and dividends paid and the stock exchange prices of the investments. **LYNDA LOXTON** reports:

HIGH INFLATION and taxation are eating away at the real value of South African savings. As a result, many people are finding that, no matter how much they save, savings accounts alone are not enough to build up the capital needed for those major events in their lives like getting married, buying a home, paying for their children's education or ensuring a comfortable retirement.

"The tough economic conditions of today make it extremely difficult for an investor to accumulate capital because of the negative effects of inflation and taxation," says the assistant general manager of the Board of Executors Unit Trust Management Company, Mr Colin Roux.

"For example, if inflation were to continue at a mere 14 percent a year over the next 10 years, you would need about R4 to buy what you can buy today for R1.

"On the other hand, if you were to invest in a fixed interest investment earning, say, an interest rate of 20 percent a year, and pay tax on the interest at 44 percent, your after-tax rate of return would be 11,2 percent.

"This is well below the inflation rate and you would have to earn an interest rate of at least 25 percent a year just to keep pace with inflation — and still show no real capital growth.

"For investments to show real growth, a higher after-tax return than the inflation rate must be attained."

The Old Mutual's assistant general manager of unit trusts, Mr Bastiaan van der Westhuizen, put it this way: "Even a 15 percent inflation rate can cut the buying power of your savings by half in five years."

Inflation now stands at about 16 percent, so you can imagine what it is doing to your savings.

One way round this problem is to invest in unit trusts, not to replace savings accounts, but to build up your capital to pay for those "big" things in your life. This is because unit trusts invest their unitholders' money in a spread of shares on the Johannesburg Stock Exchange, which has potential to provide high returns.

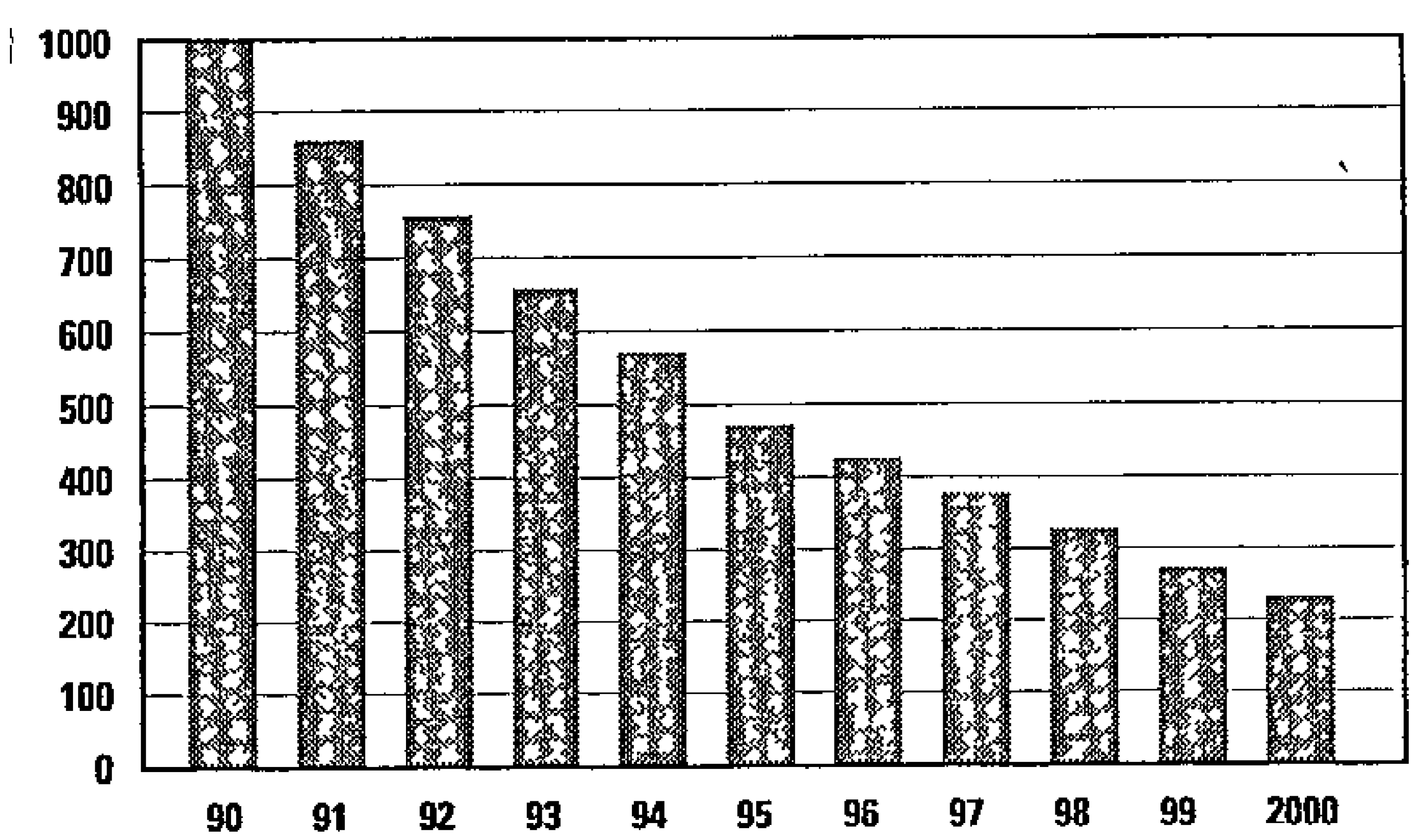
Old Mutual, for example, has calculated that a monthly investment of R125 in its Investors' Fund since it was launched in October 1966, would have grown to no less than R1 106 307 today. Of course, R125 was worth a lot more in 1966 than it is today, but this gives you an idea of the growth potential of unit trusts.

"This was a return of 21,99 percent a year," said Van der Westhuizen.

"Even R50 a month invested in the fund would have given the unit holder a R437 126 nest egg."

HOW INFLATION ERODES CAPITAL

R1000 INVESTED – 15% p.a. INFLATION



Where to get your unit trust:

General equity funds:
BOE, Fedgro, CU Growth, Guardbank, Momentum, Metlund, Metlife, NBS Hallmark, Norwich NBS, Old Mutual Invest, Safegro, Sage, Sanlam, Sanlam Index, Sanlam Dividend, Senbank General, Southern, Standard, Syfrets Growth, Syfrets Trustee, UAL, Volkskas.

Income/ gilt funds:
Guardbank Resources, Sage Resources, Sanlam Industrial, Sanlam Mining, Senbank Industrial, Southern Mining, Standard Gold, UAL Mining, UAL Select, Old Mutual Mining, Old Mutual Industrial, Old Mutual Gold, Old Mutual Top Companies.

Special equity funds:
Corbank, Guardbank Income, Old Mutual Income, Standard Income, Syfrets Income, UAL Gilt

Consumers see red over banking costs

STAR 5/12/91.

Consumer Reporter (58)

The public is becoming increasingly dissatisfied with banking institutions, consumer bodies said yesterday.

Housewives League president Lyn Morris said consumers were not happy: "They seem to be paying a lot of money yet many don't really understand their banking accounts."

Consumer Union chairman Lillibeth Moolman concurred: "People are dissatisfied because costs and charges are being put on to their accounts which they aren't aware of."

While this was often as a result of consumer ignorance, the union had also received a number of complaints from consumers who said they had not been informed of a change in their interest rates.

Despite advertisements representing banks as friendly institutions where advice and assistance were easily obtained, most consumers were confused and reluctant to approach their bank managers, Mrs Morris said.

"It's as if people think bank managers cannot be spoken to, as if there were an aura of mystique around them. Yet banks keep saying: negotiate, talk, ask.

"You can only really negotiate if you have a couple of hundred thousand rands in the bank. A lot of people are unhappy because they feel they are not getting the help they should get," said Mrs Morris.

Check

She said allegations that certain banks were charging more than the Usury Act allowed was a "less than happy experience".

"I think it is so important for people to check their accounts ... check their statements," Mrs Morris said, adding that a number of people were unaware of what they were being charged for and why.

Mrs Moolman urged consumers to check their accounts for changes in their interest rates as well as to ascertain what they were being charged for overdraft facilities.

Earlier this year farmers raised the issue of interest rates at a Transvaal Agricultural Union conference.

TAU general manager Johan Hartman said they had made numerous requests to banks in the past to specify which interest rates were being applied to specific farmers.

"I do believe the banks are now starting to do that," he said. "We have had discussions with these banks and have expressed our appreciation."

According to Mr Hartman it was previously difficult to work out what rate was being charged to some individuals. People had been sloppy in checking their accounts.

"We have had a couple of complaints that individual farmers had been charged far too much after they sent their accounts to be investigated, and they have requested the banks to pay them back," he said.

"Whether this has been done I don't know."

R1,5m and margins were also improved. But the interest bill resulted

Burgess said earnings a share were not stated as proceeds of the rights offer flowed through only in Novem-

Forecasts show an expected turnover of R522,8m and operating profits of R8,7m for the year.

Importers a boon for GDM Finance's performance

B Day 5/12/91.

MARCIA KLEIN

INCREASED profit in GDM Finance's trade finance and clearing and forwarding businesses saw it report a 16,4% earnings increase to 18,5c (15,9c) a share in the six months ending October.

The international trade finance company's pre-tax profit was marginally up at R6,0m (R5,9m). After-tax profit grew by 19,2% to R5,3m (R4,5m) as a result of halved taxation.

Attributable income after preference dividends and minorities was 16% higher at R4,7m (R4,1m). A 16,7% higher interim dividend of 5,25c (4,5c) a share was declared.

MD John Cowper said it was pleasing to report increased profits in both sections of GDM's business as the economy had continued to weaken and this had affected some of GDM's clients.

Trade finance — the largest part of the group's business — had seen an increase in the amount of importers "discovering the benefits of using trade finance to release their working capital".

Cowper said many traders had established relationships with trade finance companies as interest rates were high and it was often difficult to negotiate loan facilities with banks. This was evident in the fact that GDM's total assets grew from R146,4m to R180,0m over the period.

But he said GDM had maintained its strict credit assessment policy "and focused attention on providing trade finance to solid companies so they could improve their cashflow, ease the burden of their working capital and release their general bank facilities to fund their businesses".

Clearing and forwarding subsidiary African Shipping — in which GDM has a 64% interest — had shown improvement and made after-tax profit of R1,2m.

Cowper said "'shareholders can anticipate earnings for the second six months to exceed those in the first six months of this financial year".

Input costs inhibit agriculture sector

PAUL ASH

DEVELOPMENT of capital projects in agriculture was being inhibited by the worsening relationship between input costs and producer prices. SA Development Trust (SADT) Agriculture and Human Resources GM Gert Greyling said in the corporation's 1991 annual report.

STK, which is the SADT's management arm, continued to settle farmers on the land despite prevailing difficulties in the agricultural sector, MD F P Weyer said in the report

A net profit of R435 120 was realised in the 1990/91 financial year before abnormal and extraordinary items.

Expenditure on the Rust de Winter dam irrigation project and the vacating of a project in Whittlesea resulted in extraordinary costs totalling about R2,12m. B Day 5/12/91.

The Contingency Reserve fund was replenished by R2,3m from the accumulated profit of the agricultural division Accumulated profit stood at R16,02m at corporation's financial year end on March 31.

Black property market takes dip

58

Sowetan 5/12/91

THE property market is heading for rough times which could result in cutbacks on a number of houses supposed to be built for blacks.

By JOSHUA RABOROKO

The main factors that could lead to this situation are financial institutions' reluctance to offer home loans and the escalating violence that has reached alarming proportions in the townships.

Banks and building societies are refusing to give loans because of non-payment of bonds caused by townships boycotts and violence.

Rabie Holdings has cut back on the number of houses it is building in black areas to 30 a month from its peak of about 300 a month a few years ago, the company's finance director, Mr Ken Maggs, said in Cape Town this week.

The group, which was previously one of the largest black housing developers, was now heavily involved in the upmarket residential market in Cape Town.

This trend is likely to be followed by other developers at a time when there is an acute shortage of houses for blacks resulting in the mushrooming of squatter camps.

Sources in the industry have indicated that there are many obstacles although they are optimistic that things will change in the so-called new South Africa.

Maggs said that Rabie had drastically reduced the exposure in the black housing market after a R708 000 operating loss for the year to June - last year a R5,7 million operating profit was earned.

However, he added, although the company remained exposed to the market in the Transvaal, it had withdrawn in Natal and the Cape.

"The group is continuing in the Transvaal - in areas such as Soweto and Tembisa - because it still has some land holdings to develop," he said.

Rabie still remained committed to the affordable homes market through their 40 percent holding in Kwikspace, which included the Zozo, Portacamp and CI Park Homes businesses.

Sources in the building industry said they believed the black housing market was dead.

In his chairman's report Dr Simon Brand of the South African Housing Trust said financial institutions were reluctant to enter the low-income market in any meaningful way.

In addition, extremely limited funds were available from the Government to support first-time owners with interest subsidies.

"It follows clearly that new and innovative ways will have to be found to address socio-economic development in South Africa during the period of political transition.

"To achieve this we will require the commitment of all concerned to increasing the momentum of development," he said.

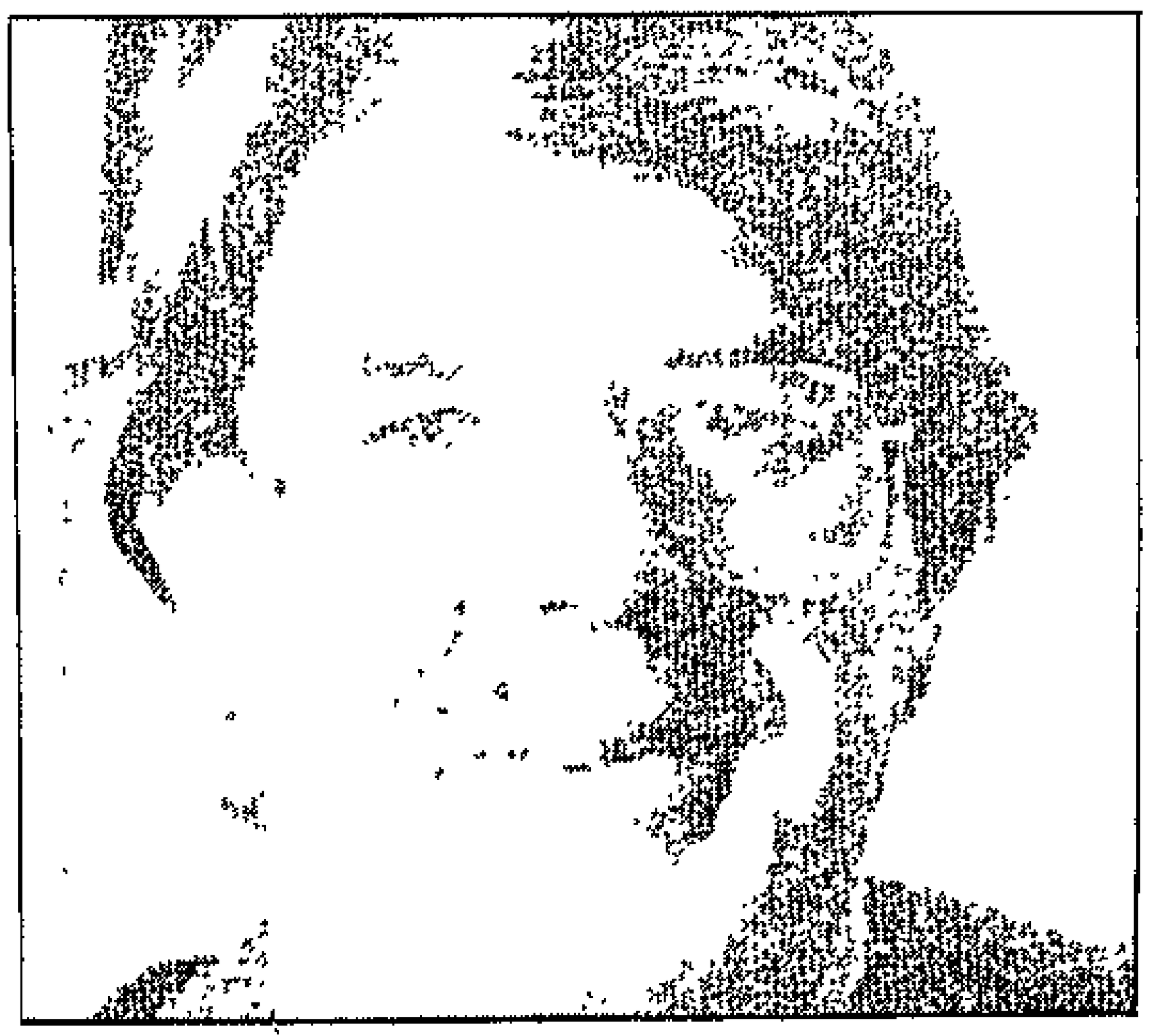
Director of Mepco Construction and Developers Mr JC Mtshali said financial institutions had throttled their lending.

Institutions scramble for updated image in battle for new business

SMCS/12/11.

By Michael Chester (58)

Banks and building societies are in a scramble to ditch old images of fuddy-duddiness and remoteness from the man in the street. Competition has never been hotter and radical thinking has begun about customer relations and special financial packages to suit real needs. One of those leading the search for innovation is the Perm's new head, Hugh Maclachlan.



A few years ago, if you handed anyone a crayon and notebook to draw a sketch of a bank or building society the result was predictable — a formidable fortress encased behind granite columns that seemed designed to intimidate even the most intrepid intruder.

The profile assumed steel-jawed managers in inner sanctums looked upon as forbidden territory to ordinary mortals, pin-striped robots whose impersonal nod or shake of the head was regarded by customers as a life-saver or a sentence to penury; and everyone passing secret codes in a language known only to themselves.

An apartheid regime made the citadels look all the more forbidding to the vast majority of the black community.

Nowadays, the image causes shudders inside the world of high finance. The new top priority is laying out red carpets to entice customers inside.

Competition between the financial institutions has never been hotter as the rivals clamour to find new ideas and new packages to draw more business

Predecessor

"We're all engaged in a constant search for innovative ways to take the mystery out of finance," says Hugh Maclachlan, the new head of the Perm, whose original role as a building society has now been expanded to cover more and more bank services since its merger with the Nedcor empire

It was his predecessor, home-loan wizard Bob Tucker, who set the ball rolling in the 1980s when he spotted the tremendous challenge of tailoring special financial packages for black families when the political dinosaurs finally allowed them more elbow-room to own their own homes

Hugh Maclachlan is determined to ensure the ball keeps on rolling — the faster the better

"Everyone on the staff is encouraged to dream up new ideas on how to create closer relations with our customers and find new packages to suit all needs, whether the customer is white, black, pink or blue," he says "The results are streaming in"

A few examples which would have startled an earlier generation of bankers

- One branch in Natal, anxious to listen closer to the problems of more potential black customers, made a feature of a resident sangoma

Scores of black families came in to have their fortunes read by a roll of the bones Next thing they were talking to staffers about opening savings accounts or applying for home loans.

- In the Hillbrow flatland of Johannesburg, a branch manager started regular bingo sessions to break the monotony of lonely evenings for hundreds of retired couples and pensioners

They played bingo — and by chatting with staffers often found solutions to ease the squeeze on their budgets

- In Amanzimtoti, south of Durban, balloons were stuffed with tokens for special prizes Callers were invited to prick one — and try their luck

("It was great fun," says the manager "It created friendly relations And customers felt far more relaxed about asking about our various services."

- In Johannesburg's northern suburbs, housewives were invited to microwave cooking classes
- Elsewhere, there were aerobic fitness courses, or amateur magic shows In Bloemfontein, bridge parties were organised.

Old chasms

"The whole objective is to close the old chasms that used to exist between banks and customers," says Mr Maclachlan

"Customers learn we are not all heartless ogres In turn, we learn a lot about the realities of customer needs at all levels, which helps us to create more and more new combinations of packages of services"

It was by closer relations, and listening harder, that the Perm learned about the phenomenal amount of cash that black families plough into stokvels — the informal savings clubs that have combined turnovers running into hundreds of millions of rands a year.

The Perm created its own version, called the Club Account and run on similar lines It worked Club Accounts are now packed with more than R200 million in small savings and nest-eggs

Lending an ear to the problems of homeless black families also resulted in the radical approach that was taken in the development of an entire brand new community on the East Rand — Emaphuphem, or the Place of Dreams

Perm staffers had learned there were thousands of black families with a breadwinner who was in a steady job but whose income still fell far short of qualifying for the average sort of home loan handled by a bank or building society.

So Emaphuphem has concentrated on modest homes that can be secured by applicants with incomes as low as around R700 a month The project has already attracted 360 home buyers

"We wanted to go much further than simply providing homes," says Mr Maclachlan "We wanted to create a whole community."

All the new homeowners have access to main utility services, a neighbourhood school not only for children but also running adult education classes, social amenities — even a training centre sponsored by the Department of Manpower to teach skills such as building, metal-work and carpentry

Affordability is the new buzz-word

"It applies to black families in particular, of course," says Mr Maclachlan "But nowadays, with high inflation and a cash squeeze on everyone's budget, it also applies to young white couples who sometimes despair of ever being able to buy a home of their own."

So now the Perm is putting the finishing touches on one of the most radical new home-loan packages yet devised

"Until now," he says, "homebuyers have been limited in the choice of a house by the size of their current income, with little or no allowance for the possibility of a gradual increase in wages or salaries over the years of bond repayments

"It becomes an awful cramp on younger buyers on low salaries at the start of their careers

"We propose breaking the conundrum with a special new package The scheme will allow mortgage borrowers to volunteer to make their monthly bond repayments on a fixed percentage of their pay packet

Exciting

"The amount may be small at the outset, perhaps, but obviously the repayments will grow as pay packets grow, because the percentage formula will come into play

"The implications are exciting At the moment, a bondholder is normally limited to buying a home valued at no higher than 37 times his monthly income The new formula will allow the buyer to spend as much as 42 times the size of his pay packet

"That opens a whole new world to younger homebuyers — whether black or white — who show ambition and show promise of carving out a sound future in their jobs and thus climbing the income ladder

"It's a far better alternative to the current frustration of having to wait years and years — often the very best years until they have climbed high enough to afford their own home under the traditional mortgage rules as we know them today

"Now that South Africa has set out into a new era, the world of high finance has got to break away from out-dated fuddy-duddy rules and think of radical new solutions to new problems

"Finance needs to be vibrant And it needs to be relevant"

GDM in good shape

(58)

STAR 5/12/91

International trade and finance group GDM has scored reasonably well during the six months to September.

The group said in it's interim results for the period that attributable profits were up 16 per cent to R4,7 million from last year's just over R4 million.

Earnings per share showed a good rise to 18,5c (15,9c) while the interim dividend was boosted from 4,5c to 5,25c.

The board said that if the economy did not continue to decline, earnings for the second half of the year should exceed those reported. — Sapa.

Future Bank pins hope on black niche

(58) W/Mail 6/12 - 12/12/91

Will the new Future Bank live up to its name or will it join the long list of black business disasters?

By MONDLI MAKHANYA

FUTURE BANK was formally launched amid much razzmatazz last week by its mother body, the Foundation for African Business and Consumer Services, and is being sold as another Black Empowerment endeavour.

Skeptics are already asking whether the bank will follow the likes of other "black-brothers-are-doing it for themselves" projects, such as the Blackchain supermarkets, Shareworld entertainment centre and African Bank — all of which now belong in the museum of failed entrepreneurship.

A pertinent question being asked is why the new bank should succeed where the African Bank failed. On its founding in 1975 by the National African Federated Chamber of Commerce, the African Bank was hailed as a landmark since it was the first time blacks — long confined to retail business — had dared venture into the financial services industry. When the term "black empowerment" came into vogue in the early 1980s the Bank was held up as an avenue through which black funds would be channelled into black projects. Its failure to live up to expectations is now legend.

The Fabcos hierarchy is adamant their new baby will fare much better. They say the African Bank tried to take other established banks head-on and failed to exploit its "patriotic" market.

"The African Bank offered the same products as any other commercial bank and there was nothing unique about it. That is what we are going to avoid," says a Fabcos executive.

It is only in the past few years — under the directorship of Jack Theron — that the African Bank has learnt the lesson of niche marketing. It is now focusing on rural areas where competition is almost non-existent and the rent much cheaper.

Already Future Bank has an almost guaranteed clientele in the form of fellow Fabcos affiliates, the National Association of Stokvels of South Africa and the Southern African Black Taxi Association. The stokvels body in particular will give the bank some muscle since it is estimated that around R52-million changes hands annually in this manner. Its relationship with First National Bank's finance arm, Wesbank — which is handing the Sabta account over to Future Bank — is likely to strengthen it in the minibus taxi financing business.

But whereas it will be easy to simply transfer Sabta's Wesbank account into Future Bank, the same will not necessarily apply to the stokvels.

Future Bank's Gaby Magomola

The banking environment has convinced commercial banks that the future lies in the black market. NedPerm has been particularly strong in the stokvel market and it has indicated it will fight to retain its stokvel base.

Says an in industry source: "They may not have a problem getting borrowers. People usually don't mind who they borrow from. But to attract investments is a totally different story. People will invest where they expect to get the best value for their money."

Wits University strategic marketing lecturer Steve Burgess says the bank stands a great chance because "even though we live in a cross-cultural market, white banks just don't understand black consumers and this is something the Future bank should exploit".

Davis Borkum Hare analyst Graham Bailey points to the recent good performance of niche focused banks such as Investec Bank and the Pretoria-based Unibank. Bailey contends Future Bank has a good chance if it tailors its products for a niche market. Future Bank executives say this is exactly what they intend to do but are cagey about details, citing the damage this might cause to competitive advantage.

Future Bank MD Neville Watchurst says the bank is negotiating with the Independent Development Trust about the financing of low cost housing. He adds that the bank will entice new depositors with tailored interest rates and targeting a specific type of depositor.

But to do this, says an industry source, the new bank will need a good management corps. He adds that one of the major causes of the African Bank's failure was that "it had poor management skills and therefore no proper planning".

FNB has seconded a number of senior staff to the new bank, a development which along with its 49 percent shareholding, has given rise to a perception that Future Bank is merely FNB's strategy of capturing an even bigger slice of the black market. Many of Future Bank board members are former African Bank employees, including co-founder Joas Mogale and past chief executive Gaby Magomola. These men know where African Bank went wrong and may use their skills to devour their past employer and rival. Magomola was fired as MD following disputes with the board.

He was a leading contender for the post of Future Bank chief executive — his appointment is rumoured to have been blocked by the Reserve Bank. The Reserve Bank is said not to have forgiven him for having leaked confidential documents which revealed it had bailed out the African Bank for over a million rands because African Bank's collapse would have been politically unsavoury.

Although Future Bank will initially focus on low income mortgages, its homeloan book would be greatly boosted if it took advantage of the big institutions' fear of the bond-boycott bogeyman and their subsequent unwillingness to lend in black areas.

STAR 6/12/91

Crulife offers bonus shares

Crusader Life Assurance Corporation is to declare a final dividend of 9,5c in January, but shareholders may elect to receive ordinary shares — credited as fully-paid from the share premium account — in lieu of all, or part of, their dividend entitlement in a ratio of 5-for-100.

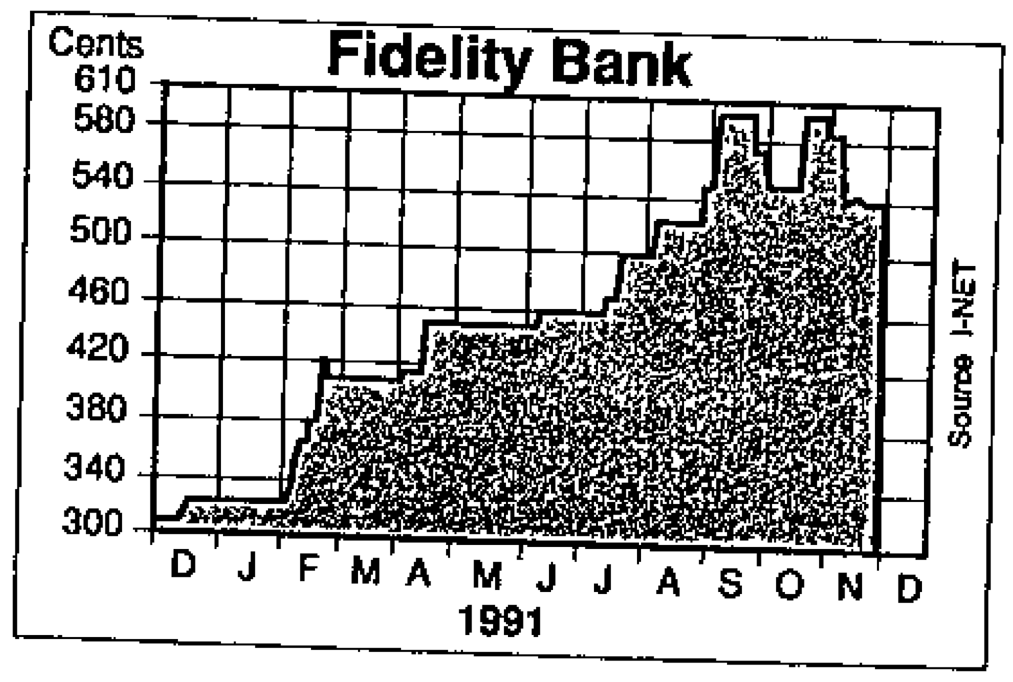
The company says that the reason for this is to retain funds in order to promote future growth, as well as making it possible for Crulife shareholders to increase their holdings.

The shares will be issued at 190c each.

The board has reserved the right to revise the issue price should there be any abnormal movement in the JSE price of the company's ordinary shares. (58)

Full particulars of the bonus share offer, together with the form of election, will be posted to shareholders registered on December 20.— Sapa.

FM 6/12/91 (58



FIDELITY BANK FM 6/12/91

Maintaining momentum

Activities: *General banking and financial services.* (58)

Control: *Board of Executives/Mercury Trust 30%, Federated Life 30%, staff 20%.*

Chairman: *R E Lippstreu; MD: J E A Langenberg.*

Capital structure: *11,2m* ords. Market capitalisation: R61m.*

Share market: *Price: 540c. Yields: 4,4% on dividend; 14,3% on earnings; p:e ratio, 7,0; cover, 3,2. 12-month high, 600c; low, 300c. Trading volume last quarter, 25 000 shares.*

Year to September	'88	'89	'90	'91
Total assets (Rm) . . .	213	280	377	428
Advances (Rm)	192	268	355	400
Attributable inc (Rm)	n/a	2,8	4,0	5,4
Earnings (c)	30	40	57,1	77,1
Dividends (c)	12	16	20	24
Net worth (c)†	139	163	201	254

* After rights issue.
† Undiluted.

Chairman Rolf Lippstreu says last year's performance records were achieved against the odds in one of SA's most difficult economic periods: while total assets grew only 14%, against Fidelity's target of 30%-35%, profit growth of 35% was in the target 35%-40%.

The gap between the rates of increase confirms that costs were well contained. MD Jules Langenberg says in his review that arrears, though still cause for concern and holding down profits, were "kept within acceptable limits." All operating divisions seem at least to have met their targets.

Another point of pride to the bank is that audited results were published only 11 days after the financial year-end.

Langenberg tells the *FM* the bank took advantage of the new Deposit-Taking Institutions (DTI) Act to switch from short- to long-term advances and raised instalment credit assets — its main business — by 31%, in line with the target. He says Fidelity has the longest asset profile of any SA bank.

Year-end shareholders' funds were R28,3m, or 6,6% of total assets — marginally up on 1990's capital:asset ratio of 6,5%, though even this is better than the tightening ratios reported by many competitors.

Since year-end, a rights issue has taken capital to almost R50m. Langenberg says this will take Fidelity out of small bank stature and free it from past "inhibitive perceptions."

The issue (98,7% subscribed) was 4,2m shares at 30-for-100, for 500c. The offer document says that, on the increased capital, pro forma 1990 earnings would have been 3,4c lower, at 73,7c a share, but NAV 65c higher at 267c. That NAV calculation appears to be fully diluted for conversion of the loan stock between 1994 and 2002.

The document does not give a pro forma balance sheet but, on the face of it, an extra R21m capital will, other things being equal, improve the year-end capital:asset ratio to almost 11% — well above the 8% ultimate target of the DTI Act or, looked at another way, enough to support assets of R615m.

Langenberg is confident that, even without a dramatic economic improvement, results this year will meet the objectives of the strategic plan, though he is understandably reluctant to look any further ahead.

While the share price has advanced 74% since we reviewed the 1990 annual report, the Banks & Financial Services index has put on over 60%. So though there has been a modest improvement in the relative rating, it could still have further to go. The tightly held capital and thin JSE turnover will, however, be limiting factors. *Michael Coulson*

BANKING PROFITABILITY FM 6/12/91

When big isn't beautiful

Standard Bank Investment Corp is ranked (58 57th in a survey on Real Banking Profitability by international rating agency Ibca. The continue

FM 6/12/91 (58

survey, that defines profitability as return on equity, focuses on reported results for the 1990 financial year, adjusted for the rates of inflation in each country.

Of the top 300 banks, 239 managed to achieve a real return. Top of the list is Spain's Banco Popular Espanol (commonly known as Banco Popular), ranked 207th in terms of assets. But once mighty banks like Citicorp, Barclays and NatWest have been relegated to positions 256, 262 and 277 respectively, despite being ranked 19, 11 and 15 in terms of assets.

Ibca "concentrates on return on equity as the crucial measure because generation of profits is an essential condition for the provision of new capital to support expanding operations, or if a bank is not expanding, to provide funds to pay the dividends shareholders require .. At the very least, a bank should be generating a higher return on capital than the rate of inflation; otherwise in real terms, its capital is shrinking. As many banks have a stock capital and are expected to reward shareholders with dividends, their returns must be considerably higher than the rate of inflation if their (real) capital base is to be maintained."

Based on an index of one (that indicates a bank's return on equity is just keeping pace with inflation), Standard is given a real profitability rate of 1,083. Banco Popular is rated at 1,326.

Differences in asset:equity ratios between banks operating in different countries are disappearing as banks come into line with the new Basle G10 capital rules. When all have conformed, Ibca will be able to calculate a return on tier 1 capital, which "will become, in theory, the most significant determinant of bank profitability."

Spanish banks feature strongly in the analysis — there are six among the top 40 — but Ibca says there is doubt as to how long this will continue. With inflation at around 6% the peseta is arguably overvalued and economic growth is slowing, the survey says.

"In addition squeezed interest margins and rising amounts of bad and doubtful loans are leading to higher loan loss provisions." However, the agency says profits are progressing modestly and expects Spanish banks to do well again in 1991.

Dutch banks have also "achieved sound earnings quality thanks to their well-diversified revenue sources and to operating in a stable, low-inflation economy."

Upper echelons

Japanese banks are absent from the upper echelons — the first, Jonan Shinkin Bank, limps home 94th. Japanese banks' capital ratios have improved but profitability has declined. Ibca says: "We have little doubt that, if major (Japanese) banks were required to provide against substandard quality lending in the same manner as most other developed countries' banks, their profits would be even lower."

The only German bank in the top 50 is Deutsche Ausgleischsbank. It owes its position to the release of a large sum from hidden reserves, against latent credit risks, which raised retained earnings. The report says German banks have been able to achieve real returns primarily because of the low inflation rate rather than high profits. Because of the expected inflationary effects of reunification, German banks' real returns may decrease in 1991.

The UK has three of the top 50: Cheltenham & Gloucester and Alliance & Leicester building societies and Abbey National, a former building society. Despite the problems of US banks, 18 appear in the top 50.

By assets, Japan's Dai-Ichi Kangyo Bank is ranked first; in terms of equity, Sumitomo Bank is first; and, on net income, Bank of China is number one. ■

TIME FOR AN AUTOMATIC CHEQUE OUT

FM 6/12/91 (58)

TrustBank's decision to withdraw its automatic cheque guarantee facility brings it into line with most other major banks. The automatic R200 guarantee on ordinary cheques was available to all clients but, due to "fraud and misuse by criminals" when cheque forms were lost or stolen, TrustBank has decided to introduce a "more standardised" guarantee system which, GM Renier van Niekerk says, provides "greater protection to the customer, the dealer and the bank itself." Clients have been notified of changes in procedure while the R200 guaranteed cheques will still be accepted until standardisation of the system is completed.

TrustBank guaranteed cheques are still available under a range of specific cheque plans, as well as those issued to individual clients. Van Niekerk maintains that optional guaranteed cheques are more beneficial to clients — payment of cheques not guaranteed can be stopped if the goods or services rendered are unsatisfactory.

Nedbank, which offers automatic R100 guarantee on ordinary cheques, does not intend to withdraw the facility. Guaranteed cheques for higher amounts are obtainable to approved individuals. While the N-5000 (see table) is guaranteed up to R1 000 on the same basis as the R100 ordinary cheque, the Optimum Portfolio cheque plans allow for a card-based guarantee to R500 or up to R1 000 by arrangement. Some banks have a more conservative approach.

Absa offers guaranteed cheques only in specific packages, such as the Unique and Performer plans from United and Cum Laude from Volkskas. There are specific sets of requirements for each cheque service. For example, people using a Unique cheque must present the corresponding credit card and sign the cheque in front of the payee. Ordinary account holders must go into the bank to have each cheque certified for the specific amount to be paid.

Standard Bank's cheque guarantee service does not cater for ordinary account holders. Divisional GM of personal banking John Holloway says the service would not be extended because of high risks involved with such a broad client base.

Standard Bank's guaranteed cheques, reserved for AchieverPlan, PrestigePlan, ProElite and MedElite account holders, are linked to the cheque holder's credit card. The card guarantees the cheque.

Says Holloway: "Given the current economic climate, it doesn't surprise me that other banks are reconsidering their positions on this issue." ■

GUARANTEES ON OFFER

Institutions	Financial packages which contain certified cheques	Certification limits	Certification cards
Standard Bank	PrestigePlan	R2 000	Standard Bank Gold MasterCard
	Med-Elite	R1 000	
	AchieverPlan	R 500	Standard Bank Gold or Blue MasterCard
TrustBank	Prime Cheque Account	R5 000 and R1 000	Any of the following cards: — Premier Card (Visa)
	Ordinary Trust Bank Cheque with cheque certification clause	R 500	— Classic Card (Visa) — Bankteller Card
Volkskas Bank	Cum Laude	Two limits apply R2 000 and R1 000	Volkskas Bank ordinary or Gold MasterCard/ Visa Card
	Ordinary Volkskas cheque with cheque certification clause	R 500	
Nedbank	Nedbank Cheque Account	All cheques automatically guaranteed up to R100 without Cheque Guarantee Card	All Nedbank cheques carry an automatic guarantee up to R100. Higher certification limits are embossed on the Cheque Guarantee Card
	N-5000	R1 000	This certification is stipulated on the face of the cheque
	Optimum Portfolio	R500-R1 000	Optimum Cheque Guarantee Card Limit embossed on card
First National Bank ..	Premier Cheque	R1 000	Premier Cheque Guarantee Card*
	Status Cheque	R 500	Status Cheque Guarantee Card*
United Bank	Unique	R1 000	United Bank Gold MasterCard
	Performer	R 500	United Bank ordinary or Gold MasterCard

* Customer's photograph and signature appear on the reverse

Source: Clearing Bankers' Association

SAAMBOU'S RED INK

FM 6/12/91. 58.

Radical surgery continues at Saambou. After a R28m abnormal provision for losses on advances in its 1991 year — which saw a pre-tax loss of R24m and negative earnings of R28m — it has made an abnormal provision of R68,5m in its interim results to end-September.

Of this, R43,5m comes from revaluation of properties for resale, and the remaining R25m is to reclassify long-term gilts to market value of trading stock. This, says group MD Johan Myburgh, should help towards a recovery. Meanwhile, interim attributable income plunged into a R72,7m deficit.

GM Property Services Charles Minie says much of the abnormal provision was accountable to development subsidiary Saambou Wonings.

Shaun Harris

FM 6/12/91 (58) **FOX**

ABSA FM 6/12/91

Prudent start

58

Amalgamated Banks of SA's interim results to end-September contain some pleasant developments, in line with CE Piet Badenhorst's style. Certainly, SA's biggest financial services institution seems to be building up the dividend cover and is presenting earnings conservatively.

One favourable aspect was the 8% growth in loans and advances, to R42bn, since the March year-end This contrasts with growth of only 2% in total assets, to R53bn, in the same period.

Admittedly, comparisons against previous results since Absa was formed are not fully meaningful, this being the first time that results from the United, Allied, Volkskas and the Sage interests have been presented for the same financial period March's annual results were really not much more than an accounting exercise.

But the comparison of growth in advances against the asset growth is being seen as an indication of sound asset management and effective use of funds.

So, too, is the decrease in cash and short-term funds, down to R853m from R2,2bn in March. The R720m under "other assets" on the balance sheet, down from R1,5bn in March, probably reflects release of funds for deployment in higher yielding areas. All of which may indicate that the single treasury now controlling all divisions is making better use of funds employed.

By any standards, the R220m provision for bad and doubtful debts is large. This amounts to 0,87% of annualised total assets. It compares with about 0,67% for Nedcor and 0,77% for FNB.

While the R220m provision (March: R175m) cut into the net margin — though still leaving operating income at a healthy R1,36bn — a similar provision for bad debt is probably unlikely in the second half of the year, traditionally the period when about 60% of profit is made. Should a similar provision occur, it will probably only be on the back of significantly increased earnings.

Absa director Mike de Blanche says the amount is a prudent provision, noting that while interest rates will probably fall early next year, "it is hard to speculate on what could happen in the next six months."

Interest on advances was R4,02bn, 16,6% up on interest paid. This is up considerably on earlier figures. Operating income is up 24%, to R1,36bn.

With attributable income standing at R207m, EPS increased 15%, to 45,4c. An interim dividend of 15,5c has been declared, compared to 14c for the same period last year.

Absa's share price has been on a steady climb since the first annual results in March, rising from 725c then to the current 1 025c. With the latest results giving a favourable impression, it seems unlikely the price will weaken unless the whole banking sector — currently enjoying a good run with banks favourably rerated against the industrial sector — takes a knock.

Some analysts are now taking the view that Absa is fully priced when compared with other shares in the sector. Another view is that the banking sector has probably reached the end of its rerating and Absa is unlikely to be rated higher. This might lead to some profit taking but the longer-term profit outlook remains promising. *Shaun Harris*

FM 6|12|91 158

BANKING

Of passing interest

Until February 25, Jaap Spelt of business consultancy Wespro will be obliged to specifically exclude First National Bank (FNB) when he alleges banks are contravening the Usury Act — by not notifying clients about interest rate changes and by charging rates that are higher than legally permissible.

This follows an urgent interdict, brought by FNB in the Transvaal Provincial Division of the Supreme Court on Tuesday, against Spelt, Wespro and the SABC. FNB's move was designed to stop a television programme planned for Good Morning SA next week.

The case has been postponed until February 25 and Spelt has until January 13 to present his answering affidavit.

Spelt has claimed to have proof that banks are overcharging both on interest rates and service fees, but he has not named any banks.

FNB senior GM Jimmy McKenzie objects to what he describes as "unsubstantiated allegations." Before the court order, he says, "FNB will not tolerate any deliberate contraventions of the Usury Act. Any manager found to be doing this will be fired."

McKenzie

As the specific exclusion of FNB may convey the impression to the public that other banks are guilty, they may also seek relief in the courts.

Nedbank executive GM John McCall says Nedbank had decided not to take legal action against Spelt but "the matter will be revived in the light of the latest developments."

McCall says Nedbank took steps earlier this year to ensure that all customers know exactly what service fees and interest rates are charged. "Any changes in these rates are individually advised either on the statements or by letter," he says. ■

PFV GOES NORTH

FM 6/12/91

58

Insurance broking conglomerate Price Forbes will open a subsidiary in London from January 2. It's a prelude to getting a foothold in Europe and later, possibly, the US.

PFV London has been registered to trade and will be able to do business directly at Lloyd's, under the umbrella of the Sedgwick group. But Price Forbes CE Paul Heinamann hopes that, by next September, the London operation will be registered as a Lloyd's broker in its own right.

Heinamann

He expects the subsidiary to concentrate on the general property, motor and personal accident risk classes and to develop a lot of its business from sources outside SA.

Heinamann adds: "A business the size of Price Forbes would lose its standing and technical capability without a direct European presence. PFV London is a key factor in our becoming international in a limited and focused manner." MD of the London operation is South African Jim Foot.

FM 6|12|91

GOLD ON THE CAPE COAST

(58)

At "only" R1,5m apiece, the latest ultra-luxury apartment development at Clifton in Cape Town is considered a bargain — so much so that nine of the 13 units were sold before construction began

Nevertheless, the marketing of Clifton View at 4 Victoria Road was officially launched this week by the Seeff property group. The development is a joint venture between Seeff Organisation Holding's subsidiary Seeff-Slot Projects and Time Holding's subsidiary Time Developments.

The new complex is going up on the site of the old Marivan apartment block which has been demolished. It is due to be completed by the end of next year.

Each unit has three bedrooms, two and a half bathrooms and various lounge and entertainment areas within 183 m^2 of internal space and terraces ranging in size from 35 m^2 to 116 m^2.

The site, which rises from the shoreline up to Victoria Road, is regarded as one of the most spectacular on the city's Atlantic coastline, but it presented a major challenge to the contractors.

The old building had to be demolished without allowing rubble to fall into the sea and 3 500 m^3 of granite then had to be blasted out of the cliff face and removed 2 m^3 at a time by a single tower crane, which is all that could be accommodated on the small site.

Building regulations limit the height of the complex to road level, which meant excavation was carried out from the road down towards the sea. The granite cliff was found to include strata of decomposed rock and clay and had to be anchored with cable buried 12 m deep into the rock every 2 m.

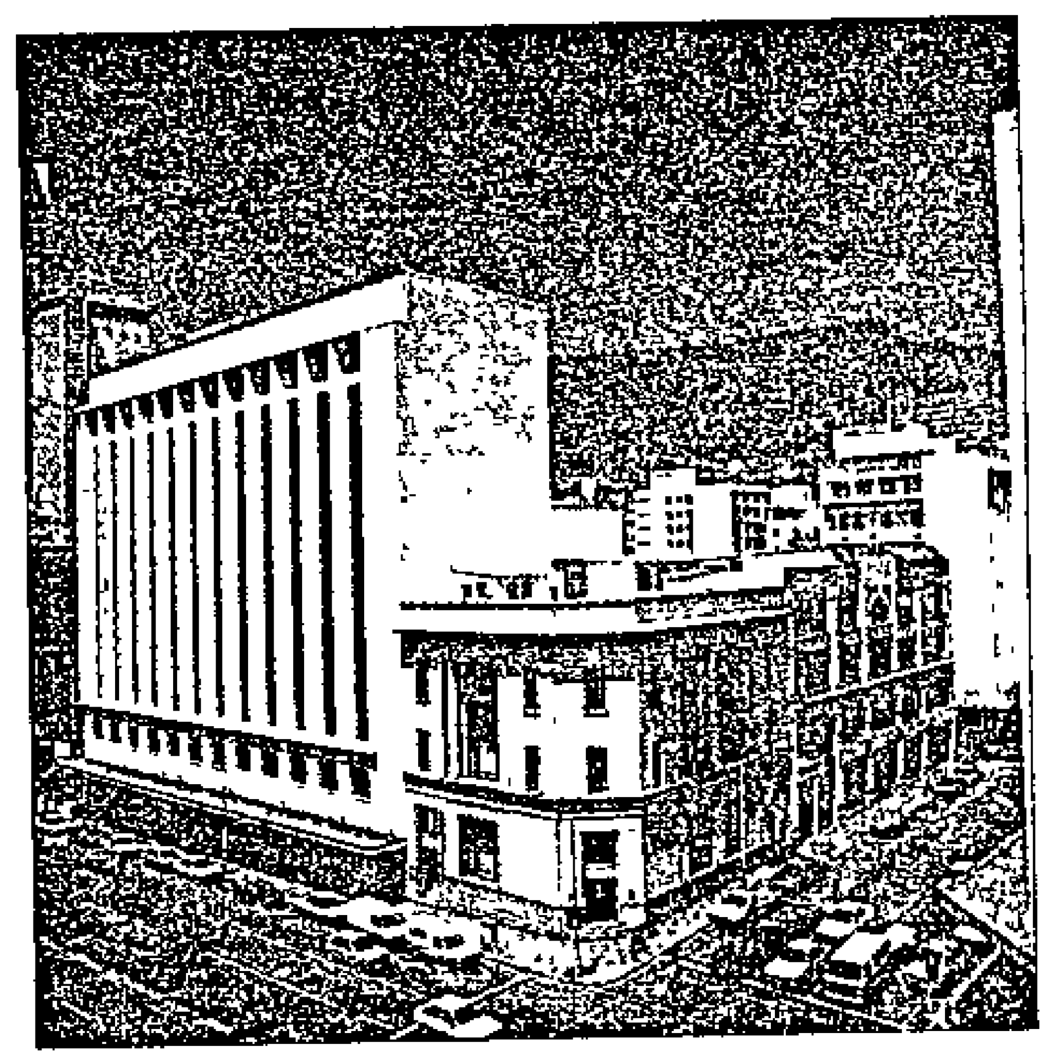
But the hassle was worth it, says Seeff-Slot Projects MD Mark Slot. "The site is so special that we just had to utilise it to its full potential. We knew if we could do it, the buyers would be there."

He says most of the buyers so far are from the Reef, which is an indication of the confidence investors have in property along Cape Town's "gold coast".

"This coast has all the appeal and style of other great addresses like St Tropez, San Remo, Monaco and Malibu, where the right to be exclusive is determined by the action of the free market system."

Last year, Seeff handled the marketing of the Beaches apartment complex along the road from Clifton View. The apartments were sold for R1,8m to R3,6m each.

It is currently also marketing Clifton Breakers, a 10-unit development on the mountain side of Victoria Road priced at R995 000 to R2,2m each. The apartments range in size from 172 m^2-257 m^2. The complex is being developed by Basil Read Developers.



Also in Cape Town this week, Seeff group subsidiary Seeff Trust launched its eighth property syndication when it invited clients to invest R16,7m in a CBD block bounded by Strand, Long, Castle and Loop streets.

Seeff Trust MD Mike Flax says the property is the "epicentre" of the city's financial services district. Tenants of the three buildings that make up the property include Trust Bank, First National Bank and Bloomsbury Carriage Company which sells exotic cars. Tenants of neighbouring buildings include six major life offices, Santam and financial services practitioners.

Units in the syndicate cost R10 000. An initial guaranteed return of 9,3% has been projected, based on current rentals with a 12% annual escalation.

Seeff Trust has secured supporting guarantees for both net returns and escalations for the next four years through a headlease to Compass Properties, an Anglo American Properties subsidiary.

Flax says in the past two years Seeff has syndicated property valued at R57m and built up a list of 2 000 investors, most of whom have participated in at least two of the group's syndicates.

He believes the Strand Street syndicate will be just as successful as the R12,5m ICS syndicate in Cape Town earlier this year which was over-subscribed by R8m.

... close to the end of the year."

AA LIFE: TURNING THE KNIFE

FM 6/12/91

(58)

Actuary Ron Howroyd continues to needle both the Anglovaal Group and Financial Services Board (FSB) over the controversial R6,5m interim dividend AA Life declared to its parent Anglovaal Insurance Holdings (Avins). Last week Anglovaal tacitly agreed the interim payment had been imprudent, given that there had been underprovision in the assurer's life fund. The final dividend from AA Life was passed.

Howroyd has disclosed the correspondence since February when he ceased to consult to AA Life, between himself, Anglovaal and the FSB. In a letter to FSB executive officer Piet Badenhorst last week, Howroyd recalls an undertaking from the board (then the Registrar's office) "that there would be no cover-up of the serious irregularities in the affairs of AA Life to which I drew attention on February 4, 1991 ... I find that this undertaking has not been honoured."

Howroyd

Howroyd says some of the letters he has written, and is now prepared to make public, are intentionally defamatory. He adds that he would welcome a challenge to his contention that the dividend was not only illegal but that the FSB, even with the information provided, has been content to brush the matter under the table.

A fax of the article (*Economy* November 29), in which the *FM* recorded some of the questions raised by the interim dividend payment, was sent to the FSB at the time and drew no comment. This week the FSB is moving offices and was unable to comment on Howroyd's assertions and questions.

Govt 'must ensure social investment'

LINDA ENSOR

CAPE TOWN — Government would have to guarantee the payment of capital and interest on socially desirable loan investments which did not meet the criteria of security and return, Old Mutual chairman Mike Levett said in a statement yesterday.

"Such loans would in effect be off-balance sheet borrowing by government and could well be considered as an extension to the budget," Levett said, stressing that the assurer's primary responsibility was to its policyholders and pension fund members.

He said assurers did not have the skills or capacity to manage small investments such as home loans or small-scale entrepreneurial developments and that other agencies would have to do that.

Levett called for a lower tax rate which at its current level acted as a disincentive to growth. However, he said reducing the rate would require fiscal discipline and spending restraint as experience had shown that the option of expanding deficit financing lowered standards of living.

"The budget deficit should be dictated by and should not be greater than the level of investment spending by government, he said.

"Spending discipline will require substantial redistribution in favour of the less privileged. Such a restructuring will not be painless, but the benefits achieved should outweigh the negative aspects."

Assets of the society at end-June totalled R62,8bn. Total assets, including those managed on behalf of clients and unit trusts, stood at R72,4bn of which more than R42bn (70%) were invested in shares and property. In Zimbabwe, where Old Mutual claims over 70% of the market, assets were Z$4,7bn.

In the year to end-June total premium income rose 13% to R8bn with Old Mutual's market share rising 1% or 5% over the last five years. Total income amounted to R12,1bn with income from investments at R4bn. Benefits paid out came to R4,5bn.

Levett said during the year several large provident funds were placed with Old Mutual, which had secured the underwriting contract for a group life scheme providing cover for more than 400 000 workers with a premium income of R100m a year.

Referring to the loss of money through embezzlement and fraud by members of Old Mutual's investment team, Levett said controls were being tightened.

He said Old Mutual was the largest life assurer in Africa and was market leader in SA, Zimbabwe, Namibia and Malawi.

To comply with legislative changes in Kenya which required that all insurers be locally incorporated, a Kenyan subsidiary, Old Mutual Insurance Co Ltd was being registered with 60% of the shares held by Old Mutual and 40% by policyholders.

Old Mutual's Kenyan policies, liabilities and assets would be transferred to the new company in 1992.

The Kenyan portfolio was closed to new business in 1975 for tax and other reasons, but there were still 4 000 policies on its books backed by assets of about R78m.

Former president of the Deutsche Bundesbank Karl Otto Pohl seconded the adoption of the annual report with a speech on the implications of German and European unification.

Complaints about rates being probed, top official confirms

Bank charges: Govt steps in

STAR 7/1/91 58'

BRENDAN TEMPLETON

A SENIOR Government official has confirmed startling accusations by Pretoria businessman Jaap Spelt that banks are illegally overcharging customers on their overdrafts.

Deputy Director of Finance Herman le Roux yesterday confirmed he had received a number of complaints of overcharging "and all of them reflect contraventions of the Usury Act".

The main problem areas identified were rates charged in excess of the maximum allowed and the "tremendous" fluctuation of rates without prior notice, he said

Mr Spelt said this week that overcharging by banks had serious implications which could run into "many millions" of rands

Mr le Roux said none of the complaints had yet been handed over to the Attorney-General Revelations of overcharging on overdrafts were a relatively new phenomenon and his office was still investigating them he explained.

"The policy of this office is that if contraventions take place, they have to be referred to the Attorney-General, irrespective of who is involved," he added.

Mr le Roux had been told "from very high up" not to speak to the press, but felt the issue was of sufficient importance to the public to speak out about it.

He is not the only one who has been told to shut up — Mr Spelt came under considerable pressure from First National Bank this week when it brought a court action against him in a bid to silence him.

See Page 16

But the partner of Westpro Business Consultants was adamant that his claims were true and provided the court with documents he alleged supported them.

These included results of a survey done on behalf of the Transvaal Agricultural Union (TAU) this year which showed that, of 242 accounts at Volkskas, Standard Bank, Nedbank, Trust Bank, FNB and Boland Bank, accounts showing irregularities numbered 82, 31, nine, 43, 49 and six respectively.

His allegations are borne out by a Consumer Federation investigation last year, which also found that banks overcharged on overdraft accounts.

The federation accused banks of not discussing interest rates with clients in order to levy the highest rate possible, of changing rates without notifying the client, of exceeding the maximum rate and of not reducing rates when the prime rate dropped.

Service charges, commitment fees, penalty interest, interest on credit balances, and commissions were also often not agreed on with the client.

Approached by Saturday Star Mr Spelt was at pains to point out that any statements he made on the

Officials clam up over car 'racket'

ROCHELLE GOSLING-HUGHES

THE Johannesburg Traffic Department has clammed up over the progress of its internal investigation into an alleged scam involving members of its organisation extorting money from people whose vehicles are towed to the city pound.

A mysterious Chinese man at the centre of the alleged scandal died recently, according to traffic department PRO Eric Hill — but more than six weeks ago according to department chief Michael Davis.

Mr Davis has denied any cover-up of the alleged scam, saying his department is determined to follow its internal investigation through to the end

But at one point this week a traffic department official told councillor Paul Asherson that there was no investigation under way at all.

Saturday Star revealed last week that the traffic department was allegedly hiding the fact that vehicles had been irregularly impounded.

Nabbed

In one case, the mysterious "Mr Wingson" approached Johannesburg butcher Roland Hill — whose van had gone missing — to say that "for a price" he could find the missing vehicle.

It appeared that Roland Hill's vehicle had been impounded, but that this had been denied several times by the traffic department

STEPPING INTO CONTROVERSY: Diana Tilden-Davis treads warily as the storm over her "pregnant" remark continues to reverberate around her head. See page 6.
● Photograph: JOHN HOGG

86 already dead in holiday collisions

OWN CORRESPONDENT and SAPA

DURBAN — In their rush to the coast, seven out of 10 motorists are turning Natal roads into a Kyalami race

Hasty holidaymakers are disregarding speed limits and not observing following distances in their rush to reach their holiday spots says the National Road Safety Council

formation centre started recording its traffic accident figures for this year's holiday season from noon on Tuesday, when Transvaal schools closed

The NRSC said that since noon yesterday traffic volumes had

this weekend can be expected on the N3 — between the PWV and Heidelberg — where a flow of about 1 100 vehicles an hour is expected

On the Harrismith bypass, a two-lane road, high traffic volumes are expected to cause bottle-

of 750 vehicles an hour this weekend Bottlenecks can be expected north of the toll road, where the road narrows to two lanes

The NRSC also warns that the South African Long Distance Taxi Association has a high number of advance bookings for its taxis and many of these can be expected to

Transvaal and Natal traffic authorities announced this week they were using radar speed-control devices on the major highways in addition to the traditional speed traps to keep tabs on speeding motorists

The AA immediately cautioned that the accuracy of the radar speed-control devices was

SACP congress names Hani to succeed Slovo

STAR 7/12/91

PATRICK LAURENCE

GUERILLA chief and African National Congress leader Chris Hani was yesterday nominated by delegates to the South African Communist Party congress as the sole candidate to succeed Joe Slovo as secretary-general of the party

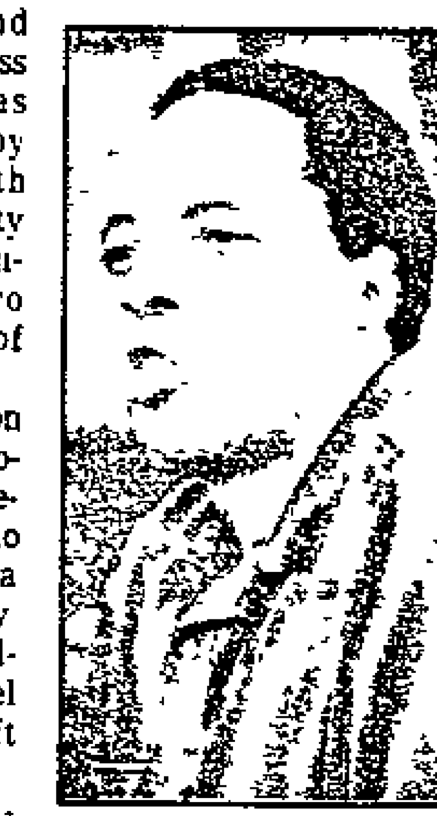
His surprise nomination vied with another development for attention, the decision of the congress to describe the SACP as a Marxist-Leninist party despite judicious avoidance of that specific label in the SACP's new draft constitution

The decision to nominate Mr Hani, taken with his apparent concurrence, came in defiance of the reluctance of the ANC to release him to take up a full-time post in the SACP

It contradicted an announcement recently by the SACP leadership that it had abandoned its quest to persuade the ANC national executive to free Mr Hani to assume the pivotally important position of secretary-general

Candidates had until 6 pm yesterday to withdraw if they were unwilling to stand Mr Hani had not withdrawn by then He declined to comment when approached for comment shortly after the deadline expired.

Senior leaders in the SACP were confident that Mr Hani would allow his name to go forward, meaning that he would be elected automatically when



CHRIS HANI: Takes over from Joe Slovo.

nior member of the ANC executive and one of its chief negotiators.

● The need for the SACP leadership to project a black profile more strongly to reflect its predominantly black membership

The decision of SACP congress delegates — many of whom are members of the ANC — to nominate Mr Hani was consistent with, and a manifestation of, the growing mood in the

● TO PAGE 2

A new dawn breaking for SA rugby?

BARRY GLASSPOOL

op official confirms

ovt ste

STAR 7/12/91 (58)

BRENDAN TEMPLETON

A SENIOR Government official has confirmed startling accusations by Pretoria businessman Jaap Spelt that banks are illegally overcharging customers on their overdrafts.

Deputy Director of Finance Herman le Roux yesterday confirmed he had received a number of complaints of overcharging "and all of them reflect contraventions of the Usury Act".

The main problem areas identified were rates charged in excess of the maximum allowed and the "tremendous" fluctuation of rates without prior notice, he said

Mr Spelt said this week that overcharging by banks had serious implications which could run into "many millions" of rands.

Mr le Roux said none of the complaints had yet been handed over to the Attorney-General Revelations of overcharging on overdrafts were a relatively new phenomenon and his office was still investigating them, he explained.

'The policy of this office is that if contraventions take place, they have to be referred to the Attorney-General, irrespective of who is involved," he added

Mr le Roux had been told "from very high up" not to speak to the press, but felt the issue was of sufficient importance to the public to speak out about it

He is not the only one who has been told to shut up — Mr Spelt came under considerable pressure from First National Bank this week when it brought a court action against him in a bid to silence him

See Page 16

But the partner of Westpro Business Consultants was adamant that his claims were true and provided the court with documents he alleged supported them

These included results of a survey done on behalf of the Transvaal Agricultural Union (TAU) this year which showed that, of 242 accounts at Volkskas, Standard Bank, Nedbank, Trust Bank, FNB and Boland Bank, accounts showing irregularities numbered 82, 31, nine, 43, 49 and six respectively

His allegations are borne out by a Consumer Federation investigation last year, which also found that banks overcharged on overdraft accounts.

The federation accused banks of not discussing interest rates with clients in order to levy the highest rate possible, of changing rates without notifying the client, of exceeding the maximum rate and of not reducing rates when the prime rate dropped.

Service charges, commitment fees, penalty interest, interest on credit balances, and commissions were also often not agreed on with the client

Approached by Saturday Star, Mr Spelt was at pains to point out that any statements he made on the issue did not refer to FNB

This was one of the requirements of an order of mutual consent by the Supreme Court pending the outcome of the FNB case, which resumes on February 25 next year.

"My question to the public is Who has been advised that their interest rate was reduced in April 1991?" he said.

Mr Spelt pinpointed five problem areas in respect of overdraft accounts

- Eighty percent of clients checked did not know the interest rate on their account, leaving it to the discretion of their bank manager. Sometimes they were told this was a standard rate, meaning the maximum allowed.
- Interest rates were increased without the notification required by the Usury Act. Some accounts

● TO PAGE 2

Banks overcharging

● FROM PAGE 1

showed interest rates increasing from the prime rate determined by the Reserve Bank plus 3,5 percent to prime plus 12 percent within five months. (58)

- When prime rates were reduced, clients' rates were not adjusted accordingly.
- In some cases, interest rates were higher than the maximum 29 percent rate allowed for overdrafts of between R6 000 and R500 000. The maximum allowed for anything less was 32 percent. STAR 7/12/91
- Some banks were charging a commitment fee if overdraft limits were not used and a penalty interest when overdrafts were exceeded. He believed this amounted to charging two different interest rates for the same account.

Mr Spelt stressed that he did not have a vendetta against banks and believed any irregularities could be sorted out in a friendly fashion. It was simply his business to check people's accounts.

He had developed a computer programme, the Interest Verification System, to check interest rates and offered this as a service to the public.

The issue blew up after the report he had submitted to the TAU in May, he added.

Following discussions between his company and Volkskas this week, he was optimistic that problems would be ironed out.

Vokskas spokesman Hennie Diedricks said most of the complaints regarding changes in overdraft rates came from people who exceeded their limit and were charged a penalty rate. He denied this ever exceeded the maximum.

From April 30 next year, the Clearing Bankers Association (CBA) had agreed to implement a programme in terms of which customers would be immediately notified of changes in interest rates.

FNB managing director Barry Swart said too much credibility was being given to Mr Spelt. "I am sorry I cannot be more open with you, but the terms of the (Supreme Court) order prevent me from speaking to you further," he said.

If Mr le Roux knew of irregularities, then he was welcome to refer them to the Attorney General.

Trust Bank said they could not comment as they were bound by decisions made by the CBA.

CBA executive director Nico van Loggerenberg ascribed any incorrect interest rates to human error. When it was pointed out that Mr Spelt claimed the error was a general trend, Mr van Loggerenberg said he could not comment.

Bank scandal: 'Millions' in illegal over-charging

58 ARG 7/12/91

BRENDAN TEMPLETON
Weekend Argus Reporter

BANKS are illegally over-charging customers on overdrafts. This has been confirmed by a senior government official following startling accusations by Pretoria businessman Jaap Spelt.

Finance department deputy director Herman le Roux said yesterday he had received a number of complaints regarding overcharging — "and all of them reflect contraventions of the Usury Act".

The main problem areas identified were rates charged in excess of the maximum allowed and the "tremendous" fluctation of rates without notice, he said.

Mr Spelt said the implications of overcharging had serious implications which could run into "many millions" of rands.

Mr Le Roux said none of the complaints had been handed over to the Attorney-General. Revelations regarding the overcharging of overdraft accounts were a relatively new phenomenon and his office was still investigating them.

"The policy of this office is that if contraventions take place they have to be referred to the Attorney-General, irrespective of who is involved," he added.

Mr Le Roux had been told "from very high up" not to speak to the Press, but he felt the issue was of sufficient importance to the public to speak out about it.

He is not the only one who has been told to shut up. Mr Spelt came under considerable pressure from First National Bank this week when it brought a court action against him in a bid to silence his claims.

But the wiry partner of Westpro Business Consultants was adamant that his claims were true and he provided the court with documents he alleged backed them up. These included results of a survey on behalf of the Transvaal Agricultural Union this year which showed that of 242 accounts at Volkskas, Standard, Nedbank, Trust Bank, FNB and Boland accounts showing irregularities respectively numbered 82, 31, 9, 43, 49 and 6.

His allegations are borne out by an Consumer Federation investigation last year which also found that banks overcharged on overdrafts.

The federation accused banks of not discussing interest rates with clients in order to levy the highest rate possible, of changing rates without notifying the client, of exceeding the maximum rate and of not reducing rates when the prime rate decreased.

Service charges, commitment fees, penalty interest, interest on credit balances and commissions were also often not agreed on with the client.

When approached by Weekend Argus Mr Spelt was at pains to point out that any statements he made regarding the issue did not refer to FNB.

This was one of the requirements included in an order of mutual consent by the Supreme Court pending the outcome of the FNB case which resumes on February 25.

Turn to page 3

Bank scandal over false interest rates

From page 1

"My question to the public is: Who has been advised that their interest rate was reduced in April 1991?" he said.

Mr Spelt pinpointed five problem areas regarding overdraft accounts:

☐ Eighty percent of clients checked did not know the interest rate on their account, leaving it to the discretion of their bank manager. Sometimes they were told this was a standard rate, meaning the maximum allowed.

☐ Interest rates were increased without the notification required by the Usury Act. Some accounts showed interest rates increasing from the prime rate determined by the Reserve Bank plus 3,5percent to prime plus 12 within five months.

☐ When prime rates were reduced clients' rates were not adjusted accordingly. In some cases interest rates were higher than the maximum 29 percent allowed for overdrafts between R6 000 and R500 000. The maximum allowed for anything less was 32percent.

☐ Some banks were charging a commitment fee if overdraft limits were not used and a penalty interest when overdrafts were exceeded. He believed this amounted to charging two different interest rates for the same account.

Mr Spelt pointed out that he did not have a vendetta against banks and believed any irregularities could be sorted out in a friendly fashion. It was simply his business to check people's accounts.

He had developed a computer programme, the Interest Verification System, to check interest rates and offered this as a service to the public. At no time had he approached the media for publicity.

Banks called

STAR 7/12/91

7/12/91 MAGNUS HEYSTEK 58
Finance Editor

THE BANKING public is becoming increasingly dissatisfied with the charges levied on their bank accounts and on overdrafts.

This follows accusations by Pretoria businessman Jaap Spelt that banks were overcharging customers and exceeding the maximum rates allowed on overdrafts.

Earlier this week First National Bank sought an urgent interdict to stop Mr Spelt from making these claims.

Mr Spelt's company Wespro has developed a software programme which can check bank statements and calculate what interest rates have been applied on overdraft accounts.

FNB's application was only partially successful as Mr Spelt has been allowed to continue his allegations, provided FNB is specifically excluded from his statements.

According to Mr Spelt he has documentary proof of countless cases where banks overcharged people and made refunds after this was discovered. I have seen photocopies of several cheques — some running into thousands of rands — issued by banks in favour of his clients.

A television programme on SABC-TV1 airing this issue has had to be changed at the last minute and will now focus only on banking charges in general. It will be broadcast early next week.

Mr Spelt appeared on Financially Speaking on Radio 702 last Wednesday and a transcription of the programme was handed into the court as supporting evidence by FNB's legal team, although FNB's name was not mentioned once during the programme.

But the issue of overdraft costs is not the only one causing dissatisfaction. This week spokesmen for several consumer organisations joined the battle.

Housewives League president Lyn Morris was quoted in The Star as saying that consumers were not happy. "They seem to be paying a lot of money yet many don't really understand their banking accounts."

Despite advertisments which portray banks as friendly institutions where advice and assistance are readily available, most consumers are confused and reluctant to approach their bank managers, Mrs Morris said.

This view was echoed by Consumer Union chairman Lillibeth Moolman who said:

"People are dissatisfied because costs and charges are put on to their accounts which they aren't even aware of."

She urged consumers to check their accounts for changes in their interest rates as well as to ascertain what they were being charged for overdrafts.

Callers to Radio 702 also confirmed that a great deal of uncertainty existed about bank charges and interest rates.

Spokesmen for banks seemed to labour under the illusion that all is well in the banking world. This is not the case. While they might understand the different formulas used to calculate bank charges on services, the public certainly does not.

In an effort to shed some light on this issue The Saturday Star commissioned Mr David Hersch of Compuquote in Cape Town to compile as accurately as possible the various charges levied by banks on the most common services rendered.

The seven tables published hereprovide for the first time a comprehensive survey of bank charges, categorised in terms of the services.

However, although the survey is the most comprehensive yet done in South Africa, it is likely that not all the fees have been covered. The survey only covers the most widely used services.

Volkskas, for instance, has pointed out that it has more than 100 service fee formulas, most of which can be negotiated between the bank and the client.

"Your application looks good so far: you have no criminal record, you've never been declared bankrupt and you can afford our charges".

Brainwashed

Says Dave Hersch on completion of the survey: "The bottom line with banks is that the South African mentality must change and not be intimidated by years of brainwashing that banks cannot be changed easily. As in all consumer affairs, shop around for the best deal and always compare charges.

"Overseas there are no cheque charges as there are here. In addition, many other charges are added and as the average South African does not question his statement, either out of laziness or fear, the banks get away with millions."

to account

Breakdown of the costs in retail banking

Cheque accounts

Bank	1st R100	Next R100	Cheque Charges Max	Balance
Allied Bank	0,50	0,50	10,00	0,00
First National	0,50	0,50	10,00	0,00
Nedbank	0,60	0,60	11,00	0,00
Standard Bank	0,65	0,60	12,00	0,00
TrustBank	0,70	0,66	11,47	0,30
United Bank	0,25	0,25	8,00	0,00
Volkskas	0,70	0,70	11,00	0,10

Business credit cards

Interest Rates on Balances

Bank	CREDIT Min	CREDIT Max	DEBIT Min	DEBIT Max
Allied Bank	9,50%	16,00%	28,50%	28,50%
First National	14,00%	14,00%	28,50%	28,50%
Nedbank	0,00%	0,00%	0,00%	0,00%
Perm	0,00%	0,00%	0,00%	0,00%
Standard Bank	9,50%	16,00%	28,50%	28,50%
TrustBank	0,00%	0,00%	0,00%	0,00%
UBS	0,00%	0,00%	0,00%	0,00%
Volkskas	8,50%	15,00%	29,00%	29,00%

Garage credit cards

Interest Rates on Balances

Bank	CREDIT Min	CREDIT Max	DEBIT Min	DEBIT Max
Allied Bank	9,50%	16,00%	28,50%	28,50%
First National	14,00%	14,00%	28,50%	28,50%
Nedbank	14,00%	14,00%	27,00%	29,00%
Perm	0,00%	0,00%	0,00%	0,00%
Standard Bank	9,50%	16,00%	28,50%	28,50%
TrustBank	0,00%	0,00%	0,00%	0,00%
UBS	0,00%	0,00%	0,00%	0,00%
Volkskas	8,50%	15,00%	29,00%	29,00%

Ordinary and Gold credit cards

Interest Rates on Balances

Bank	CREDIT Min	CREDIT Max	DEBIT Min	DEBIT Max
Allied Bank	9,50%	16,00%	28,50%	28,50%
First National	14,00%	14,00%	26,50%	28,50%
Nedbank	14,00%	14,00%	27,00%	29,00%
Perm	15,00%	15,00%	27,00%	29,00%
Standard Bank	9,50%	16,00%	26,25%	28,75%
TrustBank	14,75%	14,75%	28,00%	29,00%
UBS	14,00%	14,00%	26,00%	28,00%
Volkskas	8,50%	15,00%	28,00%	29,00%

Annual credit card charges

Type of Credit Cards

Bank	Ordinary	Gold	Platinum	Garage	Business	Other
Allied Bank	27,00	60,00	0,00	18,00	27,00	0,00
First National	27,00	72,00	0,00	24,00	27,00	0,00
Nedbank	25,00	70,00	0,00	25,00	0,00	0,00
Standard Bank	27,00	60,00	0,00	18,00	27,00	0,00
TrustBank	30,00	60,00	0,00	0,00	0,00	0,00
United Bank	20,00	48,00	0,00	0,00	0,00	0,00
Volkskas	28,00	70,00	0,00	15,00	30.00	0.00

Automatic teller machines

Bank	W/T/P ATM Cost	Saswitch	Multinet	Daily Lt	W/T/P Teller Cost	Balance	Daily Lt
Allied Bank	0,70	1,30	0,00	1 000	1,00	0,50	1 000
First National	1,00	1,15	0,00	1 000	1,00	0,00	1 000
Nedbank	1,00	1,25	0,00	500	4,00	0,00	500
Standard Bank	0,70	1,30	1,00	500	0,70	0,00	500
TrustBank	0,50	1,15	0,00	1 000	0,00	0,00	1 000
United Bank	0,25	1,15	0,75	1 000	0,25	0,00	1 000
Volkskas	0,75	1,15	0,75	1 000	0,00	0,10	1 000

W/T/P = Withdrawal/Transfer/Payment.

* Charges can be negotiable, depending on the bank.

+ 1st R100/each extra R100/Maximum per cheque.

Metropolitan hits magic billion

S1Times (CM) 8/12/91 (58)

METROPOLITAN LIFE has generated total income of more than R1 billion for the first time, confirming its place as one of the top performers in the insurance sector since it was first listed five years ago.

Premium income increased by 29% to R703 million in the year to the end of September.

The performance is described by managing director Marius Smith as "most satisfactory" given the depressed state of the economy.

He says 92% of the growth is derived from recurring premiums, reflecting a stable client foundation and inspiring confidence in the Cape Town-based group's ability to secure future growth.

Earnings per share improved by 24% from 56,50 cents to 70,00 cents.

As a result of this improvement, the directors have posted a final dividend of 10,50 cents a share, which together with a special interim dividend of 18,00 cents and the ordinary interim dividend of 16,50 cents has amounted to a total of 45,00 cents a share, reflecting a 22% growth on the 37,00 cents for 1990.

Old Mutual still cautious on risky loan investments

S Times (CM) 8/12/91 (58)

AS a responsible investor, Old Mutual could not indulge in risky loan investments with the monies entrusted to it, particularly as many policyholders did not even pay tax.

This was one of the points to emerge from Old Mutual's general meeting in Cape Town, where it was stressed that any investment in socio-economic development had to be done in a way that did not place a burden on policyholders or members of retirement funds.

In an interview after the annual meeting, chief operating officer Gerhard van Niekerk said Old Mutual could make money available for low-cost housing and other socially desirable investments but it would have to fall within the broad responsibility towards members.

"Monies have been entrusted to Old Mutual to invest properly. These investments require proper security and market-related returns.

"Our two million members are ordinary people — many don't even pay tax because they fall below the minimum income threshold.

"So for risky loan investments, the risk must be borne by the whole community, not by our members."

In his chairman's address Mike Levett said one way of achieving this would be for Government to guarantee the payment of the capital amd interest of such investments.

He said assurers were not organised to manage large numbers of small investments such as home loans or small-scale entrepreneurial developments.

However, several organisations were able to provide such services.

Mr Levett said Old Mutual was the largest life assurer in Africa and the market leader in South Africa, Zimbabwe, Namibia and Malawi.

It had total assets under management of R72,4 billion and paid the most benefits at an average of R18 million each working day.

DIAGONAL STREET by Julie Walker

Metpol's a billionaire

(58)

S I Times 8/12/91

METROPOLITAN Life's income in the year to September topped R1-billion and earnings were raised 24% to 70c a share.

The performance justifies the rerating given to the share in the past year. In December 1990 the share price was 590c. It is now at a high of R13.

Metpol raised R186-million in a rights issue and launched a unit trust in a year when major holder Sanlam reduced its percentage shareholding in a successful effort to increase tradeability of the shares.

Premium income grew 29% to R703-million, mostly through increased recurring premiums. Single-premium income doubled to R53-million.

Investment income climbed 16% to R317-million, reflecting the slower pace of dividend rises. The market value of investments rose by R1-billion to R3,86-billion.

Operating costs as a percentage of premium income, averaged out over three years, fell for the fifth consecutive year.

Metpol paid 27c in ordinary dividend and a special interim of 18c was declared in June because the proceeds of the rights issue were part of shareholders' funds for only a month of the financial year.

Saflife is hard done by

(58)

S I Times (Buss) 8/12/91

SAFRICAN Life Investments was unjustly penalised for a change of name by being omitted from the Business Times Top Companies survey.

The group was listed in 1984 under the name IGI Investment Holdings, but changed its name in 1988 to Saflife to avoid confusion with associate short-term insurer IGI Limited.

The change of name meant that Saflife was left out of all the categories covering a five-year history.

Saflife's share price on October 1, 1986, was 80c, had appreciated by 595c on September 30, 1991. It paid 87c in dividends in that time.

Saflife says the annual compound rate of return to shareholders in the five years was 45,94% — enough to have earned it 29th slot.

The fact that the figures are calculated on behalf of Business Times by another insurance group had nothing to do with Saflife's omission.

Something to mull over

THE CAT will be among the pigeons with this measure of fund managers' acumen.

The yardstick is: how many Business Times Top 100 companies do the fund managers have in their portfolios?

Syfrets sets this ball rolling with a tally of 26 out of the top 50 finishers in the 1991 rankings in its portfolios, of which 17 are in unit trusts.

Fund manager Anthony Gibson says 16 of them accounted for 70% by value of the non-mining component of Syfrets Growth Fund portfolio.

Its blue chips are top-performer Trencor, Berzack, Rembrandt, Murray & Roberts, Foschini, Toyota, Delta Electrical, Irvin & Johnson, Afrox, Safren, Holdains, Kersaf and Tiger Oats.

The pension funds include them plus another seven.

Syfrets also has 11 stocks that grew by 100% or more in the past year, but missed out on M-Net, the best over 12 months.

Any fund managers that can outboast Syfrets in numbering Business Times Top Companies among their investments are welcome to tell me.

Cash piles driving interest rates down

S Times (Buss) 8/12/91 (58)

By DIRK TIEMANN

MONEY markets awash with cash are putting increasing downward pressure on interest rates.

Liquidity will increase when the Government stops its bond flotations, normally in December or January, says Nedbank chief economist Edward Osborn.

The Reserve Bank can mop up liquidity in the money market while the Government is absorbing cash through bond issues to finance its requirements.

But the Government's new spending next year will add to the problem caused by the healthy balance of payments (BOP) surplus.

The good news for the economy is that the Reserve Bank difficulty in absorbing the excess could induce it to follow the market.

The bank's December bulletin shows the current account surplus forecast for the year has been revised upwards to R6-billion. Merchandise exports in the third quarter were up 5% and imports dipped.

The value and volume of merchandise exports hit records in the third quarter. The value rose 6% to R48,6-billion. Sales of Krugerrands to the Reserve Bank added to liquidity in the money markets.

The difficulty that the bank has had in mopping up this liquidity is reflected in the rise of the value of foreign-currency swops, which rose to a record R4,8-billion in November. In January they totalled R900-million.

Another indicator is the amount of Treasury bills offered on weekly tender. They rose from R100-million a week in January to R200-million on November 1.

This market liquidity resulted in three-month liquid BAs reaching 16,50% by mid-November, two percentage points below the peak of late 1989.

The bulletin says there are heightened expectations of a downward movement in the bank rate.

Dr Osborn is sceptical about a fall in inflation.

He warns that Reserve Bank Governor Chris Stals could come under political pressure to give in earlier on interest rates.

Encouraged

The Reserve Bank is encouraged by slower growth in money supply. If distortions from the Deposit-Taking Institutions Act are stripped out, money supply rose by only 7,9% from February to October 1991.

Growth in credit demand is also trending downward, rising only 14,1% from February to September.

In spite of these promising indicators for a cut in the bank rate, the bulletin says real interest rates are still low compared with other countries. Spain and Australia are running real rates of up to 12%.

Sanlam's Economic Survey forecasts a moderate bank rate cut in February or March next year in spite of predictions of relatively high inflation throughout 1992, settling about 12% in December.

Reserve Bank deposit probe

By ZILLA EFRAT

THE Reserve Bank is investigating more than 15 companies which could be contravening the Deposit-Taking Institutions Act.

Included are Selected Portfolio Brokers and Fundstrust, both in provisional liquidation, as well as Masterbond, under curatorship. All three have been found to be contravening the Act.

The bank is also investigating three companies against which complaints have been lodged.

A Reserve Bank official says complaints against other companies are less detailed at this stage. Companies contravene the Act by accepting money from the public for investment when they are not registered deposit-taking institutions.

The bank will ask any company to return money and interest obtained from activities which contravene the Act. If a company cannot repay the money, the bank can apply for its liquidation.

The bank warns investors against the risks of entrusting money to companies not registered as deposit-taking institutions, particularly those offering a return markedly higher than the current rate on similar investments with registered institutions.

The official says any warnings from the bank about certain companies could come too late because it acts only on complaints, usually from members of the public whose investments turn sour.

Syfrets investment management division assistant general manager Olie Atkins says advertisements promising unusually high interest rates can be tempting. But the institution concerned is unlikely to offer high returns for philanthropic reasons.

Mr Atkins advises investors who are unfamiliar with an institution's name and background to find out who the directors are and what financial backing they have.

In today's depressed economic market, many small companies are experiencing financial problems which could ultimately have an impact on investors.

THE MONEY MARKETS by Sharon Wood

Golf a better bet than a rate cut

B Day 9/12/91

MONEY market dealers took rumours of a Bank rate cut on Friday seriously — they flocked to the golf at Sun City.

The rumour was given life by one view that before Reserve Bank Governor Chris Stals went on leave next week he would give recession-battered individuals and companies a Christmas present.

But this is unlikely because most have learnt that Stals takes his job seriously. Inflation is still unacceptably high so there is little chance he will relent.

The argument that SA's real interest rate was comparatively low was given additional weight in the Reserve Bank's Quarterly Bulletin, released late last week. The figures showed SA's real interest rate was more than 5% lower than those in countries also pursuing restrictive monetary policy.

(58)

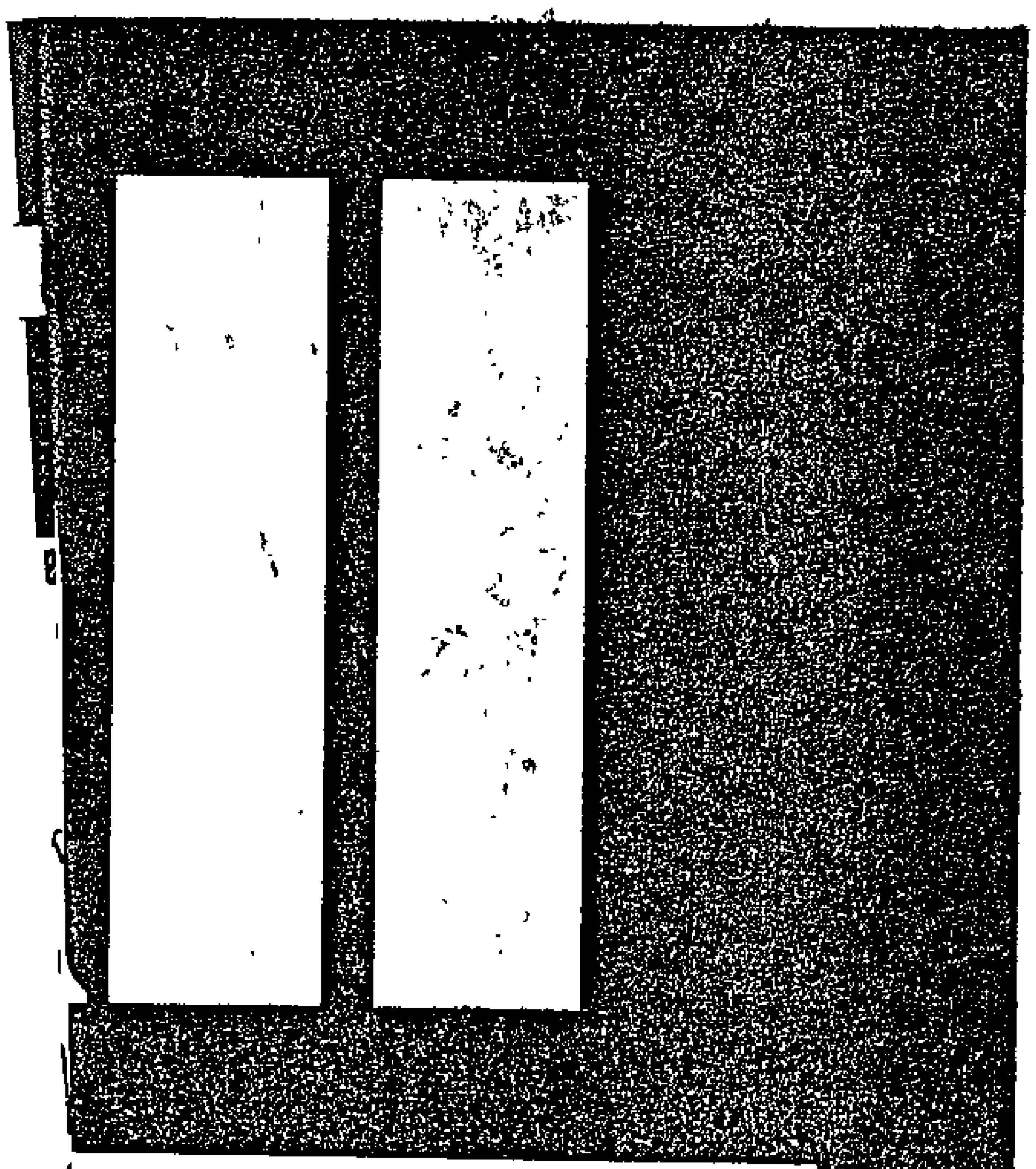
The bulletin also focused on the indicators, which are bowing to more than two years of intense monetary pressure, namely money supply and bank credit extensions, both growing at a pace below that of the inflation rate.

The Bank rate rumour was the only event of vague excitement in an otherwise lacklustre, pre-festive season market. The BA rate held its ground at 16,40% throughout the week but is expected to ease off by between five and 10 points during the next month.

The Bulletin showed that by mid-November the three-month BAs fell more than two percentage points below the peak values of late 1989 and early 1990, and were one percentage point below the Bank's rediscount rate.

The reasons given by the Bank for the gradual softening in money market interest rates were high underlying liquidity in the market, increasing availability of foreign finance and expectations of a downward adjustment in the Bank rate.

Six-month Negotiable Certificates of Deposit (NCDs) ticked up to 17-16,90% last week when the Bank rate rumour surfaced on Wednesday, but the nine- and 12-month NCDs remained unchanged. The money market shortage remained well entrenched in the R1bn to R1,5bn range throughout the week.



Hammering the black homeless

(58)

Sowetan 9/12/91

THE high repossession rate of houses from bondholders has reached alarming proportions in townships.

By KENOSI MODISANE

More than 100 houses in Soweto alone have been put up for auction over the past two weeks.

The Civic Associations of the Transvaal yesterday reacted with anger to the notices of sales, which appeared twice in a daily newspaper last week.

The National Black Consumer Union said the repossessions "would only lead to more chaos and anarchy".

Mrs Cynthia Chabeli of the NBCU said: "How do they expect people to have money when they are out of jobs? The people are not responsible for the economic crisis.

"They should reconsider driving people out of their homes because leaving people without roofs can only create problems.

"We are in a crisis situation and it is only these financial institutions which can help by urging other businessmen to create jobs."

Cast's outcry follows Nedperm's placing of a large number of notices in newspapers announcing auctions of repossessed houses - mainly from black bondholders.

Cast general secretary Mr Dan Mofokeng has accused Nedperm of "foul play".

"Nedperm is acting in bad faith and this will lead to us losing confidence in them.

"We held a meeting with the Association of Mortgage Lenders, where representatives from financial institutions were represented.

"It was agreed at that meeting that a working committee, which will look into problems, should be established."

Mr Hugh Maclachlan of Nedperm said: "It is true that we have a working arrangement with Cast and the MLA. And I have to stress that it is not our policy to repossess houses from bondholders.

"We have, however, been forced by circumstances and have also given all those in arrears very long periods to recover."

More than 100 notices were last week published in *The Star*.

Saambou tidying up its asset base

STAR 10|12|91

Diagonal Street

58

ANN CROTTY

The Saambou share price has been under a bit of pressure since last week's release of grim interim results.

At 100c it is significantly below the 140c a share that Fedsure paid to acquire control earlier this year.

The current share price is reasonably well covered by the 138c net asset value shown on the end-September balance sheet. But given the rate at which nav has been reduced during the past year, this cover may not provide shareholders with too much comfort. The March '90 balance sheet showed nav of 233c.

At the time of the battle for control of Saambou, parties who opposed the Fedsure offer charged that the break-up value of Saambou was considerably above 233c a share. They may or may not now be satisfied that Fedsure's price was appropriate.

Much of the write-offs have related to provisions — for doubtful debts and losses from revaluation of properties. This suggests that there is an element of subjectivity in the write-offs.

Gilts

In the end-September figures there was also a provision of R25 million relating to losses on the reclassification of long-term gilts. Apparently MD Johann Myburgh is keen to get these off the balance sheet quite promptly as they are costing in the region of R6,5 million a year.

This carrying cost relates to the fact that the gilts are yielding just 11 percent which is way short of the 17 to 17,5 percent that is the average cost of Saambou's funds. Dumping the gilts would immediately benefit the income statement.

Another poor area on the asset side — in terms of low returns — relates to the funds invested in Saampro debentures. It was intended that the debentures would be sold on the open market but the underlying assets (Saampro properties) are buildings that were chiefly occupied by Saam bou and located in Pretoria which proved to be unattractive to the market.

The Saampro properties are not the properties that were involved in the R43,5 million provision for the revaluation of properties "to estimated realisable values".

These assets are in Saambou's property development division — Saambou Wonings.

Mr Myburgh wants to get Saambou out of this area of activity and hopes to sell off the portfolio over the next two years or so (not by end—March '92 as previously stated in this paper). The revaluation provision reflects the fall in sale value seen in this market since May.

Thats most of the bad news.

On a more optimistic note, Mr Myburgh is currently implementing promising policies at Saambou — cleaning up the group's asset structure and its deposit mix and, extending the products offered to clients. As well as improving productivity.

An improved deposit mix will significantly improve the interest-turn as it will reduce the cost of deposits. Mr Myburgh is aiming to increase the proportion of savings deposits — these tend to be the cheapest form of funding for financial institutions. They currently represent only 7,6 percent of total deposits. By contrast at NBS, savings account for 25 percent of total deposits.

An earlier management-decision has caught Saambou with a very high exposure to expensive corporate deposits. Operating income will benefit considerably as this situation is unwound.

Reflecting its tie-up with Fedsure, Saambou is now offering a life insurance broking service. Mr Myburgh notes that this is proving to be much more attractive than the group's life insurance company. Over time it will help to improve non-interest income.

With a greater emphasis on individuals — as clients for more products and as providers of deposits — and with a considerably cleaned up asset base, Saambou could soon start to produce the goods.

There is however speculation that a tie-up between Fedsure and Investec could result in some major changes at Saambou.

Reserves and turnover targeted

Full financial disclosure on the cards

(58)

B/Day 11/12/91.

LESLEY LAMBERT

FINANCIAL institutions will have to make full disclosure of their reserves and listed companies will have to report turnover figures if amendments to the fourth Schedule of the Companies Act are approved.

The proposed amendments, which are aimed at compliance with the international trend towards greater disclosure, have been agreed to by the standing advisory committee on company law. They will have to be approved by Deputy Trade and Industry Minister David Graaff before being enforced.

The main proposal is the removal of part five of the fourth Schedule, which currently exempts deposit-taking institutions and insurance companies from the level of disclosure required by other listed companies. If part five is scrapped, banks, building societies and insurance companies will have to make full disclosure of the financial reserves they put aside for contingent liabilities.

They will not, however, be expected to disclose the actuarial reserves they provide for future funding requirements. Unlike financial reserves, actuarial reserves are not easily quantifiable because they are based on assumptions of future performance.

SA Institute of Chartered Accountants technical director Monica Singer said yesterday it was likely that similar amendments would be made to legislation governing mutual life assurance companies, such as Old Mutual and Sanlam, to ensure they did not escape the new disclosure rules.

While most banks have decided to comply with the disclosure requirements of Generally Accepted Accounting Practices (GAAP) in recent years, Bankorp and some of the smaller financial institutions still maintain undisclosed inner reserves.

Another important proposal is the scrapping of a special provision which allows public companies to limit their disclosure of turnover to a percentage increase in sales. The argument in favour of this provision is that it enables companies to withhold key information from competitors. However, analysts oppose it because it prevents the calculation of profit margins and, thus, the extent to which companies mark up prices to boost profitability.

Companies Registrar Mossie van Rensburg said yesterday it was hoped these and other amendments to the Companies Act would be approved by the middle of next year so they could be phased in from 1992, with the disclosure amendment becoming effective in January 1994.

It is understood that banks which still make use of the secrecy provision in the fourth Schedule requested the two-year period to allow them to prepare for full disclosure.

Bankorp chairman Piet Liebenberg has in the past opposed full disclosure, arguing that internal undisclosed reserves — provided they are controlled by managers of integrity — make for stability and trust in the banking sector, while disclosure can result in the feelings of alarm which trigger declines in confidence.

However, Singer said the amendments

☐ To Page 2

Disclosure

B/Day 11/12/91.

(58)

☐ From Page 1

were based on the realisation that no amount of supervisory regulation could ensure the profitability of a business.

"In a free market environment, the shareholders have a right to reliable information upon which to base their investment decisions," she said.

There are also moves afoot to increase the financial disclosure of private companies. The standing advisory committee on company law recently released recommendations for the removal of the distinction between private and public companies. It recommended that private companies be required to make their annual statements available to the public.

BoE seeking possibly foreign-based interest

B(Day) 11/12/91 (58)

Own Correspondent

CAPE TOWN — The Board of Executors (BoE) is looking for an acquisition or association in the financial services sector — possibly foreign-based — chairman Paddy Wilson said at the annual meeting yesterday.

It is considering entering the home-loans market — at the top end. It is also considering the launch of a unitised pension fund and the issue of commercial paper by its bank.

And it may follow the trend towards full disclosure by financial institutions and banks.

Wilson said that in the year to September 30 BoE lifted earnings a share by 25% to 128c, and dividends by 18,75% to 38c a share.

"Total assets increased from R117m to R634m, due primarily to the establishment of a merchant bank in March and the bringing on to balance sheet of the previous agency money market operation."

Wilson said that BoE's net asset value a share had risen by 173c, or 30%, during the year. It had ended the year with "a particularly strong balance sheet with liquid assets approaching R50m.

"These results were achieved in a year of intense competition among financial institutions with extremely fine margins prevailing, a relatively stagnant economy, continuing political uncertainty with attendant township violence at unprecedented levels, and passive reaction in the precious metals markets to destabilising international crises."

Among the reasons for this success was the continuing exercise of sound financial management and judgment.

"This last point deserves emphasis, particularly in the light of the recent collapse of three Cape-based financial services companies where questionable judgment and practices would appear to have resulted in undue financial exposure and potential loss for clients.

"The responsibilities and accountability of both directors and management of the BoE Merchant Bank and the BoE as a bank-controlling company are clearly understood, acknowledged and meticulously implemented."

Wilson said the "depressed level of economic activity, coupled with political uncertainty and the attendant power plays, which I believe will prevail for some time yet" made it hard to forecast earnings.

"There are just too many sensitivities, not least of which is the state of international economic and political upheavals."

BoE was in good shape to capitalise on opportunities which would undoubtedly occur.

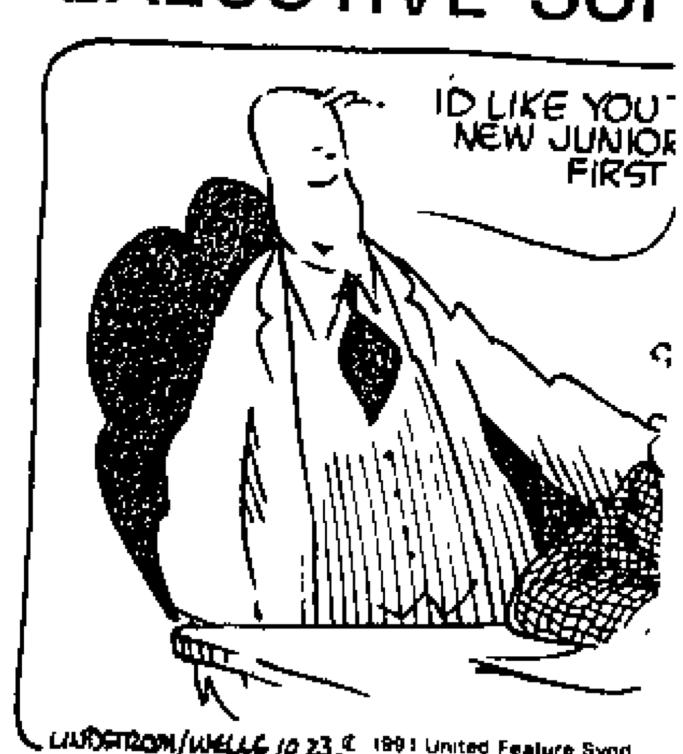
"We still target an increased level of earnings.

"However, the adverse effect of the introduction of VAT and a tax on the bank's capital, which together could cost us R700 000, do not make our task easier."

Wilson said BoE would be "actively seeking an acquisition or association within the financial services sector where our stengths of liquid resources and specialised knowledge and expertise would enable us to develop a broader based operation.

"Such an association or acquisition could be either domestic of foreign-based."

EXECUTIVE SUI



Closer look at property syndications

B/Day 11/12/91. (58)

PETER GALLI

THE preparation of guidelines on property syndication and a code of conduct to be used by all syndicators will be studied by a specialist sub-committee formed under the auspices of the SA Property Owners Association (Sapoa).

The committee was formed last week, motivated by government's Financial Services Board, which felt recent developments in the property syndication industry had given rise to some concern.

The 12-member committee, which consists of representatives from government and the property industry, will focus on issues like the regulation of syndications, what type of advertising is acceptable and what the basic legal requirements should be in advertising.

"Government is concerned with misleading advertising and the possibility of investors burning their fingers. This may have developed because of recent crashes of property companies where investors have lost their life savings," said Sapoa executive director Brian Kirchmann.

"Legislation has been mooted to control syndications, but we believe a better solution is for the property industry to adopt a self-regulatory stance with enabling legislation," he said.

A proposal will be put to government in the next six months but, meanwhile, Sapoa has recommended that all advertisements comply with the Companies Act or fall under the Share Block Control Act.

Kirchmann said there were about 16 registered companies with about 200 syndicated projects.

AA Life linked to Kahn investigation

B/Day 11/12/91. (58)

SEAN VAN ZYL

ANOTHER leading financial institution, AA Life, has been implicated in Attorney-General Frank Kahn's probe into suspect share dealings on the JSE.

David de Beer, MD of Anglovaal Insurance Holdings (Avins), the listed holding company of AA Life and Crusader Life, confirmed yesterday that a former AA Life employee had been linked to irregular share dealings under investigation by the Kahn team.

De Beer said the matter had been brought to his attention by Kahn in September. A subsequent internal audit of AA Life's books confirmed the allegations. De Beer, bound by the sub judice rulings of the Kahn investigation, could not disclose the name of the party concerned.

Kahn declined to comment last night.

De Beer said Avins was working closely with the Kahn investigators.

The amount concerned in the transactions was insignificant, De Beer said, and would not have a material affect on the company's balance sheet.

A source close to the investigation confirmed that a former AA Life investment portfolio manager — who resigned last year — had been implicated. AA Life later closed down its investment department and in March shifted the management of its portfolio to Board of Executors (BoE).

De Beer said the decision to move AA Life's investments to BoE was not linked to the irregular share dealings, which were exposed only later. As far as he was aware, only one AA Life staff member had been connected to the irregular share transactions, which involved a stock broking firm. He would not name the firm.

A source said AA Life conducted some of its share transactions through the broking firm Ed Hern, Rudolph, which was linked to the Kahn investigation earlier this year.

Ed Hern, Rudolph director Johan Blersch confirmed last night that his firm had conducted share transactions on behalf of AA Life before the move to BoE. He was unaware of any irregularities related to the share dealings.

In developments earlier this year, Kenneth Fouche, a former dealing clerk for Ed Hern, Rudolph, and Frankel, Max Pollak, Vinderine director Greg Blank were arrested. They are on bail.

COMPANIES

Norwich increases NBS slice to over 25%

ROBERT GENTLE

NORWICH Life has acquired a block of 5,7-million shares worth R62,8m in the NBS banking group from Slaney, a Luxembourg-registered investment trust.

The transaction, which took place on Friday, was through the exercise of call options which Norwich had on the NBS shares. The shares were equivalent to about 9% of NBS's share capital.

The move means Norwich, already the No 1 shareholder in the NBS banking group, now has a stake of just over 25%.

Earlier this year, it was reported Norwich had just over 25% of NBS. A Norwich spokesman said yesterday the Slaney block of shares had effectively been included in this number because of the call options. The exercise of the options merely made the ownership definitive.

"We thought it opportune to exercise the options now, especially given the way the finrand was moving," the spokesman said.

The other key shareholder in NBS is Barlow Rand, with an 18% stake. Initial speculation in the market had been that Barlow's was behind the foreign deal in order to boost its stake in NBS.

NBS officials were not available for comment.

(58)

BUSINESS

Small banks are riskier than big ones — survey

(58) B/Day 11/12/91.

ROBERT GENTLE

SMALL banks are riskier than big banks and are more likely to fail. That is the conclusion that can be drawn from the first informal risk assessment of SA banks.

Published by Republic Ratings, it is the rating agency's informed opinion of the creditworthiness — and hence safety — of banks based on publicly obtained information and any additional information released by management.

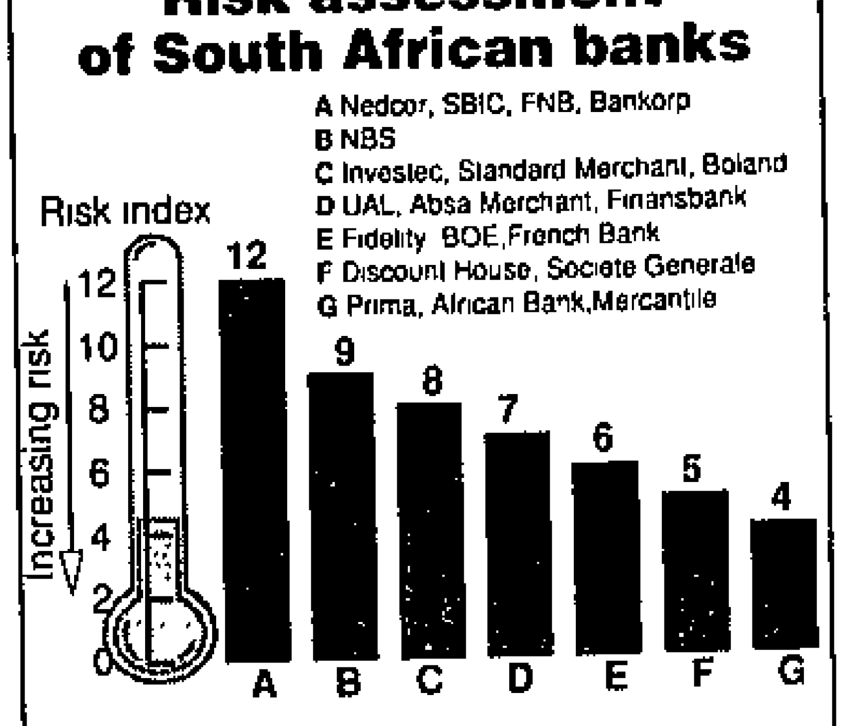
Disclosure levels vary significantly, with some banks revealing only minimal information while others provide details of factors like the asset mix and the diversity of the funding base.

In all cases, Republic has had access to the statutory returns the banks provide to the Reserve Bank.

"Even when disclosure is not as high as we might wish, we are able to get a very good feel for the soundness and creditworthiness of a bank," says Republic analyst Gert Pienaar.

Certain corporates and parastatals are already using the informal ratings to determine the size and extent of dealing lines with various banks, he says. Investors are beginning to see the trade-off between risk and the return on their investment.

"This has become particularly noticeable since the recent failure of Alpha Bank, Cape Investment Bank and Pretoria Bank."



Graphic LEE EMERTON Source REPUBLIC RATINGS

Republic's analysis covers the bank itself (track record, profitability, management, skills, technology ...) and its competitive position in the particular sector in which it operates (corporate, retail, foreign ...).

The Big Five banks lead the field and exhibit the following features: substantial capital and reserves, technology to maintain competitive advantage, "critical mass" support to justify investment in infrastructure and a broad fee-based product range which compensates for the lower margins on traditional interest-based banking.

Also of "considerable importance", says Pienaar, is the presence of a parent company which necessarily reduces the risk of the operating bank being allowed to go under. Market perception that the Reserve Bank would never allow a big bank to go under also plays a subtle role, explaining why there is little differentiation between two widely differing Big Five entities such as Bankorp and say, Nedcor. "Formal ratings, which we are working on, would emphasise these differences," says Pienaar.

Merchant banks tend to occupy the middle ground, with the following distinct characteristics: income is to a large extent fee- and trading-based and therefore of a less stable nature than interest income; funding is shorter term and hence more volatile; and they have smaller capital bases than large commercial banks. Their competitive advantages are a high skills level, the absence of an expensive branch network and a good reputation for innovation.

Bringing up the rear in the risk analysis are the small banks: Prima Bank, District Securities Bank, African Bank and Mercantile Bank. Mercantile's disadvantages are described as a limited product range, a small capital base and an as yet unestablished track record.

Unibank, which was formally rated by Republic recently, indicates that small banks with prudent risk management can achieve investment grade ratings despite the generally weak credibility of smaller banks, says Pienaar.

Bank's R1-m bounty to go green

Sowetan 11/12/91

By GRACE RAPHOLO

NEDBANK has donated R1 million to Green Trust, an organisation founded to promote education on environmental projects, rehabilitation of damaged natural resources and the prevention of abuse to these areas.

The trust was established in October last year when the bank committed itself to providing R5 million over five years.

The trust emphasises human survival, poverty alleviation and the advancement of sustainable development at local levels.

The bank's managing director, Mr Richard Laubscher, said the reason for supporting the trust was that it addressed real environmental issues at the immediate interface with man, and created opportunities that enabled all South Africans to play a part in their own futures.

"The Green Trust is the ideal vehicle through which to achieve this," he said.

He said the trust was at present funding four environmental projects that emphasised a new, pragmatic approach to conservation.

"The primary objective is to humanise conservation by involving local communities in decisions about projects and in their planning and implementation," Laubscher said.

The trust is assisting the

New move on bank disclosures

STAR 11/12/'91.

Banks and insurance companies may no longer be able to keep secret their financial reserves and could be required to disclose this information from January 1994.

A recommendation to this effect by the Standing Advisory Committee on Company Law is going to the Deputy Minister of Trade and Industry David Graaff for approval.

A statement issued yesterday said the committee had agreed to a revised version of the fourth schedule of the Companies Act which would only need the Minister's approval for it to become law.

The fourth Schedule was revised to take into account all disclosure requirements contained in Statements of Generally Accepted Accounting Practice, as approved by the Accounting Practices Board, which have been issued or revised since 1973.

At present, insurance companies and deposit-taking institutions are not required to disclose their financial reserves.

But, the revised fourth schedule provides for Part V of the schedule to fall away for all companies with financial years ending after January 1 1994.

Thereafter, all deposit-taking institutions and insurance companies will be bound by the requirements of the revised fourth schedule to disclose their reserves.

The new ruling, however, will not force the affected institutions to reveal actuarial reserves.

(56)

But, before the revised schedule can become regulatory, other amendments to the Companies Act will have to be made, said the Registrar of Companies Mossie Van Rensburg.

He said it was hoped that these amendments would be in place by the middle of next year so that the revised schedule, if approved by the Minister, could be gazetted and come into operation on January 1 1994.—Sapa.

Political, riot cover maximum to rise by 25%

SEAN VAN ZYL

POLITICAL and riot damage cover available to businesses in SA has been lifted by 25% to a maximum of R250m per annum, the SA Special Risks Insurance Association (Sasria) announced yesterday

Sasria MD Willem Swanepoel said inflationary pressure had necessitated the increase in cover, which comes into effect next year, to R250m from R200m.

He added the increase had been approved at ministerial level and applied to holding companies and subsidiaries operating within SA's boundaries.

"Major industrial concerns will certainly be pleased with the new dispensation which takes effect from January 1 1992 irrespective of policy renewal dates."

Sasria was registered as a non-profit insurance underwriter in 1979 to provide cover for political riot risks following the major unrest-related losses incurred from the Soweto riots in 1976.

However, unlike commercial underwriters, Sasria is backed by government as the reinsurer of last resort.

Sasria cover, which can be applied for from any insurance company, covers various classes of risk, including motor vehicles in SA and the TBVC states.

Swanepoel stressed that the higher cover available from next year only applied to risks in SA and not in the TBVC states where the maximum stood at R10m per annum at present, depending on the state concerned.

The cover available in the TBVC states was lower because of Sasria's limited resources-to-liabilities.

"Sasria continues to look at ways of improving cover further, but at this stage it is simply a case of balancing our policyholders' needs with our available resources"

He added the Sasria maximum cover had been inadequate for years.

However, the problem had been exacerbated by high inflation which in turn boosted the value of the insured property.

Let your bonus earn money

The banks offer various investments, many of which cater for people with bonuses to invest in the long or short term.

A Nedbank spokesman advises that by reducing your bond you're saving yourself 20 percent on the amount deposited to your bond. Compared with an investment, the amount, relatively speaking, is considerably higher than interest on an investment liable for tax on interest earned.

Another way to turn your bonus to profit is to put your credit card into credit. The average interest rate paid by credit cards is about 14 percent.

When debit becomes credit you not only earn 14 percent interest but can enjoy the flexibility of using that card to go shopping or to pay a hotel bill.

Nedbank also offers the Nedbonus 32-day-notice savings account with the benefits of a competitive base rate, a high degree of accessibility, extra interest on every rand not under notice, interest paid monthly in arrears to get the highest possible rate, and higher interest rates the moment rates go up.

To open a Nedbonus account you need to deposit a minimum of R2 000.

Small banks hit out at ratings agency

B/Day 12/12/91.

(58)

ROBERT GENTLE

SMALL banks yesterday reacted strongly against rating agency Republic Ratings following the release of its informal risk assessment table which inferred that small banks were riskier than big ones.

The risk assessments, Republic's opinion of the creditworthiness — and hence safety — of SA banks, were based on publicly obtained information and any additional information released by management.

Strong messages of disapproval were registered by the small banks who scored low marks in the assessment. Reaction ranged from "unfair" and "irresponsible" to "erroneous" and "misleading'. Some said Republic had not even bothered to contact them and said they were considering further action.

Republic defended the assessments, saying they were not aimed at any one bank but were part of a broad risk survey of the entire corporate and financial sector, from insurance and retail to industry and banking.

Prima Bank MD Johan Bellingan called the risk assessment "nonsense" and questioned the placing of certain banks in the overall risk scale. "Size has got nothing to do with it," he said, adding that smaller banks were in a better position to repay deposits than big banks because they were more liquid.

Mercantile Bank MD Derek Cohen questioned the accuracy of Republic's remarks concerning its "limited product range" and said the bank was present across retail, consumer and corporate markets. Mercantile was not in property, gilts or derivatives, he said, but this was in line with its policy of not "speculating" in risky fields. "These perceived weaknesses are actually our strengths," he said.

Echoing that view was Fidelity Bank MD Jules Langenberg, who said that a 1990 banking survey by KPMG Aiken & Peat put Fidelity at number one position countrywide in return on capital and return on assets, two key performance measures.

French Bank MD Francis Klein, whose small SA operation is a subsidiary of the international Banque Indosuez banking group, said clients did not look solely at the capital base. "We are part of the large Indosuez group and must be seen as such."

Republic chairman Dave King said he understood the concern, but said small banks, despite often being strong on performance ratios and share prices, were not considered as good a credit risk as larger banks. "This is the reality."

The informal risk assessment had been a response to requests from major corporates for a mechanism to allow them to differentiate between the companies they dealt with.

Nedcor calls for rethink on financial levy on banks

(53)

B Day 12/12/91

ROBERT GENTLE

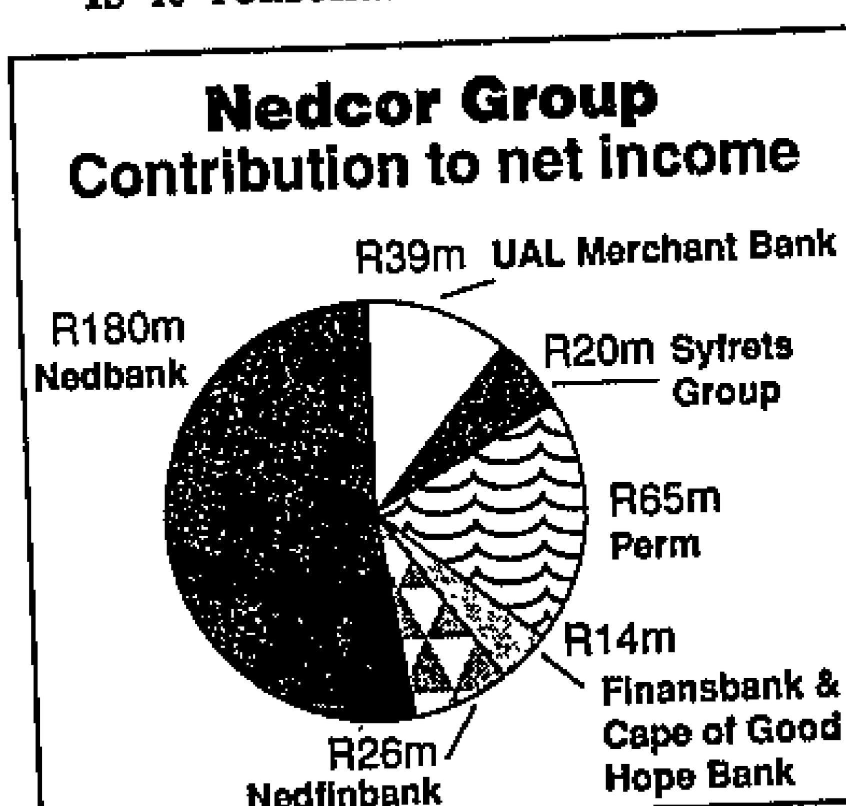
THE Nedcor banking group has called on the authorities to rethink the financial levy on banks introduced earlier this year with the advent of VAT.

In the group's annual report, CE Chris Liebenberg says the financial levy, based on a formula equating to 1,5% of required capital and reserves, means banks will have to manage their tax affairs within a rate of 54% and not 48% as at present.

The levy is not allowable as a deduction for tax purposes, he says, and would have represented about R35m for the Nedcor group, pushing its effective 1991 tax rate from 38% to 45%.

"Is it reasonable to expect the banks to comply with the increased DTI capital requirements, generate sufficient after-tax income to provide for the inflationary impact on assets, and provide a reasonable return to shareholders whilst subject to this inflated tax rate? The answer is obviously 'not likely', and thus the financial services levy needs to be re-addressed by the authorities."

The Nedcor group earned net income of R344m for the 1991 financial year, up 20% on the previous year's R287m. Earnings a share increased 20% to 185c (154c), while the dividend rose 12% to 57c (51c) a share. Provisions for bad and doubtful debt increased 47% to R233m as the recession continued to bite.



Graphic: LEE EMERTON Source: NEDC

Nedcor chairman John Maree says indications are that SA will be moving out of recession and growth will be moderate in 1992. In an inflationary environment, interest rates will remain high and, as negotiations get under way on a future SA, uncertainties will continue to temper business confidence.

"Within our banking companies, credit will once again have to be closely managed. A successful year for the Nedcor group is foreseen, but high growth in profits cannot be anticipated," Maree says.

Alluding to future political and social developments, the report speaks of the need to sensitise management and staff to the "complexities" caused by the transition.

"Our future employees will have to come from people who have disadvantaged educational backgrounds, hence our commitment to our affirmative action programme. To this end, we are committed to nurturing an understanding in all our managers of the complex dynamics of a society in transition."

In a further move, the group has set up a chairman's fund to which will be transferred a percentage of annual profits.

It will concentrate on communities from which Nedcor draws its present and future workforce and future clients, and will focus mainly on housing, educational and job creation programmes.

Unit trusts can deliver the goods

(58)

STAR 12/12/91

In the current economic climate, anyone getting a year-end bonus should consider him or herself lucky as it is a privilege and not a right.

This is the view of Gary Hampson, Syfrets's investment planning manager, who notes that as only a small portion of the population is privileged to get this kind of lump sum, wisdom should prevail.

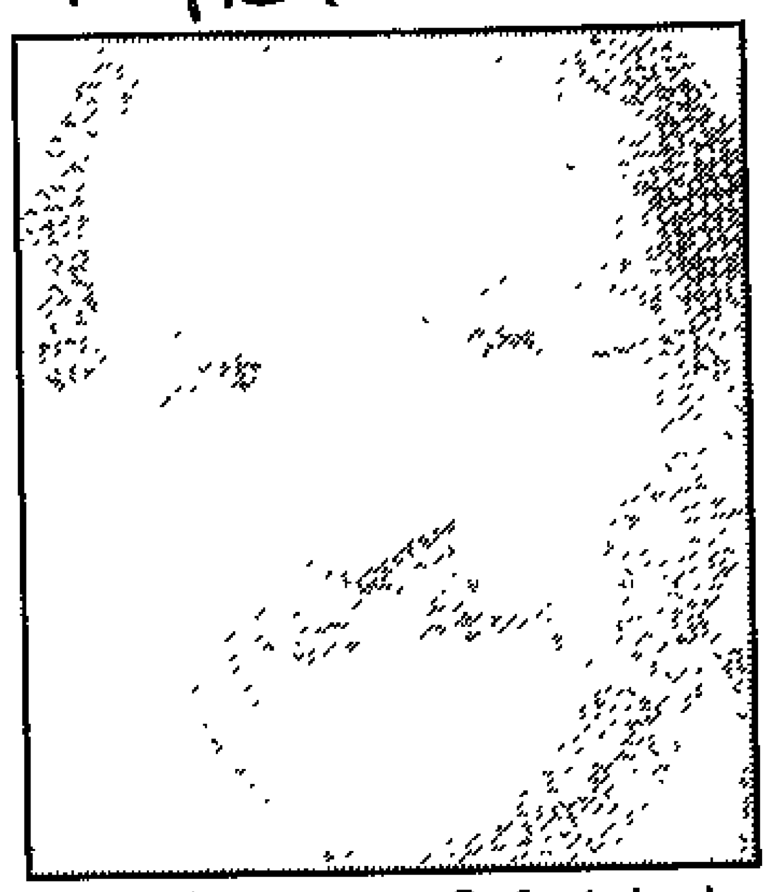
He believes a windfall (and a bonus is just that) should be divided into three. "There's no reason why a small amount can't be spent on happiness. After all, bonuses are usually earned as a result of hard work. And we all deserve to spoil ourselves occasionally."

But none of us needs to be reminded of the ravaging effects of inflation. Thus the lion's share of any lump-sum should be directed at its control.

Therefore, says Mr Hampson, no more than 20 percent of a bonus should be spent on financing year-end festivities. The remaining 80 percent should be allocated two ways. If possible one half should be used to reduce nagging debt that has built up during the year. The other half should be earmarked for a growth investment.

Mr Hampson emphasises, however, that making a single annual payment is not enough to ensure real growth in that investment.

"It's only the start. It must be linked to disciplined monthly savings which, over time, will grow exponentially. Furthermore, if you can re-invest all dividends and interest the investment may yield, the growth will be getting a continuous shot in the arm.



Gary Hampson, Syfrets's investment planning manager.

"Take a lump sum of R10 000. If you place this in an investment that grows at say 15 percent a year and yields a five percent dividend (which is then re-invested) your R10 000 would grow to R66 124 in 10 years.

"However, if you could add just R100 a month to the initial lump sum over the entire period, a 15 percent growth with a five percent re-invested dividend will leave you with a lump sum of R102 060 in 10 years."

Mr Hampson adds that not every investment is able to provide this kind of growth. He says that historically, unit trusts, with a superb track record, can deliver the goods.

"They are ideally designed to receive lump sums on either a one-off basis or linked to supplementary monthly additions. The latter option, as quoted in the previous example, will outperform a one-off investment by a wide margin."

Unit trust investment advantages do not end there. Although it should be viewed as a long-term investment, a major attraction is that the investor is not "locked in".

An emergency may demand the total or partial withdrawal of the funds — although this course of action should be taken only as a last resort. However, flexibility is an alluring feature in uncertain political times.

There are more than 30 unit trusts in South Africa. Statutory controls have stabilised the industry, yet a major inconsistency is the difference in the relative historical performance of the available funds.

Mr Hampson says: "No prudent investor should rush headlong into the first unit trust he hears of. The performance of unit trusts, geared towards long-term capital growth (equity unit trusts) should be compared in some detail before choosing.

"There are several outstanding performers managed by highly professional fund managers. Consequently, the investor may find himself in a quandary over which to select.

"Syfrets's recommendation to investors is to buy units in more than one unit trust fund and to monitor their relative performance over time. If your bonus is too small to make a significant investment in more than one fund, choose just one from a top performer."

But Mr Hampson sounds a warning: Even if you've settled for just one unit trust do not sit back and leave it all up to the fund manager for the next 10 years.

Information on the performance of unit trusts is published twice a year and you should make the effort to record the relative performance of the fund you have chosen.

Homeowners tap mortgage bonds for quick cash

(58)

STAR 12/12/91

By Derek Tommey

This has been a tough year for South Africans, with recession, inflation and high taxes eating into their incomes.

[illegible] these upsets have not [illegible] and might possibly [illegible]raged — them to [illegible]ecord amount of mo[illegible] mortgages from banks and [illegible]uilding societies.

Fig[illegible]s in the latest Reserve Bank [illegible]ulletin show that they increased their mortgage debt by R7,5 billion in the first nine months of this year, bringing it to a record R61,8 billion.

This increase in outstanding mortgages in the nine-month period compares with increases of R7,1 billion for the whole of 1990 and R7,2 billion for 1989.

But while South Africans have been whooping it up with mortgage money, they have been much more restrained in making use of other forms of credit.

The Reserve Bank reports that the 12-month rate of increase in HP credit and leasing finance declined from 17,4 percent in December 1990 to 11,5 percent in September this year.

At the same time, the 12-month rate of increase in outstanding balances on credit cards dropped from 32,2 percent in December 1989 and 19,1 percent in December 1990 to only 15,2 percent in September 1991.

The Bank attributes the relatively high growth in mortgage advances in part to slower repayments of capital occasioned by tight financial conditions.

It also suggests that some homeowners — especially those whose houses have appreciated in price — have been borrowing back against their houses to finance purchases such as cars.

The Bank says the lower capital amounts commercial banks have to keep against mortgage loans could have induced some of them to promote this form of credit extension.

A banker said yesterday that because the rate of interest on mortgage loans was so much lower than on HP and leasing credit, it clearly paid anyone in need of credit to raise a loan on property where this was possible.

It has also been suggested that political uncertainty and the possibility of wealth redistribution has led many housebuyers to being in no hurry to repay loans on their houses.

An added inducement is the expectation in many quarters that the government of a new South Africa will follow highly inflationary policies and seriousluy erode the value of money.

This would make it easy to repay outstanding mortgages. So, the argument goes, there is little to be gained by repaying these mortgages now.

Ignoring interest subsidies, the latest mortgage figures indicate that South Africans are now paying R12 billion a year in interest on their house loans, and probably a further R8 billion in capital repayments.

This compares with R10 billion in interest payments and about R5,8 billion in capital repayments last year, R8,7 billion in interest and R5 billion in capital in 1989 and R6 billion and R6,4 billion in 1988.

The sharp increase in capital and interest payments on houses in the past three years helps show why South Africans generally have had to tighten their belts so severely.

Medical aid claims too high, says Rina

B|Day 12|12|91.

SOUTH Africans are the world's biggest medical aid claimants and there is no encouragement for the consumer or supplier to act less wastefully, says National Health and Health Services and Welfare Minister Dr Rina Venter.

Speaking at the Golden Achiever Awards in Johannesburg last night, Venter said the aged and pensioners were worst affected by spiralling costs resulting from this practice.

She pointed out that the spreading of the risk of health care was until now one of the principles by which medical aid schemes operated. However, there was a growing resistance to the practice which expected the young and healthy to subsidise the aged and chronically ill.

"If this resistance to the present system becomes established, other methods will have to be found to subsidise the aged."

Several investigations had been launched to promote methods of limiting the rising costs of medicines, Venter said.

She said discussions would be held with interested parties in February about possible remedial steps. These included:

- A system of accepting and implementing "a maximum medical scheme price" by medical schemes;
- The acceptance of the principle of a single base price determined by volume purchased by manufacturers;
- The payment of pharmacists and dispensing doctors to be decided by a professional dispensing fee and not by a percentage added to the cost of the medicine; and
- The introduction of parallel importation of certain medicines.

Earlier yesterday Venter met a Medical Association of SA (Masa) delegation in Pretoria. In a statement after the meeting she said the structure of health services was unaffordable and a balance would have to be achieved between a sophisticated medical model and a broad health approach.

In reponse to Masa's request for inclusion in the policy-making process, Venter indicated that quarterly meetings with Masa'a executive committee could be arranged to ensure direct access to the Minister. Liaison with the department by way of the professional forum was viewed as important.

Venter told Masa she had been given the task of restructuring the health service and ensuring it was brought within the financial ability of the state. — Sapa.

AIDS 'may force insurance firms to switch investments'

58

SHARON WOOD

SOARING AIDS-related claims in the next decade could force life assurers, the major investors on the stock exchange, to switch from equity investment to liquid assets, research by African Life Assurance deputy GM Hugh Roberts shows.

"SA may not be able to rely on the life industry for the expansion of capital," he said.

B|Day 12|12|91

Life assurers held about 50% of their assets in equities, 20% in property and the balance in capital and money markets.

Roberts said this was one of many potential scenarios illustrating the effect that AIDS could have on the economy.

AIDS would probably reach the peak of its cycle in about 15 years' time, when there could be 1 500 deaths a day from the disease. At present 300 people were contracting the HIV virus daily, he said.

Old Mutual chief actuary Theo Hartwig disagreed: "The impact of AIDS on life assurers' investment holdings will be relatively small and there will be no large-scale switching of assets," he contended.

The proportion of the population holding life insurance was small and claims could be paid out of current cashflow.

Companies more involved in the third-world sector of the SA market would be worse hit, he said.

Roberts countered that the policies sold in these markets contained a higher investment element and carried a lower mortality risk.

"In any event, company medical aid schemes and pension funds which cater to all sectors of the population will be among the first to be affected," he added.

The economic implications of the AIDS crisis were far-reaching, both in the public and private sectors, Roberts said.

The government budget could be stretched to its limit because it would have to bear the health costs and this, in turn, would have inflationary consequences.

The impact of AIDS on SA's labour force would be more severe for semi-skilled and skilled labour. Unskilled labour could be rapidly replaced because of SA's high population growth.

Employers should rather look at changing pension packages to reduce the cost of AIDS deaths to their companies.

Community must provide housing

Sowetan 12/12/91

(58) [illegible]

Property Reporter

OLD Mutual recognises the need for investment in so-called socio-economic development and believes this is the responsibility of the whole community.

Speaking at the 146th general meeting of the company, the chief operating officer, Mr Gerhard van Niekerk said the company could make funds available for low-cost housing and other socially desirable investments, but this would have to fall within its broad responsibility towards members.

Security

He said: "Money entrusted to Old Mutual are investments which require proper security and market-related returns. Our two million members are ordinary people - many do not even pay tax because they fall below the minimum income threshold.

"So for risky loan investment, the risk must be borne by the whole community, not by our members."

In his address chairman Mr Mike Levett said one way of achieving this would be for the Government to guarantee the payment of capital and interest of such investments.

In this way the entire community would take responsibility.

"In providing guarantees, the Government should satisfy itself that projects are suitable and deserve the use of scarce capital. Such loans would in effect be off-balance sheet borrowing by the Government and could well be considered as an extension to the budget."

Levett said assurers were not organised to manage large numbers of small investments such as home loans or small-scale entrepreneurial developments.

Services

"There are, of course, many organisations to provide such services, such as banks, building societies, Development Bank of SA, IDT, Urban Foundation and the SBDC."

These were agencies which should be looked at for channelling available finance, he said.

Feud is brewing over Old Mutual mall in Kagiso

Sowetan 12/12/91 58

Property Reporter

THE new R18 million Kagiso Shopping Mall - seen as forerunner of similar projects by Old Mutual - is facing prospects of a massive boycott from local residents and the business community.

The situation might become serious if talks scheduled for today between representatives of Old Mutual, the Kagiso Civic Association and other interested parties do not come out with a solution.

Projects

Local residents are demanding that the insurance company should involve itself in the construction and development of projects such as roads, electricity, storm water drainage and other recreational facilities.

They contend that the company was able to construct tarred roads, installed electricity and other facilities at the mall whereas these were not provided for in the township.

Fray

The business community has also joined in the fray by asserting that most of the shops were owned by whites.

"Our businesses - especially the informal sector - are going to be swallowed by these big chain stores," one businessman, who did not want his name mentioned, told *Sowetan* this week.

Loans

"Rent and the maintenance of shops at this mall are high for the small businessmen. We are already suffering from financial constraints because we cannot get loans to expand our present businesses," he said.

However. Old Mutual property administrator Mr Leo Diniso, yesterday said that the centre was already 65 percent let and they have had a very good response from the local community.

"We are encouraging as much local participation in the centre as possible, and to this end, we are holding ongoing discussions with the civic association, the town council and members of the local taxi association," he said.

As far as he was concerned, the threat to boycott the businesses was not valid. The company was interested in talking to the community on these demands, but at this stage it has no plans to engage in them.

Mix

"These discussions have given us a very good mix that would be best suited to the area. Besides the anchor tenants, which in themselves will draw substantial numbers to the centre, we have already established a tenant mix which will ensure excellent customer support," he added.

Issue

The president of the Kagiso Chamber of Commerce, Mr Arnold Maqhoki, said that his chamber was not consulted and he declined to comment further on the issue.

Sources close to *Sowetan* said that the boycott was scheduled to start last month, but has been delayed apparently because of the on-going talks.

The 8244 sq m complex provides space for 49 shops including anchor tenants Checkers in 2 650 sq m, Pep Stores in 300 sq m, Diskom in 350 sq m and Kentucky Fried Chicken in 230 sq m.

Additional tenants include two hair salons, two surgeries, a dentist, an hardware, a buchery, a bottlestore, two furniture stores, a video shop, a restaurant, a greengrocer, a men's clothing store and leather goods shop.

Bonus boost will kick-start investment

58

Old Mutual also plumps for unit trusts.

Bastiaan van der Westhuizen, Old Mutual assistant general manager of unit trusts, says. "Kick-starting a unit trust investment with your annual bonus is an ideal way of achieving a top return, although these are designed for the longer-term investor. But the return should be well above the inflation rate even if you invest for as short a time as five years."

For example, if you invested a R10 000 bonus in Old Mutual Investors Fund five years ago, your stake would be worth R28 893 now, showing a return of 23,64 percent, well above the average inflation rate of 14,5 percent.

Even taking a smaller bonus of R1 000 the investment would have been worth R2 887.

The key decision, says Mr van der Westhuizen, is in which type of unit trust to invest. This in turn will depend on the amount of risk acceptable. Usually, as risk increases so does the potential return.

"A medium risk investment would imply investing in a general equity fund such as Old Mutual Investors' Fund. It is called a general equity fund because investments in this unit trust are spread over a wide number of sectors ... This is the fund we recommend to new investors.

"For professional investors not opposed to high risk and seeking maximum returns a specialist fund such as the Old Mutual Gold Fund can be considered. Gold shares have been depressed on the JSE for some time but the bullion price appears to be moving up ... "

STAR 12/12/91

BOARD OF EXECUTORS FM 13/12/91

Changing shape

(58)

Activities: *Administration of estates, merchant banking and financial services.*
Control: *AVF Group 36%.*
Chairman: *P W Wilson; MD: W J McAdam.*
Capital structure: *9,2m ords; 5,3m convert loan stock. Market capitalisation: R115m.*
Share market: *Price: 1 250c. Yields: 3% on dividend; 10,2% on earnings; p:e ratio, 9,8; cover, 3,4. 12-month high, 1 500c; low, 680c. Trading volume last quarter, ords 49 000, cls 163 755 shares.*

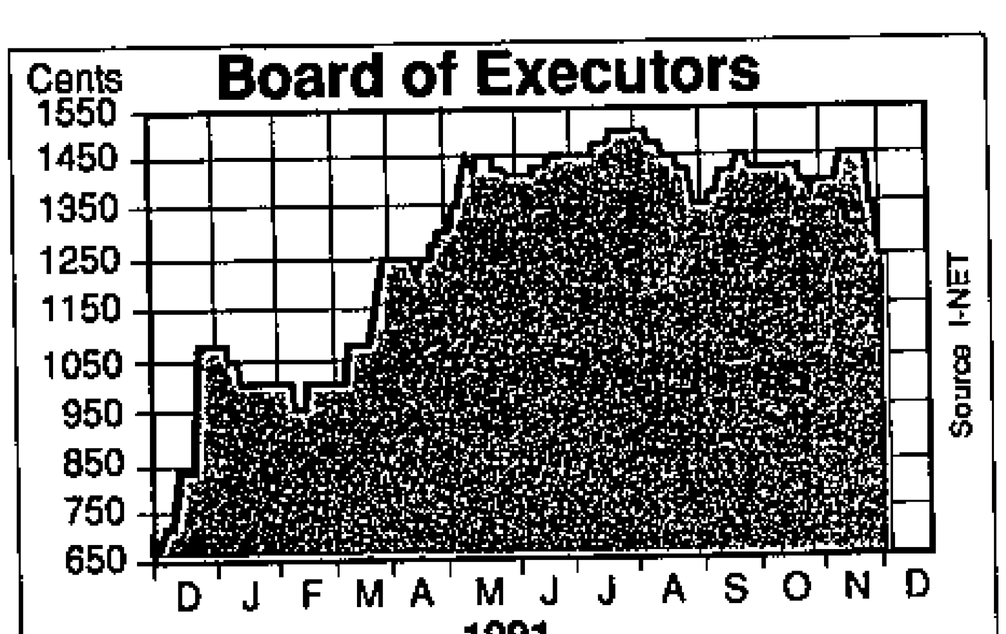
Year to Sep 30	'88	'89	'90	'91
Return on cap (%)	7,0	11,8	9,2	11,7
Pre-int profit (Rm) . .	4,6	7,6	10,8	15,5
Earnings (c)	37,5	80,4	102	128
Dividends (c)	18,8	25	32	38
Net worth (c)	417	557	592	915

It is 10 years since Bill McAdam became MD of The Board of Executors (BOE). His appointment marked the beginning of internal changes that took the company from a parochial operation to national prominence and into rapid growth.

In 1981 it was a small, unlisted, low profile and essentially Cape Town organisation. Now, though still comparatively small after having increased EPS at an annual compound rate of almost 48% since 1987, it has spread its services all over the country. BOE, with the support and influence of its larger shareholders, AVF Group and Liberty Asset Management, looks capable of continuing to produce real growth at a pace well ahead of many competitors.

Two main events occurred in the 1991 year. The first involved changes required by the Deposit-Taking Institutions Act 1990 (DTI). BOE is now a bank-controlling company and the format of its accounts will change accordingly.

It previously operated as an agent in the money market, investing funds on behalf of clients. To conform with the DTI, a wholly



continue →

FM 13/12/91 (58)

BOE's McAdam *. . . a period of change*

owned subsidiary, BOE Merchant Bank, was registered in March. Funds previously managed by BOE in the interbank and AAA corporate markets have had to be brought on-balance sheet. At year-end, this transition was 55% complete; the remainder is expected to be on-balance sheet by end-December.

The second event was the disposal of BOE's stake in the Storeco/Specialty Stores Group, for R29m, including a surplus of R5,8m. The latter amount has been treated as an extraordinary item.

Total share and loan stockholders' funds have risen from R5,6m in 1983 to R82,3m, a compound rate of 40% a year. When fully diluted by loan stock, net worth is 569c.

At R14, the dividend yield makes the share look expensive. When fully converted, the loan stock dilutes EPS from 128c to 93c and the earnings multiple moves from 10,9 to 15 — well above the sector average of 10,8.

In the 1991 year, EPS grew 25% (1990: 27%). Chairman Paddy Wilson says that, thanks to its strong and well-structured balance sheet, BOE is well positioned for further growth. If the record of the past 10 years is anything to go by and provided the economy does not deteriorate further, EPS could rise another 25% this year. *Gerald Hirshon*

Calls for drastic action as lenders turn backs on decaying city flatland

STAR 14/12/91

(SS)

JO-ANNE COLLINGE

JOHANNESBURG's central flatland of Hillbrow, Joubert Park and most of Berea has deteriorated to the point where lending institutions have "red-lined" the area, refusing to grant new housing bonds because they believe the financial risk is too high.

With the move towards owner-occupation brought sharply to a halt by the banks, who will arrest the decay of Hillbrow? Whose responsibility is inner-city renewal?

The answer, it seems, is "everybody's, eventually, but nobody's right now"

The Civic Association of Johannesburg (CAJ), however, is demanding on behalf of residents that the city council take a decisive lead in this muddle — right now

Lending institutions have indicated they will offer mortgages once more in the central flatland only if property values cease to drop or if some third party provides collateral to reduce the risk

The city council's position, as voiced by councillor Marietta Marx, is that it is vital to promote owner-ocupation because "the minute you start paying for your own place, you look after it. It's as simple as that — and it holds true irrespective of colour or creed or whatever."

The other reason is that the effective choice for many low-income families is a R25 000 flat in well-serviced Hillbrow, or a site-and-service scheme surrounded by veld 40 km out of the city

It is possible that the council will try to get the banks to look anew at the question of risk Mrs Marx, for instance, says she has no "worst-case scenario" for Hillbrow "I think we've hit the depths already It's a long, slow process, but we're on the way up"

She refers to a council survey carried out in January 1989 and repeated last month In the first survey 24 percent of buildings were rated as good, 57 percent as fair and 19 percent as poor In the recent survey (based on a much larger sample of 411 buildings), 68 percent were regarded as in a good state of repair, 27 percent as fair and 5 percent as poor.

Despite its commitment to enabling owner-occupation, the council argues it has a limited income and can't fund housing

What it can do, Mrs Marx says, is enter into a partnership with residents and with the private sector to revive Hillbrow And the council would have very specific things it could contribute to this partnership

"We can upgrade the streets, make nice walking areas, plant trees, slow the traffic We can see to it that maintenance gets done and that people get sued if they don't do it."

She also says the council could press the Government for two things — more-biting laws to get at negligent landlords and more flexible conditions for subsidising low-income homeowners

At the moment the penalties that the council can bring to bear by prosecuting these landlords are minimal "The landlords simply budget for the inconvenience," says Mrs Marx

She also looks very pointedly to the Government to change its policies on housing subsidies "We would like to see the State capital subsidy made applicable to flats and existing housing units. At the present time the Independent Development Trust's brief (in administering a special State housing grant) is for the development of virgin land — they write off R7 500 to site and service somewhere out in the bundu, miles from where people work

"We would like to see that capital subsidy applied with an element of choice If the individual falls within the required income limit, he should get the subsidy and have the choice where to spend it"

Cas Coovadia, secretary of CAJ, says the council's attitudes are all well and good And he agrees absolutely that various parties need to contribute to a "package" for sharing responsibility

But he adds that CAJ feels that government institutions have been too slow off the mark in Hillbrow "I am prepared to go on record that the city council has done absolutely nothing to alleviate the accommodation problems of people in the inner-city area"

He points out that while the National Party managed the city it hid for years behind the illegality of black tenants in terms of the Group Areas Act. "So they turned a blind eye to the collapse of infrastructure and to the overcrowding"

And the DP, with fair notice that the Act was going, did little to prepare for speedy remedial action, he says

Mr Coovadia insists it is not good enough for the council to say laws prohibit it from acting "This is a transition period If by-laws need to be changed, they must be changed

"If the city, together with the community, needs to lobby central Government, then we have to do it"

Mr Coovadia believes new institutions will have to be founded to deal with urban renewal Various forms of non-profit housing associations, group credit schemes and co-operative ventures need to be thoroughly investigated

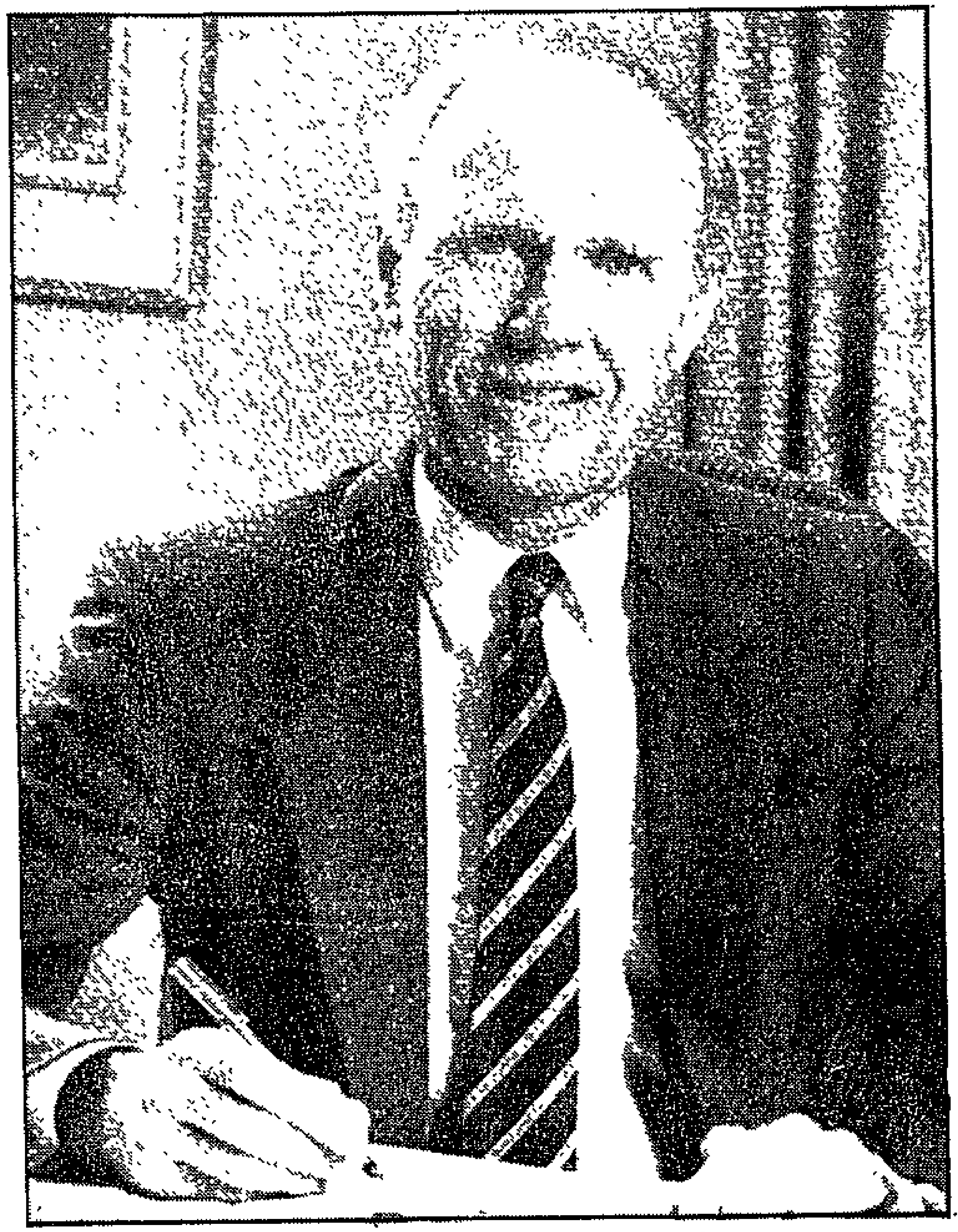
He doubts that the major financial institutions will come back to the area without some means of cushioning the risk He also points out that buyers are a mixed bag Many can afford commercial interest rates But others cannot.

"We're not asking business for grant finance. We will be asking for one or other development agency for grant finance, possibly But the non-recoverable financial injection must come from the city — and from central Government, which has to take responsibility for what has happened," he says

Unit trusts gaining ground with savers

STAR 14/12/91 58

DEREK TOMMEY



DAVE TURNER: Winning in the long-term.

A LARGE number of traders on the Johannesburg Stock Exchange will be keenly awaiting the publication in a few weeks' time of the unit trust movement's inflow and outflow figures for the December quarter.

Although the unit trusts do not have the same sort of money to invest as the large financial institutions, there nonetheless appears to be a close correlation between the cash inflows to the unit trusts and the overall performance of share prices on the stock exchange.

One possible reason is that institutions probably also experience a reduction in new business at the same time as the unit trusts. Consequently both the unit trusts and institutions tend to hold back from the market together.

In the first nine months of this year the unit trusts experienced a record inflow. South Africans invested a record R2,02 billion in units which was 24 percent more than the R1,6 billion in the same nine months last year and only slightly below last year's total inflow of R2,068 billion.

Unit trust officials give a number of reasons for the swing to unit trust investment. A major one, obviously is the movement's excellent record for creating wealth.

Clive Turner, chairman of the Association of Unit Trusts, says investors are primarily attracted to unit trusts because of their excellent long-term performance.

Reserve Bank figures show that in the nine months ended September unit trust prices rose on average by 23,1 percent and the dividend yield increased by 17,2 percent.

And in the 12 months ended September, the average return from investments in the 17 equity funds was 31,1 percent, reports Mr Turner, while the average annual return on the seven trusts which have been going for the past five years is 19,1 percent.

However, the unit trusts have other important attractions. These include the tax free returns which investors receive. Capital gains are not taxed nor are dividends from equity earnings.

More than 150 000 new unit trust accounts were opened in the past 12 months. This brought to 885 000 the number of operational accounts.

The reduction in rates of interest on savings accounts is also believed to have contributed to the increased inflow.

In the past 12 months actual returns on savings have been cut by 25 percent or more after the financial institutions cut their deposit rates — but not their lending rates.

A rather more ominous reason, suggested by some unit trust agents, is that investors are growing concerned at the political uncertainty in this country.

As a result they are unwilling to invest in long-term investments such as 10-year endowment policies or any other investment where their money is locked in for any length of time.

It is interesting to note that the overall share index on the stock market, after reaching about 3540 in July dropped to just above 3300 in August, and after a small rcovery, fell to around 3280 in September. It subsequently rallied to a new peak of 3580 in October, but since then it has been falling back slowly to 3500.

This suggests that the unit trusts could have been significant buyers again in October, but then pulled out.

The December quarter figures could help to confirm this and also give a good pointer to the share market's performance in the first few months of the new year.

Overdraft rates

(58) STAR 14/12/91

MAGNUS HEYSTEK

Several banks have reacted to last week's report concerning the publication of overdraft rates on bank statements.

Nedbank, the Allied and TrustBank, it seems do follow this practice. Nedbank also gives a breakdown of how service charges are levied.

This is something all banks should give attention to, judging from the reaction of the public on this issue.

I also noticed that Allied publishes the name of its bank manager on every statement. This is a nice touch, I thought, considering today's impersonal banking environment where ATM's have all but taken over.

Syfrets manages R10bn in assets

(58)

S l Times (Buss) 15/12/91

By ZILLA EFRAT

ASSETS administered by specialised financial services group Syfrets have topped R10-billion — another milestone in its 158-year history.

But Syfrets faced tough market conditions in the year to September 1991. Taxed earnings were unchanged at R20-million.

Chief executive and managing director John Cragg describes the year as one of review and consolidation, the group formulating its strategies for a new and different future.

A major feature was increased co-operation between Syfrets and its sister companies in Nedcor group.

This included several product links, closer ties on the international front, co-operation on loan opportunites and many direct marketing projects underway or planned.

Mr Cragg says all core business divisions did well, some exceptionally so.

Rapid

However, Syfrets did not benefit from profits in insurance because of the sale of Mibsa last November.

In addition, the results reflect the impact of low returns on certain property developments which have not yet matched holding costs.

This is countered by the sale of the first phase of the mixed-use development near Cape Town, N1 City, for R110-million. Further profits will still be made from this development, says Mr Cragg.

Syfrets Managed Assets (SMA) administered assets worth R4,2-billion, a 23,5% growth from last year's R3,4-billion.

Having experienced rapid growth in the past six years, SMA has recognised the need for selective opportunities while consolidating the administrative and service aspects of its operations, says Mr Cragg.

The investment management team was consolidated into IMD Service, to manage private client portfolios, and IMD Sales, a retail investment services arm.

STEPHEN KOSEFF and ARNOLD BASSERABIE: A win, win pact

R400m deal links Fedsure, Investec

S/Times (Buss) 15/12/91 (58)

By IAN SMITH

TWO of the JSE's high-flyers are joining forces to challenge the giants in financial services.

A R400-million deal involving a share swop and the issue of convertible preference shares will bring Fedsure and Investec group into a strategic alliance. Assets under direct and indirect control will be R16-billion.

The deal by two of the largest independents is a significant step in the formation of a large financial services group with interests in short- and long-term insurance, commercial and merchant banking, building society business, property, unit trusts and participation mortgage bond schemes.

Win

The scheme, which includes the issue of new ordinary and convertible preference shares, will raise about R227-million in capital for Fedsure and about R140-million for Inhold, which has as its main asset a 76% stake in Investec.

It will give Fedsure an effective 27% stake in Inhold and 22% in Investec. It will also increase Investec group's stake in Fedsure from 4% to 22,5%.

"It's a win, win deal," says Fedsure chief executive Arnold Basserabie.

Inhold chairman Bas Kardol says the new capital will enable both groups to continue their expansion.

Fedsure and Inhold say the independence of both groups will be maintained.

Both groups, which have done well in recent years, have been innovative and entrepreneurial in their fields. Young management teams have strong equity stakes and the deal provides for this to be expanded.

The deal has been given the nod by statutory authorities but has to be approved by general meetings of Fedsure, Inhold and Investec and the JSE.

The agreement will enable both groups to build market share by providing access to new client bases and revenue sources.

Investec managing director Stephen Koseff and Mr Basserabie say: "We will both be in a better position to provide an increasingly sophisticated and demanding market with a creative and integrated range of products."

They say foreign markets are increasingly demanding composite investment options which include a mix of products from the assurance, banking and property sectors.

In terms of the agreement, Fedsure will acquire 5,9-million Inhold ordinaries from current shareholders in return for cash and the issue by Fedsure of convertible prefs.

In addition, Fedsure will issue 1,9-million convertible prefs and 2-million ordinaries to Inhold in return for the issue by Inhold of 2-million convertible prefs.

Prospects

An exchange of shares will result in Fedsure's issuing 16-million ordinary shares to Investec in return for 6 450 000 Investec Bank shares.

Mr Basserabie says both shareholders and policyholders will benefit from the deal.

"Fedlife's increased earnings as a result of sharing in the equity earnings of Inhold and Investec will be an important element, but the prospects are even more exciting."

Mr Kardol says the alliance is in line with developments in the UK where LLoyds Bank has linked with Abbey Life and in Germany where Allianz and Dresdner Bank have come together.

Mr Kardol says Investec's capital ratio is more than 8% and after the deal it will jump to more than 12% — way ahead of the Deposit-Taking Institutions Act requirements for next year.

Foreigners look at small SA banks

S Times (Buss) 15/12/91

58

15/12/91

By DIRK TIEMANN

FOREIGNERS are looking at some of South Africa's small banks for potential takeovers or mergers.

One bank which has attracted interest is Discount House of SA. It has held talks with several potential foreign partners.

Executive chairman Colin Dunn and managing director Mark Thompson went to Europe for discussions with 12 financial institutions, but decided to go it alone, at least for a year.

Market talk was that Discount House had arranged a takeover deal with a German bank, but that it had fallen through at the last minute because of political considerations.

Mr Thompson denies that talks with any foreign bank have reached finality.

Better

He says: "We would like to build up a track record as a bank and acquire a foreign exchange licence.

"That should help to clinch a better deal a year or so from now. A bank of our size is attractive to a foreign one seeking an entry into Southern Africa and Africa. We are small and a major stake would cost a fraction of the price of a larger bank."

The specialised role of discount houses has changed under the Deposit-Taking Institutions Act. They now fall under the same rules as all the other banks. Most seek to establish a niche in merchant banking where competition is becoming tougher. Some foreign banks are expected to join the fray.

Rand Merchant Bank executive director Russel Loubser says small banks that do not have a niche will be forced to find shelter.

Mr Loubser says foreign bankers are here to hold exploratory talks, "but they are not jumping in, boots and all".

A major foreign shareholder can be a big asset if a genuine two-way relationship is developed. The SA bank would benefit from access to the international market.

Mr Loubser says RMB is not looking for foreign interests.

A representative of a German bank in SA says there are several interesting prospects, including Investec, Discount House, RMB, Finansbank and UAL.

The Board of Executors could be added to this list. It announced this week that it was looking for an acquisition in the financial services sector or a possible foreign association.

An official says, however, that there is no rush to move into SA because of the preoccupation with Eastern Europe.

Most banks on foreign shopping lists have a strong infrastructure which makes them attractive. But there are other small banks whose role in the market is becoming less well defined and which could find the competition too tough.

Republic Ratings recently published a risk evaluation of all SA banks, partly in response to the many inquiries from foreigners.

The tail-enders included Prima, District Securities, African Bank and Mercantile Bank.

The credibility of many small banks has been tainted by the recent failures of Alpha, CIB and Pretoria banks.

Many small banks struggle to meet capital requirements and find it difficult to issue acceptable guarantees.

Martin & Co director Richard Jesse says several small banks are likely to disappear in the next three years.

Debt toll cost Margaret Motlogela her home. ■ Pic: GIDEON MHLAPO

Lost after a lifetime

SOWETO granny Margaret Motlogela, 74, had her home repossessed last week – two years after getting a bond to build two rooms and a garage on to the small council home she has lived in all her life. C/Press 15/12/91

When the family built on the extra rooms they had no idea they were burdening themselves with a debt which would cause them to lose their home.

Margaret's only income is her R225 old-age pension and the R300 a month she collects from renting out the two rooms and garage. Her monthly bond repayment is R575 – more than her total income.

At the time she was granted the 20-year bond of R24 000 by the Perm three years ago, her son-in-law was employed and contributing towards the repayments. He has since lost his job and can no longer pay.

When the home was repossessed last week, the arrears were more than R6 000 and the family has no hope of paying it off.

Acting Chief Executive of the Perm, Dave Harrison, told City Press the bank was in a very difficult position.

Harrison said Motlogela was granted a bond in 1988, when interest rates were 14 percent and when the economy was in much better shape than it is today.

"At that time we granted bonds to pensioners who had extended families living with them and contributing to the bond. (58)

"We saw the financing of home extensions as a good investment which encouraged home ownership and increased accommodation. With the deteriorating economy and interest rates of 20 percent, today's picture is very different," he said.

"We have tried to find a solution which allows the family to remain in their home, while stopping the interest on the bond from rising.

"The only way we can achieve this is to buy in the property and allow the owners to remain on the property at a fixed rental. We negotiate a reasonable rental with them and ask them to sign a 30-month lease. Our idea is to renegotiate at the end of this period. If their circumstances have improved and they are able to meet the bond repayments again, we will consider transferring the property back into their name," he said.

Motlogela signed a lease this week and has agreed to pay Perm the R300 she collects in rent. She hopes she will be able to get her house back in 1994.

Muslim bank opens

58

A Saudi-South African joint venture bank has opened a branch in Cape Town to serve the Muslim community there, a spokesman for the Saudi parent company — Jeddah-based al-Baraka Investment and Development Company — said yesterday.

STAR 13/2/91

Fedsure and Investec in a trendsetting alliance

(58)

STAR 16/12/91.

Finance Staff

In what is sure to emerge as a trendsetting deal, the Fedsure insurance group and banking group Investec have forged an alliance which controls direct and indirect assets of some R16 billion.

In a R400 million deal, the two groups will take substantial stakes in each other and diversify their subsequent interests in the financial services sector.

The deal will give the two groups an interest in long- and short-term insurance, banking, unit trusts, and the property and housing markets through Fedsure's holding in building society, Saambou.

The scheme involving an exchange of shares between the two listed groups and the issue of new shares will raise about R220 million in capital for Fedsure and about R160 million for Investec and its holding company, Inhold.

It will give Fedsure an effective 27 percent stake in Inhold and about 20 percent in Investec Bank.

At the same time, it will increase the Investec group's stake in Fedsure from four percent to 22,5 percent.

"It will preserve the independence of both groups, and enable them to continue to focus on their respective fields of operation," says a statement from the boards of Fedsure and Investec.

"The transactions will result in significant increases in the capital bases of both groups, fa cilitating continued growth of their business activities."

In addition, the agreement between the groups will enable both to build market share by providing access to new client bases and revenue sources, the statement says.

"We will both be in a better position to provide an increasingly sophisticated and demanding market, with a creative and integrated range of products," says Fedsure group chief executive Arnold Basserabie and Investec managing director Stephen Koseff.

They point out that overseas markets increasingly demand composite investment options, which include a mix of products from the assurance, banking and property sectors.

"The transactions will also facilitate increased equity participation by the management teams of each group."

The statement says that the immediate effect on the net asset value of Fedsure and the Investec group will be very positive.

There should also be a meaningful increase in earnings per share in the medium term.

"The new capital will allow Fedsure and Investec to move into the next exciting stage of their development,". say Mr Basserabie and Mr Koseff.

Investec-Fedsure alliance launched (58)

SEAN VAN ZYL

SA's major independent banking and insurance groups, Investec and Fedsure, have joined forces in a R400m deal creating a new financial services alliance with more than R16bn in assets.

The proposed deal, which involves a swap of ordinary shares and the issue of convertible preference shares, will result in Fedsure acquiring a 22% stake in Investec Bank and a 27,5% stake in the banking group's holding company, Inhold. In turn, Investec will lift its present 4% interest in Fedsure to 22,5%.

The merger and issue of the preference shares still has to be approved by the JSE and the companies' shareholders at general meetings. B/Day 17/12/91

The cross-shareholding deal between the two independents comes on the back of recent rationalisation in the banking and insurance sectors.

A statement released by the groups noted the deal would preserve their independence and allow them to focus on their individual areas of business.

Fedsure CE Arnold Basserabie said the merger would place both groups in a better position to compete in the changing and more sophisticated financial services market by providing a wider range of products.

Investec MD Stephen Koseff said overseas markets "increasingly demand composite investment options which include a mix of products from the assurance, bank-

☐ To Page 2

Investec-Fedsure B/Day 17/12/91 (58)

☐ From Page 1

ing and property sectors".

The statement said the groups would be able to expand their respective market shares by cross-accessing client bases. The alliance covered long- and short-term insurance, commercial and merchant banking, property, unit trusts and building society business.

Fedsure's purchase of the 27,5% stake in Inhold, equivalent to 5,9-million ordinary shares, would be settled by a cash payment of R32m and the issue of 6,2-million (13,5%) convertible pref shares at R10 a share. The assurer's Investec Bank stake would be settled by the issue of 16-million ordinary shares at R8 a share in exchange for 6,4-million ordinary Investec shares at R19,84

The deal involved an exchange of shares between Fedsure and Inhold whereby Fedsure would issue 1,9-million pref shares and 2-million ordinary shares in return for 2-million Inhold convertible pref (10%) shares at R17,50 a share.

Once approved, 5,6-million of the total 8,1-million new Fedsure pref shares to be issued would be offered to Fedsure shareholders at R10 a share. Inhold also planned to offer 2-million of the pref shares at R17,50 a share to its shareholders. The issue of new and pref shares would raise about R220m in capital for Fedsure and about R160m for Inhold and Investec.

COMPANIES

Oceana all set to bag new deal

CAPE TOWN — Investment holding company Oceana Investment Corporation is negotiating a £1,8m deal to increase its stake in Handbags International to 48% from 28,9%.

It is also looking into the possibility of applying for a listing on another European stock exchange following the cancellation earlier this year of its listing on the London Stock Exchange on the grounds of its unsuitability. BDay 17/12/91

The proposed acquisition of Handbag shares follows Oceana's unsuccessful bid to gain control of Etam, a failure which resulted in the cancellation of its listing.

"It is anticipated that Oceana and certain key executives of Handbags will, through a joint voting arrangement, control that company to the extent of some 80% of its share capital," chairman Stanley Lewis said in the corporation's profit announcement. Lewis has been appointed chairman of Handbags' board of directors.

LINDA ENSOR

Oceana achieved a 20,6% increase in after-tax profits to £415 000 (£344 000) in the six months to end-September.

However, the almost doubling of the weighted number of shares in issue diluted earnings a share, which fell 33% to 3,96p (5,94p). A dividend per stock unit of 1,5p (nil) was declared.

The change in the nature of the company's investment portfolio resulted in a significant lowering of the tax rate.

The greater contribution from Handbags International in the second half would also boost the year-end performance, Lewis said.

The market value of the corporation's assets have increased significantly to £71,9m (£17m).

Net asset value at market value increased to 352,8p (286,1p) per stock unit.

Curtailed growth feared for unit trust industry

BDay 17/12/91

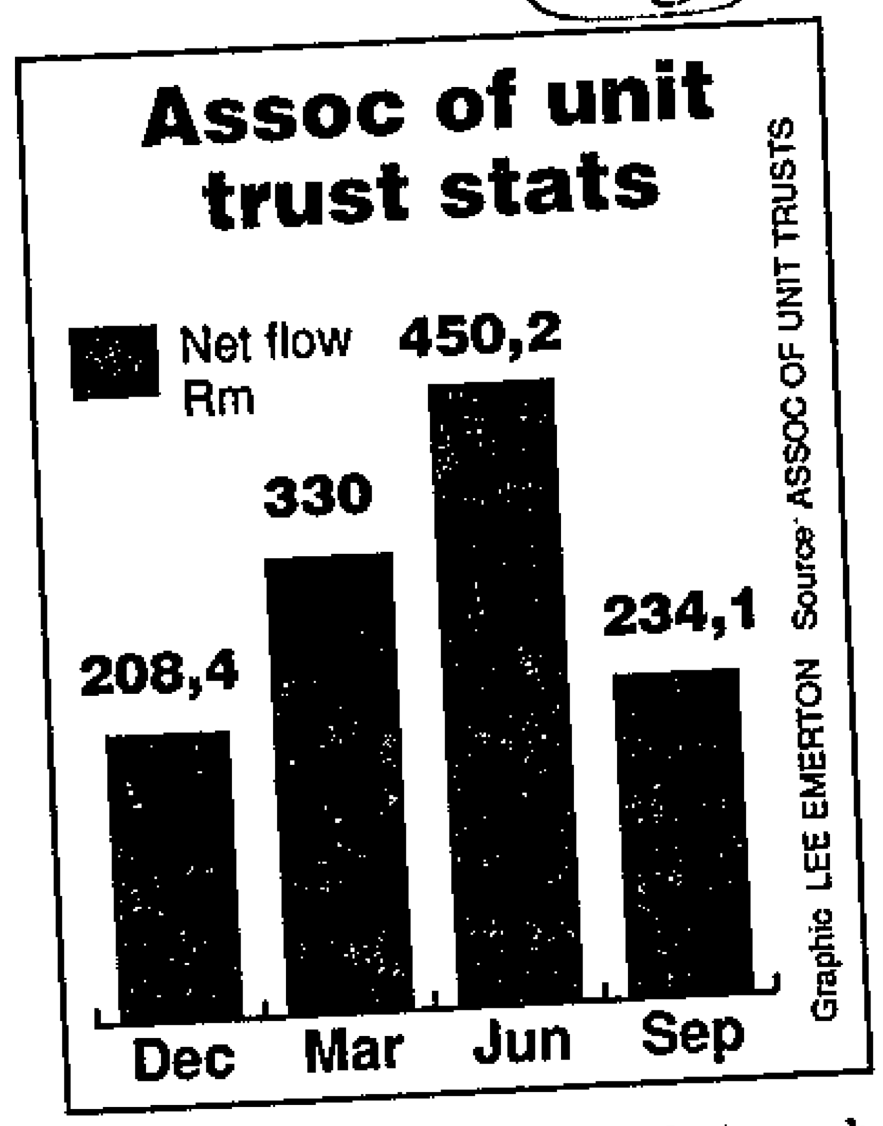
SEAN VAN ZYL

RECESSIONARY pressure and the volatility of the equity market next year are expected to restrict growth of the unit trust industry, market analysts say.

Analysts expect unit sales to level off in 1992 as investors dip into their personal savings to ride out the recession. They also believe the investment performance of equity funds will drop as investors adopt a more cautious view of share prices.

Industry performance figures for the September quarter show an alarmingly high level of repurchases — R556,5m compared with total sales of R790,6m. The 95% increase in repurchases compared with an 8% growth in sales resulted in a modest R234,1m inflow of new money for the quarter.

The September quarter's lacklustre growth in sales compares with the 27% achieved for the June quarter and 28% for the three months ended March. The June quarterly report showed the industry had enjoyed the highest inflow of new funds at R450,2m since the September quarter prior to the 1987 stock market crash.



Furthermore, net inflow climbed 116% to its June high before falling back almost to its December 1990 level.

However, Association of Unit Trusts chairman Clive Turner said he was not particularly perturbed by the September quarter's high repurchases. He said that the disposal of units by investors reflected the volatility of the equity market, but he expected the industry's sales would continue to exceed repurchases for the present quarter.

"Although repurchases are expected to be fairly high, I do not expect the industry will be faced with a net outflow in 1992."

An analyst, who did not wish to be named, said unit trusts were unlikely to achieve 1991's growth in investments next year. However, he noted that an investment in unit trusts should be viewed over a minimum three to five-year period to smooth out market fluctuations. On this basis, general equity trusts were still the best option for the unsophisticated investor.

George Huysamer & Partners analyst Alta Theron agreed unit trusts were still the best investment available to the public. Although they were expected to achieve a 30% return at best in 1992, she noted the return would still beat inflation and the return on cash on deposit.

Theron also felt the present high repurchases of units would level off in 1992.

Export policy set to boost property funds

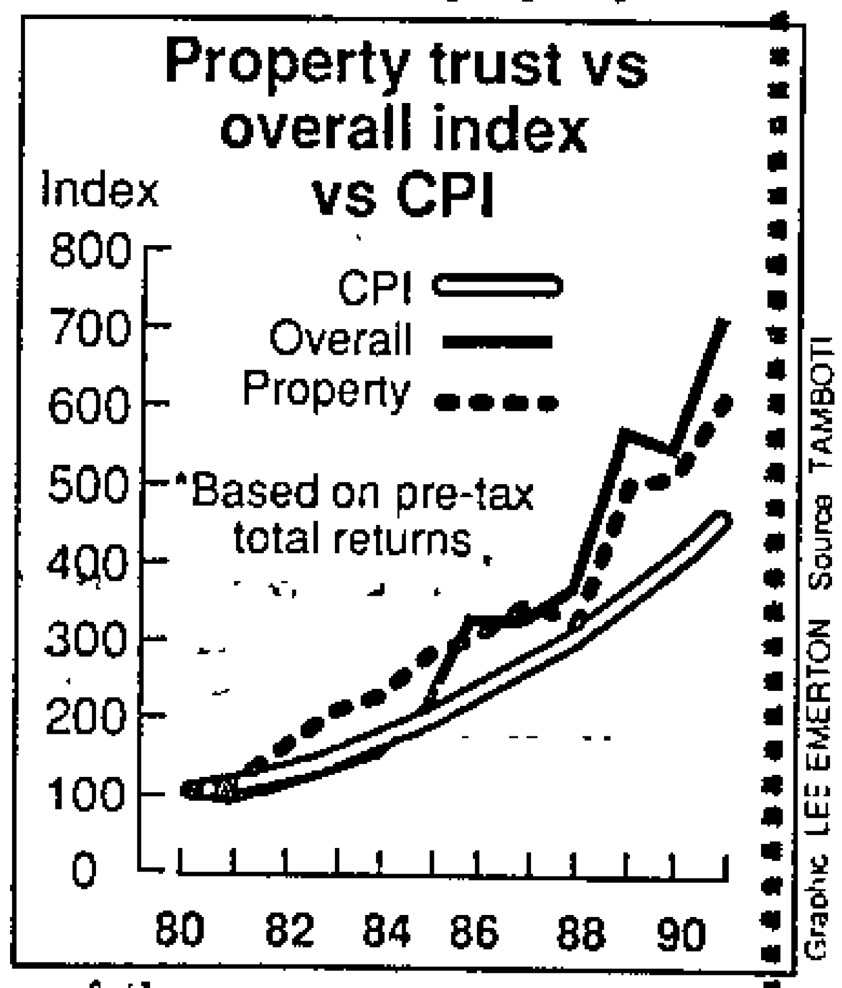
Business Day Reporter

TAMBOTI and Umdoni Property Funds are set to benefit from SA's export and manufacturing-directed economic policy since their property portfolios are mainly industrially based, chairman of the two funds Michael Noyce says in his annual review.

"Most commentators believe that the next economic upswing will be gradual in the initial stages, but because it is likely to be export and investment driven, rather than consumer-led, it should be more sustainable," he says.

In the year to September, Tamboti improved its distributable income to 31,3c a unit from 28,3c in 1990 while Umdoni's distribution lifted to 17c from 15,5c.

During the year Tamboti held a rights issue to raise R58,9m of which R28,6m is committed to property developments and another R23,8m is held in cash.



Umdoni remains fully invested. It realised R8,3m on the sale of properties of which R4,3m was spent on developing and improving existing properties, leaving a capital surplus of R4,1m.

Noyce says the advantage of investing in the property sector is that property tends to be less volatile than other sectors of the economy.

The property trust sector is yielding average returns of 10,5% and looks more attractive with the possibility of falling interest rates next year. Property trusts are also more marketable and have a greater spread of risk than direct investment in property.

By year-end only 1,4% of Tamboti's portfolio was vacant and 0,6% of Umdoni's — a commendable achievement in view of the length of the recession, Noyce says.

Both funds expect to show growth from the renewal of leases next year and the impact of higher rentals achieved on review last year when these were previously below market levels.

Tamboti's interest earnings will also grow as a result of the large amount of cash it holds, although this could be tempered as interest rates are expected to fall.

Surprising growth in credit finance

By Sven Lünsche STAR 18/12/91

While consumers cut back sharply on their credit spending in the September quarter, companies continued to use hire-purchase and lease-credit financing at a surprisingly high rate.

An analysis of the latest BA9 returns by commercial banks shows that total receivables (HP and leasing) on bank books was R30,19 billion by the end of September.

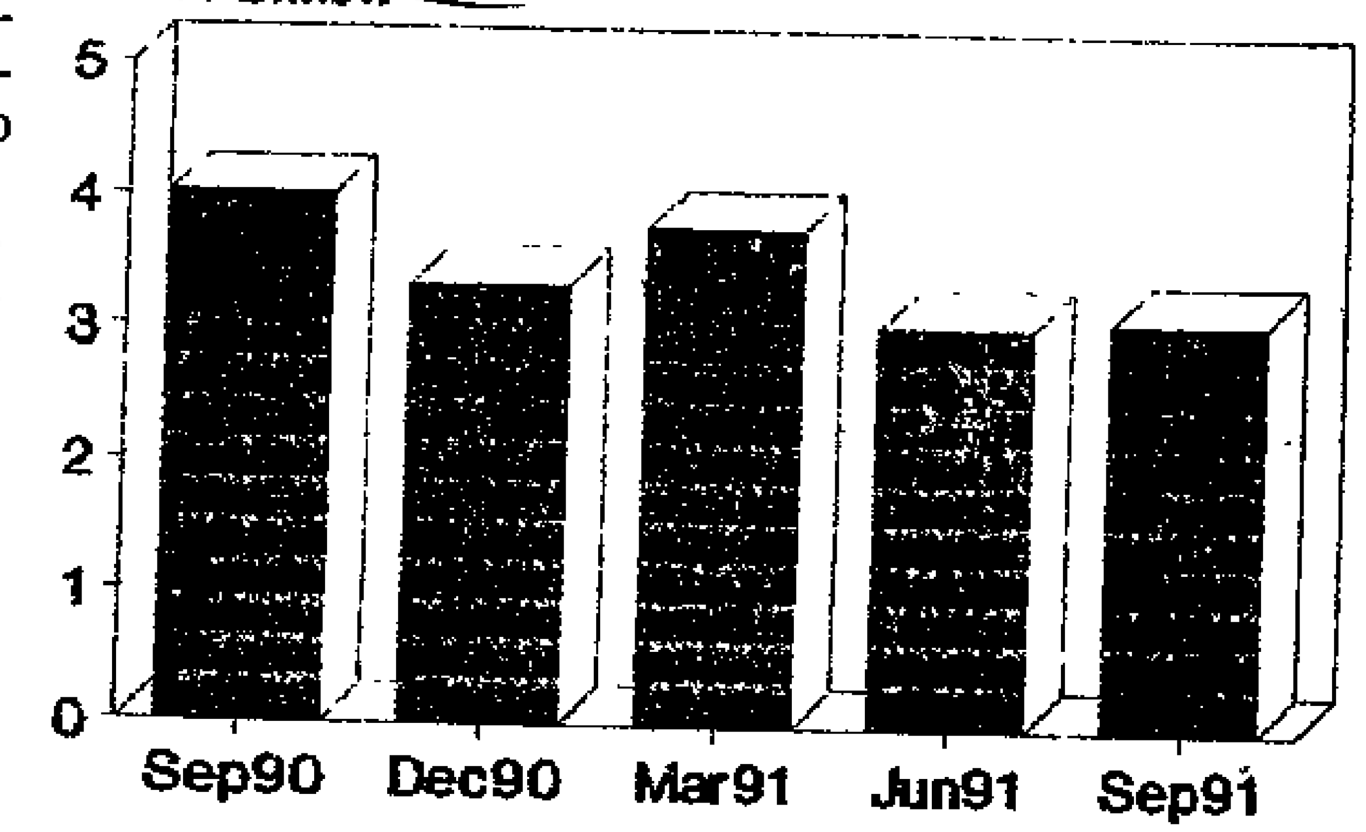
During the September quarter total receivables grew by R1,21 billion, or 4,17 percent, over the June 1991 quarter and by R3,1 billion, or 11,5 percent, over the September 1990 quarter.

Nedfin CE Christopher Beatty says the surge was a surprise, as companies were expected to cut back their capital expenditure until the introduction of VAT on September 30.

"We expected the surge in the fourth quarter and believe it came early because of lease-back agreements, which were convertible in October 1991 to gain VAT input credits."

There is some indication though that the overall level of activity is still lower than in previous years — the average quarterly growth rate in total lease and HP receivables per annum since September 1988 was R4,53 billion, compared with R3,1 billion in the year to September 1991.

(58)



Annual growth in lease and hire-purchase receivables.

Saüdi-linked Islamic bank to open second SA branch

(53)

ANDREW GILL

A JEDDAH-based company with banking interests is to open its second SA branch in March next year, having set up a joint venture bank with local shareholders in 1989.

SA-registered Al Barak Bank, 50% owned by Saudi Arabia's Al Baraka Investment and Development Company and 50% by SA shareholders, opened its first office in Durban in 1990, catering mostly for the Muslim community.

Al Barak SA CEO Ebrahim Bawda said it had now acquired a building in Cape Town with a view to opening an office early next year.

He was responding to a Reuter report from the Jeddah office that a Cape Town branch had already been opened.

B Day 18/12/91

Banking is based on the Islamic financing principle of partnership financing or "profit and loss sharing" where returns are not guaranteed. The bank has built up an asset base of R37m since opening up.

Bawda said it had been successful beyond expectations. Returns often exceeded those offered by traditional banks. ..

He said the bank did not exist to serve only the Muslim community, but anyone who was prepared to comply with Islamic financing principles.

BI

New forum hits out at govt, bank

B/Day 18/12/91 (58)

TIM COHEN

THE NATIONAL Development Forum, established at the weekend from organisations aligned to the former Mass Democratic Movement, yesterday criticised government, the Development Bank of Southern Africa and the Independent Development Trust (IDT) for engaging in "politically motivated development".

The forum was set up at a meeting in East London because of a perceived need for the democratic movement to build its own development policies and strategy, the organisation said at a news conference.

The forum comprises representatives of the ANC, Cosatu, the national civic movement, health, welfare, education and rural and urban development groups.

Its formation had become urgent in the light of moves by government and what it called allied organisations, in particular the Development Bank and the IDT, to take major initiatives to address development needs.

"These initiatives in our analysis are politically motivated to build support for the government, to entrench the establishment, institutions and their 'top-down' product-focused development approach," it said.

Members of the forum preferred "people-centred development" which emphasised building human and institutional capacity within communities to enable them to exercise greater control over the process, the body said.

The forum's approach was based on a macro policy of growth through redistribution in the restructuring of the economy.

The forum intends developing a policy framework, forming guidelines for engagement and negotiations in the transition period and working on enhancing members' institutional capacity.

Some of the key conclusions of the forum meeting were:

□ That members would consider participation in the proposed socio-economic negotiation forum;

□ That the Development Bank was an appendage of government and its future should be placed on the agenda of national negotiations;

□ That a national task force be established to negotiate the future activities of the IDT;

□ That a working group should be established to produce a discussion paper on development finance; and

□ That the development research group, established by the ANC, should report to members of the forum by March with development policy options.

Joanne Yarwich and Andrew Boraine, the rural and urban co-ordinators of the newly established National Development Forum, at a news conference in Johannesburg yesterday. Picture ROBERT BOTHA

Residential letting market is vast, says Dallaway MD

13/12/91

PETER GALLI

THE problem most young people have in not being able to afford a house and their consequent need to rent has created a prime market for investors, says Dallaway Properties MD Ian Gibbs.

"Investors are snapping up good residential properties, as the letting market for these properties is vast."

Young people, unable to buy a home and faced with a shortage of flats, were looking for homes to rent, he said.

A good example of this is Dallaway's latest residential development which was sold out to investors, off plan, in just two weeks.

"The local investor is more sophisticated than ever before, and is identifying the huge potential the residential market offers. He is no longer concerned about buying off plan as he is able to visualise the development as a result of his experience in the market," Gibbs says.

The difficult economic climate has seen more and more developers sell their developments off plan as the building and holding costs of erecting showhouses were not viable in the present economic climate.

Security

Dallaway Properties has been in the residential market for the past 18 months and all developments are carried out in conjunction with Ovland. The link with Ovland gives Dallaway financial backing and security, says Gibbs.

"Another move is to smaller, more compact homes that offer the buyer security and an excellent quality of life. It is no longer practical to build large homes, as demand for these is limited."

Gibbs says developers have the responsibility of anticipating people's housing needs. As most homebuyers have to push themselves to their financial limits, it is their right to expect a well-built home that is properly finished by the time they take possession.

"We have used this philosophy as the basis for all our developments. We are looking at further residential developments along the same lines and are considering developments in southern Africa and abroad as well."

SA insurer pays R3m in death claims per day

A LEADING South African insurer pays out on average almost R3 million on death claims every working day, says a senior manager, Mr Kobus van Rooy. 58 CT 19/12/91

Death claims totalled 18 416 during the past financial year. Claimants received R721,2 million, of which individual policy-owners (54 claimants) received the major share — R423,6 million, compared with the R297,6 million paid out in respect of 5 862 group claims.

Aids, which will in future no doubt lead to many more claims, resulted in 22 death claims amounting to R1,2 million during the past financial year. In the previous year there were seven successful claims for just under R200 000.

The insurer also paid out 10 disability claims amounting to R320 320 in respect of Aids — four claims amounting to R272 158 in the previous year.

All these claims were in respect of men, mostly single.

Aids has thus far cost the insurance company some R5 million in respect of 44 death claims and 18 disability claims.

The major cause of death is still heart diseases and other illnesses of the circulatory system. There were 5 764 claims for R215,1 million during the financial year. — Sapa

Syfrets to launch service for super-rich

SEAN VAN ZYL

SPECIALIST financial services group Syfrets is to launch the first private banking service in SA for super-rich individuals early next year, says MD John Cragg.

"A market research project found that clients want personal attention most of all," Cragg said yesterday.

Senior GM Eddie Mokawem said the private banking service, targeted at people with investments in the R300m-R400m bracket, would be launched as a joint project with sister company Nedbank.

He said the service would be based on investment management coupled with specialist services linked to current accounts through Nedbank.

The services would include linked credit and cash tranfer facilities, including foreign exchange transactions, insurance and travel conveniences. (58)

Banking was not a new field for Syfrets, which already had its own registered bank — with assets of more than R900m — specialising in property finance.

An earlier Sapa report said the new banking service would "operate on the Swiss concept of private banking and strategic asset management aimed at high net worth individuals".

Business Day 17/12/91

FNB ponders start to overseas operations

By Derek Tommey

First National Bank's plans for 1992 could include the start of operations in the UK and some other countries.

Plans also include a drive to increase share of the home loan business, the bank says in its annual report.

In an overview of conditions in South Africa, chairman Basil Hersov and chief executive Barry Swart are mildly bullish about the middle- and long-term economic outlook. They say the impending upswing could continue well into the Nineties.

But they warn that business conditions could remain difficult in 1992, especially if South Africa continues to be an exporter of capital.

"To be a net exporter of capital is a catastrophic situation for a developing and fast-growing nation," they say.

They are critical of the political intolerance reflected in continued violence, and say it has serious implications for a democratic future.

They call for a more rapid lifting of trade sanctions "to provide the economic stimulus the country needs now" and contribute to a climate "where the process of transition can take place within a more peaceful framework".

While economic conditions overseas are likely to improve, it is not certain this will rub off onto the SA economy, they say.

The high level of state spending is unlikely to lead to a relaxation of tight money policy.

They say current political posturing is restricting access to foreign loans, which could help ease economic conditions.

"Given that change is the only certainty, too much emphasis on economic or political prognostications would be unproductive," they say.

In this situation, the foundation stone of group planning and action will remain "doing the right things right within the banking context".

Although FNB failed in its efforts to take over Allied and thereby increase its share of the home loan market, it remains a vigorous competitor in a market "where the capital risk coefficients stipulated by the Deposit-Taking Institutions Act are favourable".

Since January it has increased its book (actual plus committed) by more than R1,7 billion — an increase of 42,52 percent.

Mr Hersov and Mr Swart hope that the provision of home finance to certain sectors of the community will soon be depoliticised to the point where it will be possible to apply normal risk criteria.

They say that progress in the political area should eventually encourage a greater inflow of capital.

At the same time, South Africa's re-entry into the international economy heralds the beginning of a switch from primary production to manufacturing and the reduction of dependence on primary exports.

South Africa's strategic position in relation to sub-Saharan Africa, although often exaggerated, should create export opportunities.

Because access to foreign capital and IMF facilities will eliminate the need to truncate the recovery phase of the business cycle, "the impending upswing could be sustained well into the Nineties", they say.

SOWETAN
Building the Nation

Winning the battle with the landlord

(58) Sowetan 19/12/91

By SONTI MASEKO

HAS renting office space turned out to be a nightmare of running battles with the landlord over how office space is calculated, whether rent should include refuse rooms and entrance foyers?

A lot of these issues had become a grey area since the last update of guidelines for shops and offices in 1985.

However, the good news is that these issues are a lot clearer now with a revised floor measurement document which updates leasing from 1985 guidelines into the present.

The guidelines contained in the booklet compiled by the South African Property Owners Association also introduce standard measurements for industrial premises.

Changes

The new version takes into account changed building configurations and introduces new concepts.

The new approach changes the calculation of rentable area, defined as the area for which rental is paid.

For example, if entrance foyers are remotely situated from adjacent office areas, those areas are excluded from rentable area.

Landings in staircases are not to be measured as rentable area, even when these landings also form access-ways to toilets or other such facilities.

The booklet includes, for the first time, measurement of industrial space, which was traditionally left out because it meant so many square metres of factory space.

Industrial design now includes factory space, warehouse and office space, all of which may attract different rentals in a composite rental package.

Also for the first time, the question of of atriums, or entrance hall, is dealt with.

Accurate

Sapoa maintains that to include the atrium or multi-volume area as entable space, it has to be totally weatherproof and form an integral part of the interior of the building, and it has to be capable of use as offices by the occupants of the floor.

Refuse rooms, electrical sub-stations, transformer rooms, caretaker's apartments and rooms of similar use are not to be included in rentable area except if they are on a specific floor for the purposes of servicing that floor.

If different rentals are to be applied, accurate and consistent measuring methods are vital, says Sapoa.

Sapoa executive director Mr Brian Kirchman states: "The revised floor measurement document takes leasing into the present ... it has created certainty again. The revised rules, resulting from a demand by members, will ensure that both landlords and tenants understand each other from the start. This has resulted in disputes being minimised."

The new document, to come into effect from January 2 next year, is currently available from Sapoa's offices in Rosebank, Johannesburg, telephone (011) 880-4703.

Tariffs opposed

TOKYO - Japan will continue to oppose tariffs on food imports unless there are sharp cuts in export subsidies, Agriculture Ministry officials said at GATT talks this week.

"It would be unfair if tariffs are introduced without a drastic cut in export subsidies," a senior official said.

Export subsidies, which have distorted world farm trade, should be abolished eventually, he added.

Major farm negotiators, including Japan, were due to hold a meeting in Geneva this week which the head of the General Agreement on Tariffs and Trade has set as the deadline for contributions to a draft agreement for the Uruguay Round.

S TRIB 19/12/91

Syfrets courts millionaires

By Tom Hood

CAPE TOWN — If you are worth more than R2 million you could become a customer of South Africa's most exclusive bank.

The country's first private banking service for "high net-worth individuals" is to be launched next year by the Syfrets Group, says managing director John Cragg.

He says: "We will operate on the Swiss concept of private banking and strategic asset management."

A market research project found that clients wanted personal attention most of all. This played into Syfrets' hands as personal service is an integral part of the corporate culture.

The Cape-based group celebrated its 158th year by pushing its assets under administration above R10 billion for the first time.

58

In what Mr Cragg calls a year of consolidation, taxed profits went sideways, ending up virtually unchanged at R20,1 million.

Syfrets Managed Assets, which runs the group's three unit trusts, as well as numerous large pension funds, lifted funds under administration to R4,2 billion.

Mr Cragg says Syfrets is co-operating more closely with other companies in the Nedcor stable.

"With a number of product links already launched, closer ties on the international front, co-operation with sister companies on several major loan opportunities and many direct marketing projects either under way or planned, we are truly seeing that keeping it in the family can and will pay off for each group company as well as for the Nedcor bottom line."

The group is also being sought more as a business partner in financing property than merely a source of finance.

The huge N1 City development was a triumph, the first phase being sold out for R110 million, Mr Cragg says.

Sanlam bill for death claims rises

(58)

STAR 19/12/91.

Finance Staff

Sanlam paid out on average almost R3 million on death claims every working day in the past financial year, with Aids-related deaths claims rising steadily.

Kobus van Rooy, senior manager, group benefits, said yesterday death claims totalled 18 416.

Claimants received R721,2 million, of which individual policyowners (12 554 claimants) received the major share of R423,6 million.

This compared with the R297,6 million paid out on 5 862 group claims in 1990.

Aids, which is expected to lead to many more claims, resulted in 22 claims totalling R1,2 million, compared with seven successful claims for just under R200 000 previously.

Sanlam paid out 10 disability claims amounting to R320 320 related to Aids, against four amounting to R272 158 previously.

Aids has thus far cost Sanlam about R5 million for 44 death claims and 18 disability claims.

The major cause of death is still heart disease and other illnesses of the circulatory system. There were 5 764 claims for R215,1 million in the year.

Violence in various forms led to 3 801 claims, amounting to R191,4 million. Traffic accidents formed the largest part of these claims — 1 856 for R105,2 million.

Cancer and other tumours brought 2 324 death claims for R85,6 million.

A total of 78 claims — 20 more than in the previous year — were paid out for drownings, totalling R4,7 million.

FNB taking a look at overseas opportunities

Bi Day 19/12/91 (58)

ANDREW GILL

FIRST National Bank was investigating opportunities to expand operations to other countries, according to the group's annual review.

The statement follows recent plans to set up operations in the UK, which was currently the subject of a feasibility study, and its move into Botswana this year.

The growing acceptability of SA, with an increasing sense of realism throughout the continent and expanding trade links, was leading to opportunities for a banking presence elsewhere in Africa.

Its involvement in Botswana and Malawi were two indications of this.

Also, continued strengthening of its credit policy and a continuing asset and liability management process would ensure continued profit growth for the year ahead, chairman Basil Hersov and MD Barry Swart said.

They said this year's tight control over non-interest expenditure would be maintained.

The 1990/91 financial year saw operating income rise only 12,9% to R1,1bn because of a lower level of business activity and intense competition for business.

The review warned that all banks should be wary of increasing tariffs in such a competitive environment.

Bad debts were reduced to R263m from R294m the previous year following the implementation of its credit categorisation process, which gives early warning signals of potential doubtful debts.

FNB continued to be the largest contributor to the group's net income at R197m but Wesbank's contribution soared to R120m from R66m the previous year as its share of the instalment credit market jumped to 18,7% from 17,6% despite declining new vehicle sales.

Various factors were responsible for the record year for Wesbank. It acquired the Nissan dealer network floorplan business, it launched Custom Drive — a full maintenance leasing product — and its successful thrust into the corporate fleet market and its attendant car allowance business.

FirstCorp increased its contribution to R31,4m from R21,1m and First Namib climbed to R21,1m from R16,6m.

Insurance bid for train commuters

(58)

STAR 20/12/91.

The SA Railway Commuter Corporation is exploring the possibility of facilitating an insurance scheme for train commuters in the light of the rampant train violence, SARCC marketing manager Coen van Niekerk said yesterday.

Although it was unclear how the scheme would work, commuters could decide whether to take out the insurance.

The idea comes at a time when there is mounting concern that commuters should be compensated if they are injured or killed on railway property.

According to a lawyer, the SARCC is not liable for compensation because it is not responsible for the attacks.

An extensive campaign is to be launched early next year to urge the Government, the SARCC and the business community to seek ways of compensating victims. — Staff Reporter.

ACCESSBOND WAR RAGES ON (58)

FM 20/12/91

Since October 1990, Standard Bank and United Bank (now part of Amalgamated Banks of SA) have been at war over the use of the word Access to describe a home loan product which allows borrowers to reborrow on the paid-up portion of the loan.

Another round took place on December 5 when Standard was granted a Transvaal Provincial Division Court order barring United from using the word, pending an Appeal Court ruling.

United has two weeks in which to remove the word from all advertising material.

Sid Booysen, deputy managing executive of United Bank said though the use of the trademark would be suspended, "the facility will continue to be available to clients."

AccessBond was introduced by Standard in March 1988.

United had used the name previously for its Property Equity Access Facility and in July 1990 extended it to the Equity Access Plan.

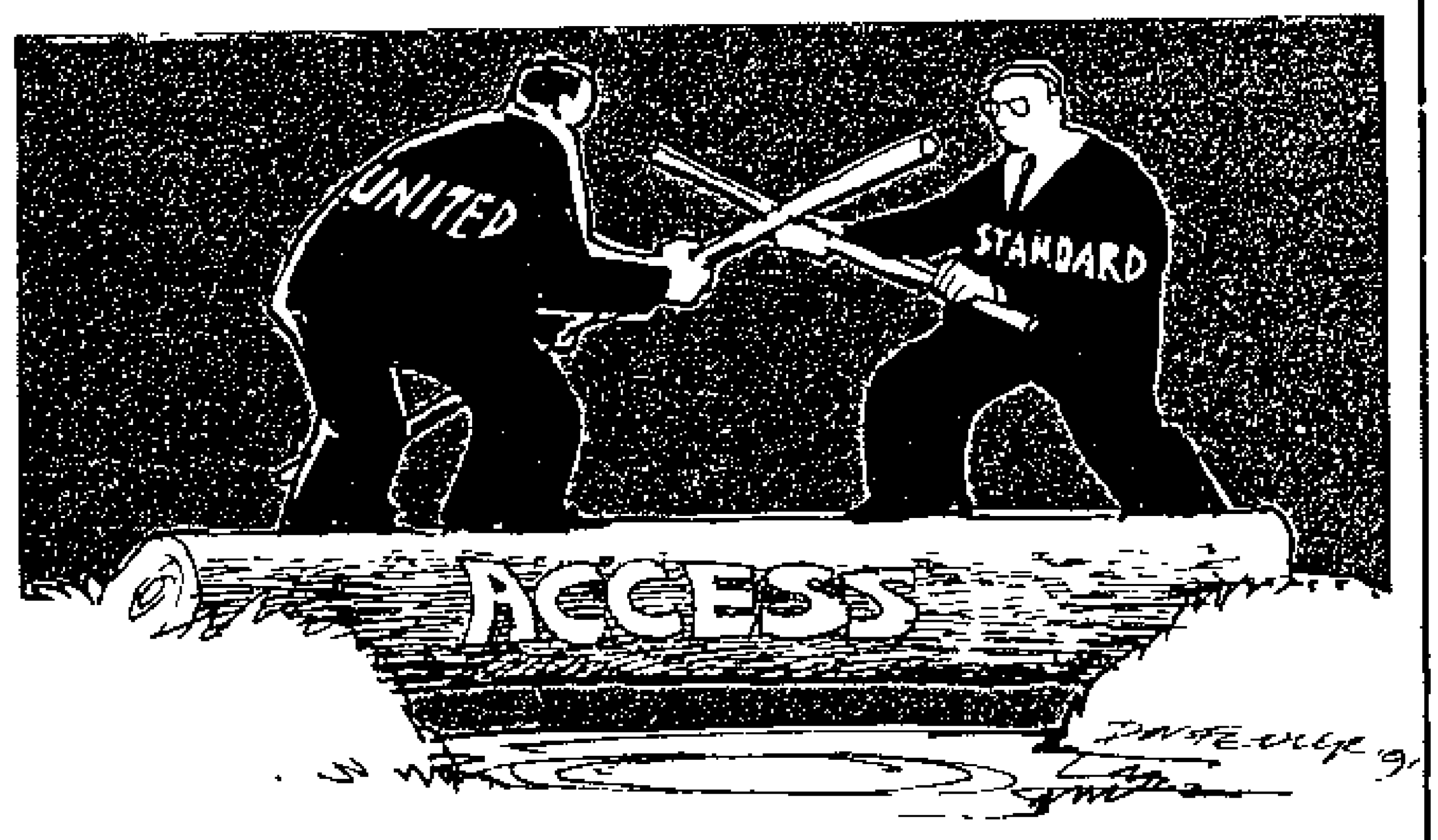
Standard first went to court in October 1990. It argued that by using the term, United was infringing Standard's registered trademark "Access."

It said AccessBond was the core product for its home loan marketing strategy and was instrumental in raising its book from R256m when it started a home loan campaign in 1986 to R5,9bn in September 1990.

Advertising

It had then spent more than R5,5m advertising and promoting AccessBond.

An order preventing United from using the word was granted in July. United then lodged an appeal that suspended implementation of the judgment.



PROVIDENT FUNDS FM 20/12/91

With the bathwater (58)

If the Financial Services Board (FSB) failed in its regulatory duty the media would be the first to criticise; so it is unfair to suggest it should do nothing Yet it is becoming harder to understand its actual role.

The FSB is now funded by the financial services sector, not the fiscus, and it has

FM 20/12/91 (58)

attracted some talented recruits from the private sector. It has moved offices and even obtained nongovernment issue desks to proclaim its membership of the private sector. Yet it can make decisions that appear in the *Government Gazette* over the signatures of government Ministers.

A case in point is a change, gazetted this month, to Regulation 28 of the Insurance Act. The issue involves two-tier rates charged by brokers for group/retirement savings schemes and individual life policies.

On individual life business an intermediary is rewarded in the first two years on the scale of 3,25% multiplied by the number of years the policy remains in force multiplied by the premium, subject to a maximum of 85% of premium in the first year of the policy; a second-year commission may not exceed 33,3% of the first year's.

On group schemes, which now embrace individually funded provident funds, a descending sliding scale starts at 7,5% of the first R60 000 of annual premiums.

When a provident fund (which is a form of group/retirement saving) is constructed of individual life policies, the intermediary may technically charge commission at the highest rate. However, the LOA has tried to prevent this, reasoning that the reward should be commensurate with the work involved.

FSB's amendment gives legal effect to what is already practice. But an unintended byproduct hits executive retirement schemes, tailor-made and so involving more work and justifying higher commission.

The FSB objects to 85% of a blue-collar worker's first-year premium going to commission. Naturally — but is this a reason to throw the baby out with the bathwater?

Sanlam senior GM Desmond Smith feels the FSB has cast too wide a net. He has no argument against group-funded schemes for blue-collar or unionised workers attracting the same commission rate as pension fund contributions, but argues that the same structures are also used for top-hat retirement schemes, a variant of deferred compensation tailored for senior executives.

Smith

These are often constructed by advisers who make a particular plan for executive clients and decide it should include provident funding. Making all provident fund introductions subject to the revised Regulation 28 is, he suggests, a disincentive to financial planners to apply their best efforts.

The FSB says it is impossible to regulate differently for group provident schemes and

continue

those set up for selected executives. But is it?

Life offices have shown much capacity for self-regulation. The sector is also highly competitive. Trustees of a group fund should also be able to detect when they are being ripped off by way of commissions It is a simple matter to move a group retirement fund.

Any life office can distinguish schemes that deserve to attract the higher rate of commission, because of the effort involved, from those which are simply group schemes set up with individual life policies.

It may be argued that some brokers carry a lot of clout and have touted group schemes to extract high commissions But if they have clout, so too, these days, have employees and their representatives.

So, was Regulation 28 worth all the fuss? ■

FM 20/12/91 (58)

BARPROP (58)

Building cash

FM 20/12/91

Activities: *Invests in industrial and commercial properties.*
Control: *Barlow Rand 78%.*
Chairman: *E M Groeneweg; MD:C G Steyn.*
Capital structure: *85,9m ords; 30m loan stock units. Market capitalisation: R129m.*
Share market: *Price: 150c. Yields: 7,7% on dividend; 9,3% on earnings; p:e ratio, 10,6; cover, 1,2. 12-month high, 170c; low, 110c. Trading volume last quarter, 199 386 shares.*

Year to Sept 30	'88	'89	'90	'91
LT debt (Rm)	210	210	210	210
Debt:equity ratio	1,93	2,03	1,57	1,47
Shareholders' interest	0,27	0,27	0,28	0,29
Int & leasing cover .	1,55	1,6	1,79	1,78
Return on cap (%) ..	11,6	12,5	13	12,5
Turnover (Rm)	39	44	48	49
Pre-int profit (Rm) ...	37,3	41	43,8	42,7
Pre-int margin (%) ..	95	92,9	90,2	87,8
Earnings (c)	10,3	11,5	13	14,2
Dividends (c)	8,75	9,65	10,71	11,53
Net worth (c)	113	115	122	129

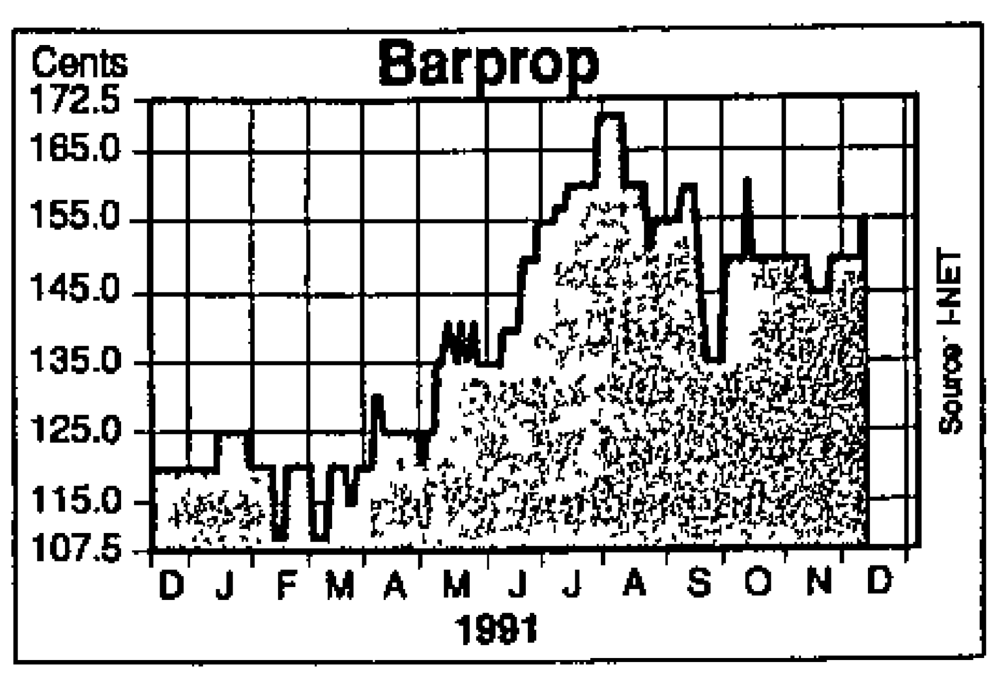
Barprop has continued to rationalise its property portfolio by bringing the mix more in line with market trends. Further progress was made balancing the spread of properties in the various market segments and concentrating the portfolio in major centres.

Sales of decentralised properties during the year realised R19,9m cash. Remaining decentralised properties and vacant land worth about R22m and R14m respectively will be sold during the 1992 financial year, should market conditions allow it.

After these are sold, Barprop will have largely completed its strategy of disposing of 75 identified, decentralised and low-growth properties. Cash of about R114m realised betweem 1990 and 1992 is being (and will be) reinvested in acquisition and development of prime assets.

The commercial and industrial portfolio was valued at more than R500m at September 30. MD Colin Steyn notes that the sales proceeds will be reinvested only after vacancies have been considerably reduced. If no suitable investments can be found, he adds, the money will be banked.

At year-end, the group had a cash balance of R63,9m (1990: R61,3m). Debt outstanding still consists solely of the R210m loan stock.



Interest income grew last year to R11,4m (R8,5m). This helped to compensate for slightly lower operating income and a higher interest bill. Pre-tax income was R481 000 down, at R18,8m, and a significantly lower tax charge enabled the 9,4% advance in EPS.

Chairman Evert Groeneweg says trading in the property market will remain difficult this year, with fewer new developments. Growth for Barprop will come from rental escalations in respect of existing leases, additional rental income from acquisitions and new developments, and interest from cash. He forecasts the interest paid on the loan stock and dividends on the ordinary shares will rise to 17,9% and 12,2c respectively.

The 7,4% historical yield on the 155c price compares with the sector average of 4,6%. The forecast payout would give a yield of 7,7%. Barprop remains a safe, though unexciting, growth stock.

Basil Barber

SAAMBOU FM 20|12|91

At the bottom? (58)

It's getting close to a year since Saambou's new management team, headed by MD Johan Myburgh, took over with a brief from the board to implement a "concerted rebuilding strategy."

Rebuilding there has been, including new business activities after the link-up with Fedsure — now a 34% shareholding since conversion of the debentures that subsidiary Fedlife received from Saambou for 50% of its Planet Finance Corp — and, more recently, Saambou's R6,4m rationalisation that included a 22% reduction in staff.

Yet the profit drought continues, worsened by two hefty write-offs in the past year, totalling R96,5m. In a statement issued with the dismal interim results, which saw earnings plunge to a R72,7m deficit, Myburgh said systems were in place for a return to profitability. Question is, when will this be achieved, and will there be any more abnormal provisions?

FM 20|12|91 (58)

Admittedly, the first R28m write-off in the March results against losses on advances, largely to cover risks on the R120m black mortgages book, was inherited from earlier management. The question then (*Fox* May 10) was whether R28m was enough, given the violence and boycotts in townships and the probability of recovering assets.

Now it has to be asked whether the additional R43,5m provision for revaluation of properties for resale — part of the property portfolio of subsidiary Saambou Wonings — will be enough.

Senior GM Dawie Botha believes it is. He says management took a critical look at projects the development company was involved in to reach a saleable value. The result coincided with the assessment of outside valuators.

This, Botha says, was done in the light of traumatic change in the market, aggravated by unrest in some areas, though the revaluation does not only apply to black areas. It stretches across the market, including developments in Sandton and Pretoria. Still, a lot depends on the economy, and particularly the property market, before it's known whether the latest provision will be adequate.

Saambou had increased its exposure to property at a bad time, raising investments from around R63m to R93m when a group like United was decreasing interests in property from around R33m to R23m. Botha says it is reducing the exposure but is not withdrawing entirely. Saambou Wonings will continue its activities

However, after the R25m provision towards reclassifying gilts to market value, Saambou is getting out of gilts. Botha says carrying the gilts was costing the group about R460 000 a month.

He does not expect any more special provisions. "Management has taken a hard look at the assets over the past six months," he says.

Main shareholder Fedsure is not overly concerned at Saambou's performance. GM Ian Fraser says the interim write-offs were expected and believes most adjustments to assets have taken place.

Once the spring clean is complete, Botha says, the ultimate aim is still to provide a 20% return on shareholders' funds, giving a 5% return in real terms.

He admits it might take time, but says Saambou is going for more individual clients to improve its deposit mix, and aims to become a low-cost producer of financial services. Strategies include getting back to the core banking business and aiming at the niche salaried market.

March's results should show an improvement. But, Botha says, barring unforeseen circumstances financial 1992 will be the year to look forward to.

After peaking in April at over 180c during the flurry of interest over a failed takeover bid, the share now stands at a 20-month low of 105c. But, though NAV is about 138c, some market analysts are surprised Saambou's share price is as high as it is. *Shaun Harris*

FM 20\12\91

PRETORIA BANK

A can of worms

(58)

Pretoria Bank ex-executive director Piet Strydom admitted at an official inquiry to having received kickbacks on loans he approved — including one to an apparently insolvent borrower, Maranello Investment Holdings CC.

He confirmed recently in the Johannesburg Magistrate's Court that, as his credit authorisation limit was R200 000, R3m was lent by way of 15 loans of R200 000 each: to Maranello; the sole member of Maranello, Michael Gaganakis; to Highveld Spa, Maranello's trading name; and to 12 fictitious Maranello concerns. Cheques signed by Strydom were handed in as evidence.

The bank was placed under curatorship by the Reserve Bank in July at the request of its directors. The inquiry into the affairs of Maranello, in particular a loan to it by Pretoria Bank, is the sequel.

Asked by Alec Brooks, attorney for the Maranello liquidator, about receiving kickbacks, Strydom replied: "That is the standard thing in business." He did not declare it to his employers as it was "normal procedure" and couldn't remember whether he declared it to the Receiver of Revenue.

The kickback was paid by finance broker Rouxfin, which introduced potential borrowers to Pretoria and other banks, including Fidelity. Rouxfin was owned by Thys Roux, whose brother, Gerhard, was an employee.

Money did not flow in one direction only. The Roux brothers also admitted to receiving commissions — from both the bank and the borrower. They received R94 000 (4% on the finance charges of the R3m loan) from Pretoria Bank as well as R450 000 (15% from borrower Maranello). Thys Roux said the commission paid to him by Pretoria Bank was agreed verbally.

Strydom would not admit to receiving a set percentage for any of the loans he granted, but Gerhard Roux testified that Strydom had received 25% of the commission paid to the Roux brothers by Pretoria Bank.

Thys Roux said between three and eight transactions a month were negotiated with Strydom between October 1989-July 1990.

Gerhard Roux said he had organised his commission from Gaganakis independently to his brother. He testified that the brothers arranged the loan so that Maranello could repay creditors, build five new chalets and upgrade the swimming pool at Gaganakis's timeshare development in Warmbaths.

But Gaganakis said the R3m loan was for the conversion of short- to long-term credit. When it was granted, Maranello's major creditors were Fidelity Bank (R940 000) and United Building Society (R145 000).

Documents presented to the bank by Gerhard Roux do not mention "planned" improvements to the timeshare complex. This is particularly puzzling as such improvements would have provided much better security so would have been important information relating to the loan.

The Maranello balance sheet to end-February 1990 showed the CC was insolvent. During the financial year it made a net loss of R574 000, down from R1,1m the previous year. The loan was applied for in July 1990 and granted in August. Property was valued at R2,2m in the Maranello balance sheet — it is now valued at considerably less.

Evidence by Gaganakis was that the loan was granted by Pretoria Bank in the knowledge that since January 1989, sales had been "virtually nil." Gaganakis denied knowing that the R300 000 he paid the Roux brothers was a commission. He said he understood Rouxfin would invest the money again with Pretoria Bank through its clients to provide for further loans from the bank.

Thys Roux testified that the brothers had previously helped Maranello to get almost R1m finance from Fidelity Bank, for which Maranello paid Rouxfin 5% commission.

When Maranello repaid part of its debts with the R3m, it gave Rouxfin and Gerhard Roux preference over Pretoria Bank. On August 20 1990, Maranello paid Rouxfin R544 000 but did not pay Pretoria Bank R62 000 in interest due three days later. Nor did it make interest payments to the bank in September or October.

Strydom may face criminal charges. The commercial branch of the Pretoria police is investigating his affairs and will report to the State prosecutor, who will decide whether to press a charge.

Strydom is an ex-Reserve Bank employee. He worked in the Bank Supervision department. He was appointed consultant to Masterbond Trust (now in liquidation) at the same time as he joined Pretoria Bank. His Masterbond letter of appointment, dated August 31 1989, was signed by Masterbond MD Johann Brits.

Pretoria Bank is under the curatorship of Deloitte Pim Goldby. The Maranello loan is just one of many and further investigations are expected.

Heather Formby

ASIAN TIGER

Bank of Taiwan, that country's highest capitalised bank, is to open a wholly owned subsidiary in Johannesburg. It was this week granted provisional registration as a deposit-taking institution.

It has offices in Rosebank and will start as a commercial bank early next year.

According to a survey by *The Banker* the Bank of Taiwan last December had capital of US$1,5bn, assets of $26,5bn and pre-tax profit of $367m. By capital it ranked No 149 in the world.

THE RAND

On balance

FM 20/12/91

While the nominal value of the rand has been declining against a trade-weighted basket of currencies, it has strengthened in real terms. "Between January 1-mid-December," says UAL economist Dennis Dykes, "the rand had fallen nearly 7% in the year in nominal terms but had appreciated more than 4% in real terms against the basket.

"The inflation differential between SA and its major trading partners is about 12 percentage points, so depreciation of the same magnitude was needed in the nominal rate to keep the real rate constant. As the nominal rate didn't fall by the full extent of the inflation differential, the real rate rose."

There are two consequences: purchasing power rose but exports got less competitive.

A big discrepancy between the market exchange rate and purchasing power parity emerges in a recent Union Bank of Switzerland publication — *Prices & Earnings Around the Globe* In February-March 1991, when the survey was made, the rand was worth US34,55c in the currency market, but could buy US56,33c worth of goods.

Of course, the exchange rate depends largely on traded or tradeable goods and services — not, for instance, on house prices, which are relevant only to purchasing power parity. But in this case, the discrepancy is largely the result of a political discount which opened in the mid-Eighties.

Explains Dykes: "Historically there was a close correlation. But there was a steep decline in the nominal value of the rand in

continued →

FEDSURE/INVESTEC

New Alliance

Fedsure and Investec Group have listed all the usual reasons for forming an alliance to expand their activities in the financial services market, following announcement of the share swap between the two independents and the proposed issue of new and convertible preference shares.

But, considering the strong results and

Fedsure's Basserabie ... *gaining different clients*

price appreciation already seen from both groups, is the alliance really necessary if it only offers access to each others' client bases and capital? Probably not, but there are additional advantages which both parties say are of considerable mutual benefit.

For Investec, the gains are more evident. Investec seems to have found a big brother after its several acquisitions since its attempt to gain control of the Board of Executors two years ago. Investec has lifted its previous 4% interest in the insurance holding group to 22,5%, while Fedsure now has a 27% stake in holding group Inhold and 20% in Investec Bank.

Besides offering Investec the prospect of increased capital and market share from Fedsure, the link gives the banking group exposure to the more stable image of Fedsure. Investec MD Stephen Koseff says the deal might lead to some joint product development, and will allow Investec to market new integrated financial and insurance products.

But what are the advantages for Fedsure, apart from its desire to spread interests in the financial sector? Investec's client base, at more than 50 000, is relatively small. But CE Arnold Basserabie says this offers important diversification.

"With Saambou we are getting access to the retail side of the industry," he says. "Investec offers different clients, including the corporate market." Quality of clients is important, with around three-quarters of Investec's clients being individuals with a high net worth.

Both Koseff and Basserabie say the alliance will not result in new business divisions. No rationalisation is planned, except where certain facilities are duplicated, such as software development. But, with similar interests in areas like property, further rationalisation opportunities could be found. Fedsure has found value in joint product development with Saambou, and expects similar advantages with Investec, such as development and marketing of new products at low cost.

There is a big financial advantage in the additional capital both groups will raise with the issue of new ordinary and convertible preference shares. These are significant, with an additional R220m for Fedsure, lifting the book value of shares from R100m to R320m, and an additional R160m going to Investec.

This, says GM Dave Avnit, will allow both to increase business at the same pace as in the past. Both needed additional capital, and this seems to have been a cheap and efficient way of getting it. The preference shares effectively comprise a claw-back offer to the respective groups' existing shareholders and management.

For both groups, more secure control structures are also key benefits of the deal. For Fedsure, in particular, the defences against a bid by outsiders have been strengthened, because it would be more difficult and expensive. It also bolsters the position of the present controlling shareholders in Fedsure.

Before the deal, controlling shareholders held about 50% of the equity, the rest being in the hands of minorities. By bringing Investec into the controlling group, their holding rises to 58,9%. The agreement also allows Fedsure to create a pyramid company, which will probably be put into place later. Investec already has such a company in Inhold.

Basserabie believes growth in fully diluted EPS would be about 40% once the deal is complete. However, the new investment would be held in Fedlife life funds, which Basserabie says will benefit both shareholders and policyholders.

While both groups' share prices have enjoyed a good run, admittedly in sectors favourably rerated, there is a feeling in the market that the present prices have been held up for the deal. With the issue of new shares, and speculation surrounding the deal now over, it would not be surprising to see both groups' shares ease in the short-term. However, both groups have been showing a creative approach over the past year or two. There is no reason to think that is about to change.

Shaun Harris

SNARING SUN LIFE

It's unlikely that Liberty Life chairman Donald Gordon was bargaining on Sun Life Corp being delisted from London's International Stock Exchange, but this is now being considered a possibility.

The bid by Liberty's TransAtlantic and Union des Assurances de Paris for Sun Life went unconditional this week after the bidders' stake rose from 60% to 87%. The acceptance was higher than expected following the fall in the stock market after the bid was launched.

NBS/NORWICH FM 20/12/91

TAKING MORE (58)

NBS is now well protected from outside bids after Norwich Life realised its call options and increased its stake in the banking group to about 26% last week. MD John Gafney is confident that speculation of a takeover will end. He believes that NBS shares have been shown to be tightly held and fairly valued.

Earlier this year, before NBS's R54m deal, which saw the Durban-based group acquire a 39% stake in French Bank and Barlow acquire an 18% holding in NBS, it was felt that the share price, at around R10, contained a bid premium.

Instead of falling since the deal with Barlow, the NBS price has increased to R11.

With Norwich now buying more shares, lifting its interest by 9%, Gafney says he is happy the group has two long-term shareholders, with whom a good working relationship has developed. FNB is the third big institutional shareholder, with about 10,6% of NBS.

"We are pleased to have the access Barlow offers us to corporate business, and the international connection with French Bank's parent Banque Indosuez," Gafney says.

NBS acquired a 30% interest in Norwich four years ago.

Shaun Harris

EVERITE FM 20/12/91

Breaking up

The announcement that Nueva Holdings planned to sell control of Everite unfortunately appeared on the same day as the Pilkington sale (see separate report). They set off fears of a renewed pattern of disinvestment. Both moves, however, were motivated by a trend for international conglomerates to sell fringe operations. Nueva has gone one step further.

It is selling its controlling interests in commodity businesses worldwide and investing those funds into hi-tech companies, which it will not necessarily control.

Also, it's believed that Nueva's controlling shareholders, the Schmidheiny family, are strong environmentalists and feel that control of industrial commodity companies is incompatible with this position.

Certainly, Nueva's investments in asbestos have been environmentally controversial.

But it is a good time to take the environmental high ground, as Everite has recently provided disappointing returns. EPS have fallen from 26c in 1989 to 6,9c in the year to

Continued ->

ANC trust's role explored

(58)

LINDA ENSOR

CAPE TOWN — A close working relationship — even a merger — between the ANC's new $5bn development trust and a restructured Development Bank of Southern Africa was likely in future, bank GM Johan Kruger said yesterday.

He said there had been consultations between the ANC and the bank's executive chairman Simon Brand on the establishment of the new trust, to be called the SA Trust for Equity and Development (Sated).

The establishment of Sated has raised questions about the future role of development agencies such as the Development Bank and the Independent Development Trust (IDT). Duplication and a lack of co-ordination in the development sector has already been criticised by former auditor-general and Finance director-general Joop de Loor, who recommended in a report on housing earlier this year that development institutions be rationalised.

The ANC is apparently discussing its view of Sated's position in relation to other development agencies.

"SA cannot afford too many development institutions because of the scarcity of manpower and lack of co-ordination," Kruger said.

Links between the two bodies are likely to be further strengthened by the fact that the proposed chairman of Sated's steering committee, Transkei University rector Wiseman Nkhuhlu, is also on the board of directors of the Development Bank.

☐ To Page 2

ANC Sowetan 26/12/91.

(58) ☐ From Page 1

Kruger said if Sated were to become a permanent institution, rather than an interim body established to address SA's development needs in the period of transition, there definitely would be potential for duplication of the bank's work.

In that event Kruger foresaw that the two bodies would need to work very closely together, or even merge. A merger would be likely if the ANC became the future government as government was the major shareholder in the Develpment Bank, owning 84% of its shares. The TBVC states were also shareholders.

Brand has recently raised the prospect of reconstituting the Development Bank.

The bank was aware of perceptions of it being an "apartheid-linked" body and for some time had considered changing its control structure. However, it had been hesitant to do so until there was clarity on the outcome of the constitutional negotiations. Various options for restructuring the bank had been formulated, Kruger said.

The formation of Sated might create a potential for conflict over funding between the different agencies. The initial aim is for $5bn to be raised for Sated for housing, education and other socio-economic projects, areas in which the IDT is also involved. ANC president Nelson Mandela has said the scheme had received a favourable international response.

The ANC's announcement about Sated comes shortly after the IDT's postponement of its plans for a $100m Eurobond issue, partly because of ANC opposition.

But an IDT spokesman said the IDT in no way regarded Sated as a slap in the face for its own efforts. He said SA's development needs were "colossal" and the IDT did not have any monopoly in meeting these needs. He did not foresee any competition for finance.

PETER DELMAR reports that the CP yesterday slated the planned trust, saying it was aimed at favouring the ANC over other political groups.

Deputy leader Ferdie Hartzenberg urged government to exercise greater control over "the financing of revolutionary organisations such as the ANC".

FNB supports scheme to secure home loans

WILSON ZWANE (58)

ONE of SA's leading banks yesterday indicated it would back the plan by the National Stokvels Association of SA (Nasasa) to invest stokvel funds into unit trusts, to serve as collateral for home loans.

FNB senior GM Jimmy McKenzie said yesterday the plan was excellent and his bank supported it. The bank would "certainly consider accepting unit trust certificates as collateral for home loans", he said.

Should the scheme get off the ground, it would make people in the low-income category "bankable" by enabling them to acquire assets and build up a track record of payment, McKenzie said.

SA Perm housing GM Denis Creighton said he had no "informed comment" as the building society was still looking into the matter.

Wesbank senior GM Neville Nightingale, whose bank is financing minibus taxis by using stokvels, was not available for comment yesterday.

Nasasa president Andrew Lukhele said this week his association planned to alleviate the black housing crisis by diverting a sizeable proportion of stokvel money from commercial banks to unit trusts. Trust certificates could be used as collateral.

A key feature of the unit trust concept was that the financial risk would be taken away from the bank and assumed by the stokvel. "The bank will be lending money to the stokvel rather than individuals. Stokvel members will then ensure loan repayments by means of peer pressure," he said. B Day 20/12/91

The scheme is the brainchild of Nasasa and Tremsen Brokers Services — a private company rendering financial advice to the informal sector.

Lukhele said financial institutions were reluctant to lend money to township residents, citing violence and non-payment as reasons.

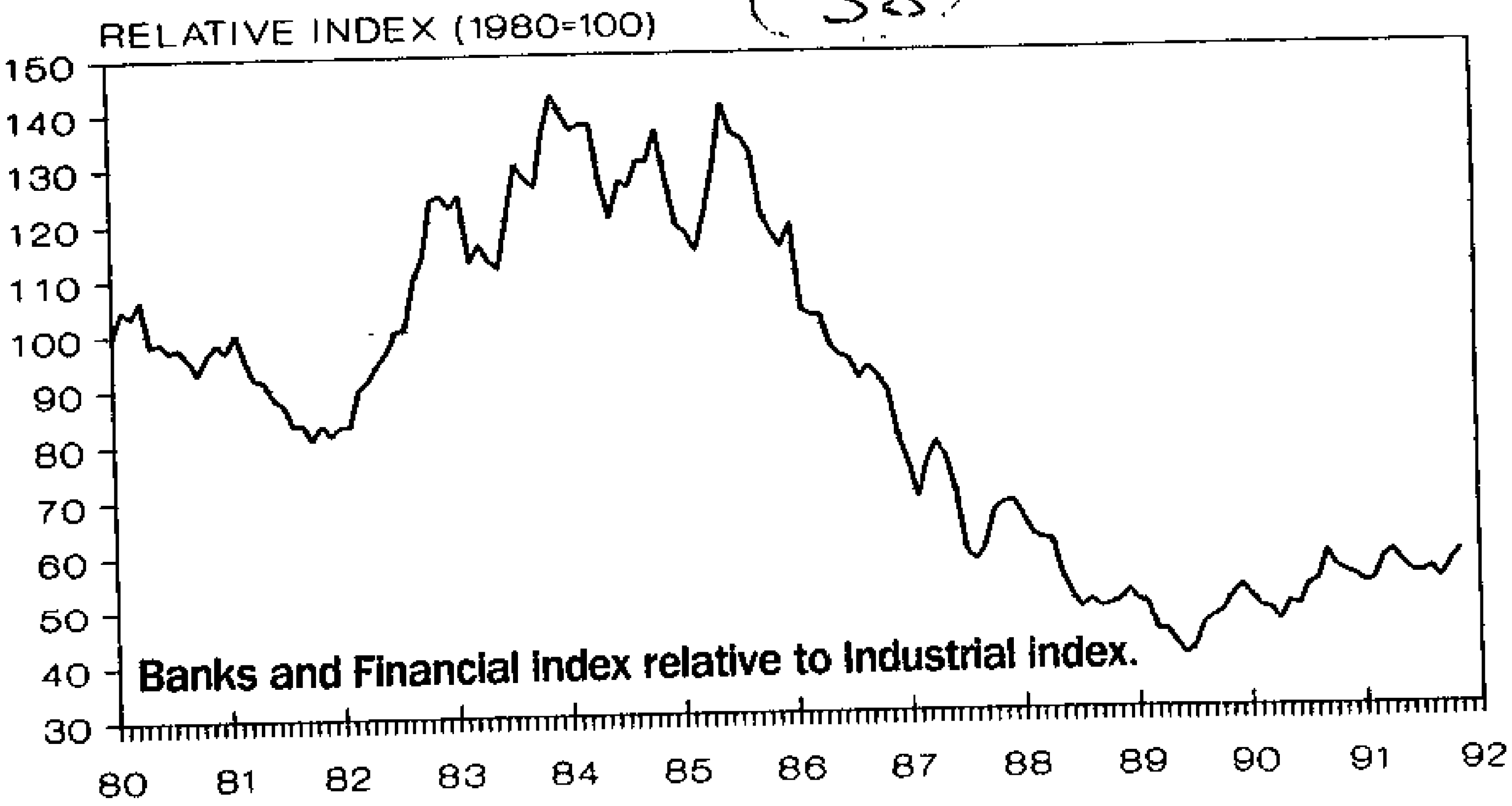
The banking sector

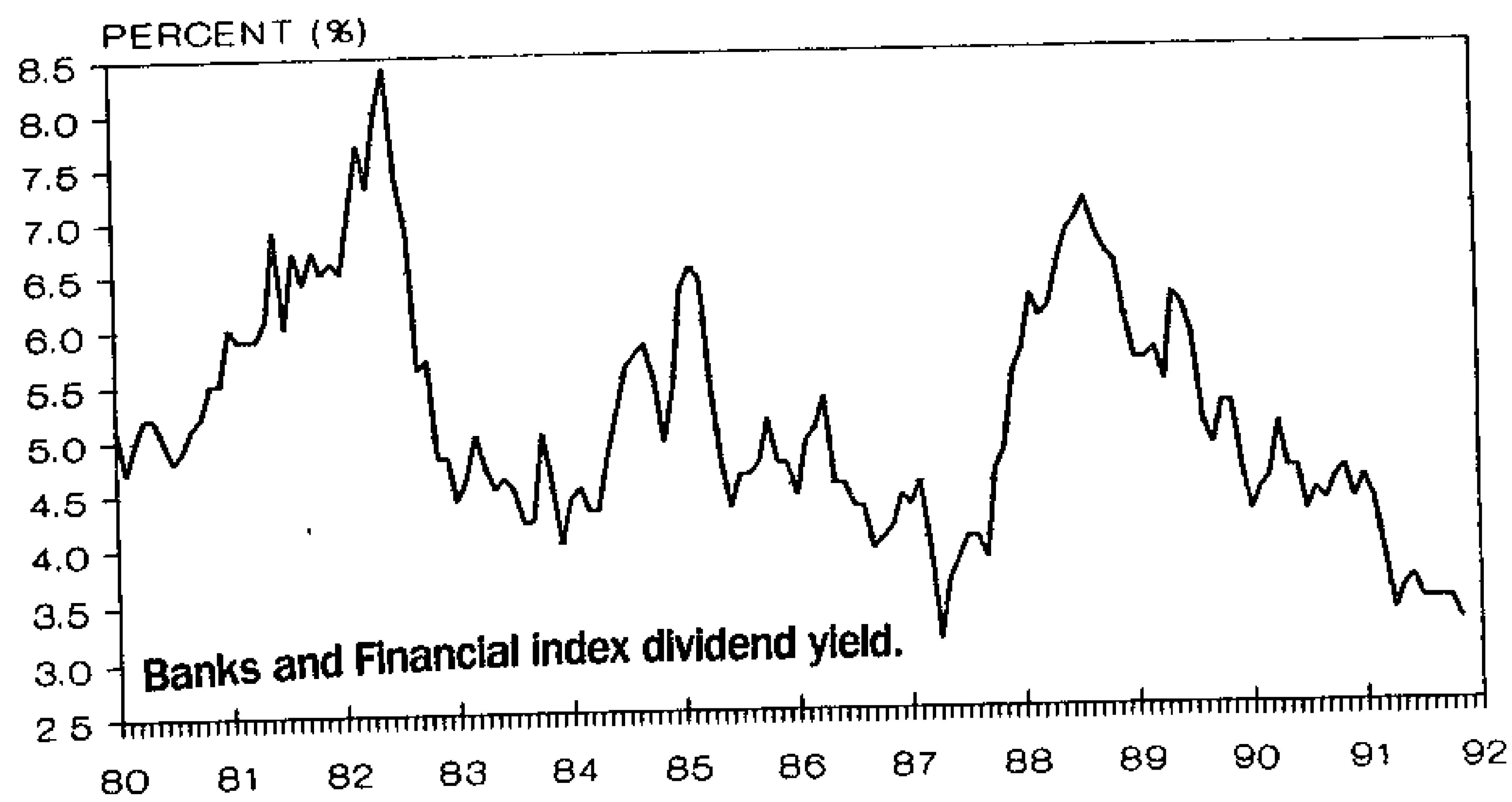
Star 20/12/91 (58)

OUTLOOK '92

The first in a series to be published over the next few weeks previewing the year ahead on the economic front.

By David Southey
analyst at stockbroking firm Edy, Rogers





Changes in perceptions can exert as much of an influence on markets as changes in real underlying forces.

This past year the banking sector continued to rerate upwards against a surprisingly strong industrial market — spurred not only by healthier profit margins but also by perceptions of a more stable medium-term banking environment.

In early January this year the banking and financial index stood at about 1735 and the dividend yield at 4,4 percent — not much different from its level at the beginning of 1990, as a glance at the accompanying graph will show.

At the beginning of the year few believed that prime overdraft would still be above 20 percent by the end of the year.

Notwithstanding tough talk from Reserve Bank governor Chris Stals, most thought two percentage points easing in prime was on the cards for 1991.

That being the outlook for interest rates, it was generally expected that bank margins would narrow only marginally and that bank profit growth would remain healthy — somewhat above that expected from the industrial sector.

Hostilities began in the Gulf in January and the more optimistic market analysts predicted a mild rise in the average price-earnings ratio of the industrial index to slightly over 10 times.

This would bring the index to 4000 (it stood at around 2965 in early January with the yield at 3,7 percent) by the end of 1991 and probably 4000 by the end of 1992.

By mid-December the banking index had soared to 2675, representing price appreciation of over 54 percent. The industrial index was up 41 percent to 4172 — already well beyond the level forecast for the end of 1992.

Of course, there were special factors entirely divorced from basic profitability trends which boosted bank share prices.

First, Standard Bank's share price jumped by R20 virtually overnight as Rembrandt and Liberty Life once again squared off against one another after the fall-out in 1990, when Richemont divested itself of its TransAtlantic holding.

This was soon followed by the fight for Allied by UBS and FNB which sent the share price rocketing to stratospheric heights.

Amalgamated Banks of SA (Absa), comprising UBS, Allied, Volkskas and 49 percent of Sage Insurance, was born in the midst of chaos.

Later on, Barlow Rand quietly grabbed 18 percent of NBS, effectively placing the group beyond the reach of predators.

The year also saw the arrival of the Deposit-Taking Institutions Act which, among other things, abolished the already defunct distinction between different categories of banks and building societies.

What of 1992? Are the changed perceptions justified?

On yield considerations it is evident that the index is perilously close to a 10-year-low (see graph).

Maintaining this level, it would appear, depends to a considerable extent on the industrial index holding its position — which has been achieved only twice previously in the past 31 years.

That said, the banks index relative to the industrial index is still way down from its 1984-85 peaks and further rerating against a very expensive industrial market must be a distinct possibility.

For one thing, current and expected stringent monetary policy continues to favour bank margins (which have seldom been wider) but is decidedly detrimental to the industrial sector earnings growth outlook.

On the negative side, however, banks' bad debt provisions have rocketed in line with write-offs. So far there have been no shocks on the scale seen in 1985-86, but bank managers are becoming more jittery by the day. 1992 could yet see some horror stories.

Many are fearful that the economic bloodletting is now beginning and that the "streets-drenched-in-blood scenario" is about to become reality.

To return to the mundane technicals, the introduction on September 30 this year of the financial services levy on interest earned by banks will raise their tax rates significantly in the current financial year.

Banks which in previous financial years reported tax rates of around 35 percent-37 percent will see these jump to 45 percent-48 percent.

But it should not make much difference to the bottom line because the bulk of the levy will be recovered by way of the extra 0,25 percentage-point cushion built into prime overdraft rate.

So, too, the imposition of VAT on bank inputs which will be recovered by way of higher service charges.

Earnings and dividend growth in the vicinity of 15 percent-17 percent looks feasible for the bigger banks during 1992.

Margins will narrow markedly in the late 1992 and in 1993.

Bankorp is on a slow recovery path under much tougher, saner management. Saambou should be too and after the latest horror story cannot possibly produce any more shocks.

Absa is writing off as much as possible in the short-term so that it can show solid growth in 1992-93 when the others are slowing down.

FNB has rerated strongly of late and has probably run its course for a while.

Further upward rerating is expected from NBS and SBIC.

Massive rights issues expected as major firms tap market for cash

BDay 20/12/91. (58)

MERVYN HARRIS
and ANDREW GILL

SEVERAL major companies are expected to tap the market for cash in a series of huge rights issues early next year.

About R2,5bn is expected to be raised by three groups, with more expected to follow shortly afterwards.

This is besides the R2bn rights offer already announced by Gencor.

The largest of the issues is expected to be First National Bank (FNB), under pressure from the Deposit-Taking Institutions Act to bolster its capital base in the face of the more stringent requirements being implemented.

Market sources said yesterday that FNB would come to the market for between R1bn and R2bn in fresh capital early in the new year to overcome the capital constraint on growth the Act had imposed.

They said other banks were in a similar position to FNB and might be forced to follow soon afterwards to ensure sufficient growth in a competitive environment.

FNB senior GM Jimmy McKenzie said yesterday: "Obviously capital to asset ratios is an issue we have monitored very carefully."

However, if there were plans to come to the market, "I would obviously not be able to discuss it with you".

Another company expected to come to the market is Plate Glass and Shatterprufe Industries (PGSI), to finance its recently announced R525m buyout of Glass SA from its British-based parent Pilkington.

SAB announced yesterday that it had taken over PGSI holding company Placor, which analysts said could see SAB underwriting the PGSI issue.

Gencor has already announced a rights issue in the region of R2bn to follow its rights in the R1bn Sappi rights issue and finance its slice of the Columbus stainless steel project.

The other company which could be looking at an issue is Tiger Oats, which may come to the market for up to R250m, partly to finance its R100m purchase of Reckitt & Coleman, with the balance going towards expanding some of its subsidiaries.

The analysts said the issues could place strain on the market, which has shown the largest gains of any of the world's major exchanges this year and appears to some to be very toppish.

The industrial index rose 38% in the 11 months to December.

Also, with institutions following their rights in the expected issues, the investment pool would be less buoyant, limiting trade on an equity market struggling to break even on turnover of less than R100m a day.

The rumoured FNB issue would be one of the biggest the market has seen, against the R1,1bn issue by Engen in April and the R1,4bn issue by Gencor in July 1989.

Insurer warns of foreign trade pitfalls

BDay 2/12/91

NINA SHAND

AS NEW markets open up to SA businesses seeking export trade to boost recession-hit local profits, SA's largest credit insurer has warned that foreign trade is fraught with risk.

Credit Guarantee GM Mike Truter said in a statement yesterday while opportunities for exporters seemed to abound, this perception needed to be tempered with an awareness of the possible pitfalls. Credit Guarantee has paid out more in commercial export claims in the past year than throughout the past decade.

In the past many SA exporters regarded political risks as primary, but with changing political conditions the threat of sanctions had begun to recede. Commercial and transfer risks had now become a major problem.

Truter said the recession was biting not only SA, but also some of its major trading partners.

There was also very little information available on new markets, like Eastern Europe, though many SA companies were exploring these possibilities.

And many exporters have had their fingers burnt by trading in Africa.

58

Taxman eyes those pensions

(58)

STAR 21/12/91

TOM HOOD

INSURANCE companies are to fight proposals by Inland Revenue to abolish major tax concessions on retirement annuities from 1998.

The proposals are being discussed with the Life Offices Association (LOA), which represents the country's insurance groups and which wants the change to apply only to future policies.

The changes would not affect the retirement annuity deductions of self-employed people and others not members of pension funds.

Life offices have reported receiving a flood of phone calls from worried policy-holders.

More than 1,3 million individuals pay into about 1,8 million annuities and in most cases the tax savings make them an attractive way of saving.

About R1,8 billion was paid into RAs in the 12 months to June 30, including premiums from 211 000 people taking out new policies.

A large proportion of this amount is coming from self-employed people who have no pension funds.

The Democratic Party has also urged the government to "think twice" about the proposals.

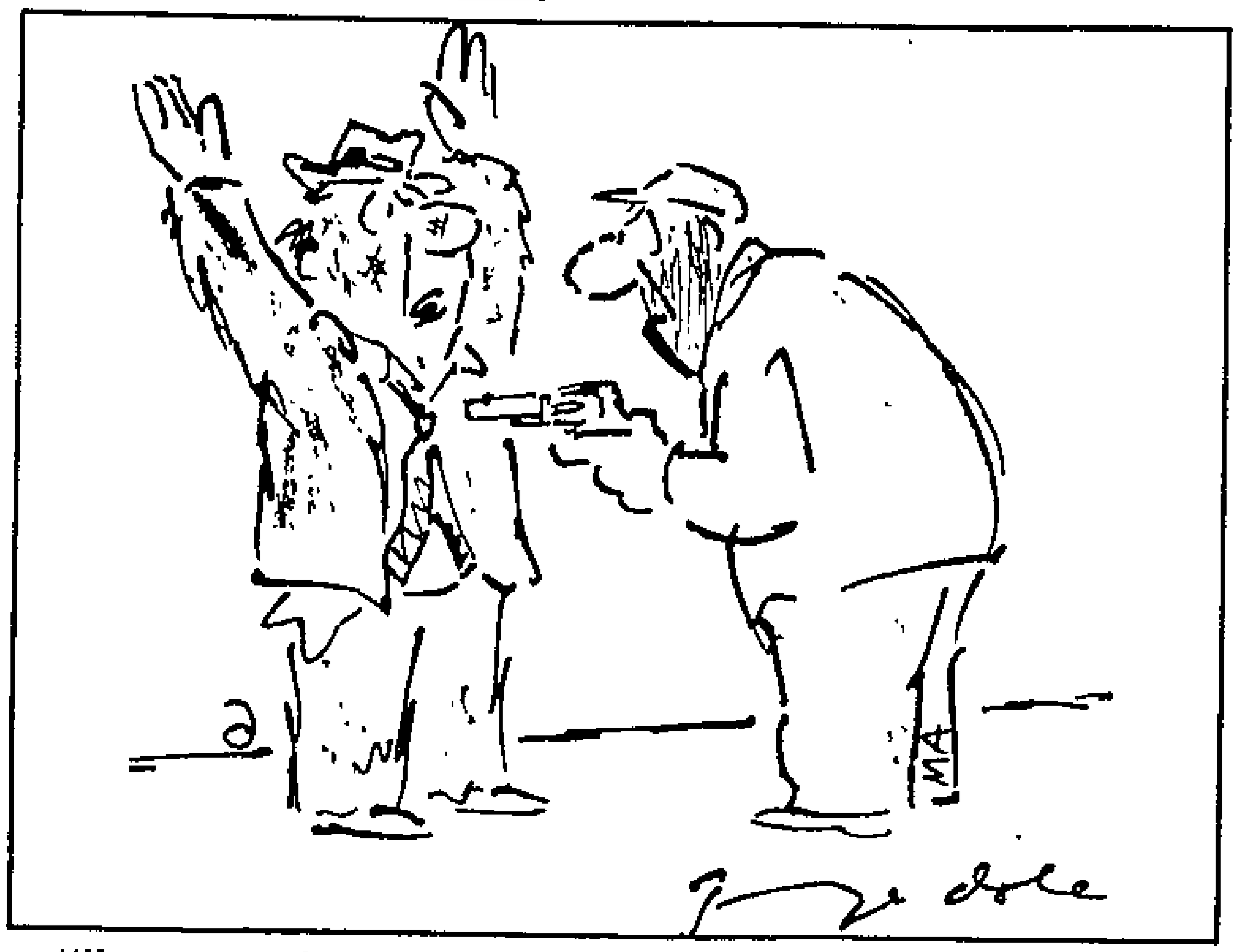
Ken Andrew, the DP spokesman on finance, said financial assistance to the elderly who were unable to provide for themselves "is a huge drain" on State resources.

"This demand will increase sharply, so it is essential that the government encourages everyone to provide financially for their retirement," he said.

"It is extremely worrying that there are proposals under consideration that could reduce the tax incentives for people to make private pension fund provisions for themselves by way of contributions to retirement annuities."

Abri Meiring, chairman of the LOA policyholders taxation committee and Old Mutual legal services manager, said the proposals could be seen as a clampdown on private pension provisions, which could be "the wrong message at this stage".

Hardest hit by the proposals, he says, would be members of pension funds who also contribute to retirement annuities to augment their pension fund provision.



"I'm sorry, sir, but I've just been mugged by the taxman."

The LOA wants an increase in the 15 percent maximum allowable deduction on annuities in the 1992 tax year to at least 20 percent for taxpayers under the age of 50 and by an additional one percent for every year over 50, with a maximum of 30 percent at age 60.

The LOA also wants the age at which retirement annuity contributions must terminate raised from 70 to 75 years.

The effects of the proposals would be lessened if they applied to future policy-holders and not to past policy-holders.

The plan came to light when the tax authorities notified the LOA, which is now making counter proposals.

An insurance industry survey recently calculated that only one in every 100 workers could afford to retire on pension. About 95 out of every 100 people retire on less than R1 000 a month.

An Inland Revenue spokesman said it was proposed to discontinue fixed amount tax deductions of R3 500, less pension fund contributions, and R1 750 for annuities after the end of the 1997 tax year.

Fixed amount deductions were no longer justified because the total deduction of up to 27,5 percent of total income presently allowed for pension funds was considered adequate.

Some Masterbond investors could have a happy New Year

Star 21/12/91

(58)

DES PARKER

MASTERBOND investors may be in for a happier New Year than they had expected — some of them anyway.

The three curators of the defunct investment and property development group say they will attempt to pay capital and interest "early" in 1992 on sums placed in the money-market scheme.

However, investors in participation bonds and short-term debentures may not be as lucky; the curators say they will be able to make interest payments at present only where investors' funds are secured by bonds on completed developments.

In their second letter to the estimated 20 000 investors, who had committed about R500 million to the defunct group's schemes by the time that it collapsed early in October, they point out that the "greater portion" of investment funds are secured by bonds on uncompleted projects.

"The investments in completed developments are currently being verified and reconciled," says the letter which is expected to reach investors before the end of the year.

"Where interest is being received (from bond debtors), interest will accordingly be paid early in 1992 to the applicable investors".

In the case of incomplete developments, they write: "We have endeavoured to secure the continuation of these developments, where justified, but it is too early to evaluate the degree of success in this regard.

"We therefore cannot make a meaningful assessment of the value of the investments in these developments. However, we are hopeful that we should be able to give more specific information when we report to the Supreme Court in terms of the court order under which we have been appointed.

"In respect of investments made in these uncompleted developments, no interest is being received from the bond debtors and clearly, therefore, no interest can be paid."

The Supreme Court hearing is set for February 12 next year.

The three curators, Willem Johannes Wilken, Arnold Galombik and Jozua Francois Malherbe, in their second communication with investors since being appointed at the end of October, say they have made "substantial progress" with "initial investigations".

Their letter alludes to legal complications surrounding Masterbond's money market scheme. Investigation, they say, has revealed "various issues which require clarification" and they are "awaiting legal opinion".

"Subject to the aforegoing, we are endeavouring to pay capital and interest early in 1992."

Syfrets wants watchdog

S Times (Buss) 22/12/91 (58)

By ZILLA EFRAT

AN ACTIVE and independent financial services watchdog organisation should be formed to protect and educate the public, says Syfrets chief executive and managing director John Cragg.

His call comes in the wake of several provisional liquidations of investment-type companies which have put the savings of thousands of people at risk.

Mr Cragg says such a body, consisting of members of the mainstream financial services business and the authorities, should set standards for investment services. It could also offer guidance to the public.

It should be active in investigating companies or schemes that appear to make promises that cannot be kept.

Many of the schemes in which investors stand to lose offer much higher returns than are commonly available. Investors are often unaware that the risks involved are also much higher.

Mr Cragg says the investment business is one of trust. Brokers, who gain the trust of the public, are also sometimes taken in by the high commissions offered by some schemes and promote them.

Some of the troubled companies in which investors stand to lose money suffered from bad management in poor economic conditions.

Mr Cragg says new investors should look at the performance record of an institution they would like to place their money with.

They should examine how long it has been in business, its size and the strength of its backing to weather storms.

In tough times large institutions can afford to hold on while small companies run into cash-flow problems.

Mr Cragg advises investors to have clear and realistic investment objectives and to spread their money over different investments like shares, property and safe fixed-interest deposits.

Hopes of rise in investment fade

S Times (Buss) 22/12/91 (58)

By DIRK TIEMANN

HOPES of a return to positive fixed investment next year are fading.

The introduction of VAT, with a zero rating for capital equipment, and other tax breaks were expected to encourage a turnaround after eight consecutive quarters of declining fixed investment.

Real gross domestic fixed investment (GDFI) in South Africa has dropped every quarter. It fell 12% to R23,7-billion from the previous peak of R26,5-billion in the fourth quarter of 1989, based on seasonally adjusted annualised figures.

GDFI includes public authorities and corporations and private enterprises

Stream

This year's third-quarter fall in GDFI accelerated to 11,5% from a drop of 5% in the previous three months. Prospects for an improvement in the fourth quarter look poor.

Sanlam forecasts a 1,2% drop in GDFI in 1992, mainly because of an expected 6,6% reduction in public-sector fixed investment. It will be more than offset by the 1,5% increase in private investment.

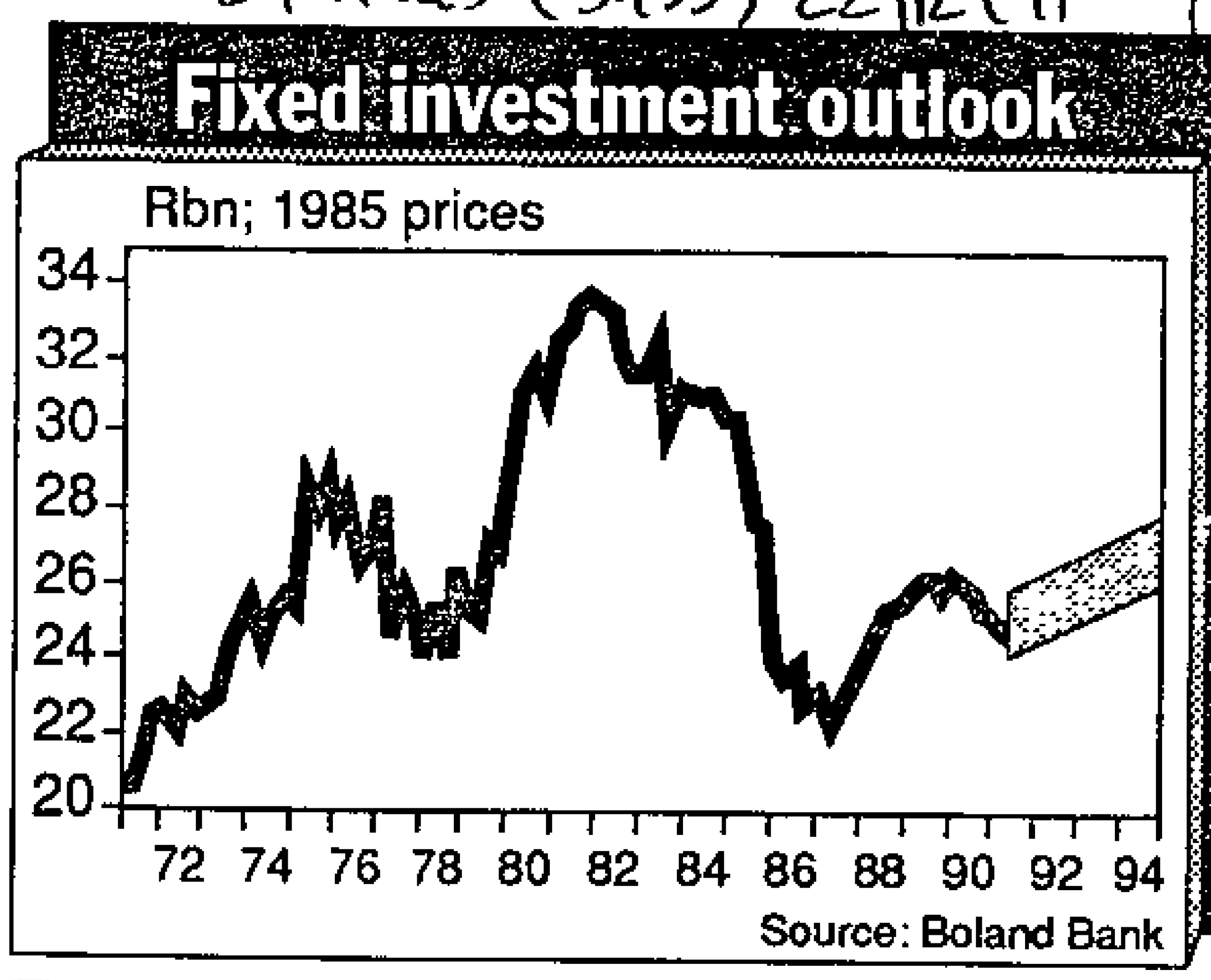
Work is expected to start on several major private capital projects next year.

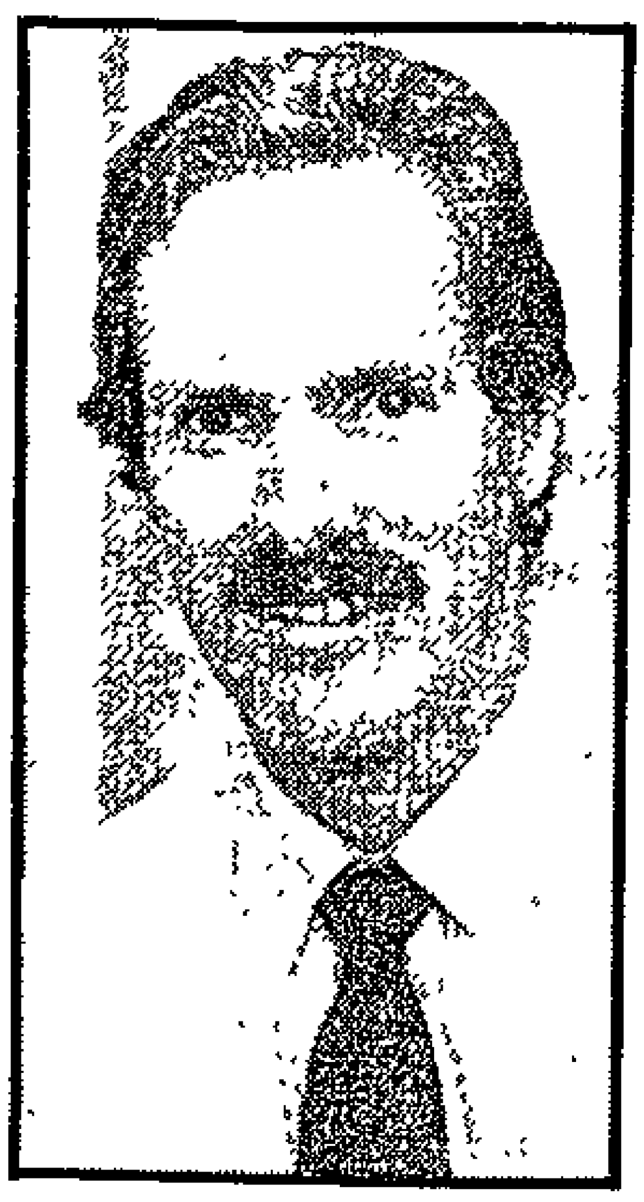
The Columbus stainless-steel and the Alusaf aluminium refinery plants will be put before the respective boards for approval in April.

Capital spending is expected to start immediately after the projects have been approved.

Sasol has various projects totalling R3-billion under way. It plans to spend another R2-billion.

But Sanlam economist Peter Calitz says real fixed





GRAHAM BOYD: Growth projection cut back

investment by public corporations amounts to almost nothing.

Although there may have been a nominal increase in investment, it has been wiped out by inflation, says Mr Calitz.

"We first need to reach previous spending levels before there can be talk of growth in investment."

Simpson McKie economist Graham Boyd says: "I have cut my forecast for fixed investment. After forecasting positive growth I now expect a contraction of between 1% and 1,5%."

Mr Boyd says fixed investment usually lags behind a business upswing. Economic growth is needed to raise low capacity use in most sectors before new plant and equipment are bought.

Budget

In addition, there have been few reports of a significant rise in fixed investment since the introduction of VAT. But investment by some companies exporting manufactured goods has been firm.

"Overall it seems that a meaningful revival of about 4% in fixed investment spending will not occur before 1993."

Standard Bank Investment Corporation chairman Conrad Strauss estimated in October that capital projects totalling R22-billion were in the pipeline.

He expected them to lead to a 1% rise in GDFI in 1992.

Dr Strauss said that although not spectacular, this was better than the previous recovery cycle in 1987 when fixed investment continued to fall by 2,4% in spite of economic growth elsewhere.

Tax breaks, such as Section 37E of the Income Tax Act 1962 which gives mineral beneficiators and exporters accelerated capital write-offs, should also help to lift fixed investment.

There are also expectations of a company tax cut from 48% to about 40% in next year's Budget.

Boland Bank expects a cyclical upswing in fixed investment in 1992. The bank bases its hopes for a turnaround on greater inflows of foreign capital.

It says net capital outflows fell from a high of R8,3-billion in 1985 to R2,9-billion in 1990. Next year could well be marked by a surplus on capital account.

Boland Bank says interest-rate stability engendered by the Reserve Bank has increased the confidence of investors that they will not be subjected to violent fluctuations in real and nominal rates.

Repeat of poor property market forecast for 1992

S Times (Buss) 22/12/91 (58) 3227

By TERRY BETTY

THE OUTLOOK for property in 1992 seems as bad as 1991 turned out to be.

The upturn is expected to begin in earnest only in 1993.

Camdon's Group managing director Scott McRae says property has endured the toughest year since the 1976 Soweto riots.

Mr McRae believes that house prices will move sideways next year and possibly fall even further because sales will be low.

Pressure

Negative factors influencing the market include VAT on sales of houses by developers, rising building costs, the depressed business climate and falling disposable income caused by inflaton and heavy taxation. These factors place home-owning beyond the reach of many.

"Above all, high interest rates are the crippling factor militating against a recovery of the market," says Mr McRae.

"Under the pressure of these influences the property marketing business is going through major structural adjustments. This is shown by pressure on commissions, repossessions, rationalisation of both numbers of agents and branches and a 'rush for cover' into bigger groupings such as referrals and franchise networks."

In spite of all this gloom, there is still room for optimism.

Mr McRae says prices have softened but have not gone into free fall as might have been expected.

Factors underpinning the market include inflation, growing foreign interest in SA and the realisation by South Africans that property remains the soundest long-term investment.

Real Estate Surveys property economist Erwin Rode says the residential sector is the only one still alive and kicking. Flat rents and house prices are generally rising in line with inflation.

The exception is upper-priced houses (above R300 000) where the growth rate is slowing down relative to the middle- and lower-priced market. This is expected to continue next year.

Mr Rode says this is probably caused by a correction. In the previous economic upswing upper-priced houses far outperformed the other two categories.

But this trend has been reversed. Middle- and lower-priced houses show the greatest strength, in many cases outstripping inflation.

Mr Rode says flat rents are expected to grow at the same rate as inflation next year because they generally move in tandem with house prices.

Rents are buoyed by the lack of accommodation and little building of flats. Most flats have been sold on sectional title.

Mr Rode says rents should be double what they are now. They are at present levels because of decreased demand arising from the fact that many employees receive subsidised bonds.

The shortage of rentable accomodation will continue until it becomes profitable to build flats. That can happen only when demand rises.

Mr Rode says this will happen once it is acknowledged that it is better to receive a cash payment than a housing subsidy.

Mr Rode expects this trend to emerge in the next few years because fringe benefit tax has been fully phased in on subsidised bonds.

Reserve Bank acts to dash chances of interest rates cut

(58)

STAR 24/12/91

By Derek Tommey

Hopes ran high in the money market yesterday morning that a cut in Bank rate was imminent when the "shortage" of cash suddenly dropped to R545 million, one of the lowest levels for some time.

But these hopes were quickly dashed when the Reserve Bank intervened with a huge R1 billion four-day Treasury bill offer.

This followed a similar R800 million five-day Treasury bill offer last week and made it clear to the money market, at least, that the Reserve Bank had no intention at this stage of letting interest rates drop.

Money market interest rates closed unchanged on the day. Nonetheless, some dealers are expecting an easing in rates next month, but admit that much could depend on what happens to inflation this month.

Yesterday's Treasury bill offer was expected to keep the market short of funds and interest rates high until the end of the week.

Then the normal market forces associated with the month-end money squeeze can be expected to take up the slack in the money market.

A dealer said the market was expecting the shortage this week to be around R1,5 billion.

When it turned out to be only R545 million, it was seen as a sign that rates were about to slide.

An economist said it seemed unreasonable to expect any major reduction in interest rates at present. The Governor of the Reserve Bank, Dr Chris Stals, pointed out earlier this month that real interest rates in South Africa were lower than in any of the 14 major industrial countries, while the rate of inflation and the growth in money supply were greater.

The economist said the lower-than-expected shortage showed that Christmas trade was nowhere near what had been hoped for.

Dr Chris Stals . . . real interest rates lower

It indicated that many people and businesses had decided to cut back on spending, reduce bank borrowings and build up bank balances — a natural development in times like these when business levels are low and there is much uncertainty.

He said that if the business cycle were allowed to follow its normal course, the build-up of cash would lead to lower interest rates and help prime the economy for a renewed upturn.

But the Reserve Bank did not want this to happen — with good reason.

The inflation rate shows few signs of falling. To allow interest rates to drop in such circumstances to stimulate the economy would only give inflation a huge boost and force interest rates up again.

South Africa has been here before — in the mid-1980s.

Then the Reserve Bank failed to squeeze the money supply and the prime rate tumbled from 21 percent in May 1985 to 12 percent at the end of 1986, which was below the inflation rate.

Businesses and housebuyers rushed to borrow money at these negative rates.

They showed little increase in 1987, gaining only half a percent. But in 1988 the day of reckoning arrived and as money became scarcer prime jumped from 13 percent to 18 percent — to trigger the present recession.

There is no doubt that businessmen would like rates to fall substantially.

But at the same time, not many would be keen to borrow if they knew they would have to face exorbitantly high rates and another recession in two to three years' time. This is the sort of situation the Reserve Bank is trying to prevent.

Surprisingly, there has been little call by businessmen for lower taxes, which would probably give the economy a much bigger boost than a small cut in interest rates.

But perhaps businessmen do not pay taxes — or possibly they have been keeping a close eye on what the Government must see as disturbing state revenue figures.

The latest Treasury statement shows that inland revenue receipts in November amounted to R3,7 billion, which was only 2,1 percent, or R75 million, higher than last year.

Customs and Excise receipts were a little more buoyant, rising R132 million, or 12,1 percent, to R1,2 billion.

Altogether, the state banked R4,9 billion in November, which was R208 million — 4,4 percent more than in November a year ago.

These figures include the first VAT receipts. But because some come under Inland Revenue and others under Customs and Excise, it will not be possible to find out the precise figure for VAT receipts until a breakdown is published next week.

However, first impressions from the November Treasury results are that VAT is not yet the revenue cow the authorities have been hoping it to be.

Total revenue collections for the eight months to November amounted to R45,5 billion, which was R2,0 billion, or 4,6 percent, above last year's corresponding figure.

Liberty, Ackerman top of investment experts' pops

(58)

BDay 24/12/91

BRENT VON MELVILLE

INVESTMENT experts have pegged Liberty Life as the most highly rated group and voted Pick 'n Pay chief Raymond Ackerman the most charismatic CEO in SA.

A recent survey by research firm Campbell Belman polled 80 top members of the financial community on a total of 60 listed groups, involving 30 different categories ranging from management to business ethics.

According to Campbell Belman, the sample (including fund managers, financial editors, economists, market commentators and stockbrokers) was made up of at least 20% of the total number of financial influencers in SA, and yielded "unquestionably" valid and reliable information.

Of the six categories deemed the most important by the investment fundis — management, financial soundness, consistency of results, strength of product, calibre of people, and quality of acquisitions (in that order) — Liberty Life came up trumps three times, while Pick 'n Pay, Remgro, Gencor and SA Breweries filled out the ranks.

The survey, dubbed the "confidence predictor", produced some surprises. Liberty Life, included in the survey for the first time, came through as a clear favourite in eight of the categories, and a close second in another seven — displacing SA Brews as the most highly rated stock.

Liberty also came tops in the "favourable editorials" category, followed by SA Brews and Pick 'n Pay. Pick 'n Pay was viewed as having the clearest mission, along with Liberty and Engen.

Inconsistent

The experts seemed unclear as to the missions of Anglo American Industrial Corporation and the OK.

OK and Twins were regarded as the worst-managed companies, FSI as the least financially sound, and GFSA, Hiveld Steel, Implats, OK, Sentrachem and Twins tied for the most inconsistent results.

OK came in at the bottom of the list in terms of attracting top people, while retail group Foschini, pharmaceutical groups Noristan and Twins, chemical company Sentrachem, stationery company Waltons and cement companies PPC and Anglo Alpha failed to attract any votes for good judgement in acquisitions.

Lesser-valued attributes included trade union relations — for which Anglo American got top marks. At the bottom of the list were Adcock Ingram, heavy engineering group Dorbyl, OK, and Fedsure.

Top-rated company in terms of ethics was banking group Stanbic, followed by Afrox and Pick 'n Pay. At the bottom of the list again were FSI, Noristan and OK.

Rembrandt Group was rated the safest investment irrespective of SA's political developments, and in the generic "is a good company to invest in" again came in tops, followed by Liberty and SA Brews.

Not surprisingly Twins, Noristan, OK, and FSI were among the basement bargains.

Liberty Life won again in the "modern and progressive" category, followed by Pick 'n Pay and oil company Engen. Steel producer Iscor, Noristan, and OK came in last.

Bond scheme for industry

ROBERT WICKS SS

NEDFIN has announced details of a competitive new bond facility available to entrepreneurs who wish to own industrial premises.

The facility, Nedfinbond, allows business owners to free themselves from the cost spiral of property rental. B/Day 24/12/91

Asset management division assistant GM John Sinclair emphasises that Nedfinbond is purely for industrial premises.

The facility can be secured to buy rented properties or land and to erect new buildings.

The loan, negotiable over five, 10 or more years, allows the client to own an increasingly valuable asset.

"At the beginning of the period, the client is already in a better situation in that he can precisely budget his cost of accommodation," Sinclair says.

Although the scheme is still in the test marketing phase, it is understood that it has been well received by the public.

This left 2,3-million unconnected houses which fall under other supply authorities such as homelands and municipalities.

An Eskom spokesman said the estimated R6bn cost of the Electricity for All programme was calculated by using an average connecting cost of R2 000 per household and a figure of 3-million unelectrified homes within reach of its grid.

Contractors were invited to introduce themselves to their nearest Eskom district to keep informed about opportunities and bid for projects.

According to a study by Prof Geert de Wet of Pretoria University, the electrification of 1-million households over five years could create 270 000 jobs and add 5% to SA's GDP.

that Welgemoed had invited a delegation to meet him in Cape Town on Friday to discuss the issue.

"The restructuring of the transport policy should go along with the overall economic policy — this has not been followed," he said.

Clean-up begins in Phola Park

TIM COHEN

IN THE first step towards becoming a proper town, Phola Park squatter camp is being given a Christmas present — the immediate removal of huge piles of refuse. B/Day 24/12/91

Transvaal MEC for Physical Planning and Development John Mavuso said in a statement yesterday that the refuse removal had begun and would be followed by the provision of running water and toilet facilities.

Early in 1992, Phola Park would become a proper town, following the allocation of R15m by the IDT for the development of 2 000 service sites.

Phola Park has been the scene of numerous bloody clashes between residents and nearby Thokoza hostel dwellers.

Mavuso said the hostels in Thokoza would be upgraded. Plans for this were still being prepared.

The construction of the town would be primarily in the hands of the community, which has planned the layout of the town and the design of the houses.

SA is 'still producing too many academics, too few technicians'

THOUGH there is a distinct move towards technical and vocational study, most degrees awarded at SA universities continue to be in the arts, social science and education fields.

The SA Institute of Race Relations' latest Social and Economic Update, released yesterday, said enrolments at technikons increased 258,2% between 1986 and 1990, while university enrolments rose 54,5%.

Between 1975 and 1979 student enrolments at technikons grew 14,5% and university enrolments 54%.

Of the university degrees awarded in 1989, 60% were in arts, social science and education, 13% in science and engineering and 9% in medicine.

Update said the country was still producing too few technicians and more academically oriented graduates than it could absorb.

The percentage of pupils remaining at school until matriculation had improved from 6,3% in 1980 to 13,6% in 1985 and 33,5% in 1990.

The DET had committed itself to overcoming backlogs in provision of textbooks, allocating R61,1m for books this year, and another R69,7m for books next year.

In its health and welfare section, Update said another 45 000 places needed to be provided for black children in children's homes to achieve parity with accommodation provided for white children.

National Health Minister Dr Rina Venter had acknowledged that government spent six times more on children's homes for whites than on those for blacks.

About R34,7m was spent on 5 075 white children and R5,7m on 1 257 black children, representing expenditure of R6 837 on each white child and R4 535 on each black child.

Update reported a growing incidence of tuberculosis. The Department of National Health and Population Development said that in 1988 there were 57 704 cases; in 1989, 68 075; and in 1990, a provisional figure of 65 435 was given. Reports for that year were not yet complete.

Formal housing remained unaffordable for most blacks.

Between 60% and 80% of the urban black population earned between R400 and R800 a month.

Of this, about 37% (R148-R296) would be spent on food and 13% (R53-R104) on transport. — Sapa.

24/12/91

Stokvels at Bank workshop

WILSON ZWANE

THE SA Reserve Bank will convene a workshop on the regulation of informal savings institutions next month to which all interested parties, including the National Stokvels Association of SA (Nasasa), have been invited.

Nasasa president Andrew Lukhele confirmed his organisation had been invited to the workshop. S/Day 24/12/91

"The convening of such a workshop is in keeping with government's undertaking that input will be required from the stokvels before the new Deposit-Taking Institutions Act is finalised," Lukhele said.

The Act will be amended to find a new approach to the regulation of informal financial institutions.

The office of the Registrar of Deposit-Taking Institutions said details of the workshop had still to be finalised.

But Reserve Bank Registrar of Banks and Building Societies Hennie van Greuning has said his office had been assigned the task of rewriting the Mutual Building Societies Act "in consultation with the market to address the financial needs of the broader community".

Lukhele said the Reserve Bank indicated last year it was committed "to stabilising and promoting" stokvels.

Van Greuning said the informal savings clubs had a large potential to provide efficient financial services if they were to function within "a proper statutory framework conducive to their particular environment and development". (58)

"Such a framework should take cognisance of the risks involved in these financial arrangements," he said.

Lukhele said the stokvel sector relied on prudential regulation in the form of market discipline to protect the interests of their members.

"In place of formal mechanisms, informal agents rely on their knowledge of one another to reduce the risk of lending."

If this form of regulation were to be replaced by more advanced levels of prudential regulation, consisting of extensive rules and regulations, the flexibility and low cost of a stokvel operation would be diminished, Lukhele said.

Road deaths drop, but still costly to economy

WILSON ZWANE

ROAD fatalities have cost SA's economy more than R147m since the start of the December holiday — but the figures are well down on last year's.

A National Road Safety Council (NRSC) spokesman said road fatalities since December 3 stood at 466 yesterday. Of those, 187 were in the Transvaal, 107 in the Cape, 98 in Natal and 74 in the Free State.

"Each road fatality costs the country's economy R316 000 in lost production, damage to property, medical costs and legal costs," the spokesman said.

It has been estimated that road deaths cost SA about R6bn annually.

However, this year's road fatalities were lower than the 800 deaths during the same period last year.

Road deaths this year included 75 occupants of minibus taxis. A Sabta spokesman said the decrease in collisions involving minibus taxis (99 people died in such collisions last December) was partly due to his organisation's safety campaign.

Burglary insurance claims show modest rise

(58) STAR 27/12/91

By Tom Hood

CAPE TOWN — Insurance claims for burglaries rose a modest 0,6 percent in the 12 months to September, says Santam, SA's largest short-term insurer.

The rate of increase in crime-related claims seems to have reached a plateau, MD Osie Oosthuizen says in the annual report.

"Crime and crime-related claims continue to be a feature, and it is clear the police cannot concentrate sufficiently on crime prevention.

"Crime is at an unacceptably high level, but the extent is not really grasped by the public."

There is burglary every three minutes, he says. A car is stolen every nine minutes. There is a robbery every 10 minutes and a rape every 20 minutes.

In white suburban areas there are 243 burglaries every day.

"These crimes can be ascribed to unemployment, declining moral standards, delinquency and similar causes.

"The fact that more houses are left unattended because more women have to go out to work is a contributing factor."

Samtam's experience is that motor vehicle theft claims rose 11,7 percent in number and the average amount per vehicle theft claim rose 7,6 percent.

While burglaries rose 0,6 percent in number, the amount of the average claim jumped 16 percent.

Santam handled more than 200 000 claims in the year, the average amount being 15,6 percent higher than the previous year.

In the current year it aims to increase gross premium income by about 20 percent which, after inflation, represents a growth rate of 4 to 5 percent.

Gross premium income rose 22 percent to top R1 billion for the first time. The underwriting profit of R12,4 million showed a big recovery from last year's R2,1 million, when it plunged from R26 million.

Taxed profit and provisions improved to R51 million from last year's R42,7 million, but still lagged 1989's R51,3 million.F

At the year-end, the group had R817 million of investments — mostly shares — and cash.

Mr Oosthuizen says the company will continue to divert more of its investment income into ordinary shares.

He welcomes the new legislation which allows insurers to invest up to 50 percent of their liabilities in ordinary shares.

Residential property

STAR 27/12/91 (58)

OUTLOOK '92

Eskel Jawitz, managing director, Eskel Jawitz JHI Real Estates, sees a year ahead full of "ifs" for property, but exciting prospects in the medium to long term.

Considering all the negative factors arrayed against the residential property market, prices held up remarkably well in 1991 for sellers who valued their homes realistically.

Politically inspired violence, uncertainty and resulting apprehension, nervousness and fear conspired with depressed economic conditions, high interest rates and a heavy personal tax burden to make the SA property market in 1991 one of the toughest ever.

However, it's essential to distinguish between a "tough" market and a "bad" one.

The latter existed in 1977-78 and 1984-85 when sellers achieved significantly less for their homes in actual rand terms than they had paid a year or two before.

This was not the case in 1991. At worst, sellers achieved the prices they paid in 1989 or 1990 but in many cases did better.

The property market moved in the same general direction as the economy but, all things considered, held up remarkably well.

Economic recession in itself was — and is — not the problem. Rather, it is sellers' attitudes.

Though many are aware of South Africa's fundamental difficulties, they have been unwilling to accept that their expectations are out of step with reality.

Citing inflation, the demise of the Group Areas Act and other factors, sellers have continued to escalate the value of their homes.

Accordingly, a vast number of properties have been put on show week after week without any real hope of achieving asking prices.

In today's environment, sellers have two options: either accept the market reality or reject it.

Unfortunately, too many on the Reef have chosen the latter route and consequently over-priced their properties.

By contrast, level-headed sellers have achieved acceptable prices and have not had to give their houses away.

As regards the outlook for 1992, the Reserve Bank's anti-inflation measures will continue to bite deep and this suggests that some relief in the form of lower interest rates will be forthcoming.

However, by all accounts mortgage rates will not fall below about 17 percent next year and it is debatable whether this will cause a sharp upswing in the economy.

The outlook for 1992 is full of "ifs".

If violence is controlled, if interest rates fall, if multi-party constitutional talks progress, and if SA receives significant foreign investment, 1992 will be a marked improvement on 1991.

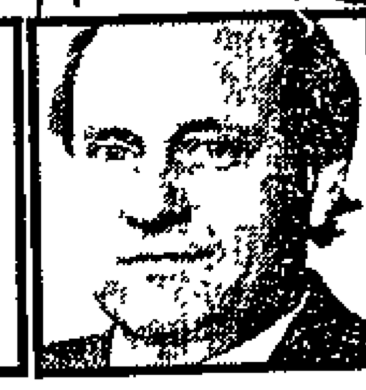
Though the immediate future is likely to be problematic, the medium-to-long-term outlook is exciting.

Facing the unthinkable

STAR 28/12/91

Money Matters

MAGNUS HEYSTEK



IS ANYBODY'S job safe anymore? Ask yourself the question: How long could you survive if you were retrenched tomorrow? One month? Two months?

Maybe longer if you have been prudent and wise and have a nest-egg tucked away for a rainy day?

But the sad truth is that most people would survive barely two months without a regular income.

South Africa is not a welfare state. And considering the state of the economy, it's unlikely that it will be one in the foreseeable future. That means you alone must provide for yourself and your family.

For most middle-class white-collar workers retrenchment has always meant some mine or factory closing down. Those days are over.

A striking characteristic of the recession has been the widespread phenomenon of white-collar retrenchment — even among highly skilled workers. The unthinkable is now happening all around us.

The MD of a large firm of placement specialists had the following to say: "I have never seen so many CVs cross my desk in all my life.

"Most of these are from highly educated and skilled middle and senior managers who have been retrenched or who fear that they could be retrenched."

The recession has been the longest yet endured. By December last year it had entered its fourth year of stagnating or even negative growth.

While some kind of upswing is expected this year, most economists do not see a sharp upturn in job creation in the near future.

The December quarterly bulletin of the Reserve Bank showed that although the recession is not as severe as the previous downturn in 1985-86, it has been accompanied by a sharp contraction in employment across the entire spectrum of the economy.

Even some government and semi-government sectors have made certain jobs redundant.

Moreover, if you are lucky enough to keep your job in the troubled times ahead, the chances are that your salary increases will not keep pace with inflation.

Some instances have been reported where staff have been asked to accept pay cuts across the board in order to keep their jobs.

Other companies have put a freeze on salaries.

Annual salary increases are likely to be four or five percentage points below the inflation rate of around 16 percent.

Until fairly recently wages continued to rise at levels well above the inflation rate, but from the second quarter of this year wages began to fall in real terms.

In the third quarter wages were dropping below the inflation rate, which meant that, on average, people were getting poorer.

But getting back to our original question: How long could you survive if you lost your job today?

And associated with this: What are your most important financial responsibilities?

The first answer we partly know. For some people it would be possible to find another job fairly soon and they would not have to start drawing on retrenchment payouts or savings.

But today more and more people are finding it increasingly difficult to walk into another job soon after retrenchment.

Sometimes it can take up to six months — or longer — to replace your source of income. And then you might find your salary and fringe benefits are substantially lower than before.

But while you're retrenched, your expenses don't come to an end. Your regular financial commitments for house, car and other possessions still have to be met.

Your car you can sell. You can walk or take a bus. But your house is another matter. This suddenly becomes your most important priority in life — apart from providing food for yourself and your family.

Worst of all is that your retrenchment will be not of your own doing. You may have been a hard-working and dedicated worker, but because of factors beyond your control, you lose your job.

However, it is now possible for the first time to take out insurance against it happening to you.

Sage Specialised Insurances, a subsidiary of the Sage Life group, recently introduced two products to meet the needs of the market.

The two products — Job Loss insurance and Bondpayer — are similar.

For a regular premium you can take out insurance that will either pay your bond while you are unemployed, or if you don't have a bond, pay you an income for up to 12 months while unemployed.

Job Loss insurance pays you up to 60 percent of your monthly earnings. For as little as R2,80 a day you can qualify for a total of R14 400 in benefits. At inception you select the six- or 12-month plan.

If you earn R10 000 a month and you decide on the six-month plan, a monthly premium of R210 will ensure that you receive R6 000 a month for six months.

This would surely pay your bond and most, if not all, of your expenses.

Think about it ... what does R210 buy today? A meal for four at a steakhouse. Certainly not much more.

Alternatively, to get the same benefit for 12 months you would need to pay a monthly premium of R310.

The benefit you receive depends on your monthly earnings and the premium you pay.

While the premiums are tax-deductible, the income you receive in terms of the Job Loss policy, unfortunately, is fully taxable.

The advantages of Job Loss insurance are:

- You can keep up your bond repayments.
- Cope with your regular expenses.
- Take time to find the job you want.
- Look after your family.
- Keep your savings intact.

In principle, the Bondpayer policy is similar. If you find yourself retrenched, Bondpayer will pay your monthly mortgage for up to 12 months.

Bondpayer pays up to 150 percent of your monthly bond repayments. For instance, if your bond repayments are R2 500 a month and you opt for the 12-month option, you will receive a maximum benefit of R3 750 a month for a premium of only R206,25 per month.

As in the case of Job Loss, your premiums are fully tax-deductible.

Outlook brightens for commercial, industrial property

S| Times (BUSS) 29/12/91 (58)

By TERRY BETTY

COMMERCIAL and industrial property seems headed for a mild rally in 1992 after a dismal 1991 performance.

Real Estate Surveys property economist Erwin Rode says there was a nominal decline in rents for office and industrial space this year. Retail space fared slightly better.

Brian Kirchmann, executive director of the South African Property Owners Association (Sapoa), attributes poor expectations to the recession, high interest rates, the rising number of insolvencies and the oversupply of space

Incentives

"But the property market has emerged almost unscathed from a difficult year," says Mr Kirchmann.

"In spite of the spate of new buildings, office rents have remained relatively firm and several large letting deals were concluded.

"To tidy up portfolios many landlords offered potential tenants a rent holiday and other incentives towards the end of the year. This always happens towards the end of a recession.

"Developers and landlords will benefit as they emerge from this recession in that there is an added demand for office space from abroad."

JH Isaacs executive chairman Les Weil says that although there is a constant demand for small offices — less than 500m² — there are relatively few large tenants in the market.

A large tenant is able to negotiate favourable terms because high vacancy factors and low rents result in few areas showing real growth. This and the expectation that rents will soar once the economy takes off mean anyone looking to lease space should tie it up now while the market is in the tenant's favour.

Mr Rode does not believe rents will grow in the next 12 months because the oversupply will absorb increased demand until the end of 1993.

But the take-up will be huge once the recession starts to lift.

The most gloomy forecast is for Pretoria where the Government is said to be reducing its accommodation requirements to cut costs. This is exacerbated by property there being seen as a political risk.

The Government is reported to occupy 60% of office space in Pretoria. Pretoria's CBD has grown exponentially, unaffected by business cycles, says Mr Rode.

"However, it is starting to feel the pinch."

Sapoa's office vacancy survey for November 1991 shows vacancies in A-grade office space of 8,5% in Johannesburg, 9,9% in Cape Town's CBD, 18,9% in Durban and 12,4% in Pretoria.

Mr Rode says the Johannesburg CBD is a special case because tenants seem to be leaving the eastern side. The central and western areas, housing the JSE and mining houses, are faring much better.

Mr Kirchmann is optimistic about Johannesburg, saying 55 000m² of space is due to become available in 1992. A total of 53 000m² is pre-let.

"Upward pressure on rents could start developing in Johannesburg from midyear onwards," says Mr Kirchmann.

Old Mutual Properties property investment manager Ian Watt says Rosebank is bucking the trend. This is because the office node is tightly enveloped and there is little prospect of space elsewhere to house competitive developments.

Looking at Cape Town and Durban, Mr Rode says there is a huge oversupply of space. He attributes it to over-enthusiastic development and not to a lack of demand.

Exports

The industrial property outlook is slightly different to the rest, says Mr Rode. Vacancies are not as great as in the office sector and are mild compared with the serious over-supply of space in the mid-1980s.

Industrial property should benefit before the office sector does.

Mr Weil says inquiries for industrial accommodation have picked up. Take-up of space improved in the past few months, several large deals being concluded.

The increasing number of foreign trade delegations and the opening up of export markets add to the potential optimism. Businessmen are planning for growth after a 10-year decline in fixed investment.

Mr Weil says: "Attention is being moved from 'strategic-type' projects, such as Mossgas, to those that focus on infrastructure, job creation and exports.

"Derek Keys' appointment as Minister of Trade and Industry means attention will probably be given to getting the economy into a real growth phase. Attention will be focused on the industrial sector and the rest of the economy should follow."

This together with the low availability of prime space will place industrial rents under upward pressure.

Mr Watt says growth in industrial rents is particularly noticeable in prime locations, such as Pretoria's Hermanstad and Ci[illegible] Deep in Johannesburg. G[illegible]od quality space is let[illegible] for about R9/m² and [illegible] reach R10,50/m² to [illegible]

A large inc[illegible] in rents is necessary bef[illegible] any new projects can be [illegible]sidered in areas such as [illegible]rban where they are ab[illegible] R6,50/m². Rents in the [illegible]estern Cape are the lowest in major areas.

No growth is expected in retail property in the next 12 months. Many retail rents are linked to turnover.

Mr Weil says consolidation and rationalisation among banks and food retailers have reduced the number of potential tenants.

Small retailers are suffering from increasing competition from the informal sector. Anchor tenants may have to bear more of the rental burden if new centres are to be profitable.

Mr Kirchmann says vacancies in shopping centres have remained limited in spite of the growing number of liquidations.

"Developers are finding that although they are losing tenants faster than before, new ones fill empty slots at similar or slightly lower rents quickly. Rental growth may be problematical, but developers are far from despondent," says Mr Kirchmann.

THE MONEY MARKETS by Andrew Gill

Stals sparks speculation over rate cut

BD 30/12/91 (58)

RESERVE Bank Governor Chris Stals raised speculation over interest rate cuts this week in allowing the money market shortage to slide to about R0,5bn.

The two-day slide in the shortage was, however, stemmed by the Bank's delayed reaction in calling a double whammy of special Treasury Bill tenders to the tune of R1,5bn.

That this may have sucked up an investment pool that is mostly sitting on the beach was plausible but Friday's weekly Treasury Bill tender worth R200m being subscribed more than five times and alloted at 16,13% from 16,15% the week before proved liquidity was as prevalent as ever.

The TB rate looks set to gradually pass a full percentage point in discounting a drop to 16% in Bank rate.

Interest rate speculation looks set to grow in the coming months as (hopefully) the worst of the inflation figures have passed and money supply shows suitably tame growth.

The balance of payments, too, is looking healthy as well as being a major driving force behind market liquidity and the slight fillip in money supply growth in November.

With these variables working against a continued holding of interest rates at current levels, and few to contradict them, at least a small easing in current policy could be likely.

One area which may have a little more room for higher interest rates is in the capital market.

If, as suspected, government has to look to the market for extra funds longer term rates may take a little sojourn to higher levels.

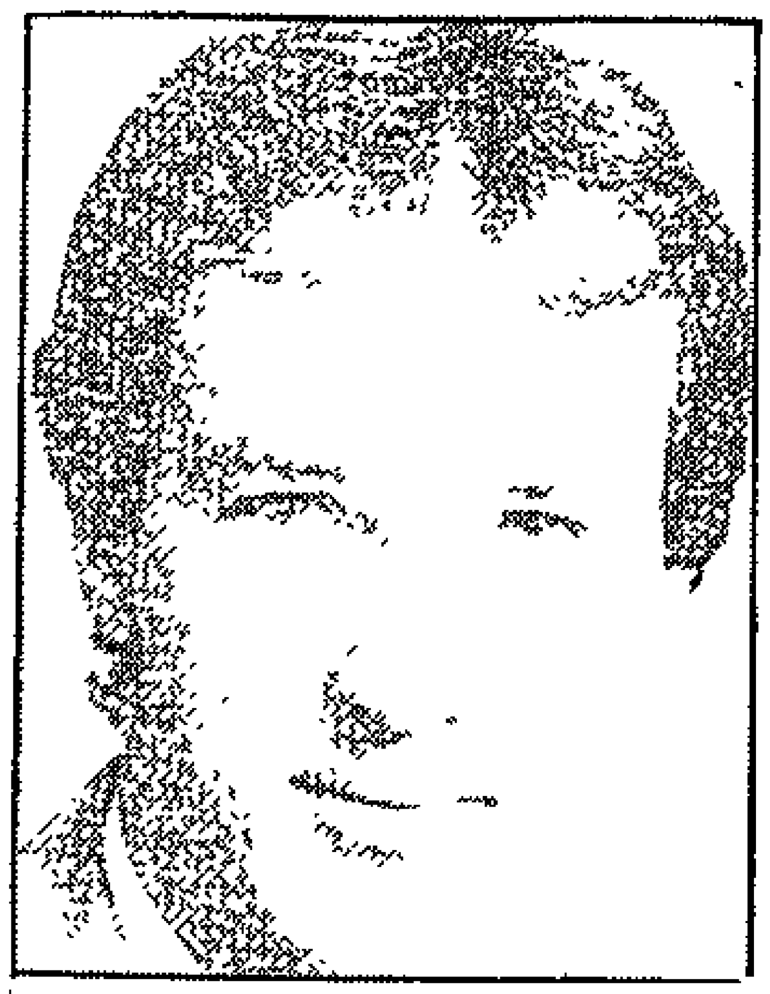
If government is to avoid a repeat of this year's revenue shortfall it will have to stray from current and future policy in calling a halt to intended tax cuts and possibly increasing the VAT rate.

The ostensibly independent Bank may find itself under pressure to ease credit policy in an attempt to boost the recession-battered revenue account if government is to avoid a showdown with business and left-wing opposition over VAT.

Cut in interest rates possible

STAR 31/12/91

OUTLOOK '92



By Mike Daly
economist, Southern Life

The bank rate, the lynchpin of the level of short-term interest rates in the economy, which is directly controlled by the Reserve Bank, has been held at 17 percent since March when it was cut from 18 percent. (58)

This is despite the fact that the economy has been in recession for the past 10 quarters.

Never before has the economy had to sweat it out with the official interest rate level so unresponsive to weakening domestic demand, or so high in real terms at the trough of the business cycle.

Excluding the effect of VAT from October's inflation rate, the bank rate was 1,4 percentage points above inflation, with the prime overdraft rate, mechanistically tied at three percentage points above bank rate, 4,4 percentage points higher.

In taking over as governor of the Reserve Bank in late 1989, Dr Chris Stals made it clear that monetary policy would remain tight as long as the inflation rate was unacceptably high, money supply growth was well into double digits and the gold and foreign exchange reserve position was below three months' import cover.

Determination

Despite intense market speculations for further cuts in bank rate at various times this year, Dr Stals has impressed the market with his determination to hold to his stated position and has thus won much credibility as an inflation fighter, despite certain adverse circumstances that have delayed the anticipated decline of consumer price inflation so far.

Regarding interest rates determined by the supply and demand for short-term assets in the money market, for example the 90-day bankers acceptances rates, these have been falling steadily since November 1989, reflecting slower growth in the economy and falling demand for borrowed funds.

The graph illustrates the 2,5 percentage point fall in the BA rate up to early December, now fully discounting a one percentage point cut in the official rate.

In determining when the next cut in bank rate will occur and how many cuts will be made in 1992, one needs to consider the checklist of criteria that the Reserve Bank has set.

Firstly, inflationary pressures are already declining at the level of producer prices where the PPI has reached 11 percent in October and could go still lower as weak economic conditions persist and the firmness of the effective exchange rate of the rand keeps price increases of imports under control.

The consumer price index almost certainly peaked for this cycle at 16,8 percent in October as a result of VAT, but could end 1992 at 12 to 13 percent.

If the governor wishes to maintain a five percent real gap between inflation and the prime overdraft rate, then two reductions in the latter to 18 percent look on the cards

Secondly, growth in the broad money supply has fallen to an annualised rate of 7,8 percent in the period since February, when certain forms of credit not included in the money supply figures were legally required to be brought on to the banks' balance sheets.

The level of the money supply is therefore now at the lower end of the Reserve Bank's 8 to 12 percent growth guideline if February is taken as a starting point, thus fully satisfying the criterion for money supply growth no longer fuelling inflation.

Thirdly, there has been a rapid build-up in the gold and foreign exchange reserves from 1,4 months' import cover in June 1990 to just over two months' in November this year.

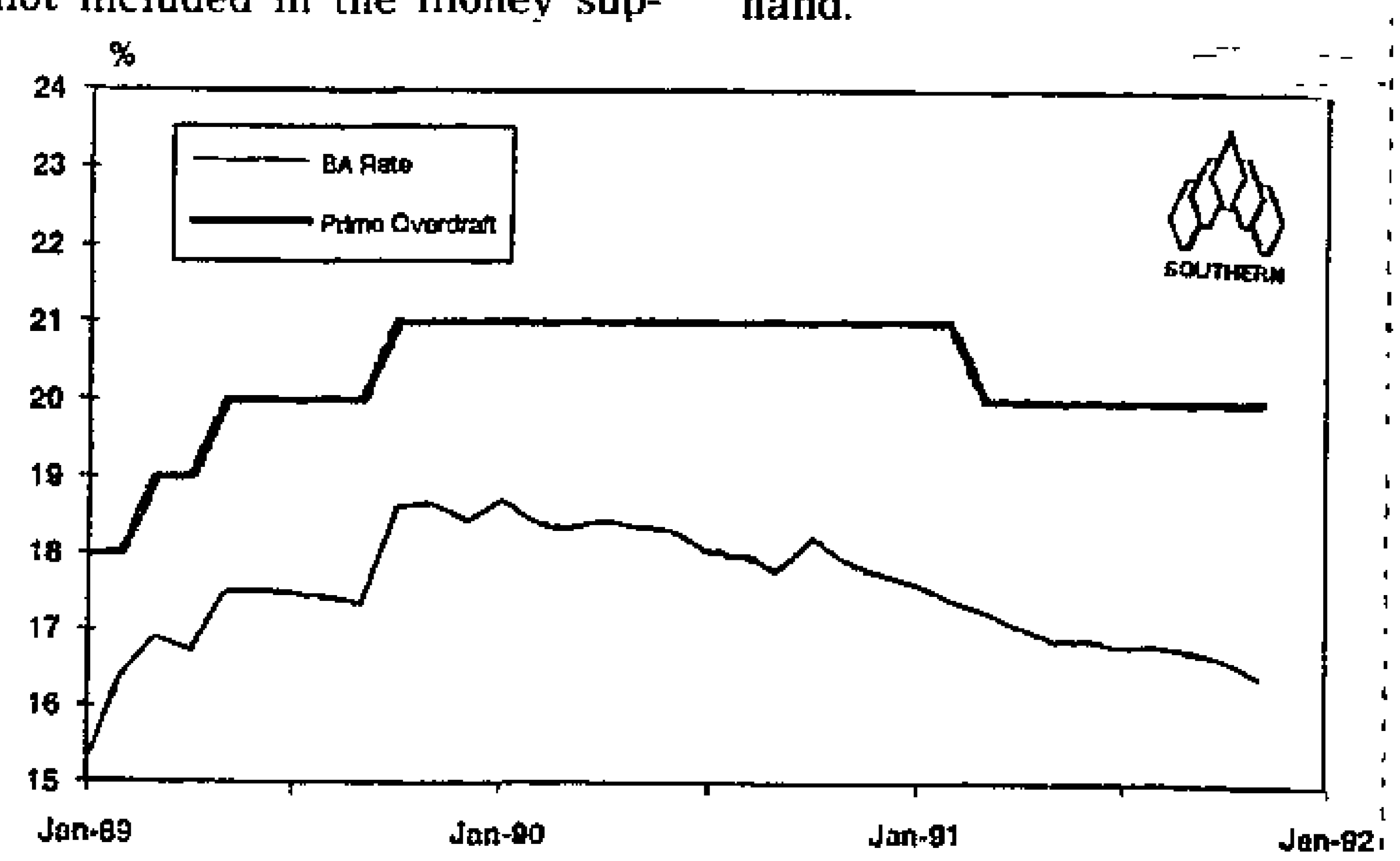
However, this is still below the bank's criterion of three months' cover and it will be some time before the bank feels relaxed on this score.

Finally, the weakness of the economy, despite a high rate of growth in real government expenditure in the first half of this year, is becoming a powerful motivation for a less stringent monetary policy stance.

The rate of unemployment is accelerating as more companies retrench staff or close down, and salary and wage increases are starting to decline.

Given all of the above it is probable that bank rate will be cut as soon as the first reasonable fall in the inflation rate is seen, which could be November's rate, announced late in December.

Accordingly, January could see short-term rates lowered by one percent. Another cut in the second half of the year is almost certain with only the foreign reserves position potentially staying the Reserve' Bank's hand.



The BA rate is already discounting a drop in interest rates.

Octodec expects escalation in yield from existing leases

B Day 31/12/91

PETER GALLI

PRETORIA-based Octodec Investments (Octodec) has forecast distribution growth of about R1m to R20m for linked unitholders in the present financial year compared with the R19,3m paid out in the year to end-August.

"This growth in the coming year will come from the escalation in income from existing leases," chairman Alec Wapnick says in the latest annual report released yesterday.

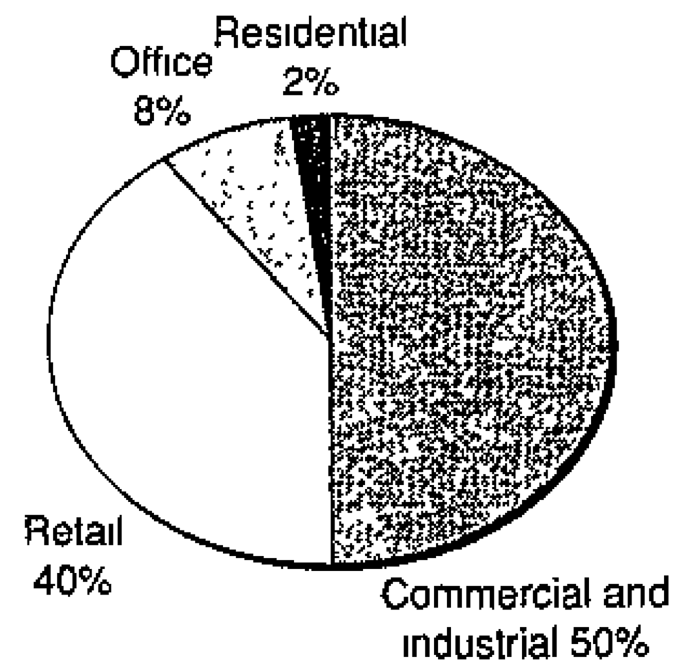
The company, listed on the property loan sector of the JSE after a rights issue to Tomkor shareholders, maintained occupancy levels at 95%, despite the economic climate.

The portfolio consists of 84 developed properties, held through 51 wholly-owned subsidiary share-block companies and were bought for R147,7m. The properties are concentrated in Pretoria's CBD, Hermanstad, Pretoria West, Silverton/Watloo and suburban areas.

"A significant feature of the property portfolio is that about 60% of (its) value is attributed to the land value inherent in the portfolio.

"In addition, many of the existing buildings on the properties have a bulk factor well below that allowed for the property, which emphasises the inherent value of the land as opposed to the buildings themselves,"

Octodec
Analysis of property mix



Graphic FIONA KRISCH Source OCTODEC

Wapnick says.

Octodec reported a taxed full-year profit of R19,383m, 7% better than its R18,11m forecast at listing in September 1990. Total return a linked unit was 40,61c, comprising interest of 39,81c a unit and a 0,8c dividend portion.

"Given the company's performance in its first year and with returns forecast to grow in the coming year, the market price of the company's linked units should begin to reflect more accurately the yield inherent in the underlying property portfolio," he says.

Octodec was untraded at R2,90 a unit yesterday, slightly off its high of R3,05 on October 25 and well off its R2,20 low and issue price on January 10.

Industrial building continues unabated

(CSS)

BDay 31/12/91.

PETER GALLI

NEW developments coming on line in the already oversupplied commercial and industrial property market are showing little sign of tapering off, the latest preliminary building statistics released by government's Central Statistical Services (CSS) show.

The total value of buildings completed in October rose 18,5% to R580,7m from R490m the year before, with non-residential buildings increasing 27,6% to R171m from R134m.

Property economists have pointed out that development of many of these buildings began several years ago when the market was in an upturn and less well supplied.

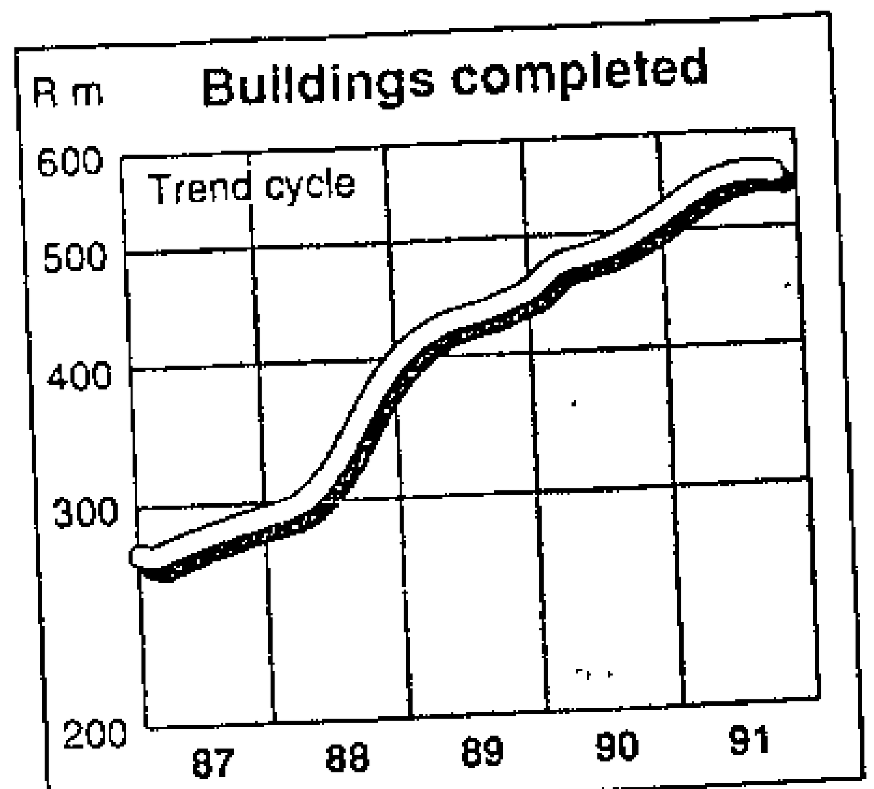
It was unfortunate that they now came on line in a depressed market that was oversupplied and suffering under a battling economy, they said.

Additions and alterations completed in Durban, Midrand and Randburg were the main contributors to the 37,2% rise to R160m.

Residential buildings increased by 4,2% to R212m, with Midrand the largest contributor.

The total value of building plans passed for October 1991 rose by 5,1% to R1bn from R958,9m the previous October.

A huge 50,7% jump to R119,8m from R81,7m was reported for flats and townhouses.



Graphic FIONA KRISCH Source CSS

Johannesburg, Verwoedburg, Sandton and Westville were the largest contributors, the CSS said.

The present move away from large homes and large properties to smaller, more secure townhouses, cluster units and flats accounted for this surge in activity.

The value of plans passed for dwelling-houses and additions and alterations edged up by 8,4% and 5,4% to R339m and R312m respectively.

The total value of building plans passed for the first 10 months of 1991 rose 14,4% over the same period in 1990 to R10bn at current prices, while buildings completed for the same period rose 13,5% over the year before to R5,5bn, the CSS said.