FINANCE

GENERAL

1984 - 85

20 JAN — 20 DEC

58

20/1/84

MOTOR WARRANTIES

Pretoria puts it straight

Motor warranty companies have just experienced their sharpest rebuke from Pretoria so far. They could find themselves out of business over night if they refuse to toe the line. And short-term insurers have been given full responsibility to see that they do.

The slap in the face came in the form of a strongly-worded letter sent to the SA Insurance Association (SAIA), shortly before Christmas, by the Registrar of Financial Institutions, Robert Burton. He warned that if exploitation of the general public is not curtailed immediately, he will outlaw the practice of recommending oil additives, and take steps to prohibit warranty companies from acting as insurance agents. In any event, Pretoria reminds the industry that their use of warranty companies for administrative assistance must end on December 31 1985.

The association, asked to comment on the letter by January 15 1984, was given a brief extension. A reply is now on its way advising the Registrar that it fully supports his principles and intentions.

A motor warranty may loosely be defined as a form of insurance that indemnifies the purchaser of a motor vehicle against mechanical defects chiefly caused by wear and tear. This was why the business was brought under the auspices of the Insurance Act on January 1 last year.

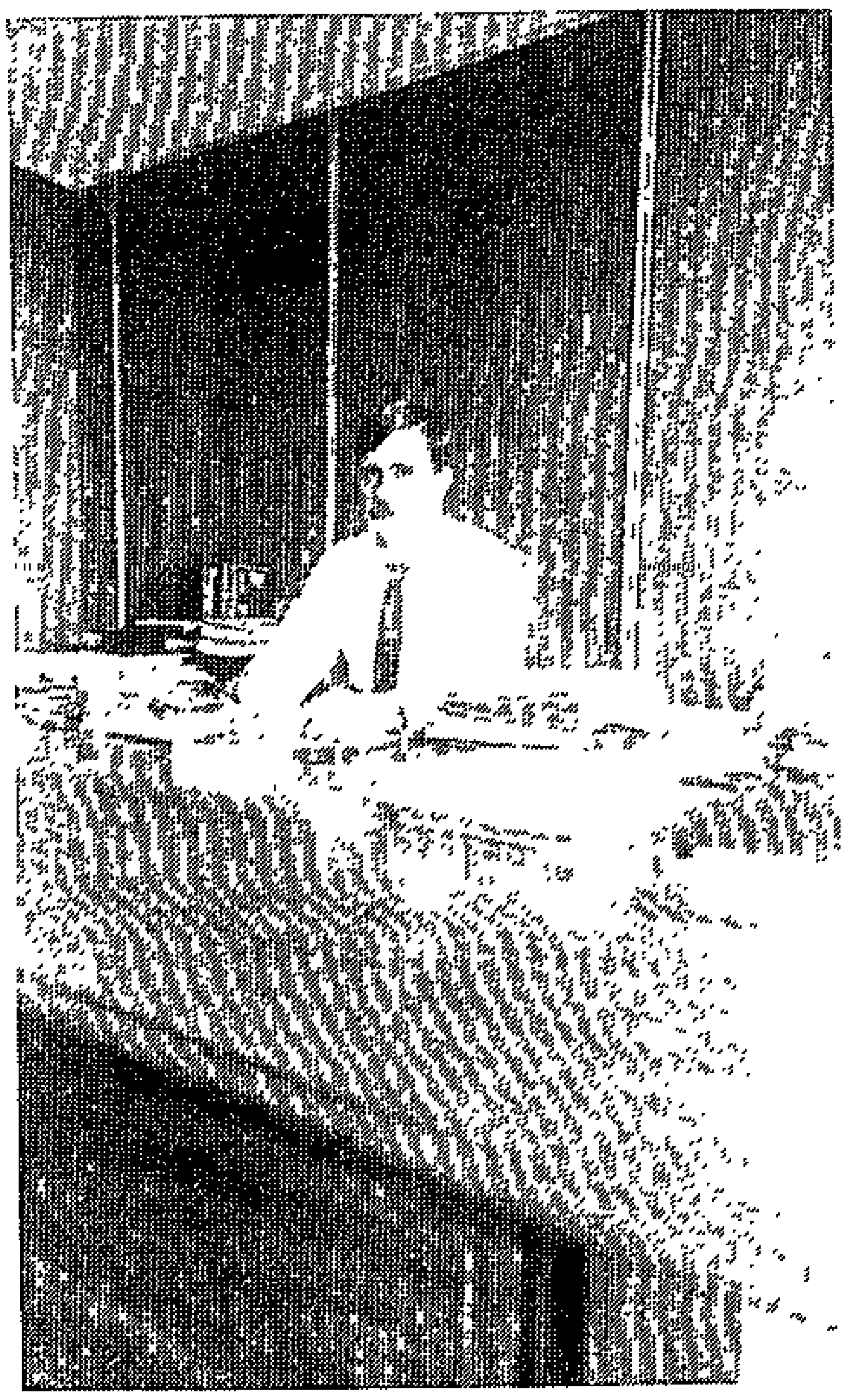
A one-year contract of particular benefit to the used car buyer should not cost more than about R200. However, several warranty companies have been overcharging for their services and the policies they sell for insurers. They have also shown a reluctance to pay claims.

Malpractices

Burton expresses grave concern in his letter about these "undesirable practices" and illegal activities. Recent detailed investigations of both insurers and warranty companies carried out by his inspectors revealed numerous malpractices and irregularities.

The insurer must settle all claims himself. Binding authorities, where a certain portion of the premium is retained by the intermediary to cover claims, must terminate immediately. He must also assess his liability in terms of the law. The rule is that liability on unmatured policies must be protected by reserves sufficient to meet future claims and expenses. The reserve must equal the gross premium less a maximum of 20% to cover expenses incurred by the insurer. As the term of the policy progresses, the reserve may be reduced in proportion to the expired period of the risk.

But apparently some underwriters are retaining insufficient reserves to cover unmatured policies. They see little of the original warranty premium and want to avoid digging into free capital reserves. Besides, many of the policies cover two- or



Registrar Burton ... laying it on the line

three-year terms where the reserve requirements are more onerous. One insurer is believed to have calculated the reserve on the basis that the risk of claim under a three-year warranty was more likely to occur in the first six months, so little reserve was retained after that period.

The Registrar is believed to be taking the view that reserves should be proportional to the period, and not to the perceived degree of risk. Thus two thirds of the net premium must be retained as reserves after the first year of a three-year warranty.

A major reason for controlling warranty companies under the Insurance Act is to ensure that provision is made for the unexpected risk held by a registered insurer. If a warranty company goes out of business, the public will not be left high and dry, as was the case previously. Where warranty companies charge more than the gross premium as outlined by the underwriter, insurers are warned that their reserves must be calculated on the figure appearing on the contract.

Insistence on strict reserve requirements should, therefore, have the effect of reducing the term of warranties to one year, and limit the incidence of overcharging on policies.

The authorities want the insurance document to be "transparent." If the motorist is going to be ripped off by the warranty dealer then the deed must be done on a separate document. The cost of oil additives, vehicle inspection fees, pre-delivery services, repair costs and other nebulous expenses must not be included as part of the premium as shown on the policy contract. This, plus stamp duty, less the allowable 12,5% commission, must be passed direct to the insurer.

The Registrar also warns that the insurer has a right to require certain oils and oil additives only if he can demonstrate that they reduce his risk. The charge must be reasonable and appear on a separate invoice. If the insured has to pay for a vehicle inspection he must be given the freedom to choose his inspector, while the cost must be deducted from the gross premium.

The new directive is well overdue. It follows a period during which the authorities have received a good deal of criticism for their mishandling of the motor warranty industry. In fairness, Pretoria could never have expected an easy time in bringing this business to heel — the motor trade is infamous for its independence of the law. Hopefully Burton's forthright approach, for which he must be commended, will redress the balance.

Insurers are now answerable to Pretoria for any malpractices they or their agents — the warranty companies, garage dealers and other intermediaries — perpetrate. It should mean a much better deal for the public.

Allied Building Society linking with Nedbank

CAPE TIMES 20/1/84

— market sources

By HOWARD PREECE

JOHANNESBURG. — Nedbank and Allied Building Society are planning to work together in yet another massive deal that will have a major impact on the whole South African financial scene.

The two giants have combined assets of around R14 billion at present.

Neither party was prepared to comment on the precise nature of the deal last night, however.

But there is no question of any kind of formal merger.

Any such move would be almost certainly be blocked by the authorities — and would in any case probably not be wanted by either management.

What does seem intended is a close business relationship.

There is clear precedent in the links established last year between the Standard Bank group and the United Building Society.

Relationship

A similar relationship would enable Nedbank and Allied to work together to offer both their customers additional services and to rationalize some activities and operations, including on the technical side.

The announcement of the deal was, however, intended to made by Nedbank and the Allied over the coming weekend.

Mr Rob Abrahamsen, Nedbank's chief executive, said last night: "I have no comment to make. Banks do not comment on any relations with their clients."

Mr H R Pascoe, the deputy managing director of Allied, also had no comment.

Taxed profit

I learnt of the Nedbank/Allied deal through market sources.

At the end of the financial year to March 31, 1983, Allied had assets of just over R3 billion.

In that year it granted R770m on new mortgage advances and re-advances.

The rise in mortgage advances took the outstanding net amount to R2.2 billion.

Nedbank has had a remarkable success record in recent years.

In the year to last September last Nedbank reported a 37,2 percent rise in disclosed taxed profit to R121.6m.

Total assets were then up to almost R10.6 billion.

The last few years have been a major upsurge in competition between the banks and building societies in line with the general Government and Reserve Bank policy approach to encourage free market economics.

This has been reflected in the move by banks, led by Barclays, into the home loan mortgage business and by the interest rate war on all sides to attract deposits and new accounts.

Mr Owen Horwood, the Minister of Finance, has also made clear that the tax concessions given to the building societies are gradually to be phased out.

At the same time, however, this means that building societies must also be allowed to expand their activities and to compete vigorously with banks and other financial institutions for the public's money.

But the banks and building societies generally are involved in colossal costs in, among others, the whole technology of electronic banking and in their branch networks.

Rationalization

Cost-saving rationalization is an obvious answer.

In April last year the Registrar of Financial Institutions blocked a proposed take-over of Standard Building Society, part of the Standard Bank group, by the UBS.

But it was then announced that Standard Bank was to take over the UBS banking account that the organizations would fuse their compatible banking networks and certain other client services.

In that sense, therefore, the Nedbank/Allied deal is no surprise.

Nedbank, however, comes the under the effective control of the Old Mutual which has traditionally had close ties with the SA Permanent Building Society.

There may, therefore, be more ramifications

Fire knocks Western Deep milled production

Own Correspondent

JOHANNESBURG. — Western Deep Levels (WDL) was hit by a major fire in the December quarter which knocked milled production by 4.8 percent and will affect the March quarter as well.

The mine has provided R3.1m so far for the cost of rehabilitating the workings affected by the fire once it has been put out.

Six people were killed as a result of the fire when they managed to get into a sealed-off return airway on 105 level on November 15.

The mine's ... Elandsrand's net profit fell to R16.360m (R18.557m) and the mine had a negative cash flow for the quarter of R1.104m equivalent to 1.1c a share because of capex rising to R17.464m (R15.022m).

Vaal Reefs turned in the best financial performance of the Anglo Transvaal gold mines and increased its distributable earnings to 312c a share from the September quarter's 273.8c a share.

Main contributors to the improved financial results from the Western Transvaal supermine were the R11... milled throughput and grade to raise gold production to 432kg (384kg).

Taxed profit was R1.135m (R1.047) equivalent to distributable earnings of 12.4c a share (11.4c) as Sallies funds its capital expenditure programme from the proceeds of a rights issue and does not take it from earnings.

East Rand Gold and Uranium performed well in the December quarter but the Simmergo operation at the Simmer and Jack mine near Germiston battled.

Simmergo turned an operating profit of

Umdoni ... maiden d...

Own Correspondent

JOHANNESBURG — Umdoni Property Trust has declared a maiden quarterly dividend of 2,5c, in line with the forecast in the prospectus.

Umdoni's first accounting period will cover the 15 months to the end of December this year, and dividends of not less than 10c a unit have been forecast for the period, making a total of 12,5c.

The maiden dividend is being paid out of profits earned on Umdoni's portfolio of commercial and industrial

Barclays posts impressive results, income up 23,7%

Cape Times 21/1/84

By HAROLD FRIDJHON

(58)

JOHANNESBURG. — In absolute terms the results of Barclays National Bank for the year ended December 1983 are impressive but viewed against the background of interest on current accounts and the stepped up competition in the banking industry they are excellent.

Net income for the year at R125,6m was 23,7 percent higher than 1982's R101,5m, resulting in earnings increasing from 190,6c to 236c. With the final dividend of 60c the total for the year is 95c, compared with the previous year's 75c. The dividend cover is unchanged at 2,5 times.

When the announcement about the forthcoming rights issue was made in December it was estimated that earnings would be 230c with the dividend at 90c.

The group's net operating income reached a new peak of just over R200m — 31,2 percent better than in 1982, but a much higher tax rake-off of R70m severely pruned the bottom line figure.

The managing director, Mr Colin Waterson, said yesterday that the tax rate was high because large financing deals were completed just before the end of the financial year and the investment allowances on the equipment involved were being carried forward as a tax equalization reserve. This will revert into profits in future years.

The tax rate was 34,9 percent compared with 25,8 percent the previous year.

A special tax provision of R4,6m was made in previous years pending the outcome of discussions with the Commissioner for Inland Revenue on the taxing of income from certain preference shares.

Total assets of the Barclays group went up by 21,7 percent in the year to R15,544 billion, deposits rose by 25,1 percent to R10,946 billion and advances increased by 31,2 percent to R10,393 billion.

Total assets

Judging from the June interim report most of these impressive gains were achieved in the first half of the year when assets were reported as R15,2 billion, deposits were R10,8 billion and advances were R8,94 billion.

Mr Waterson said that the big growth in deposits was the result of a well sustained marketing effort, particularly at branch level, to build up deposits when competition had been intensified by the payment of interest on current account.

Many customers switched from savings accounts to current accounts to receive the additional benefits. This applied particularly to the Status account which had been launched in the year.

The return on shareholders' funds rose from 19,7 percent in 1981 to 21,9 percent in 1982 and 23,2 percent in 1983. A similar pattern of growth was achieved in the return on total assets which went up from 0,75 percent in 1981 to 0,79 percent the following year and to 0,81 percent last year.

The commercial banking operation continued to contribute the lion's share of the profits earned by the group. Pre-tax profit rose by 7,5 percent to R106,4m in spite of the payment of interest on current accounts.

The cost of interest was partly offset by the marketing effort which boosted cheque deposits by 44,4 percent from R1,8 billion to R2,6 billion.

Growing arm

Wesbank's pre-tax profit went up by 73,5 percent to R50,4m, making the instalment-financing bank the second biggest contributor to group profits.

Wesbank, Mr Waterson said, had an uneven year. When rates were relatively low in the first part of the year trading conditions were favourable but when interesst rates moved up sharply profitability was squeezed between the high cost of money and the Ladofca ceiling.

Barclays National Industrial Bank (Barnib) was the fastest growing arm of the group. Its profit leapt ahead by 77,2 percent to reach R31,292m before tax.

The profit of the merchant bank dropped from R6,7m to R5,6m probably because of the sharp decline in banker acceptances finance.

At the end of the year the group's excess capital amounted to R160m. This will be increased by 50 percent as a result of the rights issue which is to be made early this year and which will raise about R80m.

The purpose of the issue, Mr Waterson said, was to build up a solid base to enable the group to participate fully in what he termed the re-wakening of the economy. The group would then be in a strong position to go for growth.

The rights issue was being made now when market conditions appeared to be very favourable. The last rights issue was made 12 years ago when Wesbank was acquired.

GST to rise 1pc next month

Cape Times 24/1/84

58

Staff Reporter

THE government would increase the general sales tax by one percent to seven percent from February 1, the Minister of Finance, Mr Owen Horwood, announced last night.

Mr Horwood put the blame for the increase on the world-wide economic downswing, the inability of South Africa's trading partners to register an early and meaningful economic recovery, and the recent drought in South Africa

He said the rapidly-declining gold price and a consequent weakening of the rand-dollar exchange rate, and the higher-than-budgeted expenditure on essential services, also contributed to the need for the increase in GST.

"No tax increase is without sacrifice, and in view of price and cost increases evident elsewhere in the economy, the government would have preferred to avoid any increase in taxation, especially at this point in time. Unfortunately this is just not possible," Mr Horwood said.

An advantage of general sales tax, however, was that it was levied on almost all final purchases.

"As a consequence, the community as a whole contributes to the financing of public expenditure, which in turn is incurred for the benefit of the whole community," he said.

The government's most important and unavoidable expenses were on drought relief, defence and the servicing of the public debt. Other expenses were on food and transport subsidies.

"On the other hand, the growth of the country's sources of income is limited by the present economic downswing and is insufficient to cover a growing deficit, due primarily to declining profits in the business sector and a decrease in net customs and excise revenue," Mr Horwood said

Pointing out positive steps, Mr Horwood said significant progess had been made in the fight against-inflation. A positive turn-about in the balance of payments had been continued and consolidated. South Africa's credit-worthiness internationally stood at a very high level

"In addition, it seems as if the economic downswing has reached its lowest ebb, or very nearly so.

"All in all, I am optimistic that South Africa will soon benefit from the long-awaited improved international economic climate and during 1984 experience the commencement of a prolonged and healthy export-led economic upswing."

● **Poor people hardest hit, page 6**

FINANCE/STOCK EXCHANGE

Money supply 'key to lower SA inflation'

ARGUS 26/1/84

58

By David Bleazard

THE inflation rate would not be brought down significantly unless decision-makers like the banks could be convinced that the money supply was under control, Professor Brian Kantor of the UCT School of Economics said last night.

He was speaking during a panel discussion on monetary policy and inflation in the Summer School series on the South African economy in the next decade.

Professor Kantor argued that the failure of the authorities to control the money supply meant an opportunity to benefit from the recession by permanently reducing the inflation rate had been lost.

"Money supply growth has remained unacceptably high and highly variable through the downturn phase of our business cycle."

Although money supply growth had declined from about 38 percent in the second quarter of 1981 to about 15 percent by the end of 1982, it accelerated again from the third quarter of 1982.

The authorities had been unable to control the money supply because they used the management of interest rates and exchange rates as instruments of control.

"They should abandon attempts to manage interest and exchange rates and concentrate on controlling the high-powered money — the note issue and cash reserves of the banking system."

"SCARED"

Professor Kantor said the present high interest rates were meant to counteract the effects of the failure to control the money supply.

"The authorities are scared of the effects of the money supply growth on the economy. They are scared that the recovery will come on too soon and too strong.

"But it would have been better if we had had lower interest rates and lower money supply growth."

GOLD PRICE

Dr Jaap Meijer, assistant to the Governor of the Reserve Bank, said interest rates were high because the Reserve Bank was trying to establish credibility in doing something about the inflation rate.

He accepted the interdependence of the rate of growth of the money supply, interest rates and the exchange rate, although other factors such as the gold price also affected the exchange rate.

One could try to control inflation through interest rates or through the money supply.

However, the Reserve Bank had no direct control over the cash reserves banks held. They did not hold surplus cash and operated on the minimum amount they needed.

When they needed to replenish their cash reserves they went to the discount houses, which the Reserve Bank had no option but to accommodate.

Consequently the Reserve Bank could not exercise an exact degree of control and had to work in an indirect way through interest rates.

Dr Meijer said the Reserve Bank and Treasury hoped in future to announce target rates of growth in the money supply.

Sanlam holds 40% Protea Holdings issued shares

CAPE TIMES 31/1/84

(58)

By PATRICK McLOUGHLIN

Mr Alan Lighton has been appointed deputy director of the Cape Town Chamber of Commerce.

JOHANNESBURG. — Sanlam has acquired effective control of the R390m turnover industrial conglomerate Protea Holdings.

A spokesman for Sanlam said yesterday indications were that Sanlam had over 40 percent of Protea's 33,5m issued shares. The group would consider buying other Protea shares "on merit".

He declined to say whether Sanlam would purchase Protea shares in the future.

Informed sources say, however, that Sanlam has a holding closer to 45 percent and a change of absolute control in the next few months is on the cards if Sanlam continues to buy.

Potential

Dr Fred du Plessis, commenting on Sanlam's stake in Protea, said: "Our attitude is that sooner or later, something will happen to Protea and it has potential. We want to hold Protea shares."

In the year to June 30, Protea reported turnover of R386m (previously R402m) and earnings a share of 41,5c (66,4c).

Market talk on Protea — which has been the subject of take-over speculation for some time — was revived last week when 1,068m Proteas shares were traded.

The volume represented slightly more than 12 percent of the week's total volume in non-mining shares of 8,713m, attracting brokers' attention in a relatively static market.

Volume

On Monday, Protea moved up 5c to 340c on a small volume but on Tuesday the share increased a further 10c on a volume of 963 395 shares — 2,9 percent of Protea's total issued shares.

The rest of the week saw Protea move up to a 12-month high on Wednesday, after a 30c price rise to 380c, while on Thursday and Friday the share price fell 5c to end the week at 370c.

Aside from Tuesday, when there was a bookover of about 950 000 Protea shares by broking firm Simpson Frankel Kruger on behalf of Sanlam, volumes remained fairly low.

The deputy chairman of Protea, Mr Aidan Beard, said there had been "a substantial change of shareholdings" in the group with 15,3m Protea shares — almost half the total share capital — changing hands in 1983.

Buying order

He said he had known of a substantial buying order placed with Simpson-Frankel for Protea shares, but he did not know if Sanlam was approaching control. This was partly because Sanlam had a number of bank nominee accounts.

Mr Beard said he didn't know if Sanlam had any further buying orders in the pipeline.

"I assume Sanlam has decided the recovery potential in Protea is good and they are simply accumulating shares," he said.

Sanlam's overwhelming shareholding means that it has secured effective control of Protea from Old Mutual, which some analysts believe to have around 20 percent of the shares.

Mutual bought about nine percent in Protea from Anglo American Life early last year. Protea, later in the year, issued 3m new shares at 290c each in part payment for graphic materials supplier Photra.

When the Photra vendors placed them with Old Mutual for cash, a paper chase was triggered for any of the 33m Protea shares in issue after the Photra deal.

Shareholder

Sanlam was the largest single shareholder in Protea 12 months ago. It held no more than 12 percent of the equity in its own name, although it may have held more through nominees.

The paper chase in October-November saw almost 7m Protea shares change hands prompting market speculation of a take-over bid.

Sanlam is keeping

To page 13

(58) (59)

The Cape Times, Thursday, February 2, 1984

South Africa may soon raise dollar loan — bankers

From NEIL BEHRMANN

LONDON. — European bankers believe that South Africa will soon raise a large dollar loan on the Euromarkets.

The money will be raised via a syndicated credit or Eurobond (gilt).

Timing could be propitious. The Eurobond market was flush with funds in the past week — an improvement over the recent cautious climate.

Spain, one of Europe's weaker credits offered $200m of 13 year notes. Such was the demand that in only a few hours the amount was raised to $250m.

Interest was set at only one eight of a point over the London Interbank rate for six months Eurodollars, currently 9,88 percent.

A Republic of South Africa bond issue would set the pace for a concerted international borrowing campaign this year.

Budget estimates

In the first nine months of its fiscal year, the government's deficit was well in excess of Budget estimates. Total outlays of all State departments exceeded revenue by R2,5 billion.

The local money and capital market is already under considerable pressure and both long and short-term interest rates are inordinantly high. So the government's domestic borrowing capability is limited.

This leaves the government and quasi-State bodies such as Escom and Iscor, little alternative but to borrow abroad.

If they fail to do so, local interest rates, especially medium and long term could either rise to new hights or there could be further depreciation of the rand.

Since the flat gold price and the prolonged drought are aggravating the recession it is highly likely that the authorities will opt for the foreign borrowing option.

Foreign markets

The big question however is whether South Africa will be able to raise substantial funds on the foreign markets this year. On the positive side, South Africa has proved to be an excellent credit risk.

"Banks are shying away from South American and East European nations, but they are happy to lend to countries with low debt service ratios," says a London banker.

He adds that South Africa's international credit commitments of two years or more were around $2,2 billion at the middle of last year only 15 percent of total exports.

He contends that there are more than sufficient international funds for sound sovereign borrowers.

But other bankers and officials, are more cautious.

The United States Congress, through various acts last year, has leant on American banks and the International Monetary Fund. This pressure enforces extra scrutiny on loans to South Africa.

Regardless of political factors, the international banking climate is not conducive towards a sharp rise in South African borrowing.

Newsletter

Agefi, the international credit newsletter, estimates that total syndicated Euro-loan and international bond issues dropped from $246 billion in 1982 to $186 billion in 1983.

"The market shrank significantly in 1983 ... such a large drop does not automatically indicate a strong revival in 1984," says the newsletter.

South Africa's borrowing on these markets tumbled by $1 billion to $1,4 billion in the same timespan, estimates Agefi. South African syndicated credit and bond borrowing in 1982, however, were considerably higher than the levels seen in 1981.

Morgan Guaranty says "lesser developed countries' debt problems led to considerable restraint by lenders and investors".

It estimates that LDC's raised only $2,5 billion in the international bond markets last year.

But Standard & Poor's, the American credit agency, recently concluded that the debt crisis confronting many developing nations, masked the deteriorating credit risks of "small industrialized nations".

These countries are much better off than Mexico, Brazil and others but their balance of payments and domestic economic performance has deteriorated because of the prolonged international recession.

Credit ratings

Last year, for the first time ever, Standard & Poor downgraded its credit ratings of industrialized countries.

Denmark and New Zealand's debt ratings were lowered from the top quality AAA to AA+.

Australia, Austria, Canada, Finland, France, Japan, Norway, Sweden, United States and United Kingdom are on AAA ratings.

South Africa is not rated by Standard & Poor's because it did not ask for an assessment.

Unfortunately, however, it can be classified as a small industrialized nation, with growing economic problems.

Even though South Africa borrowed less on the Euromarkets last year, total credits increased. Companies resorted to extensive trade finance abroad because they took advantage of lower interest rates abroad.

The Bank for International settlements says that between September 1982 to September 1983, total net South African borrowings rose from $10,9 billion to $12,4 billion.

About 60 percent of these loans were credits with a maturity of one year or less. These short-term credits must be rolled over, otherwise there could be short-term capital outflows — with all the unpleasant side effects.

Commodity Index	1999,3
Platinum	$386,50
Palladium	$162
Raw Sugar	£127,50

Trust Bank profits up 19,2% in first half

By HAROLD FRIDJHON

CAPE TIMES 10/2/83 (58)

JOHANNESBURG. — Disclosed taxed profit of Trust Bank for the six months ended December 1983 was R20,5m, an impressive increase of 19,2 percent on the outcome for the corresponding period of the previous year.

After the deduction of R2,776m for preference the balance attributable to shareholders was R17,724m of which R17,7m was tranferred to disclosed reserves. This brings the total of these reserves to R121,1m.

The earnings a share on the present share capital before transfer to the reserves are 34,24c compared with 27,88c for the six months ended December 1983 and 61,43s for the full year to June 1983.

The directors report in their interim statement that the result had been achieved in spite of severe pressure on interest margins caused by sharp increases in all deposit rates and the resistance by the authorities to lending rates rising to market-related levels.

Margins

The three reductions in liquidy asset requirements have not compensated for "the drastic narrowing of margins".

Considerable asset growth and increased penetration in important market segments compensated for shrinking profits margins. In addition, sources of income not linked to lending were also profitably tapped.

"Prospects for the second half of the financial year are viewed with circumspection and will largely be determined by the way in which monetary policy is implemented in this period."

The managing director, Dr Chris van Wyk, said yesterday that the pleasing outcome of the first half of the year had been the result of several factors.

First the bank was achieving increased penetration in the corporate sector of the market, as well as in upmarket personal finance business. Trust Bank had been concentrating on giving advances to quality chequeing accounts.

The customer profile was constantly improving

Forex markets

Another area which showed sound growth was in the provision of off-shore short and medium-term finance and in trading activities in forex markets.

Fee-earning income was now being brought into account from large projects in which the bank was involved, projects such as Alantis Diesel, Sappi and several others.

The bankers acceptances business in which Trust Bank and Senbank had a major share had levelled off in the second half of last year when overdraft financing was more advantageous than using BAs.

The bank was increasing its penetration in the hire-purchase and instalment finance field.

Comment: The new year starting July 1 1984, is of special significance to Trust Bank which has persistently reiterated that dividends to ordinary shareholders will only be resumed in 1985. This indicates that this time next year the first interim dividend will be announced.

Judging by the current market price of 250c, investors are prepared to forego another dividend-barren year of waiting for their return in the hope of getting a high payout.

Guessing now what the dividend will be then would be reaching too far over the horizon. The best one can do is to project what the profit and theoretical dividend would be at the end of the current year on the basis of current earnings.

All the banks show larger profits in the second half of their financial years when accounts are finally closed and all the bits and pieces are brought into the final reckoning

Looking at Trust Bank's profit without the payment of preference dividends which will fall away when dividend payments are resumed, the bank earned R17,2m at the halfway stage last year and R20,1m in the second half.

Last year's second half profit was earned in the first half of this year which suggests that in the six-month's period to December, R23,5m will be earned — if the economy does not deteriorate to any marked extent.

Preference shares

This means that, assuming all the preference shares are converted as they will be at the end of the current year, the number of shares in issue will be 132,9m. On a net profit of R44m the earnings would be 33c giving a three times covered dividend of 11c and a yield of 4,4 percent

A further growth rate of about 20 percent in 1985 cannot be entirely ruled out. The one point to consider is, does it pay to wait for the return?

When it is in the clear and all debts to the Reserve Bank for its lifeboat rescue have been discharged, Trust Bank could set an example to South African-owned banks by accounting on a full disclosure basis, as Barclays and Standard do.

Statistics point to 12 months of solid growth

Cape Times 15/2/84 (58)

Stannic posts a net income of R23,735m

By HAROLD FRIDJHON

JOHANNESBURG. — A spectacular turnaround in the net income of Stannic enabled the Standard Bank Investment Corporation (Stanbic) to achieve a 46,9 percent increase in its attributable profit for the year to December 1983.

Attributable profit rose from R82,769m to R121,582m, raising earnings from 135c a share to 188c. The final dividend has been increased from 32c to 40c making a total of 55c for the year against the previous year's 44c. The cover was 3,3 times against three times cover the year before.

The group's operating profit before tax was R173,11m, up 33 percent on 1982 Tax, however, rose by only R5m as the tax rate declined from 34 percent to 29 percent The previous year's tax charge includes provision for a prior year's disputed tax which remains under appeal

Retained profits

Taxed income of R117,577m (R80,98m in 1982) was enhanced by R4m, the share of the retained profits of associated companies — R1,789m in 1982

While the attributable profit increased by 46,9 percent, the earnings a share were only 39,2 percent higher because of the issue of 7 672 500 shares during the year — 6,7m to effect the Donald Gordon/Liberty Life deal, with the balance going to the staff share incentive scheme.

The statistics of the year point to 12 months of solid growth Shareholders' funds have increased by 21,7 percent to R628,855m with the return on shareholders' fund increasing from 16,9 percent to 20 percent.

Total assets rose by 13,6 percent to R11,377 billion with current, deposit and other accounts increasing by 11,7 percent to R9,967 billion

Advances and other accounts were 20,6 percent higher at R8,527 billion.

Growth rate

The commercial bank, the Standard Bank of South Africa showed a growth of only 4,5 percent last year with the net income going up from R77,603m to R81,132.

The Standard Merchant Bank registered the same rate of growth to achieve a net income of R10,287m

Stannic was the spectacular performer: From a loss of just under R7m in the year to December 1982, the hire-purchase and leasing bank turned in a net income of R23,735m. This was achieved through increased market penetration and the writing of more profitable business Only a limited portion of Stannic's book was now being written on a fixed rate basis.

No earnings have been brought into account for the additional 25 percent shareholding in Liblife Controlling Corporation (Pty) acquired with effect from July 1, 1983.

Debt provisions

The managing director, Mr Henri de Villiers, said yesterday that debt provisions had been increased to cover potential losses this year. The charge to profit and loss had been increased from R40m to R50m. Other provisions had also been increased. He considered this a prudent move in the light of prevailing conditions.

The past year had been tough but the outcome was better than had been expected at last year's annual meeting when a gloomy view had been taken of conditions in banking after the abolition of the Register of Co-operation between banks.

But in a competitive market the bank and its staff performed exceptionally well.

The banks had been assisted by the reduction in the liquid asset requirements which the banks have to hold This released assets of between R500m and R1 billion.

Outlook

The bad debt experience in the past year had not been as bad as had originally been expected but Mr de Villiers was concerned about the outlook for the current year with the economy in recession and the distress of the agricultural sector to which the group was substantially committed.

During the year the changes in interest rates had squeezed margins, particularly earlier in the year when the bank had been committed to high-cost borrowing when lending rates had fallen. At present costs of money were running at a high rate but the bank did not raise its lending rates to where they should be because it was not considered expedient or in the public interest.

Progress was being made in strengthening the links with the United Building Society and Liberty Life Association. The Standard Building Society was winding down slowly, but it would take many years before it was finally wound up.

Looking at the current year, Mr de Villiers said that he would be relieved if the last year's figures were repeated

4 Business Day

RDM 8/3/84 (58)

Horwood stresses need for foreign funds

Financial Reporter

THE Minister of Finance, Mr Owen Horwood expects South Africa to have a current account surplus on the balance of payments of R500m-R700m in 1984.

In December he predicted a surplus of R500m-R1 000m for the year to March. His downward revision of the upper estimate has presumably been caused by the recurrence of severe drought and continuing agricultural crisis.

Mr Horwood, speaking to Reuter during the Financial Times' Euromarket Conference in London yesterday, said his forecast was based on the assumption of an average gold price for the year of about $400.

The balance of payments is so dependent on gold — a $10 difference in the average annual price means about R230m — that any overall predictions at this stage must be highly speculative.

Mr Horwood told the conference South Africa would not return to the dual exchange rate system removed with the abolition of exchange control over non-residents in February 1983.

He said it also remained the long-term objective of official policy to relax further and simplify exchange controls for residents.

"But first we shall require a better-looking gold price, a cessation of the crippling drought and a healthier world economy," Mr Horwood said.

The lifting of exchange controls on non-residents — introduced in 1961 — represented a major step in the long-term aim of deregulation of the financial markets.

"South Africa is a country which has given ample proof that it has a sustained potential for economic growth, that it believes in the virtues of private enterprise and that it welcomes foreign participation in its domestic economic development."

By abolishing exchange controls on non-residents the country had demonstrated, not only its favourable disposition to foreign capital, but also its capacity to provide an equitable environment for productive and profitable foreign investment.

"I am well satisfied with the results of the steps taken in February 1983, and there is no possibility that we will revert to the previous dual exchange rate system."

Mr Horwood said projections indicated that the total capital expenditure of all SA's public-sector institutions over the next few years would average between R8bn and R9bn a year.

"It will be difficult to finance this substantial amount from domestic savings without some crowding-out of the private sector, and these institutions will therefore continue to be important borrowers in foreign markets."

Apart from these identified requirements, the new constitutional dispensation and the ever-greater emphasis being given to economic development in Southern Africa, were bound to create new demands and expectations.

Mr Horwood said the emphasis in the longer-term economic strategy in Southern Africa had now shifted to a regional economic development approach, with special attention being focused on the under-developed areas.

"Improved incentives for the decentralisation of industries are taking effect and the programme is gaining momentum."

The recently-established Development Bank of Southern Africa would soon be in a position to play an important role in the further development of the sub-continent.

"Although South Africa finances nearly 90% of its aggregate capital requirements from domestic sources, foreign capital remains important to us."

The great challenge facing SA, with its dual economy, was to continue raising the quality of life and living standards of the many millions who made up the diverse and rapidly-growing population of the region.

"The achievement of this goal is greatly facilitated by foreign investment and its concomitant modern technology," Mr Horwood said.

OWEN HORWOOD

Sanlam may be creating new industrial group

58

By JOHN MULCAHY

Cape Times 14/3/84

JOHANNESBURG. — Sanlam seems to be in the process of creating another major industrial group, incorporating Malbak, Protea Holdings, and possibly Abercom Group.

Hot favourite to be top of the pile is Malbak, which has one of the most highly regarded professional management teams in South Africa.

After raiding the market to acquire control of Abercom, Sanlam is now believed to be involved in negotiations which will lead to the take-over of Protea by Malbak.

Protea and Malbak's listings were suspended on the Johannesburg Stock Exchange on Monday, for a period of 72 hours, which means that an announcement will have to be made before the opening of trading tomorrow.

Sanlam has at least 45 percent of Protea, or 13,5m shares, which at the pre-suspension price of 340c a share is worth about R45,9m.

New shares

Malbak's pre-suspension share price was 650c, which suggests that for R45,9m in value Sanlam would receive 7,061m new shares.

Sanlam already holds about 20 percent of Malbak, which means that of the hypothetical share capital after the new share issue of 17,642m shares, Sanlam would hold 9,177m shares, or 51,7 percent.

A neat acquisition of control thus follows, and the only questions remaining are: Who runs the group? Is an offer made to Malbak minorities? What happens to Abercom?

To address the last question first, the Abercom deal, by which Sanlam acquired control of the engineering group through the market, is close enough to the suspensions of Malbak and Protea to suggest that Sanlam's intentions for Malbak and Protea also involve Abercom.

This, however, is for the time being a peripheral issue.

Control

There seems little doubt that Malbak's management will retain control of the enlarged group, headed by Mr Grant Thomas.

Sanlam's choice of management is also likely to be swayed by the defensive action attempted by Protea to ward off the Sanlam threat.

Protea is believed to have gone pavement pounding to find an alternative to Sanlam, but to no avail.

Malbak's market capitalization before suspension was R68,77m, that of Protea was R102,023m and Abercom at yesterday's 290c is valued at almost R60m, which puts a total market value of more than R230m on the three companies.

In second place in this race, as in several previous battles, is the Old Mutual, Sanlam's arch-rival.

The Mutual has traditionally been content with a minority, or "strategic" holding in companies, and this policy was fine when there was still a wide selection of free-floating companies on the JSE.

Growth

But the growth in institutional cash flows over the past few years, accompanied by a shrinking equity market, has seen more and more of the independents sublimate to institutional control.

It can be argued that the Mutual did not really want control of Protea anyway, but if that were true then what possessed it to competitively build up a big stake through the market?

The one remaining question is what has motivated Sanlam to zero in on what are regarded by the market as little more than second-liners.

The answer must be that there is so little left that Sanlam has been forced to go for companies that could have recovery prospects, and in all three of this week's cases that description must apply.

Malbak's fortunes are closely linked to the economy firstly, and more topically, to the agricultural and motor sectors.

The one certainty about the agricultural sector is that it will rain again, although the timing for this eventuality is less certain.

Recovery

This must also be true of the economy, and specifically, of the motor sector, so the recovery argument certainly applies to Malbak.

For Protea, which is essentially an agency business, there is some way to go before making up ground lost in the year to June 1983, although the six months to December showed that there had been no further deterioration.

Protea's directors have for years complained that the group is misunderstood, that doing with the the set to do a similar trick with Protea, and is likely to do a deal with Old Mutual on Malbak.

Abercom has recently emerged from a particularly difficult patch, and after applying radical surgery seems to be on the road to better things.

In the case of Protea and Malbak, the issues are more complex. While effective control of Protea was vested in Sanlam, the same cannot be said of Malbak, where until recently Old Mutual had the bigger stake.

N. Mercury 15/3/84 (88)

Reports sought on S A banks' foreign activity

Mercury Correspondent

JOHANNESBURG—The South African Registrar of Financial Institutions has requested local banks to supply by today detailed descriptions of the accounting of their foreign assets and liabilities where they have an overseas presence.

This move by the authorities is the first in a programme which aims at controlling and policing local banks' foreign operations, say banking sources.

It will also enable the authorities to get a sharper handle on the banks' foreign activities which, at present, show a somewhat unclear picture, said one banker.

Local banks, he explained, have tended to interpret the requirements of the Reserve Bank in different ways.

Concern

The concern over foreign exposure on the part of South African banks has been inspired by the Reserve Bank, which in turn has come under pressure from the Bank of England, say bankers.

South Africa's foreign debt, according to figures published by the International Monetary Fund for June 1983, is almost R12 500m.

The Reserve Bank is now committed to monitoring this debt and bringing South Africa into line with the procedures of the Basle Concordat, an international central bank agreement, sources said.

At present, South Africa is not a signatory.

This means the need to set ground rules by which the banking community can to operate. This will become especially important when the economy takes off, said one banker.

At present, many foreign liabilities incurred by local banks are not required to carry capital requirements as they are treated as contingent liabilities. These are in the form of off-shore credit facilities for South African companies.

Some bankers believe authorities may tighten regulations in this area.

Off-balance sheet items may be brought on to the balance sheet to enable a clearer financial view on the banks.

Capital

This would also mean that banks would have to tie up capital that they do not have to at present and thus, bank profits could be affected, some bankers said.

An official of the Reserve Bank confirmed that a circular had been sent to the banks and that their foreign operations were being investigated but declined to comment further.

He also said that any new requirements instituted would not harm banks.

The local banks that have overseas branches are Nedbank Group, Volkskas Group and Trust Bank. — (Reuter)

R667m aid immediately for banks

Pretoria steps in to hold prime

* RDM Business 15/3/84 (58)

By HOWARD PREECE

THE Reserve Bank last night took special action to stop another rise in prime rate, the minimum overdraft rate, from its 20% level.

A particular reason, according to some economists, is to prevent farmers from facing even further rises in colossal debt burdens.

But the actions announced in Pretoria by Dr Gerhard de Kock, Governor of the Reserve Bank, also fit in with his long-term objective of changing the methods of monetary policy control.

Dr De Kock announced cuts in the commercial banks liquid asset requirements for short- and medium-term liabilities.

The relaxations, he said, would release about R667m in cash and liquid assets to the banks.

This will obviously ease the pressures on the banks and remove any immediate need to increase prime rate to 21%.

Continuing, and surprising, high demand for bank credit, coupled with the steep cost to the banks of getting help from the Reserve Bank to stay within legal obligations, has put renewed upward pressure on prime.

It looks as though the Reserve Bank has decided to try and keep prime at 20% for the time being.

Under Dr De Kock's changes banks will now be obliged to hold only 25% — previously 30% — of their short-term liabilities in liquid assets.

This change, effective from the date of certification of the banks' February 29 monthly statements, will apparently release about R450m in liquid assets.

That means that the banks can put those funds to much more profitable use.

Dr De Kock has also decided to abolish from today the requirement that the banks keep a supplementary cash reserve equal to 2% of medium-term liabilities with the National Finance Corporation.

That will reduce the total liquid asset requirement for medium-term liabilities to 18% from 20% and release about R217m in cash.

The Reserve Bank has been progressively reducing liquid asset requirements in line with the recommendation of the De Kock Commission that bank credit should be controlled by a so-called "cash reserve" system rather than by liquid assets.

It is argued that the cash reserve system will make it much easier for the Reserve Bank to control bank credit and thus to keep a much tighter grip on money supply.

Both the Reserve Bank and all leading private sector economists agree that money supply has been expanding far too fast for far too long.

According to the latest figures, for the 12 months to the end of January, the broadly-defined M2 measure rose by 17% while the narrower M1 soared by over 29%.

The crucial reason for this is simply that the authorities have not been tough enough in their overall financial strategy.

However, they do have have some merit in their claim that control over the money supplyis, as in a number of other countries, more difficult in practice than it might seem to some theorists.

A cash reserve system should have far fewer loopholes for "creative" credit creation by the banks.

But the timing of Dr De Kock's announcement last night seems immediately related to holding down prime rate — which was otherwise looking set to move up to 21%.

The Reserve Bank action is bound to attract some criticism from those who believe that deep-seated inflationary problems can be tackled only by letting interest rates rise as high as market forces take them.

It is also supposed official Government and Reserve Bank policy to try and assist disaster-struck farmers directly rather than by distortions of the general pattern of interest rates.

However, such direct action — which will presumably be outlined in the Budget in two week's time — cannot take place overnight.

Dr De Kock has presumably decided that in the interim a 20% prime is high enough for the best interests of the real economy overall.

The other side of the coin is that he may equally take actions to keep prime up longer than some commentators have been assuming.

A "smoothing operation" can obviously work both ways.

What does seem clear is that the philosophy of financial policy has certainly been adjusted from the theory of two years or so ago.

It was then suggested that interest rates would be allowed to move freely in line with market forces.

In fact the Reserve Bank appears to have a target policy for key interest rates now much as it has for the foreign exchange value of the rand.

GOLD SLIPS BACK AFTER $400

Reserve Bank counters further rise in prime rate

By HOWARD PREECE

Cape Times 15/3/84

JOHANNESBURG. — The Reserve Bank yesterday took special action to stop yet another rise in prime rate, the minimum overdraft rate, from its present 20 percent level.

A particular reason, according to some economists, is to prevent farmers from facing even further rises in the colossal debt burdens they already have.

But the actions announced last night in Pretoria by Dr Gerhard de Kock, the Governor of the Reserve Bank, also fit in with his long-term objective of changing the methods of monetary policy control in South Africa.

Dr De Kock announced cuts in the commercial banks liquid asset requirements for short and medium-term liabilities.

The relaxations, he said, would release about R667m in cash and liquid assets to the banks.

Pressures

This will obviously ease the pressures on the banks and remove any immediate need to increase prime rate to 21 percent.

Continuing, and surprising, high demand for bank credit coupled with the steep cost to the banks of getting help from the Reserve Bank to stay within legal obligations, has put renewed upward pressure on prime.

It looks, in fact, as though the Reserve Bank has decided to try and keep prime at 20 percent for the time being.

Under Dr De Kock's changes, banks will now be obliged to hold only 25 percent — previously 30 percent — of their short-term liabilities in liquid assets.

This change, effective from the date of certification of the banks' February 29 monthly statements, will apparently release about R450m in liquid assets.

That means that the banks can put those funds to much more profitable use.

Cash reserve

Dr De Kock has also decided to abolish from today the requirement that the banks keep a supplementary cash reserve equal to two percent of medium-term liabilities with the National Finance Corporation.

That will reduce the total liquid asset requirement for medium-term liabilities to 18 percent from 20 percent and release about R217m in cash.

The Reserve Bank has been progressively reducing liquid asset requirements in line with the recommendation of the De Kock Commission that bank credit should be controlled by a so-called "cash reserve" system rather than by liquid assets.

It is argued that the cash reserve system will make it much easier for the Reserve Bank to control bank credit and thus to keep a much tighter grip on money supply.

Both the Reserve Bank and all leading private sector economists agree that money supply has been expanding far too fast for far too long in South Africa.

According to the latest figures, for the 12 months to the end of January 1984, the broadly-defined M-2 measure rose by 17 percent, while the narrower M-1 soared by over 29 percent.

Strategy

The crucial reason for this is simply that the authorities have not been tough enough in their overall financial strategy.

However, they do have have some merit in their claim that control over the money supply in South Africa, as in a number of other countries, is more difficult in practice than it might seem to some theorists.

A cash reserve system should have far fewer loopholes for "creative" credit creation by the banks.

But the timing of Dr De Kock's announcement last night seems immediately related to holding down prime rate — which was otherwise looking set to move up to 21 percent.

The Reserve Bank action is bound to attract some criticism from those who believe that South Africa's deep-seated inflationary problems can only be tackled by letting interest rates rise as high as market forces take them.

It is also supposed official government and Reserve Bank policy to try and assist disaster-struck farmers directly rather than by distortions of the general pattern of interest rates.

Direct action

However, such direct action — which will presumably be outlined in the Budget in two week's time — cannot take place overnight.

Dr De Kock has presumably decided that in the interim a 20 percent prime is high enough for the best interests of the real economy overall.

The other side of the coin, though, is that he may equally take actions to keep prime up longer than some commentators have been assuming.

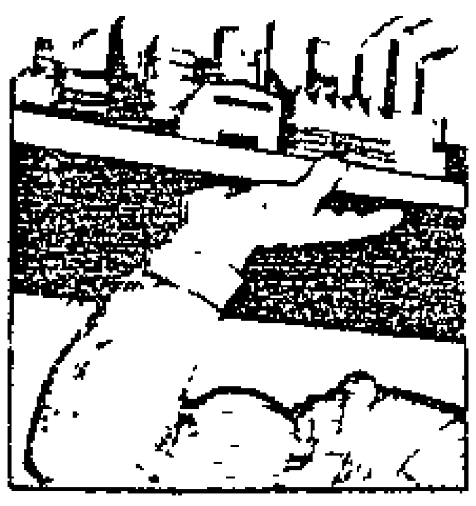
A "smoothing operation" can obviously work both ways.

In fact the Reserve Bank appears to have a "target" policy for key interest rates now much as it has for the foreign exchange value of the rand.

58

THE BANKING SECTOR

The Atlas of the economy



SA's big banking groups have turned out a rash of megaprofits in the last few months. It is easy to be blinded by them. Barclays' R126m, or the R122m net profit that both Nedbank and Standard released at the end of their 1983 financial years, look huge

Some say big profits are also vulgar in recessions The common charge is that the banks are profiteering from all those unfortunate borrowers who are paying them record interest rates. This is not only bad for banking's public image. It also raises political resistance in the Cabinet, where SA's monetary leaders try to sell policies that could mean even higher interest rates and more financial burdens on farmers and industrialists.

But profits are not the same thing as profitability. And the profitability of banks is different from that of other sectors. Says a leading Johannesburg banker. "If an industrial company's profits drop, its shareholders are the main victims. But if a big bank's profits fall, it raises a question mark over the whole banking system. The banks are the backbone of the economy. I know of no country in the world with a strong economy and a weak banking system And strong banks require strong profits."

Bankers feel strongly about this issue. They also recognise that, right now, they are receiving unfavourable attention, with people accusing them of gaining at the community's expense. There is political mileage in this approach. "But," says Trust Bank MD Chris van Wyk, "it shows a lack of understanding of what banks offer They create a high confidence factor in society and also a high continuity factor People assume their banks will still be around in 10 or 20 years."

Rise in debt

Banks also take risks that few industrial companies would even consider A good and topical example now can be found among farmers Through funding the Land Bank and lending directly to farmers, the banks' total exposure to agriculture was almost R3.9 billion in 1983 That is more than twice what it was three years previously. And the rise in this debt shows a sector that is in trouble — not one that is running up credit because it is booming.

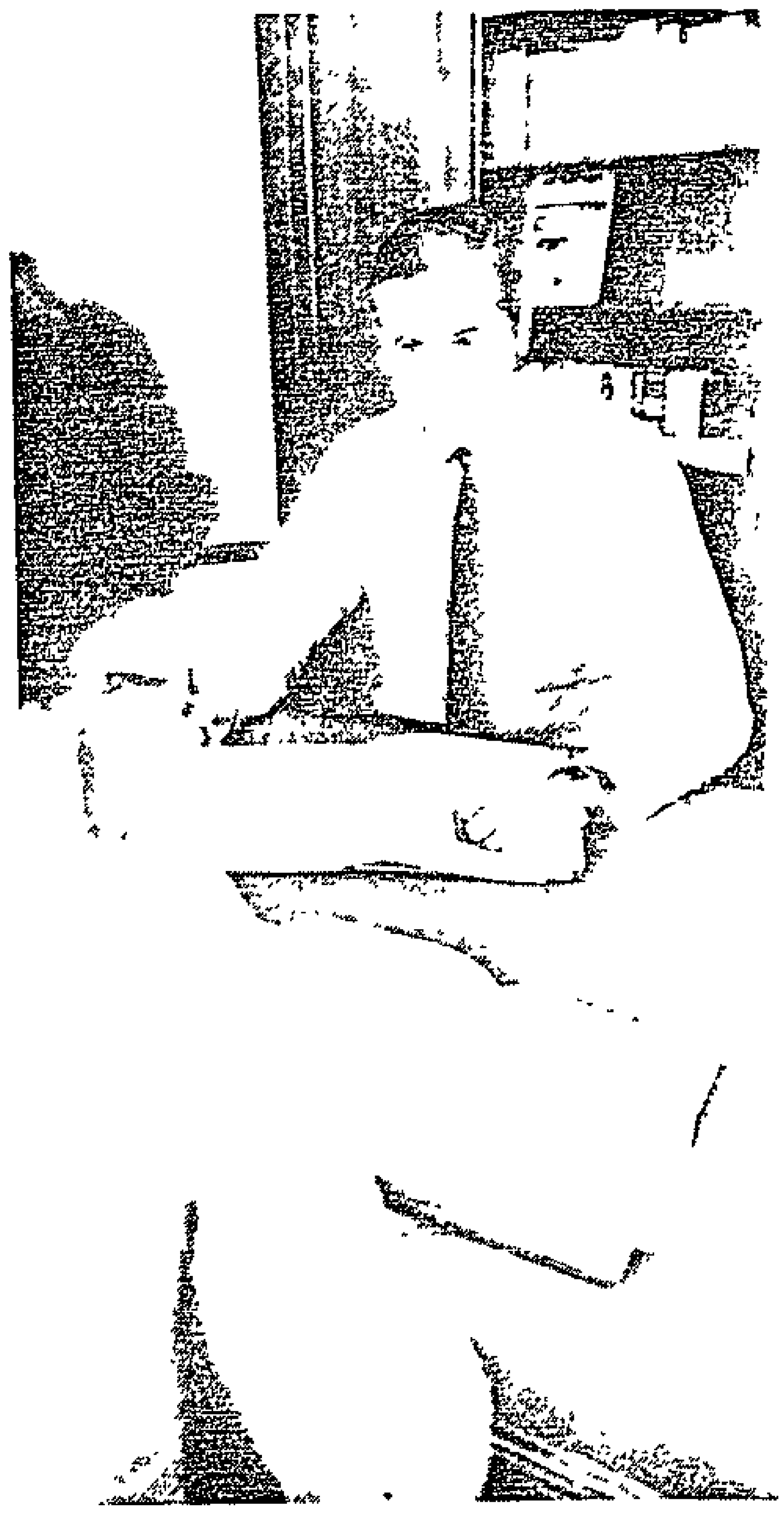
These are "soft" assets to the banks — ones that have lost their immediate profitability. But the banks are not seizing farmers' property They are absorbing and rescheduling their debt — and facing the possibility that some could be written off. Banking is a high-risk business at the best of times," says Van Wyk "In recession, it's worse"

Many think that SA's banks are turning in profit figures disproportionately large in a recession. But the counter-argument is that knocking bank profits is a little like biting the hand that feeds the economy. A healthy banking system breeds foreign confidence and investment.

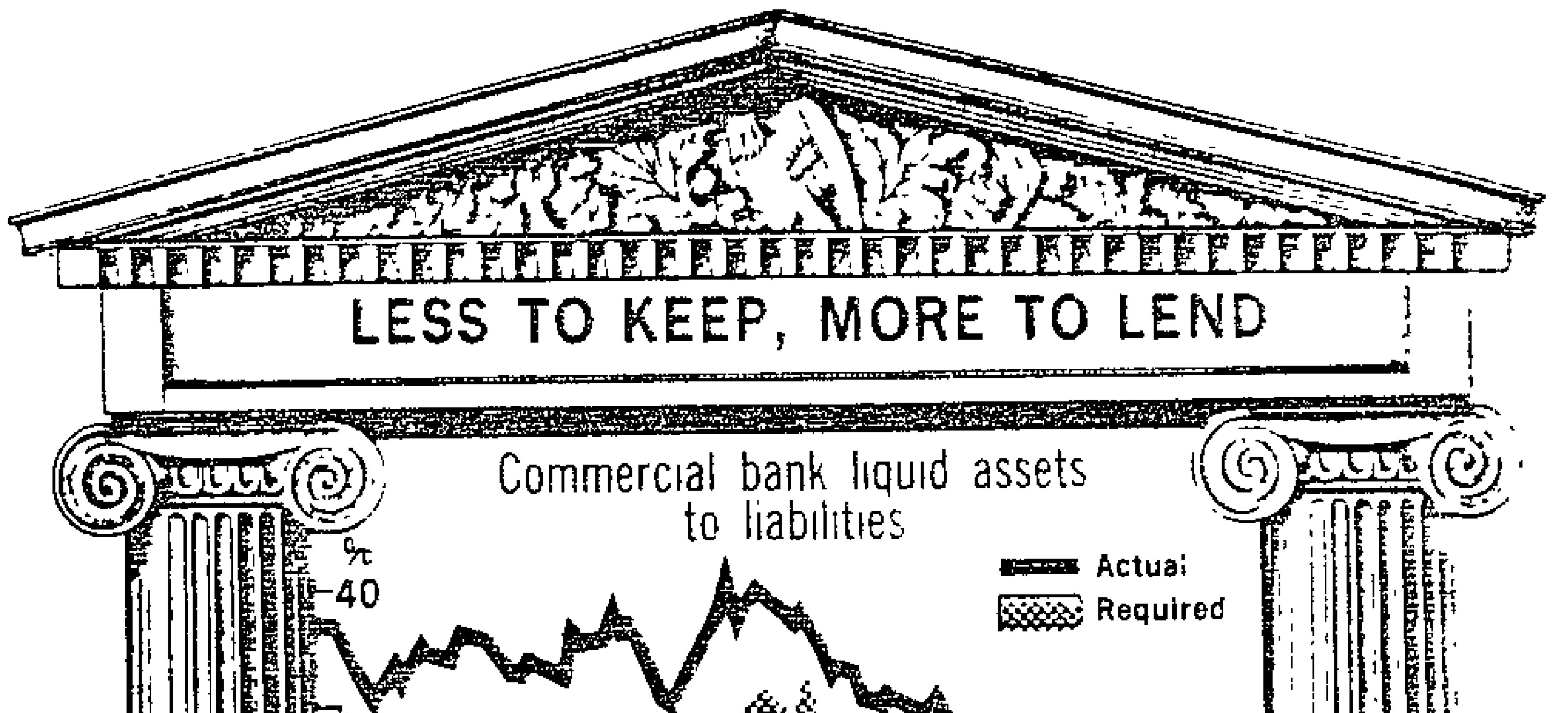
Moreover, bad debt experience is not simultaneous It takes a year or longer for those shaky credit risks to materialise — and they cannot always be foreseen Van Wyk gives an example If 0,25% of your debt on a R10 billion asset book turns against you, your profits fall by R25m

A figure like 0,25% is very small, while R25m is very large. That is why banks need inner reserves to stabilise disclosed profits and maintain public confidence. Not all would agree that inner reserves must be hidden reserves. But the fact remains that non-disclosure of contingency reserves by banks is international practice

Some feel that SA's banks are over-protected. No new banking licences have been granted for 15 years. And non-bank depositories, like the enormously successful money funds that have hit bank profits in the US, have not been allowed to set up here



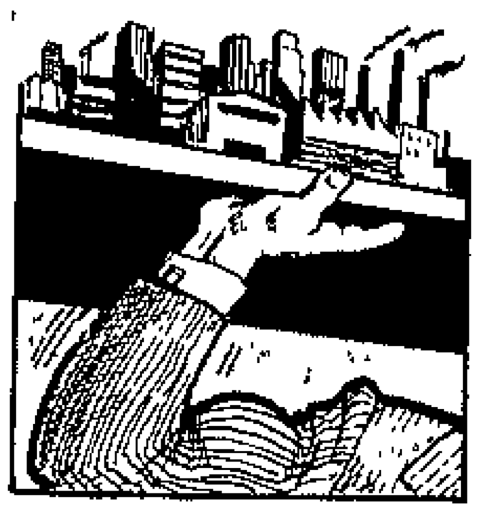
Barclays' Ball ... 'credit is our function'



58

THE BANKING SECTOR

The Atlas of the economy



SA's big banking groups have turned out a rash of megaprofits in the last few months. It is easy to be blinded by them. Barclays' R126m, or the R122m net profit that both Nedbank and Standard released at the end of their 1983 financial years, look huge.

Some say big profits are also vulgar in recessions. The common charge is that the banks are profiteering from all those unfortunate borrowers who are paying them record interest rates. This is not only bad for banking's public image. It also raises political resistance in the Cabinet, where SA's monetary leaders try to sell policies that could mean even higher interest rates and more financial burdens on farmers and industrialists.

But profits are not the same thing as profitability. And the profitability of banks is different from that of other sectors. Says a leading Johannesburg banker: "If an industrial company's profits drop, its shareholders are the main victims. But if a big bank's profits fall, it raises a question mark over the whole banking system. The banks are the backbone of the economy. I know of no country in the world with a strong economy and a weak banking system. And strong banks require strong profits."

Bankers feel strongly about this issue. They also recognise that, right now, they are receiving unfavourable attention, with people accusing them of gaining at the community's expense. There is political mileage in this approach. "But," says Trust Bank MD Chris van Wyk, "it shows a lack of understanding of what banks offer. They create a high confidence factor in society and also a high continuity factor. People assume their banks will still be around in 0 or 20 years."

lise in debt

Banks also take risks that few industrial ompanies would even consider. A good d topical example now can be found nong farmers. Through funding the Land ınk and lending directly to farmers, the nks' total exposure to agriculture was al- ɔst R3,9 billion in 1983. That is more than ice what it was three years previously. d the rise in this debt shows a sector that in trouble — not one that is running up edit because it is booming.

These are "soft" assets to the banks — es that have lost their immediate profitaity. But the banks are not seizing far- ɪrs' property. They are absorbing and ıcheduling their debt — and facing the ssibility that some could be written off. anking is a high-risk business at the best of times," says Van Wyk. "In recession, it's worse."

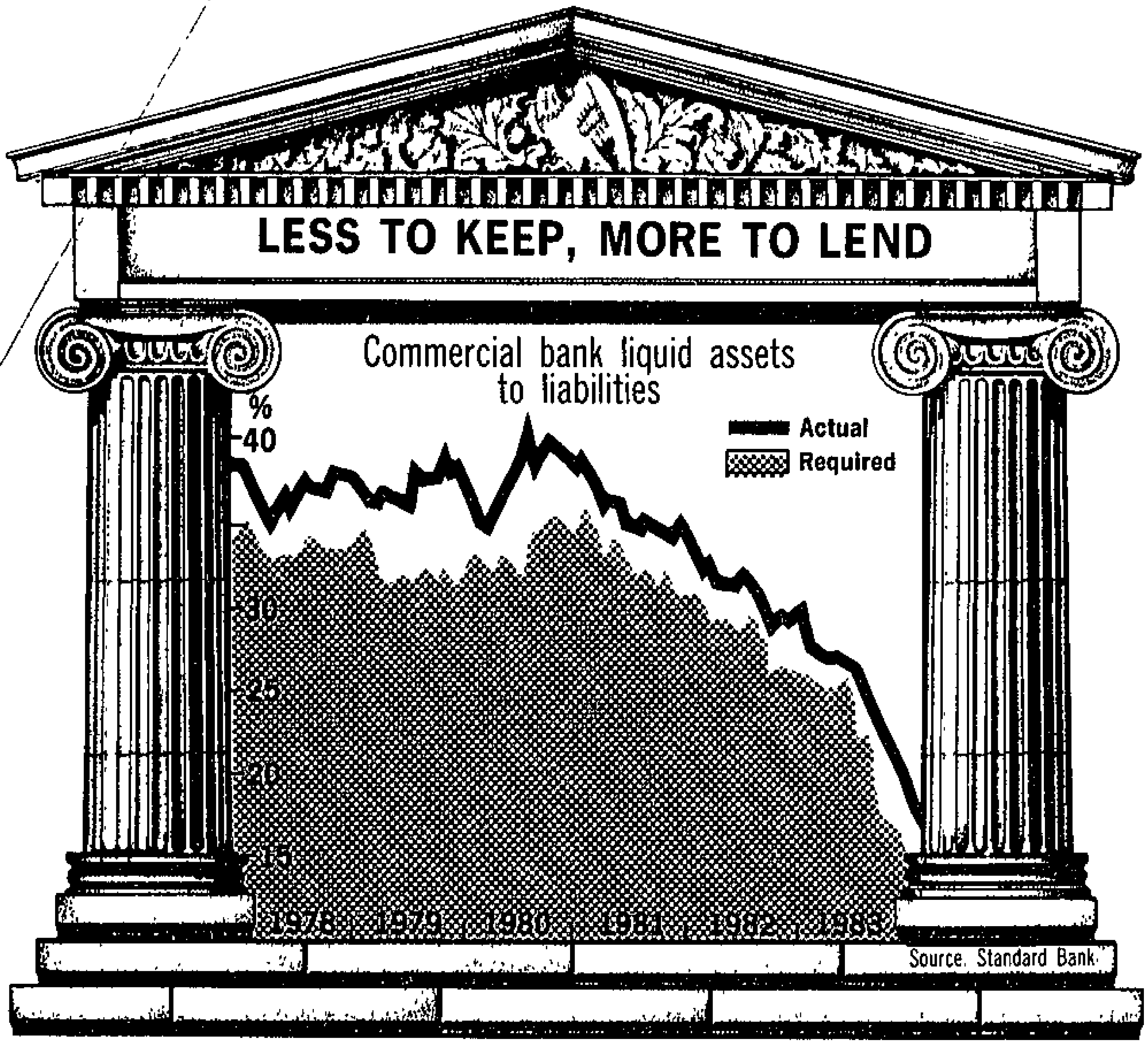
Many think that SA's banks are turning in profit figures disproportionately large in a recession. But the counter-argument is that knocking bank profits is a little like biting the hand that feeds the economy. A healthy banking system breeds foreign confidence and investment.

Moreover, bad debt experience is not simultaneous. It takes a year or longer for those shaky credit risks to materialise — and they cannot always be foreseen. Van Wyk gives an example. If 0,25% of your debt on a R10 billion asset book turns against you, your profits fall by R25m.

A figure like 0,25% is very small, while R25m is very large. That is why banks need inner reserves to stabilise disclosed profits and maintain public confidence. Not all would agree that inner reserves must be hidden reserves. But the fact remains that non-disclosure of contingency reserves by banks is international practice.

Some feel that SA's banks are over-protected. No new banking licences have been granted for 15 years. And non-bank depositories, like the enormously successful money funds that have hit bank profits in the US, have not been allowed to set up here.

Barclays' Ball . . . 'credit is our function'



Bankruptcies snowballing, report says

ARGUS 9/4/84 (58)

Argus Correspondent

JOHANNESBURG. — Snowballing personal and corporate bankruptcies are the grim legacy of the continuing recession plaguing South Africa.

More than 25 000 companies voluntarily closed their doors last year at a cost of R24 800-million — up 28 percent from 1982, the Government has reported.

The courts ordered the liquidation of 2 275 others — up 16 percent — involving an undisclosed amount of money.

Voluntary personal bankruptcies rose by 12 percent to 335 246 but their cash debt rose a staggering 33 percent to nearly R200-million. The courts ordered 1 201 others into liquidation — up 20 percent from 1982 — for an undisclosed amount.

The figures were released by the Government's Central Statistical Services, the agency which recently revealed that South Africans have been passing rubber cheques in record numbers and defaulted on R200-million worth of hire purchase payments and other commitments last year.

CHRISTMAS SPREE

The number of defaulters being taken to court was reported to be rising in record numbers and the prognosis for the balance of 1984 was dismal.

The figures may worsen in the aftermath of a spree by Christmas shoppers and the gamble by retailers who hurriedly stocked up — at enormously high interest rates — in the hope of making a quick buck.

First-quarter figures will be available in about four weeks. They may show that some consumers have overspent and now cannot afford to pay up.

That will pressure companies with severe cash-flow problems to turn the screws on anyone trying to delay payments. More defaults could also force up the price of loans, goods and services.

GOLD PRICE

Matters have worsened because of the Government's failure to lower inflation and its helplessness in the face of low gold prices. Economic forecasts for the rest of the year are gloomy, heightening speculation that bad cheques, personal bankruptcies and the number of liquidated companies will continue to rise.

Statistics also showed that 335 000 people were taken to court last year after defaulting on R200-million worth of payments — up 34 percent from 1982 — on such things as rents, loans and HP payments.

In 1982, 299 800 people defaulted on payments amounting to R148-million.

BIGGEST INCREASE

The biggest increase was in the HP category, where the rand-value rose by 63 percent to R31-million — up from R18-million the previous year.

The number of bad cheques and reneged-upon promissory notes rose sharply, topping the R27-million-mark — an increase of 50 percent over 1982.

On the business front, the number of judgments were up 32 percent in 1983 — reaching 25 000 — and defaults are getting bigger. The value of defaults rose 62 percent to R26-million, up from R16-million in 1982.

BLACK CONSUMERS

The figures do not break down into white and black sectors but observers note that black consumers are often lured by high-powered advertising into long-term financing deals for cars and furniture — many of which are out of their reach.

● The United States Central Bank's latest increase in its main lending rate will make headlines but should not have much of an impact on other US interest rates, according to money market economists.

They say the health of the economy in general will largely determine whether the rate goes up any further, Sapa-Reuter reports.

The Federal Reserve Bank, the "Fed" raised its so-called discount rate by one half-point, to 9 percent on Friday. Some analysts see the rate staying at 9 percent for the rest of the year, while others predict more rises to as high as 11 percent.

The bond market closed higher, relieved that the Fed had finally ended weeks of uncertainty, while the dollar fell on disappointment that the rate was not raised a full point.

MORE AMMUNITION

Thomas Thomson of Crocker National Bank said the discount rate increase would be more ammunition for West European and Latin American critics of high US interest rates, but the impact should be short-lived.

"It will be quickly forgotten. The discount rate is a technical detail affecting some banks, but it does not have much of an effect on other interest rates, especially when it is lagging a lot," he said.

The discount rate, 8,5 percent since December 1982, had fallen well behind Fed funds rates which averaged 10,41 percent last week.

FINANCE

Industrial group's assets to top R350-m

By DEREK TOMMEY

Financial Editor

SANLAM is using the industrial investment company Malbak to create a major industrial group which will have assets of more than R350-million, will rank among the country's top 30 industrial companies and will have an outstanding management team.

The new group will be Sanlam's third major industrial investment venture after Federale Volksbeleggings and Gencor.

Sanlam is to sell its 71,5 percent stake in Protea Holdings to Malbak for R68,5-million The purchase price will be met by an issue of Malbak shares which will increase Sanlam's stake in Malbak from 24 to 58,6 percent.

The move will effectively double the size of Malbak, increasing its assets from R133-million to more than R365-million. Its turnover will rise from R280-million to more than R700-million.

MANAGEMENTS

However, an important factor in the decision to group the two companies is the quality of their respective managements.

Mr Marinus Daling, Sanlam's general manager, who masterminded the deal, said today: "We believe if we take the combined strength of the Malbak-Protea managements we have a very good team which will go places.

"Once the new management has settled in we expect them to identify where they want to go and expanmd into those areas."

DIVERSIFIED

Malbak is a diversified investment group with interests in packaging, farm machinery, motors and engineering.

Protea also has diversified interests, ranging from chemicals, packaging, and electrical items to medical and laboratory equipment and workwear.

The results of both companies last year were affected by the recession, with Malbak's earnings dropping from 99c to 51c a share and Protea's earnings falling from 66,4c to 41,5c a share.

However, both companies are on the recovery track and Malbak has increased its interim dividend from 10c to 11c a share.

TAKEN YEARS

Earnings of the new group are expected to be comfortably ahead of last year's figures.

Malbak's managing director, Mr Grant Thomas, said he was excited by the deal. It had given Malbak the size and influence which otherwise would have taken years to achieve.

He was delighted at what he had seen of the Protea team and looked forward to consulting them before any major decisions were taken.

Business Day/WORLD DEBT

58 RDM 10/4/84

Hope for end to world debt crisis

RIO DE JANEIRO. — The completion in January of an $11bn debt rescue package for Brazil may be a turning point in the debt crisis that has plagued the developing world for nearly two years.

At least that is what senior international bankers and officials are hoping.

The Brazilian package was put together against all the odds. It was the second time in a year Brazil had turned to its reluctant bankers for help, and against a background of severe domestic recession its Congress proved reluctant to accept the harsh austerity demands of the International Monetary Fund.

Now the package is complete the sense of acute crisis has lifted, permitting both creditors and debtors alike to ponder some of the longer term problems left in its wake.

As the Governor of the Bank of England, Mr Robin Leigh-Pemberton, put it in a recent speech: "The day-to-day management of debt problems has become somewhat less difficult ... We now, I suggest, have an opportunity and a responsibility to think more deeply about the longer term."

TOM CLAUSEN

So far most of the rescue packages organised for debtor countries in trouble have had the immediate objective of keeping them afloat financially.

The cornerstone has been an IMF adjustment programme, backed up by rescheduling and new loans from banks and sometimes governments as well.

Initially bankers hoped that such packages would suffice until a combination of lower interest rates and economic growth in industrial countries floated the debtors gently away from the shoals of default.

But the debt overhang is simply so large that it will take many years before most of the afflicted countries can rebuild their creditworthiness.

Meanwhile, a way has to be found for them to allow their economies to grow while they continue to use up precious resources in servicing their debts.

Last year, according to Morgan Guaranty Trust, the seven major borrowers of Latin America notched up a trade surplus of about $30bn, but the shortage of new bank loans meant this money had to be used to pay interest on foreign debt.

For the first time since the oil price rises of the early 1970s, borrower countries have begun to make net payments to their commercial bank creditors.

The payments do not reduce their debt, but arise simply because banks are no longer lending enough to cover all the debtors' interest obligations.

According to Mr Tom Clausen, president of the World Bank, developing countries made net payments of $12bn to commercial banks last year. Two years earlier they had received net transfers of $16bn.

Worse still, the trade surplus that is being used to meet these payments has been achieved largely through cuts in imports.

The seven major borrowers in Latin America last year held their imports to a level 42% below what they had been in 1981.

Lower imports mean lower growth, and unless a means can be found of financing some import revival, the countries concerned face years of economic stagnation with cuts in living standards, leading to the risk of severe political and social tension.

As the debt crisis moves out of its acute phase, more thought is now being given to this type of long-term problem. What is clear, however, is that the chances of radical intervention by creditor governments still seem slim indeed.

There is little political support in the industrialised world for grandiose schemes that effectively involve governments in buying the banks out of the problem by taking over their loans to developing countries.

Instead, the basic approach is still a pragmatic one which involves adapting existing solutions for the longer term.

From the banks' point of view, one of the most significant changes has been a willingness to accept a reduction of both interest margins and fees. At the same time, the maturities on rescue packages have been lengthened to spread the burden of repayment well into the future.

The most dramatic example of this came with the $3,8bn credit launched for Mexico in late December. The loan bears a maturity of 10 years, four years longer than Mexico's previous $5bn loan and interest margins have been cut by up to a full percentage point.

Another change has been an increased willingness of both banks and borrowers to consider the use of currencies other than the dollar.

Credit Commercial de France made its contribution to the latest Brazilian jumbo loan in ECUs, the currency basket of the EEC.

For the borrowers this offers a welcome opportunity to reduce total borrowing costs by diversification out of dollars; lenders which are not US banks find their funding dependence on the Eurodollar deposit reduced.

To reduce their dependence on bank lending debtor countries are now being actively urged by Western governments to open their doors to direct foreign investment.

Unlike loans, equity investments do not have to be repaid. Said Mr Leigh-Pemberton: "There are no remaining financial obligations if a project should fail.

"There is a foreign exchange cost to the country only when the investment is productive and profits are remitted abroad — and in these circumstances the project itself may well be generating or saving foreign exchange." — Financial Times.

Business Day

RDM 10/4/84 (58)

Banks geared up to face debt crisis

AS the latest rumblings in Argentina show, the world debt crisis is far from over.

But if the much-predicted storm does still break, the big international banks will be better-equipped to deal with it than they were in the summer of 1982, when the trouble started.

Of course, the repudiation by a major Latin American creditor of its multi-billion dollar debts would deal a crippling blow because of the sheer size of the sums involved.

But the glossy 1983 bank annual reports now dropping through shareholders' letter boxes show that bankers have strained — not without some bullying by their supervisors — to get their finances into better shape.

For the first time in recent memory, balance sheets are getting stronger, rather than weaker.

Profits are rising and the banks' reserves against loss are the most thickly padded they have been for 10 years.

A note of optimism was sounded in the Bank of England's latest Quarterly Bulletin which said: "New money will continue to be needed by a number of countries; but as long as this is proportionately less than the increase in banks' capital, the vulnerability of banks to problems in these countries will gradually fall."

As a US banker put it: "We're starting to grow round the problem."

There are exceptions to the brighter picture, of course. But, ironically, they have names like Crocker, Penn Square and Schroeder Muenchmeyer Hengst, rather than Brazil and Mexico.

Even the Thatcher Government's Budget blows, which will force UK banks to find over £1-billion in taxes they never expected to pay, shows that bankers' biggest problems can still spring up uncomfortably close to home.

By adding the sting of urgency, the crisis has also stirred the debate over how best to supervise large banks.

The key question now is whether supervisors in the major industrialised countries can harmonise banking standards so that there are no weak links in the chain.

Biggest strides have been made by the US banks, whose $120-billion loans to the Third World make them most vulnerable to crises among less developed countries (LDCs).

The big 17 international banks all met — by the deadline of last December 31 — the new Federal Reserve Board requirement that they build up their capital to at least 5% of their total balance sheets, a way of forcing them to reduce their gearing. Many had slipped closer to 4%.

Citicorp, which has the largest LDC exposure and has always geared its capital up most aggressively, just squeaked through with 5,1%.

Its capital now stands at $10-billion, up 19% on 1982, making it, according to the chairman, Mr Walter Wriston, "the largest capital of any privately-owned financial institution in the world" — though even that gargantuan sum is less than Citicorp's loans to Latin America.

Rand Daily Mail B

In good times, banks would have increased their capital by selling equity. But bank shares have been weak on Wall Street — partly because of the debt crisis — so US bankers had to use other means, like selling $2,5-billion of preferred stock (which counts as capital under the Fed's new rules), and using a bigger share of their earnings to bolster reserves.

At the same time, though, US banks managed to raise their dividend pay-outs by up to 10% — well above the rate of inflation.

That may seem something of a conjuring trick, but the US economic recovery made banking a highly lucrative business last year. In fact, the profitability of the banks' traditional business has been their saving grace throughout the LDC crisis.

Balance sheets also look sturdier in the UK and Germany, where gearing is now roughly in line with that in the US — about $20 worth of loans for every dollar of capital.

The British banks do have a huge new problem because of the Chancellor's decision to abolish capital allowances which will force them to dip into reserves to pay unfunded tax liabilities.

Quite what the impact will be is still not clear. Mr Robin Leigh-Pemberton, the governor of the Bank of England, told a House of Commons select committee recently that while it would be severe, it should not put undue strain on the banks. But it has raised a question-mark over the UK banks' Triple A credit rating — which the LDC crisis never did.

The major exception is Japan, where banks have always been extremely highly geared by US and European standards; as much as 40 to one.

This is not as alarming as it sounds because accounting practices are different, and the Ministry of Finance in Tokyo keeps banks on a tight rein.

But Mr Paul Volcker, the Fed chairman, is believed to be pressing the Japanese Government to bring the banks there more in line, especially since they are now expanding aggressively overseas.

Stronger capital ratios were possible to achieve for a number of reasons. Bank supervisors usually set strict limits on how far a bank can gear up its capital, and they can enforce them, as the sharp improvement in the US shows. But the banks' attitudes have also changed.

Compared with the rip-roaring days of the 1970s, when bankers piled on loans in a scramble for growth, the chastening experience of the last couple of years has left them more concerned with building up profits.

Last year, assets in the world's major banks grew by about only 5%, half the earlier rate, while profits continued to go up by 10% or more.

The collapse of international lending had a lot to do with this — there simply was not that much loan business anyway outside domestic markets. But times must have changed when Citicorp announces that it has a new policy "to grow assets selectively".

The third reason is that banks are allowed to count their reserves against loan losses as capital, and these have risen quite sharply, by about 20%. The reasoning is that reserves, like capital, are the ultimate cushion against loss.

In some cases, bankers had no choice: the US, Japan and Switzerland now oblige banks to write down their debts to specified problem countries, so they have to be more cautious.

But in other countries, like the UK, where this is left to the bankers and their auditors, provisions have also been running at record levels.

April 21 1984

The Star/BUSINE

Nedbank growing internationally

58

Star 21/4/84

By Peter Farley

Nedbank is well on its way to becoming a fully fledged international bank headquartered in SA, a fact underlined by its interim figures.

And although chief executive Mr Rob Abrahamsen declined to give a breakdown of the bank's individual profit contributors, it is clear from his comments that international operations earnings were a major underpin for the 13% profit growth in the past six months.

Many sceptics have expected Nedbank to crack, but after a string of strong profit performances Mr Abrahamsen says with 13% growth in a bad period longer-term potential must be even stronger than before.

Nedbank's traditional operations have, however, been under severe pressure in recent months. High interest rates have precluded substantial profits on the bank's money and gilt market market operations, and retail sector competition has pushed Nedbank's market share down from the 11% peak achieved in mid-1983.

But Mr Abrahamsen thrives in this environment, and he accepts that while the bank has kept growing it could have been paying more attention to retail banking in urban areas.

With Barclays making a massive push in this sector it's highly unlikely Nedbank will be content with just sitting still.

But Mr Abrahamsen says the bank will continue to concentrate on quality accounts rather than volume business.

A major factor is the bank's tie-up with the Allied Building Society. The Allied had long had close links with Barclays, and switched to Nedbank at the beginning of this year.

Now Nedbank customers can cash cheques at Allied and Perm branches. In future it is likely more innovations will cement this relationship.

Mr Abrahamsen says current accounts represent less than 10% of the bank's total assets. Profit contribution from this source must be even lower, particularly as it costs R20 million a year in interest on those accounts.

Last year some 70% of group earnings were generated by the commercial bank, with about 10% each from UAL and Nedfin.

In the short-term Mr Abrahamsen sees little change here, but he expects stronger performance from Nedfin to gradually produce a bigger slice.

He says there are signs that Nedfin is writing a bigger volume of business in the highly competitive leasing market.

Nedbank has also achieved a major success in the local foreign exchange market where it was weak a couple of years ago. Mr Abrahamsen estimates that in contrast to only 15% in 1981 Nedbank now handles more than 40 percent of the total business traded.

But foreign activities present Nedbank's biggest opportunities in the longer-term.

The bank is writing substantial business through its London and New York offices. Mr Abrahamsen reckons that in the past six months it was involved in raising over R500 million overseas for the public sector alone.

Nedbank now plans to develop in Switzerland; it recently opened a finance company there aimed at raising money on the Swiss capital markets for SA clients. This could develop into a much larger operation.

Clearly there will be expansion into other countries, but Mr Abrahamsen would not disclose those plans now.

Barclays and Standard's SA operations have made few inroads, but nonetheless the field is intensely competitive.

There are advantages.

Mr Abrahamsen admits Nedbank has probably been able to secure certain fund-raising operations, particularly in the US, because of the reticence of some foreign banks to handle fund-raising for SA corporations.

But he is confident this aspect of business would still be growing at a similar rate had this advantage not applied.

Such confidence at senior level permeates the bank, and has consistently attracted the attention of the investment community. This has resulted in Nedbank's market capitalisation on the JSE rising to around R1,5 billion, well in excess to that of all other listed banks.

As Mr Abrahamsen says, "We may not be the best in every single area, but the sum total is certainly better than any other bank." And on the basis of the past five years there will be few who bet against Nedbank over the next five.

Rob Abrahamsen . . . getting the competition in his sights

CAPE TOWN,

Low rand, higher sales tax mark end of gold boom

W/C ARGUS 19/5/84 (58)

By DEREK TOMMEY
Financial Editor

THE fall in the value of the rand this week to a new low of $0,762 and the proposed increase in general sales tax to 10 percent have served to bring home the fact that South Africa's gold boom has collapsed.

The message on the temperance billboard that used to be at Woodstock station and was known to tens of thousands of train travellers is as apt for gold as for alcohol: First it lifts you up, then it lets you down.

Gold has let South Africa down badly, although that fact has been concealed to some extent by changes in the value of the rand against the dollar.

Measured in rands, the value of South Africa's gold output looks reasonably stable. According to the Reserve Bank, gold output in recent years has been worth:

1977	R2,8-billion
1978	R3,9-billion
1979	R6,0-billion
1980	R10,1-billion
1981	R8,3-billion
1982	R8,6-billion
1983	R9,9-billion
1984	R9,9-billion (est).

These figures suggest that the country's gold income, after peaking in 1980, has been comfortably maintained.

However, the rands in which these gold output figures are given has been steadily devalued against the dollar.

In 1980 a rand would buy $1,28. But in 1981 it would buy only $1,15, in 1982 92 US cents, in 1983 89,7 US cents and at present it buys only 77 US cents.

If the country's gold revenue is converted into dollars at these rates a different and a far less satisfactory picture emerges.

It shows that South Africa's dollar earnings from gold in recent years have been:

1977	$3,2-billion
1978	$4,4-billion
1979	$7,1-billion
1980	$13,0-billion
1981	$9,6-billion
1982	$8,0-billion
1983	$8,9-billion
1984	$7,9-billion (est)

It can be seen that South Africa's real income from gold has been declining since the peak in 1980.

It is also evident that even if the gold price remains at its current levels the country's dollar income from gold this year will be at its lowest level for several years.

The consequences of this decline in dollar earnings are far-reaching. South Africa needs dollars to pay its foreign debts. Without dollars or other foreign currencies it will have to cut back on its foreign purchases.

This is what the Government is trying to do. Its actions have been given added urgency by the news that in the first three months of this year the country was going into debt at the rate of R3-billion a year.

The main way of cutting imports is to reduce consumer spending and the Government is aiming to achieve this by raising income tax and levying higher indirect taxes — which will be increasingly felt as the year rolls on.

So, after the high life of the early 1980s, South Africans are now having to tighten their belts, trim their living standards and reduce their expectations.

They will also have to listen to Cabinet ministers and businessmen accusing them of living beyond their means — though the irony is that it is the Government that has been the worst culprit.

FINANCE/STOCK EXCHANGE

Anglo top power with assets of R30-billion

ARGUS 22/5/84 (58)

Financial Editor

ANGLO American controls the biggest business empire in South Africa and its largest rival is Sanlam, a survey by a group of economists at the University of Pretoria for Mercabank shows.

The economists, led by Professor J A Lombard, estimate that, on 1982 figures, Anglo American controls assets of around R30-billion. Sanlam is a distant second, with assets of R17,9-billion.

Some way behind these two are three other roughly equal "powers" — the Old Mutual with business assets of R10,9-billion, Barclays with R10,4-billion, and the Standard Bank Investment Corporation (Stanbic) with R9,5-billion.

However, the Old Mutual's muscle is increased by a shareholding in Barlows, which has R5,8-billion in assets, and a share in SA Breweries, which has assets of R2,2-billion.

LIBERTY LIFE

Similarly, Stanbic's stake in Liberty Life, estimated to have assets of R2,7-billion, and its links with United Building Society, estimated as being worth R4,7-billion, also help increase its importance.

The Rembrandt group was estimated to be worth R1,7-billion, but its powers are greatly heightened by its links with Volkskas, which controls about R4,8-billion worth of assets.

These large groups control about 80 percent of the total assets of South African companies whose ordinaryu shares were listed on the Johannesburg Stock Exchange.

Foreign interests were largely confined to the 9,1 percent held by Barclays and the 8,3 percent held by Stannic — the two banking groups which at least in a formal sense are controlled from abroad.

The Government, through the Industrial Development Corporation and Iscor, controlled 3,2 percent .

INCREASING

The survey found that the share of the biggest industrial companies in the total assets of listed industrial companies was steadily increasing.

In 1973 the five biggest companies accounted for about 22 percent of total assets. But by 1982 this figure had risen to about 33 percent.

WEEKEND Argus BUSIN
CAPE TOWN, JUNE

Horwood spells out requirements for SA expansion

W/E ARGUS 2/6/84 SA

Weekend Argus Foreign Service

LONDON. — The Minister of Finance, Mr Owen Horwood, spelt out here the requirements that will have to be fulfilled before the South African economy can be allowed to expand.

He also announced that his department was planning to supervise more closely the activities of South African banks in overseas markets.

Speaking at the opening of a branch of the Trust Bank in London this week, Mr Horwood said South Africa could not afford a strong upswing in domestic demand unless it was also accompanied by an increase in exports or by a rise in the gold price or by an inflow of long-term capital into the country.

South Africa was reluctant to make an excessive use of short-term finance to cover any protracted deficit on the current account of the balance of payments.

There had been some encouraging signs from the industrial countries of increased demand for basic metals, minerals and other commodities that the country exported.

Mr Owen Horwood, Minister of Finance

For many third world countries this might provide some relief that would enable them to meet some of their more pressing international commitments.

"For South Africa we see in it an opportunity that will enable us to embark on a new phase of expansion."

As in the past foreign investment would again play an important role in providing finance for the new phase of expansion.

The Reserve Bank had told the commercial banks that it would not provide foreign exchange cover for them after September 1986.

This meant that the forward foreign exchange market would have to develop outside the Reserve Bank, and it provided a great incentive for the South African banks to expand their presence and activities outside the country.

This could be only to the advantage of South Africa.

However, the greater internationalisation of South Africa brought with it greater responsibility, both for the banks and for the Bank Supervisory Office.

He urged South African banks to conduct their foreign operations even more meticulously than those of domestic branches subsidiaries.

Representative

"A foreign branch is not only an extension of a bank but also a representative of the country of its parentage."

In line with the spirit of the Basel Concordat the Government accepted full responsibility for the capital adequacy of South African banks and also their foreign activities.

The Registrar of Banks would soon define more clearly the minimum capital requirements for foreign activities.

He and the Reserve Bank were cooperating closely with the Bank of England to ensure adequate supervision over the activities of banks operating in the two countries.

CAPE TOWN, JUNE

De Kock puts squeeze on credit

58

9/6/84 W/E ARGUS

By DEREK TOMMEY
Financial Editor

SOUTH AFRICA is at the start of a serious Reserve Bank-induced credit squeeze which will hit many companies and individuals, bankers say.

The Reserve Bank, after several frustrating months of trying to curb bank credit and cool down the economy, has at last achieved a breakthrough. Apparently it now has the banks over a barrel.

In contrast to his predecessor, the present governor of the Reserve Bank, Dr Gerhard de Kock, has always set his face against using physical measures such as credit ceilings to control bank lending as it leads to serious distortions in the financial markets.

Instead, he has relied on market forces — that is interest rates — to damp down the economy.

However, South Africans have proved to be extremely insensitive to changes in interest rates and bank lending has continued to soar.

Now another element has entered the scene — this is the Government's refusal to increase the maximum rates the banks can charge for loans in line with the increase in the cost of monmey.

As a result the banks' margins are being squeezed and they are having to curb their loans.

Dr D C Cronjé, senior general manager of Volkskas, said in an interview in Cape Town the Reserve Bank was now very much in control of the situation. It was not prepared to let interest rates drop. Nor would it increase the Ladofca rates.

As a result the banks were having to curb their loans.

"The squeeze is coming through now. We expect the bad debt rate to start going up."

... and little hope for drop in bond rates

MR BOB Tucker, managing director of the SA Perm, held out little hope of lower mortgage rates when he was interviewed during a visit to Cape Town this week.

He said: "I'm afraid the bond rate will not come down in the next year, and people must plan on that basis."

The building societies had to build up their cash reserves in order to meet the Government's expected new reserve requirements and this would keep mortgage rates high.

Some people were already having difficulty maintaining their mortgage payments and there had been a significant rise in the number of people not meeting their commitment.

As a result of the higher mortgage rate this year and the increases in general sales tax people were being badly squeezed. He expected an escalation in bad debts.

Money funds

The Government's decision to stop the building societies operating money funds had been frustrating.

They were doing only what they would do when the new legislation came into effect.

It meant that the societies could not satisfy the needs of their clients, and it also kept the societies from the appropriate banking strategy.

However, the societies had been permitted to retain the funds they had so far received. The SA Perm had attracted R200-million in this way by the end of May.

CAPE Times 21/6/84 58

Company liquidations up 31% — Nedbank

Own Correspondent

JOHANNESBURG. — The number of company liquidations increased 31 percent in the first quarter of 1984 compared with the first quarter of 1983, according to the latest Nedbank economic round-up.

The Nedbank report says company liquidations reached a record level of 289 in February while there has also been a sharp increase recently in the number of civil summonses for debt as well as in the value of debt judgments.

The number of civil summonses for debt declined in most of 1983 but after October started to increase and rose by 17 percent to February.

The value of debt judgments rose to a record level of more than R23m in February which is 29 percent up on a year previously.

The Nedbank report says these are legacies of the large increase in consumer borrowing last year and the financial position of consumers is precarious.

Interest rates

"Consumers are faced with interest rates at record highs both in nominal and real terms, fiscal drag on personal incomes as well as higher indirect taxes.

"Business has to face the poor outlook for final demand and also increases in the rate of corporate taxation. The substantial first quarter increase in company liquidations is one indication of business conditions becoming tougher."

The report says South Africa cannot really afford the upswing it has been enjoying since the middle of last year.

The economy is now slowing down as the essential preconditions for an upswing to be sustained and become a fully-fledged cyclical revival were and still are largely lacking.

Foreign debt

"South Africa's foreign reserves and the exchange rate are under pressure and the country's foreign debt, after being reduced admirably in the second half of 1982, has been rising again."

The upswing was triggered off by the easy availability of credit and was very strong.

According to Nedbank, real gross domestic expenditure rose at an annualized rate of about 16 percent over the second half of 1983, while real gross domestic product expanded at a rate of about eight percent — a rate which has been exceeded in only one six-month period in the previous upswing.

Nedbank says the main weakness of the upswing was that it was not preceeded by the solid recovery in exports which marked all other post-1945 upswings in the South African economy.

"Even by the third quarter of last year exports were still declining, at an annual rate of around 20 percent, and only in the fourth quarter did they start to show the first response to the international economic recovery.

"Further the export strength that was evident in the fourth quarter of last year was not maintained in first four months of this year."

South Africa's import bill was boosted by the revival in economic activity and the need to import maize which meant the current account of the balance of payments returned to deficit late last year.

Government revenue was not boosted, as it typically is, by taxes on the rising profits in the export sectors which is part of the reason for tax rates going up at a time when they are normally reduced to add momentum to the economic upswing.

Nedbank says this phase may be nearly over as the spending and production revival is beginning to ease. The correction that will follow need not be protracted, the bank believes.

Consumer spending and private sector fixed investment may not slip back into a recession as severe as that of 1982 and early 1983 but the most optimistic outlook at present is for consumer spending and private sector fixed investment to hold at current levels through the rest of this year.

A friendly but urgent note to Barend du Plessis

58 C-Times 7/7/84

EVERY new Minister of Finance sparks off the hope that he will remedy one or two of the serious flaws of the South African economy and curtail some of the costly political excesses.

Since there is almost no chance of the Nationalist government being defeated at the polls we expect our prime ministers and ministers of finance to exorcise the unsound policies of their predecessors and to set out in new, more rewarding directions.

What serious flaw should the bright and promising new Minister of Finance, Mr Barend du Plessis, address?

If he is in search of ideas he can do no better than to take five minutes off to study a fact sheet recently issued by the Stellenbosch Institute for Futures Research.

Based on Aart Roukens de Lange's exhaustive study "The National Accounts of SA (1983)", this two-page sheet tells a most startling and disturbing story of our economy. It is a story which has profound consequences for our political system. No one who has read this sheet can continue to believe, with Mr Horwood, that we have a basically sound economy. It is in fact deeply flawed.

Segments

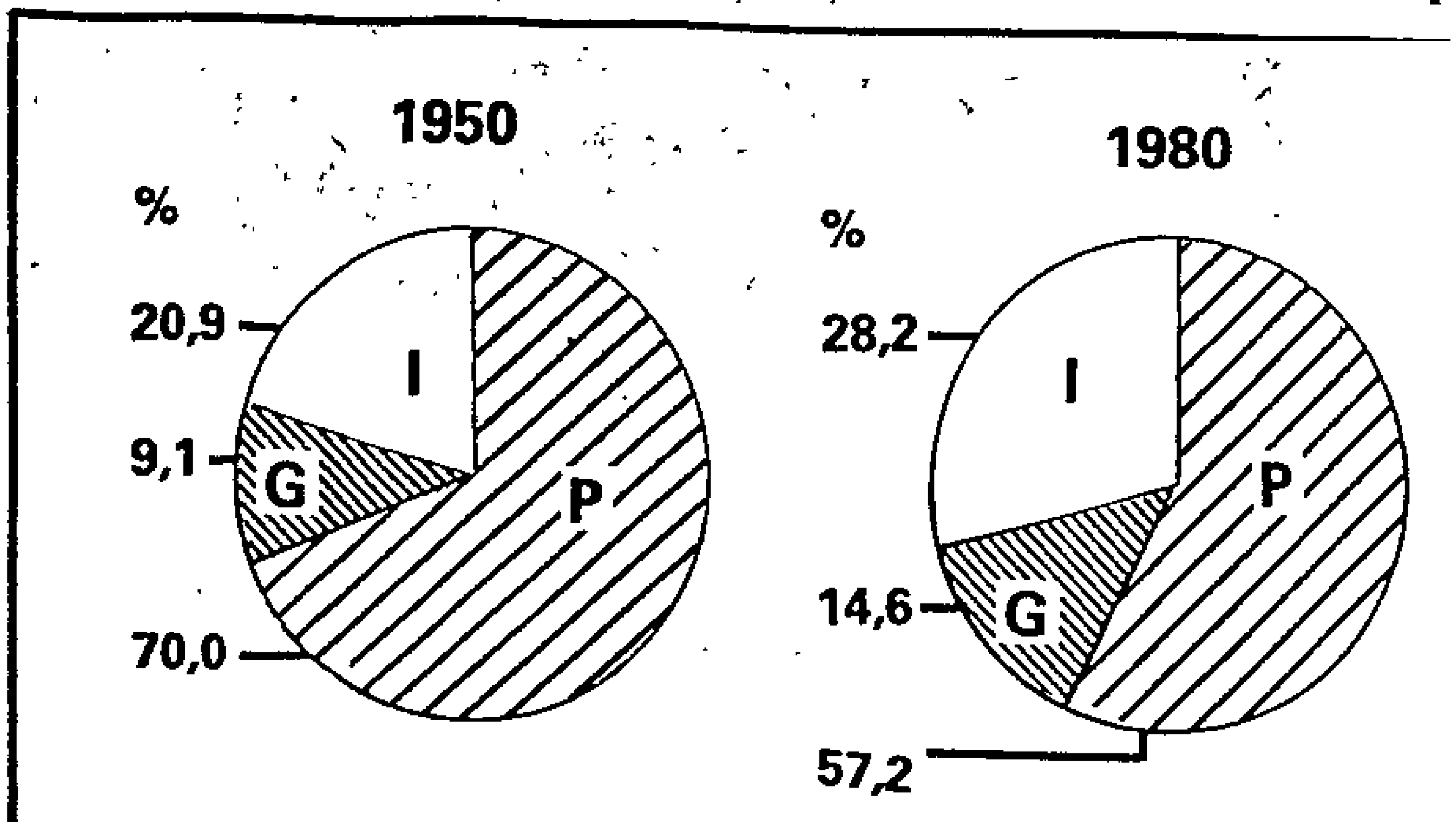
This sheet shows pie diagrams (see alongside) for the expenditure on the gross domestic product in 1950, 1980 and 2010.

Each pie is divided in three segments according to the proportion of the GDP that were taken up respectively by private consumption, government spending and investment spending.

In 1950, 70 percent of the GDP was spent on private consumption — people spending their incomes on consumer goods. Only 9,1 percent was spent by the government (on infrastructure, local and central government salaries, etc) and 20,9 percent was expended on investment (building factories or shops or buying machines).

By 1980 the pie had come to look quite different. The proportion of GDP spent in private consumption had dropped to 57,2 percent while that of government spending had grown to 14,6 percent and that of investment spending to 28,2 percent.

If present trends continue, a dramatically different picture will exist by 2010. The proportion of private consumption will have dropped from the 70 percent of GDP in 1950 to 35,3 percent. The proportion of government spending will have grown from the 9,1 percent in 1950 to 21,5 percent. And the proportion of investment spending will have jumped from 20,9 percent in 1950 to 35,3 percent.



Expenditure on GDP: P = Private Consumption, G =
Source: Aart Roukens de Lange, Institute for Futures

Income

But money spent on buildings and machines takes away money that workers could spend on consumer goods. Put differently, investment spending siphons off money from the wage and salary bill. This is why the proportion of consumer spending, shown in the diagrams, has declined so sharply since 1950.

Another set of figures computed by Roukens de Lange hammers this point home further. Our post-World War II rate of disposable personal income has been 3,8 percent per annum but since 1975 this has dropped back to 2,1 percent.

The kind of capital investment South Africa has experienced has led not only to a stunted demand for consumer goods but also to a horrifying unemployment problem.

Firstly workers have been replaced by machines. For instance a recent thesis by Mr M de Klerk has calculated that the number of seasonal black labourers on white farms has declined to 520 000 in 1978 from 780 000 in 1969. Partly as a result of mechanization the white farms may have shed nearly two million black labourers over the last 10 to 15 years.

Secondly, capital intensification, or switching from workers to machines, has made it prohibitively expensive to create new jobs. Roukens de Lange has estimated that the cost of creating a new job for a black worker in this manufacturing sector has (in 1975 money values) doubled from R33 000 in 1960 to R61 000 in 1980. (This takes into account the factor of old factories being closed down and new capital being employed.)

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research Dr Roukens de Lange has found that in 1980 about two-thirds of the economically active black population were employed by the formal sector — people actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 13 percent will be in the normal sector and more than 36 percent will be unemployed.

By the year 2010 only 45 percent of the economically active black population will be employed by the formal sector. The other 55 percent will be a massive *lumpen* proletariat, comprised of desperately hungry people scavenging around for food, as Dr Philip Spies has aptly phrased it.

How did South Africa land in this terrible mess?

One could blame the high black birthrate, or the apartheid policies trying to limit black people in the cities to a minimum, or business which has tried to adopt the American and European capital-intensive system of production.

But blame will get us nowhere — the basic fact is that our economy is not shaped to suit our greatest resource, namely an abundant supply of labour.

Ironically the crisis has been compounded by some of the so-called progressive forces. Take the Sullivan code which tries to improve wages and working conditions of black workers. This has only reinforced the trend of business bidding up the wages of the limited supply of the black workers in the cities before the overall supply of black labour in South Africa has been exhausted. It has led to more capital intensification, more black people being made redundant and a further swelling of the army of unemployed.

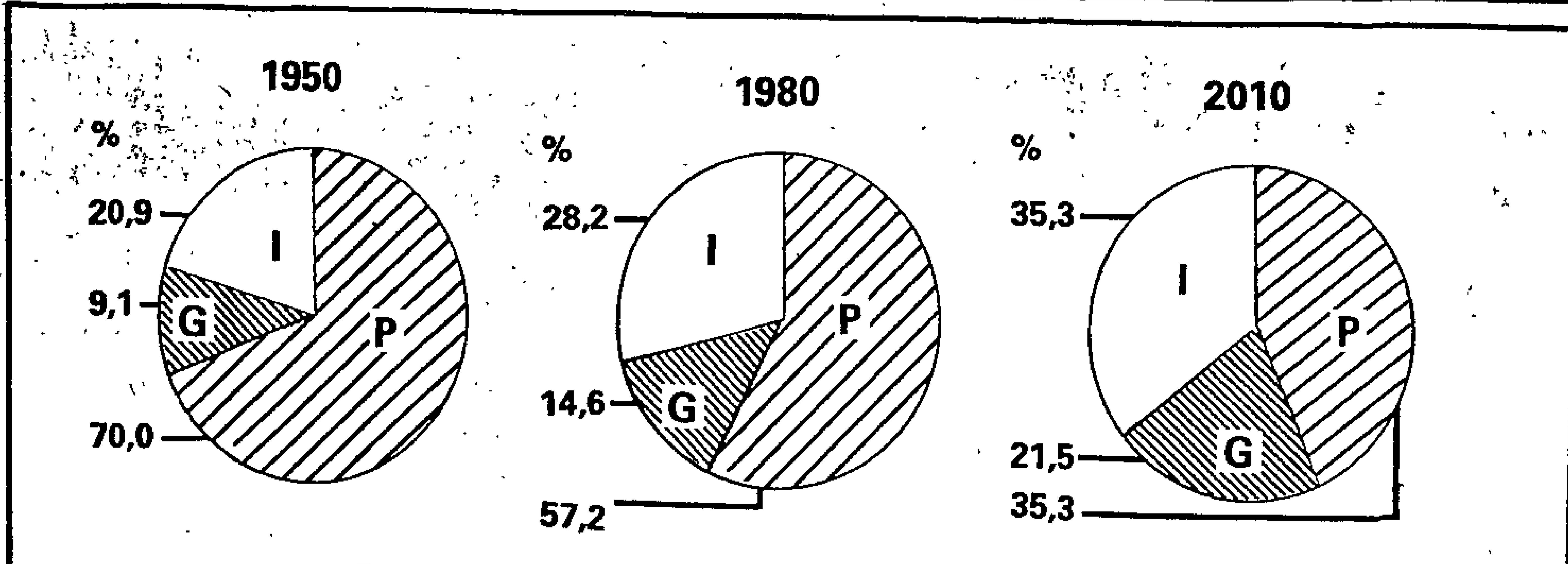
To my mind, foreign pressure on business has to an important extent been misguided and counter-productive. Far more good would have been achieved for black people as a whole and for

[B]ut urgent note to Barend du Plessis

58 (49) C-Times 7/7/84

The Pattern of Politics

By HERMANN GILIOMEE



Expenditure on GDP: P = Private Consumption, G = Goverment, I = Investment
Source: Aart Roukens de Lange, Institute for Futures Research, Stellenbosch.

recent thesis by Mr M de Klerk has calculated that the number of seasonal black labourers on white farms has declined to 520 000 in 1978 from 780 000 in 1969. Partly as a result of mechanization the white farms may have shed nearly two million black labourers over the last 10 to 15 years.

Secondly, capital intensification, or switching from workers to machines, has made it prohibitively expensive to create new jobs. Roukens de Lange has estimated that the cost of creating a new job for a black worker in this manufacturing sector has (in 1975 money values) doubled from R33 000 in 1960 to R61 000 in 1980. (This takes into account the factor of old factories being closed down and new capital being employed.)

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research Dr Roukens de Lange has found that in 1980 about two-thirds of the economically active black population were employed by the formal sector — people actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 13 percent will be in the normal sector and more than 36 percent will be unemployed.

By the year 2010 only 45 percent of the economically active black population will be employed by the formal sector. The other 55 percent will be a massive *lumpen* proletariat, comprised of desperately hungry people scavenging around for food, as Dr Philip Spies has aptly phrased it.

How did South Africa land in this terrible mess?

One could blame the high black birthrate, or the apartheid policies trying to limit black people in the cities to a minimum, or business which has tried to adopt the American and European capital-intensive system of production.

But blame will get us nowhere — the basic fact is that our economy is not shaped to suit our greatest resource, namely an abundant supply of labour.

Ironically the crisis has been compounded by some of the so-called progressive forces. Take the Sullivan code which tries to improve wages and working conditions of black workers. This has only reinforced the trend of business bidding up the wages of the limited supply of the black workers in the cities before the overall supply of black labour in South Africa has been exhausted. It has led to more capital intensification, more black people being made redundant and a further swelling of the army of unemployed.

To my mind, foreign pressure on business has to an important extent been misguided and counter-productive. Far more good would have been achieved for black people as a whole and for reforming South Africa if foreign pressure had been directed purely at achieving the free movement of labour and the lifting of influx control.

What is to be done?

I have a suspicion Mr Du Plessis will have an answer ready: we shall keep influx control but we shall encourage the relocation of industry to bring work to the unemployed in the homelands.

Economic decentralization is a dangerous and costly fallacy. In spite of all the money spent up to the present on the number of new jobs created in the formal sector of the homelands, this represents only five percent of the new jobs created in the formal sector of South Africa.

What about the new Good Hope incentives?

Gavin Maasdorp shows in a forthcoming study that even under favourable assumptions it will not make much difference. For instance it would deflect 700 000 people from the Durban metropolitan region, but it would not stop the population doubling or trebling itself over a 20-year period.

And both the direct costs and opportunity costs of decentralization are far too high for South Africa to afford, given the shape the economy is in.

There are also other options. One could turn the homelands into concentration camps to prevent the unemployed flocking to the cities. One could stage massive roadblocks. One could continue to raze squatter camps like Crossroads.

One could in the years to come turn a blind eye to hundreds of thousands of black people dying of hunger. One could turn a deaf ear to the truth that only the cities offer the unemployed of the homelands a hope to survive.

One could also lift influx control, use tax incentives to stimulate employment rather than capital investment and provide the unemployed with a low basic income.

As a wise man once said: Men and nations turn to rationality after they have exhausted all alternatives.

[Hermann Giliomee teaches politics at UCT.]

Gold price plunge

Bullion and rand hit by rise of US dollar in world currency markets

Argus 9/7/84 (58)

Financial Staff

THE downward slide of the rand and gold continued today, bullion plummeting by $16,10 to $332,50 at the price-fixing in London after opening at $348,60 in Hong Kong.

The gold price is the lowest for more than two years and its fall strengthening fears of higher interest rates that will bring more austerity in their wake.

The rand plunged to a new low of 66,70 American cents on foreign exchange markets in Johannesburg, down from Friday's 69,25 cents.

Rand halved

The rand's dollar rate is half what it was two years ago, so goods bought from the United States now cost double.

Gold and the rand were hit by the continued rise of the American dollar in world currency markets.

After a slight recovery at the weekend to $350,85, gold has dropped even below last week's two-year low of $345,10.

The Reserve Bank, meanwhile, is raising its discount rate to the commercial banks by another 0,25 percent today, which could force banks to raise interest rates above the record 21 percent for prime customers and trigger higher charges for consumers.

Interest rate up

The banks' first response was to boost the key 90-day liquid bank acceptance rate to 19 percent from Friday's 18,80 percent.

The Reserve Bank raised its discount rate by 0,25 percent only last Wednesday.

The words "further belt-tightening will be necessary" are used in a joint statement issued today by the Finance Minister, Mr Owen Horwood, and the Reserve Bank governor, Dr Gerhard de Kock.

Adjustments

They warn this could happen to keep the country living within its means if the gold price does not recover to any significant extent in the coming months, because the economy will be hit by the deterioration in its terms of trade.

The statement said further adjustments, upwards or downwards, would be made depending on the behaviour of the gold price and the dollar and other relevant developments.

An announcement would be made in due course on the Limitation and Disclosure of Finance Charges Act (Ladofca), which sets maximum interest rates, at present up to 26 percent.

The Ladofca system is currently under review.

HP tightening?

The possible tightening of hire-purchase terms was also receiving attention — a move that could hit manufacturers of consumer goods at a time when the economy is showing signs of weakness.

"At present there appears to be no need for the bank prime rate to rise, but its future behavious will obviously be affected by further developments in the gold and foreign exchange markets," the statement said.

No further tax increases were envisaged because precautionary action was taken with the rise in general sales tax to 10 from seven percent.

● **Living standards may fall — Page 3**

'Buy South African' campaign to beat the slump — PFP

Political Staff

THE Government should immediately launch a "buy South African" campaign to ward off the worst effects of the grim economic situation, according to Mr Harry Schwarz, chief Opposition spokesman on finance.

The prospect of a further plunge in the gold price was not ruled out and the rand continued to look sick against other currencies, said Mr Schwarz. Consumers could be in for a harder time than they thought.

Interest rates were going to have to stay at high levels for some time and fuel-price rises may be on the cards.

According to Mr Schwarz, the main thing the Government should be doing now is correcting the current account on the balance of payments.

DISCOURAGE IMPORTS

He said: "A major 'Buy South African' campaign should be launched at once to discourage imports and keep local industry going.

"Such a campaign would convert demand to local goods and would have three effects. It would:

- Help the balance of payments;
- Help keep employment intact; and
- Help fight inflation by keeping unit costs down.

"The question of credit restrictions must also be looked at. The Government should take steps to increase deposits and shorten repayment periods so there are fewer credit purchases," he said.

"While gold is down and while we don't know what the summer rainfall will be, we seem to be in for a tough time whatever happens."

Argus 14/7/84

(58)

Hard times ahead if gold, rand don't rise

By ROBIN BROWN and PETER FABRICIUS
Weekend Argus Reporters

BUSINESS and industry have warned of hard times ahead for South Africans in all walks of life if the falling value of the rand is not reversed and the gold price does not improve soon.

The rand stood at 67,55c to the US dollar today — 22,45c less than it was the same time last year, and the Hong Kong gold price was $348,40 today, $82,57 down on the same day last year.

The rand could drop to 60 American cents, forcing up interest rates and income tax, according to a former head of the SA Foreign Trade Organisation, Dr Piet Keiser, now in business as a private consultant.

The Government came under fire from economists and business this week for failing to support the rand.

Professor Jan Sadie, of the Bureau for Economic Research at the University of Stellenbosch, said the Government's policy of curbing inflation was completely inappropriate when the rand was falling.

"Instead of curbing inflation, they are merely adding to costs, increasing unemployment and curbing the growth of the economy," he added.

While the exchange rate would be good for exporters — eg, those marginal mines which struggle to keep their costs down to profitable levels — South Africa was not really geared for export and could not take full advantage of the opportunity.

"We don't have people waiting to take advantage of the price-drop."

Cost double

The rand this week plunged to an all-time low of 66 American cents — less than half the rate of 1,34 dollars two years ago, which means that goods bought from the United States now cost double.

"With the drop in the rand, interest rates in South Africa will probably rise, making commodities even more expensive," said Dr Piet Keiser.

"Imports, especially oil and raw materials, will soar in price, forcing up the costs of exporting South African-manufactured goods.

"Exporting has its expenses, such as world travel to market the goods, freight charges, insurance and interest on loans, all of which will soar to new heights and make exporting that much harder," he said.

Disaster

Economists are predicting a disaster if the rand remains low in the long term, especially with imported goods, because much of the heavy industrial equipment comes from the US.

"South Africa is going to have to look to countries where the foreign exchange rates are better and buy equipment from Germany, Japan and other European outlets," said Dr Keiser.

Luxury goods such as cameras, video machines and hi-fi equipment are set to rise again and many items imported from Japan could double in price compared to the beginning of the year.

Dr Keiser said: "Companies that have overgeared are in dire straits, especially if the rand slides further, but companies that have had the foresight to make provision for the slide will remain safe and viable."

Cut profits

Businesses who deal mainly in imported goods bought with US dollars have been especially hard-hit by the fall of the rand, said Mr Brian MacCleod, director of the Cape Town Chamber of Commerce.

"If you're doing business with the United States you will find the same goods today cost infinitely more than they did a few weeks ago.

"Then you either put up the prices and watch the goods sitting on the shelf forever or cut profits right down, maybe to nothing."

"This drop in the rand could be seriously prejudicial to those sorts of business."

Fate of dollar and gold hold the key

Rdm 18/4/84

(58)

Prime rate may go still higher, says De Kock

By HAROLD FRIDJHON

PRIME rate could still go higher than its present record rate of 22%.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday that if the dollar kept rising and gold falling "one can't rule out short-term further adjustments to interest rates".

He added, however, that if gold remained steady at $350, or edged higher, interest rates might decline as the economy cooled.

A lower dollar and a falling off of consumer credit could also lead to an easing of interest rates.

This looks rather more like following external events than initiating domestic policies.

And the record of the past year has clearly shown the authorities have been following events rather than formulating policies which could dampen demand, peg the growth rate in the money supply, and thereby show a determined effort to control inflation.

One gets the impression that the official nod to a high prime rate was reluctantly given. This view is confirmed by the ludicrous increase in the Ladofca rates.

All the authorities have done is to shift those rates in step with prime.

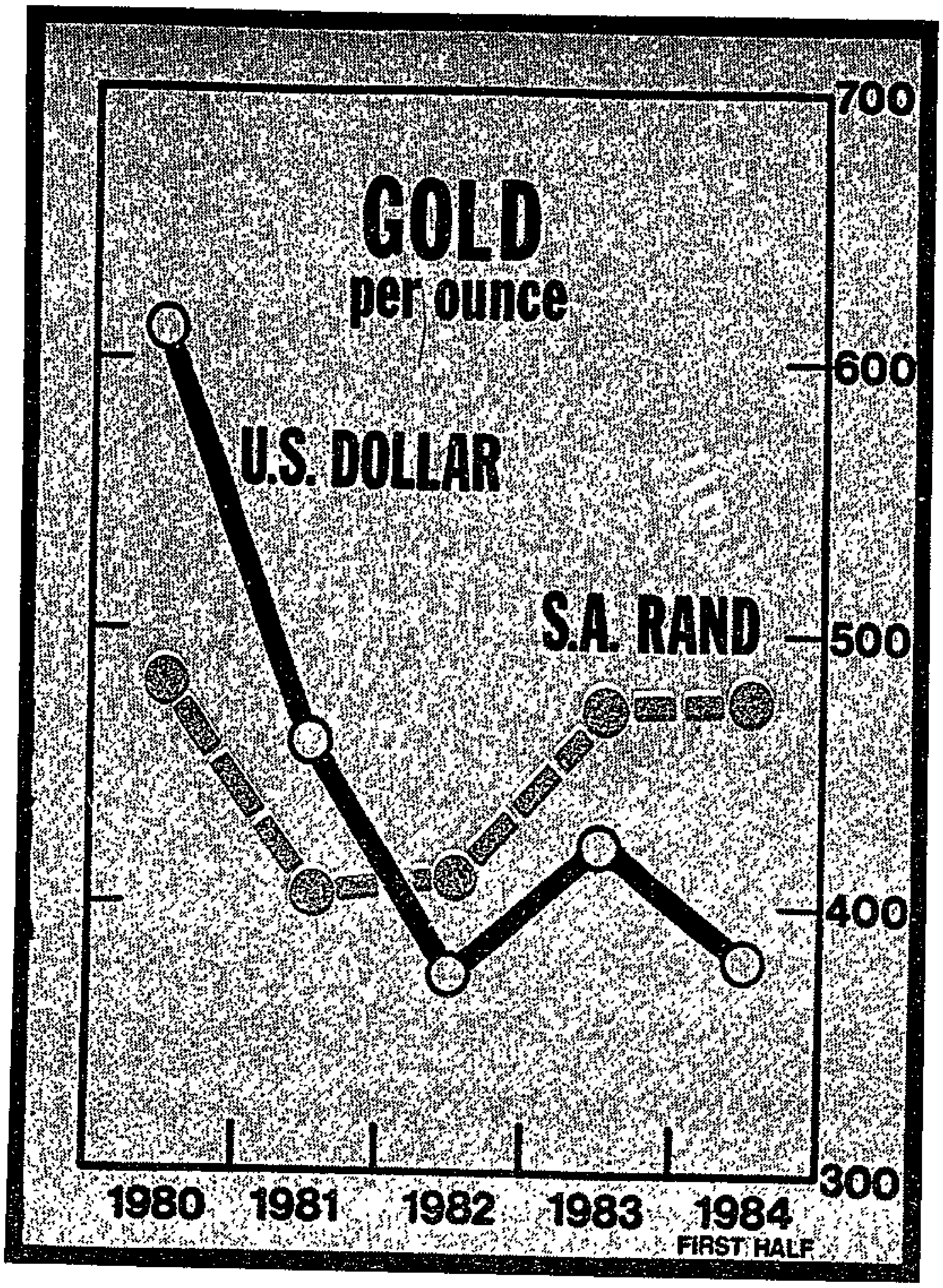
Instead, months ago, they should have used Ladofca as an instrument to curb consumption demand by making credit more costly.

The impression is firmly created that policy is far too timorous.

It has been a series of short steps rather than one big dramatic leap which could have stunned consumers into withdrawing from the market and saving, rather than spending.

The big fear in official circles is apparently that of "overkill".

But the continued buoyancy in the economy — particularly last year's mini-boom which we could not afford — prove conclusively that policies up to now have been far from "overkill".



South Africa's gold mines have been largely protected from the fall in the gold price by the steep depreciation of the rand against the dollar. The graph shows the gold price in dollars and in rands.

Step by step, interest rates have crept up. And consumers have continued to spend, on credit, in the expectation that increases in salaries and wages will pay tomorrows's bills.

Had the Ladofca ceiling been realistically set six months ago; had restrictions been imposed on hire purchase transactions, reduction in the demand for bank credit would now be in place and rates might have started to fall rather than be poised for further increases because of external factors.

These cannot be ignored, particularly in an open economy such as South Africa's. But the domestic economy must be stabilised, and here the record is far from convincing.

At a time when Government spending should have been reduced, it has increased.

At a time when the Government should have set an example to all employers and not increased salaries and wages, it raised the pay packets of its employees way and above the inflation rate, adding fuel to consumption expenditure.

Too much reliance has been placed on monetary policy, while fiscal and Government policy has only paid lip service to restraint.

Chuch Square cannot do an effective job if the Union Buildings stands aloof from realities.

Harping back on the short-comings of fiscal policy will not help in the immediate future.

Monetary policy must be made to work harder, and here high interest rates will help — but hurt.

High rates can stifle demand. This is shown up in participation mortgage bonds.

A leading part bond manager said yesterday it was unlikely the investor's rate for part bonds would go up in line with bank rate because part bond borrowers would not pay more for their money.

He added, however, that a two-percentage points rise in the prime rate could force up the part bond investment rate to keep existing investors who might otherwise be attracted to alternative forms of investment.

But what about the borrowers? How would they cope? The aborted property boom of the late 1970s provides the answer. And it hurts.

We have to reconcile ourselves to the fact that US interest rates might continue to rise.

This has been predicted by Mr Henry Kaufman, the American interest rates guru.

If his prediction proves to be correct, the dollar will remain strong, the gold price will remain low, or go lower, and Dr De Kock's forecast of higher interest rates will be fulfilled.

And we will be following — instead of stepping out boldly.

11,7% Budget estimate way out as . . .

RDM 19/7/84 (58)

Govt spending rockets by 20%

By HOWARD PREECE

GOVERNMENT spending soared by over 20% in the first three months of the 1984-85 fiscal year compared with the same quarter of 1983-84.

That is way above the original Budget estimate for this year of 11,7% and shows the immense task facing the Cabinet and the Treasury in the coming months in holding down State spending.

However, the Budget expenditure estimate for the year from April 1 of R24 945m has already been increased by additional spending plans, including agriculture, of R393m.

On the other side of the balance sheet, additional net revenue of at least R600m more than provided for in the Budget is expected from the rise in general sales tax from 7% to 10% from July 1, even though basic foods have been exempted from GST.

It also seems likely Mr Owen Horwood, the retiring Minister of Finance, may have prudently under-estimated his general revenue expectations in the March Budget.

The Reserve Bank, too, has already taken major steps towards raising the funds needed to meet the Government's borrowing requirement.

An official of the bank was quoted earlier this month as saying about R1 400m of Government stock — gilts — had been sold in the April to June quarter.

This is borne out by the figures in the latest Government Gazette.

The problem, however, is very much more than double-entry bookkeeping.

There is simply a critical need to get the rate of increase in State spending down to more moderate levels.

The evidence for April to June this year is hardly encouraging.

Expenditure was R6 820m compared with R5 654m in the equivalent period in 1983-84, a hike of 20,6%.

It is true, of course, that the monthly pattern of spending can vary considerably.

But so far this fiscal year, each month has shown a substantial rise over the same month of 1983.

The figures for April, May and June this year were R2 451m, R2 316m and R2 054m respectively.

In those same months last year the amounts were R2 078m, R1 871m and R1 704m.

In his Budget, Mr Horwood said departments which spent more than one-twelfth of their annual allocations in any month would be called to account.

This looked rather hollow when total spending was up by R2 451m in April against a Budget annual average of R2 079m.

However, it could perhaps be argued that the first couple of months of the year were bound to be difficult because of a backlog of commitments from the previous fiscal period.

In that sense the R393m additional spending proposals and the announcement of the GST hike to 10% could be seen as putting right mistaken assumptions of the March Budget.

Mr Horwood can also point to the June expenditure figure of R2 054m as being below the monthly average expenditure estimate.

But a rise of nearly 21% in the first three months means that there will have to be some desperate economising over the rest of the year.

The prospect of further tax hikes this year is certainly very real at this stage.

ANGE

Argus 19/7/84 (58)

SA's monetary policy pays off

By TREVOR WALKER
Argus Financial Correspondent

JOHANNESBURG. — New Zealand's 20 percent devaluation of its currency underlines how well South Africa's monetary policy is coping with the rampant United States dollar.

The governor of the Reserve Bank, Dr Gerhard de Kock, this country's money manager, had booted South Africa, a developing country, into the open market and the manner in which the rand has depreciated by about 10 percent against the dollar in the past three weeks has vindicated his policies.

Because of the excessive rise in the dollar against all currencies the gold price has slumped and South Africa has suffered, perhaps more than many other economies.

But if the market mechanisms had not been in place the authorities here would have been faced with the same dilemma as that facing New Zealand.

Australia followed South Africa in relaxing foreign exchange controls and freeing its foreign exchange market, whereas New Zealand did not. It has now been forced into a sizable devaluation, but the move has solved nothing.

Market pressures will remain and its monetary difficulties will continue. In trying to defend its currency it lost $1-billion in the weeks before the foreign exchange market was closed. Now the same buyers of those dollars will move them back at a 20 percent profit.

In South Africa the system of market-related foreign exchange rates has worked.

AGAINST DOLLAR

In the past three weeks the rand has depreciated only against the dollar and not against the currencies of the country's other major trading partners, while the net reserves of the Reserve Bank have not fallen at all.

The reserves have jumped around, and the bank did spend up to $300-million on particular days to support the currency, but exporters were soon back in the market selling dollars and the net result has been a stable reserve account.

The exchange rate took the knock, not the country's reserves.

In addition to devaluing, New Zealand has imposed a three-months freeze on prices, which is clearly a desperate measure — and one that is self-defeating.

Devaluations increase local prices so by staving them off artificially for three months the fledgling Labour government has only laid the grounds for further panic in October. Direct controls lead to further artificial controls.

The stark fact is that there is just no easy way to solve economic problems.

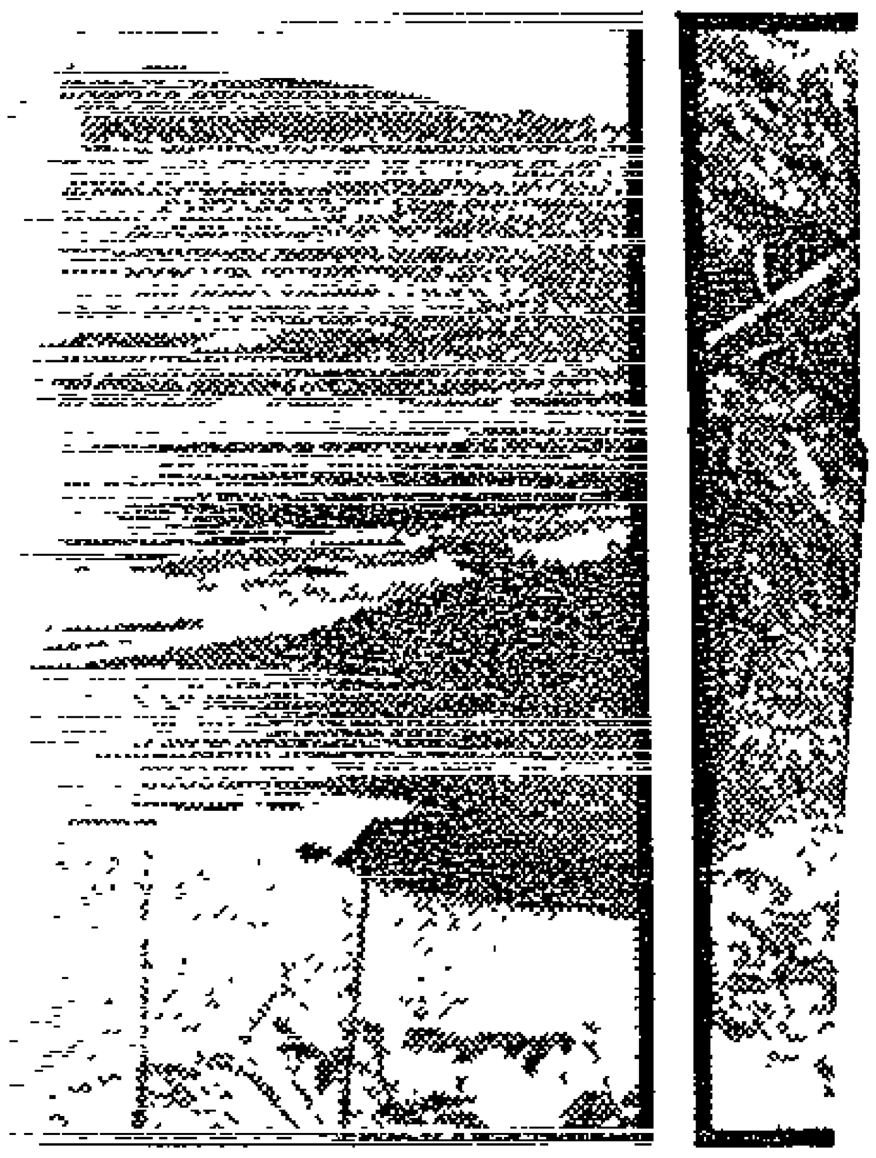
A country cannot spend its way out of difficulties nor can it expect artificially imposed political solutions to eliminate these problems for ever.

The French Cabinet has just resigned. There too President Mitterand opted for the socialistic approach — dividend, price and interest rate control and nationalisation of the banks.

He rejected Reaganomics and Thatcherism. But both the United States and Britain have demonstrated that curbing government spending, lifting interest rates and suffering high unemployment, can lead to a swift turnaround of economic fortunes.

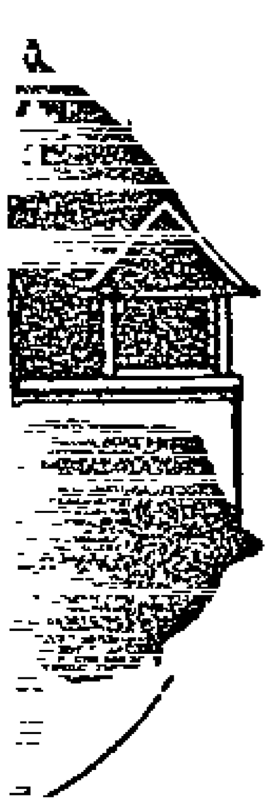
Warnin
effluе

es that sa



:OR factory at the head
sentative Cedrick Coetz

SAICCOR have l
troublesome pip
spilling of chemi
maas River last
the company will



That's the messa
Affairs as scientists
called for tighter c
effluent into the sea
The Works Dir
Boulter, admits sp
we have never had
So far, although t
vention of national
been brought agair
many loopholes in
successful prosecut

to delay

:time of 50
lesome pipe-
nstructed to
:d one which
effluent onto
the mouth of
aas River.
line carries
two kilome-
a before it is

t indication
pipeline was
was when a
:curred in
a favourable
in the river
g tides car-
fluent harm-

fracture was

a prelude to last
end's disaster.
This week SAIC
officials explained
the accident happen
"There are 4 000
of timber coming in
day and 1 100 tons of
going out," said Mr
Beesley, environm
list for the com
which makes cell
from wood.
"We had to replac
pipeline, but we wan
minumum of fac
downtime. It cost
R200 000 a day to
production. On the a
of several consultin
gineers we decid
high density polyeth

There's good and bad in it: local manufacture

THE RAND ROC

☐ Dr Gerhard de Kock

SOUTH AFRICA has just esc meetings, closure of the Stock E foreign currency dealings, acco Reserve Bank, Dr Gerhard de Ko

But the bad news is that inflation imported goods skyrockets

In an interview Dr de Kock gave de battering" of the economy

By

And he said that were it not for South Africa's "new relatively relaxed foreign exchange policies", the dramatic slump in the gold price and the crash of the rand would have caused "a serious financial and confidence crisis"

Instead the economy had emerged relatively unscathed from the incredible escalation of the dollar which sent the gold price tumbling and eroded the rand.

But for the new policies, which enabled the rand to float down, those events would have resulted in emergency Cabinet meetings, closure of the Johannesburg Stock Exchange and foreign currency dealings would have been suspended

"We have just passed through between three or four very difficult weeks," said Dr de Kock "Gold, which accounts for about 50 percent of our exports, fell from $370 and the value of the rand dropped to new lows

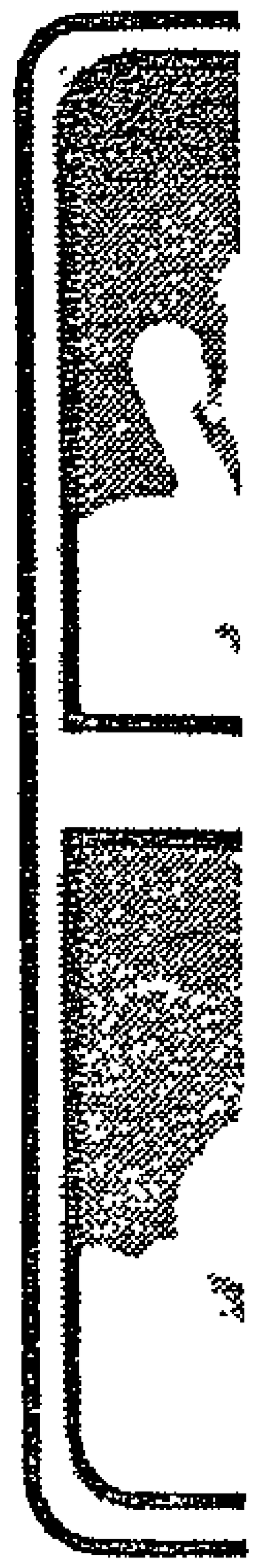
"Allowing the market to dictate the value of the rand proved to be the shock absorber we needed.

"We didn't have to take a 20 percent devaluation, close our foreign currency market, and then reopen it.

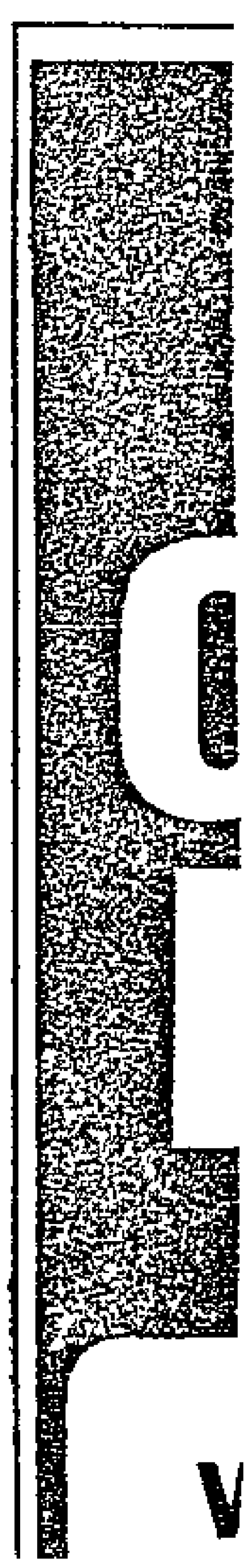
"We were hit hard on the jaw, but we absorbed it, because the exchange rate took the shock as well.

"New Zealand didn't have a similar shock absorber. It had to close its foreign exchange market for a few days. But first it had to devalue its currency by 20 percent which is large and disruptive.

"Our system was test-



☐ A he



It has been hell for the men in foreign exchange

By Deon Delport

RED lights wink Green flickering columns of numbers glow against black screens Hollow voices boom from speakers The latest value of the rand against the dollar is shouted across the room

"The last six weeks have been hell," said the chief dealer in foreign exchange for the Standard Bank, one of the leading banks in this field.

Dealers of about 20 banks have worked long hours, often late into the night, as the rand slid steadily against the dollar.

We are standing in a modern open-plan office dominated by rows of desks crowded with large white terminals and small switchboards.

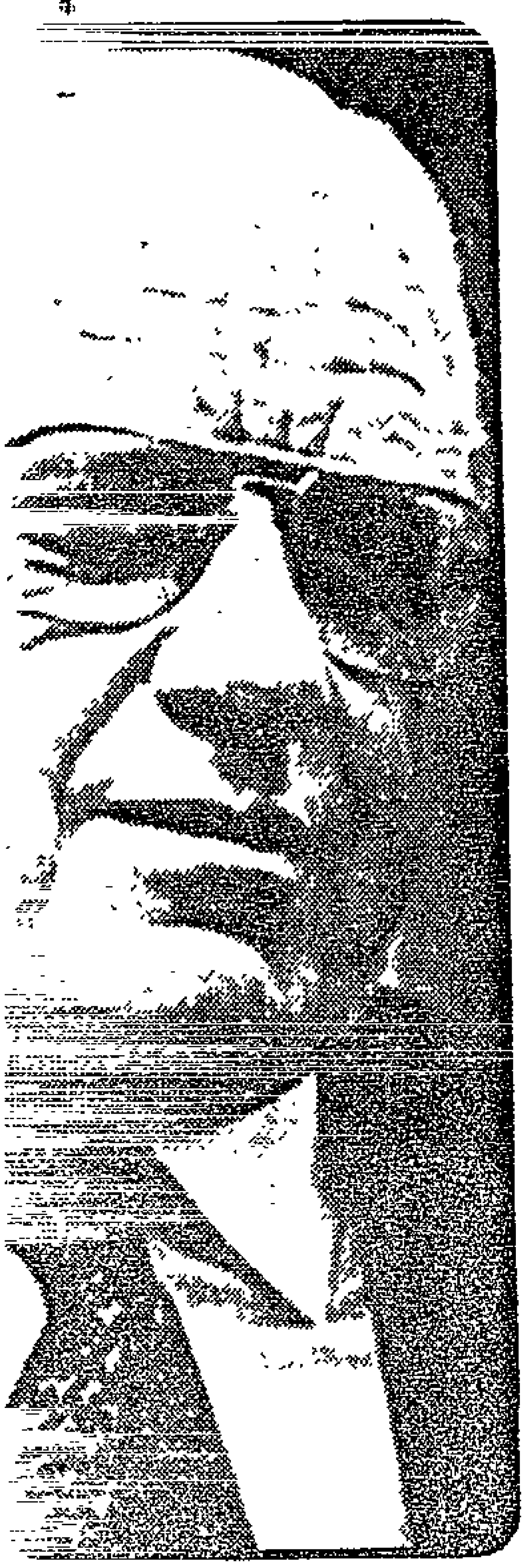
Red lights wink on telephone exchanges which carry 30 or 40 lines, as big customers, other banks, branches and brokers contact the room to find out the latest prices, up to the last second.

Against a wall a black screen carries, in large white letters, the word "U S dollars, sales, purchases". Columns of figures fill the length of the screen.

good and bad in it: local manufacturers will score but inflation will soar

IE RAND ON THE ROCKS

'We've been hit hard but we've survived it' - a relieved Gerhard de Kock



: Gerhard de Kock

By DAVID PINCUS

SOUTH AFRICA has just escaped emergency Cabinet meetings, closure of the Stock Exchange and suspension of foreign currency dealings, according to Governor of the Reserve Bank, Dr Gerhard de Kock.

But the bad news is that inflation is set to soar as the price of imported goods skyrockets.

In an interview Dr de Kock gave details of the "three to four-week battering" of the economy.

And he said that were it not for South Africa's "new relatively relaxed foreign exchange policies", the dramatic slump in the gold price and the crash of the rand would have caused "a serious financial and confidence crisis"

Instead the economy had emerged relatively unscathed from the incredible escalation of the dollar which sent the gold price tumbling and eroded the rand

But for the new policies, which enabled the rand to float down, those events would have resulted in emergency Cabinet meetings, closure of the Johannesburg Stock Exchange and foreign currency dealings would have been suspended.

"We have just passed through between three or four very difficult weeks," said Dr de Kock. "Gold, which accounts for about 50 percent of our exports, fell from $370 and the value of the rand dropped to new lows.

"Allowing the market to dictate the value of the rand proved to be the shock absorber we needed

"We didn't have to take a 20 percent devaluation, close our foreign currency market, and then re-open it.

"We were hit hard on the jaw, but we absorbed it, because the exchange rate took the shock as well.

"New Zealand didn't have a similar shock absorber It had to close its foreign exchange market for a few days But first it had to devalue its currency by 20 percent which is large and dis-

☐ A hectic week in a leading bank's foreign exchange department

been hell e men in n exchange

By Deon Delport

Green flickering columns of num- black screens. Hollow voices boom ne latest value of the rand against d across the room.

eks have been hell," said the chief exchange for the Standard Bank, one in this field.

20 banks have worked long hours, he night, as the rand slid steadily

in a modern open-plan office do- of desks crowded with large white ll switchboards.

nk on telephone exchanges which mes, as big customers, other banks, kers contact the room to find out the o the last second.

ll a black screen carries, in large

We are standing in a modern open-plan office dominated by rows of desks crowded with large white terminals and small switchboards.

Red lights wink on telephone exchanges which carry 30 or 40 lines, as big customers, other banks, branches and brokers contact the room to find out the latest prices, up to the last second.

Against a wall a black screen carries, in large white letters, the word "U S dollars, sales, purchases". Columns of figures fill the length of the screen.

Above, wall clocks tick the minutes away in Tokyo, Singapore, London, local Europe, New York and Los Angeles.

Manfred Schutte, general manager of the Standard Bank's International Division, has a gleam in his eye

"When there are very hectic market changes it gets quite dramatic, lights flashing and just the general shouting.

"Some dealers who join cannot take it and ask to be moved, others thrive on the pressure.

"In 1979 we had the same exchange market as New Zealand and the price of the rand was determined somewhat arbitrarily by the Reserve Bank at 115 U S cents to one rand and we had to buy and sell at those rates.

Unrecognisable

"People soon realise that because of undue pressure on the balance of payments arising from reduced exports or declines in the gold price such an exchange rate may not reflect the true position.

"The result of such a system, when people ultimately expect an adjustment of some magnitude in the rate, exporters would delay the conversion of their sales as long as possible and importers would pay as soon as they could. Accordingly some traders gain handsomely when the adjustment is made and others suffer, which is undesirable "

It was better to operate on the present system in which the exchange rate was determined by market forces.

"In the last few weeks, as the gold price has come down fairly swiftly and balance of payment has deteriorated because of agricultural imports, the pressure on the rand has increased quite considerably," Mr Schutte said.

"This has led to a fairly volatile and gyrating exchange rate. Large exporters and importers have the same Reuters monitors and when they see a development more and more of them come into the market.

"The bigger the drop in the value of the rand, the bigger the rush. Turnover increases substantially on those days."

Although the Reserve Bank closes at 3.45 pm, banks continue to deal and in recent weeks many dealers have been at their desks until 10 pm.

"Recent turnover has been unrecognisable by comparison with pre-1979 levels," Mr Schutte said.

"International trade has doubled in recent years, gold proceeds, previously handled by the Reserve Bank, are now handled by the local banks and the opening of Interbank, where local banks can buy and sell currencies, have all had an influence.

"The atmosphere in this room is the same as on the Stock Exchange floor when a boom is on or there is a run on a share," the chief dealer said.

Surveying a scene of seeming chaos, the dealer apologises that Friday is a quiet trading day. "Everything just goes dead after 12."

Anyone in the world who is prepared to deal at the current price can buy or sell at that level, but the minimum sale has to be for one million dollars

"Here your word is your honour, if you make a deal verbally, by telex or via a broker, the deal stands. It is very, very competitive. If the price is not good you fall by the wayside.

"In the last six weeks there has been an extraordinary demand from importers but not much supply from exporters.

"This whole year has been hectic. It always is in a U S Presidential election year, but the last few weeks have been extremely hectic

"Dealers are under a lot of strain from 7 am to 6 pm.

"It is the mental strain a dealer has as well. At the end of a day you just want to go to bed alone."

"New Zealand didn't have a similar shock absorber. It had to close its foreign exchange market for a few days. But first it had to devalue its currency by 20 percent which is large and disruptive.

"Our system was tested. It worked. It showed it can handle bad news "

Dr de Kock said that an attempt to bolster the rand would have had a negative effect, showing that it was an overvalued currency ripe for depreciation.

The best defence had been to let the rand find its own level.

"On balance, we have not lost any significant amounts of foreign exchange. We would have had we tried to bolster the rand with foreign currencies, and we had plenty of dollars with which to do it."

The Reserve Bank's policy was to intervene only to prevent unnecessary fluctuations.

"We provide the calming agent, the headache powder."

Dr de Kock refused to be drawn on the question of when he thought the dollar would start coming down.

"The Americans themselves do not want an extremely strong dollar They are worried about it. Their high interest rate policy has simply been too successful."

There was no immediate need for the Americans to do anything about reducing the value of the dollar.

"The bad news is that inflation will tend to rise with the rand at low levels because of imported costs," he said.

"Someone who decided two months ago to buy imported goods, cannot stop them now. They are probably on the water. Unless he took forward cover, they will cost more in rands, so he will have to sell them for more."

The good news was that, by allowing the rand to find its own level, it encouraged exports and discouraged imports.

Domestic manufacturing industries got more protection, because imported goods and freight went up in rand terms.

It also meant gold shares on the JSE became more attractive to American investors.

Mines will not take the full knock of the fall in the rand. Although they will get fewer dollars, they will get more rands.

Business Day RDM 30/7/84 (58)

Reserve Bank action fails to halt pressure

HAROLD FRIDJHON on the MONEY MARKET

UPWARD pressure is still being exerted on money market rates in spite of the Reserve Bank taking all reasonable action to stop them soaring out of control.

In the past week, the Reserve Bank has:

- Given the market R600m in accommodation through buy-back deals;
- Reduced the amounts offered in Treasury and Land Bank tenders;
- Announced that Government bonds maturing in September will not be rolled over; and
- Said that no tenders for new Government bonds will be made during August.

But these assurances that there will be no squeeze from Pretoria have not allayed the bearish mood in a market which, desperately short of liquidity, continues to bid very competitively for any money it can lay hands on.

Short-term rates are high and are set to move even higher this week when the books have to be balanced at the month-end.

Call rates are around 20% with a tendency to spill over this level. Month-end money is being bought at 20,25% and this week one deal for R12m from July 27 to August 10 set a rate of 20,35%.

One-month negotiable certificates of deposits were sold into the secondary market at 20,75%.

The 90-day bankers acceptances rate was 19,70% on Friday after having been as high as 19,85% earlier in the week. The rate was jerked up when a large parcel of BAs was offered into the market.

After that had been disposed of, the BA rate eased down to 19,60% as the supply of BAs dried up but sheer market pressure took it higher again on Friday.

The Treasury bill rate rose by one point in Fridays's tender, from 18,76% to 18,77%.

This was hardly a reflection of conditions and sentiment in the market.

Granted that the tender was only for R40m worth of bills, with R60m of maturities, and granted that there are always a number of small tenderers looking for bills, the one-point move in the rate does seem to indicate some measure of official support for the tender.

If the rate had been kept down through intervention there would be a valid reason for this action.

The Reserve Bank's discount rate for TBs is 18,75% which means that, theoretically, investors who bought bills could discount them at the bank and make an immediate profit.

The same applies to BAs with a market rate of 19,70% and a discount rate of 19,5%.

It would seem that the Reserve Bank is prepared to go along with this anomaly rather than raise, once again, its discount rates which might be a spur for all rates to go higher, including prime.

There is enough stimulus within the market-place for rates to rise without the authorities giving added impetus at a time when they would like to see rates remain exactly where they are.

Looking back on the traditional pattern — not that traditional patterns seem to count for anything these days — the margin between the TB rate and the 90-day BA rate was usually between 0,25% and 0,5%.

At present, the gap is 0,93%, which suggests that one rate is out of line. The BA rate is market-determined, so perhaps the rise in the TB rate has been restrained.

On Friday, the Reuter screen was showing the market shortage — the total amount of the accommodation which the Reserve Bank gives to the market — reached R2,568bn, with market sources estimating that by the close of business tomorrow it could reach between R2,8bn and R3,1bn.

This sets the stage for institutions to put screws on the market. Brokers said on Friday that the tendency to invest short-term was currently very strong.

□ □ □

THE bond market was very bearish last week because events in other markets, such as forex, gold and the money market, had confirmed expectations.

Rates have soared, with both RSAs and Escom reaching new heights of over 16%.

Only two bonds were really affected. They were the RSA 13% 2005 and the Escom Loan 154 10% 2007. Trade in the two accounted for 93% of the market's turnover of R569m during the first four days of the week.

This was not achieved by small speculative jobbing deals between brokers, although there was much of that.

The jobbing which boosted trade came from the many institutions operating jobbing portfolios.

There was switching from RSAs, which reached a peak of 16,10% — on the 2005s — into the higher-yielding Escoms, with Loan 154 reaching 16,13%. And there was dealing to get rid of long-dated stocks and to shift into call and one-to-three months assets.

Dealing was concentrated on these two issues because they are the most marketable bonds and the name of the trading game is marketability.

This means there are many dozens of bonds on the JSE board which are never traded. They are virtually frozen assets in the investors' books.

This emphasises the need for market-makers in the local bond market and it is here that the banks and the merchant banks — and some of the major assurers — could play an important role, if they were given the opportunity by de-regulation.

·ove the high bar during her perfect

Picture: UPI

;t as

Credit limits up again

RDM 3/8/84 (58)

Finance rates go through the roof

By HAROLD FRIDJHON

A DRAMATIC anouncement made jointly last night by the Ministers of Commerce and Industry and of Finanace, and the Governor of the Reserve Bank, will usher in an unprecedented period of austerity and "belt tightening".

The statement said:

- Banks prime overdraft rate could go as high as 25%;
- The ceiling rates on hire purchase will go up by 5% to a maximum of 32%,
- The rates on borrowed money up to R2 000, will go up to 32%;
- A further announcement today will impose restrictions on hire purchase transactions, probably an increase of deposits and shorter periods of repayment.
- The Reserve Bank's rediscount rate for treasury bills to discount houses will rise to 21,75% from 18,75%, rates for Land Bank bills will rise to 22% from 19% and rates for bankers' acceptances will rise to 22,25% from 19,50%.
- And the Reserve Bank will apply similar increases to its overnight lending rates to discount houses and other banking institutions.

The statement was released in Pretoria by the new Minister of Finance, Mr Barend du Plessis, Minister of Commerce and Industry, Dr Dawie de Villiers, and the Governor of the Reserve Bank, Dr Gerhard de Kock.

The economy, said the statement, had been adversely affected by a strong dollar, a low gold price, a weak recovery in world prices of South African principal export commodities and the drought.

The statement also said that the various Ladofca rates (maximum finance charges contained in the Limitation and Disclosure of Financial Charges Act), which had not been fully adjusted to the increases in market-determined rates during the past year, would be raised by 5% to achieve an appropriate alignment of interest rates.

This has been exacerbated by the gold price dropping from $380 an ounce to around $340 an ounce.

The country is facing a very difficult period which can only be overcome by the tightening of belts.

For ordinary loans up to R2 000 the maximum interest rate rises to 32% from 27%. For loans between R2 000 and R5 000 it rises to 30% from 25%, and for those over R5 000 it goes to 28% from 23%.

For hire purchase and leasing transactions under R10 000 the ceiling rises to 32% from 27%, and for those over R10 000 it goes to 30% from 25%.

These rates apply from today.

The statement said there would be no further tax increases. The Government was determined instead to curb public sector spending.

The new rates will probably mean a rise in mortgage rates and the drop in consumer demand could lead to an increase in unemployment.

58

Commerce and industry slate money measures

By GERALD REILLY
Pretoria Bureau

THE drastic measures adopted by the Government in a bid to get the South Africans tottering economy back on the rails, has shocked organised commerce and industry and the farming community.

This was clear from statements yesterday from the Afrikaansehandel Instituut (AHI), the Association of Chambers of Commerce (Assocom), the Federated Chamber of Industries (FCI) and the SA Agricultural Union (Saau).

All were critical of the Government's inability to control the money supply and its own spending over the past two or three years.

The record high interest rates and the tougher hire purchase conditions, it is claimed, will result in greater unemployment and premature demands from trade unions for wage and salary increases.

And on top of this there are fears GST will be increased again to boost Government revenue, and place a further curb on spending, and that bond rates will be go even higher.

The president of the Assocom, Mr Bill Yeowart, said the steps to be taken would be a severe shock "to an economy already slowing down.

"They would inevitably result in higher unemployment, more insolvencies and lower profits in many sectors, particularly the retail sector.

The situation is largely due to a failure to control the money supply and State spending.

"The burden is now falling on the business community and the man in the street," Mr Yeowart said.

Assocom believed it imperative that the necessary discipline in State spending be exercised to spread the adjustment more evenly between the public and private sectors.

Mr Yeowart said like the recent increase in GST "these decisions are being taken without consultation with the private sector and without any meeting of the Prime Minister's Economic Advisory Council."

The president of the Saau, Mr Jaap Wilkens, said the drastic rise in interest rates was a shock for the farming community.

The high rates would seriously impede the financial recovery of farmers struggling against the disastrous effects of two successive droughts.

They would also mean farmers would have to pay substantially more for vital production credit. Mr Wilkens criticised Government's delay in tackling the problems.

A tighter control of the money supply and stricter fiscal measures would have prevented the current "shock therapy," he said.

The director of the consumer council, Mr Jan Cronje, said home owners would find it even more difficult now to maintain bond payments. It was clear, he stressed, the fight against excessive spending should have started two years ago.

Steps should have been taken against easy credit and financing. The drastic medicine to be applied would force consumers to live more frugally.

"Up to now they have enjoyed their bread with jam and butter, and sometimes even caviar. Luxuries are now out, and even bread will have to be sliced thinner," Mr Cronje said.

The executive director of the FCI, Dr J C Van Zyl, said the drastic increase in interest rates and hire purchase conditions would pull the man in the street "right into the overall belt tightening exercise".

The FCI applauded the courage of the Reserve Bank in "doing what it has not really done up to now — to follow a truly market related monetary policy.

"External confidence in South Africa should now be boosted by the determined effort to fight inflation."

The FCI hoped short sharp remedies, which had worked so well in the United State and Britain, would prove equally successful in SA.

"If inflation can now be finally curbed the pain would have been worth it. Unemployment should almost certainly be aggravated by the new measures," Dr Van Zyl said.

The president of the AHI, Mr L P Bartel, said among the reasons why the Government had no choice but to use shock tactics included:

- A realisation that the country was living far beyond its means;
- Savings had reached an historically low point;
- The extent of Government spending;
- The effects of the drought.

Mr Bartel said the industrial and commercial sectors, where there was already surplus capacity, would be abnormally hard hit. Businessmen in the platteland would also be hard hit. Many were fighting a grim fight to survive, he added.

Warnings on SA's economy

By GERALD REILLY
Pretoria Bureau

THE Government was engineering a depression in South Africa and it was the middle and lower income groups which would be hardest hit, the chairman of the Federal Council of South African Transport Services (Sats) Staff Associations, Mr Jimmy Zurich, said yesterday.

Reacting to the drastic measures announced this week by the Governor of the SA Reserve Bank, Dr Gerhard de Kock, to further slow down the economy, Mr Zurich said more and more people, including whites, would be pushed towards poverty levels.

Individual and company debts, already at an historically high level, would continue to mount.

"The country is caught up in an economic crisis more serious than at any time since the Great Depression of the early 1930s — and it's the small man who is going to get hurt most."

Mr Zurich warned of an explosion of wage demands from trade unions later this year and in the first half of next year — and to greater risks of industrial unrest if demands are not met.

This was in spite of the fact that the bitter medicine now being applied to the economy was likley to create significant white unemployment for the first time.

The higher interest rates and more stringent HP conditions would lead to a massive decline in consumer spending, to decreased demand for goods and services, to reduced industrial production, bigger deposits conditions, and shorter repayment periods — would make life particularly difficult for young married couples.

MR JIMMY ZURICH
grave crisis

tion and finally to greater unemployment.

Mr Zurich said the Federal Council was due to meet later this month and it was expected he would be authorised to make an immediate demand on the Minister of Transport Affairs, Mr Hendrik Schoeman, for wage and salary rises for more than 100 000 Sats workers.

"The minister can rest assured he will get substantial wage demands, if not from the Federal Council, then from the individual unions."

Mr Zurich said the new and more stringent hire purchase

Changes for hire purchase

By DAVID CAPEL

SOUTH AFRICA's battered consumer will not have to fork out extra for existing hire purchase agreements.

Existing agreements will not be affected by the rise in interest rates.

But consumers will have to pay more higher deposits on goods — and the extent of the repayment periods will be slashed.

Mr Alan Mancoff, managing director of the Business Information Centre, Dun Bradmore, said yesterday the tough measures were necessary to curb consumer spending, and would herald positive long-term results.

Backing his assertion that consumer spending was running at a dangerous level, Mr Mancoff said devalued judgments on instalments during the first quarter of this year rose by 67% against the first quarter of last year.

The Government's tough action should help to reduce these figures, Mr Mancoff said.

Consumers will have to pay a 20% deposit instead of 15% on a car and will have to pay it off over 36 instead of 42 months.

Television sets will require a 15% deposit instead of the existing 10% and will have to be paid off over 20 months instead of 26 months. Deposits for domestic appliances will rise by the same amount, but will have to be paid off over 18 months instead of 2 years.

Too much too late — Goodall

Pretoria Bureau

THE DRASTIC overkill measures announced by the Government this week in an effort to further slow down the economy were "too much too late", a PFP finance spokesman, Mr Brian Goodall, said yesterday.

He said the authorities were turning the screws on the private sector.

"And I, for one, am cynical about the Government's ability to cut its own spending."

It was pointless, he said, squeezing the private sector while the Government went on its spendthrift way.

"The effect of the measures announced will be to intensify and extend the recession."

The country was in grave danger of drifting away from recession to a full scale depression, Mr Goodall warned.

"The economy lacks direction. Aside from ad hoc knee jerk reactions, there is no coherent consistent plan. We are lurching from crisis to crisis," Mr Goodall said.

MR BRIAN GOODALL
govt knee-jerks

Hire purchase hits you hard

Pretoria Bureau

JUST how tough it's going to be for consumers who use hire purchase was made clear in a breakdown of increased downpayments and shorter repayment periods which appeared in yesterday's Government Gazette.

These details also revealed the Government's grim determination to drastically reduce consumer spending.

Furniture purchases, for instance, will now need a 15% deposit and must be paid for within 18 months.

Car and motorcycle buyers will have to put down 20% and repay over 36 months.

The deposit for these items was 20% previously, but the repayment period has been decreased by six months.

Commenting on the change, the director of the Motor Industries Federation, Mr Jannie van Huysteen, said it would take about two or three months to measure its effect on the motor industry.

According to the Gazette, the following goods will require a 15% initial payment, with the payment period stretched over 18 months:

Household furniture, including garden furniture, mattresses, carpets and rugs, and electrical and non-electrical appliances for domestic use.

These include gramophone radios, sound recorders and reproducers, record players, tape decks, loudspeakers, amplifiers and accessories for these articles. Portable radios, car radios and coal stoves are excluded, however.

Camping equipment, including tents but excluding caravans, are also in this category.

Those goods requiring a 25% downpayment with a 12 month payment stipulation are:

Jewellery, including clocks and watches, photographic and cinematographic cameras, enlargers, reducers and projectors.

Accessories for these articles are included, but not equipment for cinemas and theatres, microfilm equipment and lithographic process cameras.

Goods with a 15% downpayment and a 20 month payment period include:

Television receivers and accessories, excluding closed-circuit television equipment, and television aerial systems and accessories, excluding communal aerial systems.

A 30% downpayment, with 12 months' repayment time, has been applied to video cassette recorders and players, video cassettes and electronic television games.

Govt's foreign liabilities equal R3bn

SA owes the world R27bn

RDM 20/8/84

(58)

By HAROLD FRIDJHON

SOUTH Africa owes the world about R27bn at present rates of exchange.

The figure could be considerably higher, but it is unlikely to be less.

Two elements in the country's foreign debts are accurate — the amounts which the Government and the parastatals owe — but the offshore borrowing by the private sector of the economy is an estimate.

Using the current value of the rand, the Government has oustanding foreign liabilities of about R3bn.

Those of the parastatals such as Escom, SA Transport Services and the Post and Telecommunications are R8,88bn. But getting a figure for what the private sectior owes has been difficult.

Various banks provided estimates. They calculated what their clients had borrowed in aggregate from abroad, then grossed up these liabilities in terms of what each bank believed its market share to be.

Their estimates have ranged between R12bn and R15bn, but spokesmen for the different banks have tended to under-estimate rather than over-estimate the total outstandings.

Last week, the Department of Finance published its annual statement of the guarantees given by the Government to overseas lenders of money to the public corporations.

The debt schedule shows capital amounts owing in the various currencies, interest pavments, the total incuding interest and the year by year repayment schedule of the debts.

The total capital value of all debts at March 31 1983 was R6,612bn, increasing by 12,2% to R7,421 to the end of March this year. Values have been calculated at the foreign exchange rates at the time.

If these debts are valued at the exchange rates ruling last week they have increased by 19,6% to R8,88bn.

In rand terms, and at the exchange rates ruling at March 31, 1984, and at March 31, 1983, outstanding capital owing on dollar-denominated debts increased from R2,088bn in 1983 to R2,806bn in 1984 — by 34,3%.

Repayments during the year resulted in the outstanding German mark debts dropping from R1,794bn to R1,73bn. There was a simlar drop in the debts owing in French francs — from R1,105bn to R979m.

It is possible that debts incurred in the erection of the Koeberg power station could account for some of the repayments.

Debts in Swiss francs increased from R1,075bn to R1,154bn.

Loans denominated in British pounds rose from a capital value of R419m to R427m. In the case of Japanese yen, the capital amount owing rose nearly three times from R131m to R325m.

The denomination of debts by currencies does not necessarily mean that the money has been borrowed from the countries whose currencies have been specified.

For example, the large debt in dollars arises from funds which have been raised in the Euro-dollar market. Most of these loans are unconnected with transactions in the US.

Other loans have been issued with multi-currency options and the designated currency is the one in which the last payment was made.

Total payments of capital and interest which the parastatals must make this year amount to R1,883bn and the larger part of all the debts is scheduled to be liquidated by 1989.

The trouble with South African borrowing is that it is mostly short-term and largely raised for the financing of projects in this country.

The Government's borrowing abroad has shown a considerable increase in recent years. In 1981, its debt amounted to R895m and at the end of March this year it stood at R2,45bn.

Of the Government debt of R2,45bn, R2,149bn is non-marketable, which suggests it is largely in the form of a loan from the International Monetary Fund and from bankers, possibly in the form of short roll-over credits.

The marketable debt amounts to R301m.

Mercury 23/8/84 (58)

Govt spending runs at 18,4pc above last year's

Mercury Correspondent

JOHANNESBURG—Government spending for the first four months of the current fiscal year is running at a rate of 18,4 percent above that of last year.

But in terms of what the average budgeted expenditure should be for four months, the departments have overspent to the extent of 4,5 percent. All the excess spending took place during March and April.

State departments spent R8,857 billion during the four months ended July 1984, compared with R7,476 billion for the same period of last year.

In his Budget speech, Mr Owen Horwood, the then Minister of Finance, said that he would try to hold the increase in this year's Budget to 11,7 percent above last year's.

Budget

Total expenditure in the original Budget for the current year was estimated to be R24,946 billion but this was increased to R25,356 billion by additional expenditure which was approved by Parliament. This works out to an average of R2,113 billion a month.

Mr Horwood said that he would try top confine the State departments' monthly spending to one-twelfth of their annual budgets. In April, total spending was R2,45 billion, in May R2,316 billion, June R2,054 billion, with R2,037 billionin July.

While some departments were, in terms of the monthly average, underspent at the end of July, others appear to have spent a bigger-than-average amount of their budgets.

The Departments of Co-operation, Foreign Affairs, Community Development, and Minerals and Energy Affairs appear to be well within budget, but the Commission for Administration has spent three-quarters of its appropriation of R46m with eight months to go.

National Education has spent R420 million of its total budget of R866 million.

Defence is about R100 million over its average.

Industry and Commerce has spent R238 million in four months against an annual budget of R575 million.

Other departments which appear to be over budget at present are Agriculture and Education and Training.

Benefits

Some R267 million appropriated for 'improvement in conditions of service' — benefits for public servants — is as yet unspent.

With expenditure at R8,857 billion and revenue at R5,928 billion — very little changed from last year's collections — the deficit before borrowing, including repayments of past borrowing, amounts to R2,929 billion. This has been financed by the raising of R3,092 billion.

Bonds issued by the Treasury have brought in R1,937 billion, of which R1,48 billion has been raised by the new and most popular bond, the 13 percent 2 005. Some of this stock was raised by public tender, some by tapping stock into the bond market, and some by issues to the Public Invesment Commissioners. In June the PIC took up stock to the value of R217 million. It is believed that the PIC will take up bonds approximately at the rate of R200 million a month.

Treasury bills have brought in R1,418 billion net.

The Defence Bonus Bond scheme appears to be running into heavy water. These bonds have raised R42 million so far this year, but R51 million has been repaid.

Loans

Foreign loans and credits raised amount to R253 million while R110 million has been repaid. Mr Horwood budgeted to raise R425 million abroad this year.

A breakdown of revenue is available only to the end of June. At that stage income from customs and excise was at R446 million slightly higher than it was at the same stage of last year.

Inland revenue at R3,817 billion was R484 million ahead of 1983/84 and most of this increase came from general sales tax which, at R1,211 billion, was R324 million more than irt was last year.

RDM 20/9/84 58

State spending purge 'has saved R650m'

By CHRIS FREIMOND
Political Correspondent

PARLIAMENT. — Austerity measures by Government departments had succeeded in reducing what was at one stage expected to be a R2,45bn overspending by the State to about R1,8bn, the Minister of Finance, Mr Barend du Plessis, announced in Parliament yesterday.

Speaking in an emergency debate on the state of the economy, Mr Du Plessis said certainty regarding total Government spending and the financing of that spending ought now to contribute to greater stability in "economic variables and expectations".

Mr Du Plessis said that after in-depth discussions at the end of July, between the monetary and fiscal authorities on the deteriorating domestic situation and the sluggish recovery overseas, the Reserve Bank took steps early in August to meet the difficult situation as far as monetary policy was concerned.

The measures, such as adjustments in interest rates and control of the money supply, had already produced promising results although it was inevitable that sacrifices had to be made in certain sectors of the economy.

A similar excercise to that by the monetary authorities had been undertaken by the fiscal authorities to control the tendency to overspend by the public sector.

The excercise was now complete and details could be disclosed because taxpayers had the fullest right to know what the present economic and Government expenditure position of the country was.

When the excercise to prune expenditure was started, more than four months of the current fiscal year had elapsed. Cuts that could be made were therefore all the more vital in as much as they applied mainly to the second half of the fiscal year.

Following a Cabinet directive, the Director-General of Finance, Dr Joop de Loor, told the heads of State departments and other instutions financed by the Budget that the economic and fiscal position was serious and they were requested to make appreciable cuts in spending for the rest of the year "within in their own range of priorities", Mr Du Plessis said.

BAREND DU PLESSIS ... State overspending cut to R1,8bn.

There were simultaneous special measures on the revenue side to speed up the issuing of assessments and collection of outstanding amounts. These measures were bearing good fruits and would result in revenue in excess of that budgeted for in March.

Certain exceptional factors for which acceptably accurate provision could not be made in the main Budget, nor even in the Supplimentary Budget, meant that Government expenditure this year had risen above budgeted levels.

"This process began in April and there were soon indications that the additional expenditure could reach as much as R2,45bn if not arrested timeously.

"Examples of this are additional drought relief, further food subsidies, the return where now practicable of certain expenditure which had been excluded from the main Budget, namely the so-called excess commitment authority in respect of the SA Defence Force, as well as indeterminable expenditures arising from the substantially higher levels of interest rates, particularly the increase in the cost of servicing the public debt and housing subsidies," Mr Du Plessis said.

The co-operation of all State departments had succeeded in preventing nearly R650-million of the expected over-expenditure "inevitably with sacrifice of services and service levels".

"It is now expected that the Additional Budget can be held to about R1,8bn, excluding discounts on the sale of Government stock.

"This is still a high figure, but one that is inevitable under present circumstances when regard is had to the programmes and services involved and to the exceptional factors referred to," he said.

Mr Du Plessis said the Government expected revenue to be about R1,5bn above the Budget figure. This was mainly due to the July increase in GST, the higher rand earnings of the gold mines which formed the basis of their tax liability, and accelerated tax collections by Inland Revenue.

"The gross additional expenditure therefore amounts to R2,18bn comprising the supplimentary R380m by Parliament and the estimated additional expenditure of R1,8bn already referred to.

"Taking into account the anticipated increase in revenue of R1,5bn total net additional financing requirement amounts to R680m.

"The result of all this is that the deficit before borrowing for the full fiscal year will now rise from just below some R3bn to R3,6bn. That is from about 3% of the expected gross domestic product to some 3,6%," Mr Du Plessis said.

The additional financing requirement could be accommodated comfortably by the local capital market.

The Government's activities in the local capital market during the rest of the current financial year would therefore be limited to the conversion of stock amounting to R350m which matured during this period, plus sales of new stock of approximately R400m, he said.

1984 Merc 21/9/84 (58)

S A's savings ratio under 20pc of GDP in second quarter

JOHANNESBURG—South Africa's savings ratio dropped to below 20 percent of the gross domestic product (GDP) in the second quarter of 1984, the lowest figure since the early 1950s, Volkskas said in its Economic Spotlight.

The survey also said that the rand is expected to firm slightly next year and interest rates may decline provided there are no extraordinary adverse events like a further sharp drop in the gold price, political unrest or a repetition of poor agricultural conditions.

It can be expected that while the inflation rate is likely to rise in the months ahead, the rate of increase may decline in the course of next year.

Consumer prices rose 12,42 percent in July after an 11,66 percent year-on-year June gain.

Savings

'An analysis of the composition of gross domestic savings shows that savings by general Government have been negative for the past six consecutive quarters (seasonally-adjusted figures).

'This means that Government has been using loan funds to finance current expenditure, while personal savings, which dropped to unacceptably low levels during the past 2 years, had reached negative figures by the second quarter of 1984 for the first time in the past 38 years (the period for which figures are available). This means that individuals spent more than they earned.'

Volkskas said this was a serious development which in the national interest should receive attention as soon as possible.

As far as Government was concerned, current expenditure would have to be curbed drastically.

Volkskas said it was essential to determine why individuals act as they do. 'In our view some independent institution should be asked to undertake a survey of the general public as a matter of great urgency.

'After all, the correct medicine can only be prescribed if a proper diagnosis has been made. We already know that a high inflation rate and high inflationary expectations do not encourage people to save. Negative real interest rates do not promote savings either.

'Similarly, an excessively high marginal income tax rate is not conducive to saving by individuals, but there may also be other reasons and it is imperative that all the factors having an adverse effect on saving are as soon as possible ascertained so that appropriate corrective steps can be taken.'

The annual survey of company accounts released by the Central Statistical Service shows the average decrease in net profits for the various categories was: Manufacturing enterprises 10,0 percent, construction 1,8 percent, wholesale and retail as well as catering and accommodation services 18,2 percent, and transport and transport services 51,9 percent.

Services

Net profits of real estate enterprises on the other hand, rose by 37,4 percent, while services (laundries and other services) recorded an average increase of 86 percent.

However, in order to arrive at a real measure of profitability, net profits (before tax) should be analysed in relation, for example, to the total assets used to generate those profits, or some other base ratio, Volkskas said.

If net pre-tax profit as a percentage of the total average assets for the year was taken to be the norm, it appears that this came to 11,3 percent in 1982/83.

In the case of manufacturing undertakings that were included in the sample the figure was 12,5 percent, for construction enterprises 11,2 percent, for wholesale and retail as well as catering and accommodation services 9,9 percent, transport and transport services 6 percent, real estate to 7,5 percent and services (laundries and others) to 15,8 percent.

The ratio of profits to total assets declined fairly sharply on average from the previous year, since net profits decreased by 11,4 percent while the assets used to generate the profits in the year under review increased by about 13,9 percent.

Profits

'As far as the distribution of profits in 1982/83 is concerned, 37,2 percent was paid out in dividends, 21,6 percent was paid over in taxes while 41,2 percent was saved (retained earnings).'

In the latest budget company tax was raised while certain tax concessions enjoyed by companies were curtailed.

'The effect of this should be to push up the effective rate of company tax to about 30 percent, and it will be interesting to see whether businesses will reduce dividends or cut back on retained earnings.' — (Sapa)

Congress in shock move on SA loans

Rdm 3/10/84 58

By SIMON BARBER
Washington Bureau

WASHINGTON. — In a dramatic last-minute compromise, Congress yesterday agreed to ban new US bank loans to the South African Government and its parastatals, and to require all American firms in the Republic to report on their employment practices annually.

The agreement came after hours of negotiation between House and Senate conferees on the controversial Export Administration Act stretching late into Monday night.

The Reagan Administration flatly opposed the outcome and officials said they would urge the President to veto the legislation.

The compromise represents a considerably watered-down version of the so-called Solarz Amendments contained in Title III of the EAA. Their author, Mr Stephen Solarz, said he was deeply dissatisfied.

State Department officials called it "an ugly precedent", even though stiffer measures — including a ban on all new investment in the Republic and on further Krugerrand imports into the US — were dropped.

The details of the agreement were still open to interpretation yesterday but, according to Congressional and State Department sources, the package was as follows:

- US banks and their subsidiaries may provide no further loans to the SA Government or its entities (Iscor, Escom and SA Airways for example) under threat of legal and civil penalty. Existing contracts may still be honoured;
- Participation in the Sullivan-like Employment Code proposed by Mr Solarz remains voluntary;
- However, all US firms and their subsidiaries in South Africa with more than 20 employees must prepare annual reports of the employment practices for submission to the Secretary of State;
- While there is no penalty for not reporting, the Secretary of State shall in turn deliver an annual report to Congress in which non-compliers will be named,
- The Secretary of State shall also appoint a 12-man advisory panel made up of Americans and South Africans to consult on US employment practices. The panel will be chaired *ex officio* by the US Ambassador and is to include representatives of the US Chamber of Commerce in South Africa, trade unions that operate on a non-discriminatory basis, church groups and the academic community; and
- The US Embassy is to monitor US firms on a day-to-day basis.

The deal was struck between Mr Solarz and Senator John Heinz, the Pennsylvania Republican targeted by anti-apartheid lobbyists as the weak link in the Senate's opposition to Title III.

Reagan Administration officials were angry at Mr Heinz's concession. Said one: "He knows damned well we didn't approve."

Mr Solarz and the chairman of the House Africa Subcommittee Mr Howard Wolpe, described the deal as "crumbs" and promised they would be "back for more" next year.

There was still doubt yesterday whether the agreement would become law because the House and Senate still remained deadlocked on other issues in the Export Administration Act which must be resolved before Congress recesses tomorrow.

US loans to the SA Government represent about 10% of total American lending to the Republic, or between R400-million and R1 000-million.

● US cities urged to boycott SA — Page 6

RDM 6/10/84 (58)

US Congress drops plan for SA loans ban

By SIMON BARBER
Washington Bureau

WASHINGTON. — There will be no congressional ban on United States bank loans to the South African Government this year. The legislation that contained it died yesterday.

After five months of haggling, the Senate and the House of Representatives finally gave up trying to meld their versions of the Export Administration Act before the 98th Congress went into its final recess.

The House-Senate Conference, convened to work out a compromise, broke up for the last time on Thursday evening after an 11th-hour deal — which could have further softened the Bill's South Africa provisions — proved unacceptable to the top Senate negotiator Senator Jake Garn, Republican chairman of the Senate Banking Committee.

One of Mr Garn's advisers yesterday termed the so-called Solarz amendments, which contained the South Africa provisions, "pivotal" to the legislation's demise.

On Monday night, the conference agreed to prohibit US bank loans to the South African Government and to require US firms operating in the Republic to report annually to the Secretary of State on their employment practices.

This was considerably less than the ban on new investments and compulsory compliance with the Sullivan Code that Congressmen Stephen Solarz and William Grey had originally sought.

But, according to congressional and State Department sources, it was still too much for both Mr Garn and the Reagan administration.

Mr Garn was meanwhile stonewalling on another, considerably more important aspect of the Bill whose chief intent was to authorise the President to control export for national security purposes.

On Thursday, he hinted that he might be willing to trade off his demand that technology export licences be vetted by the Pentagon if the House agreed to delay the South Africa loan ban.

But it was too little, too late. Indeed, according to some congressional sources, Mr Garn had already decided to kill the Bill, knowing that it would draw a White House veto whatever its final language on South Africa.

In the meantime, the President will continue to exercise export control, using emergency powers designed for use in wartime.

Mr Solarz and his allies will be back again next year.

Aus... in a...

NEW YORK. — The Australian Labour Party government has firmly allied itself with Africa on the issues of apartheid and independence for South West Africa.

The Australian view was given in a major address delivered before the 39th session of the United Nations General Assembly by Mr Bill Hayden, Minister of Foreign Affairs.

After his introductory remarks, South Africa was the very first country to which Mr Hayden turned his attention ... and South West Africa followed.

The UN, Mr Hayden noted, continued to expend much energy on Southern

Africa "and par... poisonous eff... the apartheid ...

"The facade ... stitutional refor... fact made matt... the Australian ...

"Indeed, the ... citizens have ... this in the most way possible.

"Black South A... 70% of the ... have been allowed the alleged refor...

Queen to meet 'King' at Sabi

By DAVID CAPEL

SUPERGROUP Queen aim to meet the King of Beasts in the African bush next week.

The four-man outfit who opened their sensational act at Sun City last night plan to spend a day in the elite, exclusive R167-a-day Sabi Sabi Game Reserve where lions abound.

A spokesman for the reserve, Ms Lesley Simpson, said "it was 90% certain" Queen would spend Thursday there.

The group will join a line of famous stars who have gone to Sabi Sabi for a taste of real Africa.

Ms Simpson said Queen would be treated to the exciting traditional African cuisine in the atmosphere of the Africa boma.

Their programme would begin at lunchtime on Thursday, after which the group would go on a game drive in open Land-Rovers.

Early on Friday morning — at 6.30 to be exact — Queen will go on another game drive to watering holes in the area.

Cinema change

Mail Reporter

THE Vistarama cinema in Johannesburg, opposite the Carlton Centre, is to change hands next month.

Romay Films managing director, Mr Heinz Kallenbach, announced yesterday his company was selling the cinema to Captive Films with effect from November 1.

Vistarama will remain in being, though probably not as an "art house" featuring Continental films, with which Romay has made its reputation.

His own company, said Mr Kallenbach, would continue to distribute its product through Ster-Kinekor and independent outlets.

RDM 6/10/84

Asbestos company to lay off 537 staff

Mail Reporter

THE Griqualand Exploration and Finance Company (Gefco) is to cut back on production at their asbestos mines in the north-western Cape, resulting in a reduction of about 537 jobs.

Announcing this yesterday, Mr Pat Hart, the managing director of Gefco, said the company would do "everything possible" to find the workers — 500 blacks and 37 whites — jobs elsewhere in the group.

Mr Hart said the 10% cut in production resulted from the failure of world demand for asbestos to improve.

"Latest indications are that the demand has remained static and the very high holding cost of fibre stocks has compelled us to make this cutback," he said.

Ethiopia gets European aid

ADDIS ABABA. — Ethiopia has signed an agreement with European aid donors under which it will receive 10 000 tons of wheat for drought-stricken regions in southern Ethiopia, government officials said yesterday.

The remains of a p... found in a Cheshire ... they thought the r... cord found around

Pete is ...

London Bureau

THE remains of an ... Briton, frozen in time ... years ago and perfectly ... served after an appa... savage death were ... in London this week.

The oldest human re... ever discovered in B... they were saved from...

BUSIN

RDM 10/10/84 (58)

Rand slides to all-time low

By HAROLD FRIDJHON

THE rand plummeted to an historic low of 57,38/45 US cents yesterday.

The previous record low point of 58,35c was touched some 10 weeks ago when it was forced down by the rampaging dollar and a weak gold price.

This time round, however, external factors were not responsible for the rand's nosedive from Monday's closing quotation of 58,45c. Yesterday's fall was entirely the result of domestic dealing in a market that was chronically short of dollars.

The decline started on Monday when the Reserve Bank came into the market for dollars and pushed the rand down from 59,35c to a close of nearly one cent lower.

According to forex dealers, the Reserve Bank had intended mopping up "surplus" dollars for its own use. But in fact there was very little surplus in the market and traders moved around the market trying to gather dollars ahead of Reserve Bank dealing in order to make a turn on subsequent deals with the central bank.

When the market opened yesterday there was considerable uncertainty, particularly as several banks started the day with positions that had been carried over from the previous day's trading. They had sold dollars to the Reserve Bank and were now trying to buy in dollars, selling rands in the process.

The market opened at 58,30c — lower than Monday's close — and soon lost ground, dropping to the new low point.

The Reserve Bank intervened and fed some dollars into the market which had the effect of steadying the fall and pushing up the price of the rand to 57,90c.

The dealing was not entirely professional. Importers, too, were looking for dollars in a market that was almost bare of them. But when exporters sold dollars marked at about 57,70c, some control was gradually restored to bring the closing bids to 58,07/14c.

Market sources were very critical of the Reserve Bank's action on Monday. They said that the central bank had overplayed its hand in trying to mop up what it had thought to be "surplus" dollars. Estimates suggest that the Reserve Bank had taken between $100m and $120m out of the market.

The major banks did not have any surpluses and it is believd that the Reserve Bank dealt heavily with the other banks which had been selling dollars short. When they had to cover, they pushed the rand lower.

Conservative dealers said that the performance of the rand, both on Monday and yesterday, reflected the fundamental weakness of the currency, as well as the dearth of dollars in the South African market. They believed that the rand could ease still further and that a 55c rand was possible in the next four weeks.

Some dealers forecast that the rand could drop below the 50c-level next year when it is expected that the dollar could rise as high as 3,50 Deutschmarks.

Wronsley gloomy over spending cuts

RDM 22/10/84 (58)

Rates add R1bn to Govt debt

By MIKE JENSEN

SOARING interest rates will add over R1bn — about 30% — to the cost of servicing Government debt this, pushing the total burden to more than R4,5bn.

This is a critical obstacle to cutting back on the overall level of State spending.

A R1,02bn increase in financing requirements over the original estimate of R3,5bn was revealed this weekend in Johannesburg by the Secretary to the Treasury, Mr Peter Wronsley.

He was speaking at a seminar held by the University of Cape Town Graduate School of Business Association.

Mr Wronsley painted a gloomy picture of the possibilities for cutting Government expenditure this year.

He said the Government faced extreme difficulty in cutting back spending because demands continued to outstrip finance available. When any moves to reduce spending were made there was an immediate outcry from those concerned.

Mr Wronsley said: "Even when we suggested cutting the defence budget I was faced with 200 industrialists complaining that their companies would be in danger.

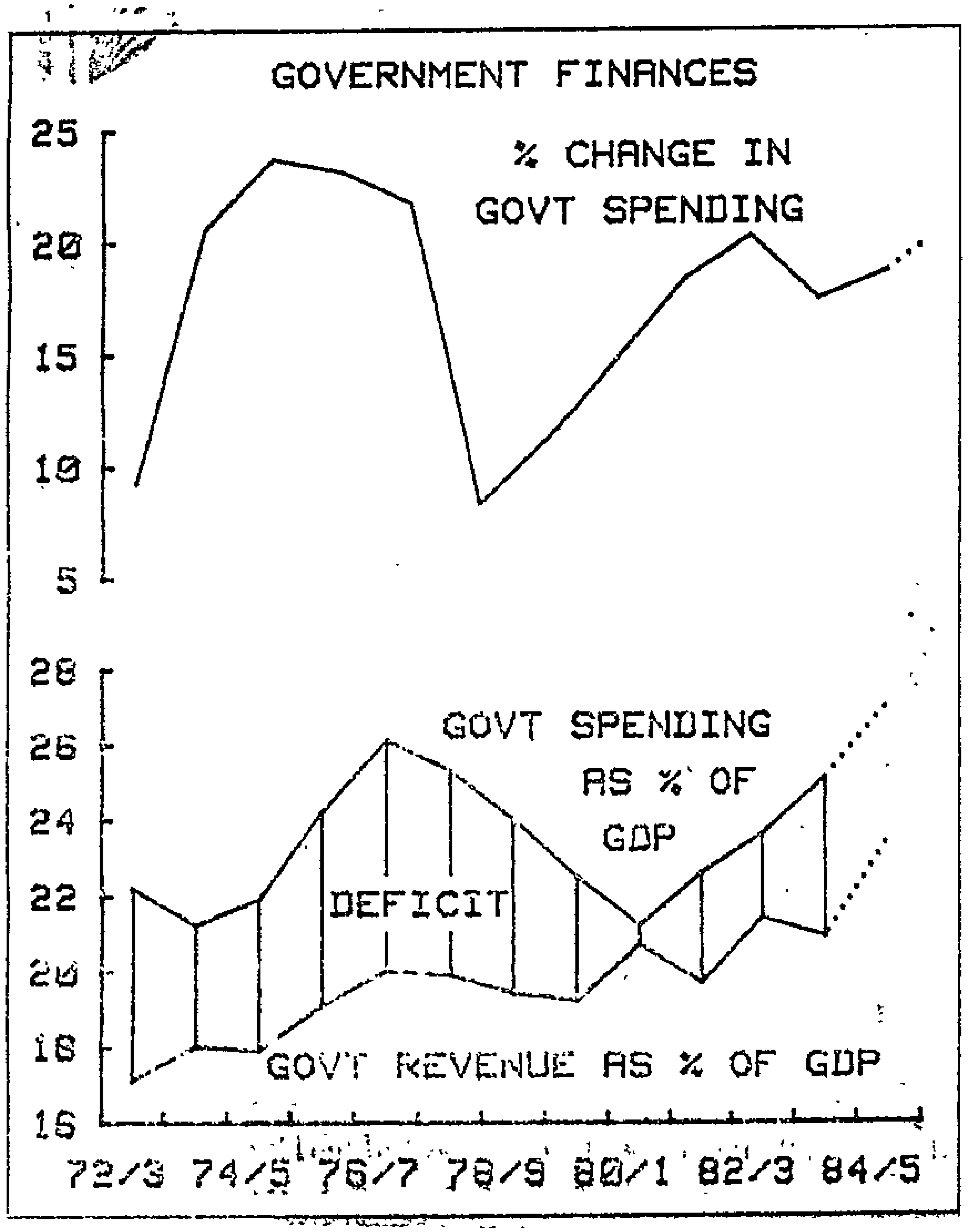
"Another problem is that the white population has grown accustomed to a First World standard of living and we now have to accommodate the Third World population.

"Unless white living standards are held back — I don't dare say reduced — for many years, the other population groups will not be able to catch up.

"The coloureds and Indians will be fighting tooth and nail for a better deal and resources going to whites will have to be pared off."

However, Mr Wronsley pointed out that it would be some time before the new Members of Parliament had learned how to make their demands felt.

"It will probably take a year for them to master the intricacies of the system."



Mr Wronsley also pointed out there was little control over departmental spending on an on-going basis because there was no authority to stop a ministry using up its allocation before the year was out.

It was only when additional financing to augment the budget was applied for that some measure of control could be implemented.

He said the R4,52bn cost of servicing the public debt was but one example of Government financing requirements which would be extremely difficult, if not impossible, to reduce.

In the first detailed breakdown of the latest estimates of State expenditure for the 84/85 financial year, Mr Wronsley said about R25bn of the total R27bn spending budget was needed in areas which would require "fundamental shifts in Government policy" to change and the electorate would not be willing to contemplate this.

To illustrate his point Mr Wronsley outlined the following revised estimates of current expenditure he believed were not amenable to reduction:

- Public servants' and employer's contribution to pension funds — R754m.
- Public order, security and defence — R4,1bn.
- Police — R853m.
- Department of Justice — R144m.
- Prisons — R339m.
- White education — R767m.
- Coloured education — R568m.
- Indian education — R256m.
- Black education — R651m.
- Food subsidies — R408m.
- Transport subsidies — R252m.
- Agricultural financing — R363m (white), R55m (coloured).
- Export promotion — R105m.
- Consolidation of black areas — R122m.
- Assistance to self-governing homelands — R1,65bn.
- Budgetary assistance to the TBVC states — R717m.
- South-West Africa administration — R318m.
- Decentralisation incentives — R324m.
- Manpower development — R91m.
- Provincial administration — R4,58bn.
- Scientific research — R350m.

In a separate breakdown, Mr Wronsley said this year's budget for "general affairs" was about R20bn and R7bn for "own affairs", of which white administrations would receive R4,8bn.

Reagan stalled Bill banning US bank loans to South Africa

By GRAHAM FYSH

WASHINGTON — A Bill that would have banned loans by US banks to the South African Government has died after the Reagan Administration registered vehement opposition to it.

"Apparently the White House was unwilling to accept even such a moderate step against the apartheid regime," said Don Bonker, a Democratic member of the House of Representatives and the author of the export control measure.

The measure, the new Export Administration Act, was to replace the old Act which expired early this year. It involved more than just controls on investment in South Africa and its major focus was the streamlining of rules on the export of new technology.

The United States has been concerned for some time about the secrets of modern technology landing up in countries that are hostile to the United States, particularly the Soviet Union, and this measure was aimed at tightening controls.

But the South African aspects proved to be a major stumbling block in trying to achieve compromise between the House of Representatives, the Senate and the Reagan Administration, all of which must approve it before it can become law.

The original version of the new Export Administration Act, written by Bonker early this year, called for a ban on new investment in South Africa, prohibited the import and sale of Krugerrand gold coins here, set out fair workplace principles for American companies in South Africa and reimposed export controls on the sale of military and police goods to South Africa, in addition to seeking to ban bank loans.

Other stumbling blocks, in addition to the South African provisions, were whether the Defence Department or the Commerce Department should be responsible for licensing and policing the export of sensitive high-technology equipment to non-communist countries; whether the President should have authority to impose agricultural embargoes and whether nuclear reactors should be sold to countries that have not signed the non-proliferation treaty.

Over seven months, a special conference committee of the House and the Senate met regularly to try to achieve a compromise.

They agreed on a provision banning bank loans to the South African Government and the corporations it controls, including the South African Airways, loans that, according to Senator John Heinz, currently amount to between $350 million (R614 million) and $400 million (R700 million). The committee dropped the provisions relating to Krugerrands, fair employment practices and a ban on new investment by US firms doing business with South Africa.

But the committee stalled on the control of strategic exports to Soviet-bloc nations.

As the attempt to reach compromise continued in the busy days of mid-October before the deadline for the 98th Congress to end its session, provisions were stiffened relating to fair employment practices by American companies doing business in South Africa.

Then, as the adjournment day grew closer, the Senate approved the compromise version, but dropped two major provisions — the one banning US bank loans to South Africa and the other giving the Defence Department a greater role in export licensing.

An angry House reinstated the prohibition on South African bank loans the following day and sent the Bill back to the Senate. But the Senate refused to accept that version and shelved it, thus effectively killing it.

According to Bonker, the House learnt that the Senate leadership had withdrawn the Bill after receiving as many as four telephone calls from Reagan Administration Cabinet officials who registered vehement opposition to the Bill.

"I think the final product passed by the House did a good job of balancing between the strong demand for South African sanctions on the House side and the resistance on the Senate side," said Bonker.

"Our early indications were that the Senate was willing to consider the limited sanctions included in the final Bill.

"But apparently the White House was unwilling to accept even such a moderate step against the apartheid regime."

Reports said the ban on bank loans had raised major Administration objections because it would have been a sharp break with the Reagan Administration's policy of "constructive engagement" toward South Africa.

The measure could be revived when the new Congress meets next year.

In the words of Eugene Milosh, president of the American Association of Exporters and Importers: "We pledge our support and active assistance again in the next Congress when we hope we will be able to resolve the problems that prevented success this time and send a new Bill to the White House early in the session."

Survey blames Govt spending

Post 13/11/84

By LOUIS BECKERLING
Business Editor

THE Government is now gobbling up almost one third of South Africa's economy — and about 40% of the money it borrows is used to keep its wheels turning, rather than to create new opportunities for growth.

This view of uncontrolled spending by a swollen bureaucracy emerges in a study recently released by the Mercabank Group on the crushing tax burden under which South Africans are now reeling.

And evidence that even formerly loyal suporters of the Government have lost their patience with a prime factor in the poor economic situation — excessive Government expenditure — was underlined today in a statement from the Afrikaanse Handelsinstituut.

Mr Leon Bartel, president of the AHI, warned in Pretoria that the economy was on the verge of permanent damage, and cited excessive Government expenditure as one of the problems.

He appealed for relief from the savage austerity measures introduced by the State on August 2.

In addition, loyal National Party supporters have recently expressed misgivings that the current round of by-elections — and the potentially three-cornered fight in Port Elizabeth's Newton Park early next year — could prove sobering to the Government.

"The issue is one of bread and butter politics, and the Government's record is not good," confessed one senior NP spokesman in Port Elizabeth yesterday.

The Mercabank study points to "serious structural deficiencies" which have emerged recently in the South African economy — not least so in the nature and size of the burden placed upon personal incomes by rising Government expenditure"

Total Government expenditure, it observes, has risen from 20% of the Gross National Product (GNP) in the early 1970s to an estimated 30% this year.

Underlying this total spending pattern is a chilling change in both the method of financing the booming Government bill, and the manner in which its borrowings are employed.

Debt incurred by the country's public authorities amounted to a low figure of R285 million in 1980, but this has since rocketed to an estimated R6 100 million this year

"And the alarming aspect of the recent rises in the borrowing requirements is the fact that large proportions of the borrowing (25% in 1983 and an estimated 39% in 1984) is required to cover deficits on current account," points out Mercabank.

Bearing the brunt of Government's runaway spending (which is yet to take into account financing the new constitution) are families battling to balance their budgets.

Combining the effect of increased direct taxation and domestic inflation, Mercabank calculates that a householder earning R10 000 a year in 1972 paid an effective ultimate tax (ignoring rebates and abatements) of 14,2%.

By 1984 such a householder (now earning R41 000 — or the real equivalent of his 1972 counterpart) was paying 30,9% of his income in tax to the Government.

Bank of England asks banks detailed questions

RDM 19/11/84 58

Economy and unrest hit SA credit status

By NEIL BEHRMANN

SOUTH AFRICA's ability to borrow overseas is beginning to be adversely affected by a combination of a deteriorating economy and recurring reports of unrest in black townships.

London-based bankers say South African borrowing costs have now increased, although only slightly, in the syndicated credit markets.

Several banking sources also report that the Bank of England is asking banks more detailed questions than previously about loan exposure to South Africa.

In terms of an international banking agreement, the "Basle Concordant", central banks must monitor bank lending to other sovereign countries.

This agreement, signed in Switzerland a few years ago, came about because central banks were worried about the huge loans made to South American and other indebted nations, and the negative implications for the international banking system.

A Bank of England spokesman refused to comment last week, however, on specific details of supervisory policies.

"Part of the normal supervision practice is to look at exposure to countries," he said.

But some bankers and economists say the Bank of England — and possibly other major central banks — could be worried about what they believe to be South Africa's high levels of foreign debt.

They say the ratio of foreign debt to gross domestic product — the total goods and services produced in the economy — is now at an uncomfortable level.

The latest Bank For International Settlements (BIS) statistics show that at the end of June this year South African public and private sectors' net borrowings from international banks were $14,8bn, up 29% from a year earlier.

The severe fall of the foreign exchange value of the rand has raised net foreign debt from R12,6bn in June 1983 to R26bn in June this year, at present exchange rates.

Statistics of the Organisation For Economic Co-operation and Development (OECD) show there were additional trade credits of $2,27bn at the end of December last year.

So total net foreign debt can be estimated on BIS and OECD returns at $17,1bn — over R30bn.

The South African gross domestic product of R88bn at the end of 1983 should grow to around R103bn by the end of this year.

So total foreign debt as a percentage of GDP is almost 30%.

This is in line with some South American nations.

But bankers say the maturity distribution of this debt is unbalanced.

Short-term debt and trade credits with maturity of up to a year account for about 60% to 70% of total foreign debt.

Bankers report that a large proportion of this debt was left uncovered on the foreign exchange markets.

This is one major reason for the sporadic runs on the rand.

South African debtors who need to repay, or roll over, foreign credits and interest payments try to find foreign currency quickly in a thin rand market.

The pressure is too great and the currency slumps.

The most recent example was the sharp plunge last month from around 56 US cents to 50c.

In spite of these worries, however, the South African public and private sector are managing to raise funds through banks and through issues on the Eurobond market.

Margins on syndicated credits have increased from around 0,375%/0,5% over the six months London interbank offered rate (Libor) of 9,375% to around 0,625% over Libor.

There have also been several succesful Eurobond issues.

Agefi, the international bond and credit newsletter, says total syndicated credits to South African borrowers were $195m in the first six months of this year.

But $633m of bonds were issued in the first half, helped by the euphoria over the Nkomati accord.

Syndicated credit statistics are unavailable, but so far there have been fewer South African bond issues in the second half of 1984.

Agefi calculates that $300m was raised.

The most notable suceesses were the recent record DM250m RSA seven-year ($84m) issue, with a rate still to be pitched, and a DM100m six-year Sats issue on a yield of 7,71%.

Yields are about a 0,5% higher than top-grade DM bonds.

58 23/11/84

INVESTMENT CONFERENCE

Through a glass darkly

Speakers and delegates at last week's Investment in 1985 Conference, hosted by the *FM*, had to face up to the fact that last year's predictions were overturned by events. Where there was optimism, it was muted.

There is an interesting contrast between the enthusiasm and positive outlook that characterised last year's *FM* Investment Conference and the rather forlorn hope and philosophical introspection of this year's one, as the hard realities revealed in recent months were mentally turned over once more.

Over the past year, not much has turned out as expected. Instead of economic recovery, the recession has been prolonged and deepened. Change on the political and economic fronts has petered out, if there has not been regression.

Hopes of a higher gold price and a stronger rand, while they still remain, are now more muted. The outlook for economic growth and more stable prices is worse now than it appeared to be 12 months ago. Interest rates have reached historic peaks, taxation is taking an awful toll, and there is precious little left of business optimism.

New Finance Minister Barend du Plessis was very frank. But his forecast for next year did not hold out much cheer. He saw the 'cooling off" phase in the domestic economy continuing well into next year, during which he expected the growth rate to be only 1% against 4% this year.

Some positive signs

In the months more immediately ahead, he saw a general decline in business activity and a temporary acceleration in the rate of price increases. However, positive signs were an improvement in the balance of payments, a strengthening of the rand and a reduced rate of increase in the demand for credit.

He certainly didn't bolster the failing confidence of delegates by saying these rather dismal forecasts were dependent on an effective curbing of government spending in the next fiscal year and a reduction in the Budget deficit before borrowing.

Indeed, the conference was underpinned more by unease about what the government could, or would, do about its own profligacy than by the downward move in interest rates that was taking place almost simultaneously. There was also doubt over future labour confrontation, and whether exogenous factors such as local climatic conditions and overseas economic and political conditions would prove favourable to SA.

Naturally this did not go down well with businessmen, although they were heartened to some degree by the closing remarks of Du Plessis in his keynote address: "This government recognises that it is the business community here that distinguishes SA from the rest of Africa, and that through dedication and hard work, prosperity can be achieved through the free market mechanism."

He added that the challenge for SA was multi-faceted. And part of the challenge for business was to convert a Third World society into a First World economy, even though its free market ideals were foreign transplants into SA, bringing about the most difficult cultural shocks. Du Plessis recognised that the government, too for its part, was faced with the challenge of change.

Reserve Bank Governor Gerhard de Kock dwelt with hindsight ("an exact science") on the follies of the past year, especially the inappropriate mix of fiscal and monetary policies.

De Kock pointed out that real government spending in the first half of 1984 was 14% higher than in the first half of 1983. This included an increase of 30% in the central government's total salary and wage bill during the 12 months to March 1984. Since this was not covered by additional tax revenue, "the result was that part of government current spending was financed by loans," as De Kock put it.

Add to this the fact that the government failed to keep to both its 1983 and 1984 budgets, "the inevitable result was that monetary policy was called upon to carry the main burden of adjustment to prevent the SA economy from sliding into a vicious circle of inflation and currency depreciation."

Getting the mix right

Regrettably, it seems that such policies must continue at least until the 1985 Budget, when a more equitable balance between the monetary and fiscal policy mix may be achieved.

What little hope there was came from the assurance to delegates that the "March 1985 budget would be appropriately restrictive, that it could be accepted that the policy mix will be greatly improved next year."

Rand Afrikaans University economist Professor Geert de Wet expected government expenditure to grow at a moderate rate — about 10%-15% in nominal terms. "Given the determination of the new Minister, we give it more than a 50% chance," he added. De Wet forecast inflation for 1985 at up to 12%, an average gold price of US$400, a real increase in exports of 5%, a real increase in gross domestic product of 2%, a fall in total aggregate expenditure by between 1% and 3%, and a rise in the stock of money of just 10%.

In view of an expected continuing strong dollar — De Wet expects it to appreciate by between 3% and 5% over 1985 — he did not expect to see any substantial inflow of foreign capital into SA. He added that short-term rates by the fourth quarter of 1985 were expected to fall to 17%, with long-term rates reaching 14%.

In particular, factors on the "trade union front may prove fatal to our expectations," said De Wet. 'But we hope there will be some wage discipline as far as wage demands are concerned. That is the one area where things might go wrong

Finance Minister Du Plessis ... praise for the private sector

Lombard Odier's Van Maasdijk . . . investors looking elsewhere

neighbours on the one hand, and supplies of water and electricity to SA for further resource development on the other.

The water and power demands of SA's industrial core are rising so steeply, he says, that "augmentation (of existing supplies) must take giant steps if risks of shortfall are to be kept within tolerable bounds. The available sources of new water supplies are distant and expensive. They require to be developed on a regional basis at considerable scale to be economic.

Conrad Strauss, MD of Standard Bank, also added his voice to the call for reciprocal relationships. "Pressure for SA to extend to banks from other countries the same privileges we enjoy in their market will increase. The entry of foreign banks . . . would be a desirable development which would contribute to the recognition of Johannesburg as a regional financial centre."

It was clear from a number of delegates that such further resource development should be of secondary factors of production rather than primary. But, as yet, SA is still perceived either as a "one-product country" — that is, gold — or at least heavily reliant on the production of raw materials. This, apart from political considerations, is having an adverse effect on foreign investment in SA at present.

Robert van Maasdijk, director of Lombard Odier Portfolio Management, told delegates that the majority of UK investors, for example, were asking: why invest in SA when inflation is expected to be lower in the Western world, while productivity gains, deregulation and computerisation, for example, were less likely to create an acute shortage of raw materials?

The more enlightened investors are also concerned about the adverse effects of the drought, government expenditure and monetary growth, a changing political environment with question marks about its peaceful evolution, and a strong dollar and low dollar gold price.

What is being looked for in the future, says Maasdijk, is that the country invest heavily in fixed assets and increases its educational spending and training. This will lead to substantial productivity gains.

The question of large business units was dealt with by Wits law professor Michael Katz. He argues that to reduce SA's dependence on gold and to build a strong secondary industry with an export potential, large companies are needed. They must be capable of competing in the export markets with the multinationals.

Hence, he is surprised at "such consternation against the so-called economic concentration in SA." In the governance of the activities of these large companies, he favours a "behavioural" rather than a "structural" approach, with laws that, in general, facilitate takeovers and mergers. Business combinations, he argues, are not synonymous with the demise of the small businessman and the "interest of the latter will continue to co-exist alongside with the growth of big business."

An international perspective was brought by Thomas Robinson, manager for International Economic Research at Merrill Lynch. He expects an easing of the dollar and a decline of US interest rates. But though this will help some countries with their debt burden, it may exacerbate commodity price pressures, with adverse consequences for resource-based countries such as SA.

The most serious problem extant, says Robinson, is that the world economy is currently in chronic disequilibrium. It is clear from what he said that the US gained its current prosperity largely because it was the first to cut taxes. The favourable economic environment that followed stabilised prices and brought record growth, as well as record current account, trade and federal government deficits. This, in turn, attracted large capital flows from abroad.

Goldman Sachs's Tauber . . . world trends could help SA

Wits's Katz . . . reduce dependence on gold

"Correcting this disequilibrium in search of more sustainable growth," said Robinson, "depended on a more balanced world economy through a better alignment of government economic policies between the major trading blocs. The US has in place an aggressively easy fiscal policy and a monetary policy broadly committed to an anti-inflationary strategy."

"Something must change to bring more satisfactory co-ordination of policies," says Robinson.

In the meantime, banking in SA will increasingly reflect the adverse pressures on business. Says Conrad Strauss: "Bankers will face a debilitating combination of rising bad debts, weaker loan demand, declining business volumes, and a likely squeeze on their interest margins."

Indeed, Strauss goes so far as to say: "If extremely high interest rates remain the main vehicle for correcting the economy and if the policy has to remain in place for some time because the government does not find meaningful and imaginative ways of cutting its own spending, the banks may find their bad debt position turning out very problematical indeed."

But while government struggles with its spending, events abroad may help the domestic economy if Ronald Tauber, a partner of Goldman Sachs, is right. He believes that the US economy may be nearing the end of its "sweet spot," that is, the period of high real growth and low inflation.

"Our economists predict that real growth in gnp will decline to about 4% annual during the first half of 1985 and fall further by the end of the year." In that event, Tauber believes foreign investors may start to build up expectations of exchange rate losses and capital would flee. That would, of course, help to overcome the imbalances in the international situation, broaden the recovery and thus assist SA

21

Star 11/12/84

58

Govt spending must be cut — Assocom

By Stan Kennedy

The Budget in March and the additional expenditure after its presentation will be major determinants of South Africa's fortunes in the year ahead, says Assocom in its quarterly review.

If Government spending remains high, tax will be high — and might even increase, unless the Minister of Finance, Mr Barend du Plessis, with the backing of the President, reins in ministerial demands for more spending money, the review says.

It says Mr du Plessis is committed to a policy of reducing government expenditure, which is the first priority if the economy is to be nursed back to health.

"It is current expenditure which must be cut — or at least reduced to a rate of increase below the growth of real GDP. Capital expenditure on infrastructural development should not be cut so that underlying facilities are available once the economy starts to move again into an expansionary phase.

Assocom says that if tax is kept within reasonable bounds, business will have the resources for self-financing expenditure and the private taxpayer might have the margin either to increase his savings or spend without excessive borrowing.

It warns that any increase in tax at this stage of the business cycle could be damaging.

It says: "We hope that the Margo Commission will make some early examinations. Later on in the year when, hopefully, the balance of payments on the current account has swung to its expected surplus, we would like to see demand picking up again.

"Higher taxes and, particularly, further increases in GST will inhibit the recovery of demand and will put a brake on future growth, so necessary if employment opportunities are to be created to match the frightening population explosion."

Much, however, depends on fiscal policy. If it is applied with real, and not just with intended, discipline then monetary policy can be relaxed with downward adjustments in the cost and availability of finance.

INFLATION SPIRAL

Assuming a reasonable surplus on the current account of the balance of payments, the foreign exchange value of the rand will not have to bear the brunt of the imbalance between monetary and fiscal policy.

A 50 US cents rand is a drag on the economy. And while it might be advantageous to exporters, the high cost of imports adds a sharp twist to the inflationary spiral to the detriment of the domestic economy.

There is only one policy which everyone in business must apply — that of survival.

Debtors must be kept on a tight rein and stock must be rigidly controlled. There should be consolidation not expansion because the cost of money could impair not only future but current profitability.

'Rescue package' is not enough

By Stan Kennedy

South Africa's structural problems are deep-seated and intractable says Professor D J J Botha, head of the Department of Economics, University of the Witwatersrand.

The problems include general skills shortage, low industrial productivity, high state expenditure on homeland development, industrial decentralisation, defence and the need to provide education and employment.

"Although government spokesmen profess to be aware of the nature and dimensions of these problems, this awareness is not always reflected in official policies," he says in a supplement to the Barclays Bank *Economic Review*.

Untoward developments have taken pace on so many fronts that no single, particular policy measure can be expected to put the economy back on to a more normal course. Worse still, it is not even clear what particular package will begin to do so.

The immediate problems, such as the low gold price, the drought, the strong US dollar and the drastic drop of the rand are largely of an extraneous nature and outside the control of the monetary authorities.

MONETARY MEASURES

Inflation has been almost entirely home-made, yet the authorities, over the years, have shown an inexplicable reluctance to take it seriously and introduce measures not only to contain it but bring it to more acceptable levels.

The concatenation of circumstances had resulted in a crisis, which called for crisis measures, and the small package of monetary measures introduced in August could no way be described as crisis measures.

The Radcliffe Commission, he says, found the central bank should not restrict itself to considering trends in the money supply but, rather, the whole liquidity position, and that direct control of credit availability was more effectual than control of its price.

The Reserve Bank controlled consumer credit and raised the price of credit all round.

"The Bank should have resorted to a quantitative control of credit with its price unchanged. Such a control is not easy in the SA market, but the Bank should have devised an efficient system of quantitative credit control, which is long overdue as part of the official armoury to fight inflation," says Professor Botha.

Sharp rise in money supply annual rates

By HOWARD PREECE

CAPE TIMES 11/12/84

58

JOHANNESBURG. — The government's economic policy hopes were dealt a severe blow yesterday by the latest money supply figures which show a sharp rise in the annual rates to the end of October.

The broadly-defined M-3 measure — regarded as the most important monetary indicator by the Reserve Bank — showed a 23,1 percent growth compared with 17,6 percent in the 12 months to September.

This means that there is obviously excessive liquidity in cash and credit form overhanging the economy.

Inflation

That in turn will make it that much harder to get inflation down to 10 percent or less in 1985 even with a return of recessionary business conditions.

All this adds to the pressures on the Minister of Finance, Mr Barend du Plessis, and the Governor of the Reserve Bank, Dr Gerhard de Kock.

It may be, of course, that the November and December money supply figures will show a distinct reduction in growth.

Even if this proves the case, however, South Africa is still clearly faced with disturbingly deep-seated problems.

The narrow M-1 money supply measure soared by 36,6 percent in the year to October (31,2 percent to September) and the broader M-2 was up by 28 percent (21,6 percent).

M-1 comprises cash and demand deposits of the non-bank private sector, M-2 is M-1 plus savings deposits of the non-bank private sector and M-3 is M-2 plus all other deposits of the non-bank private sector.

Caution

The familiar caution against reading too much significance into any one month's developments must be issued.

Money supply figures in this country are subject to a variety of distortions and errors — "statistical noise" is how Dr De Kock, defines it.

But when every allowance is made, the fact is that South Africa's money supply expansion has patently been dangerously extravagant this year.

The latest economic opinion from Barclays National Bank suggests that the August financial package which saw prime rate move up to 25 percent went too far.

That view, however, is not shared by most economists.

The general belief is that by August the underlying position in the economy had worsened to the point where crisis measures were necessary.

The real criticism is in the way the economy was run in the 12 months or more before August.

Action

Tough action earlier would have been saved some of the later grief.

At any rate the latest money supply figures certainly do not suggest that the authorities have gone in for "overkill".

If anything they rather reinforce the anxiety of those who are concerned that the drop in prime rate to 23 percent may have been a little premature.

Opponents of that approach, including Barclays, argue, however, that overdraft and general credit rates are more than sufficient to deter any borrowers other than those who have no choice.

But why did money supply shoot up in October?

Various factors including a large surplus on the current account of the balance of payments and government spending seem responsible.

Interest rates

Money supply figures could drop appreciably next year.

While all the attention tends to focus on the supply of money it is important to look at the other side, the demand for money.

With interest rates at forbidding levels, real and nominal, and the economy moving into another downphase the demand for credit should ease.

That must naturally have a major influence on the supply side of the equation.

So far as 1985 is concerned, however, the inflationary overhang is already there.

Net R666m flows in over 9 months

RDM 13/12/84 (581)

Foreign investor lift for the JSE

By HOWARD PREECE

FOREIGN investors pumped a net R666m into the JSE in the first nine months of this year.

This compares with a net outflow of R1 073m for all of 1983.

The figures are disclosed by the Reserve Bank in its December quarterly bulletin.

It says there was a further small inflow of foreign funds to the JSE in October.

A leading stockbroker says virtually all the overseas money coming to the JSE has been to buy gold shares.

There has been a shortage of scrip in relation to demand in New York and London in particular.

A key reason is overseas investors took advantage of the abolition of the financial rand in 1983 to make capital gains by selling South African shares.

At the same time, South African institutions, the broker says, were ready buyers of gold shares.

But many of these institutions overbought and have been net sellers this year.

At the same time, overseas investors, particularly US gold funds, have been chasing the shares.

The inflow has given South Africa much needed help in its balance of payments.

The Reserve Bank says there was a deficit on the current account of R523m in the third quarter after shortfalls of R439m and R329m in the first two quarters.

The R666m net inflow to the JSE over this period was, therefore, a welcome boost to the capital side of the balance of payments.

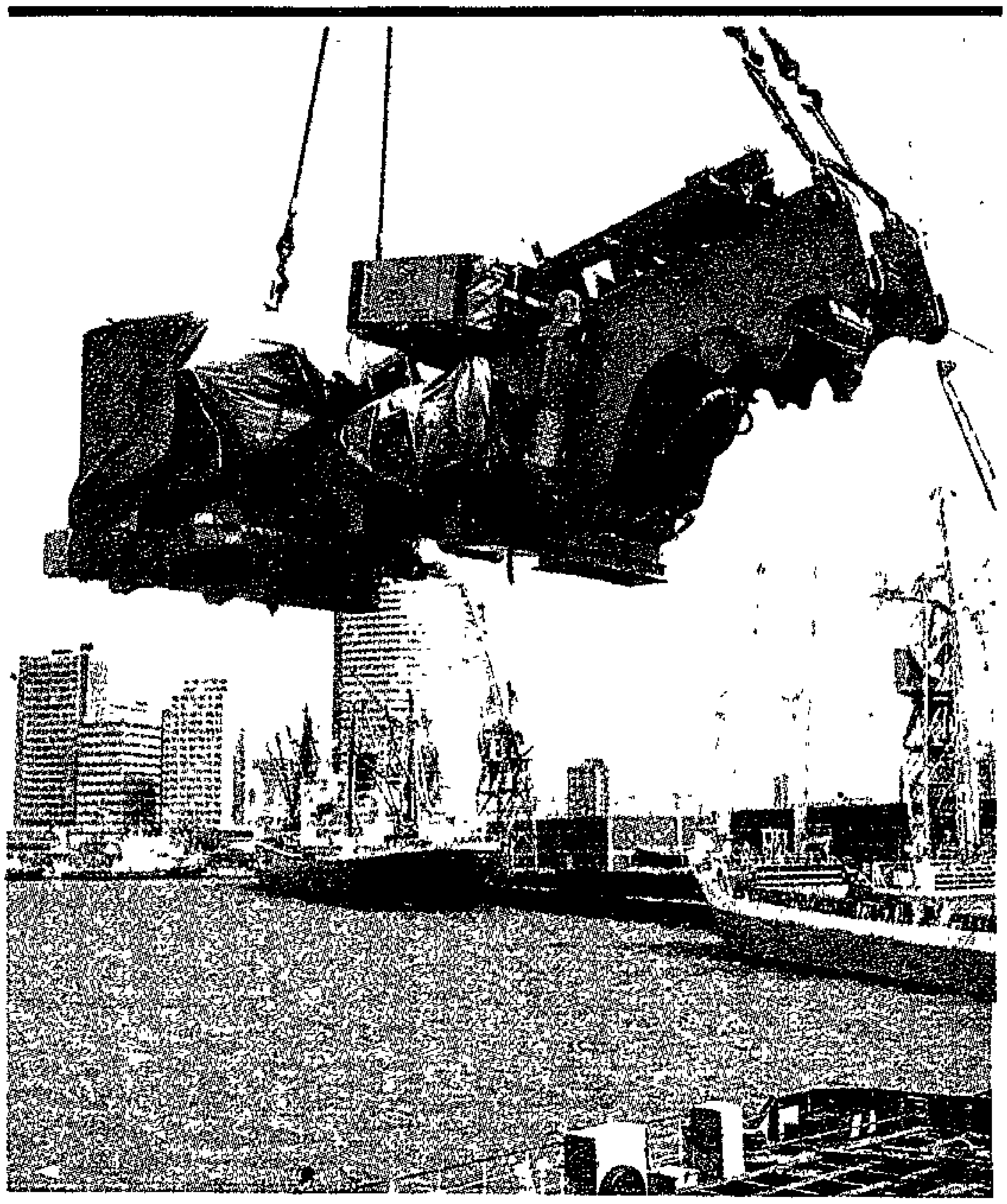
The December bulletin confirms that "present indications are that the upswing in the South African economy, which had been in progress from the second quarter of 1983, gave way to a downturn in the third quarter of 1984."

For all that, a real growth rate of 4% in gross domestic product (GDP)is still expected this year.

The bank stresses, however, that "monetary policy remains committed ... to bringing about the adjustment in the economy that will ensure an improved balance of payments, higher net foreign reserves, a stronger rand and a lower rate of inflation in order to lay a sound foundation for longer-term economic growth."

Mr Barend du Plessis, the Minister of Finance, has forecast that GDP growth in 1985 will be only about 1%.

It is evident, too, that 1984 growth has been primarily the result of heavy spending by the State.



The first section of a huge 160-ton Komatsu dump truck is unloaded at Cape Town from the Safari Services vessel, SA Morgenster. The truck is one of three HD1600-1 Komatsu dump trucks — the first to be imported into South Africa — which will be used in the coalmining industry.

The Reserve Bank says: "The strong upward trend in real Government consumption expenditure in the second half of 1983 and the first half of 1984 was arrested in the third quarter.

"Despite this decline, real Government consumption expenditure in the first three quarters of 1984 was nevertheless still 11,5% higher than in the corresponding period of 1983.

"As a ratio of real gross domestic expenditure, it amounted to 18% in the first three quarters of 1984, which not only exceeded the already high average level attained in 1983, but was also substantially higher than the longer-term average of 15% in the ten-year period 1973 to 1982."

There are, however, some points in the bulletin that will be warmly received by the private sector.

The Reserve Bank says: "Mainly on account of the cyclical recovery in production, real output per worker was 4,5% higher in the first half of 1984 than in the corresponding period of 1983.

"In 1983 it had declined by 0,3%.

"This improvement in labour productivity contributed to a lowering of the rate of increase in unit labour costs from 12,8% in 1983 to 10,4% in the first half of 1984."

The bank adds: "Except for corporate saving, which remained virtually unchanged, all other components of gross domestic saving showed improvements in the third quarter (of 1984).

"As a result, the ratio of gross domestic saving to gross domestic product almost reverted to its longer-term average of 25%.

"In the first half of 1984, the savings ratio stood at only 21%.

"Although Government saving remained negative in the third quarter, the extent of dissaving was markedly lower than in the preceding two quarters.

"The large swing in private consumption expenditure, from a marked rise in the second quarter to a substantial decline in the third quarter, caused personal saving to change from a small negative figure in the second quarter to about 3,5% of personal disposable income in the third quarter."

SANLAM AND THE JSE

The will to succeed

58

Sanlam's adventurous forays on the JSE have raised questions in the minds of policyholders and shareholders in the acquisitions. If the insurance giant was listed, investors would most likely be cautious. But it has a track record of innovation and imaginative management.

Takeover talk always abounds on the JSE, much of it coming to nothing. Common to many of this year's whispers was one name — that of Sanlam, the Afrikaans insurance giant. In fact, it is probably true to say that most major acquisitions on the JSE this year involved Sanlam.

It has grabbed large stakes, taking control or near control, in a succession of prominent groups, including Abercom, Sanki/Kirsh, Anchusa, Malbak/Protea and Messina. It has tightened its grip around corporate SA, gaining substantial direct stakes in basic industries. The question is, how will its boldness benefit policyholders and other clients, if at all?

If there is one thing that Sanlam's often controversial takeovers have in common, it is the fact that most of those involved were companies with problems. The glaring exception, of course, is Anchusa, holding company of Murray & Roberts (M & R), a blue-chip group. But recent earnings performances from Abercom and Messina testify that their particular problems will take a while yet to solve. In some cases, the deals only occurred after worried major shareholders turned to Sanlam to take their soured investments off their hands. Sanlam, it seemed, would buy what nobody else would touch.

Adding to the worries of some market analysts are the difficulties saddling Sanlam-controlled companies like Gencor, which has expanded rapidly in recent years. Only last year, Gencor paid 1 100c a share for Tedelex, after that company's chairman Bennie Slome had reputedly tried elsewhere to hawk his shares for around half that price. Among Gencor companies which have turned out weak performances this year are Tedelex, caught with forex losses; and Kanhym, hurt by both forex losses and the drought. Packaging firm Kohler, which embarked on acquisitions and grassroots projects, has yet to show it is out of the woods. Chemical group Sentrachem is also embattled.

While it is premature and unfair to judge its success, as some analysts are tending to do, Sappi's R900m Ngodwana expansion could turn out a massive winner — or the biggest lemon ever perpetrated by SA industrialists. So far, early signs from Ngodwana are encouraging; most economists would probably say SA badly needs fixed investment in industrial projects.

Whether it all goes down in history as misguided expansion-mania, or the kind of bold initiative that brings success, Sanlam has, at least, been the first in its field to break out of the SA insurers' traditionally conservative approach to investment. Financial institutions have huge investment funds, collectively well over R15m a day. But, until recently, they did not often buy large, direct stakes in listed groups.

Mutual still clings to its public stance that it does not seek control of its investments. Its executives state that the controlling stake that Mutual holds in Rennies, and its effective control in Safmarine and in Barlow Rand, were taken defensively because Mutual saw others, such as Sanlam, and Liberty Life, which last year took a large stake in Premier/SAB, carving up corporate SA between themselves.

Sanlam's GM investments, 38-year-old Marinus Daling, the man who has been most visible in the group's recent JSE deals, rejects the "defensive" argument. "Mutual and Liberty wouldn't have made their acquisitions if they had thought they were a bad thing. They aren't going to jump into the fire because we do," he says. "We may have started this trend, but the others are following us because they must have seen investment merit in doing so.

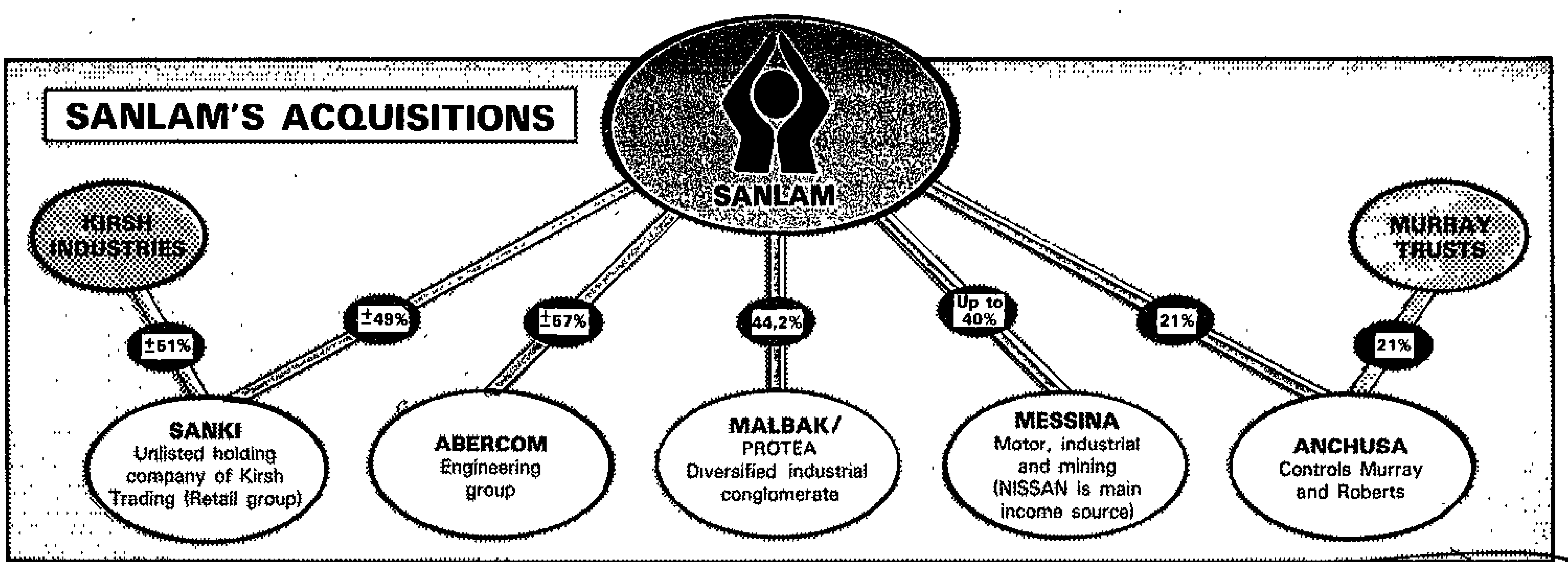
"Our recent deals must be seen in perspective," he argues. Daling says Sanlam's total investment in Anchusa, Sanki, Malbak and Messina is about R153m, or less than 2,5% of the insurer's total investment portfolio at book value. If Anchusa is excluded, then the remaining, more risky situations are less than 2% of the portfolio, and less than 4% of the equity portfolio.

Greater return

Recalling the old saw that says the higher the risk, the greater the expected return, Daling says: "I believe an insurance company has a duty to its policyholders to hold some potentially high-return investments." The frequency of Sanlam's JSE deals this year was partly coincidental and may not be repeated. Each, he contends, must be judged on its merits; and there was usually a lot of negotiation.

Take the least arguable one, Anchusa. For the R38m cost of Sanlam's 21% stake, the group could have built a shopping centre which would have swallowed those funds very easily. "Instead we have joint control of one of the best companies on the stock exchange," Daling says.

He adds that Sanlam had dealt with M & R's management for years, and was delighted when the Murray Trust, M & R's controller, offered Sanlam a stake. M & R



58

has "first-class management, a scarce commodity in SA."

Before accepting the offer, Sanlam had access to Anchusa's and M & R's management accounts. A condition of the deal was that Anchusa's dividend cover would be reduced from 1,4 to 1,1. The higher cover was a legacy from a period five to 10 years back when Anchusa was itself an acquisitor; but its other interests have since been rationalised into M & R. While Sanlam paid R13 a share when the market price was R9, Daling notes that the price of the tightly-held share had drifted to R9 on very thin volumes, and did not reflect the good profits in the pipeline. The share later settled at 1 150c. In fact, in the year to end-June, M & R increased earnings a share by 20,9% and paid a 16,7% higher dividend.

Before the deal with Sanki, Kirsh's unlisted holding company, Natie Kirsh approached Sanlam at the beginning of this year, when his group's liquidity problems were a byword in Diagonal Street. Kirsh explained his position to Sanlam and offered a partnership (after, sources tell me, he had been turned down by at least one other major insurer).

"It was a company with problems. But Natiè had completed his restructuring, and here was a very, very strong trading organisation with turnover above R3 billion. It is the largest retail group after SAB," Daling explains.

"Here was an opportunity to make a relatively low-cost investment into retailing, which we see as a sector to be in. Its potential is better than manufacturing. In the back of our minds was black spending power and all that.

"You must go one step further. We were not buying in the market. We were in a position to sit around the table with Natie and we built conditions into the contract."

Unique investment

Neither the full conditions nor the price were disclosed, but much of the eventual agreement has slipped out by now. It is believed, for example, that Sanlam's 49,9% in Sanki is through a preference share, whose dividend is linked to the dividend growth of the JSE retail sector. Natie Kirsh, who holds the other 50,1%, gets his dividend only after Sanlam has been paid. Secondly, Sanlam has a "put" on Kirsh for the next three years, which could give Sanlam the right to cancel the deal in certain circumstances. Indeed, because Sanki is unlisted, Sanlam negotiated terms which were "very favourable and a unique investment opportunity."

Apart from necessity, what helped Kirsh accept the conditions was his simultaneous deal in which he exercised his option to buy the 30% of Metro held by Tiger. Kirsh used the money paid by Sanlam to pay for this. But, at the same time, Sanlam did a R70m property deal with Kirsh.

"These were all separate, arms-length transactions," Daling contends. "Sanlam is under no obligation to put further finance into Kirsh. We had done no property deals with Checkers for several years. Having looked at the organisation, we were happy to do the R70m deal, which balanced out our property portfolio."

Sanlam's Daling ... each deal must be considered on its merits

Sanki's Kirsh ... accepting conditions

When the deal was announced in May, Daling described Kirsh as an above-average risk. Now, not only does he say that Sanlam is most impressed with Checkers — a group that was decidedly creaking at the seams last year, and has still to prove it has recovered — he says of Sanlam's stake in Kirsh: "I'm sure that in five years' time we'll look back and say that this is one of the best investments we've ever made." A by-product of the deal is an unusual alliance between Afrikaans and Jewish business interests.

Rumours about an imminent takeover of Protea gathered steam late last year, when a mystery buyer was felt in the market. Daling says there had been talk for years of Protea being an eventual takeover target. From time to time, he says, Sanlam bought the stock as a recovery situation, hoping for a profit when a takeover occurred. That changed when Malbak set its sights on Protea.

Says Daling: "We believe Malbak chairman Derek Keyes and MD Grant Thomas are one of the best management teams in the country. On the other hand, Protea was looking increasingly tired." In the eventual deal, Sanlam got 44,2% of Malbak, now a holding company with 85% of Protea. All of Malbak's former operating assets have been shifted into Protea. The deal showed again the importance Sanlam attaches to having control. Before the takeover, Malbak was jointly controlled by Sanlam and Mutual, but Mutual reduced its stake from 22% to about 9%.

This deal and the restructuring took months to complete, and the original terms were revised after Protea's profits turned out worse than expected. These arrangements may have suited the controlling

(58)

shareholders, but Protea's share price fell from 250c to 165c between June 25 and early-August.

Sanlam's most recent acquisition, up to 40% in Messina, came after an approach from the largest shareholder, African Finance Corp (30%). At a recent press conference, Sanlam chairman Fred du Plessis said the growth potential of the SA motor industry is "excellent," although the market is overtraded. Messina's major attraction is its franchise for Japan-based Nissan, one of the world's three largest motor manufacturers. Again, the terms negotiated were important. Sanlam is paying 500c a share, while the net worth at book value is more than R10 (even after being reduced by potential foreign exchange losses of R40m on offshore borrowings).

Before buying Messina, Sanlam sought assurances from the Japanese suppliers. Du Plessis himself visited Japan recently. "We believe the Japanese are in SA to stay," says Daling, who makes no bones that the next 12 to 18 months will be tough for Messina. But, says Du Plessis: "We are convinced of Messina's excellent prospects of recovery." Sanlam's first foray into motor manufacturing, he adds, will enable an expansion of the component manufacturing interests in Federale Volksbeleggings.

Most problematic

Abercom, mainly an engineering company, could be the most problematic of Sanlam's acquisitions. Its earnings from continuing operations in the year to end-June fell 17% and the dividend was cut 25%. The share price stands at 135c from its 12-month high of 320c. Daling concedes that Abercom can't simply continue its non-performance. "We have put two representatives on Abercom's board," he says. "Now we can assess the problems and decide what action to take, if any."

Sanlam argues that it likes to have control so that it can take action if necessary, and would never try to manage any investments from its Bellville headquarters. But a considerable amount of senior management's time has been put into such investments, which represent a small percentage of the portfolio. How much time they will require in future is anybody's guess. Daling is a director of Gencor and several other large companies. If Du Plessis gets involved in a rationalisation of the motor industry — as he did in the 1979 rationalisation of liquor — it could be a demanding exercise. But, Du Plessis, a powerful figure, may have the clout to achieve the restructuring that has been needed for years.

Sanlam's Du Plessis . . . growth potential of motor industry is excellent

Without directly comparable figures, it is difficult to assess the overall performance of Sanlam's investment portfolio. When making investments, it looks for both capital appreciation and income, but the latter is the more important. In the 1984 financial year, Sanlam's investment income grew by 28%, while that of Mutual rose 21,3%. Between 1981 and 1984, Sanlam's investment income as a percentage of Mutual's rose from 72% to 86%.

Apart from the fact that some troubled companies have been bailed out, it is far from clear yet how much mileage there is for Sanlam policyholders and other shareholders in the recent acquisitions. If Sanlam was listed, investors would probably be rating its share price decidedly cautiously at present.

However, what could well benefit the group is its management's energy and willingness to innovate. While somewhat smaller than the SA Mutual, which in 1983 had total assets of R6,7 billion against Sanlam's R5 billion, Sanlam has undeniably become the most visible of SA financial institutions. To a large extent, the cause was the group's adventurous, and often controversial, profile on the JSE.

Andrew McNulty

quotable

Sanlam chairman Fred du Plessis, commenting on Sanlam's decision to buy up to 40% of the troubled Messina motor group.

"We invested in the motor industry because we at Sanlam regard the SA motor industry as of the utmost strategic importance. Also, traditionally, the motor industry is generally regarded as one of the most important industries in developing countries. The growth potential of the SA motor industry is excellent, especially if the rapidly growing buying power of our black population is taken into account.

"Although Sanlam has thus far not been involved directly in motor manufacturing, we are involved in the component manufacturing industry through our affiliated company, Federale Volksbeleggings. These interests will now be expanded further.

"Why did Sanlam decide to invest in the Messina group rather than in other motor manufacturing companies? There are many reasons for this decision.

"Firstly, it is because Nissan SA, within the Messina group, is one of only a few local vehicle manufacturers which are wholly SA-controlled. Secondly, it is because Nissan SA has such close ties, and enjoys the full support of one of the world's three largest motor manufacturing companies, the Nissan Motor Company of Japan. Sanlam has the greatest confidence in the management teams concerned. They will be left alone to pursue their goals. Although Messina is not profitable at present, and even though it might not now be the best time to invest in the motor industry, we are convinced of Messina's excellent prospects of recovery.

"The problems of the motor industry are due, primarily to the unhealthy structure of the SA motor industry . . . We regard it as most essential that the total industry strategy should be urgently reconsidered by government and also by the manufacturing companies."

Star 15/12/84 (58) The Star BUSIN

Rough ride in seeking end to stop-go policies

By Trevor Walker

South Africa's fiscal and monetary management this year has left the economy in some disarray and as a testament to the policies of stop and go it could not be bettered.

Lack of any consistency in overall government policy, objectives, plans and measures has left the private sector in a complete muddle.

Businessmen have had to contend with import relaxation, more allowances, fewer allowances, Lifo no Lifo, zooming money supply, strong economic growth, harsh austerity measures, politically tampered interest rates, a comprehensive shift in the tax system and a new Finance Minister who has yet to demonstrate his promised control on government spending.

It is not a question of the drought, or the low gold price, or record interest rates, or even the growth in parliaments that is upsetting.

South Africa, while labelling itself a developing country has quite correctly also prided itself on its sound economic management and above all the success of the private sector in the free markets of the developed economies of the Western world.

South Africa's economic police . . .Mane et I (stop and go)

HP curbs tightened

But over the past 18 months government policy has proved inadequate and South Africa's record as a stable supplier and steady buyer has been dented as the private sector attempted to adjust to the authorities' latest crisis by crisis measures.

The tightening of the HP restrictions at the time of the austerity package in August is a good example.

Because this area falls under the Department of Commerce and Industry its co-ordination with Treasury and Reserve Bank policy was slow.

This meant various manufacturers (particularly the motor industry) were hit at a time when the economy — latest Reserve Bank figures show — had begun to slow vigorously after after having been allowed to expand over the previous 12 months.

And now not four months later, when introducing the "perks tax" Mr Barend du Plessis says on television that it is not his intention to penalise the motor industry and if experience shows next year that the industry has been unduly affected, he will introduce measures to alleviate this.

So the motor industry is being almost forced to follow government, and adopt what the MD of Barclays Bank, Mr Chris Ball, refers to as non-strategy planning.

Matters have surely become brobdingnagian when one leading economist says the rand's true purchasing power should put the rate at 70 US cents while another says its correct competitive level should be 30 cents.

The rand gold price at close to R600 an ounce is way above the break even level for even the poorest mine, but because of the country's inability to get the inflation rate down to within even five to 10 percentage points of the major trading partners, the possibility of a recovery in the rand away from its record lows is remote.

The US Adminstration is still set on eliminating inflation altogether and while the deficits, both budgetary and BOP are cause for comment, many of the fundamentals in the US economy have improved dramtically over the past year.

Inflow into gold shares

Unlike South Africa, US inflationary expectations are firmly downward. The fact that major unions have accepted some very low wage settlements, underlines their confidence that control over inflation will be maintained.

Higher interest rates and a cheap currency have not led to a sharp increase in capital inflows, and the Reserve Bank says most inflows have gone into gold shares.

Certain leading London brokers have been recommending purchases of local gilts. The fact that this has petered out after an initial flurry, indicates the City does not believe local rates are set for any meaningful fall in the months ahead.

There have been strong calls on the authorities to allow certain institutions to invest abroad and thus reduce the pressure on local investment capital.

Over the past 18 months much was bought back - ie control of Rennies, Premier, Metal Box and Defy was returned to South Africa — and what's the betting that next year local institutions will be on the investment trail overseas?

Prime rises to 24% as economic woes deepen

STAR 17/12/84

58

By Trevor Walker

The major commercial banks raised their prime overdraft rate to 24 percent this morning, barely a month after the overall pattern of interest rates had been pushed lower by the authorities ahead of the Primrose by-election on November 29.

The latest upward move in rates could signal the beginning of the end for certain consumer-oriented firms that were forced to increase stocks and advertising budgets ahead of the December season.

The business community has been abuzz recently with rumours of certain major retailers being under cash flow pressures and this turnaround in the direction of interest rates will only lead to increased speculation.

The outlook for the balance of payments on the current account appears to have worsened because of the poor prospects of a meaningful maize crop this season.

Although it is still a little early to predict the eventual crop, the industry has begun to adopt a gloomy attitude and while certain growing areas have had good rains, the overall rainfall position this season has been less than adequate.

The latest fall in the gold price — this morning to below $320 an ounce — and the possibility that the country might have to import from R1,5 billion to R2,0 billion worth of maize next year has virtually eliminated hopes for a similar surplus on the current account next year.

The quarterly bulletin from the Reserve Bank issued last week showed that the economy had begun to slow quite substantially in the last quarter of this year.

The authorities were hopeful that, because of this, the demand for money would begin to slow markedly and that pressure on interest rates would continue to ease.

But, with the prospect of yet another dry agricultural season and a poor outlook for gold, the squeeze is back on the money market.

The Reserve Bank obviously cannot afford to adopt too accommodative a stance and the banks have thus been forced to increase the cost of money.

The upward move in interest rates also means that hopes for some early relief next year in the bond rate has now disappeared.

The pressure on the property market will continue and the introduction of the "perks tax" next year will only add to the woes of the market.

Most economists agree that the Reserve Bank must continue with its tight monetary policy and that this approach might help to convince the politicians that substantial cutbacks in government spending is a must if the country is not to go the way of Israel.

Hyper-inflation is a terrible thing and the transition, says economist Dr Frank Shostak, can be swift and worse — virtually unstoppable once it starts.

South Africa's inflationary problems have worsened in the last year while its major trading partners have moved to even lower rates of increase.

On Friday the appalling message of hyper-inflation was graphically spelt out.

The UK announced that the inflation rate had fallen to 4,9 percent for the 12 months to November from the five percent for the 12 months to October.

Later in the afternoon it was announced in Jerusalem that the inflation rate in Isreal had "slowed" to 19,5 percent for November alone and the rate for the 12 months to November had been above 450 percent.

Without doubt, inflation is South Africa's Enemy No 1.

Slump will prevail

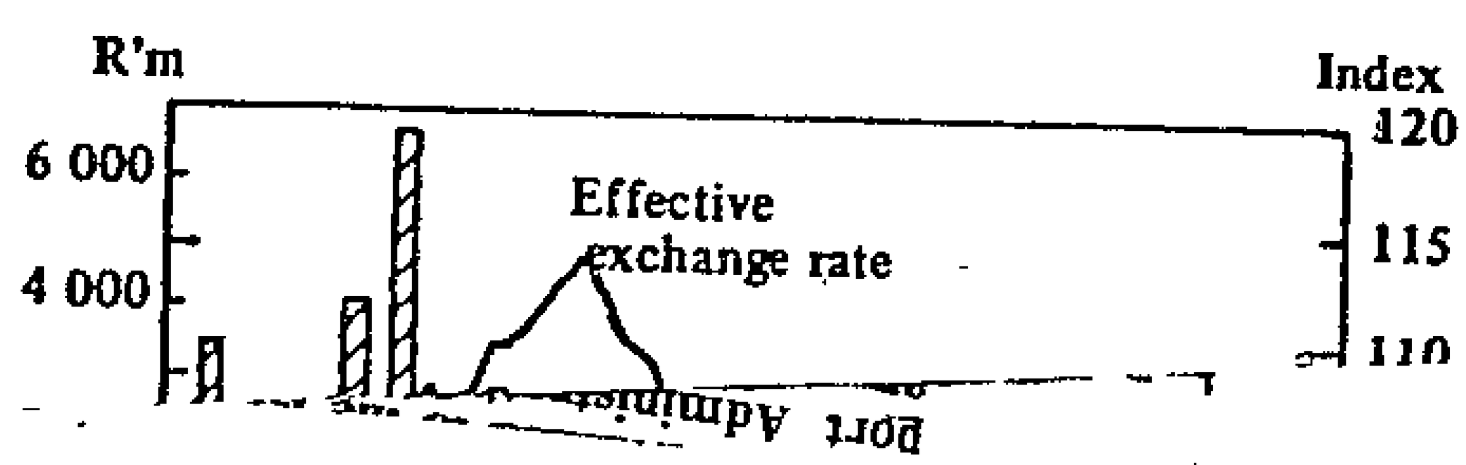
By Duncan Collings

Commenting that the downturn in general economic activity is far more serious than indicated by available statistics, Sanlam says that it believes that poor business conditions will prevail until late 1985.

Sanlam says in its December Economic Survey that the months ahead will make great demands of both the businessman and consumer.

"Nevertheless, it is an essential adjustment process to rectify imbalances in the economy and to prepare it for the next upswing — which may commence in the second half of 1985," Sanlam adds.

It is important that the stringent restrictive measures should not be relaxed too rapidly. If this were to happen, South Africa would once again merely experience a premature and short-lived upswing.



Economy reels under two body blows

Another interest rate shock

Rdm
18/12/84
58

Financial Reporter

THE reeling South African economy suffered two more body blows yesterday on the local and international markets.

In London the gold price fell to below $315 an ounce at one stage, which is the lowest level recorded since July 1982, while at home the prime interest rate was increased by one percent to 24% — as predicted in yesterday's Business Mail.

Indications are that things could get worse, with analysts expecting gold to drop to levels of about $300 an ounce while bankers believe the prime interest rate could again hit 25%.

The increase in the prime interest rate indicates that there will be no early let-up of the austerity measures aimed at forcing South African consumers to live within their means and at curbing the country's high rate of inflation.

The high interest rates have caused heavy slumps in sales of furniture, cars and durable goods such as refrigerators, and have brought screams of protest from businessmen who claim they are being forced out of business by the measures.

One insurance giant, Sanlam, believes the poor business conditions will continue until late 1985 — and the months ahead will make great demands on both businessmen and consumers.

Sanlam believes, however, that the stringent restrictive measures are an essential adjustment to the economy and should not be relaxed too rapidly.

"If this were to happen South Africa would once again merely experience a premature and short-lived upswing," the group says in its latest economic review.

The overdraft rate has now changed three times in four weeks. These erratic moves within a very short space of time have resulted in businessmen questioning whether the prime rate should have come down in November in the first place.

When the Standard Bank cut the prime rate in November some observers held that the adjustment in the rates had been politically inspired to strengthen the Government's hand in the Primrose election — particularly as the Reserve Bank had responded with such alacrity by cutting its re-discount rates by 1%.

The political motivation has, however, been strenuously denied by people in banking and by the authorities.

The immediate effect of yesterday's slide in the gold price was a drop in the value of the rand to US$0.5265 from Friday's closing level of US$0,5330.

The low rand has benefited many exporters, who are earning more rands for their products sold overseas, but it also poses major problems for South Africa's inflation rate — which remains at levels twice that of the United States and the United Kingdom.

A persistently high rate of inflation holds serious economic consequences for South Africa.

Conversely, lack of inflation overseas is keeping the gold price low because the gold price is closely linked to international inflation.

Unlike South Africa, the major Western nations have experienced disinflation for several years and this trend is likely to continue.

Despite high unemployment, governments ranging from the UK to the US are intent on controlling inflation.

The international oil market is also helping reduce inflation. Oil prices are weakening because of excess supplies. Lower oil prices are negative for gold because they reduce international inflation.

Middle Eastern deposits in the Eurodollar market also decline, so the international money supply shrinks.

There is less money around to buy an asset such as gold, which does not produce income.

"Gold's two-year hangover shows little sign of ending; without the return of inflation the gold price won't pull out of its dive," says Euromoney, the international banking magazine.

New levies 'may hit SA hard'

RDM 20/12/84

58

Growing fears on economy

By CHRIS FREIMOND
Political Correspondent

CONCERN mounted yesterday in opposition and business circles that the Government's latest proposals for financing local authorities could cause further setbacks to South Africa's ailing economy.

Two of the Progressive Federal Party's most senior finance spokesman slammed some of the moves, and the Associated Chambers of Commerce expressed concern that the overall tax burden would be unfairly increased.

Additional sources of revenue for local authorities were announced by the Minister of Constitutional Development and Planning, Mr Chris Heunis, in Cape Town on Tuesday.

They included a levy on salaries and wages, a levy on GST collected, and a levy on floor space occupied by professions and industries not collecting GST.

The PFP's Transvaal leader and finance spokesman in the Transvaal Provincial Council, Mr Douglas Gibson, said in a statement yesterday that the proposals indicated that the Nationalists were unable to think rationally about the economic situation in South Africa.

The proposed "payroll tax" could lead to increased unemployment at a time when the country could least afford it, he said.

The party's parliamentary finance spokesman and MP for Yeoville, Mr Harry Schwarz, expressed "serious doubts" about levies based on salaries.

The proposed measures acted as a disincentive in the areas in which it was easiest to create jobs.

"The payment by the public sector of a tax on its own employees merely means the taxpayer must finance this payment, and is really a State subsidy which increases Government expenditure," he said.

The levy on goods subject to GST and a tax on floor space by those not paying GST amounted to an increase in GST at a time when inflation was a major problem.

Mr Gibosn said the payroll tax penalised employers and discouraged them from offering employment at a time when unemployment was running high, and the indications were that it would increase in the next year or so.

"In a country like South Africa, the Government should be doing everything possible to assist in the creation of job opportunities. The last thing it should be doing is making it more difficult for employers to keep people in jobs," he said.

Although employers had been told that the payroll tax would be tax-deductible, it was probable that they would pass it on to consumers, which would have the same effect as an increase in GST, he said.

The proposals had not been referred to or debated by Provincial Councils which had a special interest in local government. This neglect was reflected in the "half-baked" proposals put foward on Tuesday, Mr Gibson said.

The president of Assocom, Mr Michael Weir, said the proposed additional burdens on the private sector were "inopportune and ill-timed".

"Although Assocom fully

☐ To Page 2

RDM 20/12/84

'More may lose jobs'

☐ From Page 1

supports the principle of optimal devolution of power and decision-making authority to the appropriate organs of local and regional government and récognises that funds are required to finance urgently-needed improvements to infrastructure, local services and urban transportation, the association nevertheless considers the imposition of additional tax burdens on the private sector to be inopportune and ill-timed in the light of the current economic recession," he said.

Both Mr Weir and Mr Schwarz believed the additional tax proposals should have been referred to the Margo Commission on tax structures.

"Assocom is further of the view that any additional forms of taxation should be offset by corresponding reductions in other sources of public sector revenue so as to obviate an overall increase in the tax burden on the community.

"The new taxes will inevitably lead to increased costs and higher prices as the business community cannot be expected to fully absorb the levies against already hard-pressed profit margins," Mr Weir said.

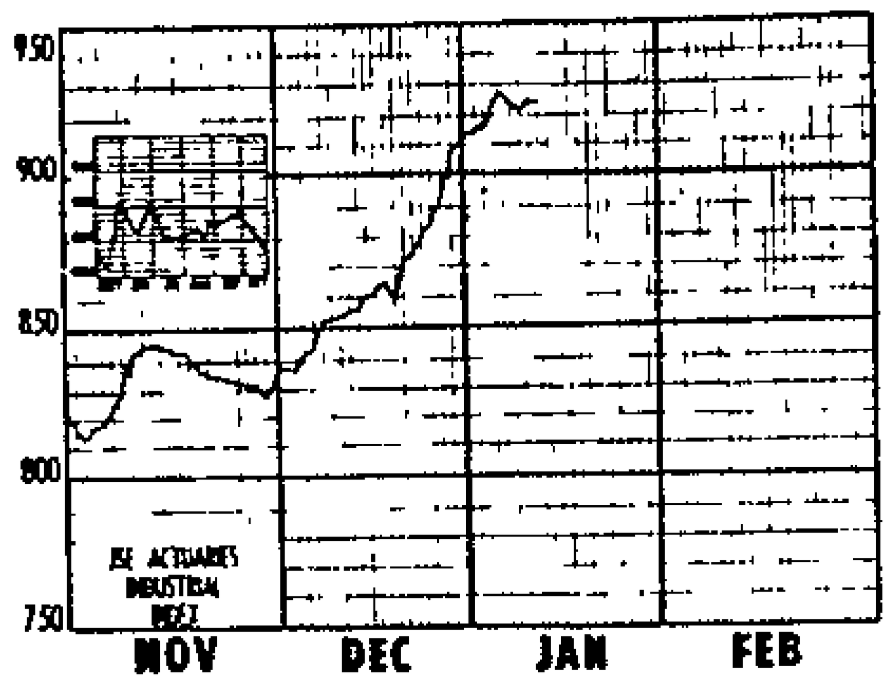
However, Mr Heunis' announcement that blacks would be included on the proposed regional services councils was welcomed by most political spokesmen and observers yesterday.

FINANCE – GENERAL

1984

JANUARY —— DEC.

res mixed



changed with scattered small two-way movements. — Sapa.

vidend yield. A = sellers; B = buyers.

	960	B	4,5
	525		5,3
	200		8,0
	5300		5,2
	550		5,5
	170		5,0
	650		0,5
	1550		1,9
	450		5,6
- T			
	455		4,0
	516		7,8
	67		1,5
	600		3.3
	295		6,8
	130		3,8
	105		
	520		1.9
	95		3,7
	120		10 4
	1200		3,8
	70		9,3
	350		3,9
	315		6,2
	88,0	%	14,8
	675		
	40		
T TRUST			
	180		7,7
	150		8,2
	235		8,6
	230		7,2
	80		9,0
	116		8,3
	111	1-	9,0
	91		11,4
USTRIAL			
DING			
	125		6 4
	230		3,6
	400		2,8
	940		4,1
	2900		6,2
	400		
	1020		4,5
	26		
	1380		5.1
	1490		7,0
	776		5,0
	105		
	160		6.2
	205		3,4
	510	10+	8,3
	2450		5,1
	485		7,0
	720		6,1
	70		
	65		4,6
	42		
	100		6,5
	530		7,2
	525		9,0
	160		
	900		5,6
	1550		4,8
	4000		4.1
	190		7,0
	60		
	14		
	23		
	33		
	680		5,5
	110,0	B	13,6
	115,0	%	10,7
	110		7,3
	445		2,2
	116		6,1
	280		6,6
	1350		4,9
	27		
	700		2,9
	700		1,4
	630		5,7
	1700		5,8
	1000		2,6
	330		6,1
	120,0	%	11,7
	1385		4,3
	245	A	6,1
	73		2.1
	730		5,8
	113		8,0
	[illegible]	SUSP ENDED	

IND. - ENGINEERING			
ABERCOM	300	5+	5.3
AFROX	780		4,7
BERZACK	2750		2/3
BIVEC	460		2,6
BUFFCOR	90		
BUFFCOR CP	200		10,6
CEMENCO	350		7,1
CHUBB	425		6,4
CLAUDE N	250		8,0
DORBYL	730		7,0
DORBYL 12%CD	200,0	B	6,0
DUNDEE	115		
DUNDEE PP	52		16 3
ED L BATE	850		6 5
FIELAIR	60		
FINTEC	145		5,5
ALEXNDR	195	B	11,8
FRALEX	125		10,8
GENREC	320		6,3
GLOBE	600		10 4
G I C	245	A	
HAGGIE	1400		5 0
IFM	180		2 8
IFM 14%CD	180		12,4
LANDLOK	400		9,5
S LANDLOK CD	110,0	%	13,6
METAIR	930		1,6
METKOR	130		5 6
NATL BOL	330	5+	
NATL TRD	375		5,9
NEI AFR	220		3,9
PROGO	25		
QUINCOR	68		
QUINCOR 10CP	150		6,7
RIH	385		4,4
STD BRAS	430		5,8
ST METAL	230		8 7
STEW & LL	400	B 5+	6,3
IND - FISHING			
KAAPKUN	325		7,7
OCFISH	460		10,4
OIL	67		6 0
OIL 8,5% PCP	68		12.5
SEASWA	470		12,8
S W A FISH	700		10,1
WILBARZ	115		5,5
IND. - FOOD			
BECKETS	630		6,7
CGS FOOD	800		4,4
CADSWEP	1300		4,1
CADSW13,5%CD	1250		9,5
FEDFOOD	470		5,7
FEDFD14,5%CD	1200		21,8
I C S	440		4,5
ICS 32,3C CP	455		7.1
I & J	310		5,5
JABULA	665		7,7
KANHYM	950		4,2
PREM GRP	2300		3,0
TIG OATS	3900		3,6
IND - FURN. & HOUSEHOLD			
AMREL	1420		5,0
AFCOL	925		6,4
B & S	330		2,4
BEARES	345		6,2
BRADLOW	400		4,0
DUROS	270		
ELERINE	990		5,3
H PARKER	45	SUSP ENDED	
MONTAYS	170		7,6
OCMAN	95		
PICCAN	200		5,5
PRESCAT	180		8,1
SAMSTEL	135		7,8
TEDELEX	960	B 10+	5,6
WORLD	175		6,6
IND - MOTOR			
ASSENG	60	42-	
AUROCHS	720		1,5
AUTOLEC	500		4.5
CAPAUTO	450		1,7
CURRIES	975		9,2
DANPERK	180		6 7
DANPERK CP	150		8 0
DUNLOP	1200		6,3
ERIKSEN	435	B	
GEN TIRE -A-	1625		3 1
GEN TIRE -B-	1650		3,0
MCARTHY	415	5+	5 4
NFS MTR	100		
PORT	220		3 2
OHSUPER	85		
SAFICON	675	A	4,6
SAKERS	675		4,9
SCHUS	100		1,5

Personal debt mushrooming

ARGUS 16/1/84 58

By MICHAEL CHESTER

JOHANNESBURG. — South African consumers have toppled into unprecedented levels of debt that have mushroomed to a staggering R14-billion in bank overdrafts and hire purchase commitments alone.

A leading bank warns that 1984 threatens to bring the problem to a head, with the number of families being sued by creditors almost certain to hit new peaks.

"Consumers will now have to start paying the penalties for a splurge of spending that has bordered on recklessness," said Mr Adam Jacobs, senior economist at Volkskas.

PARTY OVER

"Thousands of families have ignored two years of recession and preferred to wallow in credit rather than adjust their living standards to economic realities.

"Now the party is over. They have found themselves trapped with debts carrying higher and higher interest rates — above 20 percent a year — precisely when family budgets are going to be more hamstrung than ever."

An analysis by the economic division of the Standard Bank shows that hire purchase debts have soared more than fourfold in the past five years to be pushed above R7-billion in the recent Christmas shopping spree.

OVERDRAFTS

Bank overdrafts by individuals are fast approaching another R7-billion — nearly treble the level five years ago — and are running neck-and-neck with corporate borrowing, which has never occurred before.

The number of credit cards issued by the main commercial banks has risen from around 100 000 in 1975 to about 1,2-million.

Nearly 750 000 bank card holders — not counting families spending on other credit cards issued by hotels, department stores, restaurants, car hire firms and so on — have been buying goods and services with their plastic cash at a rate of more than R2-billion a year.

The banks are inclined to keep details secret, but it seems likely that fewer than half of credit card holders settle their accounts in full at the end of each month. The day of reckoning is put off by resorting to "revolving credit".

This means holders pay a minimum of only 10 percent of overall credit card bills every month. Outstanding balances on variations such as budget accounts can stretch for as long as five years.

"Even if the inflation rate in 1984 is held at between nine and 10 percent, the slowdown in pay increases will mean that wage levels barely keep pace in real terms," Mr Jacobs said.

MORE PAINFUL

"And if there is heavier taxation in the pipeline, which seems likely, spending power will be in a decline.

"The clout of debt repayments is going to be more painful than ever. The best advice to consumers is to halt the blind rush into credit, do without all the extras and stick to a rigid budget.

"It's madness to borrow from grandma and leave the bills for a grandson to settle."

Sinclair launches business computer

LONDON. — Sinclair Research, the UK company founded and owned by Sir Clive Sinclair, has launched its first personal computer for business use at a price of £399 (R706).

The new system is expected to form the basis of a low-cost office workstation being developed by ICL, the largest British-owned computer manufacturer.

The ICL workstation will give the Sinclair computer greater credibility in the business

Sir Clive Sinclair

sion or a special monitor, and a printer.

But Sir Clive pointed out that the QL would still be much cheaper than competitive products such as Acorn's BBC computer, IBM PC, Apple IIe and Apricot computers.

The new computer will be sold initially in the UK by mail order and will become available at the end of February.

The company expects to sell it in continental Europe and the United States in the second half of the year. — Financial Times News Service

R
BA
rai
US
Ste
Car
Bel
Bel
Sw
Fre
Ita
Dut
Deu
Sw
Nor
Dar
Aus
Por
Jap
Spa
Aus
NZ
Zar
Ma
Zim
Hng
Ind
Ker
Pak
Bot
Ma
Sey
Gri
Sing
Iris

U
Mr
NG
Sag
UA
Sat
San
Tru
San
Int
Gdt
Sta
Std
Std

K
KR
E
hal
R14
(R6
C
buy
(R5
R28
(R1
buy

O
Jan
Jan
Jan
Jan
Jan
Jan
Jan

W
Jan
Jan
Jan
Jan
Jan
Jan
Jan

58

The South African Co-ordinating Consumer Council

INSURANCE

COMPILED AND PUBLISHED BY THE SOUTH AFRICAN CO-ORDINATING CONSUMER COUNCIL IN COLLABORATION WITH GLENVAAL (N. TVL.) (PTY) LTD. AND SPONSORED BY NATIONAL EMPLOYERS' GENERAL INSURANCE COMPANY LTD.

NEG Insurance

GLENVAAL

INSURANCE ADVICE FOR THE INDIVIDUAL

INTRODUCTION

The loss or damage to personal effects by fire, theft, accident or other causes can be very expensive or even disastrous. All too often insurance cover is inadequate or, in some cases, non-existent. When did you last check your insurance cover? Free information is available to consumers from three sources:

1. **The Insurance Company**
   All Insurance Companies have personnel who are trained to deal with enquiries for policies that can cover the personal assets of an individual. The main disadvantage of approaching the Insurance Company direct is that they will only give information concerning their own product.

2. **The Agent**
   He can represent one or more Insurance Companies and act on their behalf. The agent can offer you advice on a range of policies issued by the companies for whom he acts. He is conversant with the products which these companies can offer, but is not able to offer the variation of policies which are available through:

3. **The Insurance Broker**
   The broker is required to possess recognised standards of financial stability, technical expertise, knowledge of the insurance market and to exercise care and skill in the placing of business with insurers. He is your representative and not that of the Insurance Company. Despite the misconception, an insurer does not pay for the services of a broker, for he is renumerated for his services by the insurers, in the form of a commission for business placed with them.

   The broker has the advantage over the agent in that he has a much broader perspective of the insurance market and is able to quote the best premium for the cover that suits your personal requirements.

   Larger broking organisations usually provide a comprehensive service for the settlement of claims and often have facilities for arranging cover under special group schemes where premiums are generally lower.

Why take out insurance?

Have you ever considered what would happen if your house burnt down or if you had a burglary? Would you be able to afford the loss? For as little as R30 upwards per month, depending upon where you live, you can have comprehensive insurance cover giving peace of mind which makes good money sense.

The standard comprehensive policy usually provides the following cover:

Insurance of Buildings

This policy normally covers the building of the private residence and all domestic outbuildings, tennis courts, swimming pools, filter plant, walls, gates and fences and all landlord's fixtures and fittings, but excludes the actual contents of the dwelling.

The policy provides cover for loss or damage caused by such contingencies as -

- fire, lightning, explosion;
- bursting or overflowing of water and/or oil tanks;
- theft;
- riot, strike and malicious damage of a non-political nature;
- earthquake, storm and flood damage; and
- other miscellaneous risks such as falling trees, impact by road vehicles, breaking of sanitary-ware and loss of rent.

You should always check that you have the widest cover available and that the sum insured represents the full replacement value of the buildings at present-day costs and is adequate to cover architect's and surveyor's fees.

Insurance of the Contents

This policy covers all household goods and personal effects, the property of the policyholder and of any permanent member of the insured's household whilst contained in the residence, but has certain exclusions such as money, stamps, medals or coins and property more specifically insured, e.g. motor vehicles, which should be insured under a motor policy.

The policy covers the contingencies as mentioned above and, in addition, is extended to cover property whilst temporarily in hotels, hospitals, universities, schools and furniture depositories, but can be subject to certain restriction.

Here again one should check to see that the sum insured represents the full replacement value of the contents as new.

/ Page 2

All Risks Insurance
As the contents insurance generally covers the property whilst in your dwelling, items normally carried or worn on the person should be insured under an all risks policy. In addition, it is recommended that valuable items of jewellery, furs and the like be insured on an all risks basis for under the contents policy there is usually a limit in the event of a loss on the total value of items of jewellery, furs, gold and silver and platinum articles.

Furthermore, as explained above, the contents policy has certain exclusions, i.e. stamps, coins and medals and these items can be insured under an all risks policy.

As this policy gives much wider cover on a world-wide basis, the premium is generally more expensive than that of the contents section.

There are certain exclusions and these vary from insurer to insurer and should be carefully checked before effecting cover.

Personal Liability Insurance
Most building and contents policies have an extension covering the policyholder and members of his family against certain legal liabilities which they may incur as a result of an accident caused through their negligence. This policy covers liability for death, injury or illness of any person other than a member of your household and damage to property not belonging to you.

Again there are certain exceptions, such as accidents caused by the driving of a motor vehicle. These exceptions should again be checked before cover is effected.

Motor Insurance
Of all the branches of personal insurance, motor insurance is most often in the public eye, mainly due to the ever increasing rise in costs. The motorist has a wide choice of insurers from whom to purchase and there can be considerable competition within the motor insurance market.

The types of cover available are:

1. **MVA only**
   This policy which is compulsory, provides no more than the legal minimum requirements as laid down in the Motor Vehicle Act.

2. **Third Party**
   This policy covers the policyholder and authorised drivers against their liability to third parties, including passengers, for death and/or bodily injury sustained as a result of an accident and also for indemnity for claims for damage to other peoples' property - in practice this often means the other vehicle involved in an accident.

3. **Third Party Fire and Theft**
   This policy adds additional cover to the third party cover described above for the policyholder's motor vehicle against the risk of fire and theft, actual or attempted. When vehicles are not kept in a garage overnight there is a greater risk of theft and some insurers will exclude theft cover in such cases or make it subject to special terms.

4. **Comprehensive**
   Comprehensive insurance embraces all the cover described so far (excluding MVA), as well as accidental damage to the policyholder's vehicle, windscreen cover and medical expenses to name but a few. The term "comprehensive" as applied to motor insurance does not mean, however, that every possible contingency is covered.

   Of the types of motor insurance available in South Africa, comprehensive is the most popular. One reason for this is that the modern motor vehicle is a very substantial investment which few people can afford to replace in whole or in part out of their own pockets as a result of accident, fire or theft. Also those who use Credit Agreement facilities to buy their car may find that the financial house insists on comprehensive cover for the vehicle concerned in order to protect their security.

5. **Compulsory Excess**
   As the name implies, a compulsory excess is imposed by the insurers as a term of the cover they are willing to provide. This excess can differ considerably from insurer to insurer.

Other Covers
Various other covers can be provided under the standard policy and these include:

- Personal Accident Insurance;
- Caravan and/or Trailer Insurance;
- Sportsman Insurance, for instance golfers cover; and
- Motor Boat/Yacht Insurance.

Full details should be obtained from the broker or agent.

/ Page 3

IMPORTANT FACTS

Reinstatement Value Cover
Most policies provide for claims to be paid on reinstatement value basis (new for old). It is, therefore, important that your sum insured represents the full new reinstatement value of the property to be insured as the policy will be subject to average in respect of the building, contents and all risks sections.

Average
Beware of this pitfall.

It is imperative that you should be fully insured.
If you are under-insured, your claim payment could be reduced proportionately.

The example below explains how it works.

If your household contents are insured for		R15 000
and the actual replacement value (new for old) is		R20 000
you are under-insured by		R 5 000 or 25%
therefore:		
if your claim is for		R 2 000
you only receive	$\frac{15\,000}{20\,000} \times \frac{2\,000}{1} =$	R 1 500 or 75% of claim.

Had you been fully insured, the claim would have been paid in full.

Claim Notification
In the event of a loss you should notify the insurer as soon as possible after the event as late notification could result in your claim being turned down. If the loss arises out of a criminal act, you should also advise the police immediately.

Completion of your Proposal Form
As all insurance contracts are based on utmost good faith, it is imperative that the information given to the insurer is correct, as the proposal constitutes the contract between you and your insurers. Clearly state the sums insured and your requirements on the proposal form to avoid disappointment in the event of a claim.

Riot Cover
Almost all domestic policies issued by South African insurers exclude war and political riot cover. In respect of the latter cover can be arranged by your Broker/Agent through the South African Special Risks Insurance Association (SASRIA).

Conclusion
An insurance policy is a contract of indemnity, the purpose of which is to place you in the same position as you were immediately before a loss occurred.

**Die Suid-Afrikaanse
Koördinerende
Verbruikersraad**

VERSEKERING

OPGESTEL EN UITGEGEE DEUR DIE SUID-AFRIKAANSE KOÖRDINERENDE VERBRUIKERSRAAD IN SAMEWERKING MET GLENVAAL (N. TVL.) (EDMS.) BPK. EN GEBORG DEUR NATIONAL EMPLOYERS' GENERAL VERSEKERINGSMAATSKAPPY BEPERK.

NEG Versekering

GLENVAAL

VERSEKERING VIR DIE INDIVIDU

INLEIDING
Verlies of skade aan persoonlike besittings veroorsaak deur brand, diefstal, 'n ongeluk of ander oorsake kan baie duur en selfs rampspoedig wees. Baie mense vind ongelukkig te laat uit dat hulle versekering onvoldoende was of dat daar geen versekeringsdekking was nie. Maak dus vandag seker wat u versekeringsdekking is - môre mag dalk net te laat wees !
U kan gratis inligting verkry by die volgende bronne:

1. **Die Versekeringsmaatskappy**
   Alle versekeringsmaatskappye het opgeleide personeel wat navrae oor polisse wat persoonlike bates dek, kan beantwoord. Die nadeel is dat 'n versekeringsmaatskappy slegs inligting sal verstrek oor die polisse wat hy aanbied.

2. **Die Agent**
   Hy kan een of meer versekeringsmaatskappye verteenwoordig en namens hulle optree. Slegs inligting wat betrekking het op die verskillende polisse aangebied deur die maatskappye wat hy verteenwoordig, word verskaf deur die agent.
   'n Groot verskeidenheid van polisse word egter beskikbaar gestel deur die:

3. **Versekeringsmakelaar**
   Daar word van die versekeringsmakelaar vereis om oor 'n deeglike kennis van die versekeringsmark, tegniese vakkennis en erkende standaarde van finansiële bestendigheid, te beskik. Ook moet hy met omsigtigheid en kundigheid sy kliënte se versekering plaas. Hy verteenwoordig sy kliënt - u - en nie 'n versekeringsmaatskappy nie. Die premie word nie, soos dikwels verkeerdelik geglo word, deur die versekeringsmaatskappy belaai vir hierdie diens nie. Die makelaar verdien 'n kommissie vanuit die besigheid wat hy by die versekeraar plaas.

   Nog 'n voordeel van die makelaar is dat hy 'n wye insig in die versekeringsmark het en in staat is om aan u die beste premie vir dekking in u omstandighede te kwoteer.

   Groter makelaarsorganisasies bied gewoonlik 'n omvattende diens aan waar die afhandeling van eise onderneem word en waar fasiliteite om dekking te reël onder spesiale groepskemas teen 'n laer premie dikwels bestaan.

Hoekom verseker u?
Gestel u huis brand af òf u word besteel, sal u hierdie finansiële verlies kan dra? Heel moontlik nie. Onthou, omvattende versekeringsdekking en gemoedsrus kan verkry word vir so min as R30, of meer, afhangende van waar u bly. Dit is sinvolle finansiële beplanning.

Die algemene omvattende polis verskaf gewoonlik die volgende dekking:

Versekering van geboue
Hierdie polis dek gewoonlik geboue op 'n perseel bestaande uit die private woning en alle buitegeboue, asook die tennisbaan, swembad, filtreertoerusting, mure, hekke en heinings en al die huiseienaar se spykervaste toerusting. Dit sluit egter die werklike inhoud van u huis uit.

Hierdie polis verseker skade of verliese veroorsaak deur gebeurlikhede soos -

- brand, weerlig, ontploffing;
- die bars van of oorloop van water- en olietenke;
- diefstal;
- staking, oproer en kwaadwillige skade van 'n nie-politieke aard;
- aardbewing, storm, vloed; en
- allerlei ander risiko's soos bome wat val, botsing deur pad-voertuie, sanitêre toerusting wat breek en verlies van huurgeld.

Maak altyd seker dat u die omvattendste beskikbare dekking het en dat u verseker is vir die volle vervangingswaarde van die geboue teen huidige koste. Argiteks- en bourekenaarsfooie moet ook ingesluit word.

Versekering van die inhoud
Hierdie polis dek:
- alle huishoudelike goedere en persoonlike besittings, alle eiendom van die polishouer en dié van enige permanente lid van die versekerde se huishouding. Sekere goedere soos geld, seëls, medaljes of muntstukke word uitgesluit, asook eiendom wat spesifiek verseker is, soos bv. motorvoertuie wat deur 'n aparte polis gedek word.

Goedere wat verseker word onder hierdie polis teen die gevare voorheen vermeld, word ook gedek terwyl dit tydelik in hotelle, hospitale, universiteite, skole en meubelpakkamers is, maar dit kan onderhewig wees aan sekere beperkings. U moet weer eens seker maak dat die versekerde bedrag genoeg is om hierdie goedere te vervang indien dit nodig sou wees.

/ Bladsy 2

Allerisiko Versekering
Omdat „inhoudsversekering" gewoonlik eiendom verseker terwyl dit aanwesig is in u woning, behoort artikels wat u gewoonlik met u saamneem of wat u dra, onder 'n allerisikopolis verseker te word. Daarbenewens word ook aanbeveel dat waardevolle items soos juweliersware, pelse en dies meer op 'n allerisikobasis verseker word, aangesien die inhoudsversekeringspolis gewoonlik 'n beperking plaas, in geval van 'n verlies, op die totale waarde van juweliersware, pelse en artikels van goud, silwer of platina.

Items soos seëls, muntstukke en madaljes wat nie deur die inhoudspolis gedek word nie, behoort deur 'n allerisikopolis verseker te word.

Aangesien die allerisikopolis 'n wye dekking bied, is die premies duurder as dié van die gewone inhoudspolis, ook vanweë die wêreldwye gebiedsbeperking.

Wanneer u 'n polis wil uitneem, vind eers uit watter dekking verskillende versekeraars u kan aanbied, daardie dekking verskil van versekeraar tot versekaar.

Persoonlike Aanspreeklikheidsdekking
Die meeste gebou- en inhoudspolisse verseker ook die polishouer en lede van sy gesin teen sekere aanspreeklikhede wat mag ontstaan as gevolg van 'n ongeluk veroorsaak deur hul nalatigheid. Hierdie polis dek aanspreeklikhede wat mag voortspruit uit die dood, besering of siekte van enige persoon of die beskadiging van eiendom van enige persoon, wat nie lid van die versekerde se gesin is nie. Weer eens is daar uitsonderings soos bv. die bestuur van 'n motorvoertuig. Die polishouer moet homself vergewis van die uitsonderings.

Motorversekering
Van al die vertakkinge van persoonlike versekering, is motorversekering dikwels die soort waarop die publiek die meeste ag slaan, hoofsaaklik vanweë stygende koste. Die motoris het 'n wye keuse van versekeraars en daar is 'n aansienlike mededinging binne die motorversekeringsmark.

Die soort dekking wat aangebied word, is:

1. **MVA-dekking alleen**
   Hierdie polis is verpligtend en verskaf bloot die wetlike minimum-vereistes soos neergelê deur die Motorvoertuig Assuransie Wet.

2. **Balans van Derde Party**
   Die polis dek die polishouer en gemagtigde bestuurders teen hul aanspreeklikheid teenoor Derde Partye (wat ook passasiers insluit). Aanspreeklikhede behels dié wat mag ontstaan weens die dood en/of liggaamlike besering as gevolg van 'n ongeluk, asook enige eise vir skade aan ander persone se besittings. In die praktyk beteken dit dikwels die ander voertuig wat in die ongeluk betrokke was.

3. **Derde Party, brand en diefstal**
   Hierdie dekking saam met die Derde Party polis hierbo vermeld, verseker die polishouer se motor teen die risiko van gepoogde of werklike brand en diefstal. Voertuie wat nie in 'n motorhuis gehou word nie, is onderworpe aan 'n groter risiko ten opsigte van diefstal. Sommige versekeraars sal daarom diefstal onder sodanige omstandighede van dekking uitsluit of onderworpe maak aan strenger terme.

4. **Omvattende versekering**
   Omvattende versekering sluit al die dekking sover genoem in, sowel as toevallige skade aan die polishouer se voertuig, windskermdekking en mediese kostes ens. maar sluit MVA uit. Die woord „omvattend" soos van toepassing op motorversekering beteken egter nie dat alle moontlikhede gedek is nie.

   Van al die beskikbare motorversekering in Suid-Afrika is die omvattende versekering die gewildste. Een rede hiervoor is dat 'n motor 'n aansienlike belegging is en min mense kan bekostig om dit te vervang as gevolg van 'n ongeluk, brand of diefstal. Finansiële instellings vereis ook dekking onder omvattende versekering indien 'n motor volgens afbetalings ooreenkoms aangekoop word, ten einde hul eie sekuriteit te beskerm.

5. **Verpligte bybetaling (Eerste bedrag betaalbaar)**
   Soos die naam aandui, word 'n verpligte bybetaling deur versekeraars opgelê as deel van die dekking wat hulle bereid is om te verskaf. Die bybetaling (wat u deel van die skade is) kan aansienlik verskil van versekeraar tot versekeraar.

Ander dekking
Verskeie ander soorte dekking kan aangebied word onder die standaardpolis en dit sluit in:

- Persoonlike Ongeluksversekering;
- Woonwa en/of sleepwaversekering;
- Sportversekering (soos bv. golfspeler se versekering); en
- Motorboot/seiljagversekering.

Besonderhede is by u agent of makelaar beskikbaar.

/ Bladsy 3

BELANGRIKE FEITS

Vervangingswaarde-dekking

Meeste polisse maak voorsiening vir eise om op 'n vervangingswaarde basis betaal te word (nuut vir oud). Dit is dus belangrik dat die versekerde bedrag die volle vervangingswaarde van die versekerde eiendom verteenwoordig aangesien die polis onderhewig sal wees aan awery met betrekking tot die gebou-, inhoud- en allerisikoafdelings.

Awery

Wees versigtig vir hierdie slaggat!

Dit is noodsaaklik dat u ten volle verseker is. As u onderverseker is, kan die uitbetaling van u eis proporsioneel verminder word.

Die voorbeeld hier aangegee, verduidelik die toepassing:

As u huishoudelike inhoud verseker is vir			R15 000	
en die werklike vervangingswaarde (nuut vir oud)			R20 000	
is u onderverseker tot die bedrag van			R 5 000	(of 25%)
dus:				
As u eis vir			R 2 000	
ontvang u net	$\frac{15\,000}{20\,000} \times \frac{2\,000}{1}$	=	R 1 500	(of 75% van die eis).

Indien u ten volle verseker was, sou u die bedrag van u eis ontvang het.

Kennisgewing van Eis

In geval van 'n verlies behoort u die versekeraar so gou moontlik na die gebeurtenis daarvan in kennis te stel, aangesien laat kennisgewing tot gevolg kan hê dat u eis van die hand gewys word. Indien die verlies voortspruit uit 'n kriminele daad, moet u ook die polisie dadelik daarvan in kennis stel.

Voltooiing van die aansoek

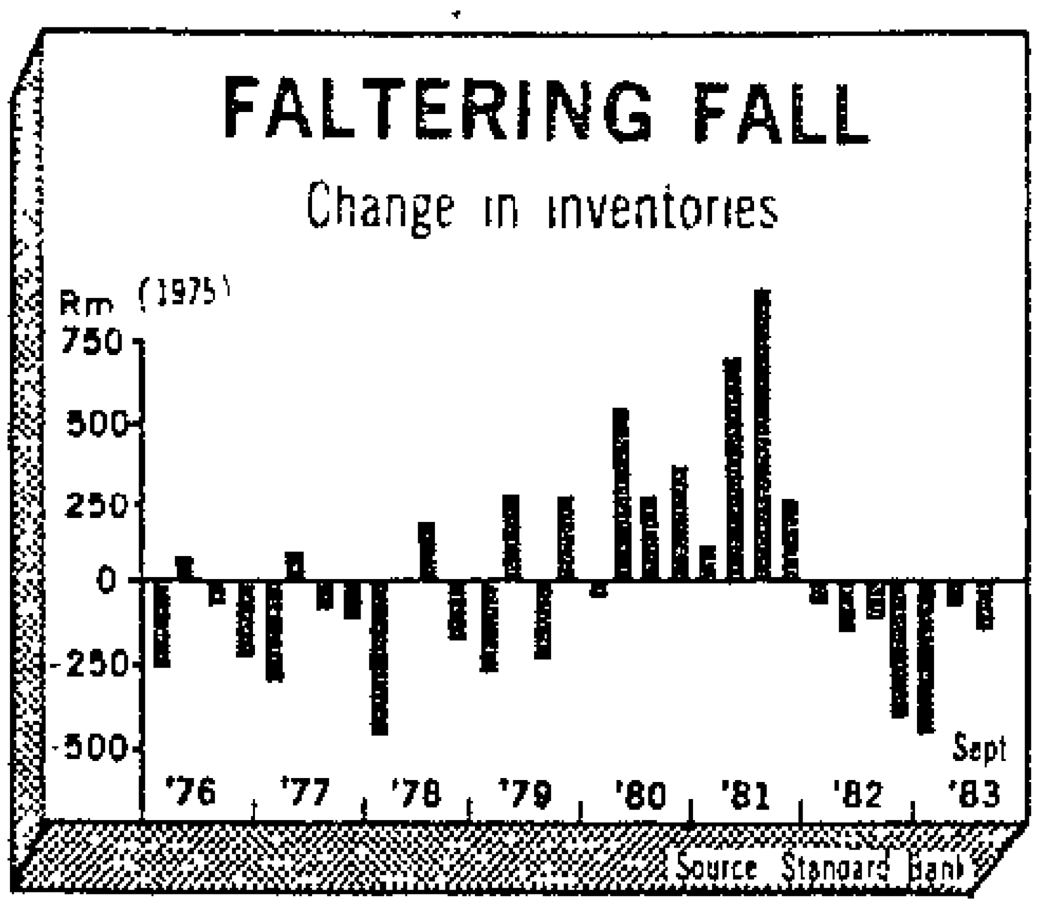
Aangesien alle versekeringskontrakte op goeie trou gebaseer word, is dit noodsaaklik dat die inligting wat aan die versekeraar verstrek word, korrek is. Onthou ook dat die aansoek die basis van die kontrak tussen u en u versekeraars vorm. Noem duidelik die versekerde bedrae en u vereistes op die aansoekvorm om teleurstelling ten tye van 'n eis te voorkom.

Onluste Dekking

Feitlik alle huishoudelike polisse uitgereik deur Suid-Afrikaanse versekeraars sluit nie oorlog en politieke onluste dekking in nie. Laasgenoemde dekking kan deur middel van u makelaar/agent gereël word deur die Suid-Afrikaanse Versekeringsvereniging vir Spesiale Risiko's.

Slotsom

'n Versekeringspolis is 'n kontrak van skadeloosstelling wat ten doel het om u in dieselfde posisie te plaas na 'n gebeurtenis as waarin u verkeer het onmiddellik voor die verlies.



plenishment of stocks rather than a real growth.

Spokesmen for the motor industry say that inventories are stable at the moment. "We expect trading to be slow for the first six months. So inventories have been kept low, particularly after the overstocking experienced by some firms last year."

Frank Shostak of Econometrix is one of the few forecasters predicting a positive growth in inventories this year. "The improved economic climate in Europe and renewed growth from SA agriculture will lead to a rise in exports and set the pace for the overall economy. The rate of decline in inventories will soften initially. Thereafter a positive increase will occur. Increased agricultural production can only serve to stimulate the manufacturing sector, which in turn will lead to a general rise in inventories."

LIFE INSURANCE (58)

Medical mystery

FM 20/1/84

The medical profession is still refusing to divulge details of insurance health reports to clients. "Professional etiquette" and "confidentiality" are among the reasons offered.

Insurance companies call for medical reports on applicants for life assurance where they require additional evidence to assess the likelihood of a claim. The company invariably nominates the doctor and, of course, pays his fee. Nonetheless, the insured eventually ends up paying for the medical through a deduction from premium of various administrative expenses.

Several leading commentators in the industry believe that a client should be given full details of the results of his medical, if for no other reason than courtesy. David Strauss, MD of Priceforbes Federale Employee Benefits, says. "I feel the insured has every right of access to his medical report." A spokesman for the Consumer Council agrees. "After all, the medical concerns you. What if insurance is refused? Shouldn't the client be told why?"

Dick Geary-Cooke, executive director of the Life Offices' Association (LOA), doubts if the Medical Association (MA) would be prepared to change its current non-disclosure policy, formed in an agreement with the LOA.

In the agreement, instigated by the MA, the LOA acknowledges its responsibility for maintaining the confidentiality of medical and other information. Administrative staff responsible for the information sign an oath of secrecy. Complete confidentiality is maintained by ensuring that the medical report and the insured's signed form of consent is sent directly to the chief medical officer of the insurance company concerned.

If "impairment" is reported, the client is informed by the company only to the extent of having his application for life insurance refused, or his premium rated above the normal. In both cases, unbeknown to the client, the impairment is recorded in code form on the Life Registry. Administered by the LOA, the main purpose of this registry is to prevent people who fail a medical obtaining insurance elsewhere at normal rates by concealing the details of impairment.

An impairment is insurers' jargon for a medical condition which makes the insured an adverse health risk from an actuarial point of view. For example, a heart complaint, serious form of epilepsy or brain tumour would be classified as an impairment. Certain medical problems might only be classed an impairment in the context of the insured's employment, while a more serious complaint may not be classed as such where its significance has been subdued by new medicines or a change in occupation for instance.

The LOA concedes that it might be a good idea to change rules slightly so that the client is advised of his registration. For instance, this happens in the case of brokers when they are given an "S" rating for misconduct. They then have the right to challenge the ruling, and it is not impossible for mistakes to be discovered.

The medical profession argues that is not the responsibility of the medical practitioner carrying out the medical to inform the insured of an impairment. Rather, his own general practitioner (GP) should be the informant. The MA adds that the relationship between the doctor and his patient is a personal one where subjectivity plays an important role. For instance, the GP may have made a decision not to advise his patient of the precise implications of an illness for psychological reasons.

Life expectancy

On the other hand, the argument goes, the appraisal of a prospective insured should be more scientific with the emphasis, not on keeping the subject in a balanced state of mind, but on assessing his life expectancy as accurately as possible. Such statements as "I don't give you more than two years" would not be appreciated by the patient, nor by his own doctor, anxious to maintain a level of good will.

But this approach also veils an in-built professional protectionism. Under the loose heading "professional ethics," the practice avoids a difference of opinion becoming known to the client. It is also intended to prevent another doctor from tendering for business. The insurers, for their part, like to keep things "confidential" and "privileged" so that their judgment is not questioned.

Although it appears that partial details in the case of adverse reports might eventually reach the GP, the insured remains in the dark. Shouldn't he have the option of receiving a copy of the medical after consultation with his own doctor? "Professional ethics" should not be used as a reason for the cloak of secrecy to exclude the insured from information that concerns him.

IGI

A place in life

(58) FM 20/1/84

IGI has been a success story for some time now. The *FM* examines the reasons for this, and the prospects.

IGI is known and respected as a major insurer — and there are good reasons for this. Sound business strategy has enabled it to perform in line with the big JSE-listed insurance groups, and the company's track record, especially in the past five years, speaks for itself. This is all the more impressive when it is remembered that IGI's growth record has been notched up without the benefit of major acquisitions.

However, sound business practices are not the only reasons for IGI's success. Employee loyalty throughout the whole organisation seems to be another. Chairman Laz Nathan and MD Mike Lewis have both seen long service. Nathan began his career with what was then known as William Hosken Company — at 16 — and has been connected with IGI for 47 years. In 1963, with William Hosken, he became a joint MD of IGI. Lewis joined in the same year, and under his helm helped nudge IGI ahead.

At that time IGI's primary business was hire purchase insurance. Gross premiums from this source amounted to R357 000 — and though the company wrote insurance for fire, personal accident, motor and miscellaneous items, gross premiums from these added up to a paltry R11 000. But with a new management team in place, IGI set out to become an industry leader. By any measure it has achieved this goal. Earnings have increased from 7,5c in 1979 to 81,5c last year, and dividends have doubled from 7c to 14c over the same period. Gross premiums written during financial 1983 for fire, accident and various other types of coverage (excluding life and funeral coverage) totalled R141m.

IGI's progress over the past five years has been paralleled by significant changes in the insurance industry. Lewis points to the break-up of the "tariff" system — which basically set fixed premium rates. SA was considered a most profitable market for insurance business before this — virtually any type of domestic business being accepted by overseas insurers.

IGI's Lewis ... 'training is everything'

Once the tariff broke, intense competition developed for insurance and reinsurance business and SA's status among overseas insurers slipped badly. As a result, Lewis says, most premium rates are today lower than they should be.

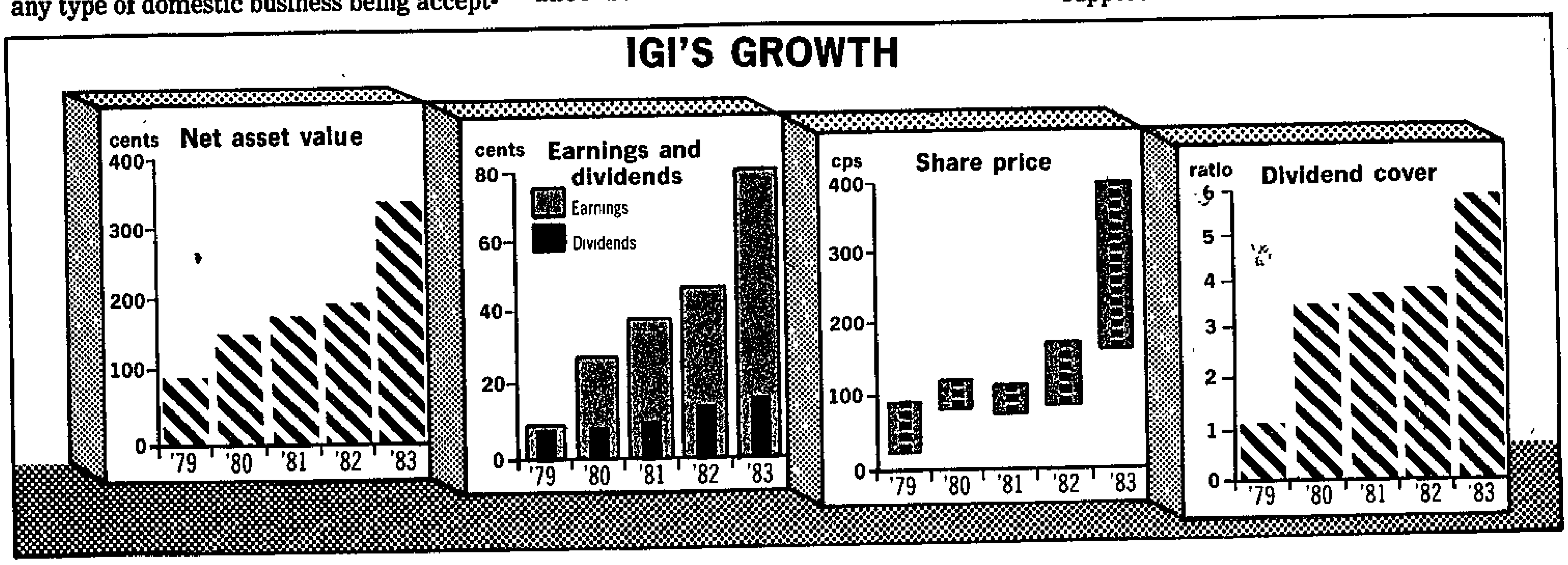
While IGI continues to be competitive, it does not want to become involved in price wars. This has led to renewed emphasis on sound business strategy. The company appears to have developed a solid and well thought out strategy for the future.

The majority of IGI's business comes from the country areas because of management's feeling that competition in the major urban centres is too severe. Past experience has shown that country areas produce a lower frequency of claims than the cities. And, true to its clear-headed conservative approach, the company will not open a new office until management is sufficiently confident that the venture will be successful. A primary indicator IGI uses is the amount of premium income generated by each area.

"Training is everything at IGI," is how Lewis explains the recruits' success in handling the countryside. But it can be noted that only about 5% of IGI's business comes from direct contact with clients: the other 95% originates with intermediaries — usually a finance house or broker.

Normally a company of this size could be expected to be well-stocked with actuaries. While this may be true for the life side of the business, IGI does not employ actuaries in its fire and accident division. Instead, it uses detailed statistics of claims experience for the country as a whole to help set rates for fire and accident insurance. And Lewis thinks that the rate war that has developed is partially a function of most companies monitoring the moves made by competitors, rather than paying attention to the actual statistics.

Recent hailstorms and severe weather dramatically affected underwriting profitability for the industry in last year's second half. IGI was no exception. This seems to support Lewis's contention that premiums



(58) FM 20/1/83

for this type of coverage are far too low

Accident insurance, which includes coverage for cash in transit, burglary and injury, is also unprofitable. The relatively high level of unemployment is encouraging more burglaries — which is obviously harming profitability — and the industry must reappraise these results to arrive at a more reasonable level of premium rates.

IGI also writes insurance for motor vehicles and marine coverage. While experience with the motor segment is basically satisfactory, marine coverage is experiencing difficulty at the moment because of the pressure on cargo rates, which has developed from the shaky condition of the international shipping industry.

With the weather playing a big part in short-term underwriting profitability, it is difficult to develop long-range goals. However, the same cannot be said about long-term insurance, such as life coverage, for which a reliable statistical history is easily obtainable. And by determining future investment income expectations, along with keeping costs under control, the insurer can prepare a three- to four-year game plan

Using such a plan, Lewis is confident that IGI's long-term arm, IGI Life, will double its profits this year and show continued growth for 1985. He confirms that plans are in place for the JSE listing of IGI Life as soon as the Registrar gives approval IGI's intention is to use Trenel Investments as a vehicle for the listing.

BCS Computer, the company's data processing division, is expanding its operations overseas by introducing its software packages to London Though BCS could enter other markets with its products, a conservative stance is being taken to "button up" the London market prior to moving into other locations

This conservative approach can be readily seen in the dividend cover ratio, which has increased steadily over the past five years Lewis points out that when he started in the business there were 60 insurance companies — compared with today's total of 25 IGI s opinion is that with more business concentrated in the hands of fewer people, the company must have the necessary capital to expand if it expects to compete successfully with the giants. Because IGI has no international parent to provide the requisite financing, the company needs funds generated by the business itself This explains why dividends have not kept pace with earnings growth; though it is IGI's intention to keep the payout in line with inflation

Despite poor short-term underwriting results, currently being experienced throughout the industry, Lewis is confident that there will be a modest overall underwriting profit for the group And with investment income expected to advance strongly, IGI should post decent profit figures for this year.

Stephen Richter

REINSURANCE (58)

The last straw?

FM 20/1/84

Following the big fire in Cape Town recently at an SA Druggists warehouse, short-term insurers should by now be too embarrassed to argue against reinsurers' demands for stiffer treaty terms. As one broker remarked: "It's just about flattened the market. Lucky for them that most treaty renewals for the current season have already been agreed."

The fire — on December 20 — created a provisional claim of R23m, of which over R16m is to be funded by various reinsurance treaties. This followed huge claims for hailstorm damage in November.

Until the ninth month of 1983, reinsurers were expecting a good year. They certainly needed one. But the final quarter of 1983 proved such a severe blow, with several sources suggesting losses of over R100m, that reinsurers have fully forgotten their earlier optimism.

Their head offices have been nagging for several months for stiffer renewal terms in 1984 on both facultative reinsurance (*FM* October 7) and treaty reinsurance (*FM* November 11). In some cases, reinsurers' capacities — the amount of business they will accept — have been drastically reduced. And industrialists are preparing to face even tighter restrictions over the next year or so (*FM* December 30).

About the SA Druggists fire, probably the biggest last year, Mutual & Federal MD John Posnett, says: "We're in for a substantial amount, most of which is going to reinsurers."

While it is believed that Sanlam has insured the building for about R4m, some R19m of the loss is covered by an assets all-risks policy underwritten by Mutual & Federal as leader, with AA Mutual accepting 15% of the risk. M & F, on the basis of nominated facultative reinsurance, has spread its own risk further across several leading SA short-term insurers. They, in turn, have farmed out portions to local reinsurers.

Warehouse destroyed

Sid Hurwitz, GM of SA Druggists' wholesale division, says the fire destroyed the entire warehouse and contents, including the company's national computer centre. He adds, however, that normal security procedures kept the files intact and only one day's information was lost. This has already been recouped by means of a re-run of business transacted. The premises belonged to Heynes Mathew Limited, a wholly owned subsidiary of SA Druggists.

The assets all-risks policy covers fire, fire-related perils (including loss of profits), incremental expenses (under which the costs of the computer re-run would be funded), accident and perils related to accident and crime, plus a multitude of undisclosed related risks.

It is the sort of insurance package the reinsurers do not favour because most of it is accepted on a treaty basis. This is where the insurance terms and rates are generally agreed for a given block of annual business, and means the reinsurer probably has little idea of what "nasties" the insurer is passing on.

M & F's Posnett ... passing on the losses

Coughing up

The assets all-risks policy cost SA Druggists about R700 000 in premium last year and provides a maximum R50m indemnity after various minor excesses. In the case of the Heynes Mathew fire, the company will have to cough up about R100 000 in excess.

Nonetheless, one reinsurer points out bitterly that this sort of cover — industrial fire business — attracts barely 25% of the premium it should. Though not suggesting this applies in the case of SA Druggists, he adds that it has been a growing practice for insurers keen to compete for the big risks to charge a premium based on an individual company's claims experience. He feels this is not strictly correct underwriting practice because the principles of insurance should be for the majority to share in the misfortunes of the few.

Premium, therefore, should be rated in terms of the performance of a class of risk, not on individual claims experiences. All foundries, for example, should carry a similar basic rating, adjusted for location. Good claims experience from all foundries — excluding those with specific cases of mismanaged risk control, for example — should mean a drop in premium rating for them collectively.

As it is, many insurers faced commission cuts of as much as 10% from their reinsurers during the latest renewal season. It was well timed. If this encourages them to place industrial fire risks on a sounder footing through the rating of risks on a class basis, then reinsurers will not be so pessimistic.

58

Development Bank
of Southern Africa

Articles of Agreement

AGREEMENT ESTABLISHING THE DEVELOPMENT BANK OF SOUTHERN AFRICA

Contents

I	Purposes and functions	2
II	Membership and associate membership	3
III	Capital and other resources	3
IV	Operations and participation in operations	5
V	Organisation and management	8
VI	Withdrawal and suspension of members, suspension and termination of operations	12
VII	Status, immunities, exemptions and privileges	15
VIII	Amendments	18
IX	Interpretation and arbitration	18
X	Approval deemed given	19
XI	Final provisions	19

Schedule A Initial subscriptions 21
Schedule B Voting rights . . . . .

The first Council of Governors and Board of Directors 22

The Contracting Parties hereby agree as follows:

Introductory article

The Development Bank of Southern Africa (hereinafter called the "Bank") is established and shall be governed by the following provisions:

Chapter I Purposes and functions

Article 1

a The purposes and functions of the Bank are:

- **i** to promote economic development in its broadest sense, increase productivity and thus raise the standard of life of the people in the less developed areas of the Southern African economic region included within the Bank's membership (hereinafter called the "region");
- **ii** to reduce imbalances in the levels of economic development between the economically less developed and the more developed areas of the region;
- **iii** to promote the investment of public and private capital for developmental purposes and to utilise capital funds raised by it in financial markets and other resources available to it, for financing development in the region, giving priority to those loans and guarantees that will contribute most effectively to economic development;
- **iv** to provide finance to meet the important developmental requirements of participating governments i.e. governments included under Articles 2 and 8 on terms which are generally more flexible and bear less heavily on their available resources than those of conventional loans, thereby furthering the developmental objectives as set out;
- **v** to provide technical assistance and training in the identification, preparation, evaluation, financing, implementation and management of development actions, including the study of priorities and the formulation of specific project proposals, when so requested, on terms and conditions to be decided by the Bank.

b In carrying out its functions the Bank shall, where appropriate, strive to co-operate with other public or private entities involved in the development of the region and with the national development agencies and institutions, as well as with private sources supplying capital and other resources.

Chapter II Membership and associate membership

Article 2 Membership

a The original members of the Bank shall be the Republic of South Africa, the Republic of Transkei, the Republic of Bophuthatswana, the Republic of Venda and the Republic of Ciskei upon signature of this Agreement prior to its entry into force

b Membership shall be open to other independent states in Southern Africa, in accordance with such terms as may be prescribed by the Bank.

Article 3 Associate membership

Associate membership shall be open for other countries, without giving an associate member direct participation in the management or operations of the Bank and in accordance with such terms as may be prescribed by the Bank.

Chapter III Capital and other resources

Article 4 Authorised capital and subscription of shares

a The authorised ordinary capital stock of the Bank shall be the amount of two thousand million Rand (R2 000 000 000) and shall be divided into two hundred thousand (200 000) shares having a par value of ten thousand Rand (R10 000) each.

b Upon accepting membership each original member shall subscribe shares in the amount assigned to it (such subscriptions hereinafter called "initial subscription").

c The initial subscription assigned to each original member shall be in the amount set forth opposite its name in Schedule A expressed in terms of South African Rand.

d Subject to the provisions of paragraph (g) of this Article the capital stock may be increased when the Bank deems it advisable by a three-fourths majority of the total voting power.

e Any shares issued shall be issued at par unless the Bank, by a majority of the total voting power, decides in special circumstances to issue them on other terms.

f The initial paid-up capital subscription of each original member shall be payable in South African Rand as follows:

i ten (10) percent within thirty (30) days after the date on which the Bank shall begin operations;

ii the remaining ninety (90) percent of the initial paid-up capital subscription shall be payable in five (5) equal annual instalments as follows: the first such instalment within one (1) year after the date on which the Bank becomes operational and succeeding instalments each year thereafter at annual intervals until the ninety (90) percent portion of the initial subscription shall have been paid in full;

iii any member may, if it so wishes, pay the full initial paid-up capital or part thereof at a faster rate than specified in paragraph f(ii).

g The number of shares to be subscribed to by members other than the original members of the Bank shall be determined by the Bank, and the capital stock shall be increased to allow such subscription.

h The Bank shall prescribe rules laying down the conditions under which members may subscribe to shares of the authorised capital stock of the Bank in addition to their original subscriptions.

i If the authorised capital stock of the Bank is increased, for reasons other than admitting a new member, each member shall, unless the Council of Governors decides otherwise, have a reasonable opportunity to subscribe, under such conditions as the Bank shall decide, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe to any part of the increased capital.

Article 5 Restriction on disposal of shares

Shares of the Bank shall not be pledged or encumbered in any manner whatsoever and they shall be transferable only to the Bank.

Article 6 Limitation on liability

Subject to the provisions of Article 30 (c) (iv) the liability of a member country shall be limited to the unpaid portion of the issue price of its shares.

Article 7 Additions to financial resources

a i The Bank will receive from the Republic of South Africa, on an annual basis, an appropriation of funds.

ii The Bank may receive from other members, on an annual basis, similar appropriations.

iii Funds appropriated to the Bank in terms of subparagraphs (i) and (ii) above will be administered by the Bank in separate accounts, as Development Funds, from which withdrawals may be made by the Bank for its operations in accordance with regulations laid down by the Council of Governors of the Bank.

b The Bank is authorised to receive grants from any public or private source and will administer such funds in accordance with regulations agreed to between the Bank and the grantor, provided that the Council of Governors may decide not to accept grants if the conditions attached to such grants do not meet with its approval.

Chapter IV Operations and participation in operations

Article 8 Participation of self-governing national states of the Republic of South Africa and of South West Africa/Namibia

a The self-governing national states of the Republic of South Africa may participate in the operations of the Bank, as constituents of the membership of the Republic of South Africa. The Republic of South Africa shall inform the Bank of the self-governing national states which shall so participate.

b South West Africa/Namibia may, upon application, participate in the activities and operations of the Bank, in accordance with such terms as may be prescribed by the Bank.

Article 9 Use of resources and conditions of financing

a The resources and facilities of the Bank shall be used exclusively to implement the functions enumerated in Article 1 of this Agreement.

b Financing provided by the Bank shall be for purposes which in the opinion of the Bank are of high developmental priority in the light of the needs of the area or areas concerned and, except in special circumstances, shall be for specific projects. For purposes of this Agreement projects also include programmes.

c The Bank shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient, taking into account the nature of the project.

d The Bank shall not provide financing for any project if the participating government in whose territory such a project is located, objects thereto. For purposes of this paragraph the participating government shall, in the case of a project being located in the territory of a self-governing national state of the Republic of South Africa, be the government of such national state.

e The Bank shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and the stimulation of domestic production and without regard to political or other non-economic influences or considerations.

f Funds to be provided under any financing operation shall be made available to the recipient to meet payments in connection with the project only as they arise in the execution of the project

Article 10 Dealings between participating governments and the Bank

Each participating government shall deal with the Bank through its Treasury or other designated financial agency and the Bank shall deal with governments only by or through the same agencies.

Article 11 Conditions for loans and guarantees

a The Bank may guarantee, participate in, take over existing loans from, or make loans to any participating government or any recognised authority in its territory and any industrial, mining and agricultural or other development agency in the territory of a participating government, provided that:

i when the participating government in whose territory the project is located is not itself the borrower, the participating government itself or the central bank or some comparable agency of the participating government which is acceptable to the Bank, fully guarantees the repayment of the principal sum and the payment of interest and other charges on the loan. For purposes of this paragraph the participating government shall, in the case of a project being located in the territory of a self-governing national state of the Republic of South Africa, be the government of such national state;

ii the Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain such a loan or assistance under conditions which in the opinion of the Bank are reasonable for the borrower, taking into account the nature of the project;

iii a written report recommending the project after a careful study of the merits of the proposal has been considered by the Bank;

iv in the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of the principal sum are appropriate to the project;

v in making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and/or guarantor, will be in a position to meet its obligations under the loan, and the Bank shall act prudently in the interests both of the particular participating government in whose territory the project is located and of the members as a whole;

vi in guaranteeing a loan made by other investors, the Bank receives reasonable compensation for its risk;

vii loans made or guaranteed by the Bank shall be principally for financing specific projects, including those forming part of a national or regional development programme. However, the Bank may make or guarantee loans to development institutions or similar agencies operating in the territory of participating governments in order that the latter may facilitate the financing of specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant separate specific loans;

viii — in considering the take-over of a loan or guarantee already negotiated by a participating government from a source other than the Bank, the Bank shall pay due regard to the conditions set out in this Article

Article 12 — Form and terms of financing

a — Direct loan contracts made by the Bank in conformity with Article 11 shall establish all the terms and conditions upon which the loan will be granted

b — The Bank may provide financing in such forms and on such terms as it may deem appropriate, having regard to the economic position and prospects of the area or areas concerned and to the nature and requirements of the projects.

Article 13 — Modification of terms of financing

The Bank may, when and to the extent it deems appropriate in the light of all relevant circumstances, including the financial and economic situation and prospects of the participating government concerned, and on such conditions as it may determine, agree to a relaxation or other modification of the terms on which any of its financing shall have been provided.

Article 14 — Co-operation with other organisations and countries providing development assistance

The Bank may co-operate with those organisations and states which provide financial and technical assistance to the less developed areas of Southern Africa.

Article 15 — Guarantees

a — In guaranteeing a loan the Bank may charge a guarantee fee, at a rate determined by the Bank, payable on the amount of the loan outstanding.

b — Guarantee contracts concluded by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

c — In issuing guarantees, the Bank shall have power to determine any other terms and conditions.

Article 16 — Limitations on operations

The total amount outstanding of loans placed by the Bank in the capital markets shall not be increased at any time, if by such increase the total would exceed one hundred (100) percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

Article 17 Miscellaneous operations

a In addition to the operations specified elsewhere in this Agreement, the Bank may:

i borrow funds in any capital market;

i guarantee securities it has issued or in which it has invested;

iii buy and sell securities it has issued or guaranteed or in which it has invested;

iv in special cases, guarantee loans from other sources for purposes consistent with the provisions of this Agreement;

v provide technical assistance and advisory or management services at the request of a participating government;

vi establish specialised affiliates and confer the necessary powers on such affiliates to enable them to assist the Bank in its operations;

vii act as a trustee for any participating government;

viii exercise such other powers incidental to its operations as shall be necessary or desirable in furtherance of its purposes and functions.

b In exercising the powers conferred by this Agreement, the Bank may deal with any person, partnership, association, company, corporation or other legal entity wherever situated.

Article 18 Notice to be placed on securities

Every security issued or guaranteed by the Bank shall bear on its face a statement to the effect that it is not an obligation of any participating government unless expressly stated.

Article 19 Political activity prohibited

The Bank and its officers shall not interfere in the political affairs of any participating government, nor shall they be influenced in their decisions by the political character of the participating government concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article 1.

Chapter V Organisation and management

Article 20 Structure

The Bank shall have a Council of Governors, a Board of Directors, a Chief Executive and such other officers and staff as the Bank may consider necessary.

Article 21 Council of Governors

a Each member may appoint one or more Governors to the Council of Governors (hereinafter called the "Council") to represent its interests. The number of Governors that may be appointed by each member shall be determined by the voting power of the member concerned, as specified in paragraph (j) of this Article, in such a way that for every unit of four hundred (400) votes of its total voting power, a member may appoint one Governor.

b Each Governor of the Bank shall serve for five (5) years and shall have one alternate who shall also serve for five (5) years, both subject to termination of appointment at any time, or to reappointment, at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. Any Governor or alternate shall cease to hold office if the member by which he was appointed shall cease to be a member of the Bank.

c The Council shall elect one of the Governors as President* of the Council, who shall hold office until the next regular annual meeting of the Council.

d The Council shall exercise overall authority and may delegate to the Board of Directors all its powers, except the power to:

i admit new members and associate members and determine the conditions of their admission;

ii suspend a member;

iii authorise additional subscriptions and determine the terms and conditions relating thereto;

iv decide appeals arising from decisions regarding the interpretation of this Agreement made by the Board of Directors;

v determine the salary and other terms of the contract of service of the Chief Executive of the Bank;

vi elect Directors and their alternates under Article 22, paragraph (b) (ii) and paragraph (c) and determine the remuneration of the Directors and their alternates;

vii decide to terminate the operations of the Bank and to distribute its assets;

viii approve proposals for amendment of this Agreement;

ix approve the annual report of the Bank.

e The Council shall meet at least once a year. Additional meetings may be held when the Council so decides or when requested by the Chief Executive. Meetings of the Council shall also be called whenever requested by three or more Governors or by Governors having one-third of the total voting power.

f A quorum for any meeting of the Council shall be a majority of the Governors, exercising not less than three-fourths of the total voting power.

g The Council may by regulation establish a procedure whereby the Board of Directors, when it deems such action to be in the best interest of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Council.

*"Chairman" was replaced by "President" by the Council of Governors after date of signature

h The Council, and the Board of Directors, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.

i Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall reimburse them for reasonable expenses incurred in attending meetings.

j Each member shall, in respect of its subscription, have three hundred (300) basic votes plus one additional vote for each five hundred thousand Rand (R500 000) of its initial subscription, provided that no member shall acquire more than two-thirds of the total voting power and provided that as long as any member contributes more than fifty (50) percent of the share capital, such member's voting rights will not drop below fifty-one (51) percent of the total voting rights. Subscriptions other than initial subscriptions shall carry such voting rights as the Council shall determine in each case. Unless the member concerned should decide otherwise and notify the Bank in advance of any vote, of how its votes shall be cast, all the votes it shall be entitled to cast in accordance with this paragraph, shall be cast as a unit.

k Decisions by the Council shall, as far as possible, be taken on the basis of consensus. If consensus can not be reached and except as otherwise specifically provided, all matters before the Council shall be decided by a majority of the votes cast.

Article 22 Board of Directors

a The Board of Directors (hereinafter called the "Board") shall under the direction of the Chief Executive of the Bank, be responsible for the general conduct of the operations of the Bank, and for this purpose, shall exercise all powers delegated to it by the Council, except the powers specifically reserved for the Council in Article 21 (d).

b In addition to the Chief Executive of the Bank, there shall be twice as many Directors as there are members, of whom:

i half shall be appointed, one by each of the members;

ii the other half shall be elected by the Council on the basis of voting power.

After admission of the eighth member of the Bank, the provisions regarding the appointment and election of Directors, as provided for in this paragraph, shall be reconsidered.

c Each Director shall have an alternate Director appointed or elected on the same basis as the Directors are appointed or elected and such an alternate shall have full power to act for the Director for whom he is an alternate if the latter is not available. When the Director for whom he is an alternate is present, he may attend meetings but shall not vote.

d The Directors and their alternates shall be appointed or elected as the case may be. The first appointment or election shall be for a term of two (2) years and subsequent appointments or elections for a term of four (4) years. The Directors and their alternates shall be persons recognised for their ability, experience and knowledge of economic and financial matters, and shall not be Governors or alternate Governors.

e Directors and their alternates shall continue in office until their successors are appointed or elected. If the office of a Director or alternate Director becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be appointed or elected for the remainder of the term in accordance with the same procedure followed for the appointment or election of the Director or his alternate vacating the office. While the office remains vacant, the alternate shall have all the powers of the former Director.

f Directors and their alternates shall be reimbursed by the Bank for reasonable expenses incurred in attending meetings.

g The Board shall meet as often as the business of the Bank may require.

h A quorum for any meeting of the Board shall be a majority of the Directors.

i Decisions by the Board shall, as far as possible, be taken on the basis of consensus. If consensus can not be reached, matters before the Board shall be decided by a majority of Directors and the Chief Executive shall have a casting vote

j The Board may appoint such committees as it deems advisable. Membership of such committees need not be limited to Governors or Directors or their alternates

Article 23 Chief Executive and staff

a The Council shall appoint the Chief Executive of the Bank who shall be a person with the competence required for the office. He shall not be a Governor or alternate, shall be chairman of the Board and shall have a casting vote. He may participate in meetings of the Council, but shall not vote at such meetings. The Chief Executive shall cease to hold office when the Council so decide

b The Chief Executive shall be the executive officer and legal representative of the Bank and shall conduct the current business of the Bank. Subject to the general control of the Board, he shall further be responsible for the organisation, appointment and dismissal of the officers and staff

c The Chief Executive, officers and staff of the Bank, in the discharge of their official responsibilities, owe their duty entirely to the Bank and to no other authority. Each participating government of the Bank shall respect the character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

d The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall also be had to the importance of recruiting the staff on as wide a basis as possible, taking into account the regional character of the Bank.

Article 24 Location of offices

a The principal office of the Bank shall be located in the Republic of South Africa.

b The Bank may establish branch or regional offices as it deems fit and may determine the geographic area of jurisdiction of such offices.

Article 25 Reports

a The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to the participating governments at appropriate intervals a statement of its financial position and of the results of its operations.

b The Bank may publish such other reports as it deems desirable in the carrying out of its functions.

c Copies of all reports, statements and publications issued under this Article shall be distributed to the participating governments.

Article 26 Working language

The working language of the Bank shall be English.

Article 27 Allocation of net income

The Council shall determine from time to time the disposition of the Bank's net income, due regard being had to provision for reserves and contingencies.

Chapter VI Withdrawal and suspension of members, suspension and termination of operations

Article 28 Withdrawal by members

a Any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date specified in such notice.

b After withdrawing, a former member shall retain liability for all the direct and contingent obligations to the Bank to which it was subject at the date of withdrawal, including those specified in Article 30. However, the former member shall not incur any liability for obligations resulting from operations of the Bank undertaken after the date of withdrawal.

Article 29 Suspension of membership

a If a member fails to fulfil any of its obligations to the Bank, the Council may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one (1) year from the date of its suspension unless the Council decides by a majority of Governors exercising a majority of the total voting power, to restore the member to good standing.

b While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 30 Settlement of accounts

a A former member shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any of the loans or guarantees contracted before it ceased to be a member is outstanding, but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share either in the income or the expenses of the Bank.

b At the time a member ceases to be a member (hereinafter called the "termination date"), the Bank shall arrange for the repurchase of its shares as a part of the settlement of accounts with such former member in accordance with the provisions of paragraphs (c) and (d) of this Article. For this purpose the repurchase price of the shares shall be the nominal paid-up value, plus or minus any premium or discount applied, shown by the books of the Bank on the termination date.

c The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:

i any amount due to the former member concerned for its shares shall be withheld so long as that former member, its central bank or any of its political subdivisions or agencies remain liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied to any such liability as it matures. No amount shall be withheld on account of the liability of the former member resulting from its subscription for shares under Chapter III. In any event, no amount due to a former member for its shares shall be paid until six (6) months after the termination date;

ii payments for shares may be made from time to time, upon their surrender by the former member concerned, to the extent to which the amount due as the repurchase price in accordance with paragraph (b) of this Article exceeds the aggregate amount of liabilities on loans and guarantees referred to in subparagraph (i) of this paragraph until the former member has received the full repurchase price;

iii payments shall be made in the currency of the former member receiving payment at the current rate of exchange against the South African Rand;

iv if losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the termination date and the amount of such losses on that date exceeds the amount of the reserve provided against losses on that date, the former member concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined. In addition, the former member concerned shall remain liable for any call on unpaid subscriptions under Chapter III, to the extent that it would have been required to respond if the impairment of capital had occured and the call had been made at the time the repurchase price of its shares was determined.

d If the Bank terminates its operations pursuant to Article 31 within six (6) months of the termination date, all rights of the former member concerned shall be determined by the provisions of Article 31.

Article 31 Temporary suspension and termination of operations, settlement of obligations and distribution of assets

a In an emergency, the Board may temporarily suspend operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Council.

b The Bank may terminate its operations in respect of new loans and guarantees by a decision of a majority of the Governors, exercising a majority of the total voting power. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realisation, conservation and preservation of its assets and settlement of its obligations.

c The liability of all members for uncalled subscriptions to the capital stock of the Bank shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

d All creditors holding direct claims shall first be paid out of the assets of the Bank, and then out of payments to the Bank on calls on unpaid subscriptions. Before making any payments to creditors holding direct claims, the Board shall make such arrangements as are necessary, in its judgement, to ensure a distribution to holders of contingent claims ratably with creditors holding direct claims.

e No distribution of the assets of the Bank shall be made to members on account of their subscriptions to the capital stock of the Bank until:

i all liabilities to creditors have been discharged or provided for;

ii a majority of the Governors, exercising a majority of the total voting power have decided to make a distribution.

f After a decision to make a distribution of the assets of the Bank has been taken under paragraph (e) of this Article, the Board may by a three-fourths majority vote make successive distributions of the assets of the Bank to members until all assets have been distributed. This distribution shall be subject to the prior settlement of all outstanding claims of the Bank against each member.

g Before any distribution of the assets of the Bank is made, the Board shall fix the proportionate share of each member according to the ratio of its shareholding to the total outstanding shares of the Bank.

h The Board shall value the assets to be distributed as at the date of distribution and then proceed in the following manner:

i there shall be paid to each member in its own obligations or those of its official agencies or legal entities within its territories, in so far as they are available for distribution, an amount equivalent in value to its proportionate share of the total amount to be distributed,

ii any balance due to a member after payment has been made under subparagraph (i) of this paragraph, shall be paid, in its own currency, in so far as it is held by the Bank, up to an amount equivalent in value to such balance;

iii any balance due to a member after payment has been made under subparagraphs (i) and (ii) of this paragraph shall be paid in currency acceptable to the member, in so far as it is held by the Bank, up to an amount equivalent in value to such balance;

iv any remaining assets held by the Bank after payments have been made to members under subparagraphs (i), (ii) and (iii) of this paragraph, shall be distributed pro rata to their shareholding, among the members;

v any member receiving assets distributed by the Bank in accordance with paragraph (h) of this Article, shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Article 32 Position of constituents of the membership of the Republic of South Africa

The provisions of this Chapter with regard to suspension from operations and settlement of accounts shall mutatis mutandis apply to the constituents of the membership of the Republic of South Africa.

Chapter VII Status, immunities, exemptions and privileges

Article 33 Purposes of chapter

To enable the Bank to fulfil the functions entrusted to it, it shall possess the status, immunities, exemptions and privileges set forth in this Chapter

Article 34 Legal status

a In the territory of each member the Bank shall possess juridical personality and, in particular, capacity:

i to contract;

ii to acquire and dispose, of immovable and movable property;

iii to institute legal proceedings.

b The Bank shall possess international juridical personality and to that end may enter into agreements with members, non-member states and other international organisations.

Article 35 Legal proceedings

Actions may be brought against the Bank only in a court of competent jurisdiction in the territory of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by participating governments or persons acting for or deriving claims from these governments. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgement against the Bank.

Article 36 Immunity of Assets

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Article 37 Immunity of archives

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable, wheresoever located.

Article 38 Freedom of assets from restrictions

To the extent necessary to carry out the functions of the Bank and subject to the provisions of this Agreement, all property and other assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 39 Privilege for communications

Official communications of the Bank shall be accorded by each participating government the same treatment that it accords the official communications of other participating governments.

Article 40 Immunities and privileges of Bank personnel

All Governors, Directors, alternates, officers and employees of, and experts performing missions for the Bank:

i shall be immune from legal process with respect to acts performed by them in their official capacity. Such immunity shall not, however, apply in the case of a motor vehicle offence commited by such person nor in the case of death, damage or personal injury caused by a motor vehicle belonging to or driven by such person;

ii where they are not local citizens or local subjects, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange regulations as are accorded by members to the representatives, officials and employees of comparable rank of other members.

Article 41 Exemption from taxation

a The Bank, its assets, property, income and its operations and transactions shall be exempt from, or the Bank shall be refunded, all taxation as the case may be. The Bank shall also be exempt from all customs, excise and stamp duties. The Bank shall further be exempt from liability for payment, withholding or collecting of any tax or duty.

b Goods which have been acquired or imported free from customs or excise duty shall, however, not be sold, hired out or otherwise disposed of unless authority has been obtained in advance and any necessary duties and taxes paid.

c Notwithstanding the provisions of paragraph (a) of this Article, the Bank will not claim exemption from taxes which are no more than charges for public utility services.

d No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Directors, alternates, officials or employees of the Bank, including experts performing missions for the Bank.

e No tax shall be levied on or in respect of any pension fund benefits paid by the Bank.

f No taxation of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest, by whomsoever held:

i which discriminates against such obligation or security solely because it is issued by the Bank; or

ii if the sole jurisdictional basis for such taxation is the place or the currency in which it is issued, made payable or paid, or is the location of any office or place of business maintained by the Bank.

g No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

i which discriminates against such obligations or security solely because it is guaranteed by the Bank; or

ii if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Article 42 Implementation

Each member shall take such action as is necessary in its territory for the purpose of making effective in terms of its law the principles set forth in this Chapter and shall promptly inform the Bank of the action which it has taken.

Article 43 Waiver of immunities, exemptions and privileges

The Council at its discretion may waive any of the immunities, exemptions and privileges conferred under this Chapter to such extent and upon such conditions as it may determine to be appropriate in the best interest of the Bank.

Chapter VIII Amendments

Article 44

a Proposals to introduce amendments to this Agreement whether emanating from a member, members of the Council or the Board, shall be communicated to the Chairman of the Council who shall bring the proposal before the Council. If a proposed amendment is approved by the Council the Bank shall by circular communication, ask the members whether they accept the proposed amendment. When at least three-fifths of the members, having at least four-fifths of the total voting power, have accepted the proposed amendment, the Bank shall so certify by formal communication addressed to the members.

b Notwithstanding paragraph (a) of this Article, acceptance by all the members is required in the case of any amendment relating to:

- **i** the right to withdraw from the Bank provided for in Article 28;
- **ii** the right secured by Article 4, paragraph (i);
- **iii** the limitation on liability provided in Article 6.

c Amendments shall enter into force for all members three (3) months after the date of the Bank's formal communication unless the Council specifies a different period.

Chapter IX Interpretation and arbitration

Article 45 Interpretation

a Any dispute with regard to the interpretation of the provisions of this Agreement arising between any participating government and the Bank or between any participating governments shall be submitted to the Board for decision. Participating governments specifically affected by the question under consideration shall be entitled to appear before the Board.

b In any case where the Board has given a decision under paragraph (a) of this Article, any participating government may require that the questions be submitted to the Council, whose decision shall be final. Pending the decision of the Council, the Bank may, so far as it deems it necessary, act on the basis of the decision of the Board.

Article 46 Arbitration

If a disagreement should arise between the Bank and a former member, or between the Bank and any participating government upon the termination of operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the government concerned, and the third, unless the parties otherwise agree, by a Chief Justice of one of the members not concerned with the dispute. The Council will nominate the particular Chief Justice who should be thus approached. The decision shall be made by a majority vote of the three arbitrators. The third arbitrator shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Chapter X Approval deemed given

Article 47

Whenever the approval of any participating government is required before any act may be carried out by the Bank, approval shall be deemed to have been given unless the participating government presents an objection within such reasonable period as the Bank may fix when notifying the participating government of the proposed act.

Chapter XI Final provisions

Article 48 Entry into force

a This Agreement shall enter into force when it has been signed on behalf of the original members whose subscriptions comprise not less than ninety (90) percent of the total subscription set forth in Schedule A.

b After this Agreement shall have entered into force, it shall be open for accession by any state referred to in Article 2(b), whose membership shall have been approved pursuant to Article 21(d)(i). For such states this Agreement shall enter into force on the deposit of their instrument of accession.

c Each member shall take all steps necessary to enable it to carry out all of its obligations under this Agreement as from the date it enters into force in respect of that member.

Depository

a An original of this Agreement shall be deposited in the archives of the South African Reserve Bank, hereby designated as the Depository.

b The Depository shall transmit certified copies to all original members who have signed this Agreement as well as to the constituents of the membership of the Republic of South Africa.

c Instruments of accession shall be deposited with the Depository who shall notify all members as well as the constituents of the membership of the Republic of South Africa of all deposits of such instruments.

Article 50 Commencement of operations

a As soon as this Agreement enters into force, each member shall appoint a Governor or Governors and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Council.

b The Bank shall begin operations on a date to be decided by the Council.

Thus done at Cape Town in the English language on the 30th day of June 1983.

FOR AND ON BEHALF OF
THE REPUBLIC OF SOUTH AFRICA

FOR AND ON BEHALF OF
THE REPUBLIC OF TRANSKEI

FOR AND ON BEHALF OF
THE REPUBLIC OF BOPHUTHATSWANA

FOR AND ON BEHALF OF
THE REPUBLIC OF VENDA

L L Sebe
FOR AND ON BEHALF OF
THE REPUBLIC OF CISKEI

Schedule A

Initial subscriptions (Rand millions)[1]

Member	Paid-in capital shares	Callable shares	Total initial subscription
Bophuthatswana	10	90	100
Ciskei	7	63	70
South Africa	168	1 512	1 680
Transkei	10	90	100
Venda	5	45	50
	200	1 800	2 000

[1]In terms of South African Rand

Schedule B

Voting rights

Country	Basic votes	Votes based on share-holding[1]	Total votes
Bophuthatswana	300	200	500
Ciskei	300	140	440
South Africa	300	3 360	3 660
Transkei	300	200	500
Venda	300	100	400
	1 500	4 000	5 500

[1]Each R500 000 contributed entitles members to one additional vote

The first Council of Governors and Board of Directors

Council of Governors

President of the Council	The Honourable O P F Horwood (RSA)
Governors	Dr the Honourable P G J Koornhof (RSA)
	The Honourable J C Heunis (RSA)
	The Honourable R F Botha (RSA)
	Dr the Honourable D J de Villiers (RSA)
	Dr G P C de Kock (RSA)
	The Honourable S M Qaba (Transkei)
	The Honourable S L L Rathebe (Bophuthatswana)
	The Honourable Gota F N Ravele (Venda)
	The Honourable Chief M E P Malefane (Ciskei)
Alternate Governors	The Honourable K G Nota (Transkei)
	The Honourable R Cronjé (Bophuthatswana)
	The Honourable Gota E R B Nesengani (Venda)
	Mr I Melville (Ciskei)

Board of Directors

Chairman
Dr S S Brand (Chief Executive)

Directors and alternate Directors

Mr M T de Waal (RSA)
(alternate Mr A J van den Berg)

Prof L Nkuhlu (Transkei)
(alternate Mr A Nkonyeni)

Mr W J J van Graan (Bophuthatswana)
(alternate Mr B E Keikelame)

Mr J A Botes (Venda)
(alternate Mr M R Madula)

Mr G F Godden (Ciskei)
(alternate Dr D H M Bridgman)

Mr J B Maree (elected)

Dr P R Morkel (elected)

Mr G S Muller (elected)

Mr R A Plumbridge (elected)

Dr A P Scholtz (elected)

Alternates for elected Directors

Dr W J de Villiers

Dr D C Krogh

Mr P H Swart

Two further alternate Directors were to be elected at a later stage.

V&R Pta

P O Box 784433
Sandton
Republic of South Africa
2146

West Street, Sandton
Transvaal

Telephone·
(011) 783 8600

ROY PASCOE
Nedbank wanted and loved

ALLIED GETS INTO BED WITH NEDBANK

ARIE VAN VLIET
Link with Perm flimsy

By Alec Hogg

SOUTH Africa's third-largest building society, Allied, has found a bedmate.

The R3 500-million institution, previously the largest independent society, has established formal links with Nedbank, and a more concrete arrangement is likely.

Managing director designate Roy Pascoe says Allied "will become a joint-stock society within two or three years, and we would love to have Nedbank as a major shareholder". Nedbank senior general manager Arie van Vliet says the question of a shareholding has not been discussed.

Allied has already switched its banking account from Barclays and will offer preferential treatment to Nedbank clients seeking mortgage loans. From April, Nedbank clients will be able to cash cheques of up to R100 in Allied branches, effectively doubling Nedbank's network to 400. Allied's 600 agencies, however, will not offer the facility.

Allied clients will be able to use the first of the society's 50 automatic teller machines in April and plans are advanced for their access to Nedbank's 50-strong Nedmatic network. The insitutions will offer clients access to 200 machines by the end of the year.

Tax sheltered investments, such as subscription shares, which can only be offered by building societies, will be available through Nedbank branches. New service points will be discussed by the two institutions, and the link opens the way for Allied to offer its clients access to Visa, Mastercard and Garage Card.

The link between Nedbank and Allied comes as a shock to the financial community. The bank shares the same chairman — Dr Frans Cronje — and associates (SA Mutual and the Sage Group) as SA's second-largest building society, the Permanent.

But Mr van Vliet says: "We are now much closer to Allied than to the SA Perm. Our so-called link with the SA Perm was a misconception built up mainly by the financial press."

SA Perm managing director Bob Tucker says: "We decided last year to remain independent, and to develop strong ties with all the major banking groups. We have had discussions with Nedbank regarding its link with the Allied, but at the moment see no reason why we should change our strong banking ties with the bank."

Although Mr Tucker is not worried about most of the implications of the deal, he is concerned about Allied's receiving the public's investments through the bank. "If we find that we are sucking the hind tit, and that Nedbank is putting Allied above other societies, we will have to take another look at our relationship."

The tie-up with Allied is a coup for Nedbank. Although Mr Pascoe is not prepared to comment, it was an open secret that approaches to Allied had been made by several financial blocs.

Favourite was Nedbank's arch rival Barclays, which is now the only bank not to have a building society in its sphere of influence. It recently lost the United Building Society account when the UBS joined the Standard Bank-Liberty Life camp.

Barclays deputy managing director Chris Ball tells Business Times that speculation in this regard was misinformed. "Our need is different to that of Nedbank. We don't need a building society. We had an idea that it was going to happen. I do believe, however, that it is a good deal for both parties."

Mr Ball says Barclays was not among the banks which approached Allied. He is not perturbed by the loss of the account. "From a profit viewpoint, the amount involved is insignificant."

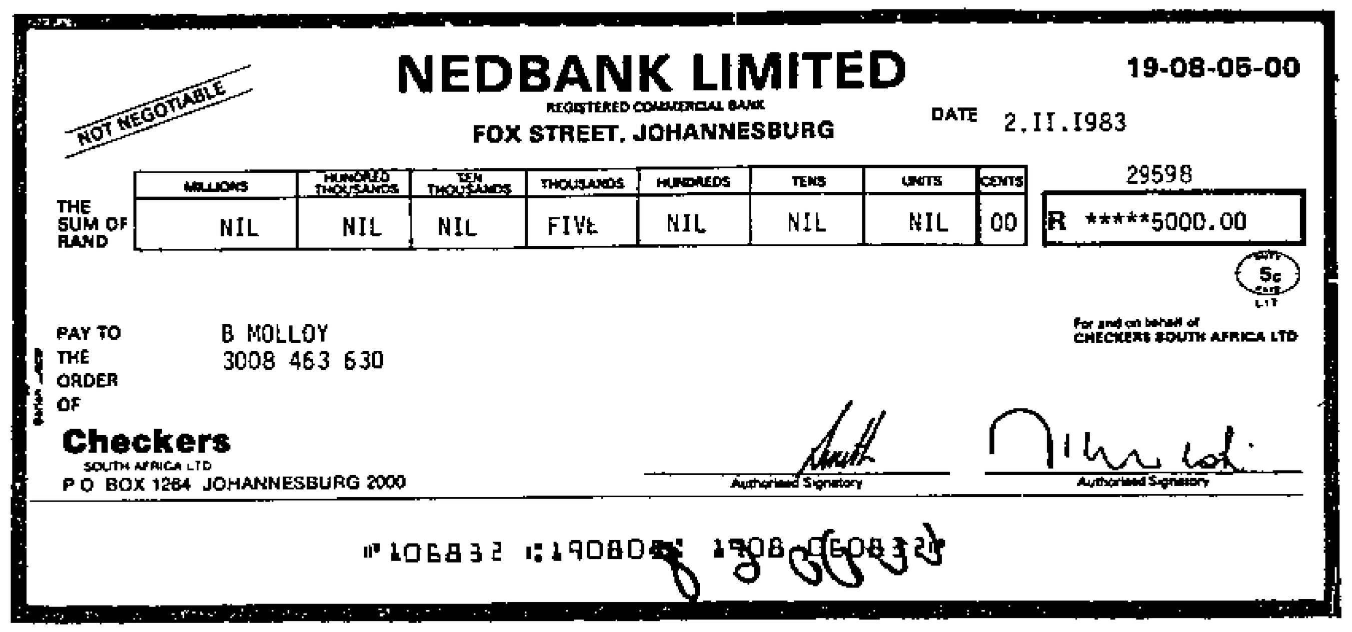
Barclays received R1-million in service fees for handling the Allied account.

According to Mr Van Vliet, Nedbank and Allied "have been friends for years. We have lunch with their executives often and compare notes on developments in the market." It was a logical move for Allied in the growing concentration of South African business.

Watchdog

A safeguard for your rights. Edited by BOB MOLLOY

The R5 000 challenge


NEDBANK LIMITED
FOX STREET, JOHANNESBURG
19-08-05-00
NOT NEGOTIABLE
DATE 2.11.1983
29598
THE SUM OF RAND: NIL NIL NIL FIVE NIL NIL NIL 00 R *****5000.00
PAY TO THE ORDER OF B MOLLOY 3008 463 630
Checkers
P O BOX 1264 JOHANNESBURG 2000

INSURANCE is a multibillion rand industry — built on your money. It spends millions in advertising its services and polishing its image.

WATCHDOG's files show that insurance doesn't have an image — it has a smell.

Some sectors smell more than others, yet all claim to have clean hands. The problem is that while the industry is patting itself on the back the consumer is being kicked in the teeth.

What can be done about it? WATCHDOG believes we need a national insurance arbiter offering a free service to consumers in handling legitimate complaints. Such an office should be funded by the industry, if only to show it has nothing to hide.

To give a lead to consumer-conscious insurance companies, WATCHDOG offers R5 000 as a first donation towards the establishment of the office.

The money was awarded to this column by a supermarket chain for services to the consumer. We feel the money should continue to work for the consumer and what better way than in maintaining the rights of the insured.

We are confident that those insurance companies whose services can bear inspection will be the first to come forward and claim this cheque. We'll let you know who they are so that you can decide where to put your insurance rand.

Until then, this cheque remains as a standing challenge to the insurance industry. It says, in effect, it is high time the industry paid more attention to the customers on whose backs its fortunes are built.

Inflation record

A DURBANVILLE reader believes the inflation figure encountered in shopping for lighter spares must be worth an entry in the Guinness Book of Records.

"I have a small caravan with a gas fridge ignited by a small wheel and flint like a cigarette lighter.

"I took down this unit to replace the flint and decided I would also replace the flint wheel. Three years ago it cost 10 cents.

"*One* flint now costs 74 cents, but the wheel:

"At Realto, Bellville R19 *each*, at Bokkie Caravans R13,75, at Schus Caravans R18,90."

☐ Apply a good old WATCHDOG principle — tell the storekeeper what he can do with his product, then vote with your feet. What you don't buy costs nothing.

Read Watchdog's Consumer Guide in today's Classifinder

Insurance ombudsman: Those for and against

A WATCHDOG poll of opinion in the life and short-term sectors of the insurance industry found most of the top companies in favour of an ombudsman or an insurance arbiter who would uphold the rights of the policy-holder and give the industry a more positive image.

However, some companies hedged, others opposed the idea outright.

After reading the following list, we suggest you look carefully at your insurance rand — and then place it with a consumer-minded company.

In favour

AA Mutual (general manager Mr B C Benfield: "We strongly support your efforts to effect the appointment of an ombudsman. Ten years ago AA Mutual made this suggestion to the South African Insurance Association but was defeated by a large majority. Good luck.")

Colonial Mutual: (general manager Mr S A Jacobs: "Support the idea — but it should be established by the industry.")

Crusader Insurance: (managing director Mr E C Dunbar:"Support the idea of an ombudsman but it is not the industry's responsibility to finance it — it would have to be someone — an objective person — from outside.").

General Accident Insurance: (managing director Mr J G B Little: "We support the idea. The association is the obvious body to set it up.")

Guardian National: (Mr Keith Nilsson: "We would support an ombudsman and the industry should certainly fund the office. The matter should be dealt with by the association.")

Hollard Insurance: (Mr P R Enthoven: "Yes, we support the idea. It is in the interests of the industry but must be set up in a way to ensure objectivity.")

Incorporated General Insurances: (managing director Mr M Lewis: "We would welcome an ombudsman but the office must be set up through the association.")

INA Insurance: (managing director Mr Chris Meller: "No objection in principle to an ombudsman.")

Liberty Life (managing director Mr Murray Hilkowitz: "An ombudsman is an additional safeguard for policy-holders.")

Legal and General Volkskas Assurance (chairman Dr Desmond Krogh: "An ombudsman can only do good.")

Metropolitan Homes Trust Life: (marketing manager Mr J S Murray: "While WATCHDOG justifiably growled at the insurance industry, Metropolitan aligns itself with your move toward improving the image of the industry.")

Monarch South African Insurance: (managing director Mr R A Kreulen: "We are in the industrial sphere so it does not directly concern us. However, a definite yes. The industry should fund it — it funds everything else so why not?")

National Employers General Insurance: (company secretary Mr W M Hopley: "Not opposed in principle. We will follow recommendations from the Accident Insurance Council.")

Prudential Assurance Co: (managing director Mr Dorian Wharton-Hood favours an ombudsman who would monitor "a wide range of business interests".)

The Old Mutual: (chairman Dr Jan van der Horst called for an insurance ombudsman 10 years ago and remains strongly in favour.)

Against

National Mutual Life Assn of Australasia Ltd: (general manager Mr G A Thomlinson: "Don't support idea of ombudsman — would support greater direct communication between company and policy-holders.")

American International: (managing director Mr G T Schmalzreidt refused to speak to WATCHDOG after having been informed of the subject by his secretary.)

Commercial Union: (managing director Mr W A Rutherford: "We think it unnecessary. If our customers have any complaints they can bring them to management. It is up to the national association to discuss the idea.")

Maritime and General: (general manager Mr J A McLoughlin: "We are not in favour. The existing machinery for investigating complaints is more than adequate.")

Sanlam: (chairman Dr Fred du Plessis believes the Registrar of Insurance and the Life Offices (umbrella body of the life industry) are already doing the job.)

● **WATCHDOG notes: the Registrar's last report said he had barely enough staff to man the telephone, while the Life Offices have eggdanced on the subject for years.**

Santam: (managing director Mr C J Oosthuizen: "We don't see the need for it — there are so many resources the insured can go to. It would be a sad day for the insurance companies if they needed a body to help the consumer get his money.")

● **WATCHDOG comments: "The sad day has already arrived. Our files are bulging with complaints, many of them successfully resolved after intervention by WATCHDOG."**

Uncommitted

Aegis Insurance: (general manager Mr F Bull: "A complex project — we are uncommitted at this stage.")

Allianz (formerly Shield): (deputy general manager Mr P C Lamprecht: "If enough companies expressed an interest we would be prepared to discuss the idea — but at the moment it is too hypothetical for us to comment on.")

Anchor Life: (spokesman not available for comment.)

Federated Insurance: (general manager Mr Raymond Flanagan: "Can't say at this stage — the concept is too ill-defined. But the industry certainly needs satisfied customers.")

Mutual and Federal: (deputy managing director Mr J Posnett: "The idea is too undefined for us to say whether we support it in the abstract, but we look to the association for guidance.")

NBS Insurance: (managing director Mr K Emery: "Uncommitted at this stage. If jurisdiction was defined and decisions binding we might support it.")

Norwich Union: (general manager for Southern Africa Mr P A Garthwaite: "Would support the idea if thought to be worthwhile by the Life Offices Association. But don't think it necessary — only 28 complaints in life insurance in the past year.")

Ned-Equity: (spokesman said the company had not considered it yet but could not give an answer without knowing more details.)

President Insurance: (no spokesman available.)

SA Eagle: (managing director Mr F N Haslett: "Forces of competition should be sufficient to ensure fair play. We would not like to comment until the matter has been investigated further.")

Standard General: (general manager Mr R Carter: "No statement until the Association has formulated a proposal.")

Westchester Insurance: (manager Mr J A C Kinnish: "We do not have many problems in this regard and feel it would be inappropriate to comment. The matter should be dealt with by the association.")

Stuck in the interest rate maze?

READER H Sackson of Claremont offers the following for anyone thinking of buying on hire purchase.

Most borrowers are in an interest-rate labyrinth. Even sophisticated borrowers admit they are often befuddled by the various ways interest charges are stated.

● The **annual percentage rate** is the key to all borrowing. This figure enables you to compare the cost of all types of credit, and is the basic interest rate you pay when you borrow, expressed as XX percent for YY years. For example: "15 percent for three years."

● The **finance charges** are the total of everything you are asked to pay to obtain credit. Among these are: interest, loan fees, service charges, commissions, investigation fees, premiums for insurance — if required — sales and other taxes. Legal fees and licences are usually not part of the finance charges.

● Should you buy an article on normal hire-purchase terms you pay more in interest than if you had borrowed the same amount at the same rate of interest from a bank or building society, and paid cash for that article.

To illustrate:

● Assuming you purchase an article on hire-purchase for R3 000 to be paid in three years, at 15 percent.

Your interest payment is R3 000 X 15 percent = R450. Over three years this comes to R1 350.

Your total liability is now R4 350, which is the R3 000 + R1 350. Your monthly repayments are R4 350 divided by 36 months, which is R120,83.

Breaking this down, we find that of this amount the capital repayment is R83,33 (R3 000 divided by 36 months) and the interest is R37,50 (R1 350 divided by 36 months).

● Now, supposing that instead you borrow R3 000 at 15 percent from a bank or building-society, repayment to be over three years. The interest is calculated as:

R3 000 at 15 percent for one year = R450
R2 000 at 15 percent for second = R300
R1 000 at 15 percent for third = R150
Total interest = R900

The capital reduces by R1 000 each year, as this is paid off at the rate of R83,33 each month, and interest is charged on outstanding balance only.

The total amount now becomes R3 900. (The R3 000 capital plus the R900 interest.

The monthly repayment is R3 900, divided by 36 months = R108,33.

This breaks down to: capital repayment R83,33 (as before), and the interest is R900 divided by 36 months = R25.

The saving on your monthly instalment is therefore R12,50 or 33 percent.

The difference is that in a normal hire-purchase agreement interest is paid on the full amount over the three years, even though you do not have the use of the R3 000 over that time. The bank or building-society charges interest on the reducing balance.

● Should you be buying a car, furniture, appliances, or any other expensive item, it makes better sense to borrow from the building-society and pay cash for the article. Remember to [illegible] discount.

tional purchase.

The total savings, you will find, are quite considerable.

● Banks and building societies compute interest monthly, but to simplify the above calculation, it has been shown yearly. Obviously monthly would cost less in interest.

Inflation is theft — Marais

INFLATION is theft, according to Dr Jan Marais, founder of the Trust Bank and economist of note, who backs WATCHDOG in the call for an insurance ombudsman.

"There are those with fixed pensions bought with 'hard work' many years ago when money was worth a few times what it is today. Their premiums were invested by insurance groups in property, shares etc., valued today many times their original purchase price yet these poor pensioners have never had an increase in their pensions.

"It has been suggested that all fixed pensions should be made tax-free. That would help, but it would still not be fair because the insurance companies, whatever the fine print originally stated, should do something about it. This would at least enhance their image.

"Furthermore, when it comes to inflation, who suffers most? The sufferers are really those with fixed pensions or other forms of fixed incomes such as government or other related securities.

"It is fine and wonderful and sounds good for the Minister of Finance to talk about financial discipline and to express strong views against "indexing" for instance because that in itself would be inflationary.

"Does he realize that including himself, salary and other benefits (of the employed) are increased from time to time. So, he and others like him, with growth investments and/or still in employment do not suffer that much, if at all."

Motsuenyane pleads for tax breather

1024 26/1/84 58

Financial Reporter

THE worst effects of the recession are yet to come, says the chairman of the African Bank, Mr Sam Motsuenyane.

He adds in his annual review: "South Africa is still very much in the slough of stagnation and I do not entirely share the view of some analysts that the recession has bottomed out."

Mr Motsuenyane says the country is still recovering from the worst drought in living memory which has brought the agricultural sector to the brink of collapse.

Prices of farm products have only just begun to rise and this will produce a ripple effect on a whole range of other commodity prices.

Struggles are still being waged to bring the inflation rate more into line with the country's major trading partners. To counter inflation the equalisation of money supply will still have to be the authorities' most urgent priority.

This will discourage investment, however, and further delay the upturn.

Furthermore, it is unlikely that consumer demand will improve significantly this year in view of the expected increases in taxation.

"My view would be for Government not to raise taxes at this stage as this will have a very negative influence on the living standards of the black masses. I would argue very strongly for the reflation of the economy as a matter of top priority. Another year of depressed economy would result in serious damage in human and other terms."

A higher tax bill and high interest rates sent the African Bank's profits plummeting 39% for the year ending September.

While turnover increased 18%, from R3,16m to R3,72m, after-tax income dropped from R110 000 to R67 000.

The results, released with the annual report, showed that the main reason for the profit decline came from a tax hike from R4 000 in 1982 to R40 000 in 1983. Taxes deferred in 1983 were much less than in 1982, says Mr Moses Maubane, the African Bank's chief executive.

Pre-tax profits were also down significantly. This was attributed to lower margins and the higher cost of borrowing from the money market.

Yet again the directors have decided not to pay a dividend but the board is hopeful that "in a year or two" a dividend will be paid.

58

Institute of Life and Pension Advisers grows by 66 percent

THE results of the 1983 qualifying examinations for the Institute of Life and Pension Advisers have been released in Cape Town. Altogether 171 candidates were successful, 130 for the life assurance qualification and 41 for the pensions qualification.

In addition to the newly qualified fellows, 137 candidates achieved one or more subject credits to carry over to 1984.

Commenting on this year's results, Mr Paul Nel, executive director of the institute, said that the number of fellows had grown by 66 percent following the latest round of examinations.

Membership

"With our membership now totalling 431 fellows, since the inauguration of the institute in 1981, we are pleased with our initial development.

"The institute is not designed to cater for all life assurance intermediaries but it is rather a professional body aimed at testing and recognizing the competence of those intermediaries who, because of their business environment, become involved in large and often complicated estates or business assurance needs where an in-depth knowledge of the laws and circumstances affecting good financial planning is essential.

"Often an institute fellow has to work closely with accountants and lawyers and it is important that he be acknowledged as an integral and qualified member of the advisory team, able to give sound specialist advice in his area of expertise."

The institute examinations require a candidate to have an in-depth knowledge of the Estate Duty Act, Income Tax Act and sound financial planning principles using the different investment media available, including pension funds.

Candidates are required to write four four-hour papers where the emphasis are on the application of knowledge to set case studies.

A feature of the institute's development has been the involvement of Unisa from the outset, with Professor Herbst from their department of business economics settling as a member of the institute council.

Tribute

"The standard of the examinations," said Professor Herbst, "is high and it is a tribute to the life assurance industry that such stringent measures are to qualify as a fellow of the institute. The establishment and the development of the institute and its activities is most assuredly in the public's interest."

For the past two years Unisa has also assisted with the marking of papers.

Recognition of the institute's standards has now also been given by the American College of Life Underwriters, widely regarded as the professional examination body of the United States.

The Institute of Life and Pension Advisers is an independent examining body, membership of which is open only to individuals who have successfully completed the examinations and who adhere to the strict code of conduct.

Qualifying members may be identified by their use of the designation FILPA.

(58) 27/1/84

SPECIAL RISKS INSURANCE

Questions over Sasria

Sasria is a non-profit consortium of local short-term insurance companies, backed by government. Registered early in 1979, under the Companies and Insurance Acts, its task was to underwrite material damage and loss of rent arising from political riot and related disturbances. But since its inception it has faced considerable criticism. Indeed, some in the market question its very existence.

It is time for a major reassessment of the SA Special Risks Insurance Association (Sasria). There are several compelling reasons for this.

Failure to provide consequential loss cover is Sasria's major shortcoming, and this is admitted by all sides. Such cover pays for wages, rates and taxes, loss of profits and other overheads where material damage interferes with the usual earnings pattern. In terms of potential loss, all this is perhaps the greatest risk in civil disturbances — a good reason why Sasria keeps away from it, and even more of a good reason why companies want to be covered.

Sasria has an excess-of-loss treaty with worldwide reinsurers, arranged through Robert Enthoven. This provides a total of R100m for the year after the first R100m has been paid out from its own fund. The third level of liability operates only if a given claim exceeds R200m, and amounts to the balance of Sasria's fund. The insurance companies, as members of Sasria, come in at the fourth level with a collective R5m net.

As reinsurer of last resort, any claims unsatisfied after these four levels rest with the government. And Pretoria feels that extending cover to include consequential loss would be an unjust burden on the taxpayer, who could then face a bottomless pit. The upshot is that companies requiring consequential loss cover — and there are many — must go to the overseas markets.

Some of them are in fact happy to avoid Sasria for additional reasons (see box, right). So for the sake of convenience the material damage side of an insurance contract is often included in the same foreign package, where it has been found to be cheaper than Sasria's deal — as low as 0,025% against a domestic rate of 0,1%.

THE DRAWBACKS

- ☐ Sasria cover excludes consequential loss;
- ☐ Insurance is limited to R100m per company, or group of companies;
- ☐ Cover is not available until the coupon has been issued;
- ☐ The coupon cannot be extended during renewal negotiations;
- ☐ The coupon cannot be cancelled once issued;
- ☐ The government has a veto over claims — which is why that over Koeberg took so long;
- ☐ Protectionist measures, backed by the SA Insurance Association, interfere with free-market operators such as Lloyd's;
- ☐ Cover is not available for the homelands or Namibia; and
- ☐ Premium rating is standardised regardless of location.

The considerable loss of revenue has nettled the insurers. They lose business to overseas competitors — and the 15% commission earned on Sasria coupons they sell. Lobbying of Pretoria has involved it in a running battle with Lloyd's of London, which has been accused of "disruptive practices."

What is meant by this is that government's backing of Sasria is being undermined by outside competition able to offer better, and more flexible, insurance cover for material damage.

The great dilemma, of course, is Pretoria's desire to play a protective role while at the same time paying lip service to free enterprise. In addition, insurance companies naturally want to protect their shareholders; while the government wants to protect its taxpayers from open-ended risks. This has led to various inconsistencies which have helped confuse the market.

In the face of the confusion, Lloyd's is now instructing its local agents to obtain permission from the Registrar of Financial Institutions, Robert Burton, before arranging political riot cover in SA.

Picking and choosing

John Bull, current chairman of the SA Insurance Association (SAIA), points out that Lloyd's is a member of Sasria. "The job of the consortium is to write cover for all risks, including the uninsurable — like Putco. It is wrong for Lloyd's to pick and choose the best risks for its own account and leave the taxpayer to cover the rest," he says.

Warren Plummer, MD of AA Mutual, and current Sasria chairman, disagrees: "There is no reason why Lloyd's, or anyone else for that matter, should not compete with Sasria. But you can't have your cake and eat it." He says that if you want to compete with Sasria, you must do so as a non-

HOW IT BEGAN

The origins of the SA Special Risks Association (Sasria) go back to 1976 and the Soweto unrest. Counting up the damage afterwards, the West Rand Administration Board (Wrab) made claims on various insurers for amounts totalling some R15m. The insurers balked. Indeed, Santam went to law to defend the wording of its contract with Wrab as excluding cover for political riots.

The issue in the Santam-Wrab case was whether the unrest was intended to overthrow or influence the government by force. It proved too difficult to really assess the intentions behind the upheavals and, in the end, Wrab's claims were only paid in part. But this still left the insurers with fears of shrinking coffers and a new phobia about underwriting riot and riot-related risks on an open-ended basis. Since the 1976 settlement was the first riot claim they had paid since 1922, 60 years of complacency had been dispelled.

The SA Insurance Association (SAIA) accordingly went into a huddle. It was finally agreed among all insurers that war risks, riot, terrorist action and disturbances of the peace be excluded from the standard wordings of all policies covering property. The exclusion came to be known as the "standard SAIA exceptions."

Then it was government's turn to take fright. Questions were raised about the adverse political implications, at home and abroad, of a failure to provide some form of security for the public against political disturbances. Foreign investors would stay away, it was argued; and local industrialists might reduce their capital investments. And what about the "man in the street" — the voter?

So SAIA chairman of the day, Warren Plummer, was approached by Pretoria to do something about the standard SAIA exceptions. Could they not be underwritten by some government-backed consortium? Two things emerged: Sasria, and a SAIA agreement.

John Posnett, Mutual & Federal's MD, explains: "The SAIA members who were also members of Sasria agreed not to write political riot business other than in terms of Sasria, which effectively means they cannot compete with it, nor write consequential loss."

(58)

member

An attempt was made to embody this point in Sasria's constitution, but was omitted because of problems with Lloyd's. Instead, SAIA drew up its own agreement not to compete with Sasria, to which Lloyd's and AA Mutual, as non-members of SAIA, do not subscribe. In explaining his position, Plummer adds. "We are not members of SAIA because we believe in free enterprise. Sasria should be able to choose how it does its business just like any other insurance company."

But this still leaves the question — do we really need Sasria?

According to Plummer. "Yes, there's no question about it. The market needs Sasria. Hasn't it as much right to operate as, say, AA Mutual? Besides, Sasria's estimated premium income for 1984 is R70m Seeing that the cover is bought, not sold, that seems a good enough reason to me."

Free enterprise apathy

A few years ago an attempt was made to deal with consequential loss independently of Sasria. But the paltry R5m limit set by the local market was not enough to interest overseas backers. Several people feel this could be indicative of apathy towards free enterprise in SA, and charge that, in point of fact, the local market must share the blame attaching to Sasria.

Don Gallimore, executive director of Priceforbes Federale Volkskas, and chairman of the SA Brokers Association/Sasria liaison committee, has been trying to get together with Sasria for a long time, to assist in ironing out its shortcomings. "Since 1979, Sasria has been eclipsed by its inability to respond to market forces and clients' views," he says. "I fully support it in principle. But what I question is its management, influenced or controlled as it is by government board members. And there seems to be no appreciation by the government of how a commercial organisation should be run.

"I despair at the apparent intransigence on the part of the authorities They seem totally insensitive to suggestions."

There have been plenty of these. Gallimore says that despite this Sasria continues to operate in an administrative straitjacket. It remains as awkward and inflexible as ever.

Naas van Staden, the previous Registrar of Financial Institutions, has gone on record as saying: "Even if Sasria was limited... the market would be worse off without it."

Maybe he's right — but that doesn't excuse imperviousness to criticism. Gallimore believes the time has come for the absurdities of the system to be aired in public. And he points to the list of gripes

One way political riot cover could be provided for everybody, on the same footing, could be on the basis of compulsory insurance — like third party motor insurance (MVA). This would keep the price down, build up an enormous premium pool, and spread the risk to the maximum. Or cover could be distributed automatically under all fire policies, with the riot element separately priced and backed by government and overseas insurers. Such wide marketing would give the deal an edge over competitors such as Lloyd's. There would be no need to restrict cover to larger companies, with a cancellation clause like Lloyd's.

Serving the public

But, at a minimum, Sasria should be more accountable to the public, which it was originally supposed to serve. If MVA fund details have to be tabled in Parliament, why not Sasria's?

On the other hand, if government wishes to shed responsibility for the scheme — and there are strong rumours to this effect — it must open the doors of the consortium to the influences of the market. Protectionism stifles innovation, costs the public more in the long run; and diminishes access to the international risk-spreading mechanism. Sasria really should be able to offer what the market wants — and on a better basis than Lloyd's, since it is backed by a government.

For the present, Sasria embodies a half-baked approach. On the one hand insurers stand to gain by squeezing Lloyd's out, because that will give them more business, no extra risk, and more commission.

On the other, government has a vested interest in avoiding confrontation with big-name victims of political riot. It wants to protect industry, but it is doing so by regulating the system to the hilt So much so in fact, that no insurer dares to deal with anything out of the ordinary without Pretoria's say-so. The result is that no one is really benefiting from this situation.

HOLDING THE COUPON

Cover under Sasria is certified by a coupon. This is issued by insurance companies who act as agents for the consortium, collect the premium on its behalf, and cream off the 15% commission. A third of the commission is passed on where another agent or broker is involved.

The coupon must run concurrently with the insured's basic policy - usually an industrial fire policy — while the practice of "holding cover" is prohibited.

Whereas the risk under a fire policy may be agreed, increased or extended by telephone, it is not permissible for political riot cover to be undertaken until the coupon is physically issued. Nor can cover be increased under the issued coupon — it must be replaced by a fresh document.

Although the underlying fire policy may be cancelled at any time, Sasria cover is non-cancellable. This often causes a situation in which the client ends up with two coupons, if he has, for example, changed underwriters.

The inconvenience of this inflexibility is all too familiar to insurers, brokers and clients. For insurers, it means having to work under strict administrative burdens, since government involvement means bureaucracy and detailed regulations. It also means that the intermediary — in this case the insurance company — has a frequent need to refer to the Sasria board for advice and interpretation of the rules when the particular circumstances of an applicant are not straightforward.

Liaison committee chairman Gallimore ... pointing to problems

Reunert gains 25% holding in ATC

CAPE TIMES 1/2/84

JOHANNESBURG. — Reunert, the recently created electronics and engineering arm of Barlow Rand, has bought a 25 percent stake in ATC (Pty), one of the country's largest suppliers of cables for the telecommunications industry, a statement by the company said yesterday.

ATC commenced manufacture of telecommunications cables in 1958 in conjunction with African Cables in Vereeniging.

Shareholders

The company moved into its own premises in Brits in 1972, and has now developed into the country's leading supplier of telecommunications cables.

Prior to the Reunert deal, the shareholdings in ATC were GEC 30 percent, BICC 40 percent, and STC 30 percent. These three British companies have each sold a pro rata share to enable Reunert to gain a 25 percent holding.

Management and staffing of ATC is unchanged, but the Reunert deal gives the company a local partner — a desirable move in view of the large volume of business that ATC does with State and quasi-State undertakings.

For Reunert, the acquisition is in line with the development of its information processing division — Reunert Information Systems (Pty) — to offer an integrated service to customers embracing the capture, processing, switching and transmission of data.

Companies in the Reunert Information Systems Division include Barlowdata, Telegrama, AEI Henley and the recently-acquired Telkor.

ATC board

Mr Derek Cooper, chief executive of Reunert, and Mr Colin Ferreira, managing director of Reunert Information Systems, both join the board of ATC today, the date on which the deal becomes effective.

There will be no other changes to the board of ATC.

Mr Logan Stewart continues as chairman of ATC, and Mr Peter Watt as managing director.

Negotiations for the sale of the 25 percent stake in ATC to Reunert were handled by Hill Samuel Merchant Bank. — Sapa

SUN INTERNATIONAL

The empire maker

58

No one in the hotel business will dispute what amounts to Sol Kerzner's new role as emperor of the Good Life. Almost single-handedly, he changed the face of the industry when he created Southern Sun. Under his imaginative direction the group mushroomed into the most powerful luxury hotel chain in the country — and in a relatively short time at that.

Now that the high drama surrounding the formation of Sun International has abated, the group is consolidating and preparing for expansion. For the foreseeable future its style will be very much that of one man.

The gap left by Kerzner, after his departure last year to form Sun International, is unlikely to be easily filled; and the consequences for Southern Sun have yet to be fully assessed.

Meanwhile, the scale of Kerzner's ambition is beginning to be realised. Sun International is nothing if not a lusty infant. In typical Kerzner fashion, no time was wast-

221 (5) FM 3/2/84

financial year "on the security and protection of the people of SWA."

Moreover, he said, SA guarantees for Namibian domestic and foreign loans in the period to March 31 this year will be nearly R700m which, "in the event of a SWA default, carries the possible implication of paying interest equal to double the capital owing, should investors insist upon the Republic honouring the full investment terms."

SA's determination to protect the people from attacks, he said, has exacted a heavy price in terms of material, international condemnation "and in the lives of our young men." He then added an extraordinary warning: "However, it goes without saying that SA will not continue to bear this heavy burden if it seems that the continued presence of our forces does not enjoy the wholehearted support of the people of SWA."

Botha has seldom been as blunt on the subject of the price of the war. Neither has he ever hinted that the Namibian defence exercise could well be seen to be futile if the internal political groupings cannot come to terms behind the protective shield young South Africans are giving their lives to provide.

This leads on to another reason why things may be on the mend: feedback from the constituencies of mounting disillusionment with the bush war among ordinary people. Militarist rhetoric about the total onslaught means nothing to people who sacrifice a loved one. MPs have perceived signs of the start of a "Vietnam" syndrome. In the readers' columns of English and Afrikaans newspapers, people are questioning the purpose of an SADF presence in northern Namibia and southern Angola.

There is growing evidence that if the war in southern Angola continues, there could be a quantum leap in the number of casualties suffered. Operation Askari, as the papers showed last weekend, encountered evidence of Cuban, MPLA and Swapo deployment of weaponry of unprecedented sophistication. In addition, the USSR has warned that it will intensify its military support to the MPLA in terms of treaties entered into nine years ago.

For Botha, the political consequences at home of a disengagement in Namibia no longer seem as daunting. The result of the white referendum must have been encouraging. The result also indicated that whites want change, and they want it fast. The war in Namibia will slow that process and cost him support. In the event, Botha has probably calculated that he can get away with a pullout, a ceasefire and a UN settlement. And no PM ever lost support by offering the prospect of peace.

Then again, the financial consequences of SA's military involvement are staggering. The country will probably never be told the full extent of government spending overruns demanded by doing battle hundreds of kilometres inside Angola. It could be R400m-R500m in the current year. This has obvious implications for ordinary taxpayers, who are being prepared (statements about the drought, continuing weakness of the gold price, pay rises for civil servants, and so on) for further fiscal depredations on their disposable incomes.

Of course, it never pays to be sanguine about these things. The Namibia trail is littered with phony expectations and dashed hopes. We trust this is something different.


Crocker flanked by Defence's Malan (left) and Foreign Affairs' Botha

THE WINDHOEK VIEW

Excitement in SA about a ceasefire and a settlement in Namibia is not shared in Windhoek. While realising that it probably is not "the same old story" this time round, people remember the repeated warnings about "no red flag in Windhoek" that came from Cape Town.

It seems clear that SA is now pinning its hopes on the ability of the Multi-Party Conference (MPC) to keep the "red flag" from Windhoek. What that translates into is that the "internal parties" must cohere into a credible alternative to Swapo. On Tuesday night, the leaders of the MPC gave clear indications that they are considering forming an interim government in the near future.

The MPC did not seem concerned about Botha's statement that the interests of SA will come first in future. But Dirk Mudge did add that the MPC will opt for the interests of Namibia over those of SA, if it had to choose.

What really disturbed Namibian businessmen, however, was Botha's statement that SA will not in future be prepared to shoulder the financial burden for Namibia on its own. With a badly crippled economy that relies heavily on grants from SA, that was bad news.

SUN INTERNATIONAL

The empire maker

58

Now that the high drama surrounding the formation of Sun International has abated, the group is consolidating and preparing for expansion. For the foreseeable future its style will be very much that of one man.

No one in the hotel business will dispute what amounts to Sol Kerzner's new role as emperor of the Good Life. Almost single-handedly, he changed the face of the industry when he created Southern Sun. Under his imaginative direction the group mushroomed into the most powerful luxury hotel chain in the country — and in a relatively short time at that.

The gap left by Kerzner, after his departure last year to form Sun International, is unlikely to be easily filled; and the consequences for Southern Sun have yet to be fully assessed.

Meanwhile, the scale of Kerzner's ambition is beginning to be realised. Sun International is nothing if not a lusty infant. In typical Kerzner fashion, no time was wast-

(58) FM 3/2/84

deira Islands. But the broader programme and strategy for overseas development has yet to be finalised.

Based on an expected turnover of some R300m, taxed profits of around R30m for the first annual financial year, and the price of R36m Safmarine paid for its 18,75% interest in Sun International, the group (if listed) could have a market capitalisation in the region of R300m. It would therefore rank among the 20 largest industrial companies in SA. By the time Kerzner's plans for overseas expansion have been followed through to their logical conclusion, the group might well be propelled into the ranks of the international leisure giants. Such are the dimensions of Sol Kerzner's dream.

Brian Zlotnick

58

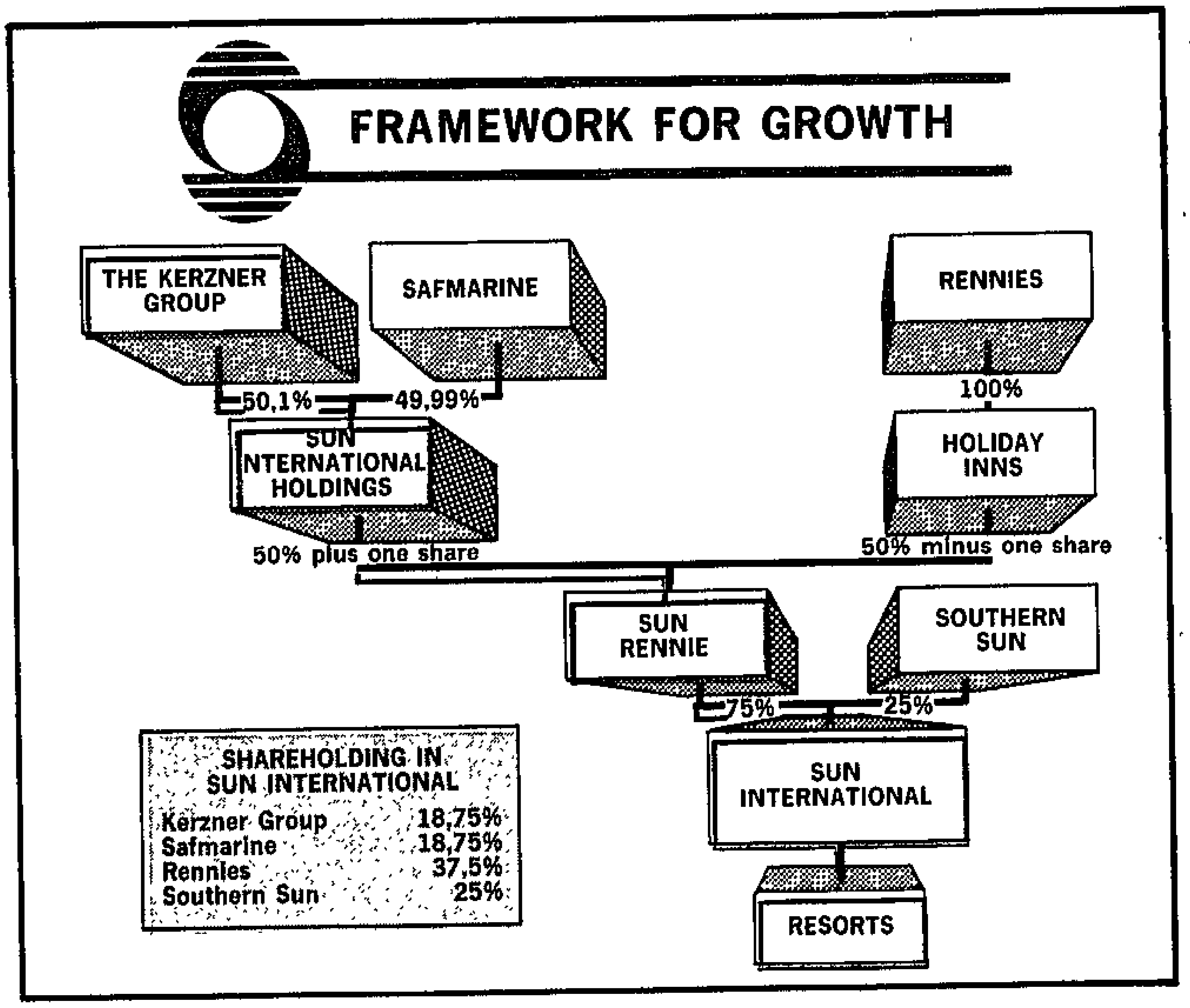
tems originally implemented in the Holiday Inns chain, and those of Southern Sun.

Chairman of Sun International, Dick Goss, goes back a long way with Kerzner and functions as a "semi-executive," devoting about half his working time to the group. Even so, his role in the organisation cannot be underestimated. He brings wide business experience to bear by contributing to strategic planning and acting as a sounding board for Kerzner's ideas. He also has an "important stake" in the company, though he will not reveal how much.

Kerzner, however, is firmly at the helm. The group is shaped around him and his standards apply to all major projects. He will only consider new capital projects if the company bases its calculations on a minimum taxed return on capital of 20%. According to Kerzner, this kind of return is in line with those achieved by Atlantic City gaming operations.

Kerzner has some experience of casinos on North America's eastern seaboard. Last year he hitched up with a US partner in a joint venture aimed at breaking into the American gambling scene. The attempt failed after loud protests by an anti-South African lobby in New Jersey.

The factors which determine the profits (and so the profitability) of Sun International are many. Interestingly, Kerzner is adamant that what people want is fun. It follows, then, that the life blood of the group is centred around the concept of offering people fun. The environment, facilities and standards of the various casino resorts are all directed towards this end.



Fun as business

Part of Kerzner's glamorous, high-flying image comes from his close associations with some of the big names in the entertainment world. Yet he admits that live entertainment is not always profitable on its own account. "Some of the shows at Sun City are profitable, others are not," he says. The direct financial benefits for the group of one or other show business extravaganza cannot be easily quantified. But, clearly, there are always spin-off financial benefits.

The ability of management to exercise tight financial control over all operations, and to plan effectively for the future, is one of the more important recipes for financial success. Obviously a dynamic organisation has to have dynamic leadership.

Kerzner believes in the importance of developing a strategic plan which views the business from a medium-term perspective. His plan is designed and developed around the broader issues of growth, finance, investment, development and expansion. The plan is submitted on an annual basis to the board which critically evaluates, expands and eventually approves the plan. Annual budgets which deal with the nitty-gritty of the business are prepared in the field and submitted to the board. Management compares and reviews the actual results with the budgets, on a monthly basis. The board reviews actual performance with its expected figures on a quarterly basis.

The broader issues, controls and basic standards are maintained by head office, but operations are decentralised. Regional management, which has to comply with certain head office fundamentals, has a fair measure of autonomy in the field. Regional managers are responsible for the day-to-day operations and Kerzner encourages them to show initiative and to colour their resorts with a distinctive character.

In terms of an agreement with SA Breweries, Sun International will seek a stock exchange listing only after March 1985. But, if Kerzner's far-flung plans for expansion are realised, it is conceivable that Sun International could be listed on a foreign stock exchange even before it goes for a quotation on the JSE. A takeover or merger with a major overseas hotel or gaming group cannot be ruled out.

Almost certainly, Sun International is set to spread its network internationally, though an announcement of specific developments is probably six months' away at least. Kerzner has confirmed that his company is considering expansion into the Ma-

Kerzner . . . the single greatest asset

Liberty Life to raise R120m in rights issue

CNE TIME 4/2/84

58

By PATRICK McLOUGHLIN

JOHANNESBURG. — Liberty Life is to raise R120m in a massive rights issue which could push assets up to R3,4 billion and see market capitalization rise to R850m.

The issue, which will be made to Liberty Life's ordinary shareholders and to holders of its convertible redeemable cumulative preference stock, will enable the assurance giant to continue its muscular growth in profits into the next decade.

Liberty group chairman, Mr Donald Gordon, said the issue was needed to finance the current huge inflow of business which had far exceeded earlier projections.

"The problem with a life assurance company is the more business you write, the more business strain you have," he said yesterday.

When a life assurance company writes a policy it incurs all the initial costs, including the commison, in the first year.

Regulations

In addition, statutory regulations require the company to place a reserve against the policy, to meet eventual liabilities. This results in outgoings in the first year more than exceeding ingoings in the form of the premium.

The "strain" from new business thus initially impacts on the natural profits of a company, although this is more than absorbed by profits later in the policy's life.

"When you have a great deal of business coming in that strain has to be financed out of the company's capital," Mr Gordon said.

"At some point, your capital becomes small for the volume of business."

Liberty Life's last rights issue was in 1980 and the group at the time projected growth in assets to R3 billion by 1990. This target was reached in 1983.

"The scale of our operations has expanded enormously and our assets rose from R2,37 billion at the end of December 1982 to R3,25 billion the following year — a rise of 37 percent. Our capital base has to become more related to that."

In a statement released yesterday, the assurance group said the additional capital was required for the further development of Liberty Life, to support its increased penetration of the South African life assurance market which had been achieved over recent years.

Liberty also wanted to maintain the accelerating momentum of its growth.

"On the basis of the additional funds which will become available, the directors are confident that Liberty Life's leading role in the life assurance industry will be enhanced and that its capital resources will be adequately augmented to sustain further rapid growth in the medium term."

Other than the amount to be raised, no more details are provided by Liberty. This is because much depends on the state of the equity market at the time of the issue.

However, market sources say that the results of Liberty for the year to December 31, 1983 — to be released on February 24 — will see total dividends of something over 200c, if the normal 20 percent growth rate is achieved over 1982's dividend of 172c.

On the same basis, if the 20 percent growth rate continues into the 1984 financial year, the prospective dividend could be in the order of 240-250c.

It is thought that Liberty is looking at a yield of around five percent for the new shares and this suggests a price of around R50 — a good discount to the current Liberty price of R60.

To raise the full R120m — and Mr Gordon seems very confident that the target will be achieved — 2,4m net shares should be created, expanding Liberty's current issued capital of 12m shares and indicating a one for five rights issue.

Mr Gordon does not expect any stags.

"There's no room for stagging. We have very special shareholders who hang onto their shares. Our shares are also tightly held and I would think that all the new shares will be taken up."

Surplus

Mr Gordon said that if the issue was fully subscribed to, Liberty's assets would go to R3,4 billion. Market capitalization, currently standing at around R700m, would climb to around R850m.

"The impact of this issue will be to improve earnings a share on the new and old shares."

Analysts say that a full take-up of the R120m issue, placed into fixed-interest stock, would move Liberty's total taxed profits (its surplus) into the range of R50m. This compares with the 1982 surplus of R28,3m on the old capital base of 12m shares.

Allianz SA seeks a local partner

6/2/84 Star

58

By Duncan Collings
Deputy Financial Editor

The Allianz group of insurance companies in South Africa will seek a local partner before considering a Johannesburg Stock Exchange listing.

The newly appointed chairman, Mr Michael Linck, says the company has given an undertaking to the authorities that its parent, Allianz of West Germany, will reduce its shareholding in the local operation to around 50 percent as soon as this is in everyone's interest.

"In my view we will first look for a strong, entirely South African partner and thereafter seek a JSE listing.

"Following the takeover of Rand Life in November 1982, we first want to establish a good track record in our new form before going to the market."

Judging by the group's results for 1983, that track record is well on the way to being set.

"In the year premium income rose 19 percent to R47,0 million from R39,5 million in 1982, while total assets grew 26 percent to R175 million from R139 million.

Of the total premium income in 1983, R19 million related to life and pensions operations and R28 million to short-term insurance.

Rand Life is still operating separately from the group's other life interest, Allianz Life, but Mr Linck says these will be merged progressively over a maximum of five years.

On the short-term market, Mr Linck says the reinsurers have his sympathy over the very much harsher terms they have imposed on the insurance companies' treaties for 1984.

He says it is inevitable that premium rates — particularly those relating to industrial fire risks — will go up this year.

But he suggests there are two courses the industry could follow to lessen the impact.

First, he says, that while avoiding any suggestion of a Cartel the industry could produce a guide tariff book. The major object of this would be to collect statistical information so that insurers could better assess risks.

"When the rate book of the industry was abandoned some years back, we lost our only form of statistical reference.

"This has resulted in some very peculiar rating of large industrial risks in a highly competitive climate and led to the large underwriting losses."

The second path the industry could follow, he says, lies more in the hands of brokers. He suggests they should introduce and emphasise to clients their risk management facilities.

Looking at the life insurance industry, Mr Linck says it is difficult to see how it can come up with any entirely new types of products after the new generation of policies were launched last year by virtually every company.

"Developments as far as the future of the life insurance industry is concerned will lie in marketing, client service and maximising the use of computers to ensure maximum flexibility for policyholders," he says.

On expansion of the group in South Africa, Mr Linck says there are two courses the group could follow.

"If Allianz were to bid for, and gain control of, a large UK domestic insurer which also has a South African operation this would be one form of expansion for us."

The second route to follow, says Mr Linck, "is for us to fulfil our commitment of giving a substantial share of the local operation over to local shareholders, and thereafter to speed up our expansion using the vast technical expertise available to us via our West German association."

Sebe meets bank chief

11/2/84

58

BISHO — Dr Simon Brand, chief executive of the Development Bank of Southern Africa, and a delegation of his senior officials met President Lennox Sebe here yesterday

This meeting represented the first visible evidence of the establishment and operations of the Development Bank of Southern Africa, according to President Sebe.

Extending a hearty welcome to the delegation, President Sebe expressed the high aspirations held by the Ciskei people in regard to the bank's future activities in Ciskei. He made special reference to development projects presently lodged with the bank and made a plea for their early processing and implementation in Ciskei.

Dr Brand spoke of the functions, strategy, guidelines and criteria that would be adopted by the bank He also devoted some time to the principles and procedures that would be followed by the bank in the processing and appraisal of project applications. — DDR

CAPE TIMES 14/2/84

Watchdog

58

A safeguard for your rights. Edited by BOB MOLL

Are there different qualities?

THAT'S the question asked by Herbert Sackson of Claremont who lists catch-phrases such as "Imported", "Styled in Italy (or America)", "Export quality", used to instil in the buyer the idea that the merchandise is superior.

"In the case of fruit the "export quality" seen overseas *appears* superior as it is unripe and firm. It *is* obtainable here, naturally at an exorbitant price — being "export quality".

But in the case of clothing, do the factories have several assembly lines — some making superior articles for export, and others inferior or "standard" items for the gullible buying public?

Are the workers paid less and is the material inferior?

When we buy export quality, do we get better quality or is the "standard quality" the same in disguise?

Is it possible there is only one quality and the dealers are having us on in an attempt to get a higher price for the same article?"

WATCHDOG says: **Don't know, does the rag trade?**

Ombudsman — difficult to find the right person?

THE WATCHDOG poll has now queried the views of 39 major insurance companies accounting for the bulk of life and short term insurance in the Republic.

Of this group, 22 were in favour, five against and 12 uncommitted. The views of the following three companies were recently obtained.

ANGLO AMERICAN LIFE: Dr M Bernstein, managing director: if the bulk of members of the LOA wanted an ombudsman, Anglo would go along with them, but he saw "no burning need" for such a person.

Few complaints were received by the Life Offices Association. Channels of redress such as the Consumer Council, the Registrar and newspapers already existed.

In addition, it might be difficult to find someone who could over disputes involving large sums of money. handle both life and short term complaints.

NBS INSURANCE: Mr Keith Emery, managing director: the concept

had "tremendous merit" but there should be a measure of commitment from both insurance companies and policy holders. A basic proviso was that an ombudsman should not arbitrate

Mr Emery foresaw a problem in the financing of an ombudsman: "If he were financed by the industry would he be impartial? An ombudsman would have to be financed in such a way as to make him feel in no way obligated to either side."

With sufficient support from the industry, an ombudsman could be set up this year, he added.

TRADUNA: Mr A Sumner, general manager: in favour of an ombudsman for the life insurance industry in principle "but in practise it would be difficult to find the right man and to define his powers".

Mr Sumner said the public was treated fairly by the life insurance industry, and an ombudsman would therefore have a public relations function and an educative function. Such an office would cater mainly for the poorer and middle classes.

"An ombudsman could be set up within six months if the will to do so existed, Mr Sumner said.

WATCHDOG's advice: as a consumer you are your own best friend. Insurance companies live on the premiums you pay on your policy. After reading this table, look carefully at your insurance rand — then place it with a consumer-minded company.

Motor oil cheaper in Woodstock

A KENILWORTH reader has discovered there is one oil price for the rich and another for the Woodstock dweller.

"In the Woodstock/Salt River area at three separate Caltex service stations I have been charged R1 for 500ml of SAE 30 oil for the past four months.

Last week I stopped at another Caltex station in Kenilworth where I was charged R1,35 for (the same oil).

I queried this but was told prices had gone up in December. I checked this with my usual service station in Woodstock and the price was again R1.

I then phoned the Caltex offices and was told there was no price control on oil but that the Motor Industries Federation (MIF) laid down maximum prices at which members could sell it.

It seems to me there is an excessive profit margin on this one item. The garages selling at R1 must be making a profit — what sort of profit is being made at R1,35? And what sort of profit does the MIF allow members?

WATCHDOG says: consumers control prices by voting with their feet. In future, buy Woodstock.

Cape Times 14/2/84 (58)

...s, left who has taken over as director of Golden Arrow ...rporation from Mr M Kaplan, ...y retired as managing director ... a director of the corporation ...ct in a consultant capacity in ...alized financing matters.

Bankorp joins forces with insurance brokers

By ALEX PETERSEN
Deputy Financial Editor

SOUTH AFRICA is leading the field in the trend of merchant bank involvement in insurance broking, which reflected the country's strongly competitive broking environment, the chairman of Reed Stenhouse and Partners, Ltd, Mr John B Devine said yesterday.

Broking houses Reed Stenhouse and Hogg Robinson have combined forces with the Bankorp group to form Stenhouse Bankorp, and Mr Devine is in South Africa to meet with Bankorp partners.

Stenhouse Bankorp is specializing solely in corporate accounts, and although Stenhouse have a minority holding, they are committed to providing a full range of support services.

Mr Devine said that indicative of the changing nature of insurance and reinsurance was the increasing extent to which specialist brokers designed tailor-made as opposed to "off-the-shelf" policies For such packages to be acceptable to underwriters, there had to be an element of trust, along with a good track record on the brokers part.

This was linked to another important change in emphasis in that clients were seeking specialist advice which allowed them to minimize and eliminate risk.

To provide such expertise, internationally Stenhouse employ about 50 specialist engineers with insurance training to advise and monitor client projects.

"Although big corporations insure against risks, without exception they don't want to have to make claims. They prefer to try to eliminate risks, and specialist advice can help in this, and reduce premiums accordingly"

Mr Bob Harrison, the managing director of Stenhouse Bankorp, said that South Africa does have a high level of claims when compared to some other countries, but this reflected natural phenomena such as droughts and floods which inevitably affected projects such as large engineering contracts.

Nevertheless, rates on large industrial risks had been "very low" because of South Africa's extremely competitive market

Low premium rates about which industry leaders have expressed increasing concern, reflected a soft market internationally, Mr Devine said.

The situation had come about through sectors of the insurance industry aiming for premium volume and cash flow, but a greater realism was now returning to the market. Underwriters were more cautious, and re-insurance treaties were becoming difficult to negotiate, because underwriters had "had their fingers burnt".

Also evolving with the corporate market was the nature of claims. One of the fastest growing areas of claims, Mr Devine said, was that resulting from computer frauds.

...ats raises interim div

...ndent
...URG. — ...um has in...ved profit ...nths end... by 34 per... ...1m from ...e compa...hs of 1982. ... dividend ...reased to ... from 25c

... share for ...ths were ...otal earn...ar to end... ere 159c ... dividends ... a share

... reflect an ... platinum ... by Impa... which is ... expected ...n, Mr Ted ... last annual

...k on the ...4 at that ...tious and

he did not expect significant profit improvements in the year ahead.

Impala is now increasing production to match demand but the managing director, Mr Bob Bovell, declined yesterday to give the new production levels.

He said Impala's production rate was only given once a year at the time of the annual results.

Impala's last reported production rate was about 680 000 oz of platinum annually and it has the capacity to produce about one million ounces of platinum annually.

The lift in demand for Impala's platinum came from all its customers and in every case was greater than anticipated Mr Bovell said.

The principal offtake came from the automobile industry in the United States and Japan and from the jewellery trade in Japan

As a result Impala's consolidated pre-tax profit for the six months jumped 60 percent to R137,8m (1982 R86,2m)

Impala continues to refuse to publish turnover figures unlike Rustenburg Platinum which recently changed its accounting policies towards fuller disclosure and now gives turnover figures

Impala's tax bill soared 96 percent to R70,5m from R36,0m previously because of the higher profits and lower capital expenditure.

The capex bill dropped R9,0m (R13,9m) which is lower than forecast in the annual report.

Mr Bovell said the deficit in capital spending would be made up in the second half but the total capex bill would not be considerably different from the forecast figure for the year to end-June of R25m.

Commodity Index	1980,3
Platinum	$382,50
Palladium	$155,50

...kel, ...er ...oen ... ...ity

...nnesburg... ...oking firm ...ruger Inc, ... office in ... early in ...erve both ...ional and ...is ... the deci... ... the long

Closing gold prices

(In $ an ounce)
LONDON:
376,75-377,25
Fixing am: 377,50

Deposit Rates

Effective date February 1984

Link to prime with Investec Bank

Investec has added a new series of deposits which link the interest

Cape Times, 16/2/84 (58)

Mr J E Duncker has been promoted to manager, personal banking services, of the Heerengracht branch of The Trust Bank.

Liberty Life details terms of rights issue

Own Correspondent

JOHANNESBURG. — Liberty Life Association is offering ordinary and convertible preference shareholders 25 new ordinary shares at R50 a share for every 100 ordinary or convertible preference shares held on March 2, 1984.

Terms of the rights issue originally announced on February 2 were released last night.

The issue involving 3 043 266 new R1 shares will raise R152,2m. This will effectively increase the company's capital and reserves from R240m to R392m. Liberty Holdings will not be following all its rights. The major portion of the approximately 2m new shares to which it will be entitled will be placed at the issue price with institutional shareholders in South Africa and in the UK.

Resources

The balance of the shares which it will take up will be financed from Liberty Holdings' own resources.

This will reduce Liberty Holdings' stake in Liberty Life from 78 percent to 65 percent, assuming full conversion of the convertible prefs and not taking into account any shares which might accrue from the underwriting which is being done by Liberty Holdings and Standard Merchant Bank.

The directors of Liberty Life anticipate that the dividends which the new shares will be entitled to — those for the year ending December 1984 — "will be of the order of five percent" on the issue price, that is at a rate of 250c a share. This is in line with Liberty's annual dividends which have been increasing at a rate of 20 percent a year.

Mr Donald Gordon, chairman of the Liberty Life and of Liberty Holdings, said last night that there was a twofold purpose in making the issue.

First, financing the vast volume of new business written had become an increasing strain. When the last rights issue was made in 1980 it had been believed that this additional capital would have been sufficient to finance new business written up to 1990. Instead that target had been reached seven years sooner than had been expected.

In 1980 total assets were R1,334 billion. Currently total assets were in excess of R3 billion. At this rate of progress they could reach R10 billion by 1990. The additional capital would put Liberty's capital base in a very strong position.

The secondary reason — and this was why Liberty Holdings was not taking up all its rights — was to widen the company's register of shareholders, particularly among institutions here and abroad.

Shares

Records show that Liberty's shares were very tightly held and that few shares ever came on to the market.

The official announcement says the increased public participation in Liberty Life to the extent of approximately 35 percent, involving "a broad spectrum of South African and United Kingdom institutional investors is more appropriate to the status of Liberty Life as a listed company" on the Johannesburg and London stock exchanges. It will also result in greater marketability in the company's shares.

 58

Record R3 billion money market shortage likely

By PAUL DOLD
Financial Editor

THE money market shortage is expected to rise to around the R3 billion-mark by the end of the month placing renewed upward pressure on interest rates.

Reflecting the tight conditions, the one-day wholesale rate touched 19,25 percent yesterday with the interbank rate fixed at 18,75 percent.

In the retail market Good Hope Bank has raised its 365-day notice rate by one percent to 17,5 percent (an additional half a percent is payable to over 60s).

Fixed deposit

The 185 days 15 — 16,5 percent rate has been raised to 16 — 17,5 percent, depending on the amount and 31-day notice accounts from 14 percent to 14 — 16,25 percent.

The 18-month fixed deposit rate is up to 17 percent from 16 percent the 24 months from 15,5 percent to 16,25 percent and 36 months from 15 percent to 15,5 percent.

Rates on special savings accounts have been increased as well with the top rate at 16,75 percent (15,5 percent) on amounts of R20 000 to R25 000.

The record money market month-end shortage will reflect the seasonal mining house tax payments of over R1 billion plus the current shortage of around R2 billion.

The R2 billion shortage is believed to consist of mainly trade payments, disinvestment and equity sales.

However, the recent weakening of the dollar is expected to lead to an inflow. But a major reversal of the trend will hinge on a higher gold price.

The market is likely to remain tight until after the Budget in March when government spending will ease the shortage.

But with overall rates so high, investors are not going fixed, preferring to remain on call.

Although the BA rate is expected to move higher, market analysts do not believe prime will rise again. The consensus is that prime has peaked and that the Reserve Bank will provide generous assistance at the month-end to stave off another rise in prime.

In the market there is a strong demand for paper with little selling. There is firm demand for paper such as non-liquids which carry a higher rate. The market is anticipating a tight Budget with the bill rate rising to the 18,5 percent level against the current 18,35 percent.

Demand

There is a growing view that gilt rates have peaked with the 11,5 RSA showing the trend moving down some 60 points from the 14,30 mark.

The long-end of the market will probably again lead the short down.

There has been fair institutional demand but the houses have certainly not been rushing into the market.

Investors should confine buying to RSA's and the 11,5 which is highly marketable could prove attractive.

The next issue from the primary market is the Umgeni Water Board. The issue has been reduced to R7m and rates are due to be announced next week.

Transkei raises sales tax to 7%

UMTATA. — Transkei will increase sales tax to seven percent from six percent effective March 1, Transkei Finance Minister, Mr Sidney Qaba, said.

He said an increase in unemplorment had resulted in a marked decline in tax revenue. — Reuter

Cape Times 18/2/84 158

Current account showed R500m surpl

HOUSE OF ASSEMBLY. — The current account was provisionally estimated to have shown a surplus of about R500-million during 1983, the Minister of Finance, Mr Owen Horwood, said this week.

Introducing the R6 500-million "little budget" — the Part Appropriation Bill — on Thursday, he said this surplus compared with a revised deficit of R3,2-billion in 1982, and represented a substantial improvement.

"During the fourth quarter of 1983, however, the surplus on current account was temporarily transformed into a moderate deficit. This occurred despite a distinct and most welcome increase in non-gold exports, and was mainly produced by a decline in the value of the net gold output and an increase in imports.

"The latter increase was largely due to two special factors, namely an abnormal and temporary spurt in oil imports and large imports of maize to make up for the drought-induced shortfall."

Mr Horwood said that given the decline in the gold price and the other adverse extraneous developments, the rand had held up well in the foreign exchange market. During 1983 as a whole, the rand had depreciated against the exceptionally strong United States dollar by 11,6 percent, but by only 4,3 percent in terms of a weighted "basket" of foreign currencies, including the dollar.

"Indeed, over this period it depreciated against sterling by only 1,5 percent and against the Swiss franc by 3,7 percent, and appreciated against the German mark by 0,9 percent and against the French franc by 9,2 percent.

"From the point of view of curbing inflation, any depreciation of the rand in terms of other currencies is of course problematical. But from the point of view of counteracting a decline in domestic economic activity and maintaining equilibrium in the balance of payments, this downward flexibility of the exchange rate has served the country well.

"It has, for example, prevented the rand price of gold from declining as much as the dollar price, thereby to a large extent insulating the gold mining industry from the sharp fall in the dollar price of its product."

In addition, Mr Horwood said, it had preserved the dividend payment potential of the industry not only in rand terms, but also in terms of such important currencies as sterling, German marks and Swiss francs.

It was well known, he said, that South Africa's economic upswings had in the past usually been export-led and had tended to follow the upswings in the major industrial countries, with a time lag of between six and 15 months.

"A year ago, when I introduced last year's Part Appropriation Bill, there were strong indications that in accordance with this well-established cyclical pattern, the South African economy was approaching the lower turning-point of the business cycle and was about to enter a new upward phase.

"The US economy was recovering from its recession and this augured well for our exports of minerals and other primary commodities. Moreover, in the wake of the emerging international debt crisis, the gold price had staged a strong recovery from about September, 1982, and by mid-February, 1983, was fluctuating around a level of 500 dollars per ounce.

"In addition, the balance of payments had shown a spectacular improvement during the second half of 1982. The rand had accordingly appreciated between the middle of 1982 and the end of January, 1983, by nearly 10 percent in terms of a weighted basket of other currencies, and the net foreign reserves had increased by more than R2,5-billion."

Mr Horwood said that in the months that followed, however, economic conditions and prospects had been adversely affected by a number of new extraneous developments which came to pose "quite exceptional challenges" to the authorities.

"To begin with, the gold price moved into a declining phase that was to have serious consequences for the South African economy. After reaching a peak of over 511 dollars per ounce on February 15, 1983, the gold price averaged only 427 dollars during the second quarter of 1983, 417 dollars during the third quarter, 424 dollars during the fourth quarter and a mere 373 dollars thus far this year.

"In addition, South Africa's ... mained relatively low during ... began to show a rising tenden... months of the year."

A third adverse development ... ing of the drought during the ... 1983.

Mr Horwood said the pernic... declining gold price, disappoin... and unfavourable weather con... adverse effects on gross domes... ance of payments on current ac... but had also contributed to a ...

"It did so, for example, by cre... that the rand would depreciate, ... favourable payments, leads and ... aging the sales of South Afric... eigners to South African resid...

"It is a tribute to the South A... despite these new adverse extra... it performed well in 1983. It is ... decline of about 1,5 percent in ... product regressed by about th... terms in 1983 as a whole.

"But it is significant that the ... which started from a high level ... in August, 1981, 'bottomed ou... second quarter of 1983.

"Indeed, real gross domesti... gross domestic product and ...

Cape Times 18/2/84 (58)

...unt showed R500m surplus during 1983

...ercent, and appreciated against the ...o 0,9 percent and against the French ...ccent.

...int of view of curbing inflation, any ...the rand in terms of other currencies ...oblematical. But from the point of ...cting a decline in domestic econom... maintaining equilibrium in the bal...ts, this downward flexibility of the ...has served the country well.

...xample, prevented the rand price of ...ining as much as the dollar price, ...ge extent insulating the gold mining ...he sharp fall in the dollar price of its

...Ir Horwood said, it had preserved the ...nt potential of the industry not only but also in terms of such important sterling, German marks and Swiss

...nown, he said, that South Africa's ...ngs had in the past usually been ex...d tended to follow the upswings in ...rial countries, with a time lag of be...15 months.

...when I introduced last year's Part ...Bill, there were strong indications ...ce with this well-established cycli... South African economy was approaching the lower turning-point of the business cycle and was about to enter a new upward phase.

"The US economy was recovering from its recession and this augured well for our exports of minerals and other primary commodities. Moreover, in the wake of the emerging international debt crisis, the gold price had staged a strong recovery from about September, 1982, and by mid-February, 1983, was fluctuating around a level of 500 dollars per ounce.

"In addition, the balance of payments had shown a spectacular improvement during the second half of 1982. The rand had accordingly appreciated between the middle of 1982 and the end of January, 1983, by nearly 10 percent in terms of a weighted basket of other currencies, and the net foreign reserves had increased by more than R2,5-billion."

Mr Horwood said that in the months that followed, however, economic conditions and prospects had been adversely affected by a number of new extraneous developments which came to pose "quite exceptional challenges" to the authorities.

"To begin with, the gold price moved into a declining phase that was to have serious consequences for the South African economy. After reaching a peak of over 511 dollars per ounce on February 15, 1983, the gold price averaged only 427 dollars during the second quarter of 1983, 417 dollars during the third quarter, 424 dollars during the fourth quarter and a mere 373 dollars thus far this year.

"In addition, South Africa's non-gold exports remained relatively low during most of 1983 and only began to show a rising tendency during the closing months of the year."

A third adverse development had been the worsening of the drought during the first three quarters of 1983.

Mr Horwood said the pernicious combination of a declining gold price, disappointing non-gold exports and unfavourable weather conditions not only had adverse effects on gross domestic product, the balance of payments on current account and the budget, but had also contributed to a net outflow of capital.

"It did so, for example, by creating the expectation that the rand would depreciate, which produced unfavourable payments, leads and lags, and by encouraging the sales of South African securities by foreigners to South African residents.

"It is a tribute to the South African economy that, despite these new adverse extraneous developments, it performed well in 1983. It is true that following a decline of about 1,5 percent in 1982, gross domestic product regressed by about three percent in real terms in 1983 as a whole.

"But it is significant that the cyclical downswing which started from a high level of economic activity in August, 1981, 'bottomed out' from about the second quarter of 1983.

"Indeed, real gross domestic expenditure, real gross domestic product and non-agricultural employment all increased again during the second half of 1983, while unemployment declined," Mr Horwood said.

As part of the anticipated increase in real gross domestic expenditure in 1984, the volume of imports was expected to rise by about two percent from its existing low level. In value terms, the increase could be of the order of eight percent, Mr Horwood said.

"On these assumptions, the current account of the balance of payments can be expected to show a moderate surplus in 1984.

"The anticipated increase in exports and in gross domestic expenditure should be sufficient to generate an increase in real gross domestic product of about three percent in 1984. Naturally, this figure will be influenced by the extent to which the recent floods in the north-eastern part of the country and the worsening drought in certain other areas affect real agricultural output."

Mr Horwood said a positive rate of economic growth of the order of about three percent in 1984 would represent a considerable improvement on the negative growth rates of the past two years.

"Moreover, if accompanied by a lower rate of inflation than in the preceeding years and by the maintenance of a sound balance of payments position, it would point the way to a further acceleration of growth in 1985," Mr Horwood added. — Sapa

SA Eagle profits soar — dividend increased 20%

Cape Times 21/2/84

Own Correspondent

JOHANNESBURG. — Substantial growth in investment income and an improved underwriting surplus combined to push up SA Eagle Insurance taxed profit 40 percent to R15,033m for the 12 months to December 31.

On the strength of the performance, which compares with 1982 profit of R10,759m, total dividends have been increased 20 percent to 60c from 50c previously.

Retentions also rose and dividend cover increased from 1,8 times to 2,1.

Earnings a share weighed in at 125,3c compared with 89,8c previously.

The improvement in bottom-line earnings follows the promising interim results when taxed earnings of R6,978m (R4,946m) were reported.

Performance

SA Eagle's managing director, Mr Fred Haslett, said yesterday that because of its conservative approach to new business, coupled with a record investment performance, the group had come through a difficult trading period with "flying colours".

A spokesman said SA Eagle had a policy of going for profitability rather than growth in business. "We have taken amounts that we can cope with," he added.

Gross premiums written (including MVA) were up by a modest 8,8 percent to R181,308m (R166,500m) and industry sources say that this growth rate will possibly be a lot lower than other short-term insurers.

A large growth in the volume of new short-term insurance industry business has been in group schemes — an area Eagle has shied away from — and the group has also, for example, tended to keep away from large industrial risks where rates are still soft

After 1981's R3,376m underwriting deficit, Eagle took steps to correct underwriting results, even at the cost of market share, and in 1982 it posted an underwriting surplus of R1,022m.

Surplus

The 1983 underwriting surplus of R3,5m indicates that the corrective measures have finally paid dividends, although management remains concerned that "unhealthy competition" is still being experienced for the large industrial and commercial risks.

Mr Haslett said Eagle's underwriting policy over the past few years was conservative, enabling it to produce what was obviously better-than-average underwriting profits

The other major factor behind the earnings boost was the 31 percent rise in investment income to R18,602m compared with R14,219m.

Factors boosting the investment income included higher interest rates and a R9m Anglo American payment in the second half of 1982 for Eagle's shares in African Eagle Life Assurance.

Mr Haslett said Eagle's substantial investment income acted as a strong buffer against the exigencies of the market.

"Generally speaking 1983 was not a good year for the short-term insurance market and heavy losses were sustained from natural disasters (hail and flood) and from a few large industrial fires."

Losses

Mr Haslett said the vast majority of these losses were borne by the reinsurance market, which had extremely adverse results for the third year running

He said. "There must come a time of reckoning when the international insurance market comes to the conclusion that it has subsidized South Africa long enough and both insured and insurer will face the frustration of not being able to obtain or provide the cover required."

He added that 1984 appeared to be following a similar pattern as cyclone "Domoina" had caused severe damage to the eastern part of the country, showing that natural disasters in South Africa were a regular occurrence and not the isolated event they were once thought to be

The only solution to this problem was a return to "sensible" underwriting — higher rates to compensate for possible claims — and the elimination of unhealthy competition by domestic short-term companies for the larger accounts.

Comment: At yesterday's closing price of 860c SA Eagle yields seven percent on dividends — above the insurance sector historic average of 4,1 percent — and 14,6 percent on earnings

Growth rate

Mr Haslett at the half-year stage indicated that he thought the second half would see a reduction in the growth rate in investments due to economic conditions.

This did not occur, but the prediction may have dampened market expectations and this coupled with claims from severe hail and storm damage in Natal in the last quarter, is probably responsible for the current share rating

The 1983 results — together with the higher dividends — could trigger more interest in the stock and a favourable re-rating.

Protea doubles profits — raises dividend 33%

Cape Times 22/2/84. (58)

By PAUL DOLD, Financial Editor

PROTEA ASSURANCE boomed in the past year, more than doubling pre-tax profits and the dividend is being lifted from 12c to 16c — the first increase in four years.

The profit surge followed an underwriting turnaround of R2 177 000 after an underwriting loss of R2,6m in 1982.

Consolidated profits were R4 020 159 as against R1 843 729 and net profits R3 205 159 (R1 893 729).

The improvement is due to not only the general improvement in the market but from selective underwriting, impressive growth in investment income and improved productivity.

The managing director, Mr Tony Crank, says the group has made considerable progress in increasing productivity at all levels.

This coupled with improved underwriting has clearly been a key area in Protea's advance. Gross premium income moved up from R59,7m to R67,3m with investment income breaching the R4m mark for the first time. Profit contributions from the Marine and Life funds remain satisfactory.

The chairman, Mr C L Walton, however warns that the problems of overcapacity and rising overheads during the recession are still affecting the industry as a whole and competition remains intense.

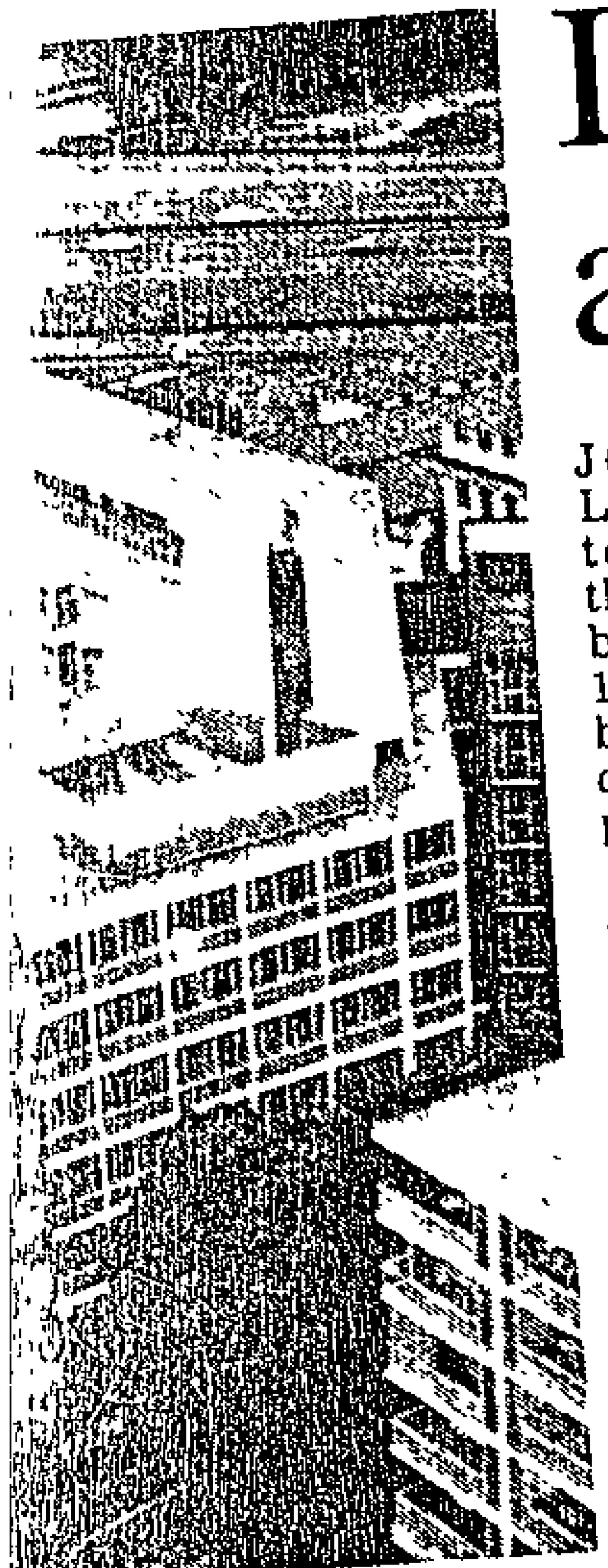
Dividend

The final dividend has been increased from 8,5c to 12,5c making a total of 16c (12c) for the year.

The share price has risen from around 285c to the 360c mark this year but given the latest dividend and indications that the group should be able to benefit from improvements in the insurance market, the share should harden further.

Highs and lows

New highs		
E Dagga	350	305
Winkels	6 200	6 100
Elands	1 690	1 650
Implats	1 800	1 780
Stanbic	1 310	1 300
Harwill	160	155
K & L Tim	165	160
Rex Trufrm	1 300	1 250
Natal Trdg	420	400
New lows		
OK	420	1 825



by Retco for R6m.

Liberty Life increases assets to R3,4-bn

CAPE TIMES 24/2/84

68

Own Correspondent

JOHANNESBURG. — Liberty Life increased total assets by more than R1 billion to R3,4 billion at the end of 1983, while it pushed up both earnings and dividends by just over 20 percent in the year.

The company is South Africa's third biggest life assurance office.

It is also the keystone of a successful and ambitious financial group, chaired by Mr Donald Gordon, that is now very much part of this country's "big league".

Liberty's ambitions include hopes of major international expansion — an area in which it has already made large strides.

Final dividend

In 1983 the company increased taxed attributable profit to R31,289m from R26,036m in 1982.

Earnings a share rose from 238,5c to 286,7c.

The final dividend was raised from 100c to 122c to make a total for the year of 208c (172c).

Net premium income and annuity considerations rose in 1983 from R333m to R453m.

The net income from investments was up from R154m to R202m.

The main contribution to the total asset growth last year was a rise in the value of investments in shares and mutual funds from R791m to R1,32 billion.

Much of that resulted obviously from the general surge in values on the Johannesburg Stock Exchange.

Proportionately, however, it was Liberty's overseas interests — held in shares — that provided the biggest rate of growth.

These interests are held through TransAtlantic in which the United States giant Lincoln National Life has a near 25 percent stake.

TransAtlantic has 24 percent of Sun Life of Britain — one of the UK's biggest life groups — which is by far the biggest individual holding in the group.

That investment is now worth some £90m against an original cost from 1980 of about £35m.

Meanwhile, however, Liberty has massive plans within South Africa.

Gearing

Stanbic and United Building Society have joined forces and this means that a R20 billion-plus threesome of those two plus Liberty is steadily gearing itself to offer a financial services package that no other group could, at this stage, match for comprehensiveness.

Liberty Life is controlled by Liberty Holdings.

In 1983 Libhold increased its attributable profit from R27,223m to R35,772m.

Earnings a share rose from 57,2c to 76,1c.

The total dividend for last year went up from 35c to 42c with a final payment in 1983 of 24,5c (17,5c).

Libhold is in turn controlled by Libcon in which Stanbic and Mr Gordon and Mr Rapp each have 50 percent.

Rand closes above $0,83

JOHANNESBURG. — The rand closed above $0,83 after breaching $0,82 on Wednesday, as the bullion price surged to $400, dealers said.

It closed at $0,8315/25 after opening at $0,8265/75, sharply above Wednesday's $0,8210/20 close, they added, noting the steady dollar on overseas markets had little effect on the rand.

They said early trading was hectic, but activity simmered down later and the rand traded quietly around $0,83 most of the afternoon.

Against other currencies the rand closed at:

US: 0,8315/25.
UK: 1,7590/600.
Germany: 2,2015/25.
Switzerland: 1,8130/40.
Netherlands: 2,4950/65.
France: 6,7810/30.
Japan: 193,70/90.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.

highs

Closing gold prices

(In $ an ounce)
LONDON:
397,70-398,20
Fixing am: 395,75
Fixing pm: 398,25
ZURICH:
399,00-402,00
(299,00-402,00)

Irvin & Johnson lifts profit 12%

Insurance monitor rejected

Cape Times 28/2/84

58

Staff Reporter

THE Life Offices' Association has rejected calls for a permanent insurance-industry watchdog.

In a statement issued yesterday the LOA's chairman, Mr F J Davin, said the management committee of the LOA had decided to put off the appointment of an ombudsman, but would "reconsider the matter once greater use of existing official channels for complaint has been made by policyholders with problems".

The decision by the 11-man management committee, taken at its quarterly meeting in Cape Town last week, comes after a media initiative launched by Cape Times consumer reporter Bob Molloy, who made available R5 000 (his prize after being adjudged a category winner in last year's Checker's consumer journalism awards) and taken up by newspapers countrywide. The call by Mr Molloy came 10 years after the Old Mutual chairman, Dr J G van der Horst, made a similar plea in his outgoing LOA presidential address.

'Not indifferent'

In his statement Mr Davin said the LOA was "not indifferent to the idea of an ombudsman", an issue previously considered by the management committee.

"Several of our member offices actively support the idea. We are also not unaware of the public relations benefits to the industry which could arise from the appointment of such an individual in South Africa.

"However, in considering the practical applications of such an appointment locally, it was the view of the majority of the committee that use was not being made by the public of channels open for bringing grievances that may have arisen to the attention of the life-insurance industry for solution."

Two channels

Mr Davin outlined the channels of complaint available including the Co-ordinating Consumer Council which had expressed a willingness to deal with life-insurance industry complaints. The LOA was also available as a channel. He noted that policyholders had been satisfied previously after using the LOA in problem solving.

In 1983 the LOA received 28 complaints; most had been satisfactorily dealt with.

Mr Davin called on the media to give greater publicity to the two channels available, adding that in 1983 the LOA spent R40 000 to protect the financial and other interests of policyholders. He was convinced that the industry would provide for the expenditure should it become apparent that an ombudsman was necessary.

● Mr Molloy said that those companies which had gone along with the decision were not consumer-orientated. "I am sure consumers will know with whom to place their insurance rands. If not, Watchdog will show the way with a weekly list."

(58) Hansard Q. 61.432

Development Bank of Southern Africa

1/3/84

314. Mr S P BARNARD asked the Minister of Foreign Affairs:

(1) Whether the Government has made an amount of money available to the Development Bank of Southern Africa; if so, what amount;

(2) whether any of this money was made available on an interest-free basis; if so, (a) what amount and (b) why;

(3) whether the Government intends to invest capital in this bank; if so, what initial amount is to be so invested;

(4) whether the four independent Black states have invested or are going to invest amounts in this bank; if so, what amount in each case;

(5) who or what body bears the responsibility for the (a) capital and (b) transactions of this bank?

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes. R16,8 million as share capital and R28,5 million as a contribution to the development fund.

(2) Yes.

(a) R45,3 million.

(b) There is no interest payable on the share capital. An amount of R28,5 million was transferred to the Development Bank on 1 February 1984 to put the Bank in a position to finance certain development projects in the TBVC-states during the 1983-84 financial year which were taken over from the Department of Foreign Affairs. An amount of R28,609 million will be transferred to the Bank on 1 March 1984 for the same purpose.

(3) Yes. An amount of R168 million will be taken up as share capital in the Development Bank for an initial period of five years. Of this amount R16,8 million has already been taken up.

(4) Yes.

Transkei: R10,0 million of which R1,0 million has already been taken up.

Bophuthatswana: R10,0 million of which R1,0 million has already been taken up.

Venda: R5,0 million of which R500 000 has already been taken up.

Ciskei: R7,0 million of which R700 000 has already been taken up.

The Development Bank has thus an authorized share capital of R200,0 million of which R20,0 million has already been taken up.

(5) (a) The shareholders, that is to say the SATBVC-countries.

(b) The Development Bank, which is an international organization and a corporate body, was established by way of an international agreement and is in the final instance responsible to its shareholders.

Minister of Agriculture:

What amount was allocated by the Agricultural Credit Board in the latest specified year for which figures are available, in respect of (a) the electrification of houses for, (b) the provision of water for domestic consumption by, and (c) any other specified services in respect of, farm employees?

The MINISTER OF AGRICULTURE:

1 January 1983 to 31 December 1983

(a) R167 334.

(b) R343 462.

(c) R5 313 134 (Includes additions to houses as well as the erection of ablution facilities).

Land and Agricultural Bank

423. Mr J H VAN DER MERWE asked the Minister of Finance:†

(a) How many loans were granted by the Land and Agricultural Bank to farmers in each electoral division of the Republic in each of the latest specified three years for which figures are available, (b) how many farmers per electoral division were involved in each of these years and (c) what average amount in loans was granted per farmer in each electoral division in each of these years?

The MINISTER OF FINANCE:

The required figures are not readily available in view of the fact that the Land Bank's computerized system in regard to its statistical records is programmed on an agro-economic basis.

It will take considerable time, possibly even months, to obtain the necessary information by hand, which will seriously disrupt the administration of the Land Bank's drought relief programme.

X 58 ~~[illegible]~~al thousand X

Agricultural Credit Board

Q. Col. 604

401. Mr R W HARDINGHAM asked the

13/3/84

X X

Cape Times 20/3/84 (58)

12 628 houses sold under 99-year leasehold

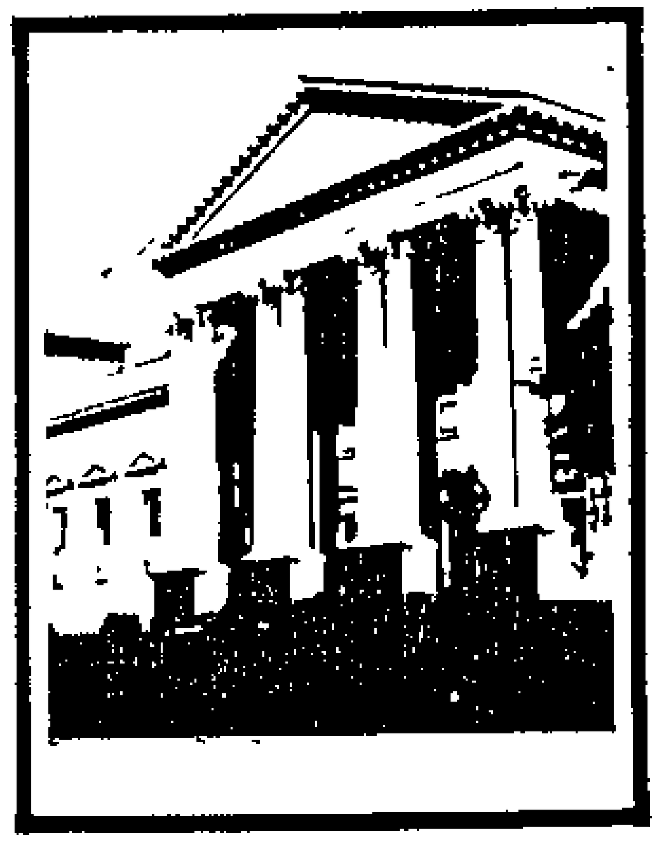
Political Staff

HOUSE OF ASSEMBLY. — Building societies have financed less than a quarter of the 12 628 houses sold and built under the 99-year leasehold scheme.

The Minister of Co-operation and Development, Dr Piet Koornhof, said yesterday that building societies had financed the building of 1 824 houses and the sale of 1 158 houses.

The remaining 5 818 houses which had been built and 3 828 which had been sold under the 99-year scheme had been financed by means of private capital.

Replying to a question which had been tabled by Mr Pat Rogers (NRP King William's Town) Dr Koornhof said no houses had been built under the 99-year scheme in three of the eight chief commissioners' areas — Natal, Western Cape and Northern Transvaal.



Most of the houses — 8 256 — built and sold had been in the Witwatersrand area, Dr Koornhof said.

Replying to another question, tabled by Mr Graham McIntosh (PFP Pietermaritzburg) Dr Koornhof said no 99-year leases had been registered in the Port Natal and Drakensberg Administration Board areas "as most of the black residential areas serving white towns" were situated in Kwazulu "where residentials may obtain ownership and leasehold is consequently not applicable".

However, in the Port Natal Administration Board area, which serves Durban, the surveying of sites was in a few exceptional cases not yet completed "although far advanced".

In the Drakensberg Administration Board area, problems were also experienced in that people who were interested in 99-year leasehold could not obtain loans.

"This has now been solved by the Department of Community Development agreeing that money from the National Housing Fund could be used for this purpose," Dr Koornhof said.

58

BUDGET '84 ... REACTION

Beer tax rise slated as 'discrimination'

By DAVID CAPEL

SOUTH AFRICAN BREWERIES yesterday rounded angrily on Mr Owen Horwood's 2,4c/*l* duty increase on beer, calling it "blatant discrimination against the working man".

The managing director of SAB's beer division, Mr Peter Lloyd, said in a strongly worded statement that instead of asking all consumers of alcohol to make a contribution, the Minister had picked on the lower income groups to pay for the pleasure of the privileged.

"He should have applied equal treatment and spread the burden around," Mr Lloyd said. "Beer is now paying a higher rate of excise than brandy, and excise tax represents 37% of the wholesale price of beer".

Mr Lloyd said each year SAB kept its increases well below the inflation rate through better productivity. The selective tax was merely a tax on production.

He said selectively placing additional excise on beer, and not on the stronger drinks of spirits and wine, was "the most blatant form of discrimination against the working man".

"The beer drinkers of South Africa will get a good idea of how unequally they are being treated by the Government when they realise that, to December, they paid R439-million in excise whereas spirit drinkers paid R247-million and wine drinkers paid nothing," Mr Lloyd said.

"The increase in wholesale price represents R1,83c for 750ml and 0,92c for 375ml. The price at retail levels is decided by the licensed liquor retailers," Mr Lloyd said.

Mr Trevor Pearman, of the Rebel bottle store chain, said the margins in the retail trade were not large. If SAB put up the price, it would have to be passed on to the consumer.

Mr Pearman said his company had laid in stock and would sell this at the old price. It was difficult to say how long these stocks would last.

Mr John Hooper, of Solly Kramers, said beer comprised only 30% of his stores' sales mix and the company had not been stock piling. Beer was a fast-moving commodity but the company would hold prices down for as long as stocks lasted.

Mr Hooper said people in the lower income bracket would be hardest hit. As a retailer, he was happy a big chunk of his business (wine and spirits) would not be affected by the tax.

Dr Ernst Uken, executive director of the Federated Hotel and Liquor Association (Fedhasa), said price structures for beer were decentralised and he could therefore not say what increases would be passed on to the consumer.

Dr Uken said he was "amazed" to see the duty raised on beer and not other beverages.

The 2,4c increase would have an adverse effect on the retail industry.

Issue of joint tax is shelved again

By ETHEL HAZELHURST

ONCE again the question of separate taxation for married couples has been shelved by the Minister of Finance, Mr Owen Horwood.

In his Budget speech in the House of Assembly yesterday, Mr Horwood said: "It is a complex matter — contrary to popular belief — and demands renewed study."

The Standing Commission on Taxation was presently engaged in a "major exercise" to reassess the advisability or otherwise of separate taxation and he hoped to receive a report on this early next year.

"In the meantime I must warn against any premature expectations that the fact of such an inquiry necessarily means a change in the present system," he said.

The matter should be dealt with "entirely on its merits".

Ms Sharon Lain, national chairman for taxation for the South African Federation of Business and Professional Women, said she found it encouraging that the question of separate taxation had not been rejected, but was distressed that "it's still dragging on".

"I believe it would be more equitable to introduce level taxation across the board."

Ms Kate Jowell, assistant director of the graduate school of business at the University of Cape Town and a member of the Tax Commission, expressed disappointment that there had been no increase in the wife's tax-free allowance "to take note of fiscal drag".

The allowance, however, "deals only with one of the fundamental problems of joint taxation".

She was not able to estimate when the commission would complete its task.

Ms Val Mickleburgh, corporate affairs director of a major oil company, pointed out that the taxation of a married couple as a unit meant any refund went to the husband and it was necessary for a husband to know what his wife earned.

Though personally in favour of separate taxation, she conceded the question was "complicated".

"Clearly the tax has to come from somewhere. And at lower levels of income, taxation would be more and not less if separate taxation were introduced."

She felt giving people the option of being taxed jointly or separately would not be practical.

Prices up as debts fly high

Pretoria Bureau

IT'S been a gloomy year for consumers so far, and yesterday's Budget has done nothing to dispel the gloom.

So far this year Government has agreed to increases in power, post office and railway tariffs, together with increases in the prices of bread, sugar and other foods.

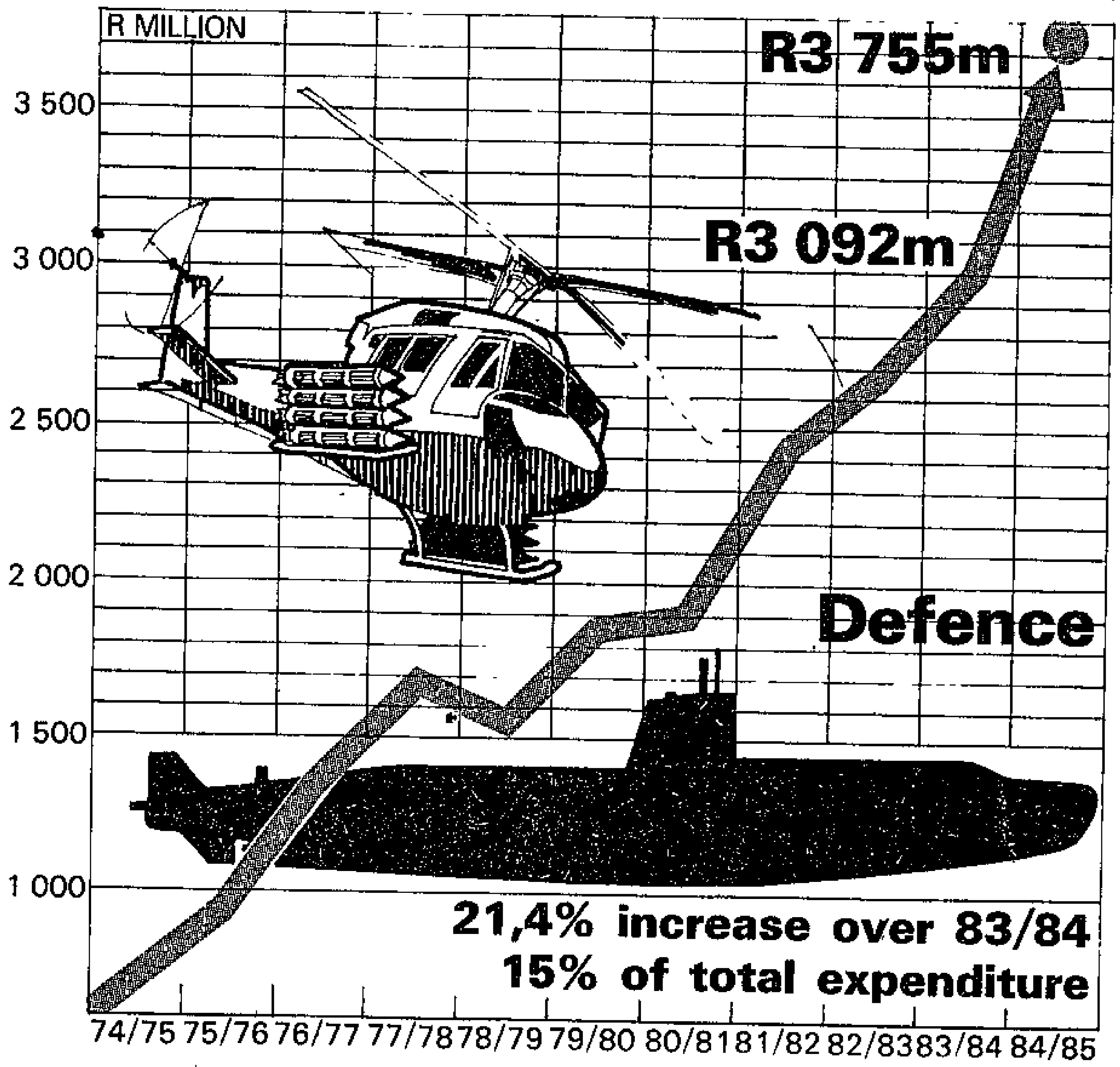
Within the next three or four weeks, a huge increase of at least 25% is expected in the price of maize which will affect the prices of meat, eggs, poultry and dairy products. The price of milk is also considered certain to rise by at least 4c/*l*.

Still ahead too, are increases in the prices of steel and coal and deeper into the year there is the threat of another hike in GST.

Another bread price increase is also forseeable — when he announced the 6c/*l* a loaf increase in the bread price earlier this year, the Minister of Finance, Mr Owen Horwood, said further increases were "inevitable."

Economists have pointed out that the rash of price increases will keep the inflation rate — now officially at 10% — substantially above that figure for the rest of the year.

The increases, together with the punitive Budget proposals, would make all South Africans poorer, it was stated.



Rise in GST expected this year

Pretoria Bureau

GST exemptions would be announced later this year when GST was again increased, according to Pretoria sources.

In his Budget speech yesterday the Minister of Finance, Mr Owen Horwood, said he had instructed the standing committee on taxation to investigate the desirability for a number of basic foods, or all foods, to be excluded from GST or be taxed at a lower rate.

Economists yesterday warned that because of the "virtual impossibility" of the Government restricling its increased spending during the new financial year to 11,7% a GST hike later in the year was virtually certain.

Sources pointed out that ever since GST was introduced in the late seventies trade unions had repeatedly asked the Minister to abolish GST on basic foods and other essentials of life.

The PFP, too, has repeatedly demanded that the tax be removed from essentials of life.

Chamber applauds GST exemption probe

Pretoria Bureau

THE South African Federated Chamber of Industries welcomed the fact there had been no further increase in GST and that the Government was investigasting exempting food from the tax.

The president of the FCI, Mr Rod Ironside, said the budget was a "fairly neutral" one.

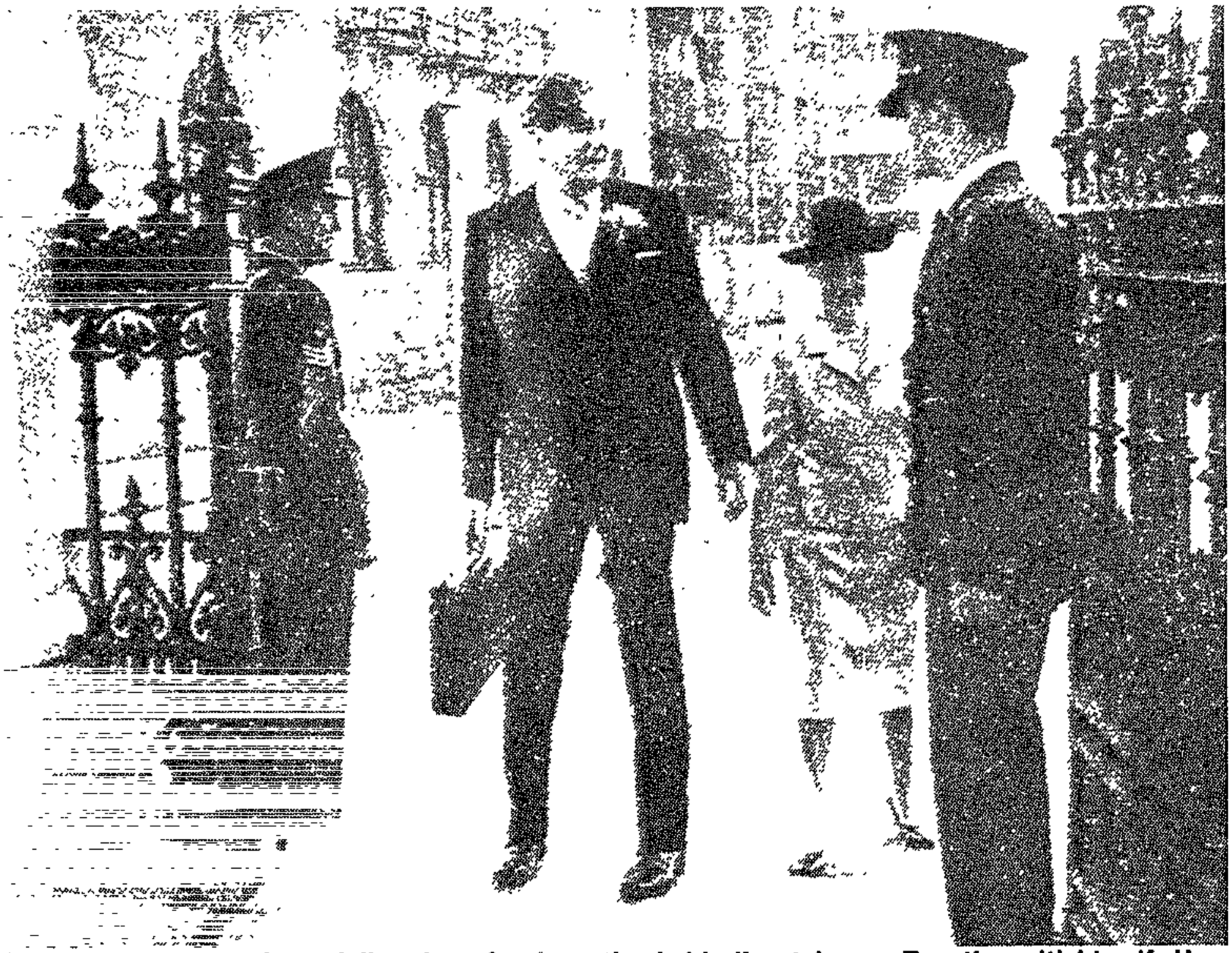
But this assessment would depend on whether the Government overspent its targets during the year.

The chamber welcomed the commitment to more effective control over Government spending and the Cabinet's seriously consideration of a zero based budgetary approach.

It was clear that monetary policy would continue to carry a heavy burden in the fight against inflation.

The FCI welcomed the Government's commitment to a uniform tax system and equality between all taxpayers, which it hoped would be applied effectively also to the fringe benefits.

"While accepting the need to eliminate abuses of the system of tax allowances, phasing out the life system and the investment allowances means that those elements which helped to alleviate the effects of inflation will be removed from the company tax system."



'''ng Minister with a 'financial' package for the nation in his dispatch case. Together with his wife He- ::::: of Finance Mr Owen Horwood, is seen entering Parliament to announce his Budget.

No harm seen in cuts to SWA

By TONY WEAVER
Mail Africa Bureau

WINDHOEK. — The announced cut in budgetary aid to South West Africa does not worry the SWA Secretary for Finance, Dr Johan Jones.

Mr Owen Horwood's statement that direct budgetary aid to South West Africa would be cut administratively by R30-million from the original printed estimate of R384million "does not upset me at all", Dr Jones said yesterday.

"This is in line with the noises we have been hearing from the Prime Minister and others about a general tightening of belts, and in any case, the original figure was merely a rough estimate," Dr Jones said.

Professor Wolfgang Thomas, professor of economics at the University of the Western Cape, and a top expert on the economy of the territory, commented that Mr Horwood's announcement said very little about South Africa's intentions in SWA.

"On a political level, he is also trying to signal to the world that this is a visible sign that South Africa is cutting back its influence in Namibia," he said.

The head of the Institue of International Affairs, Professor John Barratt, said it came as no surprise.

"The Prime Minister warned of this some time ago, and I would think that the reduction has been very carefully worked out," he said.

Prof Barratt added that the announcement was also a warning that South Africa could not go on subsidising the territory on its own. It signalled pressure on parties involved for greater movement in the SWA issue.

"But it is definitely not designed to do any damage to the territory," he added.

'Fat Cats' will now feel the pinch — economist

Pretoria Bureau

'MISTS and tax exclaimed yesterday the would have a restric- ... on the the eco- and warned that there was no increase ...dual tax rates, fiscal ... see to it that most ... paid more.

... feared, too, that the ...ment would be unable ...ict its spending to an ... of 11,7%, and ad- taxpayers to brace ... for another in- in GST later in the

...authority Mr Costa Di- ... he was "absolutely ...". It was a Budget ... hit the "Fat Cats". ...panies and others who ... paying unfairly low ...ause of hidden benefits ... the system would now ... to heel.

... high time the abuses highlighted and dealt On individual taxation, ...aris said it was a fallacy to say that there would be no increases.

Fiscal drag inflation and outdated tax tables would see to it that, in fact, many taxpayers would pay more.

However, the most productive salary earner would not be in a worse position as he was already paying maximum taxation, Mr Divaris said.

On the introduction of fringe benefit taxation in September, Mr Divaris said the tax would be a "damp squib". "In my view the measure will have more concessions than penalties, and I will be surprised if the tax brings in anything like the Minister's forecast of R50-million."

The chief economist of the Economic Research Bureau at the University of Stellenbosch, Mr Attie de Vries, said discounting the fact that GST had been raised two months ago from 6% to 7%, the individual taxpayer had got off lightly.

He doubted whether the Government could stick to the low rate of increase of 11,7% in State expenditure. And if it did not, then further tax increases during the year were likely — probably another increase in GST.

The bureau felt, however, the higher company tax and increased excise duties would have a negative dampening effect on the economy.

"We must expect the slight upturn in the economy noticed in the last quarter of last year will be cancelled out, and the curve will move downwards."

He agreed that fiscal drag would mean that a large percentage of individual taxpayers would pay more.

Barclays Bank chief economist, Dr Johan Cloete, said the Budget would have a restrictive impact on the economy because of the company tax increases and other tax inpositions.

He doubted too, whether the Government could keep its expenditure down to only an 11,7% increase over last year's figure.

SA 29th among most creditworthy nations

RDM 30/3/84. 58

NEW YORK. — It looks as if the battered world financial system is coming out of a critical stage, says an American business magazine.

"The hair-raising period of international credit free-fall may be coming to an end," Institutional Investor magazine says in an analysis of 109 nations' creditworthiness as rated by 100 international banks.

Countries such as Poland, Brazil, Mexico and the Philippines have run into financial difficulties and had to reschedule their international loans in the last few years. "It now appears that something akin to a wary calm has descended over the international lending market," says the magazine.

In its March edition the financial monthly says: "Although it is probably too soon to say that the trend of ever-worsening sovereign creditworthiness has bottomed out, the results of this magazine's latest credit survey show that the rate of decline has slowed noticeably."

The banks ranked the US the most creditworthy nation in the world with a score of 96 on a scale of 0 to 100 and North Korea the least creditworthy at 3,6. Switzerland, Japan, West Germany, and the UK took second, third and fifth place.

South Africa, at 57,3, was rated the most creditworthy African nation, but only 29th in the world.

The average rating was 39,7 — down by one point from the previous survey in September 1983 and down 2,2 from the March 1983 survey.

"The one-point decline since September 1983 is the lowest six-month fall recorded since this survey was introduced four-and-a-half years ago and a far cry from the 5-point slump between March 1981 and March 1982," says the magazine.

Malaysia and Hong Kong, ranked among the top 20 last September, dropped to 21st and 22nd place. Taiwan and Denmark moved up into the first 20. Italy, the Soviet Union, Qatar and Algeria improved their ratings slightly. India, Bulgaria and Turkey made modest improvements. The United Arab Emirates and South Korea declined.

What is perhaps most symptomatic of an improved world financial climate is that Mexico, one of the world's most troubled debtors, actually posted an improved rating, as well as a 10-place jump in its world ranking.

In Africa, where the average country rating went down 1,1 points between September and March, Institutional Investor says: "The region remains stuck at the end of the recovery chain. Until an economic upturn comes to Europe, its primary export market, even the more bankable countries like Gabon and Cameroon will continue to feel the pinch.

"Africa's biggest loser was Morocco, which fell 4,1 points. Its financial situation has been hurt by weakened export income and the weight of earlier borrowing ... to finance the war in the Sahara.

"Nigeria ran a close second to Morocco with a decline of 3,9 points, but its 10,1-point drop over the last year leads all other African countries. The continuing slide in lender confidence reflects Nigeria's failure to react to falling prices for oil, which accounts for 90% of Nigeria's exports.

"The Ivory Coast, which dropped 2,5 points, is another African nation that has felt the effects of depressed world export markets. It faced not only lower prices for its coffee and cocoa, but also a drought.

"The best economic news in Africa had been coming out of Gabon and Cameroon — until recently. Both are oil producers that are also diversified agriculturally ... they were simply caught up in the global economic pessimism.

"Libya's 2,1-point drop is attributed to falling oil prices and its aggressive involvement in the volatile Middle East political situation. Malawi went through a small rescheduling; Kenya suffered from weak prices on its commodities exports; Zimbabwe is still disrupted by civil and tribal disorders.

"In spite of the plethora of markdowns, however, many bankers insist they are basically bullish on Africa. Bankers say these nations' attitudes toward commercial banking relationships are generally more responsible than those in other parts of the developing world."

The top 10 countries in Institutional Investor's survey: 1 — United States, 96; 2— Switzerland, 95,4; 3 — Japan, 95,1; 4 — West Germany, 92,7; 5 — Britain, 88,6; 6 — Canada, 86,7; 7 — Norway, 85,7; 8 — Netherlands, 85,6; 9 — Australia, 83,9; 10 — Austria, 81,3.

Cape Times 5/4/84 (58)

Colonial's premium income leaps

By PAUL DOLD
Financial Editor

COLONIAL Mutual's premium income lifted 25% to R43,9% in 1983 reflecting aggressive marketing and the growing pensions division, the chairman, Mr H W Middelmann, announced yesterday.

Colonial Mutual have recently stepped up their marketing to increase market share and the efforts have been rewarded by a 30% rise in pensions premiums and 24% rise in individual business.

The figures underscore that the life industry is as yet not feeling much downward impetus from the recession.

The managing director, Mr Fanie Jacobs, is confident the group can maintain this growth rate and the higher volume will lead to lower expense ratios.

Bonuses the past year totalled R42,4m as against R34,4m with payments to policyholders rising by nearly 30% to some R22m. Policyholders' funds were up 17% to R275m.

The annual report shows that Colonial invested heavily in gilts during the year with this holding rising from a book value of R43,3m to R76m. The stake in semi-gilts was cut however from R54m to R28,7m. Colonial's strategy was to switch out of semis and into RSAs, taking the view that the semis' rates could harden. Colonial is actively managing its gilts portfolio.

Equities rose from R25,6m to R51m with short-term deposits easing from R28m to R23,4m. Property holdings rose from R42,4m to R53,2m. Investment income for the year rose from R30,8m to R31,9m.

As at the end of December the portfolio had a market value of R327,6m (R281m book value) with shares at R89m showing a healthy increase on the R51m book value.

Government securities, however, were down to R67,5m from the book value of R76m. Property had advanced strongly from R53m book value to R78m.

Colonial's deputy general manager, investments, Mr D E Cleland, says the group's investment strategy has become more defensive in view of the high market level of industrials as well as the gold sector's performance, despite a weak bullion price.

Overall a larger proportion of assets has been channelled into short-term money market deposits.

Increasing Colonial's market share . . . the chairman, Mr H W Middelmann.

Shortage of funds hits residential property market

ARGUS 5/4/84

JOHANNESBURG — The reduction in the availability of building society funds, the high interest rates and the slowdown in the rate of salary increases are being felt in the residential property market, says the March edition of the Property Economist.

It says plans passed in the last quarter of 1983 clearly indicated a levelling out.

Building society liquidity declined to its lowest level in 10 months in September last year. In turn, the shortage of funds reduced the effective demand for housing.

Conversely, the liquidity of commercial banks soared in September 1983 to R1 301-million, against R338-million in June and R455-million in September 1982.

BANK FUNDS

This inflow of bank funds resulted from the considerable increase in the Reserve Bank's credit to the private sector.

While the rise in interest rates offered by societies for savings deposits helped to reduce the shortfall, building societies were still in deficit in the third quarter of 1983.

The situation was aggravated by the minimal level of gross domestic savings, particularly personal savings.

The higher overall interest rate pattern, which led to a further increase in mortgage rates in February this year, has pushed mortgage repayments out of the reach of many prospective home buyers.

"However, a characteristic of the present recession is that in spite of the high cost of credit, there has been hardly any change in the level of expenditure on durable and semi-durable goods.

"A large slice of this spending is financed by credit, and with HP and leasing rates of 22 percent a year, monthly instalments are taking big bites out of pay packets.

"If people are spending, they are not saving."

AGGRAVATED

The tight situation in the domestic property market is further aggravated by the substantial increase in the number of houses completed last year.

Local authorities approved plans for houses valued at a record R614-million last August. But by December the monthly value of houses planned had dropped to R390-million.

Nevertheless, the total value of houses planned was 33 percent higher in 1983 than the year before and most of these were residential plans.

The Property Economist foresees that the weight of funds going into fixed-interest securities will begin building a liquidity cushion by the end of the year.

This should make investment and development projects more viable in late 1984 and through 1985.

Institutions appear to be ignoring the economic cycle and propping up all three investment vehicles — fixed-interest securities, the Johannesburg Stock Exchange and the non-residential property markets.

It would seem that institutions either see the economy reviving fairly quickly or have limited local alternative investment avenues open to them.

If the latter is the case, and institutions are keeping the JSE and the property market unnaturally active, the day of reckoning must come for policy holders and pension fund contributors, the Property Economist says. — Sapa.

Barclays defends its SA links

ARGUS 9/4/84

58

Argus Foreign Service

LONDON — Barclays Bank's policy is to stay in South Africa and through its presence and example to work for peaceful change.

This was the bank's comment today following British Labour Party leader Mr Neil Kinnock's attack on the bank's involvement in South Africa and his call for it to withdraw.

A Barclays spokesman said the bank would not respond specifically to Mr Kinnock's statement, but Barclays had always stated its "abhorrence for the evil system of apartheid".

"Example"

He added: "We too have our views, reached after much careful consideration. Our policy is to stay in South Africa and, through our presence and example, work for peaceful change."

Commenting on a report by the "Barclays Shadow Board", of which Mr Kinnock is a member, the spokesman said:

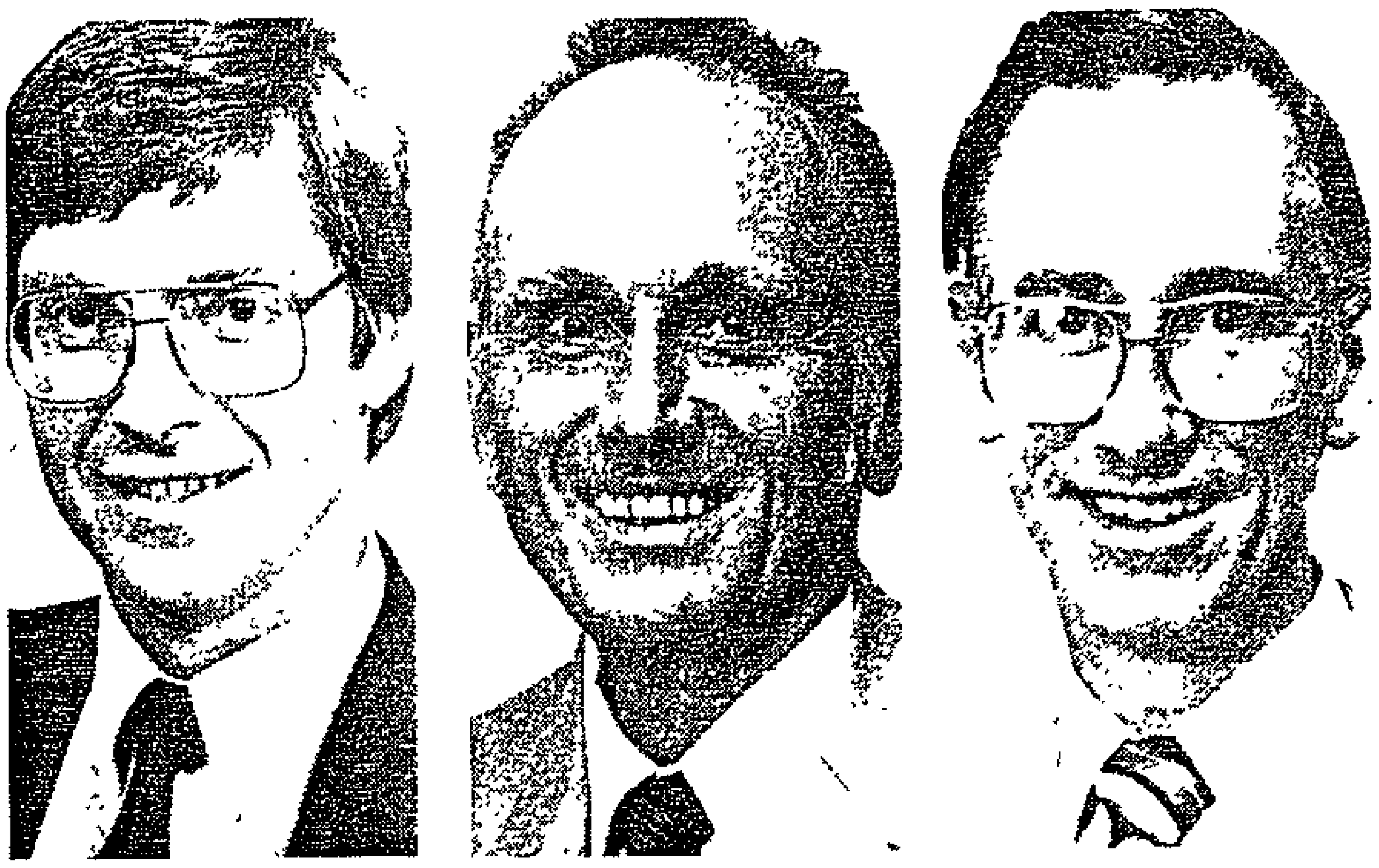
"The Shadow report is published by one of the anti-apartheid pressure groups which has assembled material to support its disinvestment viewpoint.

"Little or nothing is said of Barclays' record of help for black businessmen, its employment and trading practices and its other work among South Africa's blacks, for which it has long achieved recognition."

FINANCE

Insurance chiefs hit at 'unhealthy' competition

ARGUS 11/4/84 58



Old Mutual appointments are, from left: Mr Garth Griffin, assistant general manager (marketing), to the additional newly-created post of assistant general manager (investments); Mr Paul Hugo, formerly pensions marketing manager, to assistant general manager (pensions); and Mr Barry Crookes, formerly valuation actuary, to assistant general manager (individual business actuary).

Financial Editor

THE chairmen of two of the country's largest short-term insurance companies have attacked the "unhealthy" competition in the industry and have warned that rates for industrial and commercial business will have to be raised.

Sir Dennis Mountain, chairman of the SA Eagle Insurance Company, says in his annual statement to shareholders the situation has become a matter of grave concern, not only for insurers but for the South African insurance market as a whole.

The deep depression in South Africa has led to the unhealthy competition for industrial and commercial business continuing unabated, he says.

"For the third year in succession the international reinsurance market has faced losses in South Africa as bad as anywhere in the world.

REAL DANGER

"While such a state of affairs is beneficial to the South African economy, it must be obvious that reinsurers will not continue to subsidise the South African market indefinitely."

There is a real danger of the market not only losing this benefit but even facing the possibility of not being able to obtain adequate insurance cover for the large risks."

The only way to ensure South Africa's continued reputation as a responsible and orderly market is to return to sound underwriting principles.

"This means less emphasis on market share which should alleviate the present cut-throat competition, which is neither in the best interests of the insurer nor the insured."

Mr Donald Gordon, chairman of the Guardian National Insurance Company, takes a similar line in his report to shareholders.

He says: "The cost to insurers of settling industrial losses has risen dramatically in the last few years, but premium rates have fallen to completely uneconomic levels.

"It is evident that the more favourable results of smaller commercial and personal lines of business are to an extent subsidising the heavy losses sustained on the industrial account."

Competition for industrial business has intensified to the point where it is self-defeating.

REALISTIC PRICING

"This serious, disturbing trend will continue until a return to realistic pricing in the industrial sector restores underwriting profits."

Unless the problem is regulated "the unpleasant and undesirable alternative of resort to official intervention may be inevitable," Mr Gordon says.

The Guardian National had an underwriting loss of R762 000 in 1983 against an underwriting profit of R124 000 in 1982. Its pre-tax profit last year was R8,1-million against R8,13-million in 1982.

SA Eagle had an underwriting surplus of R3,5-million, or 2,9 percent of written premiums in 1983, while net income rose from R10,8-milion, equal to 89,8c a share, to R15-million, equal to 125,3c a share.

The dividend was raised from 50c to 60c a share.

Wankie lifts profit

JOHANNESBURG. — Zimbabwe coal mining company Wankie Colliery Company returned a distributable profit of R3,8-million in the year to February 29 (R2-million).

Earnings at 9,1 Zimbabwe cents were 32 percent up on last year's 6,9 cents.

No dividend has been declared.

The directors say that coal sales were up to expectation, except in the case of those to Hwanga Power Station which were 352 000 tons (46 percent) below estimate. — Sapa.

Woolworth chain to sell off stores

Argus Foreign Service

LONDON. — The Woolworth stores chain, whose tough new management has already improved financial performance, is negotiating to sell 34 stores which are no longer meeting its targets.

If all the sales go through, more than 1 000 jobs will be threatened, according to the Union of Shop Distributive and Allied Workers.

Some stores may be sold for redevelopment for other purposes, but stores sold as going concerns might retain some jobs under new owners.

FEWER THAN 900

Sales of all the stores, which include 12 large ones, would reduce the number of Woolworth outlets to fewer than 900.

Last month, announcing sharply increased group profits for the first full year of trading since Woolworth was acquired by a consortium late in 1982, Mr John Becket, chairman of Woolworth Holdings, said some stores would not meet Woolworth's new retailing criteria.

Woolworth, still one of the top five British retailers, had about 1 000 outlets at one time

AS TO BE

Thus wrote
They were ju

Treasury calls for R600m loan tenders

CAPE TIMES 12/4/84

58

By HAROLD FRIDJHON

THE Treasury is calling for tenders for two loans totalling R600m — a six-year maturing in 1990 and a 21-year which will mature in 2005.

The short-term loan which will carry a coupon of 11½ percent is planned to raise R200m with the balance of R400m being allocated to the longer loan which has a coupon of 13 percent.

Tenders will close at 11am tomorrow and the final day for payment will be April 30.

The size of these tender issues is not forebidding. The Treasury is not looking for R600m in new money. Within the space of a month two loans fall due for redemption.

A small five-year loan for R50m, the 1984 7½ percent, matures next Monday April 15 and a three-year, 1984 9½ percent, for R335m is due for redemption on May 15.

This means that the Treasury is raising R215m in new money which is a very modest essay into the market bearing in mind the Treasury's borrowing requirements this year.

It would seem that the authorities are unwilling to draw too much money out of the private sector at present because of the extreme tightness of current markets.

Indeed because of the lack of liquidity and the knowledge that the institutions are far from being flush with cash hazarding a guess at the probable rates outcome of the tenders will be difficult.

Benchmark

Looking at a rate for the 21-year loan is easier than for the short-term. Here one has a reasonable benchmark, the 2003 12½ which is trading around 14,20 percent and the outcome of the tender could be a few points either way of this figure.

In the case of the six-year loan the inverse yield curve makes setting a rate difficult.

Stock with this maturity has been trading around 14,74 percent and a factor which could influence the tender is the attractive discount.

Accepting

No way could the Treasury be made into accepting a rate anywhere near the 17,25 percent which the Land Bank has been called on to pay for its three-year money. Probably the top of the tender range will be about 14,80 percent.

It is most likely that the tenders will be heavily over-subscribed as tenderers submit multiple bids with a wide spread to ensure that they will get the best of all worlds. Allocations should, however, be reasonably close to the rates quoted.

Although the assurance companies and the pension funds have been taking a lot of stock from the market — and from the Reserve Bank and from Escom — in recent months, and although they are said to have allocated funds well into the current year, the long-dated stock should reasonably raise the R400m which is being sought.

This is not, in Government Stock terms, a vast sum of money and although rates are expected to remain high for the rest of the year — unless the price of gold takes off — it can be expected that this loan will be well supported.

The six-year issue, however, is a different kettle of fish. It is an odd maturity. While it will have a certain appeal for short-term insurers it could also have attractions for other institutions particularly as 1990 is not a heavy year for maturities.

It could be regarded as a stock to balance portfolios. The outcome hinges on a rate which is acceptable to the authorities.

The absence of a three-year loan is a little strange.

Requirements

Possibly the Treasury has been influenced by two factors, the reduction of the banks' liquid asset requirements means that they will require less stock of this category than they needed in the past, and the authorities probably feel that at present the banks are short of surplus liquidity and would not give such a loan any significant support.

Other Government Bonds maturing this year are the three-year 12,75 percent for R417m due on September 1, a three-year 13 percent for R257m due on November 1 and seven-year 9⅞ percent for R70m due on December 1.

Cusaf pension business hit by take-overs

CAPE TIMES 13/4/84 (58)

Own Correspondent

JOHANNESBURG. — A factor in the hectic take-over activity that has characterized the South African investment scene over the last two years, the transfer of pension business after a take-over, adversely affected Commercial Union's (Cusaf) long-term business last year.

Strenuously denied by the major institutions, but too commonly cited by the victims of their actions and by analysts to be inaccurate, the controversial question of pension business as a factor in take-overs is highlighted by Commercial Union's chairman, Mr John Birkinshaw, in his annual report.

Premium income

He says, "although we exceeded our target for premium income from new schemes we suffered the loss of two major pension schemes in the first half of 1983 which were moved away from us in consequence of a large company take-over.

"Pension schemes of major companies, with their substantial flow of contribution money, represent attractive prizes in take-overs, mounted with the assistance of life insurance companies, and are a factor in the growing concentration of economic power in South Africa."

Meanwhile, solutions to the short-term insurance industry's dilemma still seem to be unattainable, and while re-insurers are turning the screws the resolute rate-cutting war continues.

Results emerging from the December year-end companies indicate an improvement on the underwriting side of the business, particularly in the motor and some crime areas, but industrial fire business remains a problem.

Sentiments

Echoing the sentiments of several of his counterparts in other companies, Mr John Birkinshaw, recently retired executive chairman of Commercial Union Assurance Co of South Africa (he remains non-executive chairman), says the impact of losses on re-insurers has grown more severe each year over the last few years, "and they cannot allow this state of affairs to continue".

Mr Birkinshaw says the terms of automatic re-insurance treaties, negotiated every year, have become much harsher "and could become even harsher if results for reinsurers do not improve.

"It follows therefore that premium rates for industrial fire business should, and indeed must, increase. It only remains to see how soon the fiercely competitive climate prevailing allows this to happen."

Commercial Union's gross premium income in the short-term division rose by 13,2 percent to R121m, and net of re-insurance by 23,2 percent to R72m. The net claims ratio dipped to 71,3 percent last year from 79,4 percent in 1982.

Performance

On the long-term end of the business, Mr Birkinshaw describes 1983 as disappointing for Commercial Union's life and pensions business, coming after 1982's record performance.

Protea Assurance optimistic on outlook — Walton

58

Cape Times 13/4/84

By PAUL DOLD
Financial Editor

PROTEA ASSURANCE which more than doubled profits in the past year is optimistic on prospects for 1984, the chairman, Mr Cedric Walton, says in his annual report.

Referring to the mergers within the industry, he says that Protea is not apprehensive and sees a bright future for the smaller independent insurer. Protea is involved in both the short-term insurance and life insurance market.

Competition

Last year's spurt in profits was due to the improved results from the fire and accident account where the deficit was slashed from R2,6m to R628 000 and a very satisfactory contribution from the marine and aviation division.

Protea has also been successful in holding costs through higher productivity.

Mr Walton says competition remains intense with the industry plagued by the problems of overcapacity and rising overheads in a recession.

In spite of the downward pressure on rates in the commercial and industrial sector the fire account produced a modest profit. Gross premium income rose by 19 percent to R52,2m. The accident account showed a sharply higher profit.

The motor account was a large contributor to the improved results

Protea's Mr Cedric Walton ... Prosure expanding into direct marketing.

while marine premium income at R4 791 524 was 5,4 percent down on 1982 in line with the general decline in the industry.

International hull and aviation business is causing general concern in the industry and Protea reports that there has been a deterioration in the loss ratios. Remedial action has been taken with a withdrawal from a large number of hull and aviation treaties.

Bonuses

Protea is continuing to be highly selective in underwriting which could restrict opportunities for premium growth but Mr Walton says the soundness of the policy is borne out by the 1983 results.

The record bonuses have enabled the group's life branches to increase both individual and group new business and substantial growth in the life business is forecast.

Protea has begun direct marketing campaigns. The initial response has been excellent and direct marketing made a valuable contribution to new business in 1983. Protea intends expanding this area in 1984.

Group investment income rose by only five percent due to the funding of the new Fox Street, Johannesburg building and relatively static dividend receipts. Income this year should improve by a minimum of 10 percent.

Turning to the economic outlook, Mr Walton says the strength of the share market is in direct contrast with the recession. But the weak rand has shielded the economy and this together with exchange control and a view that gold will benefit from a weaker dollar has encouraged investors to push shares to record levels.

Prospects

"Although the short-term prospects for the economy are not bright there is much to give encouragement to investors with a longer term perspective — the decline in the rate of inflation to 10 percent, the improved political climate and the continuing official moves towards reliance on market forces within the South African economy."

CAPE TIMES 14/4/84 58

RSA loans attract R678m

By HAROLD FRIDJHON

JOHANNESBURG — The Treasury's effort to raise R600m by means of two tender loans — a six-year and a 21-year — failed by R141m to reach its target.

The total tender attracted R678m but the bulk of the money was directed towards the long-term loan which was oversubscribed by nearly 50 percent, while the short-term loan failed miserably.

The authorities planned to raised R400m on the 21-year loan and a R200m on the six-year bond. The outcome, which was announced yesterday, was that R592m was offered for the long-term loan and only R87m was forthcoming for the other loan and only R58,9m was allocated, presumably because the rates bid were regarded as being too high.

The average rate for the 21-year worked out at 14,61 percent and the market said yesterday that it believed that some tenderers got their stock as high as 14,75 percent — compared with yesterday's trading rate of 14,52 percent for the 2003 12½ percent

The average rate for the six-year was 15,51 percent which is a good investment for those who see rates easing next year

The rates for both bonds were higher than I had expected but I failed to take into account the very bearish mood in the secondary market. Institutional cash is scarce, largely because of the heavy forward buying last year and it would seem that the Treasury will have to accept that it will have to pay dearly for its future issues — unless there is a dramatic turnaround in the gold price and in the balance of payments.

An unofficial reaction in Pretoria was that the outcome of the tender was not really disappointing and reflects a current disenchantment of short-dated bonds

One could hardly expect a different reaction once the Treasury had decided to issue a six-year stock. It is an area which is entirely without support in the secondary market with bonds changing in a very desultory manner.

From the Treasury's point of view, it probably went for 1990 as a redemption year because the maturities that year are relatively low.

From the standpoint of debt management this was the correct policy but the Treasury must reconcile what it wants with what the market wants It would probably have enjoyed a bigger success with a 10-year loan.

In 1990 total maturities amount to R632m but in 1995 redemptions will be R508m

CAPE TIMES 18/4/84

58

Nedbank increases profits — interim dividend up 20%

By HAROLD FRIDJHON

JOHANNESBURG. — Nedbank's disclosed profit for the half year to March 1984 is a very creditable R50,377m, an improvement of 13 percent on last year's comparable figure of R44,484m.

The interim dividend has been raised from 17,5c to 21c but part of the 20 percent increase arises from the board's intention to reduce to some extent the disparity between the interim and final dividends.

In the year to March 1983, the half year profit increased by 35,6 percent compared with the previous year's R32,8m but then banking conditions were not as fiercely competitive as they were, particularly in the the first quarter of this year when bank margins were squeezed by high borrowing rates and a statutory lending ceiling.

Another factor which affected profitability was the payment of interest on current accounts. Last year, the chief executive, Mr Rob Abrahamsen, said that this would cost Nedbank about R20m a year.

On the other side of the coin, the development of Nedbank's northern hemisphere operation with a branch in New York as well as the older-established London branch must have made a significant contribution to the current figures.

Margin

Historically, however, there is always a big margin between Nedbank's interim and final figures. In the year to September 1983, R44,484m was shown as earnings for the first half and R77,103m in the second half.

Mr Abrahamsen said yesterday that the results were very gratifying and that the capital surplus of R224m gave Nedbank a tremendously strong base from which to expand its business when the economic upswing started.

The capital surplus stood at R96m in March 1983 and rose to R131m last September which means that the bank has been husbanding its resources for the future.

Total assets at the end of the half year amounted to R11 188 billion. This figure is 5,6 percent higher than at September 1983 and an improvement of 23 percent on total assets at the end of March 1983.

Nedbank's aggressive marketing of its services is to some extent reflected in the large growth in advances. In a year, since March 1983, total advances, including bills discounted, jumped by no less than 50 percent from R4,179 billion to R6,287 billion. Deposits have increased by by 29,6 percent to R8,926 billion.

The interim figures suggest that a policy of heavy investment in bonds has been pursued in the past half year.

In the six months to March 1983 the bank's cash investments amounted to just over R1 billion with R960m in bonds.

The current interim shows that cash holdings are down to R655m with bond investments up to R1,359 billion.

In their interim report, the chairman, Dr Frans Cronje, and Mr Abrahamsen said that the demand for credit strengthened in the second half of 1983 as spending and production recovered.

Imports also reflected a revival. The gold price declined and non-gold exports responded "in only a muted way" to the international economic upswing.

The Nedbank group's financial year started with the current account in deficit and the gold and foreign exchange reserves under pressure. With the tightening of monetary policy prsssure was put on interest rates.

Pressure

To reduce this pressure the Reserve Bank twice reduced the liquid asset requirements and also entered into repurchase agreements with the banking system but the pressure on margins continued.

Towards the first half of the current financial year, the growth of lending volumes started to slow, indicating that the economic revival of the second half of 1983 may not be sustained in 1984. The present uncertain balance of payments and a second year of poor agricultural crops make the start of a new upswing phase in the domestic economy unlikely in the group's current financial year.

Surveys by financial institutions produce vital info

Monthly payouts take up 23% of white household incomes

Star (58) 18/4/84

By Michael Menof

Twenty-three percent of the gross monthly household income of white individuals in South Africa is allocated to committed monthly payments, a syndicated research study by 14 major financial institutions has shown.

When field work was completed near the end of 1982, the percentage split of the money committed to various types of average monthly payments per household was reported as being:

- Repayments on mortgage bonds, 33 percent — an average of R402.
- Repayments on hire-purchase agreements, 23 percent (R243).
- Repayments on loans, six percent (R201).
- Repayments on credit accounts, three percent (R70).
- Life assurance and company pension premiums, 28 percent (R194).
- Short-term insurance premiums, four percent (R50).
- Non-financial stop orders, three percent (R115).

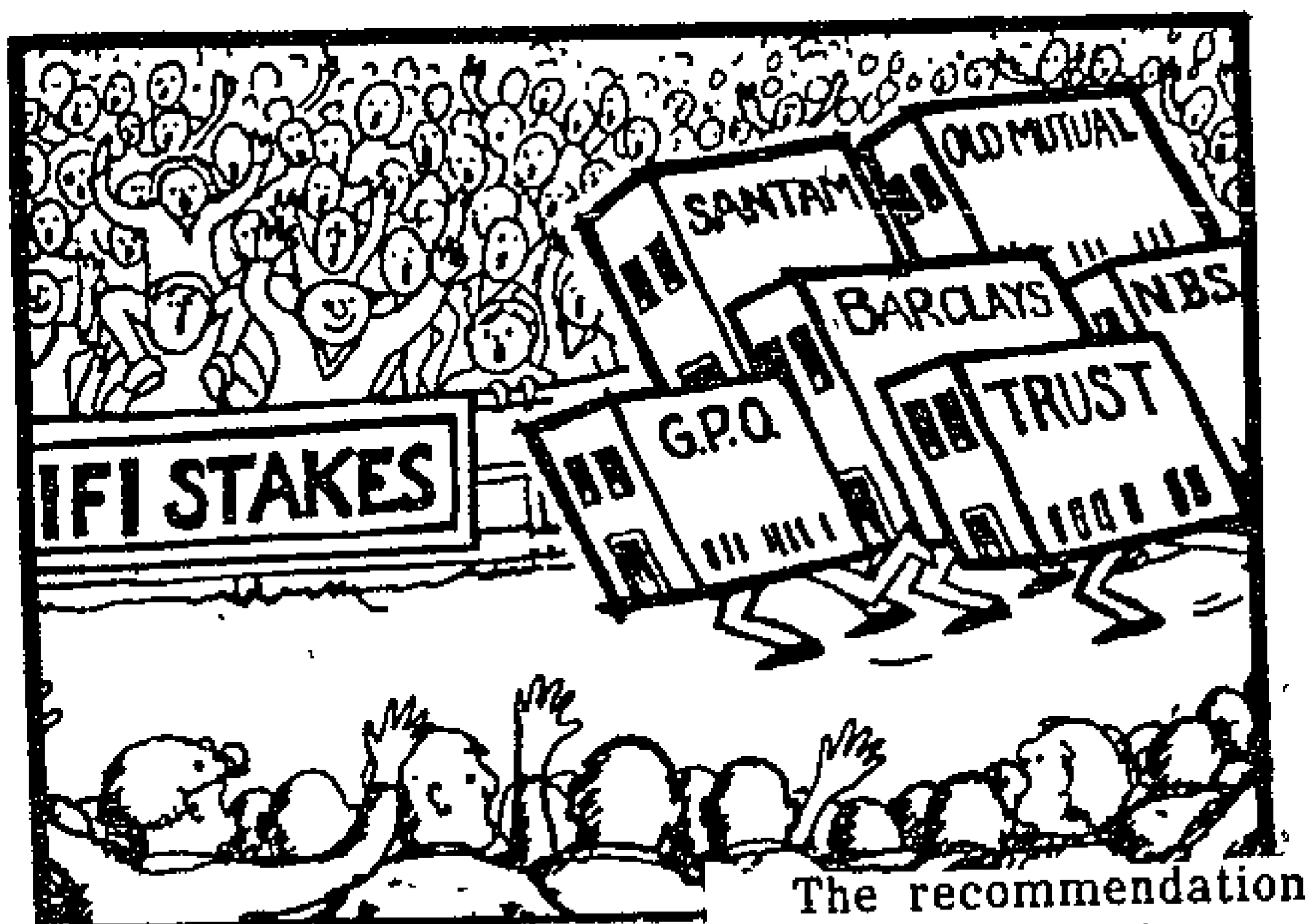
This data will be collected again during the second stage, from April to June this year, when 250 interviewers will collect data from 3 000 households.

Individuals selected for the sample will be asked to detail all their savings accounts, forms of credit, insurance policies and investments.

Questions will include the type of account held, the name of the institu tion where it is held and the approximate balance.

All information given will be confidential. Nearly 7 000 questionnaires will be processed in eight to 10 weeks.

Fourteen institutions are taking part in the project — Barclays, Standard, Nedbank, Trust, Volkskas, Santam, United, Natal, Allied, Saambou, Old Mutual, Sanlam, Liberty Life and the Post Office.



Each institutions seeks answers to questions such as:

- How do my clients compare to those of my competitors?
- Where do I stand in relation to my competitors in the number of people using various services and in the amount of money these people have in their accounts?
- What services must I provide to attract new clients and to whom do I promote specific services?

From the need to have answer to these questions came the concept of the Index of Financial Institutions (IFI).

During 1981 several interested parties discussed the feasibility of a syndicated research study.

A steering committee was formed whose prime task was consolidating the requirements of all participants in the study and monitoring the execution of the programme.

It would also provide technical support to the research house selected to execute the project.

The top SA consumer research agency, Market Research Africa (MRA), was appointed.

Early in 1982 it carried out a pilot study whose aims included method of recruitment, self-completion questionnaire, sampling and validation.

The recommendation of the study was to sample households in which each adult (16 and older) would complete a questionnaire.

Results could now be reported in terms of households (with the advantage that family influences and joint accounts are recognised), as well as at the individual level.

The objective of the survey is to establish an annual measurement of personal finances which includes users' demographics — including sex, age, income and area groupings.

In the study's first stage, in August 1982, interviewers visited more than 3 000 white households.

These households were drawn through a probability sampling technique using the MRA household census.

After fieldwork of three months, more than 6 000 people had completed the questionnaire.

Further development work was undertaken in the second half of 1983 on sections where previous results could be improved.

The second stage of the study will be between now and June.

Any major shifts which may have occurred, such as the percentage of gross monthly income being allocated to mortgage bond repayments, will then be highlighed.

IFI participants will also be in a position to monitor the effects of their marketing and advertising activity.

Dr Ben Moolman, chairman of the IFI steering committee, said financial undertakings in South Africa had steered clear for many years of syndicated research, on the assumption that competitors obtained information without contributing to input.

"However, this argument has been proved invalid by the IFI study now being undertaken.

"Co-operation is directed towards a common goal, namely the gathering of quality information."

Benefits for the IFI companies include:

- Greater integrated co-operation in the application and use of infrastructure to create an effective data base.
- The integration of manpower to create the best possible opportunity for creative thinking.
- Funds mobilised for an extensive research data base with high-quality information.
- Information gathered only once from the public as opposed to different data gatherings on an individual basis.
- Companies taking part collaborate on the cut-off point for mutual participation in research to ensure confidentiality for each company with reference to perceptual thinking, application and interpretation.

Benefits for the public include the development of specific services, such as loans to students and housing funds, as well as action to ensure a better future for pensioners.

MRA managing director Mr Clive Corder outlined the main problems he and his research team encountered during the development and execution of the initial stages of the study.

These included the following:

- Overcoming the public's reluctance to talk about private financial affairs.
- Overcoming the competitive instincts of the various IFI participants.
- Devising a method of correctly recording the wealth of data from informants and converting it into a format for easy access and analysis by each IFI participant.

The success of this study depends on the reliability of information supplied by the public to the financial institutions which themselves continue to jockey for a share of the highly competitive market.

- *Michael Menof is a tax consultant.*

Mr Colin Adcock, left, managing director of Toyota South Africa, has been re-elected president of the National Association of Automobile Manufacturers of South Africa. Mr Lou Wilking, managing director of General Motors SA, has been elected vice-president.

New chairman

PROFESSOR S J Naude has been appointed full-time chairman of the Competition Board in the place of Dr D J Mouton, who has retired.

Professor Naude has been closely associated with the planning and drafting of the Maintenance and Promotion of Competition Act.

S Africans' debt bill skyrockets

ARGUS
18/4/84
58 R8

Financial Editor

CONFIDENT and optimistic South Africans, who probably have more faith in the future than they have had since 1968 — or even since 1948 — are plunging heavily into debt.

Nedbank reports today that in the 12 months ended March its credit facilities to the public skyrocketed. They rose R2 108-million or 45 percent to R6 287-million from R4 179-million.

This is only a small part of the total rise in the public's indebtedness.

Figures issued by the Reserve Bank show that in the 14 months ended February this year South Africans borrowed around R12 000-million from their banks and building societies — increasing their total indebtedness to these institutions by 34 percent.

They also incurred an annual interest bill of nearly R2 400-million.

In the same period the commercial banks increased their advances and non-liquid discounts by R6 307-million or 50,5 percent to R18 804-million.

Figures for the 12 months ended December show that the biggest increase by far was in loans to individuals. These rose by R2 674-million or 63,7 percent to R6 873-million. In contrast, loans to companies increased by only R1 376-million or 28,7 percent to R6 173-million

SPENDING SPREE

However, bankers say the sharp increase in overdrafts should not be taken as an indication that customers have gone on a spending spree at the expense of the banks.

Part of the increase was the result of loans to small businesses but secured personally by the proprietor.

Another part of the increase reflected the move by the banks into housing finance. Barclays Bank, which led in this

Anglovaal gold mine earnings little changed

HIGHER gold receipts in rands helped to lift combined pre-tax profit from the four mines in the Anglovaal group in the March quarter to R76.42-million (R66-million).

But a rise in the tax bill to R42,37-million (R31,92-million) reduced after-tax profit, excluding a R1,5-million extraordinary profit for ET Cons, to an almost unchanged R34-million.

Loraine, which pays no tax, made a profit of R2,3-million compared with a loss of R3 000 in the December quarter.

Village lifted pretax income to R358 000 (273 000) with tax falling to R46 000 (R82 000).

Although pretax profit at **Hartebeestfontein** rose to R69,3-million (R60,9-million), a higher tax bill reduced this to R27,2-million (R29-million).

Gross income from **ET Consolidated** fell to R4,3-million (R4,8-million) and the tax bill was R153 000 compared with a credit for R5 000 in the previous quarter.

Operations were affected by Cyclone Domoina and insurance claims are being prepared.

Pretax profit from antimony producer **Consolidated Murchison** rose to R4,3-million (R3,2-million) but tax also rose to R1,7-million (R1,3-million).

Net income from zinc and copper producer **Prieska** rose to R4,7-million (R4,4-million) after a higher tax bill of R5,1-million (R3,7-million).

● Net profit from the two gold mines in the Johannesburg Consolidated Investment group — **Randfontein** and **Western Areas** — fell to R63,2-million (R111,5-million) in the March quarter.

Audrey d'Angelo

Gap narrows in manganese talks

Argus Correspondent

TOKYO. — A narrowing of the gap on the fiscal

price cut they are seeking.

Nevertheless, industry

Mr Colin Adcock, left, managing director of Toyota South Africa, has been re-elected president of the National Association of Automobile Manufacturers of South Africa. Mr Lou Wilking, managing director of General Motors SA, has been elected vice-president.

... skyrockets

Financial Editor

CONFIDENT and optimistic South Africans, who probably have more faith in the future than they have had since 1968 — or even since 1948 — are plunging heavily into debt.

Nedbank reports today that in the 12 months ended March its credit facilities to the public skyrocketed. They rose R2 108-million or 45 percent to R6 287-million from R4 179-million.

This is only a small part of the total rise in the public's indebtedness.

Figures issued by the Reserve Bank show that in the 14 months ended February this year South Africans borrowed around R12 000-million from their banks and building societies — increasing their total indebtedness to these institutions by 34 percent.

They also incurred an annual interest bill of nearly R2 400-million.

In the same period the commercial banks increased their advances and non-liquid discounts by R6 307-million or 50,5 percent to R18 804-million.

Figures for the 12 months ended December show that the biggest increase by far was in loans to individuals. These rose by R2 674-million or 63,7 percent to R6 873-million. In contrast, loans to companies increased by only R1 376-million or 28,7 percent to R6 173-million.

SPENDING SPREE

However, bankers say the sharp increase in overdrafts should not be taken as an indication that customers have gone on a spending spree at the expense of the banks.

Part of the increase was the result of loans to small businesses but secured personally by the proprietor.

Another part of the increase reflected the move by the banks into housing finance. Barclays Bank, which led in this field, claims that its mortgages for home loans first launched last year total more than R900-million.

In addition to the increase in commercial bank loans, building society credit rose 24 percent last year, by R2 880-million to R15 004-million, while credit advanced by the general banks by R1 930-million or 24,5 percent to R9 813-million.

New chairman

PROFESSOR S J Naude has been appointed full-time chairman of the Competition Board in the place of Dr D J Mouton, who has retired.

Professor Naude has been closely associated with the planning and drafting of the Maintenance and Promotion of Competition Act.

Anglovaal gold mine earnings little changed

HIGHER gold receipts in rands helped to lift combined pre-tax profit from the four mines in the Anglovaal group in the March quarter to R76,42-million (R66-million).

But a rise in the tax bill to R42,37-million (R31,92-million) reduced after-tax profit, excluding a R1,5-million extraordinary profit for ET Cons, to an almost unchanged R34-million.

Loraine, which pays no tax, made a profit of R2,3-million compared with a loss of R3 000 in the December quarter.

Village lifted pretax income to R358 000 (273 000) with tax falling to R46 000 (R82 000).

Although pretax profit at **Hartebeestfontein** rose to R69,3-million (R60,9-million), a higher tax bill reduced this to R27,2-million (R29-million).

Gross income from **ET Consolidated** fell to R4,3-million (R4,8-million) and the tax bill was R153 000 compared with a credit for R5 000 in the previous quarter.

Operations were affected by Cyclone Domoina and insurance claims are being prepared.

Pretax profit from antimony producer **Consolidated Murchison** rose to R4,3-million (R3,2-million) but tax also rose to R1,7-million (R1,3-million).

Net income from zinc and copper producer **Prieska** rose to R4,7-million (R4,4-million) after a higher tax bill of R5,1-million (R3,7-million).

● Net profit from the two gold mines in the Johannesburg Consolidated Investment group — **Randfontein** and **Western Areas** — fell to R63,2-million (R111,5-million) in the March quarter.

Audrey d'Angelo

Gap narrows in manganese talks

Argus Correspondent

TOKYO. — A narrowing of the gap on the fiscal 1984 price of imported manganese ore has raised hopes here that contract negotiations with various key suppliers like South Africa can be settled soon.

Japanese ferroalloy makers have reportedly made a concession by reducing the margin of the price cut they are seeking.

Nevertheless, industry sources note that major manganese ore producers are still seeking a price increase and there is still a gap of about 10 percent between the two sides.

According to the sources, South African suppliers are asking for an increase of about five percent in the fob price.

The position is expected to be clarified during this week when talks

FINA

Life offices pay out R1,56-bn

ARGUS 23/4/84

58

BENEFITS paid to policyholders, pensioners and other beneficiaries by the life insurance industry in South Africa rose to R1 569-million last year.

This exceeded the total income of the industry eight years ago and represents an average payout of R6,23-million every working day.

The Life Offices' Association says the figure was up 30 percent on the amount paid out in the preceding year.

More than R554-million, or 35 percent, of these payments was for death and disability claims.

NEW CAPITAL

In spite of recessionary conditions LOA members were together able to generate more than R3 930-million in the form of new capital for investment — almost R15,6-million every working day — compared with R12,7-million in 1982. This represented the excess of premium and investment income over the benefits paid and total operating expenses.

Premium income from all sources during the year rose to R4 284-million, 24,1 percent more than in 1982.

Investment income rose 23,2 percent to R2 211-million, making the total income R6 495-million (R5 246-million).

ASSET RESERVES

This resulted in the funds held by the industry to meet future liabilities rising 29,7 percent to R23 386-million.

Of these asset reserves, public sector securities, held as prescribed assets, amounted to R9 804-million or 41,9 percent. This sector of assets held by life offices increased by R1 814-million during the year, reflecting the extent to which the industry supports the country's mainly infrastructural needs.

Discretionary investments included R6 127-million in shares and units and R4 232-million in property interests.

Some mining shares lose attraction

ARGUS 2/5/84

58

By DEREK TOMMEY, Financial Editor

TWO news items today show that some mining shares are no longer the attractive investments they were thought to be.

The Liberty Life group has announced that it is selling its stake in Clydesdale Collieries to Gold Fields of South Africa, and Gencor has announced that it is shutting down its Beisa gold and uranium mine in the Free State.

Liberty Life's sales of its controlling interest in Clydesdale to Gold Fields seems a sensible move for both parties.

It is seen as a sound protective move by Liberty Life. Selling its major stake in Clydesdale will stop the value of its investments being dragged down if the coal market should weaken and coal share prices drop.

With export coal prices falling, there seems a strong possibility of this happening.

It also a good acquisition for Gold Fields. This group has only a small stake in coal and gaining control of Clydesdale will rectify that shortcoming.

R146-MILLION

Gold Fields is paying just over R146-million for control of Clydesdale by offering 50 preference shares at a price of R29 a share for every 100 Clydesdale ordinary shares.

This values Clydesdale shares at R14,50 each.

The preference shares carry a dividend of R2,90 a year and will be automatically converted into Gold Fields shares when Gold Fields' dividend reaches this amount.

URANIUM WEAK

The closure of Beisa should not be a surprise. The mine is predominantly a uranium producer with gold produced as a by-product.

The uranium market is known to have been weak for some time, and in the first nine months of last year the mine had an operating loss of almost R5-million.

As the mine is not eligible for state assistance, and with production costs rising, Gencor's decision to cut its losses and close down Beisa seems the right decision.

The move should help ease slightly the shortage of skilled labour in the industry and, in depriving suppliers of a customer, may perhaps help stabilise mining costs.

Beisa, a subsidiary of St Helena, was financed mainly out of St Helena's tax savings, so its closure will not greatly affect shareholders.

The real loser would seem to be the Government, which through tax concessions put up the finance for Beisa and will not get any return on these concessions.

Rand one of weakest currencies

ARGUS 15/5/84

58

Financial Editor

THE rand has been one of the world's weakest currencies in the past five months. It has dropped by about 5 percent against most others, an analysis of exchange rates shows.

The drop in the rand can be blamed on South Africa's poor foreign earnings, caused by the fall in the gold price.

The Government's decision to increase general sales tax sharply from July 1 and the Reserve Bank's expenditure of $100-million dollars in the foreign exchange markets yesterday are both aimed at stopping a further drop in the rand's value.

SINCE DECEMBER

Comparisons of exchange rates show that since December the rand has fallen:

- 7,9 percent against the Japanese yen.
- 6,36 percent against the United States dollar.
- 6,2 percent against the German mark.
- 6 percent against the Austrian schilling.
- 4,78 percent against the French franc.
- 4,5 percent against the Italian lira.
- 3,2 percent against the British pound.
- 2,8 percent against the Swiss franc.

NO GROWTH

South Africa's difficulties stem from the fact that while its export earnings are showing little or no growth its import bill is steadily rising.

Imports rose R1,48-billion in the first quarter of this year but export earnings increased by only R360-million. This meant the trade surplus for the quarter shrank from about R1,6-billion to R442-million.

With South Africa having to pay overseas a net amount of between R1-billion and R1,2-billion a quarter, it is clear that the country is running heavily into debt.

According to Treasury estimates, the balance of payments deficit in the first quarter calculated at an annual rate was around R3-billion. Furthermore, the situation is expected to deteriorate further as the volume of imports continues to pick up.

REPLACE STOCKS

South African businesses have been running down stocks since the start of the recession and are now being forced to replace at least part of these stocks.

No doubt the Government is hoping that a higher gold price is in the offing and by boosting foreign exchange earnings it will enable the country to overcome its financial difficulties.

However, prospects of any worthwhile increase in the gold price seem slight and it seems that the Government will have to rely on more basic measures to improve the balance of payments, such as stimulating other exports and curbing domestic demand.

CURB SPENDING

The question arises whether the Government has done enough to curb consumer spending.

With new car sales at near-record levels in spite of the recession it would seem that more is needed. However, South Africans have not yet felt the full impact of the higher income tax rates or the higher interest rates.

The cumulative effects of these are expected to result in a serious cash crunch about the middle of next year.

With GST moving to 10 percent, the crunch could well come earlier and strongly curb consumer spending.

Advertising feature

Syfrets

Rich history of the trust movement's pioneering years in South Africa

THIS YEAR the trust movement in South Africa celebrates its 150th anniversary.

On April 22, 1834, 22 citizens of Cape Town met to form an organization to undertake the administration of estates. It was named the South African Association for the Administration and Settlement of Estates.

The concept existed earlier because the original system of legal administration of money belonging to orphans, widows and persons under tutelage had been brought from the Netherlands. *Weeshere*, or Orphan Masters, also administered to the physical welfare and education of wards. In the Cape, these officials of the court soon gave way to the Weeskamer (Orphan Chamber).

The memorial plaque to Alfred Ebden, president of the South African Association for more than 21 years, is in St Paul's Church, Rondebosch.

The Weeskamer functioned until the early 19th century when, on July 5, 1833, the governor of the Cape, Sir Lowry Cole, issued an *"Ordinance for Abolishing the Orphan Chamber within this Colony, and for providing that the duties henceforth be performed by the Master of the Supreme Court of the Colony"*.

The Cape was under British rule, and it was at this time that the British abolished the Dutch system of the heir as successor. The Ordinance of 1833, quoted above, provided that all estates be administered by an executor under supervision of the Master of the Supreme Court.

Thus, with the abolition of the Weeskamer, the rapidly growing economy of the colony and the institution of the British system of executorship, a need was created for specialized financial and administration services. This need was met by the South African Association.

As a guarantee to the public that the organization would be one of integrity and trust, each member subscribed £375, a considerable sum at that time.

Early commissions

Within two months of its inauguration, the South African Association was appointed executor testamentary in the estate of Jacobus Johannes Smuts and his widow, Aletta Gertruida Versfeldt.

Today the matter would attract little attention, but at the time it was one of the most significant events in the history of financial institutions.

The South African Association, in being appointed to this responsible task, became the first trust company in the world and the estate was the first to be administered by a corporate body.

The directors applied for the association to be incorporated by act of parliament and, as time passed, placed pressure on the colonial government to do this.

The official information of the association required a special act. It was proclaimed initially for 21 years, the ordinance (Act 6) being printed in the Cape of Good Hope Government Gazette, edition of March 18, 1836.

The services offered by the South African Association were in such demand that the trust movement expanded rapidly. Companies were created first in the Cape and then, through the years, in other parts of South Africa, Canada, Australia and America.

Today the movement is established throughout the Western world.

In South Africa the second trust company to be formed was the Board of Executors. It commenced business in 1838 at the home of its first secretary, Advocate J H Hofmeyer, on the corner of Burg and Strand streets.

Formation of other early trust companies

The mid-1850s saw the formation in close succession of a number of companies.

The Port Elizabeth Assurance and Trust Company was founded in 1852 and the following year the Guardian and Investment Trust Company of Port Elizabeth was established.

1856 was a particularly active year in the Western Cape with the founding of the General Estate and Orphan Chamber, the Colonial Orphan Chamber and Trust Company and the Graaff-Reinet Board of Executors.

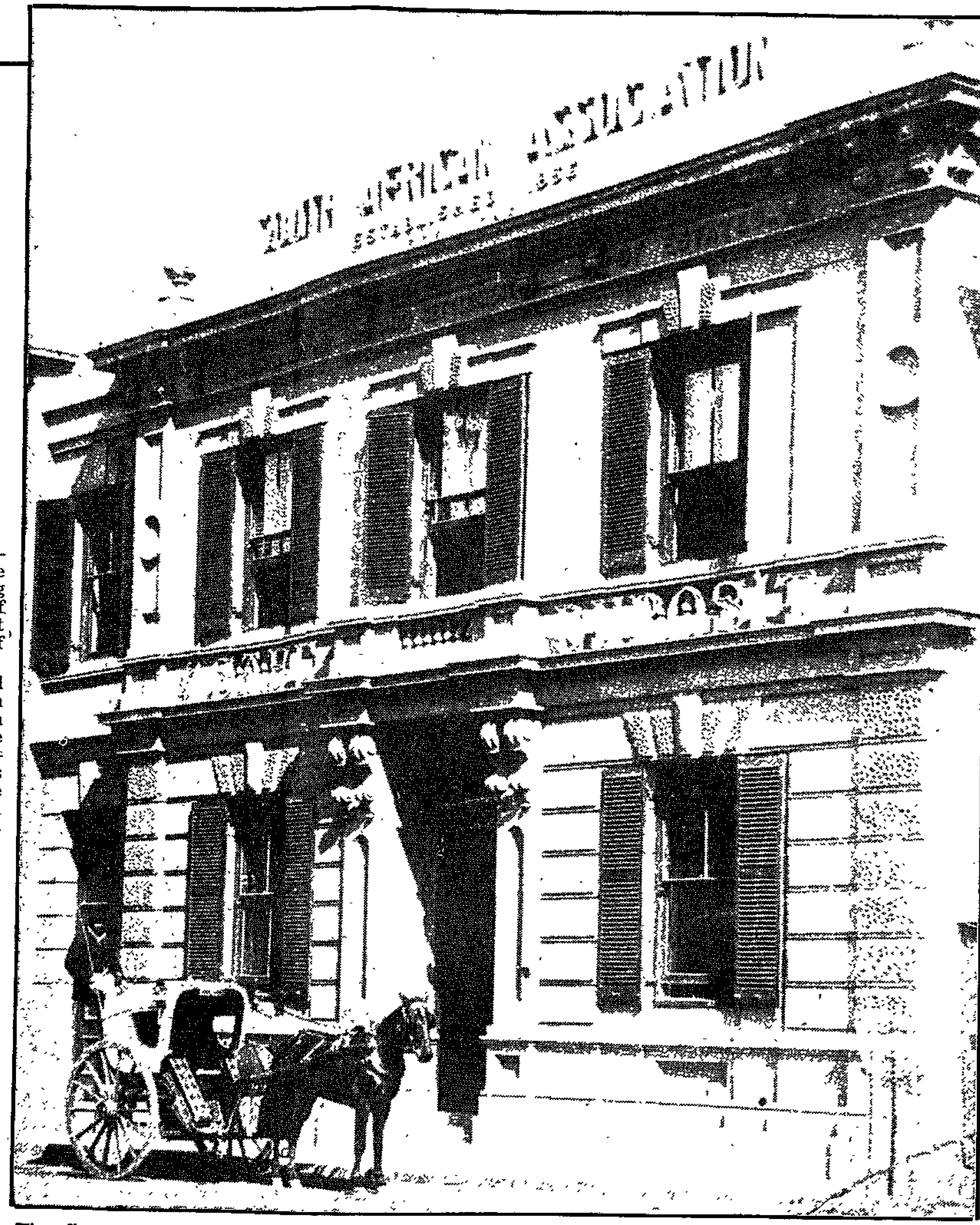
In the second half of the 19th century, new companies were started in smaller towns.

One example is The Eastern Province and Guardian Loan and Investment Company (established in Grahamstown in 1861).

These companies were all regional, serving only clients in the immediate area.

In the first Share Transfer Register, circa 1882, of the Griqualand West Board, the names of certain pioneers of the diamond fields appear, such as Alfred Beit, John de Pass and Alfred Rothschild. An early and major undertaking by the board was the liquidation of the Kimberley Royal Stock Exchange Company in the 1880s.

During World War I the chairmanship of the South African Association was held by Sir Frederick Smith. Elected as mayor on three occasions, Sir Frederick was responsible for welding the diverse Cape Town suburbs into one unit. His successor as mayor was Sir Harry Hands, another eminent Cape civilian who also took the chair at the South African Association. ...



The first premises of the South African Association at 6 Church Square, Cape Town. The association moved from here when it combined its activities with those of the Colonial Orphan Chamber and General Estate and Orphan Chamber.

First years and growth of the Syfret House

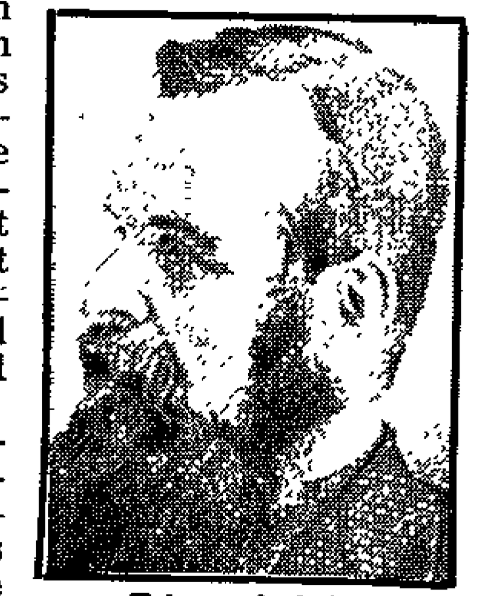
DURING the early years of the South African Association (about 1843) a young Englishman, Edward John Maynard Syfret, arrived in the Cape. After an initial period spent in Grahamstown he moved to Cape Town and, in 1850, founded the Syfret House.

E J M Syfret's business covered a wide range of services from accounting to general trust work, particularly the administration of estates. Within a year of operation he was appointed agent of the United Guarantee and Life Insurance Company of London and, through his growing reputation in business, acted as a professional arbitrator in disputes settled out of court.

Father and son

In true Victorian fashion, E J M Syfret and his wife Anne had 12 children, eight of whom survived. The eldest son, Edward Ridge, started his career in commerce but, on the death of E J M Syfret in 1885, entered his father's office.

A business contact made shortly after this was with Cecil John Rhodes who entrusted the young accountant with most of his personal and financial affairs.



Edward John Maynard Syfret

The connection remains today as Syfrets are the agents in South Africa for the Rhodes Trust.

The company was registered as a public company with a nominal capital of £100 000 divided into 1 000 shares of £100 each, of which £50 per share was called up and paid.

This resulted in a paid-up capital of £50 000, of which 90 percent was held by the partners and 10 percent by approximately 100 shareholders, many of them leading personalities of the time such as the Honourable J W Jagger, Richard Stuttaford, J G van der Horst, A G Syfret, D'Urban Godlonton, H E V Pickstone and A B MacDonald.

E R Syfret died in 1937 and Gerald Orpen succeeded him as chairman of Syfrets Trust and became senior partner of E R Syfret and Company.

By this time, net profits of Syfrets Trust had grown to £55 802, reserves to £163 000 and funds under administration (excluding shares and properties) had increased to nearly £3 500 000.

During the Second World War, growth in the trust company movement slowed down, but did not come to a standstill. In 1939 Syfrets Nominees (Pty) Ltd was formed to hold shares and bonds on behalf of clients. This was the start of the participation bond scheme — now one of the major activities of the company.

Sir Abe Bailey — his trust is administered by Syfrets.

Merger with SA Association and subsequent growth

THE development of industrial South Africa and the improved conditions following World War II laid the foundations for national growth. In this climate, the first link between the South African Association and Syfrets Trust was made.

In 1947 the two companies entered into a partnership agreement to establish and develop trust companies in other parts of South Africa.

In the 50s Syfrets Trust expanded rapidly, in local areas and to the north.

1950: The Calvinia and North West Board of Executors was bought and dissolved and its licence used to form Syfret's Executor and Trust Company Limited in Johannesburg. (New trust company licences were no longer being issued.)

1952: The General Estate and Orphan Chamber was the first of the old Cape trust companies to be merged with Syfrets.

1956: Syfrets moved into Natal with Syfret's Trust and Executor Company Natal Ltd. It was formed by absorbing McDonald Graham and Company Ltd, which was closed associated with the historic Natal Land and Colonization Company through which Rhodes, as a young immigrant, first leased land.

Under the umbrella of the new holding company, The Syfret and South African Trust Companies Ltd, there were more than 20 subsidiary companies.

Chairman of the group was Mr Clive Sinclair Corder, who had succeeded Mr Gerald Orpen on the latter's retirement in 1956. Managing director was Mr Edward Carter. Brigadier Werdmuller, then chairman of the South African Association, and its managing director, Mr Jannie le Roux, represented the interests of the South African Association on the board of the holding company.

The Old Mutual purchased a 20 percent share in the new concern and was represented on the board by its chairman, Brigadier Werdmuller, and its managing director Mr Jan van der Horst.

In October 1971 the South African Association combined its activities with those of the Colonial Orphan Chamber and General Estate and Orphan Chamber and moved from 6 Church Square to join the latter two companies in the adjacent building.

Mr Jannie le Roux was appointed chairman of Syfrets Trust Company, Cape Town, and in 1973 Mr Len Abrahamse succeeded Mr Edward Carter as chairman of the group country-wide, which was called the Syfret and South African Trust Company Ltd.

Soon evident to the board of the enlarged trust group was the desirability for Syfrets to provide the comprehensive financial services offered by merchant and commercial banks.

As an investment holding company with subsidiary companies engaged in many aspects of money management, Union Acceptances Ltd provided a diversified banking service: one which was complementary to that of Syfrets.

Once established in merchant banking through the merger, it was a natural step for the Syfrets UAL group to extend its facilities to commercial banking. Nedbank Ltd was approached.

At the initiation of Syfrets, plans to merge Syfrets, UAL with Nedbank were finalized in August 1973 on the basis of an exchange of 326 shares in Syfrets UAL for every 100 shares held in Nedfin.

In the year following the merger, the net profit achieved by the group was R23 311 000.

Growth of South African Association funds

South African Association money under administration in 1915 amounted to £3 000 000 and increased by about a quarter of a million by the end of the war. This was a considerable amount in view of the devastating effect of the war on commerce.

In the following three decades, the profits of the South African Association and the funds administered steadily increased. The balance sheet for 1935 reflects a figure of £4 250 000 for funds administered and 10 years later, while Sir Harry Hands was president, they had climbed to more than £6 000 000 — and 20 years after that to £26 500 000.

In the early 1970s, the South African Association merged with Syfrets and ceased to function as an autonomous entity.

At the time of the merger, it was headed by two highly esteemed businessmen — Brigadier Werdmuller (chairman) and Jannie le Roux (managing director).

Africa for the trustees of the Rhodes Estate.

Syfret expanded the range of business, particularly in trust work, and his staff grew. By the close of the century the volume of business activity demanded that Syfret take in partners. Gerald D'Arcy Orpen and Alfred Newton Foot were appointed as partners in 1907.

Establishment as a trust company

The rapid growth of the fiduciary business of the firm in the late 19th century and pre-World War I years was so marked that it became necessary to diverge the interests of the firm. With the return to normal conditions after the war, the long-contemplated idea was put into action.

Gerald Orpen's bold handwriting records: "Form a Trust Company to be called Syfrets Estate and Trust Company Limited".

Obviously the word "estate" was inappropriate as E R Syfret was very much alive. Therefore, on January 14, 1919, Syfrets Trust Company Limited was registered.

With the Banks Act 1942, the trust m ment was affected the first of a series legislative measure causing the separatio of the trust activities from the auditing practice.

Consequently, the first step was taken in establishing Syfrets Trust as an entity independent from E R Syfret and Company, a concern of chartered accountants.

Restrictions on appointments

The Companies Amendment Act (1952) imposed restrictions on the holding of dual appointments as auditor and director of the same company.

Following this, the partners of E R Syfret and Company and the directors of the trust company took the final step, in terms of which the latter purchased the trust company shares held by the partnership.

From then on each entity concentrated on its area of business — the trust company to grow into the present Syfrets group.

The challenge of a changing South Africa

CLIENTS' needs have changed dramatically in the past 150 years. When the trust company was formed, estate duty, donations tax, income tax and exchange control regulations, to name but four of today's unpleasant financial realities, did not exist in South Africa.

The major trust companies have become national organizations and have established close links with other types of financial institutions — commercial banks, merchant banks, insurance companies and building societies.

These alliances have not been arbitrary. Links have been created because the trust company clients, whether individual or corporate, have come to expect a modular service package.

The Minister of Finance has already indicated the government's wish to relax exchange control regulations further. The trust companies have undertaken the necessary spadework and have established the contacts to enable clients to invest abroad.

Looking further ahead to the way in which the investing public will wish to conduct its business, Syfrets have taken steps to be in the forefront of the Videotex users when the Post Office Beltel System is launched nationally. This will allow clients access to financial information through their phones and TV sets.

The trust company will continue to meet the challenge of an increasingly sophisticated financial milieu while retaining its reputation for personal service and flexibility.

The trust movement has been an integral force in the history of South African financial institutions and will continue to play its vital role in the country's future development.

Cape Times 19/5/84

58

Insurance companies expect to pay R6m

By CHRIS BATEMAN

THE swathe of destruction cut across the Western Cape by Tuesday night's storm has insurance assessors reeling under an estimated R6-million damages bill — with hundreds of claims still flooding in.

Many insurance companies, unable to cope with the claims flood, are telling smaller clients to go ahead and repair and "just send us the bill".

Hardest hit are building society insurance companies and Peninsula residents have so far sent in 1 000 claims totalling about R1-million to just one of the bigger building society companies.

Assurance manager of the society, Mr Des Long, said 90 percent of claims had been for wind-damaged roofs, with dozens of broken walls "thrown in for good measure".

Claims from his Stellenbosch branch, which covers most of the Boland, so far "conservatively" totalled R300 000.

Mopping up nears completion, picture, PAGE 3

Mr Evan Dallas, branch manager of another large insurance company, said his company's 1 000 claims also represented about R1-million and equalled a month's normal claims.

He reported a shortage of builders to cope with repairs and further investigation revealed that many building companies have abandoned flooded construction sites and turned to repairing damaged Peninsula homes.

Mr Geoff Levy, partner in a medium-sized construction business, said, "We've got about 10 jobs going at storm-damaged houses stretching from Bothasig to Hout Bay. The insurers are just telling people to go ahead."

The largest single claim by yesterday was for R50 000 and came from a Gordon's Bay farm trading store devastated on Tuesday by gale-force winds, the contents destroyed by driving rain.

One insurance company manager said he had received about 50 claims from large commercial firms in the Peninsula and appealed to clients to "be patient — we are processing as fast as humanly possible".

According to the manager of the Citrus Co-op at Citrusdal, Mr T F S Malherbe, between 10 and 20 percent of their orange crop had been destroyed by gale-force winds and the loss on the export market could be as high as R1,8-million.

Most representatives spoken to agreed that an estimate of R6-million for damages claimed so far was "fairly accurate" while others believed this was a very conservative figure.

Consumers owe more than companies for first time in 80 years

S Africans deep into the red

W/E ARGUS 19/5/84 58

By BRUCE HOPWOOD
Weekend Argus Reporter

SOUTH Africans are deeper in debt than they have ever been, according to the latest assessment of the 1983 records for debt and insolvency.

The managing director of Dun and Bradstreet, Mr Allan Mankoff, says that in the 80 years the company has kept listings on debt and bankruptcy in South Africa, last year marked the first time that consumer debt outpaced the combined debt of companies.

"The situation for the consumer is certainly serious. Not only has there been a record jump in the number of default judgments heard in the Supreme Court but even more significant is the value involved in these cases.

"Judgments for the non-payment of hire-purchase instalments for consumer goods last year jumped by 63 percent, to R31-million," said Mr Mankoff.

It is the highest figure that the publishers of the authoritative Dun's Gazette have ever recorded for South Africa.

"This year looks just as bleak and each month it gets higher and higher. In January the value of judgments in default cheques rose 110 percent from R1,6-million in January last year to R3,4-million.

"It's very clear that the consumer is living on credit as a way of life as he borrows more to compensate for his lower disposable income which has been cut away by inflation and growing taxes."

Mr Mankoff's comments come at a time when South African consumers are preparing for a shopping spree before the increase in general sales tax on July 1.

"People may look around at their acquisitions — television set, electrical appliances, car — and think they are better off but more and more of them are facing staggering debt.

● Kiss the good times goodbye: Page 15.

Cape Times 20/5/84

Home loans: Bank offer

58

Staff Reporter

THE Standard Bank of South Africa has entered the home-loans market, offering a "lower" rate than other banks".

Mr J E Holloway, general manager business development for the bank, said yesterday that the Standard had been offering housing loans for some time, but had now amended its approach.

In letters to each of its approximately half-a-million customers, the bank informed account holders that it would extend this service.

In September, 1982 Barclays Bank was the first to go into the home-loan business, with interest rates on a sliding scale from 17 to 19 percent. Mr Holloway said the bank would offer an 18,75 interest rate, as opposed to Barclays' 19 percent.

This would mean a 0,25 percent lower interest rate except on loans for under R40 000, where Barclays offered 18 percent.

'Tie-up'

Mr Holloway explained that the Standard Bank Building Society had been offering home loans for some time and the bank had a "tie-up" with the United Building Society.

The Standard Bank Building Society was now a closed society, working only on its existing portfolio of loans, while the bank's association with the UBS continued to grow.

"Our letters to customers are part of a promotion for an existing service. The building societies are experiencing problems in meeting the demand for loans available, which we can accommodate.

"This is not to say that we will only offer loans to our existing customers, but those granted loans will be required to open a cheque account with us."

The UBS offers from 15,75 percent on loans up to R20 000 to 18,75 percent for loans of R60 000 and over.

Cape Times 22/5/84 (58)

Barlows raises earnings in spite of higher taxes

JOHANNESBURG. — Thanks to better trading and greater efficiency Barlow Rand's attributable earnings rose by 19 percent in the six months ended March.

The interim report released yesterday shows that this rise, from R103,1m to R122,7m, was achieved after taking into account R8,1m of additional taxes arising from changes in the basis of taxation announced in the March Budget.

But for the significant impact of the new tax measures, earnings per share would have been up by 17,3 percent. As it was earnings per share were up by 10 per cent, from 68,8c to 75,7c.

An unchanged interim dividend of 21c a share was declared, and the chairman, Mr Mike Rosholt, says it should be possible at least to maintain the dividend for the year at 70c.

Expectations

Trading results for the six months exceeded expectations, he says.

Increased operating profits resulted from better trading and from improved efficiencies in all divisions, but trading conditions were expected to be more difficult in the second half.

"With the decline in the gold price, the cost of the drought and the consequent weakening of the South African balance of payments position together with the recently announced increase in general sales tax, it has become clear that the upturn, which manifested itself in the second half of the previous financial year, cannot be sustained," he said.

Turnover rose by 20,4 percent to R4 711,8m. There was a 24,5 percent increase in group operating profit before interest.

Group profit before tax showed a 28,9 percent leap to R392,7m. Group profit after tax showed a 26,8 percent gain to R236,2m.

The ratio of current assets to current liabilities has improved from 1,46 at end of September to 1,48 at end of March.

In the same six months, total liabilities to total shareholders funds were reduced from 88 percent to 84 percent, and total borrowings to total shareholders funds were pulled down from 44 percent to 41 percent.

Capex

The chief operations officer, Mr Warren Clewlow, said capital expenditure estimates for the group as a whole now stand at R1 541m.

"This includes mining proposals of R864m, of which the major portion will only be spent in 1988 and onwards. The remainder of the expenditure will take place by the end of 1985 and relates to expansion in the cement and lime division, and in the C G Smith group."

Commenting on the divisional trading performance, Mr Clewlow said the ferro-alloys and stainless steel division had improved its position, with a loss at the half year of R3,9m against a loss of R8,1m for the corresponding period last year.

The export market for ferro-alloys had improved steadily but the local market for stainless steel remained depressed.

The other divisions also improved except the mining division due to lower gold prices being received and the lower margins that have prevailed in the coal and base minerals markets.

Commenting on group-wide activities, Mr Clewlow said: "It has been a busy six months, and the group ended the first half on a confident note.

"Looking ahead, there must be hesitancy about what will be achieved in the second half of the year. The upturn in the economy of the past nine months has faded, and the further increase in general sales tax announced so soon after the budget will further undermine business confidence.

"The group is fortunate to have further internal potential to improve profitability. This will come in time through rationalization benefits arising from recent acquisitions, the benefits that will arise out of our capital expenditure in recent years, and making better use of non-performing assets." — Sapa

Cape Times 24/5/84

(58)

Anglo American Corp gets further stake in GFSA

Own Correspondent

JOHANNESBURG. — Anglo American Corporation (AAC) has acquired a further 5,6 percent stake in Gold Fields of South Africa (GFSA) in a deal worth more than R125m.

Anglo has accomplished this through a share swap of 8,5m Barlow Rand shares for 4,6m GFSA shares with the Old Mutual. The shares were registered with their new owners on Friday last week.

The deal was revealed yesterday in a circular to GFSA shareholders concerning the group's acquisition of the controlling stake in Clydesdale Collieries.

The document showed that Anglo American Corporation's stake in GFSA had risen to 8,9 percent at May 22 from the 3,3 percent reported in the last AAC annual report.

Implications

It also showed that the Old Mutual no longer had a stake of more than five percent in GFSA. It held six percent at June 30 last year.

The implications of the deal are significant in terms of the shareholdings being built up by the Anglo greater group in GFSA and the Old Mutual in Barlow Rand.

Old Mutual held 29,5 percent of Barlow Rand before the deal which has given it an additional 5,2 percent stake to take its total holding to 34,7 percent.

Anglo American Corporation (AAC) now holds a direct 8,9 percent stake in GFSA, while 49 percent held associate Anglo American Gold Investment Co (Amgold) has another 10,9 percent which takes the direct group stake in GFSA to 19,8 percent.

Speculation

However, the Anglo group has a significant indirect holding in GFSA through its international arm, Minerals and Resources Corporation (Minorco) which in turn has a large stake in GFSA's controlling company, Consolidated Gold Fields.

There has been repeated speculation over the past few years that Anglo is keen to acquire control of GFSA which manages arguably the finest stable of South Africa's gold mines.

The speculation has concentrated on the activities of Minorco and the possibility that it might launch a takeover bid for Consolidated Gold Fields.

AAC holds a 41 percent stake in Minorco while De Beers Consolidated Mines holds a further 22 percent to give a combined AAC/De Beers controlling interest in Minorco of 63 percent.

Minorco in turn holds 29 percent of Consolidated Gold Fields which is the largest shareholder in GFSA with 48 percent.

Regulations

If Minorco wants to take its stake in Cons Gold to more than 30 percent then, in terms of London Stock Market regulations, it will have to make a take-over offer to all Cons Gold shareholders.

Apart from AAC, Amgold and Cons Gold there are no other holders of a more than five percent stake in GFSA.

An AAC spokesman yesterday denied the acquisition of an additional 5,6 percent stake in GFSA was part of an overall plan to gain control of the company.

Bankovs profit soars to R1,2m

BANKOVS has closed its 1983/84 book year with an impressive profit declaration of R1 220 000 compared to R330 000 for the previous financial year.

According to provisional unaudited figures, the profit amounted to R1 000 000 after preference dividends of R220 000 had been paid out and internal reserves had been strengthened.

Assets

The managing director of Bankovs, Mr Ben van der Berg, expressed his satisfaction with the bank's results and said the position of the bank had strengthened markedly in the previous book year.

Bankovs' assets now amounted to R451,5m compared with the R392,3m of the previous year.

This represented an increase of 15,1 percent, which Mr Van der Berg described as a sound, conservative gain.

The bank's share of the market in respect of savings was undoubtedly the clearest evidence of Bankovs' dynamic growth in the previous book year.

According to the BA-9 analysis for the period up to and including December 1983, Bankovs' savings had grown from R27m in December 1982 to R35,5m in December 1983.

Growth

This represented a growth of 30,7 percent, the second best performance among the bigger general banks.

This growth was especially impressive in the light of an average savings growth of 12,9 percent among all general banks and of only six percent among commercial banks.

Bankovs had also showed its meettle in the areas of hire-purchase and leasing.

Its growth in leasing transactions amounted to 27,1 percent according to the BA-9 analysis and this was the third highest percentage of all banks.

According to Mr Van der Berg, Bankovs would continue to specialize in consumer financing while also giving a high priority to its savings facilities.

Savings

He ascribed the growth in savings to a dynamic marketing programme which would be extended in the coming year.

He also said that the agricultural sector, which had always made up a considerable amount of the bank's business, was receiving strong support in the current exceptionally difficult times.

The agricultural sector would continue to occupy a prominent place in the bank's activities and receive the attention which its specialized financial problems required.

EC inflation

LUXEMBOURG. — Inflation in the 10-nation European Community fell to a five-year low of 7,7 percent per year at the end of April, the community's statistics office Eurostat said.

How Trust Bank was 'saved'

CAPE TIMES 29/5/84

58

Staff Reporter

BIG-~~BUSINESS~~ESS support prevented the Trust Bank from going under a few years ago, the chairman of Sanlam, Mr Marinus Daling, said yesterday.

He was speaking at a lunch-time seminar at the University of Cape Town on the concentration of economic power in South Africa. The other speaker was Professor Brian Kantor of the university's School of Economics.

"The Trust Bank would not have been here today if Sanlam had not stepped in," Mr Daling said.

He said the intervention of Sanlam had been necessary, too, because the economy was at a critical point and would have been badly affected by the collapse of the Trust Bank.

Question

The difficult question to answer was "When does size become bad?"

There was greater competition in a market where there were three or four strong groups than in a fragmented market.

A University of Pretoria study had also shown that inflation could not be attributed to concentration of economic power.

Mr Daling said the process of concentration of economic power would continue in future and would be in the interests of South Africa.

As a member of the Competitions Board, Professor Kantor said, he was concerned with the efficiency and the individual's freedom of choice.

Constitution

The preamble to the new constitution, he said, proclaimed the idea of effective competition which best guaranteed efficiency and choice.

Professor Kantor quoted the South African Transport Services as an example of an unit which did not make for effective competition.

Conglomerates were not yielding the same dividends for investors as they would have received had they invested through a diversified institution.

"They are becoming less valuable than the sum of their parts."

GROUP NO 15
Transvaal 2
Moodie and Golino (251)
Moodie and Golino (252)
Bopape (65)
Graaff (60)
Parnell and Mabin (62)

GROUP NO 16
QwaQwa
Beukes (230)
Bank (282)
Sharp and Martiny (286)
Spiegel and Sharp (52)
Niehaus (297)

GROUP NO 17
Relocation
*Platzky (73)
Claassens (74)
Donald/Kerchoff (75)
*McLennan (76)
Haysom and Armstrong (
Mfenyana (78)

GROUP NO 18
Protecting Jobs
Haysom and Thompson (8
Webster (111)
* Nupen (117)
Maree (122)
Turner (283)

GROUP NO 19
Health A
Jacobs (179)
Disler (186)
Mann (191)
Raynal (280)
Roberts and Ripp (254)

GROUP NO 20
Health B
Von Schirnding (180)
Yach (181)
Moola (183)
Steyn (184)

Building society bond rate rise

CAPE TIMES 30/5/84

(58)

By NEILL HURFORD and ROBERT GREIG

TWO building societies — one a member of the Big Five — have raised their bond rates by up to 0,75 percent, with other building societies likely to follow. A further increase has been predicted for September.

The new rates for new owners will come into effect on June 1 and for existing home-owners on July 1.

The Allied announced yesterday that it had put up its rates across the board by 0,75 percent and the EP Building Society by 0,50 percent.

In general, Allied borrowers will have to pay an extra 55 cents a month for every R1 000 borrowed.

An Allied spokesman said that on a R20 000 to R40 000 bond, the new bond rate would be 17,5 percent.

Monthly repayments on a R40 000 bond would rise to R602 from R580.

On a R40 000 to R60 000 bond, the bond rate would be 18 percent.

Monthly repayments on a R60 000 bond would rise to R973 from R938.

New loans

Announcing Allied's increase yesterday, Mr Roy Pascoe, the society's managing director, said: "The hardening of investment interest rates in the market has dictated an upward adjustment of the mortgage interest rate.

"Allied has taken the decision to raise the mortgage rate by 0,75 percent in all categories, with effect from July 1 on existing loans and June 1 on new loans."

Mr A Greaves, assistant general manager of EPBS, said the 0,5 percent increase was "a necessity".

"In view of the fact that savings rates are at 16,5 percent and fixed deposits as high as 17,5 percent, it doesn't take much skill to work out that you can't lend money at 16,25 percent," he said.

Even the revised rate of 16,75 percent was only made possible by investments by the society of up to five years' standing, he added.

A spokesman for Barclays, however, said last night that Barclays was unlikely to increase its rate in near future.

"An increase in rates has been under discussion for some time," he said, "but Barclays is not likely to increase them for some time."

Other societies appear to have not yet decided, but Mr Malcolm Mitchell, executive director of the Natal Building Society (NBS), said: "It would make good financial sense if the bond rates were to go up."

However, the NBS had not yet decided when or by how much it would increase its rates, he said.

Gold price

The deputy director of the Stellenbosch-based Bureau for Economic Research, Mr Attie de Vries, believes a further increase will take place in September unless the gold price rises.

The reaction of Mr Hadden Steer, chairman of the Cape Town and Western branch of the Institute of Estate Agents, was that the increases could mean that homeowners would have to reassess the prices of their homes when they decided to sell, and take lower profits.

"It all boils down to affordability, and unfortunately homeowners will just have to be realistic about their profit expectations when selling, to keep properties within reach of buyers," he said.

We'll knock until Pietersburg opens, says bank boss

58

City Press 3/6/84

MOSES MAUBANE: "Well press ahead."

AFRICAN Bank managing director Moses Maubane has vowed that the bank will press ahead its application to establish a branch in Pietersburg — although his application was turned down this week for the fourth time.

By Z B MOLEFE

In a heated debate in a Pietersburg Town Council session on Monday, which took up two-thirds of the session, a motion by one councillor calling for the matter to be referred back to the management committee pending Government clarification on future "open" trading areas, was defeated.

Councillor Doep Du Preez said the establishment of the bank would be "a radical departure" from normal practice, because no black business had ever been granted trading rights in the Northern Transvaal town.

"We have the right to be in Pietersburg," said an angry Mr Maubane. "Without the financial support of blacks, Pietersburg would collapse."

Mr Maubane also told City Press that although African Bank's application has been turned down for the fourth time since 1980, it is not discouraged. "In fact, we are more determined than ever to be in every central business district throughout the country," he said.

"We will knock on Pietersburg's door until they open.

"Our treatment by the Pietersburg town council is unfair — much of the country's wealth is generated by blacks."

Volkskas group raises income — dividends

Cape Times 7/6/84 (58)

JOHANNESBURG. — The Volkskas group increased net income by 12,3 percent to R59 043 000, the preliminary profit statement released yesterday shows.

The equivalent figure for the 1983 financial year was R52 587 000. Earnings per share have increased from 172c to 193,8c and the group has declared a 15 percent increased final dividend of 36c a share (31c), bringing the total dividend for the year to 57c (49,5c).

The total assets of the group showed an increase of 15,8 percent and amounted to R7 984 723 000, compared with R6 897 972 000 in the previous financial year.

The disclosed income of the group's banking activities amounted to R47 866 000 (R41 432 000), a rise of 15,5 percent.

The directors state that Volkskas Ltd, the commercial banking subsidiary, performed well in spite of stiff competition, by increasing its disclosed income by 15,2 percent from R33 295 000 to R38 344 000.

Subsidiary

Its wholly-owned subsidiary, Bankovs, was operated at a profit in the year and its disclosed income of R1 220 000, after transfer to internal reserves, was a considerable improvement on the figures for the previous year of R330 000.

Volkskas Merchant Bank continued its positive growth pattern and its disclosed net income of R6 000 000 was 33,3 percent higher than the figure for the previous financial year of R4 500 000.

Notwithstanding the high cost of funds and stiff competition in the instalment credit market, Volkskas Industrial Bank maintained its position with a disclosed income of R2 796 000 (R2 756 000).

In a year in which business conditions were still unfavourable, the disclosed income of non-banking institutions before extraordinary items increased from R11 155 000 to R11 177 000.

Property market

Volkskas Commercial Properties capitalized on the favourable conditions in the properry market and its profit for the year under review was R7 438 000, compared with R1 874 000 of the previous financial year.

"In industry, specific activities are sensitive to cyclic trends, with the result that, in the downward phase of the business cycle, certain activities exerted a curbing effect," say the directors.

"Nevertheless, the results of the Bonuskor group of companies showed a positive trend in that Volkskas group's interest in the loss amounted to R595 000 as against R3 794 000 in the previous financial year.

"The serious drought conditions of the past season, however, had an adverse influence on the results of Transvaal Sugar Corporation Ltd. Nevertheless, owing to a favourable upswing in the price of sugar, a profit after taxation was obtained of R6 245 000 (R9 969 000). — Sapa

Council

Stormclouds gather again over Pietersburg

58 Star 9/6/84

By Dirk Nel

Another storm is brewing in the Pietersburg Town Council, this time over alleged clashes between the town clerk, Mr Jack Botes, and the mayor, Mr Hannes Engelbrecht.

It follows hot on the heels of a heated debate in the council chamber last month on an application from the African Bank to establish a branch in the town. The council turned down the bank's application.

There is increasing speculation in the town about an incident which took place at the Civic Centre during and after a meeting of the Northern Transvaal Regional Development Advisory Committee, of which Mr Botes is chairman.

Black officals from Lebowa and Gazankulu attended the meeting, and Mr Engelbrecht, a zealous supporter of the Conservative Party, allegedly objected to their use of catering facilities.

Not wishing to embarrass his guests Mr Botes evidently announced that a light lunch would be served right there.

But Mr Engelbrecht apparently lodged another complaint after the meeting had ended with a junior municipal official involved in the catering. According to a reliable source, Mr Botes then took the matter to the town council's management committee, indicating that he would rather resign as town clerk than put up with such behaviour from the mayor.

According to one informant the mayor was cautioned by the chairman of the management committee, in Mr Botes's presence.

However, the management committee chairman, Mr Nic du Preez, denied in an interview with The Star that his committee had taken any such action. He also denied that Mr Botes threatened to resign.

Mr Botes refused to comment on the incident when approached by The Star and Mr Engelbrecht was unavailable for comment.

CAPE TIMES 13/6/84

African Bank raises profits

58

JOHANNESBURG. — The African Bank's pre-tax profits in the six months to March totalled R273 878, the interim report released yesterday shows.

The figure for the equivalent period last year was R64 034 and that for the 11 months to September last year was R107 481.

In the review period the contribution by banking to total pre-tax profits was R260 616, with the balance coming from insurance broking.

In their comments accompanying the report, the directors state:

Interest rates

"Although economic conditions generally have not been buoyant, there has been, however, an encouraging upward rise in interest rates. While demand for bank credit has continued unabated, new deposits on the other hand have been difficult to come by."

The group profits for the half year (net of provisions) have increased by 334 percent as compared to the same period last year.

Provisions on the other hand have increased by 32,5 percent to R796 663. This figure is net of actual write-offs of bad debts.

Provisions

In view of prevailing unfavourable economic conditions, the board of directors has continued its conservative financial policy by increasing the provisions from profits by 25 percent.

"Provided the bank continues to trade as profitably in the next six months as it did in the past half year, your directors are considering declaring a dividend. This will represent a very important milestone in the bank's history." — Sapa

3 building societies increase bond rates

Cape Times 13/6/84. (58)

Staff Reporter

THREE more building societies, including two of the country's largest, the Perm and the UBS, have raised their bond rates

The Perm, UBS and Provincial increases follow similar ones by the Allied, Saambou and the Eastern Province Building Society last month.

The Natal Building Society and Trustbou — the only two societies which have not increased their bond rates — are likely to soon, their spokesmen say.

One of the two banks in the home finance market, Standard Bank, was considering raising its rate, a spokesman said from Johannesburg yesterday. A decision was due by the end of next week.

Barclays Bank was not considering an increase, a spokesman said in the City yesterday.

Perm, UBS and Provincial increases are between ,50 and ,75 percent — or an extra 55 cents for every R1 000 borrowed.

The Perm's new rates are: 17 percent for up to R20 000; 17,5 percent for between R20 000 and R40 000; 18 percent for between R40 000 and R60 000; and 18,75 percent for more than R60 000

The new rates of the UBS and the Provincial are the same, except for amounts of more than R60 000, where the rate is 19 percent.

The Perm's new rates will apply to new bonds immediately and those of the UBS to new bonds from Monday.

Existing Perm borrowers will pay the higher rates from July 16 and the UBS's from August 1

The UBS has not yet raised its rate for commercial property or flats — 20 percent and 19,5 percent respectively. The Perm has, to 20 percent and 19,5 percent respectively.

Building society spokesmen predict further bond rate rises this year because of the shortage of money.

58

SA banks in loan agreement

JOHANNESBURG. — A consortium of four South African banks yesterday finalized a major loan agreement with the Government of Bophuthatswana.

The loan, for a seven-year period, is for the equivalent of 50-million US dollars (more than R62-million).

The money is to be used for the development of economic housing near the industrial areas of Garankua and Mabopane in eastern Bophuthatswana near Pretoria, as well as in Thabanchu near the Lesotho border.

President Lucas Mangope, his Minister of Finance, Mr Leslie Young, and other members of the independent state's cabinet met top managers of the four banks in Johannesburg yesterday to finalize the deal. The banks are the Standard Bank of SA, Barclays National Bank, Trust Bank of Africa and Standard Bank of Bophuthatswana.

Dr Conrad Strauss, managing director of Standard Bank, said yesterday that this was the first time a consortium of South African banks had raised money for a national state in the rand currency area.

He said banks in South Africa did not often get the opportunity for international sovereign risk lending but now that the first had been negotiated, others would probably follow.

"Bophuthatswana has set a good example in introducing disciplines in managing its financial affairs. It has a good image in the money market in South Africa," he said.

For this reason there had been no difficulty in putting together a consortium of banks to raise the funds needed.

Economic houses

Mr Young, Bophuthatswana's Minister of Finance, said that between 1 800 and 2 400 self-financing economic houses would be built with the loan funds.

"For us this is a massive development which will support many other developments. The existence of appropriate middle-level housing in the areas concerned will induce further development," he said.

Mr Dennis Madfield, a general manager of Standard Bank who was closely involved in the negotiations for the deal, details of which still have to be finalized, said the loan was unsecured, in line with loans granted to major corporations. — Sapa

FINANCE

State warned over move to curb tax free savings

ARGUS 28/6/84

58

The chairman of the Eastern Province Building Society, Mr H P C Almon, has warned the Government that the building societies would be hard-pressed to provide housing loans if they lost their tax advantages.

Addressing the society's annual general meeting in Grahamstown last night he said if these advantages were lost the funds would merely go elsewhere where such benefits existed. He asked why should the building societies be the whipping boy?

Mr Almon said the authorities were planning to remove the tax advantages because they believed that the investors who benefited the most were the more affluent.

But as almost the entire savings of the lower income group lay in pensions and insurance, the major portion of savings and investments came from people in the higher income bracket.

These people had in the past been attracted by the tax concessions. While the loss of these concessions could be partly offset by offering higher interest rates, the attraction of other investment opportunities would still make it extremely difficult for the societies to meet the growing demand for home finance by all population groups.

He referred to the tax concessions offered by insurance companies, the Post Office, the Government and the equity market, and said that ending the building societies' concessions would cause the flow of funds to be disturbed — unless the other organisations also lost their concessions.

LIMITED CONTRIBUTION

Tax-free savings in the Post Office were used to subsidise postage and telephones while insurance companies offered schemes that were patently capital investments with considerable tax benefits, he said.

Furthermore, insurance companies could invest their income to the best advantage on the stock exchange and elsewhere, and their contribution to housing was extremely limited.

Mr Almon said that it appeared that the societies would be expected to compete with the banks but would not be entitled to spread their activities across the financial board, as the bulk of their funds had to be spent on housing.

If, in addition to this, the societies lost their tax benefits on investments, the future for borrowers was serious.

Mr Almon said his society could not satisfy the demand for loans in spite of a slowing down in the property market. Gross loans granted reached R97-million, a 51 percent increase on the previous year's R64-million.

 Cape Times 28/6/84 (58)

Hickman replies to LOA challenge

The Chairman of the Life Offices Association (LOA), Mr Frans Davin, recently challenged life industry critics to deny that there have been very few complaints from policyholders. Insurance consultant Mr Isaac Hickman has taken up the LOA's challenge.

I AGREE with Mr Davin that there are very few complaints.

However, it appears that Mr Davin and LOA members do not understand, nor wish to, why there are so few complaints. For their information, and that of the average policyholder, I will tell them.

It is because the insurance buying public believes that industry lawyers have drafted its documents, proposal forms and policy contracts legally and correctly. Given that assumption, policyholders feel there is little they can do to influence or affect the outcome of such contracts.

Mistaken belief

Nothing could be further from the truth than this mistaken belief.

I maintain that policies which do not include the rights of the insured, and conform to the principles laid down in the Insurance Act, Contract Law, Insurance Law and other laws which affect life insurance, are invalid.

No policy issued by the life industry in South Africa conforms to these requirements.

First year law students learn that both parties to a contract must have identical documents in their possession, each of which records the rights and duties of one to the other.

South African life insurers do not attach a copy of the proposal form and declaration of health signed by the insured to the policy contract.

This leaves the insurer in the position where the claimant (usually the widow — who has no idea what particulars her late husband gave on his proposal form) can be fobbed off by a simple statement that the insured withheld information.

Case books

As the claimant is not in possession of all the facts, she has no means of testing such statements. There are few ordinary people who would venture to take an insurance company to court on supposition that they might be bluffing — particularly if you have no written records to go on.

My case books, collected in a lifetime of battle with the life industry, record 18 cases where the insurer said that he did not have to pay the claim. When I insisted on copies of the forms signed by the insured, the insurer turned out to be wrong and had to meet the claim.

These are just the few cases I came across personally. As such they must be just the tip of the iceberg. There must be many more such cases of claims wrongfully denied.

To give one more example of what I see as the "lawless" industry.

Medical history

The proposal form — signed by the proposer (the life insurance buyer) which grants authority by the insured to his doctor(s) — should give the insurance company information up to that date of the proposer's medical history.

The authority is limited. It does not permit the insurer to give that information to any other insurance company, yet this is done every day as a matter of industry practice.

One company can always call another for medical records of an insured. This can prejudice insureds because the original policy loading is carried on and added to by other companies, often without any further examination.

First year law students also learn that on the death of any party to a contract, the contract does not terminate. The rights of the deceased are transferred to his executor or next of kin.

That means that the insurance company has no right to demand from the doctor the medical history of the man who died. Yet the industry does so because it claims that the authority given by the proposer is "irrevocable and binding after his death".

Proposal form

In fact, any doctor who supplies insurance companies with information on the basis of an un-authenticated proposal form signature (which it claims is irrevocable after the death of the insured) must be aware that he could be sued for giving that information without the executor's authority.

This is specifically found in an order presented by the Minister of Health in 1965. This lays down that doctors may only give information to any third party about a patient who has died after the doctor has first refused and been instructed by a judge or magistrate to comply.

Otherwise it may not be done.

I am presently compiling a buyers' guide to life insurance. It will certainly include a chapter on the lawlessness which is rife in the industry. The lawlessness may be more a matter of ignorance than intent, but the result — prejudice to the consumer — is the same.

Lawful rights

Until the insurance-buying public shakes off its apathy and demands that the State provide protection by legislation, the insurance consumer and particularly claimants' widows and orphans will continue to be deprived of their lawful rights.

I think I have said sufficient to answer Mr Davin's challenge. Had there been considerably more space it would still not be sufficient. It is not my function to educate insurance lawyers and draw attention to their complete ignorance or ignoring the rights of the insured set out in existing legislation.

I look forward to Mr Davin's and the LOA's reply on this issue. Mr Davin in his challenge talked about trust. This is a one-sided view of trust in which the insurer trusts the client to give all relevant details when applying for insurance so that the risk can be properly assessed.

Insurance law insists that "trust" between the parties applies equally to the insurer.

Public interest

The industry has forgotten that the policyholder trusts the company to look for reasons to meet his claim rather than seeking ways of evading it.

Insurance has been defined as "a business affected with the public interest".

"It is a business of importance to so many that it is in the public interest to enact whatever laws are necessary to assure that the great trust placed in insurance companies is not abused."

I cite the following examples from my casebooks of two approaches to life insurance.

A dentist insured with an overseas insurer changed his policy to another policy with the same company. Six weeks after the new policy was issued, insured committed suicide.

Policy contract

The insurer was legally entitled to deny claim, as suicide is excluded in the first two years of the policy contract. However, after looking at the policyholder's lifelong record, the insurer cancelled the new policy, re-instated the old and paid the claim.

Most overseas insurers attach a full photostat copy to the proposal form which is a legal requirement in Western countries. South African insurers do not believe that they must comply with such legal frippery.

This overseas insurer had a full legal right to deny the claim but did not do so. This insurer's practice was at all times to seek ways to pay claims, rather than avoid them.

Such an attitude betokens a sense of responsibility to moral obligations as well as his social conscience. This insurer and others with the same attitude no longer operate in South Africa, legislation having phased them out.

Change of address led to premiums being two months in arrears. Insurer accepted both arrear premiums and thereafter the insured died. Insurer denied widow's claim alleging that policy had lapsed and tendered a refund of arrear premiums.

Liability

After lengthy discussions the insurer conceded liability, then changed tack.

It was then claimed that the deceased had not disclosed on his proposal form certain information to which the company was entitled.

After some pressure, a copy of that form was obtained. The insurer was incorrect and the claim was ultimately paid.

This insurer had no legal or moral right to deny the claim but did so. In case the impression has been given that I speak of past history, the most recent example of this practice — the refunding of premiums after the claim arises on the contention that the insured was not covered — occurred a few days ago.

29/6/84

Fidelity Group predicts further increase in profits

Mr Andrew Ovenstone who is to succeed Mr Alex McGregor as chairman of The Board of Executors.

THE Fidelity Group — formerly The Board of Executors and Fidelity Bank Group, which recently announced a 64,4 percent increase in after-tax profits — anticipates a further increase in profits for the coming year, the chairman, Mr Alex McGregor, says in the group's annual report.

This disclosed profit is arrived at after making transfers to inner reserves. Net profit after tax rose from R1,06m in 1983 to R1,75m in 1984.

The surplus of R782 000 arising out of its disposal of its majority stake in insurance brokers Robert Enthoven & Co has been transferred to general reserves, while the retained income from traditional trading has risen from R274 000 to R883 000.

Dividend policy

Mr McGregor says the group intends to pursue a conservative dividend policy in order to meet the demands for working capital which are imposed by rising costs, the growth in assets under administration and expansion plans for the Transvaal and Natal.

Earnings per share rose from 80c to 132c.

The dividend was increased by 10 percent to 66c a share, and dividend cover increased from 1,3 to two. The group is aiming to cover the dividend 2,5 times.

A promising start has been made in the new financial year but warns that he expects a higher overall rate of tax so that shareholders should not expect after-tax profits to increase at the same rate as last year.

"We nevertheless look forward to a satisfactory year and a further strengthening of the group," he says.

At the year-end the group managed assets having a market value of R610m, which establishes the group as one of the largest independent financial services companies outside the major banking and insurance groups.

Changes

The report highlights a number of changes taking place in the group's directorate. An age limit of 70 has been set throughout the group with the result that those directors reaching this age by the end of the year will be retiring from office.

Mr S Lewis, Mr A D P Ovenstone, Mr W T Neil Boss and Mr E H R Womersley have been appointed to the board of Fidelity Group together with Mr W J MacAdam, managing director of The Board of Executors, and Mr M Antoncich in his capacity as managing director of Fidelity Bank.

Previously all were directors of their respective operating companies.

The chairman, Mr McGregor, has also announced his intention to retire from group boards in the course of the year.

Mr Andrew Ovenstone will succeed him as chairman of The Board of Executors, while the chairman of Fidelity Group will be announced in the course of the year.

It also notes that Mr Michael Antoncich retires as managing director of Fidelity Bank. It is fitting that his retirement comes at a time when Fidelity Bank has made record profits.

Competition

The Cape Town branch of Fidelity Bank is due to move into new premises at 4 Wale Street, the historic site of the Netherlands East India Co hospital. The Bank now has branch representation in Port Elizabeth, Cape Town, Durban and Johannesburg.

The Board's activities although facing increasing competition, produced very satisfactory results. Assets under administration had a market value at the year-end of R540.6m.

In the year under review, The Board acquired a 26 percent stake in Yellowwood Property Fund Managers Ltd, which is the management company for the Umdoni Property Trust. Umdoni was listed in October 1983 and The Board was one of the issuing houses for the listing.

The Board also has an interest in Global Investment Management Ltd of London. Its partner in this venture is Lombard Odier International Portfolio Management of London Global was recently appointed investment adviser to First Southern Investment Co, which has a $40m investment in South African industrial shares.

Asked to comment on the outlook for The Board, the managing director, Mr Bill McAdam, said, "we are running according to plan. Management has placed strong emphasis on maintaining a high standard of service in our traditional areas of activity. This coupled with our new marketing drive appears to be paying dividends, the inflow of new business is heartening."

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.

Rand closes off new lows

JOHANNESBURG. — The rand recovered to $0,7350/60 at the close after setting another record low for the fourth successive day of $0,7303/10 just after mid-session, dealers said.

Trading was generally chaotic, they said, with a persistent dollar shortage in the face of a continued strong, and apparently insatiable, Interbank demand for the dollar, putting heavy downward pressure on the rand.

The rand opened at $0,7380/87 yesterday morning against Wednesday's close of $0,7390/74.

The Reserve Bank intervened often, selling dollars onto the market to stem the rand's rapid slide, but to little avail, dealers said.

The rand's late recovery appeared to be a technical reaction to an overdone decline stemming from Interbank speculation, as well as to an easing in the dollar on overseas markets following the latest United States trade data.

Against other major currencies the rand closed at:

US: 0,7350/60.
UK: 1,8365/75.
Germany: 2,0470/80.
Switzerland: 1,7130/40.
Netherlands: 2,4070/85.
France: 6,2835/80.
Japan: 174,30/50. — Reuter

indicators

Du Plessis backs 10 percent GST

(58) C-Times

2/7/84

By BARRY STREEK

THE decision to introduce the new 10 percent General Sales Tax, which came into effect yesterday, was defended by the incoming Minister of Finance, Mr Barend du Plessis, at the weekend.

His defence of GST comes after speculation that the government may increase GST again later this year.

Mr Du Plessis said at a press conference that the acceptable level of GST was "the delicate balance of what the consumer can pay and what the country needs".

'Good form'

"This country right now needs revenue. It also needs to cool down expenditure in certain consumer lines."

After due consideration, the cabinet had decided on the 10 percent formula, he said.

He shared the responsibility for the GST increase, as this was a "cabinet decision and certainly not Minister Horwood's own personal responsibility".

GST was accepted world-wide as "a good form of taxation. It's fair in the sense that one has

Mr Du Plessis

a choice to buy or not, to a degree, except when it comes to life-essentials".

Although the cabinet had decided to increase GST, it had decided to "alleviate the burden on those essentials".

GST was relatively easy to administer throughout the economy and was a useful instrument for both revenue and the State, he said.

GST achieved certain monetary objectives, such as helping to curb spending, thus arresting the outflow of capital.

It could be used as a remedy for a poor balance of payments position, he said.

He felt the rate of inflation in South Africa was inordinately high.

There were factors beyond South Africa's control which affected this, "but the government is not satisfied with the present level of inflation".

He also called for a speeding-up of the government's decentralization programme.

The expense of creating further infrastructure in metropolitan areas made it "sound economic policy to decentralize our economic activity away from the PWV (Pretoria-Witwatersrand-Vereeniging) area."

One of the main constraints in this area was the shortage of water.

If the PWV area were overdeveloped, water supply would be extremely expensive, which would be detrimental to the consumer, he said.

Pledge

The budgetary procedures in the new constitution would be different, but not much different from the present procedure with the provinces, where sums were budgeted and the provinces had powers to regulate their own revenue.

"The same broad principle will prevail in the new constitutional dispensation, where certain centrally-accumulated amounts will be decided upon and dispersed."

The various chambers would be empowered to generate their own funds to a degree, he said.

Mr Du Plessis also pledged himself to increased spending on black education, and said the Department of Education and Training had its own internal momentum, which would require a larger budget.

Defence

But, with "the difficult times we have now and we may have for some years to come, black education will find it difficult to increase to the extent it would like to do".

He said that as a general comment, "it will be extremely foolish to decrease dramatically the budget for defence in South Africa".

The fact that South Africa was economically and militarily a force to be reckoned with contributed substantially towards negotiating strength both locally and internationally, Mr Du Plessis said.

Argus 11/7/84

58

Rand up slightly after early record low

Financial Staff

THE rand moved up marginally to close at 66,65 American cents from this morning's record low of 66,45 cents.

Bullion traded at $337,50 in post-fix trading. This morning it was fixed at $335,75 in London, down $9,25 from yesterday's London close.

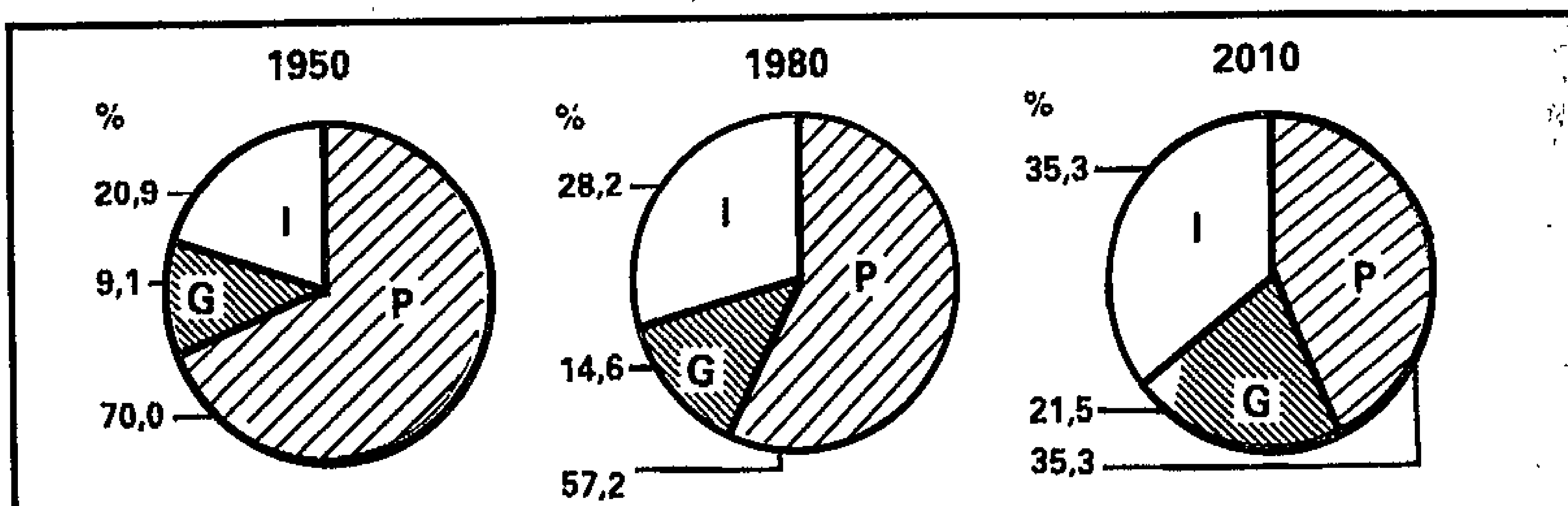
In New York, bullion closed over $4 lower in fairly active trading in reaction to the dollar's renewed strength after Monday's sell off.

Renewed buying interest helped the dollar to close near the day's highs.

In Britain, the pound fell to a new low of 1,2975 dollars today, firming later to 1,2300 dollars, and bringing the possibility of banks raising interest rates again.

RDM 13/7/84 (58)

A friendly — but urgent — note to Barend du Plessis



Expenditure on GDP: P = Private Consumption. G = Government, I = Investment
Source: Aart Roukens de Lange, Institute for Future Research, Stellenbosch.

OPINION

A WEEKLY FEATURE PRESENTING A WIDE VARIETY OF VIEWS

HERMANN GILIOMEE

EVERY new Minister of Finance sparks off the hope that he will remedy one or two of the serious flaws of the South African economy and curtail some of the costly political excesses.

Since there is almost no chance of the Nationalist Government being defeated at the polls, we expect our Prime Ministers and Ministers of Finance to exorcise the unsound policies of their predecessors and to set out in new, more rewarding, directions.

What serious flaw should the bright and promising new Minister of Finance — Mr Barend du Plessis — address?

If he is in search of ideas he can do no better than to take five minutes off to study a fact sheet recently issued by the Stellenbosch Institute for Futures Research.

Based on Aart Roukens de Lange's exhaustive study "The National Accounts of SA (1983)," this two-page sheet tells a most startling and disturbing story of our economy.

It is a story which has profound consequences for our political system. No one who has read this sheet can continue to believe, with Mr Horwood, that we have a basically sound economy. It is, in fact, deeply flawed.

This sheet — presented above — shows pie diagrams for the expenditure on the Gross Domestic Product (GDP) in 1950, 1980 and 2010.

Each pie is divided in three segments, according to the proportions of the GDP which were taken up — respectively — by private consumption, Government spending and investment spending.

In 1950, 70% of the GDP was spent on private consumption ... people spending their incomes on consumer goods.

Only 9,1% was spent by the Government (on infrastructure, local and central Government salaries, etc) and 20,9% was expended on investment (building factories or shops or buying machines).

By 1980 the pie had come to look quite different. The proportion of GDP spent in private consumption had dropped to 57,2%, while that of Government spending had grown to 14,6% and that of investment spending to 28,2%.

If present trends continue, a dramatically different picture will exist by 2010.

The proportion of private consumption will have dropped from the 70% of GDP in 1950 to 35,3%. The proportion of Government spending will have grown from the 9,1% in 1950 to 21,5%. And the proportion of investment spending will have jumped from 20,9% in 1950 to 35,3%.

But money spent on buildings and machines takes away money that workers could spend on consumer goods. Put differently, investment spending siphons off money from the wage and salary bill.

This is why the proportion of consumer spending in the diagrams has declined so sharply since 1950.

Another set of figures computed by Roukens de Lange hammers this point home further.

Our post-Second World War rate of disposable personal income has been 3,8% per annum, but since 1975 this has dropped back to 2,1%.

The kind of capital investment South Africa has experienced has led not only to a stunted demand for consumer goods but also to a horrifying unemployment problem.

Firstly, workers have been replaced by machines. For instance, a recent thesis by Mr M de Klerk has calculated that the number of seasonal black labourers on white farms has declined to 520 000 in 1978 from 780 000 in 1969.

Partly as a result of mechanisation, the white farms may have shed nearly two million black labourers over the last 10 to 15 years.

Secondly, capital intensification — or switching from workers to machines — has made it prohibitively expensive to create new jobs.

Roukens de Lange has estimated that the cost of creating a new job for a black worker in the manufacturing sector has (in 1975 money values) doubled from R33 000 in 1960 to R61 000 in 1980.

(This takes into account the factor of old factories being closed down and new capital being employed).

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research, Dr Roukens de Lange has found that, in 1980, about two-thirds of the economically active black population was employed by the formal sector ... people actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 13% will be in the normal sector and more than 36% will be unemployed.

By the year 2010, only 45% of the economically active black population will be employed by the formal sector.

The other 55% will be a massive proletariat comprised of desperately hungry people scavenging around for food, as Dr Philip Spies has aptly phrased it.

How has South Africa landed in this terrible mess?

One could blame the high black birthrate, or the apartheid policies trying to limit black people in the cities to a minimum, or business, which has tried to adopt the American and European capital intensive system of production.

But blame will get us nowhere: the basic fact is that our economy is not shaped to suit our greatest resource ... namely, an abundant supply of labour.

Ironically, the crisis has been compounded by some of the so-called progressive forces.

Take the Sullivan Code, which tries to improve wages and working conditions of black workers. This has only reinforced the trend of business bidding up the wages of the limited supply of the black workers in the cities before the overall supply of black labour in South Africa has been exhausted.

It has led to more capital intensification, more black people being made redundant and a further swelling of the army of unemployed.

To my mind, foreign pressure on business has to an important extent been misguided and counter-productive.

Far more good would have been achieved for black people as a whole — and for reforming South Africa — if foreign pressure had been directed purely at achieving the free movement of labour and the lifting of influx control.

What is to be done? I have a suspicion Mr Du Plessis will have an answer ready: we shall keep influx control but we shall encourage the relocation of industry to bring work to the unemployed in the homelands.

Economic decentralisation is a dangerous and costly fallacy. In spite of all the money spent up to the present on the number of new jobs created in the formal sector of the homelands, this represents only 5% of the new jobs created in the formal sector of South Africa.

What about the new Good Hope incentives? Gavin Maasdorp shows, in a forthcoming study, that even under favourable assumptions it will not make much difference.

For instance, it would deflect 700 000 people from the Durban metropolitan region but it would not stop the population doubling or trebling itself over a 20-year period.

And both the direct costs and opportunity costs of decentralisation are far too high for South Africa to afford, given the shape the economy is in.

There are also other options. One could turn the homelands into concentration camps to prevent the unemployed flocking to the cities.

One could stage massive roadblocks. One could continue to raze squatter camps like Crossroads.

One could, in the years to come, turn a blind eye to hundreds of thousands of black people dying of hunger.

One could turn a deaf ear to the truth that only the cities offer the unemployed of the homelands a hope to survive.

One could also lift influx control, use tax incentives to stimulate employment rather than capital investment and provide the unemployed with a low basic income.

As a wise man once said: men and nations turn to rationality after they have exhausted all alternatives.

Rand slips and gold down as dollar rises

58

Argus 23/7/84

Financial Staff

THE rand dropped to 64 American cents — its lowest rate — in foreign exchange dealings in Johannesburg today. The previous lowest rate was 66,25 US cents on July 11.

Opening at 66,67 cents today, it quickly shed almost 3 cents, a dramatic decline in a matter of hours. It later recovered to 65,15 cents.

The decline followed a dip in the gold price today and the continued upsurge of the unstoppable dollar on world markets.

Three years ago the rand was worth $1,34, so that American goods bought today cost more than double.

Gold was fixed at $335,25 an ounce in London today, a drop of more than 15 dollars since last Thursday. It opened earlier at $338,25 in Hong Kong, and in London later plunged to a two-year low of $332,50. However, the metal recovered slightly to $335,50 after midday.

10-year high

The dollar, meanwhile, climbed to a 10-year high against the German mark in London and hit a 110-year high against the yen in Tokyo.

South African short-term interest rates also came under pressure today with the key 90-day bankers acceptance rate soaring to a record 19,85 pecent from Friday's 19,50 percent.

This raised the spectre of yet another hike in interest rates for consumers after last week's surge of the banks' prime rate to a record 22 percent.

Dealers

Money market dealers told Reuters that hardening rates were putting the prime rate under pressure. They expect money market rates to rise further under inflationary pressure, and an unexpected demand for borrowing from the public sector.

Some dealers expected the Reserve Bank to raise lending rates to prevent further speculation against the rand, a move which should push rates higher.

The Allied Building Society warned at the weekend that mortgage rates could go higher still and when the removal of building society investment tax concessions comes it could add two percent to mortgage rates.

Open market

Mr C L F Borckenhagen, Allied's chairman, said at the annual meeting that the impending changes in legislation meant building societies would have to compete in the open market with other financial institutions without tax and other concessions.

To survive under these conditions, building societies would have to improve their profits considerably. Already the cost of money had risen alarmingly. It would be a brave man who predicted that interest rates had peaked.

"I am not so brave. They could go higher. In due course they must come down, but we do not know when."

● Inflation was given another twist when the South African consumer price index rose 1 percent last month to hit 11,66 percent.

RDM 23/7/84 (58)

Gold's fall dents confidence — at last

R10bn lopped off shares on JSE

By HOWARD PREECE

ABOUT R10bn has been lopped off the value of shares listed on the Johannesburg Stock Exchange over the past five weeks.

But the total value is still around R100bn.

The latest fall in the gold price has at last dented, however, the remarkable confidence which the JSE had shown during 1983 and most of the first half of 1984 in spite of a series of major economic setbacks.

It is true, of course, that there was something of a mini-boom in the economy in the last two quarters of 1983 and the first three months of this year.

But that was more of a mistake — the result of extravagant increases in Government expenditure and a consumer spending spree fuelled by too low interest rates — than the product of deliberate policy.

As such it was seen by most economists, but not so much investors, as almost certainly making things worse for South Africa in the longer-term.

The country's biggest single financial threat — including the whims of the gold market and the crippling drought — is an inflation rate that has been entrenched above 10% each year since 1973.

The mini-boom has made much more difficult any major progress in tackling this crisis.

But in mid-June the JSE was still riding high.

The Rand Daily Mail 100 industrial share index was around 1 050, some 5% off its record level of 1 105,3.

The RDM gold index was also around 1 050, slightly further away from its record but still astonishingly high — more than twice the level of the end of June 1981, for example.

Gold shares have, of course, been buoyed by the slump in the rand against the dollar which has kept the rand gold price at a high level.

Even so, the resilience of the JSE only made sense — questionable at that — on the assumption of another early gold boom.

It finally seems to have dawned on the Government, business and investors alike that there is actually no guarantee of this.

Hence the decline in share prices — though there has certainly been no panic and even today general levels are still remarkably firm.

But all the weaknesses of the country's economy, long apparent to those who cared to look, are now painfully evident.

South Africa, for all its trumpeted diversity of resources, is still essentially a one-crop economy.

Gold accounts for almost half the country's total exports.

With two years of crippling drought to contend with as well as the gold slide, the economy has not surprisingly gone painfully backwards since 1981, even with the recent mini-boom.

Real gross domestic product fell by 3% last year after a 1% drop in 1982.

The first-quarter surge in 1984 and the buying orgy ahead of the July 1 general sales tax rise should be enough for a token rise in real GDP this year, perhaps 1,5%.

But when an annual population growth of 2,6% is taken into account, it is clear that a hefty drop in average per capita living standards has occurred over 1981-84.

Unemployment is naturally rising among blacks.

The Government's own Manpower Department admits that by 1987 the effective jobless rate could reach 22%.

Many companies, battling to stay afloat, are clearly not in the mood for expansion.

From early 1983 to now the prime overdraft rate has soared from 14% to 22%, and it is still under upward pressure.

This severe economic downturn — the worst since the 1930s — might not have been so bad, perhaps, if it had been accompanied by substantial long-term benefits.

But there is precious liittle evidence of that.

Inflation, the most deep-seated financial problem, is currently running at 11% a year as measured by the consumer price index.

It seems certain there will be a double-digit rate for 1984, the eleventh year in succession.

The balance of payments is also a constraint.

The current account showed a deficit of almost R3bn on a seasonally adjusted annual basis in the first quarter of this year.

For the six months January to June the actual shortfall must have been around R1bn.

South Africa has suffered cruelly, of course, from events outside of its control.

The two years of drought devastated agriculture, putting great strain on the current account of the balance of payments.

The slumping rand will basically look after this, but at the cost of a further sharp twist to the inflationary screw.

In any case, South Africa has much to blame itself for.

Mr Owen Horwood, the retiring Minister of Finance, has long preached the gospel of "financial discipline".

The practice has been rather different.

In 1982 and 1983 the broadly-defined M2 money supply measure increased by 17,4% and 16,5% while the narrower M1 bounded up by 16,2% and 26,5%.

For the 12 months to May this year the rates are 19% and 32%.

That is alarming by any standard.

So has been the persistent heavy overshooting each year in the 1980s of the State spending estimates in the various Budgets.

SEE ALSO ... ON BACK PAGE

RDM 24/7/84 (58)

Rand dives and inflation soars

By HOWARD PREECE

THE rand shed two US cents yesterday in heavy trading sessions to plummet to a new official low of 64,65/72 US cents — and gold tumbled to its lowest fixing level of the year in London, as the dollar continued to strengthen on foreign exchange markets.

Simultaneously, Pretoria economists warned that South Africa's battered economy is on the way to a record 14% inflation rate.

Gold was fixed at $335 in London in the afternoon, compared with $335,25 in the morning and $342 at the second fixing on Friday.

The closing range was $336/$336,50.

"The bigger than expected rise in the US gross national product, giving rise to fresh fears of higher interest rates, undermined confidence in the metal," London dealers said yesterday.

The rand fell to a record low of 64,85 US cents in early trading as the dollar soared and the price of gold dropped, foreign exchange dealers said.

They said the Reserve Bank intervened and sold dollars in support of the rand.

The closing price was 64,70/80c. And market sentiment suggests that the rand could ease further today.

GERALD REILLY reports from Pretoria that the economy is on it's way back to a 14% — and even higher — inflation rate, economists warned yesterday.

They were reacting to the latest Consumer Price Index released by Central Statistical Services, which showed a 1% increase during June with a 12-month figure of 11,7%.

The food only index also rose sharply in June — by 1,7% — with a rate of 13,7% for the 12 months to the end of June.

Economists warned of a big accelleration in the inflation rate during July.

A University of Stellenbosch Bureau for Economic Research economist, Dr O D J Stuart, said the combined impact of the 3% GST increase — to 10% — from the beginning of July, as well as the higher mortgage rates and doctors' and dentists' fees, would add up to 1,5% to the index for July.

This would take the inflation rate to more than 13%. And with the threat of further increases in mortgage rates, following the prime rate increase to 22%, inflationary pressures would remain strong — too strong even for a deepening recession to counter.

Because of the devalued rand, another maize price rise was also on the cards.

Argus 3/8/84 (53)

Motor industry braced for depression

KEITH MACFARLANE
Motoring Editor

THE rise in interest rates announced by the Reserve Bank last night will have a depressing effect on the South African car market, according to both the motor industry and the motor trade.

"I would say the rise in rate will have a depressing effect on business," Clive Warrilow, marketing director of Volkswagen South Africa, told me today. "It must dampen consumer demand, and remember that more than half our business is done with private buyers; amd most of them will have a car that they want to trade in.

"This is just another straw for the camel's back, another blow for the consumer whose after-tax salary anyway has not been keeping pace with inflation. I think that all consumer goods are going to be hit — white goods, radio, television, appliances ...

OPTIMISTIC

"South Africa is traditionally optimistic, but there have been a lot of things recently — the gold price, interest rates, the falling rand — to affect that optimism.

"It's still a little early to make a considered judgment. What we're building we're selling. But it's not going to be easy. And what about the small businesses who work on borrowed money? Times are going to become very difficult for them."

Spence Stirling, managing director of Amcar — the new title for Sigma — told me: "The new measures will undoubtedly have a dampening effect on the new vehicle sales, which will be reflected in lower production rates — which in turn must have an effect within the industry on employment levels.

BANKS' VIEW

Dealers were not entirely pessimistic. Brian Porter, chairman of the Porter Group and one of the country's biggest motor dealers, told me that prospects depended on how the banks saw the new situation — whether they were prepared to take greater risks at the lower end of the market to get higher profits.

Argus 14/8/84 (63)

4 000 go back at Volkswagen

Argus Bureau

PORT ELIZABETH. — The Volkswagen plant in Uitenhage reopened to 4 000 workers today after being closed by the management for a week.

An agreement between management and trade union officials has been reached whereby a white and a black employee involved in a disagreement on the shop floor will both be suspended until the matter is decided by the Industrial Council.

Previously only the black worker was suspended.

An urgent meeting of the council has been convened for Friday to consider the case, while other worker grievances — over pay and job evaluations — would be resolved through normal agreement procedures, said Volkswagen public affairs manager, Mr R Kruger.

(63) Sowetan 22/8/84

Firm bent on uplifting the workers

AS an equal opportunity company, VWSA are making a massive contribution towards the training, development and upliftment of their employees as well as the significant improvement of the quality of life within the local community.

The company known as Volkswagen of South Africa produced the first two black artisans in the motor industry in South Africa in 1981. The company has since trained many others.

The Employee Advancement Programme, instituted in 1979, is committed to providing equal opportunities for all employees of the company. Education and training are two of the fields where Volkswagen is making rapid strides in a bid to provide black workers with the skills necessary to meet the needs of a 200 million rand expansion programme.

Apprentices

Their Apprentice Training Centre is at present training 36% of all apprentices in the motor industry in South Africa.

VWSA has 300 full-time trainees as against 124 in 1980 with training expenditure currently exceeding R5 million as against R1,3 million in 1980. In terms of apprentice recruitment, VW intentionally pursued the policy of selecting equal numbers of white, black and coloured apprentices and this highlighted certain inadequacies in the fields of mathematics and physical science during selection.

As a result, VW co-sponsored a project whereby video training facilities were donated to black schools in the Uitenhage area.

Centre

A similar endeavour saw the establishment of the VW/Goodyear Technical Centre in 1979 which is run by the Department of Education and Training.

The Centre provides compensatory technical education for local black schoolchildren in standards four to eight. Groups of children are transported to the centre on a daily basis to receive theoretical and practical training in bricklaying, welding, electrical work, metalwork and woodwork.

Educational assistance from Volkswagen also includes the donation of several libraries to black primary schools while black employees are given generous subsidies for the purchase of school books.

Donation

A substantial cash donation towards the building of a black pre-primary school, a comprehensive bursary and scholarship programme, extra lessons programmes for matriculants and the donation of academic prizes are further examples of Volkswagen's educational assistance to the black community.

The Volkswagen Housing Scheme, after an initial investment of one million rand in 1982, has already provided over 50 homes for employees in the black township of KwaNobuhle in Uitenhage.

These upgraded facilities feature electricity and running water and are a significant improvement on existing homes in KwaNobuhle. The total cost of this housing initiative has already reached 2,9 million rand.

An unexpected ancillary benefit has been the dramatic increase in the number of black employees who are utilizing the VW Home Improvement Scheme. In this regard, VW provides both technical and financial assistance and the company is currently establishing a self-help building programme which will further serve to act as a catalyst to the housing activities.

Concern

Volkswagen's interest and concern with matters relating to the quality of life of its employees and the local community is also reflected in the initiation of a number of projects.

A sports complex presently being built in KwaNobuhle, the erection of bus shelters in the township, a new access bridge built over the Swartkops River, the maintenance of school playing fields and the electrification of the Limekaya High School are examples of these projects.

While the above account is by no means exhaustive, it does serve to illustrate the philosophy and direction of Volkswagen of South Africa with regard to community matters outside the confines of normal day-to-day business.

AN employee of VWSA receives the keys to his new house from Mr Peter Searle, Managing Director of the company. The housing scheme of the company has already provided over 50 homes for black employees.

PE woman claims colour led to company refusal to insure

(58) E. Post 22/8/84

By JOHN CLARK

A PORT ELIZABETH woman claims to have been acutely embarrassed because she was refused an application for insurance from a nationwide company on the grounds that she lived in a coloured area.

The woman, Mrs Patricia van den Berg, of Cleary Estate, said she applied for insurance in response to an advertisement circulated with a local newspaper.

Mrs Van den Berg complained to the Evening Post that she was acutely embarrassed by the company's explanation and felt other coloured people would also be hurt.

She said she phoned the company's representative, who took all her particulars "and told me he could cover only our car for R34 a month".

"He then told me the policy was for whites only and not non-whites," she said.

"I said I wasn't interested in this policy if it applied to race and I put the phone down.

"I was embarrassed. Why didn't they advertise that it was for whites only? How many other coloured people are going to be embarrassed?"

However, Mr Andre Heydenryk, marketing manager of Multiplan Insurance Company in Johannesburg, said the company did not refuse Mrs Van den Berg's application on the grounds of her race.

He said all clients were asked to fill in a comprehensive application form. Answers to certain questions determined the risk factor of that particular client's portfolio.

These risk factors were ascertained when the insurance statistics for a particular geographical area were examined.

Where there were a high number of insurance claims in an area and a high rate of housebreaking or car theft, for instance, the company charged higher rates for household and car insurance.

In certain areas, certain types of insurance were not offered to clients because of the high risk factor.

"Mrs Van den Berg lives in an area were there is an extremely high incidence of housebreaking and car theft," Mr Heydenryk explained.

He said his company had not intended to discriminate in any way.

"On our advertising cards, we state we have the right to refuse any application for insurance.

"No racial discrimination is meant. We do not state 'whites only' because we insure people of other race groups.

"Before the campaign began, we took our literature to the Newspaper Press Union, who examine advertising materials, and explained to them the possible problems we could have when refusing a client a policy. The racial aspect was discussed and our material was approved.

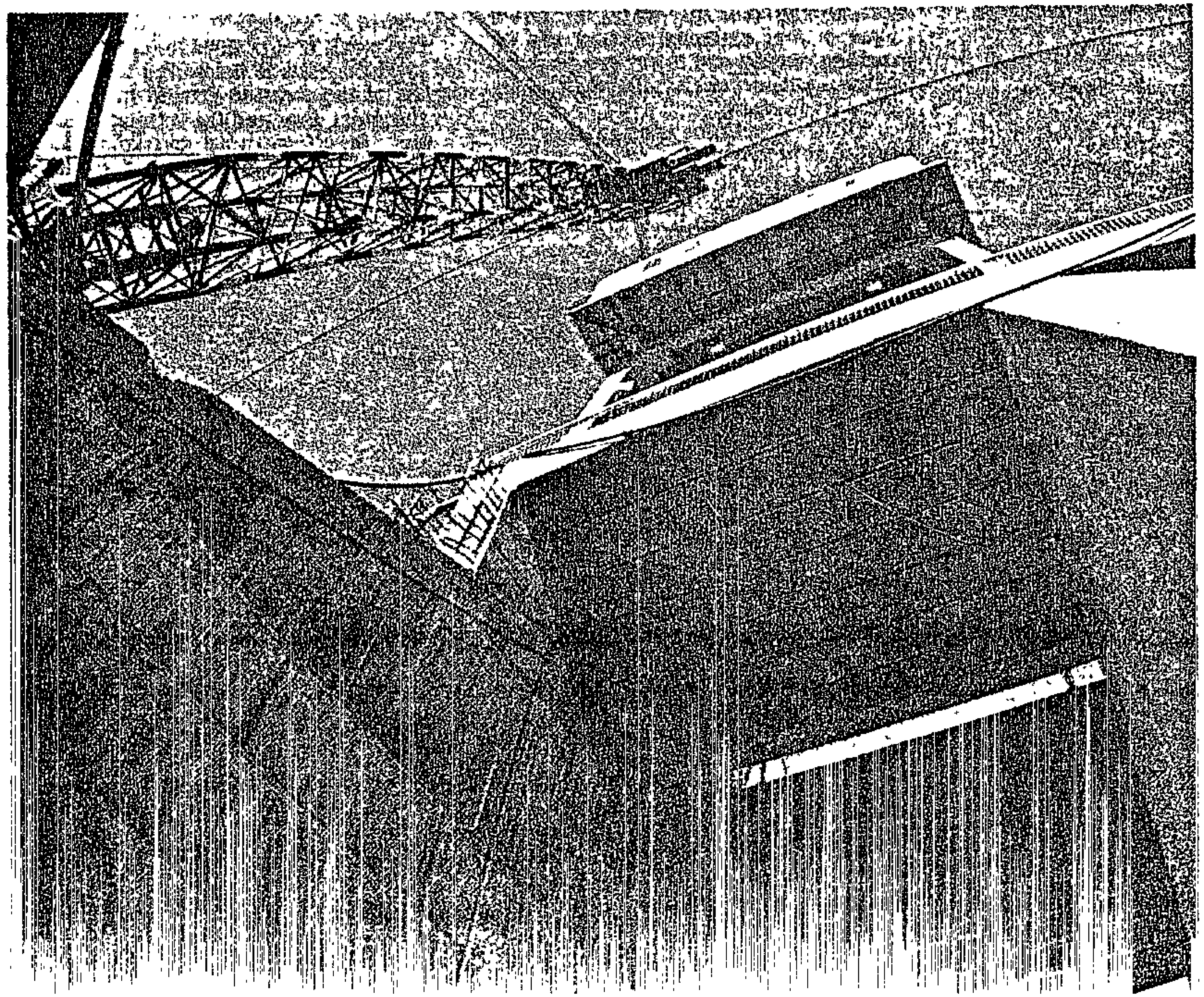
"If we have, in fact, upset a client, we apologise. We do our utmost to satisfy and treat our clients on exactly the same basis."

Departments well over budget despite directive

RDM 23/8/84 (58)

Runaway spending by Pretoria ministries

By HAROLD FRIDJHON



GOVERNMENT spending for the first four months of the current fiscal year is running at a rate of 18,4% above last year.

But in terms of what the average budgeted expenditure should be for four months, departments have overspent to the extent of 4,5%. All the excess spending occurred in March and April.

Departments spent R8,857bn in the four months to July, compared with R7,476bn for the same period last year.

In his Budget speech, Mr Owen Horwood, the then-Minister of Finance, said he would try to hold the increase to 11,7% above last year's level.

Total expenditure in the original Budget for the current year was estimated to be R24,946bn. This was increased to R25,356bn by additional expenditure approved by Parliament. This works out to an average of R2,113bn a month.

Mr Horwood said he would try top confine the departments' monthly spending to one-twelfth of their annual budgets. In April, total spending was R2,45bn, R2,316bn in May, R2,054bn in June and R2,037bn in July.

While some departments had, in terms of the monthly average, under-spent at the end of July, others

Mr Horwood said he would try top confine the departments' monthly spending to one-twelfth of their annual budgets. In April, total spending was R2,45bn, R2,316bn in May, R2,054bn in June and R2,037bn in July.

While some departments had, in terms of the monthly average, under-spent at the end of July, others appeared to have spent a bigger-than-average amount of their budgets.

Co-operation, Foreign Affairs, Community Development and Minerals and Energy Affairs appear to be well within budget. But the Commission for Administration has spent three-quarters of its appropriation of R46m with eight months to go.

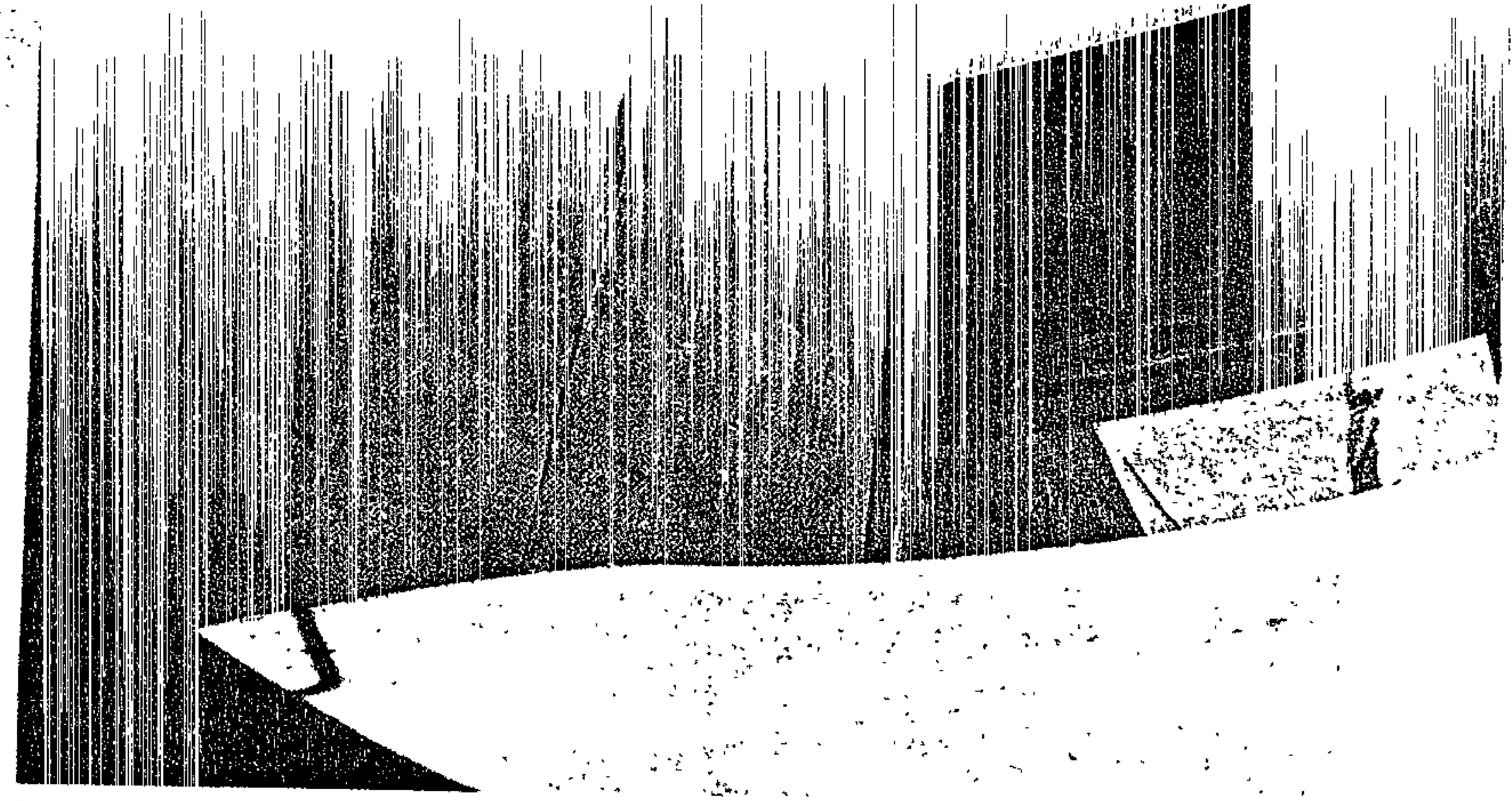
National Education has spent R420m of its total budget of R866m. Defence is about R100m over its average.

Industry and Commerce has spent R238m of an annual budget of R575m.

Others which appear to be over budget are Agriculture and Education and Training.

Some R267m appropriated for "improvement in conditions of service" — benefits for public servants — is as yet unspent.

With expenditure at R8,857bn and revenue at R5,928bn — very little changed from last year's collections — the deficit before borrowing, including repayments of past borrowing, amounts to R2,929bn. This has been financed by the raising of R3,092bn.



Work on the first of 60, rope hoist-operated chain gates for the Vaal Dam has been completed. The multi-million-rand contract is being carried out by the Anglovaal subsidiary, Steelmetals.

Bonds issued by the Treasury have brought in R1,937bn, of which R1,48bn has been raised by the new and most popular bond — the 13% 2005. Some of this stock was raised by public tender, some by tapping stock into the bond market and some by issues to the Public Investment Commissioners (PIC). In June the PIC took up stock to the value of R217m. It is believed the PIC will take up bonds approximately at the rate of R200m a month.

Treasury bills have brought in R1,418bn net.

Foreign loans and credits raised amount to R253m, while R110m has been repaid. Mr Horwood budgeted to raise R425m abroad this year.

A breakdown of revenue is available only to the end of June. At that stage income from customs and excise was at R446m — slightly higher than at the same time last year.

Inland Revenue at R3,817bn was R484m ahead of 1983/84.

Argus 3/9/84 (58)

State set to rake in extra R1-bn

JOHANNESBURG. — The Government will earn an additional R1 000-million in the present fiscal year, while its spending will be R1 450-million above Budget, estimates Central Merchant Bank in its capital market report for July.

Senbank's estimates indicate that the increase in general sales tax from 7 to 10 percent as from July 1 should bring the Government an additional R600-million.

Other revenue (personal taxes and taxes on the gold mines) should provide further additional income of about R400-million, which makes an increase of 18,8 percent in income for the 1984/85 financial year possible.

The growth rate of 18,5 percent in expenditure from April to July 1984 is execeptionally high and it is to be expected that the budgeted amount will be substantially exceeded.

SALARIES, WAGES

Recent assurances by the Minister of Finance, Mr Barend du Plessis, that expenditure will be cut wherever possible may result in the increase in expenditure for the full year being less than the 18,5 percent for the first four months.

However, it seems unlikely that an increase of less than 15 percent will be achieved.

This 15 percent increase nevertheless implies an excess of R1 450-million over the initial Budget figure.

The lack of flexibility in reducing expenditure is, however, a limiting factor since salaries and wages represent approximately 60 percent of current expenditure and these are not likely to be cut back.

As a result the increase in expenditure may be somewhat higher than the 15 percent expected. — Sapa.

RDM 13/9/84

58

Bread price crisis looms as subsidy runs out

By GERALD REILLY
Pretoria Bureau

THE R120-million allocated in this year's Budget to subsidise the bread price is running out fast and "financial adjustments" are urgently necessary, say Pretoria sources.

The Cabinet is expected to approve an increase in the wheat price within the next 10 days.

The Minister of Agriculture, Mr Greyling Wentzel, told the Rand Daily Mail yesterday that if the Cabinet decided to increase the wheat price, either the bread price or the Government subsidy would have to be increased.

Pretoria sources said R90-million of the original R120-million bread subsidy had already been spent.

The remaining R30-million was insufficient to hold bread prices at the present level.

Political observers said yesterday the Government could not afford to increase the subsidy because of the critical nature of State finances. But if it raised the bread price there would be angry reaction from an already disturbed black population.

Pretoria sources pointed out that wheat farmers were last granted an increase two years ago. It was extremely unlikely the Cabinet would reject Wheat Board recommendations for a price rise.

The baking and milling industries are also expected to be granted increased margins, even though they were given increases earlier this year.

Informed sources said even if the Government rejected the demands for producer price rises, and higher margins for bakers and millers, the subsidy would still have to be raised or the price of bread increased.

Some departments off target, but . . .

Rdm 18/9/84 (58) ~~(236)~~

Govt spending nears budget

By HAROLD FRIDJHON

IN spite of total Government spending being bent into line with budgeted monthly targets, some departments have "overspent" by about R800m in the first five months of the fiscal year.

During June, July and August, total outlays by the Exchequer have been below the monthly average of R2,113bn, which was the target set by the former Minister of Finance, Mr Owen Horwood.

For the period April to August, the State spent R10,95bn, compared with R10,565bn which would have been the average for the five months, and with R9,084bn spent during the first five months of the last fiscal year.

This means that so far this year spending has deviated by 3,6% against the average, but it is 20,5% higher than it was in the fiscal year 1983/84.

When he introduced his Budget in March, Mr Horwood said he hoped that the current year's Budget would be only 15,4% above the previous year's figure.

But while one hopes that total expenditure will at least continue to run at the consistent and relatively low rate, the signs point to the contrary.

At this stage of the fiscal year many departments have over-run the five-twelfths proportion of their budgets by about R800m, while others are underspent to the tune of about R430m.

In addition, the Budget contains a provision of R267m for "improvements of conditions of service", which has yet to be drawn upon and which, presumably, is further for increases in public service pay and allowances which will come into force in October.

What gives grounds for concern is whether the departments which have over-spent in the first five months of the current year will be able to bring their spending into line by March 31, 1985.

On the other hand, those deparments which are currently showing an underspent position, might accelerate their outlays as the year advances to catch up with their budgets.

If the "overspent" departments cannot cut back and if the spending of the "underspent" departments quickens, there is a grave danger of the Budget over-running its inflated total of R25,357bn.

It looks as if the new Minister of Finance, Mr Barend du Plessis, will have his work cut out to trim the current Budget with almost half the year already run.

Some of the departments whose spending is running ahead of budget are: Finance R307m, National Education R128m, Defence R110m, Agriculture R95m, Constitutional Development R50m and Industries and Commerce R38m.

Among those which are "underspent" are:

Co-operation and Development R230m, Foreign Affairs R80m, Community Development R64m and Transport R50m.

So far Government expenditure is being financed in a non-inflationary way.

With expenditure at R10,95bn, revenue is running at a rate of R8,554bn for the five months. This leaves a deficit of R2,396bn.

The Treasury has been able to raise R2,737bn by the issue of marketable stock, as well as by foreign loans and non-marketable securities.

During August, R361m was raised by the issue of the 13% 2005 RSA bonds.

As there was no public issue and as the Reserve Bank tapped no stock into the market, it seems as if this bonds were issued to the Public Investment Commissioners.

Details of revenue collected are available only to the end of July. These show that customs duty for the four months amounted to R463m, compared with just under R300m for the same period of the previous year.

This suggests that imports were running at a higher rate than the state of the economy would have warranted.

GST brought in R1,688bn in the first four months of the current year, compared with R1,219bn for the same period of the previous year.

GST was raised by one perecentage point to 7% early in March.

SPECTRUM ISSUE: Tax

Argus 19/9/84 58

Why we are poorer

This is the first of two articles by DEREK TOMMEY, Financial Editor, in which he looks at the increasing burden of income tax borne by the South African taxpayer and the prospects for any alleviation in the weight of taxation in the future

POLITICS, rugby and the latest theatrical offerings are no longer the main topics for discussion on the cocktail circuit. They have been ousted by a subject of far greater importance to most people — income tax and how it can be avoided and even evaded.

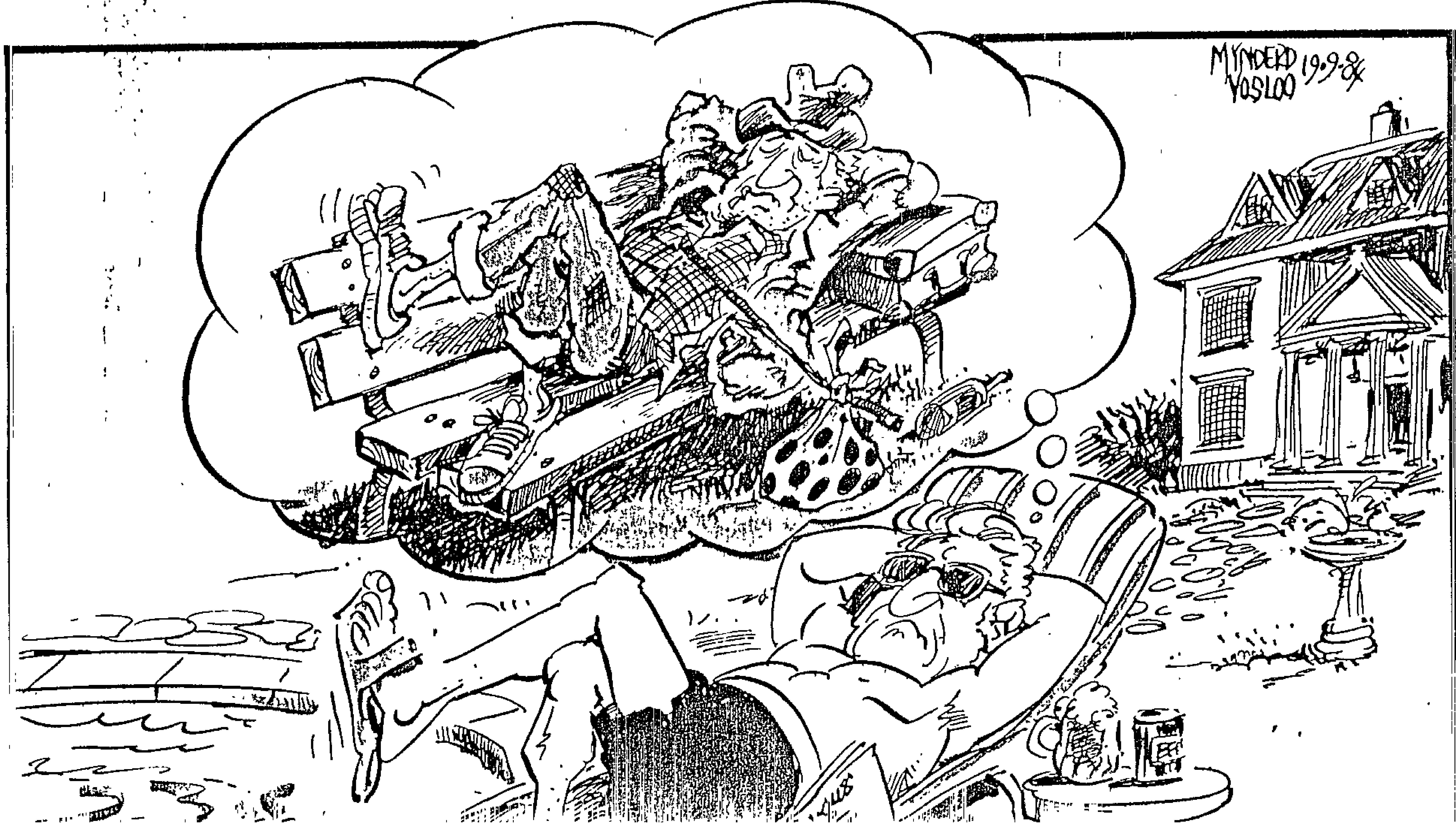
"I told my accountant to delay sending in my return as long as possible as I haven't paid last year's tax yet" is the sort of comment one increasing hears at any social gathering, as are remarks such as "get a private company — you'd be surprised at what you can get away with", and "I spent the whole afternoon with my accountant trying to reduce my tax bill".

South Africans have good reason for being concerned about income tax. Its burden, especially for those taxpayers who pay their dues in full, has become increasingly onerous, as official figures show.

Trebled

In the past three years personal income tax payments to the Government have almost trebled, rising from R2 090-million to R5 750-million, and are expected to rise a further 25 percent this year to R7 265-million.

Perhaps an even more impressive figure is that personal tax payments to the Govern-



"[illegible] haven't [illegible] tax yet" is the [illegible] one increasing [illegible] any social gathering, [illegible] remarks such as "get a private company — you'd be surprised at what you can get away with", and "I spent the whole afternoon with my accountant trying to reduce my tax bill".

South Africans have good reason for being concerned about income tax. Its burden, especially for those taxpayers who pay their dues in full, has become increasingly onerous, as official figures show.

Trebled

In the past three years personal income tax payments to the Government have almost trebled, rising from R2 090-million to R5 750-million, and are expected to rise a further 25 percent this year to R7 265-million.

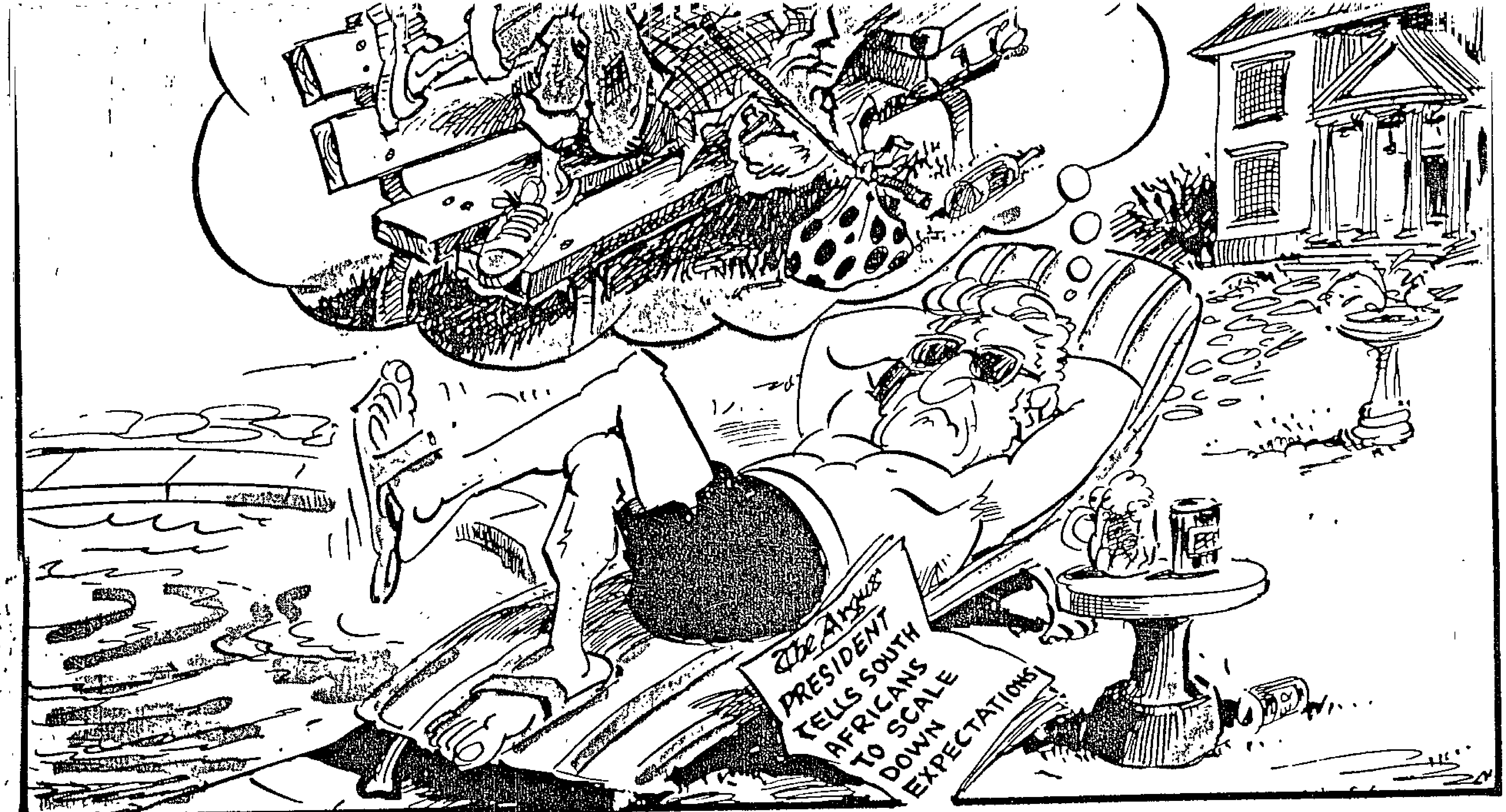
[illegible] more im[illegible] is that personal [illegible] the Government [illegible] rising at an average [illegible] a year in the [illegible] years ended 1983-84.

This rate of increase in income tax payments is far larger than the rise in personal incomes, which means that the Government is taking an ever-growing percentage of everyone's income.

As a result it is evident that many South Africans are becoming progressively poorer.

Inflation

The apparent cause of the high rate of income tax is the high degree of inflation which this country has been experiencing. This has propelled taxpayers into increasingly higher tax brackets, a process known as bracket creeping, which has led to their paying the sort of taxes which only the rich paid in the past.



However, the real cause of the high tax rates has been the Government's overwhelming need for more revenue which has caused it to refuse to adjust the income tax rates for inflation, so enabling it to increase tax revenue without raising tax rates.

The Government's refusal to adjust the tax rates has in fact resulted in many taxpayers today being taxed twice as heavily as they were 10 years ago.

An analysis of the tax rates in 1974 and this year show that anyone earning the equivalent of R12 000 in today's money in 1974 would have had to pay 7,0 percent of their income in tax.

Today, anyone earning R12 000 has to pay 11,5 percent of his income to the Government — a 60 percent increase in his tax payment.

Those in the higher income brackets have been hit even harder. A taxpayer earning the equivalent of R24 000 in 1974 would have paid 9,7 percent of it to the Government. Today he pays 20,9 percent, an increase of 115 percent.

At current tax rates anyone with an income of R32 000 has to pay about a quarter of it to the Government. In 1974 he would have needed to have earned the equivalent of R80 000 before being taxed at the this rate.

Meanwhile, Adding further to the burden being borne by the South African tax-payer has been the introduction of general sales tax.

In 1979-80 it produced R1 249-million in revenue and in 1980-81 R1 653-million. This year it is expected to contribute R6 000-million to the Government's coffers.

Ten years ago income tax and sales duty, the forerunner of GST, took about 10 percent of individual incomes. Today income tax and GST together take between 18 percent to 20 percent of incomes.

However, in this period incomes in real terms have actually shrunk by about 2,8 percent, which means that the Government is continually taking more from less — which can have only one result — a poorer taxpayer.

TOMORROW: The prospects of a reduction in income tax.

BALLOONIST

UNITED NATIONS

Mercury 21/9/84

58

Defence cuts total R180 m

Mercury Correspondent

CAPE TOWN—The R180 m cut in defence spending announced by Mr Barend du Plessis yesterday will probably be accomplished by making a multitude of small cuts at home rather than slashing at expenditure on the border war.

Last night observers felt it was unlikely the counter-insurgency campaign in South West Africa would be pruned to any significant extent, since a combination of pressures had brought Swapo military activity there to virtually nothing.

The timing, rather than the announcement itself, came as a surprise. Observers have long believed that next year's defence vote would see spending either held at the 1984 level — which would have meant an effective cut of up to 14 percent, depending on the inflation rate — or even a reduction.

R180 m is a modest sum in the context of a defence budget running at more than R3 000 m annually and can probably be achieved mainly by cutting personnel running costs and procurement of non-essential equipment, such as:

Pruning training call-ups to the minimum consistent with operational efficiency;

Reducing the number of man-hours allocated to units and formations for part-time service;

Freezing

Delaying or reducing purchases of vehicles or other equipment;

Trimming SAAF flying hours as far as possible;

Ensuring that border call-ups are held to a strict necessary minimum;

Strictly monitoring use of official transport;

And freezing non-essential capital works and development or training programmes.

An inherent danger in any such cost-reduction programme is the risk of cutting into the bone instead of carving away some fat.

One observer pointed out that many Nato countries had recently shown substantial military savings, but at the cost of perilously depleting their war reserve stocks.

The R180 m cut is clearly only an interim measure. For several months a committee chaired by the Chief of the Army, Lt-Gen Jannie Geldenhuys, has been investigating ways in which the Defence Force and the Armaments Corporation can be adapted to meet financial and other problems.

Argus 4/10/84 (58)

FINANCE

Many SA companies potential failures, varsity probe claims

Argus Correspondent

DURBAN. — An alarming proportion of South African companies are potential failures, while more than half are deteriorating financially.

According to a model developed by the Bureau for Financial Analysis at the University of Pretoria, and applied by an independent researcher to 283 quoted companies, 168 (59 percent) are deteriorating and 28 percent (77) "would normally fail financially".

Published in the latest edition of Takeover Talk, the statistics reveal that the worst position is to be found in the steel sector where 75 percent of companies could fail.

This is followed by furniture (44 percent), industrial holdings (41 percent) and motor manufacturing (40 percent).

The following companies performed positively against the trend: Otis (building), Searles (clothing), Woolworths-Truworths (stores), Powertech (electronics), Vereeniging Refractories (steel) and industrial holdings group Rentmeester.

The university's model takes into account several factors, including a company's risk of financial failure, its ability to honour financial obligations on time and to pay dividends to shareholders.

The figure, however, is distorted by the fact that account is not taken of the influence of holding companies and strong financial groups that might support firms.

ROUGH GUIDE

As a result the survey should be used only as a rough guide for investors.

Zero is the point of separation between sound businesses and those which the survey believes have a tendency towards financial failure.

Takeover Talk says "a borderline classification could be those businesses that fall between -0,2 and 0,2".

Some interesting extracts from the 283 company list include (figures in brackets after ratio indicate year):

Altech	-2,06 (83), -1,89 (84)
Altron	-1,99 (83), -1,87 (84)
Beares	-0,54 (82), -0,07 (83)
Berzack	-2,01 (82), -1,04 (83)
C.G. Smith	-0,67 (82), -0,70 (83)
Checkers	-2,22 (82), -1,03 (84)
Clicks	-1,64 (82), -1,23 (83)
Crookes	-1,26 (83), -1,27 (84)
Dorbyl	-0,77 (82), -0,68 (83)
Farm-Ag	-3,70 (82), -0,76 (83)
HLH	-1,62 (82), -0,48 (83)
L Matrh	-1,56 (82), -1,12 (83)
Lonsgr	-1,24 (82), -0,03 (83)
M and R	-0,70 (82), -0,41 (83)
McCarthy	-0,73 (82), -0,45 (83)
Mooi River	-3,15 (82), -2,91 (83)
Ninian	-0,60 (82), -0,05 (83)
Otis	-3,64 (82), -4,98 (83)
Pick 'n Pay	-0,68 (83), -0,74 (84)
Protea	-0,58 (82), -0,20 (83)
Rembrandt	-1,69 (82), -1,36 (83)
Rennies	-0,74 (81), -0,80 (82)
Romatex	-1,36 (82), -0,82 (83)
Sappi	-0,45 (82), -0,03 (83)
Sasol	-2,68 (82), -2,67 (83)
Southern Sun	-0,94 (83), -1,27 (84)
Tongaat Hulett	-1,07 (83), -0,38 (84)
Toyota	-0,78 (82), -1,68 (83)
Wooltru	-1,56 (82), -2,00 (83)

RDM 4/10/84 (58)

Fate of US ban on loans to SA in the balance

By SIMON BARBER
Washington Bureau

WASHINGTON. — The fate of a congressional ban on United States loans to the South African Government hung in the balance yesterday as the Senate and House of Representatives continued to haggle over other sections of the bill to which the ban is attached.

The loan measure — the first real economic sanction ever voted by Congress against South Africa — was accepted in a compromise between House and Senate after six months of deadlock over the deeply contentious Export Administration Act.

The main purpose of the act is to renew the President's power to control US exports for national security and foreign policy purposes.

Representative Mr Stephen Solarz persuaded the House to include a stiff series of provisions concerning South Africa in April.

The last obstacle to passage of the act concerns a bitter and complex debate over which government departments are to control and enforce the export licensing process.

The Senate, led by Mr Jake Garn, chairman of the Senate Banking Committee, wants more authority for the Defence and Treasury Departments.

He is particularly mindful of an incident last year in which the Commerce Department allowed a sophisticated computer system to be smuggled though South Africa to the Soviet Union.

The House, under Mr Don Bonker, chairman of the House Trade Sub-Comittee, favours the Commerce Department.

Neither side was prepared to budge yesterday.

Reaction to the South Africa compromise has been mixed.

Mr Solarz said: "It's not as far as I would like, but we think it will be warmly welcomed by blacks and all other working for fundamental change in South Africa."

Mr Lionel Olmer, Undersecretary of Commerce for International Trade, said the new rules would hinder the administration's flexibility in dealing with Pretoria, and could deter US investment.

RDM 12/10/84

(58)

Tighter HP takes a heavy toll

By PRISCILLA WHYTE

TOUGH hire purchase controls threaten to send many companies out of business, says Mr Arthur Soloman, the OK Bazaars' general manager for furniture and appliances.

Other major furniture retailers are also worried.

Mr Soloman says: "I would like the Government to change the regulations on hire purchase before we go out of business at the retail and manufacturing level."

He says there has been a dramatic downturn in the big-ticket market with a 25% fall in sales from a year ago.

"If manufacturers start closing down and laying off staff, this gives us a more limited choice of merchandise from which to choose when the upturn comes," he says.

In August the Government introduced legislation increasing furniture deposits from 10% to 15% and cutting the repayment period to 18 months from 24.

The deposit on video recorders was doubled to 30% and repayment limits halved from 24 months to 12.

HP buyers of domestic appliances needed deposits of 15% instead of 10% and repayments were squeezed into 18 months instead of 24.

Mr Soloman defines a big-ticket item as merchandise with a price tag of R200 and more.

"We are very concerned as an industry with insolvency and unemployment levels."

OK finances customers itself. Personal debt statistics at this stage seem much in line with those of last year.

Mr Solomon believes Christmas will stimulate sales. But there will not be a dramatic upturn because of smaller bonuses, rising inflation and higher food prices.

The consumer is changing buying patterns and spending elsewhere than on big-ticket items.

The consumer has been pychologically affected by the restraints on HP facilities.

"We are moving from selling goods with a higher profit margin to those with a lower profit margin," he says.

OK has introduced specials at reduced prices.

There is the concern that because of the downturn, manufacturers are not investing in plant and machinery and could be caught short when the upturn comes.

Mr Ron Cohen, executive chairman of Amrel, says: "Over the last two months sales have gone down 35%. Furniture factories are going out of business with regular monotony. I have heard of five going into liquidation in the last 18 days."

Mr Cohen would like to see the HP restrictions eased.

In 1971 a similar situation existed when the Government applied stringent restrictions on furniture, appliances, cars and light delivery vehicles. They were eased after three months.

The difference is that prime interest rate was then 10%, against 25% now.

"I think the Government is discriminating against the furniture trade. This is unjust. The sector is carrying the can for the whole economy," he says.

The sales downturn is much worse in the middle and upper white-income groups. Sales to blacks have not been as badly affected.

He says the three different HP deposit rates have saddled retailers with an administrative burden. Video cassete recorders are being sold at cost to cut stocks.

Mr Geoff Austin, managing director of Beares, the furniture group, says:

"Our September turnover was very much lower in real terms than a year ago.

"The worrying factor is the number of telephone calls we are receiving from suppliers wanting us to bail them out with cash up front for goods."

Beares' approach is to be selective in the firms it will help. "In January a number of smaller firms will not be around."

He says the change in HP requirements close on the heels of the increase in GST to 10% was overkill.

He says the country could move from recession to uncontrolled depression.

He expects reasonable trading at Christmas but believes retail turnover figures will return to September levels in January and February.

There is the fear in the market place that suppliers will go to the wall and that massive unemployment will result.

Rand Daily Mail Business Day Friday, October 12, 1984

(58)

Development Bank
of Southern Africa

General Information

Development Bank of Southern Africa

30 June 1983. The Articles of Agreement are signed by the five original member governments in Cape Town.

Enquiries:

DBSA External Relations

P O Box 784433
Sandton
Republic of South Africa
2146

West Street, Sandton
Transvaal

Telephone:
(011) 783 8600

March 1984

LeyCo

Some features of DBSA participating states

Country	Population ('000,1982)	Area km^2	Seat of Government
RSA	25 500	1 179 900	Pretoria
Gazankulu	543	6 750	Giyani
Kangwane	327	3 720	Louieville
Kwandebele	165	920	Siyabuswa
Kwazulu	3 616	31 000	Ulundi
Lebowa	1 846	22 000	Lebowakgomo
Qwaqwa	167	480	Phuthaditjaba
Transkei	2 695	42 000	Umtata
Bophuthatswana	1 398	40 001	Mmabatho
Venda	333	6 875	Thohoyandou
Ciskei	707	6 500	Bisho

Country	GDP (Rm,1980)	GDP per capita (R,1980)	Pupils & students ('000,1982)
RSA	57 765	2 321	6 122
Gazankulu	62	121	165
Kangwane	46	149	107
Kwandebele		not available	75
Kwazulu	426	124	1 014
Lebowa	222	127	606
Qwaqwa	30	188	77
Transkei	610	261	790
Bophuthatswana	616	463	495
Venda	61	192	157
Ciskei	132	195	248

Source: DBSA estimates, 1 February 1984

Background

The need for a multilateral institution to serve as a catalyst for development in Southern Africa became obvious in the late seventies. Development programmes were not producing the desired results and the circumstances under which existing development institutions had been set up, had changed, so that new initiatives were needed to meet new challenges. A programme of institutional and policy reforms relating to development was initiated by the Prime Minister of South Africa on 22 September 1979. A number of those initiatives, including the launching of a comprehensive new regional development programme, were aimed at multilateral decision-making and at expanding the scope for private sector participation in the economic development of the subcontinent.

After an extensive process of and negotiations along these guidelines, accompanied by a thorough rationalisation of existing development institutions and agencies, the Heads of Governments of the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei, signed the Articles of Agreement establishing the Development Bank of Southern Africa (DBSA), on 30 June 1983, becoming the original member countries.

The Agreement provides that other independent states in Southern Africa can also become members. The selfgoverning national states whose governments also gave their consent to the Articles of Agreement, participate in the Bank as constituent parts of the RSA and their development requirements receive the same priority as those of the full-fledged members. Provision is also made for associate membership for countries outside Southern Africa who may wish to contribute to the resources of the Bank. DBSA started operating on 1 September 1983.

The establishment of the Bank was a logical institutional development in the process of giving effect to the policy of achieving a more balanced geographical distribution of economic activity in Southern Africa, and of decentralising the participation in decision-making on matters relating to that policy, towards the various governments in Southern Africa and their respective development agencies.

Objectives and financial resources

The objectives of the Bank are to:

- promote economic development, increase productivity, and thus raise the standard of life of the people in the less developed areas of Southern Africa
- reduce imbalances in the levels of economic development between the various areas

- promote the investment of public and private capital and to utilise capital funds for development purposes
- provide flexible and moderate finance to meet the important developmental requirements
- provide technical assistance and training

The financial resources of the Bank consist of its share capital, loans raised on the local and foreign capital markets and contributions made to a development fund by its members. Of the initial authorised share capital of R2 000 million, R200 million is to be taken up by the five member states in the first five years, leaving R1 800 million as a liability of the member governments against which loans can be raised in the capital markets. For the first five-year period of the Bank's existence, the RSA Government has pledged an amount of R1 500 million to be paid into the Development Fund. This commitment will be extended annually in the form of a five-year cycle.

Management and operational activities

DBSA has a three-tier management structure, consisting of an appointed Council of Governors which exercises overall authority; a Board of Directors, partly appointed and partly elected, and responsible for the general conduct of the operations of the Bank; and a staff under the direction of a Chief Executive who is also Chairman of the Board of Directors. The voting power in the Bank is determined by the contributions of member governments to share capital of the Bank, after an initial allocation of votes, unrelated to the respective contributions, was made on an equal basis between the members.

The Bank's investments are to concentrate on physical and other infrastructural projects by means of loans to member states or their agencies, and the provision of technical

Board of Directors

Dr S S Brand	Chairman and Chief Executive of DBSA
Mr J A Botes	Chairman, Venda Development Corporation
Mr M T de Waal	Managing Director, Industrial Development Corporation
Mr G F Godden	Deputy Chancellor, Rep of Ciskei
Mr J B Maree	Executive Director, Barlow Rand Ltd
Dr P R Morkel	Managing Director, Volkskas Group
Mr G S Muller	Deputy Vice Chairman & Chief Executive Officer, Nedbank Ltd
Prof W L Nkuhlu	Vice Principal, University of Transkei
Mr R A Plumbridge	Chairman, Goldfield Ltd
Dr A P Scholtz	General Manager, Noordwes-Koöperasie Ltd
Mr W J J van Graan	Managing Director, Bophuthatswana National Development Corporation Ltd

Alternate Directors

Dr D H M Bridgman	Presidential Advisor on Development, Rep of Ciskei
Dr W J de Villiers	Chairman, Commission of Inquiry into Electricity Supply
Mr B E Keikelame	Secretary of Economic Affairs, Rep of Bophuthatswana
Dr D C Krogh	Executive Deputy Chairman, L & G V Insurance
Mr M R Madula	Secretary, Economic Affairs, Rep of Venda
Mr A S Nkonyeni	Managing Director, Job's Hardware
Mr P H Swart	Director, SAAU
Mr A J van den Berg	Chairman, Industrial Development Corporation

Council of Governors

The Honourable O P F Horwood	RSA — Minister of Finance and President of DBSA
The Honourable R F Botha	RSA — Minister of Foreign Affairs and Information
Dr G P C de Kock	RSA — President of the Reserve Bank of South Africa
Dr the Honourable D J de Villiers	RSA — Minister of Industries, Commerce and Tourism
The Honourable J C Heunis	RSA — Minister of Constitutional Development and Planning
Dr the Honourable P G J Koornhof	RSA — Minister of Co-operation and Development
The Honourable Chief M E P Malefane	CISKEI — Minister of Finance and Economic Development
The Honourable S M Qaba	TRANSKEI — Minister of Finance and Audit
The Honourable S L L Rathebe	BOPHUTHATSWANA — Minister of Local Government and Housing
The Honourable Gota F N Ravele	VENDA — Minister of Economic Affairs

Alternate Governors

The Honourable R Cronjé	BOPHUTHATSWANA — Minister of Manpower and Co-ordination
Mr I Melville	CISKEI — Director General, the Department of Finance and Economic Development
The Honourable Gota E R B Nesengani	VENDA — Minister of Education
The Honourable K G Nota	TRANSKEI — Deputy Minister of Health

Members of the Board are
(Sitting) Mr M T de Waal, Prof W L Nkuhlu, Mr W J J van Graan, Dr S S Brand (Chairman), Mr J A Botes, Mr G F Godden
(Standing) Mr A J van den Bergh, Mr P H Swart, Mr B E Keikelame Dr A P Scholtz, Mr R A Plumbridge, Dr P R Morkel, Mr G S Muller, Dr D H M Bridgman Mr M R Madula, Mr A S Nkonyeni
Absent were Mr J B Maree, Dr W J de Villiers and Dr D C Krogh

Initial subscriptions

(Rand millions)

Member	Paid-In capital shares	Callable shares	Total initial Subscription
Bophuthatswana	10	90	100
Ciskei	7	63	70
South Africa	168	1 512	1 680
Transkei	10	90	100
Venda	5	45	50
	200	1 800	2 000

Voting rights

Country	Basic votes	Votes based on shareholding[1]	Total votes
Bophuthatswana	300	200	500
Ciskei	300	140	440
South Africa	300	3 360	3 660
Transkei	300	200	500
Venda	300	100	400
	1 500	4 000	5 500

[1] *Each R500 000 contributed entitles members to one additional vote.*

assistance and training. As a start, the Bank took over loan agreements involving more than a hundred existing development projects, in Transkei, Bophuthatswana, Venda and Ciskei, totalling almost R200 million, from the RSA Department of Foreign Affairs and Information.

While the Bank does not undertake projects or programmes of a business nature, it is structured to achieve the maintenance of the highest possible efficiency and cost effectiveness. Its involvement in projects is by means of a project cycle consisting of seven phases: identification, preparation, appraisal, negotiation, implementation and supervision and, lastly, evaluation In order to carry out the various activities related to these phases, the Bank's broad internal structure aims at research and strategic planning, general administration and financing, programme and project implementation, and agricultural, industrial, and mining management advice.

Provision has been made for the Bank to employ between 200 and 250 people.

To emphasise the independence of the Bank's operations from political influences, it was agreed by the member governments that its headquarters should not be in the capital of any of the member countries, and decided to locate it in Johannesburg or vicinity. A temporary headquarters has been set up in Sandton, near Johannesburg, while investigations are under way to find a site for permanent headquarters.

By providing loans at below-market interest rates, DBSA is in competition with private financial institutions

The private financial sector cannot, or will not, become involved in the kinds of projects the Bank will finance, as infrastructural development requires long pay-back periods and a high proportion of indirect, non-chargeable benefits. These functions have, in fact, never been performed by private financial institutions, but rather by RSA government departments DBSA does not as the CED did, provide loans directly to business undertakings, nor does it have its own business undertakings.

DBSA will, however, carry out its activities according to sound business principles and its operations supplement and support those of the private sector. They are, moreover, directed to closer involvement of private initiative in development.

DBSA has unlimited sources and can provide in all the requests of its member countries

Although the Bank because of its financing structure, can mobilise more resources for development than were available before its establishment, those resources will have to be obtained partly in competition with other expenditure programmes of the contributing governments and partly from the capital markets. These funds will accordingly have to be allocated carefully on the basis of the priorities deduced from the development goals of the participating states.

As is the case with any banking institution, the Bank will therefore have to take unpopular decisions on loan applications. It could also become unpopular for the control which it exercises over the application of its loans. However, considering the multilateral involvement in the control of the Bank, these disciplines will hopefully be accepted more readily by the beneficiaries.

Popular misconceptions about DBSA

As can be expected with the establishment of a new multilateral institution, misconceptions can easily arise about its purpose and functioning. Some popular misconceptions about the Bank and the actual pertinent facts, are:

**** DBSA is a first building block in a confederation of states in Southern Africa***

DBSA was established by agreement between the five original member states, and with the consent of the governments of all the selfgoverning national states in the RSA, on the explicit understanding that support for its establishment does not commit any of the participating governments to any future particular political arrangement in Southern Africa, whether it be confederation, federation, a unitary state, or any other formula. While individual governments might well see the Bank as a first building block towards particular forms of constitutional arrangements in Southern Africa, these can, in the light of this explicit understanding on which the Bank came into being, not be more than individual views.

Irrespective of the nature and direction of future constitutional and political developments the Bank does, however, provide opportunities for gaining experience of a broader participation in decision-making about important matters relating to development in Southern Africa — a kind of experience that is essential for the operation of any future political and constitutional development.

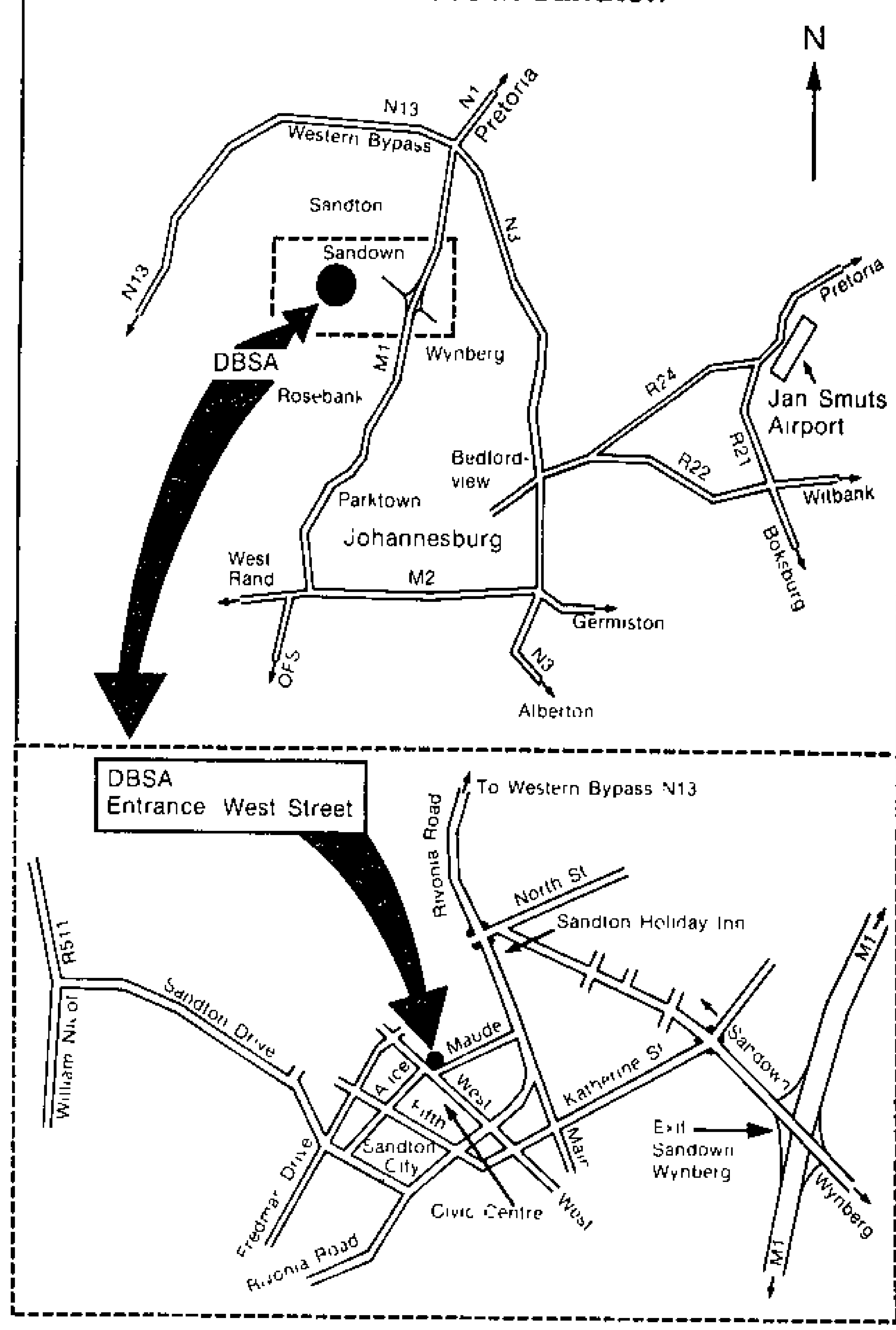
**** DBSA is taking over the functions of the Corporation for Economic Development (CED)***

DBSA is not an RSA institution like the CED, the Departments of Cooperation and Development and of Foreign Affairs and Information. It was not established by an Act of the RSA Parliament, but is a multilateral institution established by agreement between all the participating governments.

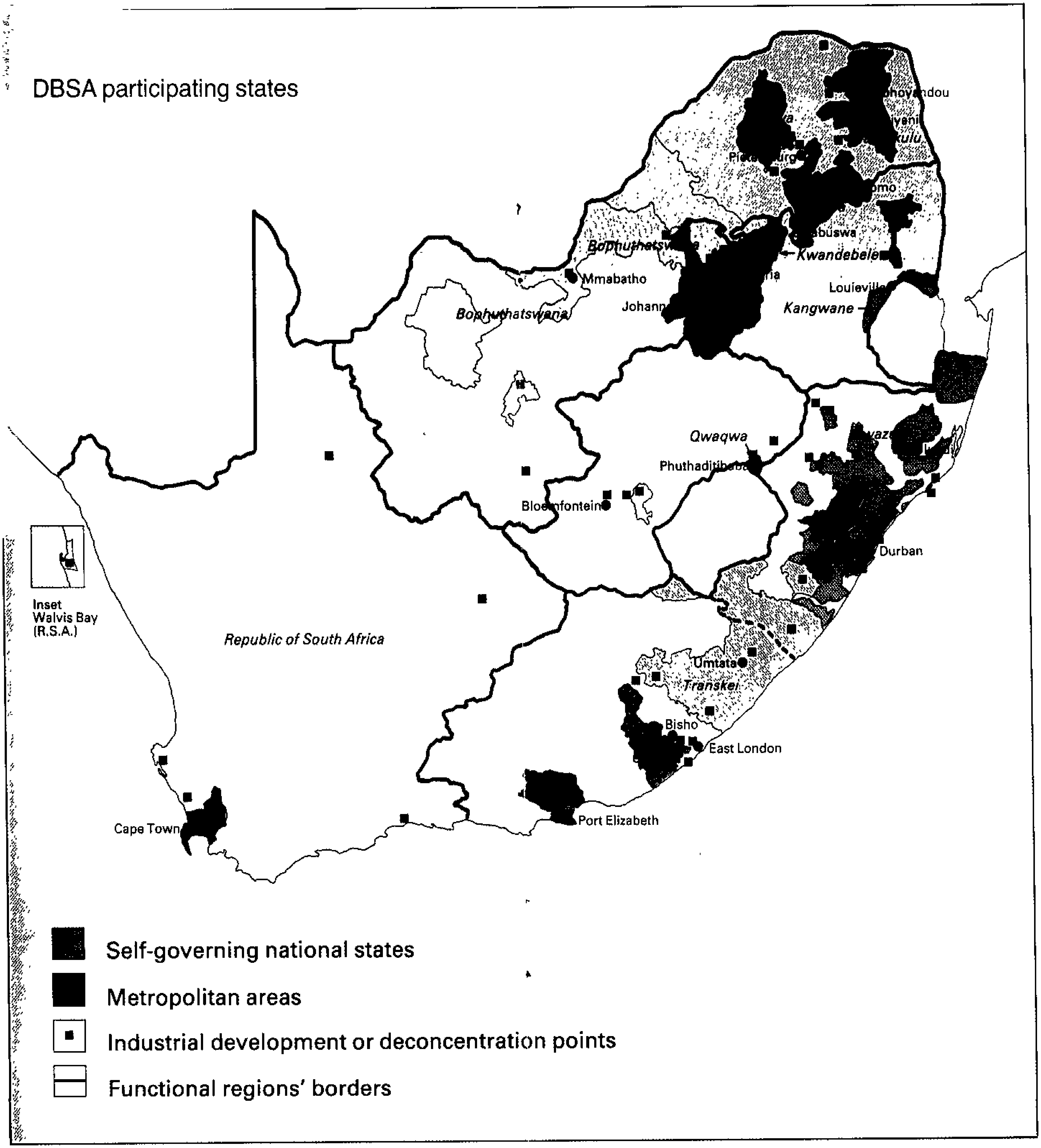
DBSA will take over the development cooperation functions of the abovementioned two RSA departments, viz the financing of infrastructure and the provision of technical aid. However, the functions of the CED, which involved the direct financing and setting up of business enterprises, will insofar as it cannot be transferred to private enterprise, be taken over by the development corporations of the selfgoverning states, and not by the Bank. DBSA did take onto its staff a substantial number of former CED employees whose expertise and experience of development matters were considered appropriate for the Bank.

President of DBSA, The Honourable O P F Horwood, signing the visitors book during his first visit to the bank, with Dr S S Brand, Chairman and Chief Executive

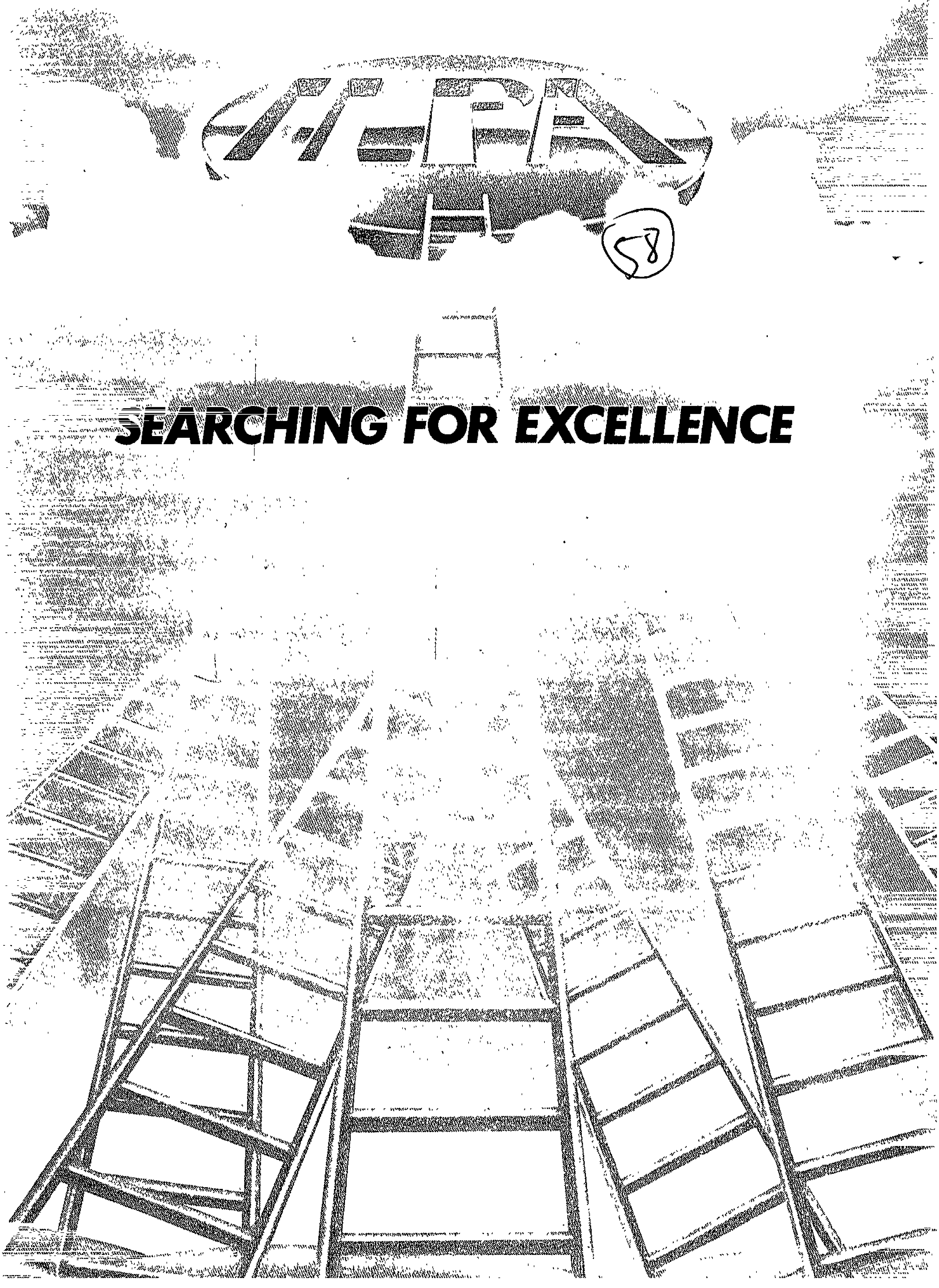
Location of DBSA offices in Sandton



DBSA participating states



Corporate report on the Institute of Life and Pension Advisers.
Supplement to Financial Mail. October 12 1984



Contents

Good all-rounders 5
The man from the Institute 6
Top company 8
As ye sow 12
Turning pro 15
Passing it on 17
Best of fellows 18
Well schooled 24
The need for know-how 26
Keeping tabs 29
Running scared 31

ILPA

FOREWORD

Let the client decide

It seems everyone wants to be a "professional" these days. Some, like doctors, lawyers and accountants, are entitled to the description by right, tradition and qualification.

Others, like estate agents, valuers and town planners have attempted to achieve at least some professional status by organising Acts of Parliament to govern their affairs. The effect in each case has been to bar free entry to a particular field of activity.

The argument, of course, is that it is in the "public interest" to lay down minimum standards. The other point of view is that such artificial bariers are a restraint on initiative and competition.

And then there are the few who see it from both sides. To them a recognised qualification is important but not a prerequisite to entering most fields of endeavour. The better qualified man, the thinking goes, must gain the customer's respect — and business — in the long run.

To its credit, this has been the approach of the three-year-old Institute of Life and Pension Advisers. Its fellowship examinations, which permit successful candidates to append the letters FILPA behind their names, are not designed to keep anyone out of the pensions and insurance business.

After all, it must be accepted that there are many highly competent advisers who are not Ilpa members and, perhaps, never will be.

The important thing, however, is for clients to *know* that they are dealing with someone who knows what he is talking about. Thus it's a fair bet that if Ilpa can get its message across successfully, more and more buyers of pension and insurance advice will insist on dealing with one of its fellows. He may not necessarily be any better than anyone else, but at least the client will know that he is getting proven expertise.

That will be good for the institute and good for the industry's image. And it's voluntary. In the end, that is Ilpa's greatest strength of all.

What if you chose Hewlett-Packard as a computer partner?

"At Communications Group, an HP 3000 is keeping us right on target" says Frank Payne, Managing Director.

Communications Group publish media which disseminates industry specific information to very precise market segments. "Our readers are busy decision-makers" says Frank Payne "they rely on our publications for news of products and services. With our HP 3000, we can track our readership profiles, so our publications reach the right people, and carry the solutions to their specific problems. Our readers get the information they require, and out advertisers can depend on a very high level of cost efficiency".
'This level of accuracy means less wastage all round — of our readers' time, of mistargeted publications and of advertisers' money".

What should you expect from a computer partner in the '80s?

Integrated information management! With words, data, and graphics, HP can help you organize and integrate the many information variables that affect your day-to-day business operations. This timely, inter-related information reduces ambiguity. It sharpens decision making and provides clearer operating perspectives.
By integrating key areas of your organization through a network of personal and multi-user computer systems, you can put into your office the capabilities for word processing, document management, financial management, and electronic mail and filing. People who are not computer professionals will find them easy to use.

As a major corporation with world-wide manufacturing, marketing, and support facilities, Hewlett-Packard takes its commitment to computer partnership in the '80s seriously. You should consider a working partnership with HP. Now.

Telephone the computer group at:

Johannesburg 011 8025111

When performance must be measured by results.

HEWLETT PACKARD

BBDO INDUSTRIAL 161079

Good all-rounders

"I hold every man a debtor to his profession; from which they as men, of course, do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto." — **Francis Bacon**

If half the brokers and agents had half the knowledge required to get their Ilpa fellowship then the life insurance industry would be well served. Sadly, this is not the case.

Indeed, the financial services industry is not, to put it mildly, held up as a model example of the ethical, the upright, or the reliable. Indeed, epithets such as "bucket shops," "loan sharks" or "sharp talkers" are, unfortunately, the more obvious illustrations of an intangible world where money is the central commodity and advice is as variable as the four seasons.

A strong indictment, perhaps, but nevertheless something the intermediary has to live with. Only through an organisation like Ilpa can such an image be changed.

Since financial advice often has long-term implications, it obviously takes a long time to be "found out." It could take as many as 20 years down the road before a particular insurance salesman is seen to have been inadequate in terms of knowledge and, perhaps, lacking in financial objectivity as well. Occasionally such salesmen err to such a degree they are viewed as being "crooked as a donkey's hind leg."

To what extent this is responsible for the perceived image of the intermediary today is debatable. But, rest assured, by the same token it takes just as long — 20 years — to develop a good reputation.

Another slur burdening the intermediary is the high staff turnover in his industry. True, most sales activities are bedevilled by the same problem — it is, perhaps, in the nature of the job. But insurance probably has the highest staff turnover of all sales jobs.

This is because there are few areas outside insurance where the intangible has to be sold to the ignorant. A prime requisite of the intermediary, therefore, is an ability to make the intangible, tangible, and the ignorant at least sufficiently knowledgeable to know what they are buying.

This surely must be the principle behind Ilpa's call to arms. Simply, its purpose is to promote a high degree of ethical standards, financial integrity, and competence in the field of the life and pensions industry. Since the intermediary is the visible representative of this industry in the minds of the public, he, above all, is more able than most to redress the tarnished image earned by his predecessors.

And in fact, the Ilpa "pledge" says it all: *"In all my professional relationships, I pledge myself to the following role of ethical conduct: I shall, in the light of all conditions surrounding those I serve, which I shall make every conscientious effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself."*

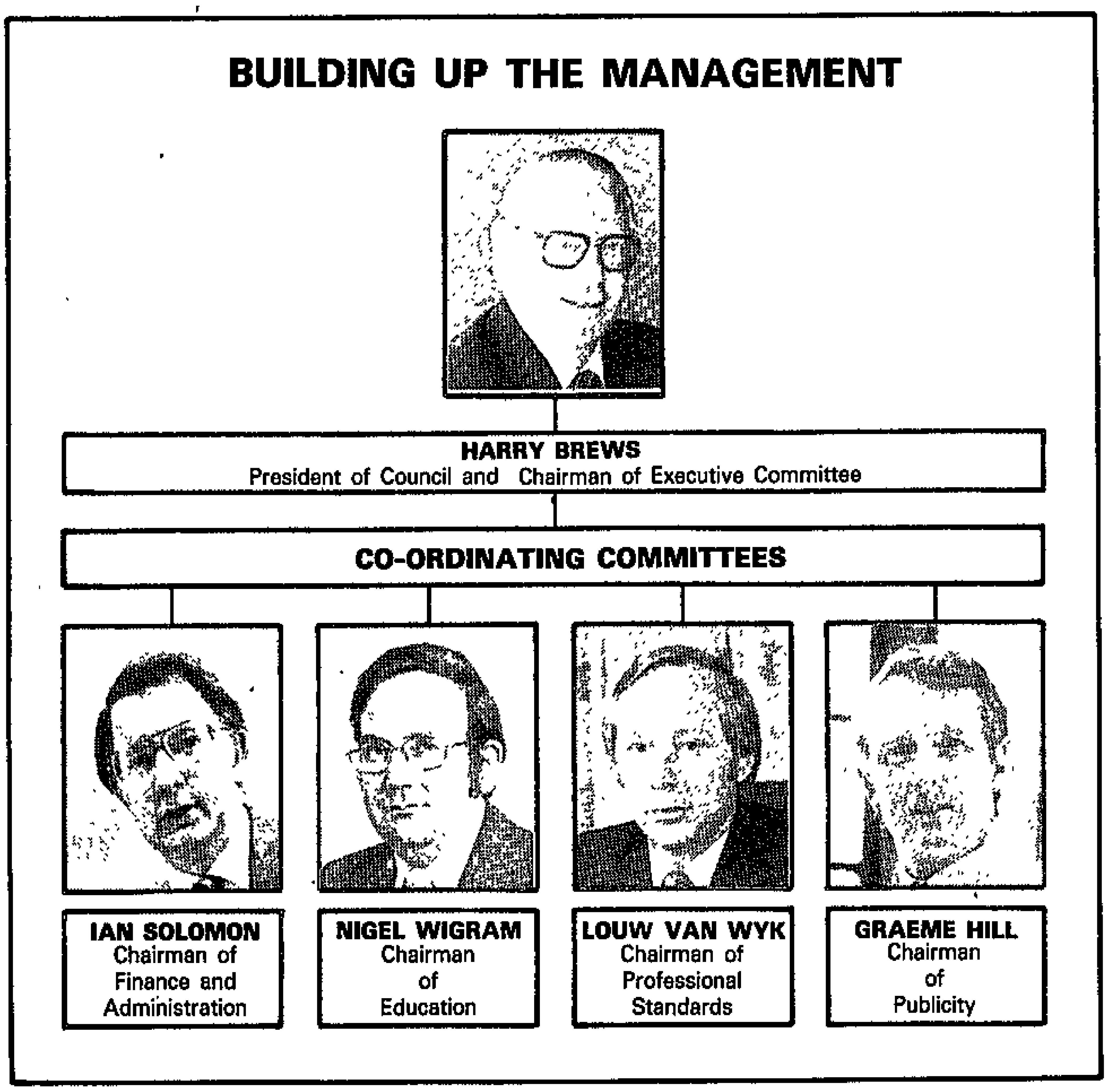
The starting point for an aspirant to this noble collect is, as to be expected for all professions, a long, arduous, and some say tortuous expedition into the realms of education. And many have already failed to complete the journey.

In the three exam sittings — April 1982, September 1982 and August 1983 — the average pass rate for both life and pensions exams fell from 30% to 20%. The papers for the latest sitting, in August 1984, when a total of 1 255 candidates took up the cudgels, are curently being marked. It will be surprising if more than 25% pass.

Reasons for failure include the high standards set for the examinations, the unfamiliarity of ageing candidates with exams, and the lack of adequate tutorial material. It is intended to improve both exam technique and tutorial material in the years ahead as educational programmes are brought up to standard.

Meanwhile, the growing numbers preparing to take the exams (see tables) is gratifying. It shows a recognition on the part of the intermediary and others in the financial servicing side of life and pensions business, of his lack of knowledge and, more importantly, that something should be done about his public image.

The exams are certainly comprehensive.



BUILDING MEMBERSHIP

ILPA EXAM PASSES

Exam candidates	APR 1982	SEPT 1982	AUG 1983	AUG 1984
Life	346	491	741	1 031
Pensions	28	56	135	224
Total	374	547	876	1 255
Exam Passes				
Life	102	119	130	
Pensions	11	26	41	
Total	113	145	171	
Average passes as % of examinees	30	26	20	
ILPA membership	130	249	420	

Altogether there are four life exams and four pensions exams. Candidates become Fellows of Ilpa on passing one set of four exams. The life advisers take: investments and personal financial management; pension and retirement provision; business insurance and estate planning.

And the pension advisers take: fund constitution and management; pension and retirement provision; business insurance and fund financing and investment.

The range of subjects these exams cover is enormous. Knowledge is needed of economics, law, accounting, business management and, in particular, tax and estate duty legislation. The central function of the intermediary as financial planner should be to seek all the options open to each of his individual clients with a view to maximising returns to match their future financial requirements.

In this light he must "make a plan" for the client, whether it be for retirement, estate purposes, investment, personal finance, business assurance et al.

The subjects he will be expected to draw upon for his examinations, and obviously during his "after-life" as an Ilpa man, include dealing with marriage laws, pension transfer problems, employee benefits, structuring of company assets for estate purposes, key-man insurance, deferred compensation, retirement planning and retirement income, investing inheritance monies, early retirement provision, and pension fund investment. This is just a small sample of the subjects that clients will turn up with at an intermediary's "clinic." Like the general practitioner, perhaps, the Ilpa man must be prepared to cope with whatever problem crops up.

Of course, to follow the "do as you would be done by" principle, requires more than just examination passes. This is where the association can only rely on the integrity of the Ilpa fellow himself.

The fact that he took it upon himself to labour through a mass of examination papers counts in his favour in this regard. Otherwise, Ilpa can only hope he takes Bacon's tenet to heart.

Like any good all-rounder, the competent financial adviser is hard to find. And in the modern, sophisticated environment, this is precisely what is needed. In fact, the all-round financial adviser should be the norm, rather than the exception.

The man from the Institute

The aim of the Institute of Life and Pension Advisers is to bring greater professionalism to the assurance and pension fund industries

October 1981 is a landmark in the history of the long-term insurance industry in South Africa. It was the year of the establishment of the Institute of Life and Pension Advisers (Ilpa).

Ilpa's aim is to create recognised professional status for those members of the life industry involved in the complex fields of business assurance, estate planning and pensions matters.

The Old Mutual played a major role in the founding of Ilpa after operations general manager Mike van Greunen initiated the idea of forming a professional body equivalent to the North American Chartered Life Underwriters' Association (NACLU).

At the beginning of 1979, Van Greunen briefed a three-man task force to investigate and report on the need for, and feasibility of, introducing an equivalent qualification in SA. This led to the formation of a co-ordinating committee with members drawn from the long-term insurance industry throughout the country. Bodies represented included the Life Underwriters Association (Luasa), the Insurance Brokers Assocation (Saiba), the Institute of Pension Consultants and Administrators (Ipca) and the Life Officers Assocation (LOA).

Because he did not want Ilpa to be looked upon as an Old Mutual organisation, Van Greunen took a back seat once the co-ordinating committee was formed. The committee was headed by Harry Brews of Liberty Life who is now the president.

Membership of the Institute is granted only when a candidate has passed all the professional examinations and undertakes to honour the Institute's code of ethics and professional conduct. Members are identified by the letters FILPA (Fellow of the Institute of Life and Pension Advisers).

The intention is to create public confidence in dealing with a member of the Institute. When dealing with an Ilpa fellow, the thinking runs, prospective clients will know that they are dealing with someone who has more than a basic financial and investment knowledge and who is subject to a degree of discipline over and above that exerted by his employer.

While the Institute has been endorsed by all major life offices, it is an independent examining body. Its purpose is to give recognition to individuals who have satisfied the high examination standards set to test their knowledge on life assurance, employee benefits and personal financial planning. Any individual presently giving investment advice is not forced to seek membership.

By establishing a very high standard of examination it is hoped that the Department of National Education will accord the qualificaion the same status as a university degree. Another objective is reciprocity with NACLU in the US. And so far, the indications are very positive.

NACLU has explained that if it is satisfied with the set papers, and that the same standards will be maintained, it would certainly like a reciprocal arrangement. This would allow an Ilpa fellow to use "NACLU South Africa" as well.

Some think the exam standards are too high. But it is easier to drop the standards, Ilpa explains, than to raise them. The institute has obviously exempted certain candidates from academic requirements. anyone who has been in the industry for more than five years may write the ex-

Prime mover Van Greunen ... taking a back seat

ams without the equivalent of a two-year B Comm. Newcomers, however, must take the academic route.

Other qualifications in lieu of a B Comm, such as a formal legal or accounting qualification, are recognised. Ilpa is now looking at other qualifications that may become eligible, such as the Chartered Institute of Secretaries, Fellow of the Institute of Insurance and Fellow of the Institute of Actuaries.

Because advice is given on a broad spectrum of personal finance, the exams have to be all-encompassing. They include questions on investment and personal and financial matters, yet sole knowledge of insurance is no longer sufficient. People must also have an appreciation of economics and government financing, for instance, plus a grasp of the legal aspects of personal finance and commercial law.

Ilpa has financial support from most of the life offices, Saiba, Luasa, and Ipca. Only when there are more than 1 000 Fellows, will Ilpa be financially self-sufficient. In the meantime, Saiba asks its members to make an annual R5 contribution per employee and the life companies contribute a proportion of premium income (about 002%). The examination fee, originally R25, was far too low to cover expenses and it now costs R125 to sit the four papers, plus R25 for a copy of the tutorial material on each subject.

Six major life offices have accepted the responsibility for preparing the material. The Old Mutual covers estate planning with the assistance of Sanlam; Southern Life is responsible for retirement planning; Liberty Life business insurance, the Prudential takes care of fund financing and investment aspects and Anglo Amercian Life (before the Southern merger) wrote the fund constitution and administration. In addition, Bowring Barclays and Associates prepares the study material on investment and personal financial management.

Unfortunately, the tutorial material is sometimes delayed because of the diverse sources and, not surprisingly, candidates complain.

Ilpa's ultimate object is for the public to become aware of the professionalism, the expertise, the moral and ethical approach to writing business, and the disciplinary controls Ilpa has over its Fellows. Every competent practitioner should have the qualification, in Ilpa's view. Eventually, it feels, the informed buyer or person seeking advice on his personal financial matters will feel that the advice of a Fellow has to be sought.

There are now 430 Fellows, but the hope is that this figure will double over the next two to three years. None of them, it is worth noting, can obtain the qualification purely as a result of long service; each has to pass the gruelling tests. Fellows are not allowed to use their qualifications to advertise for business, but they can be recognised by the letters "FILPA" appended to their names, by an Ilpa logo on letterheads and an official tie.

Ilpa hopes the image of the life assurance man will improve beyond measure. It is no longer an occupation for anyone "between jobs," notes an Ilpa man. "It's now a career for the true professional."

Top company

Like most organisations, Ilpa relies on a cadre of key men to keep the show on the road. The FM takes a look at five of them

The Ilpa men which feature below are by no means a pentarchy. The founding spirit (Old Mutual's Van Greunen), for example, prefers for good reason to maintain a low profile. Also, the institute is effectively run by an enthusiastic and energetic council, not all of whom can be featured individually. These office-bearers have been singled out to provide an insight into the institute and how it is run.

HARRY BREWS

To many of his colleagues in the industry, Harry Brews is Mr Ilpa. Although it was not his brainchild, he has worked tirelessly since its inception to get it operational.

Brews, the president of Ilpa, has experienced a career path typical of many within the life and pensions industry — most join by accident. His original goal, to be a chemical engineer, was pursued both in SA and in the US.

"In fact, as soon as I started studying engineering, I realised I did not want to be a chemical engineer but wanted the qualification because it was necessary for industrial management," he says. "That was the area I was aiming for. It trains you to be analytical."

His career as a chemical engineer lasted only six years, however, before he established his own company in Johannesburg, specialising in marketing and market research.

Recalls Brews: "I aimed at the small businesses which, in those days shortly after the war, had not developed any marketing experience, mainly because selling was never a problem. I drifted from marketing into market research and was one of the few people in the country at that time who knew the principles."

His career in life insurance started on the beach in Durban in 1962. He was working unhappily for a Durban company and contemplating his lot on the beach one afternoon when the late Louis Miller — who was then the sales manager for Liberty Life — came and sat beside him. When he heard that Brews was thinking of changing jobs, he suggested he speak to Donald Gordon the next time he was in Johannesburg.

"As I knew Donny Gordon from our schooldays, I contacted him when I returned to the Transvaal. Liberty Life had just introduced the retirement annuity contract and, from a purely investment point of view, it was obviously going to be a good seller. So I decided to try my hand. Like most of my colleagues, I joined by accident because I was in the right place at the right time."

His marketing and market research experience proved to be a great asset when he was appointed to set up a network of agencies in and around Durban for Liberty Life. As a result of his success, he was moved to head up the Johannesburg broker division.

Now the only person at Liberty Life with longer service than Brews is Donald Gordon himself.

GRAEME HILL

Similarly, Graeme Hill joined Southern Life more by accident than design. Having completed his British education in Rhodesia, he was at a loss to know what to do. But it was not long before the problem was solved.

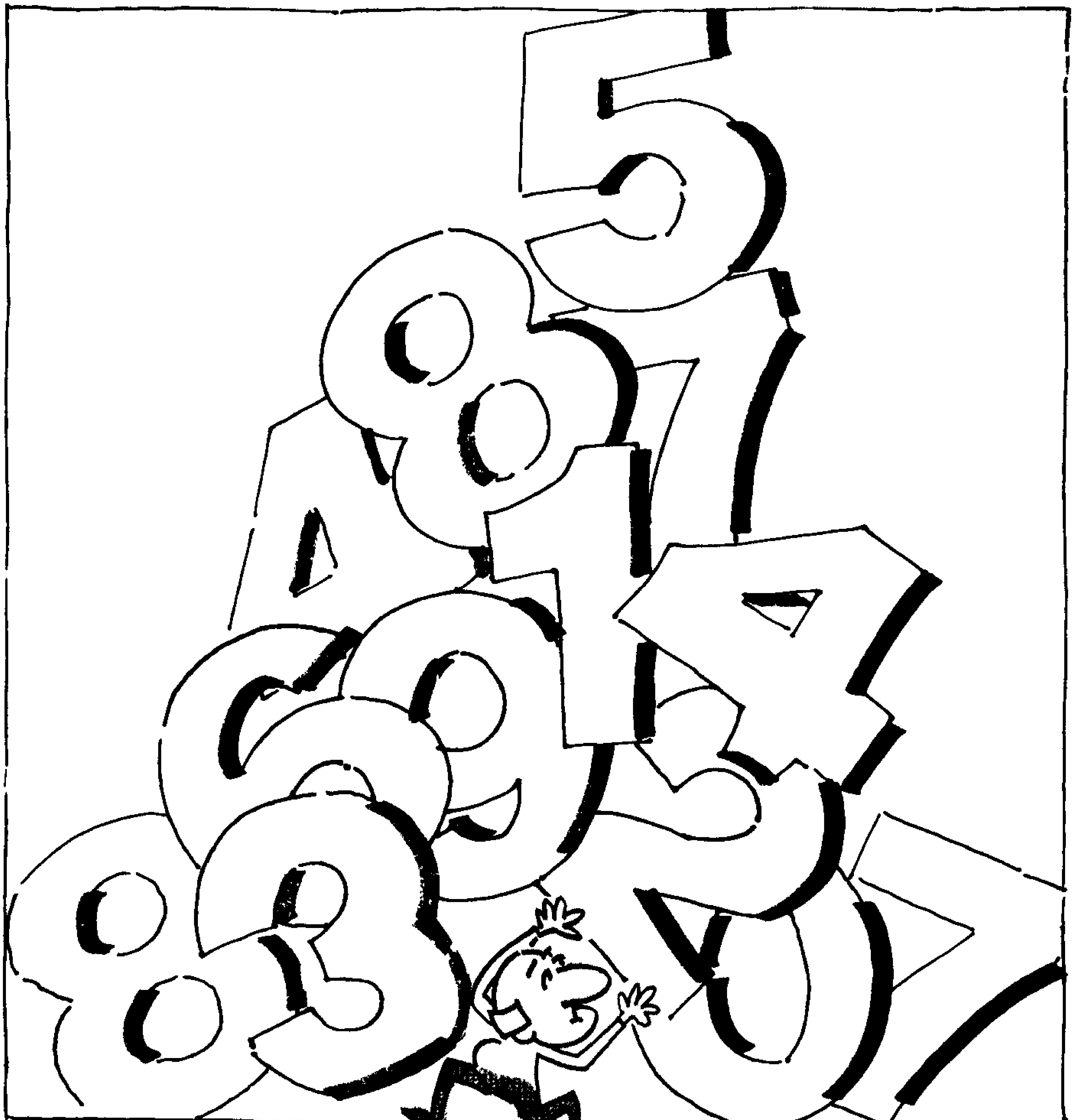
Hill takes up the story: "A friend of my family's working for the short-term arm of The Southern Insurance said the company was looking for staff and suggested I meet the manager.

"At the interview the life manager also happened to be present, so I had a choice and opted for the life division. After my army stint, I was transferred to Durban, supposedly on a temporary transfer to learn about the pensions business. The idea was that I should return to Rhodesia to set up a pensions division there — but I was sent to Cape Town instead."

Moving about within the company has given Hill an interesting career. From pensions he was transferred to sales and administration. In 1972, he was asked to resuscitate the marketing department, and this has developed considerably since then.

"The dynamic changes within the industry are certainly exciting," he continues. "I get involved in the development of new products, which takes me overseas, not only to acquaint myself with the products available there, but also to assist in selling procedures and to get ideas for advertising campaigns."

So how did he get on the executive committee of Ilpa? "It was my marketing experience," he explains. "That was the reason why I was invited to join. My function is solely devoted to publicity and creating an awareness of Ilpa in the minds of the public. However, our first task was to get through to the insurance companies, agents and brokers. I am happy to say there has been a strong move within the industry to gain the Ilpa qualification. Insurance companies have been structuring their training programmes to end with the Ilpa exams."



These programmes prepare candidates through a natural progression to be able to sit Ilpa exams at the end. One large insurance broking company, too, is incorporating the Ilpa syllabus into its training programme. Not all training programmes in the industry are limited to employees; many companies are offering the training to their consultants as well.

The immediate aim is to develop the local chapters in Durban, Cape Town and, of course, Johannesburg, after which Hill will investigate the possibility of opening smaller chapters in other centres.

The objectives of the regional chapters are basically to organise seminars on matters such as income tax and estate duty and to acquaint local members of the latest developments. He also helps with local training courses, and to attract and recruit new members.

"Ideally, we would like Ilpa to be known and recognised by Round Table, Lion, Rotary and other business groups through our after-dinner speakers," he concludes.

IAN SOLOMON

Different people take up life assurance for different reasons. Usually they have trained in other careers which they found wanting for one reason or another, or they never planned a career before leaving school.

But this is certainly not true of Ian

[illegible] of Anglo American Life (now merged with Southern). He was single-minded about becoming an actuary on leaving school. The only thing to stand in his way was military service, which, in those days, was a nine-month camp. African Life, as the company was then known, held his job open for him during this time. While studying, he moved around the various departments until he qualified and became a fellow of the Institute of Actuaries in 1972.

"However, throughout my career, my company has undergone name changes with mergers and takeovers. At the time of qualifying, African Life merged with the life arm of the SA Eagle Life and I was the product development actuary with increasing responsibility for marketing. In 1974, Anglo American bought out the company and shortly thereafter I was employed by Rand Life. But I was lured back to the group by Guarantee Life, a sister company of African Eagle Life, as general manager. During this time I became an associate of the Society of Actuaries in the United States.

"In 1978, I was asked to return to African Eagle Life and head the pensions division. In 1982, the two sister companies decided to merge, which is how Anglo American Life was born. I was appointed executive director of this new company at its formation and became deputy managing director in January 1983."

Having weathered all these mergers and takeovers in his career, the merger between Anglo American Life and Southern Life proved to be too much. "I became concerned about my career path because I was to be given narrower responsibilities within the new company. In my view, there was no scope for compromise, so, regrettably, both parties agreed I should leave. The date of my departure had not yet been finalised, but I decided to resign to avoid a potential conflict of interests." After some period of deliberation he finally moved to Ned Equity where he is to be the new MD.

When asked why he joined the executive committee of Ilpa, Solomon replies: "There was a gap in the professional qualifications available to the life assurance salesman and there was also a need to give him a level of recognition which he could demonstrate to the public. I have been interested in the marketing side of long-term insurance for a long time, and I identified with Harry Brews's early objectives. So, when he invited me to join the council, I was very happy to accept."

Solomon was chosen to lead the finance and administration committee. This effectively means that the secretariat falls under his control in so far as the day-to-day finance is concerned. He is also an examiner on the pension papers.

LOUW VAN WYK

Louw van Wyk, senior manager of Volkskas Insurance Brokers and managing director of Volkskas Pension Services, spent most of the first 14 years of his career with life companies, including Homes Trust Life.

His initial career path was aimed at the engineering world, mainly because of his love for maths. However, when he found he was not enjoying his engineering studies, he answered an advertisement for actuarial students and applied for a bursary.

Explains Van Wyk: "I started off on the life side and did my actuarial studies. But it was only when I was working for an office — which was later taken over by Commercial Union — that I specialised in pensions business. While working for Homes Trust Life, I assisted in developing their pensions arm. Although 60% of my time at present is devoted to pensions, the rest is spent on life management. My involvement with pensions is technical, whereas it is managerial in the life business.

"Generally, though, I regard my life as totally involved in the insurance industry.

"My move to broking in 1974 was a major step for an actuary. In those days actuaries were basically either consulting or involved with the life offices. But I liked the idea of becoming involved as an intermediary, advising clients and helping to develop the broking industry."

He has always been greatly concerned about the status of the intermediary and the general public's opinion of the salesman. This is why he was keen to be associated with Ilpa.

"I am looking forward to the day when Ilpa is recognised as a professional institute by other professional bodies — as an institute that maintains high standards, so that its members can be relied upon to give professional judgment on financial planning. At present, a member of the public has no idea how competent his financial adviser is until, perhaps, he develops a relationship spanning many years." This recognition, in Van Wyk's view, will take about five years.

"By using the media as a means of communicating with the public, we hope to get our message across sooner. Within the industry, the Ilpa qualification is being recognised and, in our experience, employers are taking on Ilpa fellows more readily than those without the qualification."

But how will the institute ensure that candidates keep up to date with new developments and legislation? Van Wyk says a journal will be sent to all fellows on a regular basis. It will contain articles dealing with changes, items of interest within the industry, and times and places of forthcoming seminars.

NIGEL WIGRAM

Although firmly entrenched in insurance administration and marketing, Nigel Wigram originally chose a career in civil engineering.

Wigram has studied for most of his life. He received his schooling at Clifton College in Bristol, England, before coming to SA to study engineering at the University of Cape

town. Having decided he did not want a career in concrete, he searched for an alternative.

"I heard life companies were ideal to join if you did not know quite what job you wanted! This was mainly because they provided enormous scope for career opportunities. And, by moving from one department to another, you could gain experience while establishing which field you preferred.

"Life companies are big and varied enough to offer plenty of alternatives. Bearing in mind I had no complete qualification at the time, the insurance world seemed the only alternative."

Since joining Old Mutual over 20 years ago, Wigram has gained qualification after qualification — although he does admit taking the odd year off from his part-time studies. But now, he says, his chase after academic qualifications is probably over.

"I started collecting diplomas, but realised they were not worth a great deal and decided to work towards an MBA. But I had to gain a bachelor's degree first. My MBA was the only full-time course, though, and that lasted one year."

He then found himself working in an area which was relatively new — advertising research in relation to the insurance industry. So he decided to do his Ph D thesis to publicise his work.

The Old Mutual, in common with many other large companies, pays for the courses itself.

This encourages its employees to study, especially as it must be reimbursed if the candidate fails. In fact, Old Mutual is rewarding employees who are Ilpa fellows in the form of an increment, forming part of a pension package.

Wigram has been involved in Ilpa from the very beginning when Mike van Greunen established a task force to investigate the possibility of a local institute. As a member of this task force, Wigram — then a relatively junior manager at Old Mutual — made the original presentation to the Life Offices' Association, the SA Insurance Brokers' Association and the Life Underwriters' Association to gain support for the institute.

"I have continued to support Ilpa because I feel there is a tremendous need for professional recognition for the sales force. And I think ultimately the banks and building societies, who also give financial advice, will need to established formal training to gain the same recognition," Wigram concludes.

As ye sow . . .

Providing the best advice can sometimes mean a loss in commission for the Ilpa fellow. But ethical behaviour will reap its own rewards, says Ben Troost of Cape-based financial planning consultants Profin

Ilpa wants its members to rise above the traditional role of the life assurance salesman. To do this he requires extensive background knowledge of a myriad of financial planning services. He must keep abreast of the law, the latest products available and new trends in approaching traditional financial problems.

Estate planning should be no exception. And it is just a small part of the extensive Ilpa fellowship examinations.

Estate planning may briefly be defined as the exercise of arranging the estate planner's assets effectively to enable him to maximise the benefits for himself and his beneficiaries during his lifetime and thereafter.

In today's environment, estate planning has become a sophisticated exercise covering vast areas of law, accountancy, economics and finance.

Because of this, consumers generally are becoming increasingly aware of the necessity for having access to knowledgeable advisers. This is where the Ilpa member scores. As a life intermediary, his qualification puts him in an excellent position to fulfil this need. He will have acquired specialised knowledge during his period of qualification. Add to this exceptional skills and a close relationship with clients, and he is fully equipped for the responsible and indispensable task of estate planning.

He must be aware of the various alternative solutions other than life assurance, and the implementation and practical implications of those alternatives. His knowledge must extend to the benefits and the tax implications of pension, provident and retirement annuity funds. He must also appreciate the basic principles of investment so that he can structure and motivate a sound investment portfolio. And he must give advice on wills, trusts and the distribution of estate planning.

But Ilpa has created more than just an opportunity for the progressive and dynamic salesman to acquire the necessary knowledge for this formidable task. It also enables the consumer himself to identify those competent salesmen who are qualified to advise on matters of estate planning. In this way the consumer can ensure that he consults and deals with a duly qualified adviser to obtain the best advice available.

Unfortunately, knowledge alone is no guarantee of efficiency. Other skills, such as effective communication and selling abilities, are prerequisites for success. This success is invariably measured by assurance companies and broker houses in terms of the number of policies sold and retained, commissions earned, and the total amount of premium income secured.

Currently, life assurance salesmen are remunerated on a commission basis. This remains the same whether he has obtained the Ilpa qualification or not.

Because the Ilpa graduate's remuneration is based on his ability to sell life assurance policies in the same way as an "unqualified" salesman, he finds himself in a dilemma. On the one hand, he is ethically bound to give objective advice on matters of estate planning for which he receives no remuneration, and which may not necessarily involve the selling of life assurance, yet his remuneration depends on life assurance policies sold.

Assume the following situation: a client aged 50, who has a substantial estate, inherited a large share portfolio with high growth potential. He has a son who is an accountant. He is not too concerned about retaining exclusive control over his share portfolio. He is, however, concerned about the effect of the future growth on his estate duty liability. The adviser is faced with a number of alternatives of which the most obvious include: the sale of the shares to an *inter vivos* trust, a company, or to his son; or the effecting of life assurance to provide cash to meet the ever-increasing estate duty liability.

The "unqualified" salesman will have no problem in recommending life assurance as the solution (sometimes because he knows no better). But the Ilpa graduate is bound by a code of ethics to make an objective evaluation and motivated recommen-

"This new FlexiProgram is for me."

Until recently, what worried me was I didn't have any specific long-term financial plans.

Sue, our first child, changed all that. I realised I had to do something. After shopping around I selected Old Mutual's new FlexiProgram.

FlexiProgram gives me, for the first time, a practical planning framework within which I can manage and control my long-term financial affairs.

For instance, at present my priority is sufficient life and disability cover so that my wife and daughter are financially protected if something happens to me. My FlexiProgram gives me this.

But, in addition I also want to build capital for the future. That's why I'm investing as much as I can in FlexiProgram. Because, looking at Old Mutual's investment returns over the past ten years or so, I have a very good chance of seeing my money grow faster than the inflation rate. Tax-free.

And with FlexiProgram I can now change the mix of life cover, savings and the other options without losing the benefits I've already secured.

So, for instance, later on, depending on my situation I'll probably "trade off" my life cover to increase my investment holding with Old Mutual. This kind of flexibility really impresses me. It makes planning a lot easier and more practical.

And to cap it all, each year Old Mutual will give me an easy-to-understand computer statement showing me exactly how my FlexiProgram has performed and how much more I'm worth.

That's why I say, FlexiProgram is for me. It's got everything I want.

FLEXIPROGRAM

OLD MUTUAL

Working hard to make you worth more.

84/87629

Financial adviser ... does he know what he's talking about?

dation which may not necessarily include the selling of life assurance.

It is clear, therefore, that because of this professional approach, and the corresponding need, the consumer will increasingly seek the advice of the Ilpa graduate. In a sense, this is where he is compensated for the lower commissions. It is a better, long-term view.

For the Ilpa graduate to be competent in the area of estate planning, he must, in addition to a thorough knowledge of life assurance, have a focused knowledge of certain aspects of the disciplines of the legal, accounting and other professions.

He will never try to take over their roles, but will seek their advice in specialised matters and work closely with these related professions. In seeking specialised advice, the Ilpa graduate has the following sources: attorneys, accountants, legal advisers at financial institutions, tax consultants and professional financial advisers.

When the Fellow of the Institute utilises one or more of these resources, he may encounter problems. Firstly, his consultant may not be totally objective because he is attached to a financial institution and his remuneration is based directly or indirectly on the financial product bought by the estate planner.

Secondly, his consultant may not have the specialised knowledge required to advise on the best possible solutions. For, in the nature of his particular profession, he may not keep up to date with developments in estate planning and related matters. And, thirdly, the fees charged by the consultant may be high.

It is therefore imperative that the Ilpa graduate surround himself with knowledgeable consultants from other professions whose objectivity is "above board," who stay abreast of changes in legislation and techniques and whose fees are acceptable to him.

This, in itself, may present a problem as it takes time, through a process of elimination, to establish a working relationship with a trustworthy consultant.

In this way, fellowship of the Institute will enable the adviser to build up a clientele and further create and secure a source of future business.

As the consumer becomes increasingly aware of the specialised knowledge and skills available for proper and effective estate planning, more pressure will be exerted on the Ilpa fellow to keep abreast of the latest developments. This can only be good for the image of Ilpa as it strives to establish itself in a central role in the life and pensions industry.

ILPA

Turning pro

With Ilpa examinations now firmly established, the next step is to achieve general recognition for the qualifications

The insurance industry's lack of an academic route was one of the major stumbling blocks to achieving professional status in times past, says Louw van Wyk, chairman of the professional standards committee.

"Compared to lawyers, accountants and engineers, for example," he explains, "the academic content in training was minimal. Most of the established professions require at least four years before accepting a qualified person into their ranks."

But Ilpa is young by comparison. Founded in 1981, the Institute has so far set four examinations. They have attracted an increasing number of entrants. The last exams, for example, were sat by more than 1 200 examinees.

The introduction of academic status for the life and pensions intermediary in particular is long overdue. For some time the industry has been increasingly concerned about its public image, and the arrival of a qualification of the standing of Ilpa's is both welcome and timely in view of the increasing threat of legislation. Certainly the Institute is well supported, and rightly so, by the authorities.

Van Wyk explains, however, that it will necessarily be a gradual process toward full professional status for the Institute qualification. Already Ilpa is debating phase two of its development which hinges on the criteria for permitting entry into the examinations.

The first phase was to permit examinees with five years' industry experience plus "sufficient" internal training. Van Wyk admits this may, to some degree, discriminate against those employees of the smaller insurance companies who lack "adequate" training programmes. "But most companies have good training courses," he notes. And what of those who don't? "Well," says Van Wyk, "people tend to change jobs and fulfil their training requirements elsewhere."

Examinees with less than five years experience were also accepted as long as they had suitable academic qualifications.

Unisa Professor Wilhelmus Herbst explains further: "The Human Sciences Research Council would not allow us to have any new subjects in our curriculum, so we decided to cater for an insurance qualification under our existing business economics degree. In year one, the student takes the general introduction to business economics. In year two, in conjunction with general management, half the course is optional in various fields including insurance. In year three, there are three major options, one being insurance."

Herbst adds that, from 1985, there will be an honours course over a further two years. This will cover risk and insurance, management of funds, risk management and personal finance.

Meanwhile, the August 1984 exam sitting will be the last time the five-year service applies. And the big question now, is what happens next.

Herbst explains: "We have recently had a meeting with Ilpa, and it is certainly considering making the second year B Comm a condition for writing the Ilpa exam."

But, he adds, "for phase two of our examination, committees are going to council with recommendations for the new requirements. In our view, this should not be totally academic, as is proposed by some.

"There is a lack of education bodies for one thing, and still not enough tutorial material for another; besides there are many 'good' people in the industry who have not yet had the opportunity to write the exams. A restriction to academic qualifications only would wrongly exclude them from Ilpa altogether.

Unisa's Herbst ... looking at options

"Instead, I think the most likely, and permanent, feature of Ilpa fellowship requirements will be a combination, probably of three options."

The first option would be a standard preliminary academic career through the courses for a B Comm.

A second option might be, say, three years practical experience, plus an entrance exam. The entrance exam would substitute for the current internal training requirement which is difficult to regulate when there are so many insurance companies with diverse approaches to training.

The third option would be a Chartered Insurance Institute (CII) qualification, plus, say, three years' practical experience. The Insurance Institute exams are more on theory of life and pensions than on the practical side, and would therefore need a degree of back up from practical experience in the industry.

Van Wyk stresses that Ilpa does not allow the fortunes of entrants to fall foul of an examiner in a bad mood, especially since Ilpa does not allow remarking or correspondence from disappointed examinees.

Two examiners are jointly responsible for setting each of the four life papers and each of the four pensions papers. The eight life examiners, for example, get together to consider all the papers to see that standards are the same, that the subject is covered adequately, and that translations are correct.

After any amendments are made, there is another sitting at which the responsible examiners must produce model answers or a memorandum guide against which the papers are to be marked.

The two examiners responsible for each paper will mark the papers with assistants who will use the memorandum as a guide. As a double check, each paper is marked twice with its first score kept from the second marker. The examiners arbitrate in the case of discrepancies.

Finally, each examinee's four papers are compared for inconsistencies by the eight life examiners.

Another criticism sometimes levelled at Ilpa is that the standards of the examinations are too high. Van Wyk disagrees. "If they were lower, we would be doing the public a disservice." He concedes, however, that it may be too high considering the lack of tutorial material currently available.

Contd on P17

...AS OTHERS SEE US

If it is true that the standing of any organisation can be judged by the regard in which it is held by its peers, Ilpa is an unqualified success. Here are some views from the rest of the industry.

Tony Leisegang, convener of the Insurance Council of SA (Icsa): "The motivation and intent of Ilpa is excellent. Most important, is its promotion among intermediaries. Anything that improves sales and service is a good thing. "I've heard various complaints, particularly about the administration of Ilpa. There have, apparently, been difficulties in getting results and there have been delays in registration. But I am sure this will be sorted out soon.

"Others have criticised the level of the course — that it doesn't test the candidate sufficiently. It is true that it does not reach the competence of, say, the Fellow of the Chartered Institute of Insurance (a view which Ilpa challenges). But, on the other hand, it improves the quality of the intermediary.

"On the other side, the level of the Ilpa exams is criticised for being too high. But this shows that it must be reaching some level of technical quality."

Dick Geary-Cooke, executive director of the Life Offices' Association (LOA): "We are very much in favour of a more professional approach to selling.

"Further, I can do no better than to quote our chairman, Frans Davin, who wrote in the SA Insurance Review of 1983: 'It is important in the present-day environment of change and competition that the salesman or intermediary will ensure that the service he renders — and it is undoubtedly a service — is accompanied by unimpeachable integrity and professional accomplishment. He, in fact, constitutes the 'frontline' of this industry and, to a large extent, is responsible for the image of life assurance in the general public's mind.' "

Geary-Cooke himself adds: "Education is a good thing; and anything done to further the quality of service is to be welcomed."

Hennie Oosthuizen, executive director of the Life Underwriters' Association of SA (Luasa): "We're getting where we want to go. The Ilpa presence is showing positive results in the market place. If we look at people who have achieved recognition by getting the qualification, that is what we're after.

"We must now get the market place to recognise the qualification. "There were a few problems," I might add, "with the transfer of the Ilpa head office from Cape Town to Johannesburg. But that problem was temporary.

"Speaking for Luasa members, I would like to see more from our side with more members going for the exams. There has been criticism that the exams were quite heavy.

"But you know some of these fellows are confused when they come into an exam room. They display a surprising inability to get over in writing what they know. We recognise that people must go prepared to take the exam, that it's not just a kindergarten exam.

"We therefore plan to improve the opportunities during the year for Luasa members. One idea is to organise 'mock exams,' and we have started negotiating with Ilpa on this score. It is clear we need people to get some form of test experience. When a person has written a few tests, I think he will gain confidence.

"Ultimately this should work toward a higher pass rate. So there is no question that Ilpa should reduce its standards."

David Alston, executive director of the SA Insurance Brokers' Association (Saiba): "Saiba has been actively associated with Ilpa since the Institute was formed in 1981. Then, two representative member firms were included on the initial co-ordinating committee.

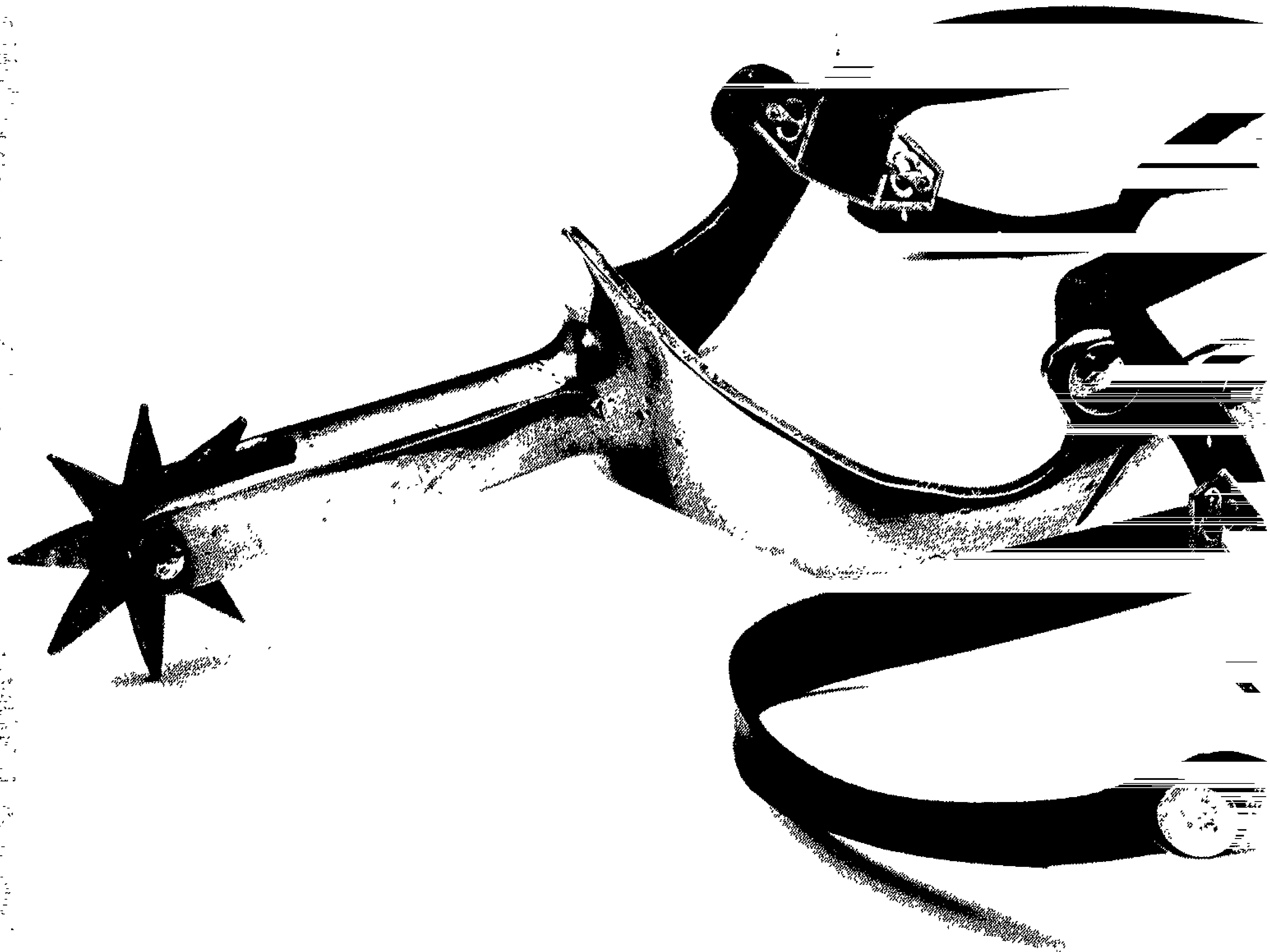
"The association enthusiastically welcomes the initiative taken by the industry in upgrading the professional status of life assurance salesmen. And the number of people who have entered the examinations to date is ample testimony to the fact that the fellowship is a highly sought after qualification.

"The fact that the pass rate has been relatively low to date is also evidence of the justifiably stringent standards set by the examiners. This ensures that anyone who has qualified as a fellow can be proud of his success and know that the initials, Filpa, represent more than a token achievement.

"More importantly, if Ilpa can successfully convey to the public the implications of the qualification they offer, it will do a great deal to put the consumers' minds at rest. I trust the Institute will not deviate from the high standards it has set and that more life intermediaries will be encouraged to enter — and pass — the examinations."

Men with a view (l to r) Leisegang, Geary-Cooke, Oosthuizen and Alston


LIFE ASSURANCE
PENSIONS
BANKS
FIXED INTEREST
TAXATION
EMPLOYEE BENEFITS
UNIT TRUSTS
ESTATES
BONDS
EQUITIES
RETIREMENT
BUILDING SOCIETIES
PROPERTY
%
×
–

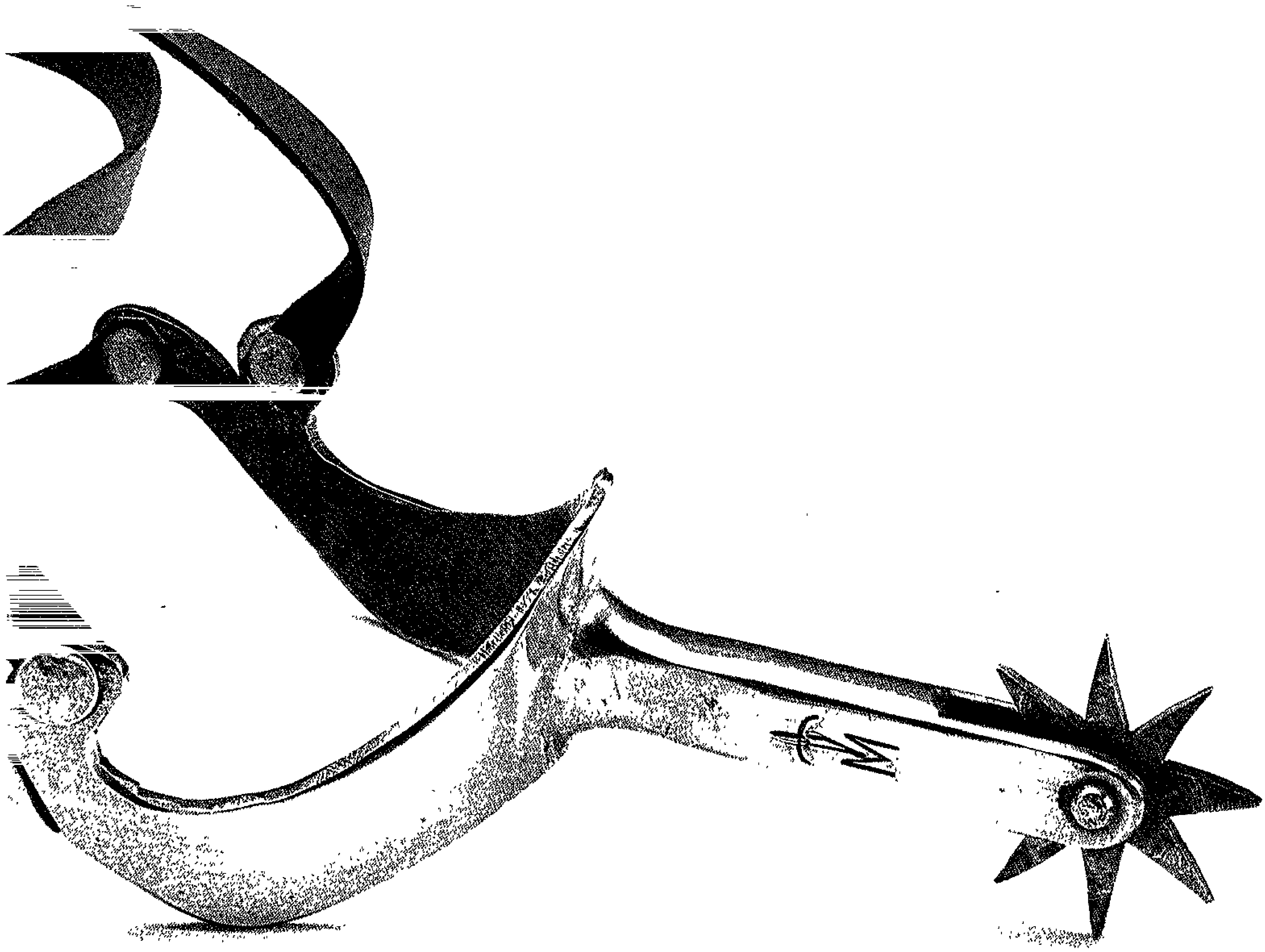


Financial plar
But only a small elite

In a matter as crucial as financial planning, it makes sense to choose an adviser whose qualifications are recognized as the highest in his profession.

Such a person is a Fellow of The Institute of Life and Pension Advisers: F.I.L.P.A. for short.

In much the same way as a medieval knight had to undergo rigorous training and testing to win his spurs, so a Fellow of The Institute has earned his distinction both through practical experience and academic achievement.



iers are legion.
iave won their spurs.

Culminating in his passing the stringent specialized examinations set by The Institute.

And binding him to an equally stringent Code of Ethics and professional standards of conduct.

In the complex fields of business insurance, estate and financial planning, it's a simple matter to identify the adviser best qualified to help you.

The five initials after his name are his most eloquent credentials.

The Institute of Life and Pension Advisers.

ILPA

Adaptor. It could be the only life insurance plan you'll ever need.

Adaptor – the future in life insurance and retirement planning

Your financial situation is unique. Not only to you, but to you ***right now.*** *It was different five years ago. It will be different in five years' time. That's why Southern Life introduced Adaptor – life insurance and retirement plans based on their Adaptable Life concept.*

Adaptor allows you to increase or reduce the amount of your life cover. At any time in the future. You can change the emphasis from life cover to savings. Or increase your savings without affecting your life cover. Or vice versa. Adaptor is truly flexible. By you. For you.

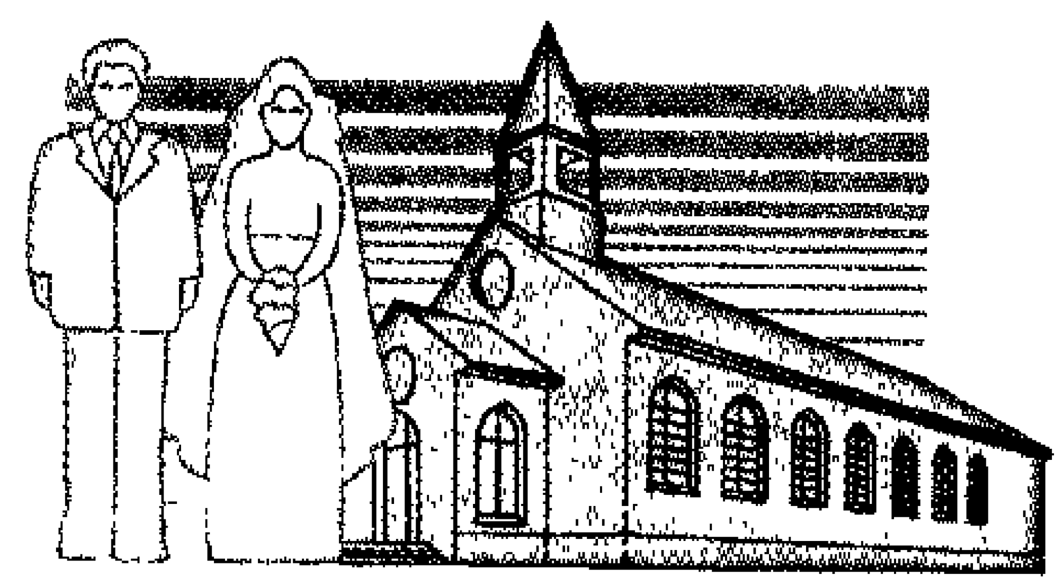
ADAPTOR

Adaptor meets your immediate needs – accurately, easily

From the moment you sit down with your adviser, your own unique, individually tailored Adaptor policy starts taking shape. Together you decide on the life cover you need right now. Then, based on a premium that suits you, you and your adviser can work out the best combination of life cover and savings to meet your immediate needs.

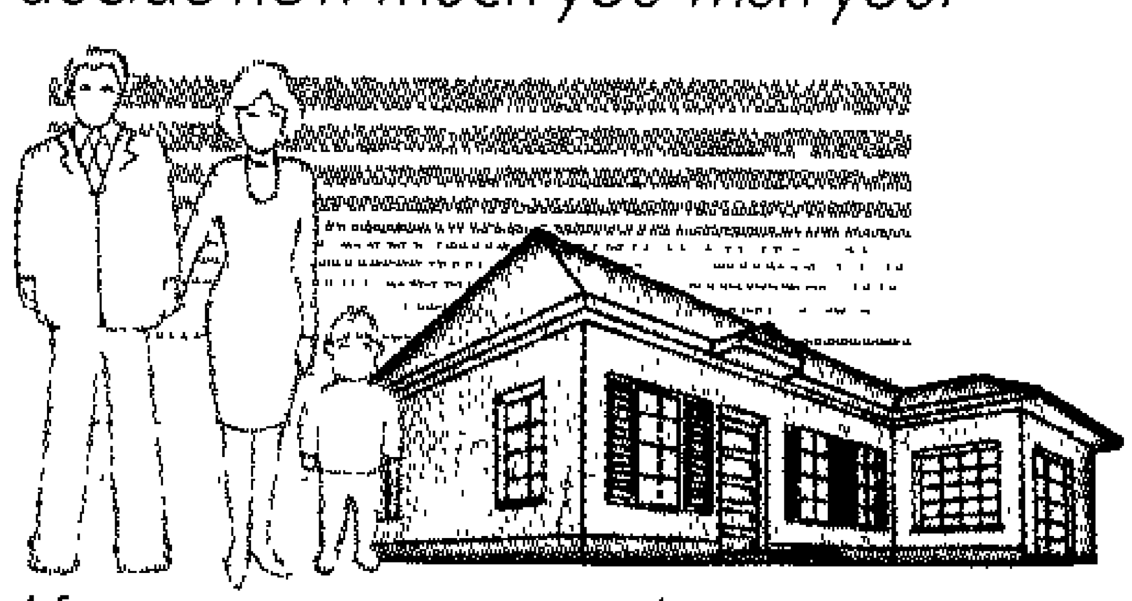
Adaptor meets your future needs

Now a change in circumstances no longer necessarily means a new life insurance policy to cater for your increased responsibilities. For example, if you marry or have a child, all you have to do is adjust your Adaptor. At an alteration charge lower than the cost of a new policy.



Adaptor provides the most advanced protection against inflation

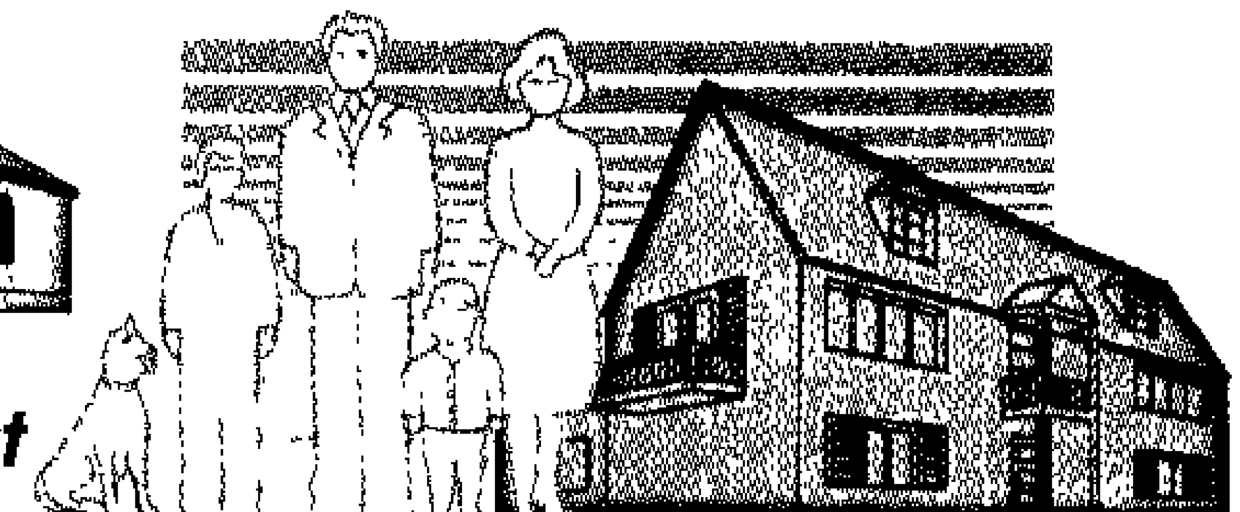
Adaptor offers you Southern Life's proven Inflation-fighter system. To help make sure that your plans keep pace with inflation, choose either automatic fixed annual increases to your premium or automatic increases matched to the inflation rate. What's more, ***you*** *decide how much you wish your*



life cover to grow each year. The Inflation-fighter offers you guaranteed insurability because every automatic increase in life cover is granted irrespective of your state of health.

Adaptor gives you all the options

- *You can add protection against permanent disability.*
- *You can take out extra cover against accidental death.*
- *You can opt for guaranteed insurability for you and/or your children.*



Benefits for non-smokers

Adaptor also offers special consideration to non-smokers, offering them either lower premiums or increased benefits.

It's living life insurance

Adaptor is living life insurance, adapting uniquely for you. In fact, it could be the only life insurance plan you'll ever need.

CHOOSE SOUTHERN LIFE.
WE'VE GOT IT MADE.
FOR YOU.

SOUTHERN

But this situation is improving all the time and generally the standard is seen as reasonable. "Even so, we still have Ilpa fellows who passed exams in the upper eighties, even nineties."

Public recognition and acceptance of an Ilpa member as providing a good, reliable service, is only half the battle. There is still the question of ethical standards. For no amount of qualifications will necessarily indicate that a person is of sufficient moral standing.

Exams can hardly enforce this, says Van Wyk. "But we can and do investigate complaints about members, and up to now we have received only three. The options open to us are admonishment, suspension, and finally, expulsion. But this last, drastic measure will be effective only once the Ilpa qualification is recognised by the public."

This may lead to the temptation to impose a "closed shop" in which only members of Ilpa may, for example, be allowed to sell insurance. But Van Wyk believes that the Institute could never go further than advise people to prefer an Ilpa member for "quality service."

"But it is possible, as with accountants, for example, that certain aspects of the profession could become entrenched in law. In accountancy, of course, it is law that companies have their accounts signed by an auditor.

"Ultimately, of course, our aim is to gain acceptance by the public. The route we must follow to achieve this is a long one that will have to be chartered cautiously. No doubt, the route of acceptance will be the same as the one taken by others before us: that is, accountants, lawyers and actuaries. We are naturally developing close links with these professions."

The next significant development for Ilpa will be acceptance by the Human Sciences Research Council as a professional body. And an approach to achieve such recognition, Van Wyk says, will be made shortly.

Passing it on

Whether dealing with assurance or pension investment, a qualified Ilpa adviser has one goal in mind: to obtain the best deal for his client. Liberty Life's Brian Hewitson explains

Ilpa has two qualifying examinations — one for life and one for pensions. Each set of qualifying exams consists of four-hour exams on four subjects.

The life subjects are:

- ☐ Investment and personal financial management;
- ☐ Estate planning;
- ☐ Business insurance; and
- ☐ Retirement planning.

The pensions subjects are:

- ☐ Fund financing and investment;
- ☐ Fund constitution and management;
- ☐ Business insurance; and
- ☐ Retirement planning.

Central to the theme of all four life examinations and the last two pensions examinations is a detailed knowledge of the provisions of the Income Tax Act of 1962 — as amended — which refer to:

- ☐ Personal taxation;
- ☐ Personal investments and their basis of taxation;
- ☐ The income tax status of life insurance policies and benefits payable from pension, provident, retirement annuity and other funds;
- ☐ The Income Tax Act as it relates to estate planning;
- ☐ The income tax position in respect of employee benefit schemes, other than funds such as deferred compensation;
- ☐ The income tax implications of all business-related life insurance schemes such as key-man insurance; and
- ☐ Income tax strategies in relation to retirement and investment planning.

More specifically, there are certain areas of income tax knowledge which overlap into one or more of these subjects; while other areas require more specialist knowledge.

GENERAL AREAS:

Firstly, candidates must be able to prepare a detailed income tax computation to be able to determine the income tax as a charge against disposable income, and to advise individuals on an investment strategy to maximise after-tax returns.

This is in addition to the planning of retirement, both before and at the point of retirement, to use these strategies and to build up the maximum benefits on the most tax-advantageous basis to minimise taxes payable on retirement.

Secondly, candidates must have a detailed understanding of the basis of taxation of life insurance policies and the details embodied in the Sixth Schedule to the Income Tax Act. This deals with the taxation of life insurance policies.

This knowledge is needed to assess the impact of income tax on a life insurance-based investment plan, an estate plan, and to explain the role of insurance as an investment.

Thirdly, candidates must understand the provisions of the Income Tax as it relates to Donations Tax to be able to advise on the impact of donations in investment and estate planning.

SPECIFIC AREAS:

Investment and Personal Financial Management. In addition to the general areas of knowledge of taxation which need to be applied in this subject, the following detailed knowledge is required:

- ☐ Ilpa candidates must be able to use income tax tables to compute equivalent before and after tax yields on various taxable, tax-free and partly taxable investments; and
- ☐ Candidates must be able to advise on the basis of taxation of a gain arising on a life insurance policy in circumstances where it is "non-standard" or has become non-standard and where the benefits are thus taxable in terms of the Sixth Schedule as well as under what circumstances benefits withdrawn from life policies will not be taxed.

Estate Planning. Apart from a detailed knowledge of estate duty, which is a significant aspect of this exam, and the general areas outlined above, Ilpa candidates must be able to advise on the income tax implications of income arising in many different circumstances.

For example: in *inter vivos* trusts, testamentary trusts, family holding companies and other vehicles used in estate planning. They must also be able to advise on the application of the anti-avoidance sections of the Income Tax Act and how these are used to tax income in a planner's hands.

They must be able to advise on the income tax treatment of trusts and how the use of suitable bequests in wills can minimise the income tax burden imposed on heirs to an estate.

Business Insurance. Although the life examinations place more emphasis on tax than the pensions exams, candidates for both must be able to understand the income tax structure of a company. They must also understand the basis of taxation of company and other employer-owned life assur-

...e policies and the requirements of the Income Tax Act regarding conforming and non-conforming policies.

They must be able to advise on the basis of taxation and the provisions of the Income Tax Act relating to various funding schemes available to companies using life insurance, such as:

- □ Key-man insurance;
- □ Capital funding schemes; and
- □ Loan redemption schemes.

Candidates must have a detailed knowledge of the ins and outs of deferred compensation schemes and the income tax implications of such schemes as they effect the employer, as well as the various concessions available to employees on receipt of deferred compensation benefits on retirement, disability, withdrawal from employment and death before retirement.

More specifically in the life examinations, candidates must have a knowledge of income tax as a factor in the valuation of business interests and how it affects the price a willing buyer would pay for shares in a company.

Retirement Planning. Both in the life and pensions examinations, it is necessary for candidates to be able to advise on the income tax concessions available to employees in respect of contributions to pension funds, provident funds, retirement annuity funds, group life schemes, medical aid schemes and other funds. They must also be able to advise on the tax concessions available to employers who make contributions on behalf of employees to such funds.

They must have a detailed knowledge of the income tax position as it pertains to lump sum and annuity benefits arising from these funds and schemes in the event of:

- □ Death before retirement;
- □ Early retirement because of ill health;
- □ Withdrawal or resignation; and
- □ Retirement.

They must be able to advise on the impact of deferred compensation schemes on retirement planning and its inter-relationship, tax-wise, with the lump sum benefits.

They must be able to advise on the timing, commutation, deferral and other strategies regarding the receipt of lump sum benefits on retirement. In addition they must know what steps a planner may take to reduce the income tax impact on his retirement benefits and illustrate these advantages by way of income tax calculations illustrating the advantages to be gained.

Finally, they must be able to advise on the impact of restraint of trade agreements as they relate to retirement planning.

What it means in the first place is that a detailed knowledge is needed of the Income Tax Act as it pertains to personal tax planning. Thereafter, the Ilpa man must also have an overview of how the tax situation of companies and other trading structures inter-relate to personal tax planning.

Best of fellows

At the time this survey was prepared, Ilpa had conducted six examinations — three for life candidates and three for pensions candidates. The FM speaks to four of the top students

PETER HAMP-ADAMS

One of the more outspoken members of the long-term insurance industry is Old Mutual manpower training manager Peter Hamp-Adams. In September 1982 he won the life prize awarded by Volkskas Insurance Brokers. (The first winner — in April 1982 — was Johan Kotze who could not be contacted before going to press).

Described by a spokesman for the industry as one of the brighter young executives in the life world, Hamp-Adams has a lot of positive comments about Ilpa.

Although he believes the Institute is still establishing itself, he says its qualifications are starting to be be accepted as a fair test of ability — and as a means of combining the academic with the practical. In his experience as a lawyer, it provides the added advantage of binding the business disciplines, he says. One of the major features of Ilpa is its standards, both positive and negative. On the positive side it generates within the industry an enthusiasm to gain professional status; on the negative side, it lays down more regulations which must not be breached.

Old Mutual's Hamp-Adams ... a fair test

Hamp-Adams was one of many to make a career out of life insurance by accident. In his case, a motor cycle accident.

Having taken his BA, B Proc and LL B at the University of Cape Town, he planned to join a firm of attorneys in the Transvaal. But he fell off his motorbike and was forced to stay another year in Cape Town. As a temporary measure, he took a job with Southern Life. This led to another 'temporary' job with Old Mutual — which is now permanent.

"I find it extremely interesting 'tangibilising' the intangible. It is a great challenge — yet training is an even greater one. Unravelling problems is home from home for me," he explains.

Not easy

On the subject of the exams, he says they were not easy, especially in terms of time. This is a key issue for those who have not written exams for a long time. But, with seven years of experience of exam-writing, he certainly had an advantage. Also, with his background he had a pretty shrewd idea of what the examiner wanted. This is another technique gained from experience.

With this in mind, would he consider sitting the pension exams? Hamp-Adams says he might, but time is the enemy. "My new job as manpower training manager," he explains, "is very demanding at the moment."

He has delayed his prize winning overseas trip to this year. In the middle of this month, he and his wife are going to the United States where he will spend some time with a number of insurance companies — and, of course sightseeing.

DOUBLE TRIUMPH

Only two people in South Africa are double fellows of Ilpa, having passed both the life and the pensions exams. They are Ivor Gilmour, of Minets in Cape Town, and John van Rensburg, who has his own consultancy in Port Elizabeth.

Gilmour, who is a director of Minet Employee Benefits, is 64; Van Rensburg is about half his age. They had similar reasons for sitting the two exams, but the main motivation was to prove to clients that they were qualified in all aspects of financial planning.

John van Rensburg's working career started in 1969 at the Norwich Union Life Insurance Society before he moved to Barclays Insurance Brokers in 1977. In 1982, he left the company, which was then Bowring Barclays, for Legal & General Volkskas. And in March this year, he formed his own company, Executive Pension Consultants, in PE.

For the pensions exams, which he sat in April 1982, he relied on his experience, but admits he had to study for the life exams in September 1983, particularly on the estate-planning side. He felt it was important to make the effort to take both exams. He intends taking an active part in Ilpa promotion once his business is established. Most of his spare time at the moment is taken up with his participation in the National Sea Rescue Institute.

Ivor Gilmour has considerably more time in the industry, having started in insurance when he was 16. Although he did not study for the Ilpa exams, he admits it was a daunting experience after all those years. "The subject matter was not a problem. It was trying to convince the examiner that you knew the subject in the time allotted."

The "open book" nature of exams may be an advantage, but, Gilmour notes, it is also important to know what kind of questions will be asked. "You can take copies of the Income Tax Act and the Pension Funds Act into the examination room," he says, "but they are useless unless you know your way around them and can find the relevant sections. I have a pretty good knowledge of the Income Tax Act and can quote the relevant passages for both disciplines.

"When I told my colleagues I was writing an exam, they roared with laughter and asked why I was doing such a thing at my age. They laughed even harder when I passed.

"Apart from an obligation to my clients, I am involved with Saiba in Cape Town and know most of the long-term brokers in the area. And many of them were taking the exams. I did not want to be the odd man out. I was nervous about the exams at first because I was putting myself on the line. What if I failed? I would look a fool, but, on the other hand, if I did not write the exams at all, I would still look a fool — so I faced the challenge."

He has a jaundiced view of people who study hard to pass exams because, in his opinion, it is not really a test of competence merely to have book knowledge. He says there is no substitute for experience. And he should know — he has 47 years of it.

Some of his clients know he has taken the exams and appreciate their importance. And the rest don't know about it, simply because he hasn't broadcast the achievement. "One client," Gilmour recalls, "asked what the FILPA initials meant after my name. When I explained, he was impressed.

"I believe in Ilpa," he adds, "and feel very strongly about the need for people in our job to try and achieve a degree of professionalism. It is very important for the public, who spend a lot of money through us, to know that they are in the hands of competent people. I hope the importance of Ilpa will become generally known soon.

In his experience, the word is certainly getting round. At the inaugural party to celebrate the opening of the Cape Town chapter, for example, he says about 50 fellows were present and "there was a strong desire among my colleagues to maintain their professionalism and keep themselves abreast of all developments in the industry."

Finally, Gilmour reckons Ilpa effectively sorts out the professionals from the amateurs in the quality of service provided.

"I do not mean to suggest that non-Ilpa men are not qualified or unprofessional; it is just important for clients to know they are seeking advice from a recognised professional man."

Stalwart Gilmour . . . sorting the amateurs from the pros

ECKSTEEN DE WAAL

Ilpa examinations are not restricted to intermediaries and pensions advisers. Ecksteen de Waal is a legal man who managed to achieve top Fellow in the life exams in 1983. He does admit, however, he was training candidates for Ilpa at the time.

Since gaining his B Iuris from the University of the Orange Free State, and being lured away from a Bloemfontein firm of attorneys by the Old Mutual, De Waal, 26, has worked for both Sanlam and the Old Mutual. He is returning to the Old Mutual in September and writes his finals for his Unisa LL B in October.

He is enthusiastic about his work as legal adviser because he gets the maximum opportunity to apply his knowledge; more so than if he were a practising attorney. He believes his Ilpa Fellowship has made him more acceptable in the industry and in turn it has given him more confidence. When conducting training seminars, the trainees now readily accept him as an insurance professional.

Apart from his own personal experience, De Waal feels the exams have broadened the scope for long-term advisers, opening new avenues of cover and affording better perspective. This new scope has opened new doors to increased commissions.

On the subject of the exams themselves, he reckons the standard is justifiably high. The fact that candidates can take certain books into the exam room for reference makes them easier. However, this also creates a problem, he says, because candidates tend to take more information than is strictly necessary.

The time allotted, he says, is reasonable provided the examinee knows the subject and does not try to supply more information than is required. One criticism, which is a minor one, concerns the short questions. De Waal believes they are too detailed and, in some cases, not covered by the syllabus.

His legal colleagues are impressed, not only by the qualification but even more by his prize of an overseas trip — also from Volkskas Insurance Brokers. The return air fare to the US, plus R500 expenses, coupled with a visit to the American College in Philadelphia and Limra in Hartford, Connecticut, has proved to be a great incentive.

Sanlam assists by providing its prize winners with the equivalent for the spouse. So De Waal was able to take his wife with him. He visited six insurance companies in New York, Washington and Boston, before crossing to the West Coast to see the sights of Los Angeles, San Francisco and Las Vegas.

Under normal circumstances Sanlam rewards new Ilpa Fellows with a R300 lump sum, whereas the Old Mutual grants a salary increase of up to R150 a month to staff and agents.

Having been to the US, De Waal confirms that the Ilpa qualification is the same as Naclu's which, within the industry, has proved a great success in achieving recognition. Americans actively seek Naclu members to advise them on their affairs, although only 10% of insurance marketers are members.

Lawyer De Waal ... colleagues impressed

CLIVE LOUW

Actuary Louw ... broadening the field

Old Mutual deputy pensions actuary, Clive Louw, was Ilpa's first top pension fellow. At the age of 28, he walked away with the leading pension qualification in the country in the September 1982 exams. And he admits he studied very little.

He says he found the exams easy, but confesses that, with his technical background, he had an advantage over other candidates. All the same, there were aspects of the syllabus which were not covered by his experience; and nor was there study material available to help him. So he put together his own.

Predictably, he is pleased that he wrote the exams. He says the studying has broadened his field which was restricted to group life, permanent health insurance and the evaluation of pension funds. It has opened other avenues, he says, which he has found very useful, particularly in the field of business insurance.

There are now about 15 pension Fellows at the Old Mutual, some of whom were inspired by the example set by Louw.

The Old Mutual grants leave to sit the exams as well as eight days' study leave. This is designed to encourage candidates and OM further rewards those who pass by increasing their pension packages. In addition, Louw received a free trip to the US, plus R500 expenses from Price Forbes in recognition of his achievement. It was left to him how to spend his time.

He is full of praise for Ilpa. He says it is creating a higher standard of advice which he is sure will benefit both the industry and the country as a whole. His only criticism is that Ilpa could, perhaps, have been established earlier.

M & G's Davies . . . getting to know SA law

PETER DAVIES

The 1983 pensions prizewinner, Peter Davies, is the only Ilpa Fellow with Mercantile & General in Cape Town — with the emphasis more on life underwriting than product design and broker liaison. However, the company is keen to stress its wholehearted support of Ilpa.

Davies says he wrote the Ilpa exams as a means of getting to know SA law. His actuarial qualification was obtained in the UK.

As assistant actuary at 28, he is used to writing exams. And, surprisingly, perhaps, he did not find the Ilpa test too difficult. He read over the tutorial matter available and made photostats of the relevant Acts to take with him into the exam rooms. Davies, like many other actuaries, tends to compare the exams with the actuarial tests. These are more demanding time-wise and there is no chance of "waffling," as he puts it.

Davies, who has a degree in Business Science from the University of Cape Town, had set his heart on being an actuary from school — due to his liking for maths.

On the subject of Ilpa he thinks it is very worthwhile, especially the aspects relating to law and the pensions industry. He says he can now discuss knowledgeably the legal implications of pensions, the ins and outs of deferred compensation, and what is possible with pension funds and provident funds.

Although very much in favour of Ilpa, his criticism is constructive: "I think more work needs to be done on the tutorial material, bearing in mind the syllabus is still not at its final stage and needs further development. I found among the four papers there was a great deal of duplication."

In addition, he would like to see a change in the open book arrangement. This is where examinees are permitted to take certain textbooks into the examination room.

Davies would prefer closed book examinations with questions being more flexible and more general so that candidates need only memorise *verbatim* the relevant sections of the acts. To illustrate his point, he tells of one candidate who recently took with him a large cardboard box containing some 30 manuals. The candidate, he says, probably spent more time searching through his books than writing meaningful answers.

His prize from Price Forbes of a visit to the US is still in the planning stages for April or May next year. He also won a R500 prize from Ipca.

Like Hamp-Adams, he plans to do a bit of sightseeing in the US, but his main purpose will be to visit the American Society of Actuaries and conduct some business for M & G.

□ No prize had been instituted when the first pension examinations were written in April, 1982.

Well schooled

That old nuisance the foot-in-the-door "insurance salesmen" is on the way out. Sophisticated financial advice is now the name of the game as a look at the Ilpa examination papers shows

Today's client requires his "adviser" to be far more than a conduit for buying life assurance policies. He needs sophisticated financial planning advice covering a wide spectrum. Assurance forms only part of the financial package.

The industry as a whole — life offices and intermediaries alike — has recognised the consumer need and is committed to improving and developing the quality of financial service available. This commitment to quality led to the creation of the Institute of Life and Pension Advisers (Ilpa).

The fellowship of the institute is offered to both individual life candidates and pensions candidates. Like other professional bodies, Ilpa requires a fellow to pass a set of examinations before he is admitted.

Each candidate must write a four-hour examination paper on each of four subjects (see *Passing it on*).

Each paper is marked out of 100 and the candidate must obtain an aggregate of 240 marks on the four subjects. In addition, he must score at least 50 marks in each of the papers written. These standards mean that the candidates must have a good all round knowledge of all aspects of financial planning. One cannot, therefore, specialise in just one area.

In 1983, each paper consisted of a number of short questions that probed specific problem areas, plus one or more detailed case studies. These required the candidate to weigh up the total circumstances of a client, and to submit a formal written plan. The complexity of the case studies required the candidates to be able to uncover hidden problems and opportunities and to submit comprehensive solutions.

The level of knowledge required to pass the examination is, therefore, far from superficial. A look at the 1983 examination papers makes the point.

Estate planning

In this paper the candidate needed to have a detailed knowledge of not only the various provisions of the Estate Duty Act, but also of revenue practice. For example, the candidate needed to know how to value a private company in accordance with section 5(1)(f)(bis) of the Estate Duty Act. To do this required a detailed working knowledge of financial statements and the various methods of valuation used by the accounting profession.

The different methods of estate pegging were also explored, involving the candidate in a consideration of the legal nature of preference and ordinary shares together with the implications of various methods of share capitalisation on the effectiveness of an estate pegging operation.

But the emphasis is on practical advice, and nowhere is this better reflected than in the major case study. This recognised that few people are willing to spend the money necessary to peg their estates. But they may well be prepared to re-draft their wills.

The candidate had to advise on the restructuring of various wills to maximise the estate duty and income tax savings to the various beneficiaries, though without ignoring the practical subjective factors such as the client's personal opinions, even where these were in conflict with sound planning principles.

Business assurance

This paper explored the understanding of company financial statements, and the use of key man replacement and business continuation programmes. The candidate needed to know the various methods used by accountants to value companies. These included dividend yields and super profits.

In addition, the balance sheet set out in the paper required considerable interpretation, particularly with regard to the discounting of future liabilities. The candidate had to find tax efficient solutions to fund the discharge of these liabilities.

Investment planning

This paper highlighted the need of the adviser to look far beyond the traditional life assurance products. Candidates had to consider the investment opportunities offered by a wide range of institutions as well as the capital and money markets. A good grasp of investments, without a full understanding of the income tax implications, would also be inadequate.

The paper probed not only the income tax act itself, but also the revenue practice and the broad principles upon which the SA taxation system is based. Thus the candidate was required to support his investment suggestions with a discussion — for example, whether the resultant profits would be of a capital or of a revenue nature. The probable tax implications also had to be probed.

Retirement planning (life candidates)

It is an unhappy fact that, while a great many people enjoy the benefits offered by pension funds, provident funds and retirement annuities, most of them will never get the maximum benefit out of them. The reason, quite simply, is that they would have to have a detailed knowledge of the Income Tax Act and, specifically, the second schedule to the Act.

In this paper, the realities of everyday life were not ignored and the candidate was faced with advising a client whose personal views were often in conflict with the strategies required to save considerable amounts of income tax.

In addition to the purely tax-centred questions, the candidate had to understand the limitations placed upon the contractual capacity of a woman married in community of property, and also to be able to appreciate the real income needs of people living to retirement.

Fund financing and investment

The fund financing and investment paper first examined the valuing of assets and liabilities of a pension fund. Candidates had to explain the actuarial report and the significance of the assumptions used. They were then asked about the conditions under which self-insurance should be undertaken and what risk profile would require insurance.

Reference then had to be made to the Registrar of Pensions Funds' circulars, particularly the reaction required from employers to the recent rulings on financial soundness. Advice was then called for on the suitability of a range of investments suggested to the trustees of a fund.

Acceptable answers had to consider the counter's potential as a hedge against inflation, the requirements of the Pension Funds Act and the suitability of the investment for fulfilling the long-term needs of the fund.

Finally, candidates were required to advise a client on the selection of an investment house. Knowledge was required of the differences between market-related and book-value funds, the dangers of using investment performance surveys — and the other factors, such as depth and continuity of management — that should be considered.


axation needn't leave you high and dry.
It's one thing saving your hard-earned cash. It's another
helling it out to the taxman. And why should you?
our money should be saved for you to enjoy the good things in life
our interests, your hobbies, your holidays, your home.
if you're concerned the taxman is taking the ground from unde
come to the NBS. We'll tailor a tax saving plan just for
Tailored Tax Relief
If you want tax savings tailored to your needs, drop into your nearest NBS branch. If you're unable to do so, just complete this coupon and we'll be happy to contact you. Send to: NBS Tailored Money Management, PO Box 1526, Durban 4000.
FM 12/10/84
Name
Address
Code
Tel. (Bus)
(Home)
Come on in and get your slice!
NBS
Tailored Money Management
Bates Wells 12799e

Business assurance (pensions candidates)
In the business assurance paper, successful candidates analysed the advantages and drawbacks of permanent health insurance compared to lump sum disablility benefits. Reference had to be made to the Life Offices' Association agreement, while the effect on privately-owned policies was also noted.

Partnership assurance was then covered with a detailed set of questions relating to the owners while all alive, or the surviving partner and the heirs of the deceased partner. The broad sweep of the examination was illustrated by a question on the total insurance requirements of a shirt manufacturing company. This was followed by a detailed analysis of the income tax and estate duty implications of a number of policies. Reference had also to be made to the income tax guide and the text on insurance legislation.

Fund constitution and management
In the fund constitution and management paper, candidates were first required to explain to an employer how additional voluntary contributions could benefit certain members of his staff. Being a professional exam, the question then also covered how the employees could be convinced of the benefits and how participation could be made as simple as possible.

Executive benefits were then examined and a possible solution suggested which needed to be criticised from both the employer and member's points of interest. Reference to the various legislative requirements was necessary to answer the substantive question on the operation of a fund not exempt under section 2(3)(a)ii of the Pension Funds Act. Candidates were also asked about the consequences of exemption.

A number of current issues were then examined. These included contingent liabilites of staff not in the fund, commutation factors and mergers of funds. Pension fund liabilities can be a crucial element in merger and takeover negotiations, and without the proper advice, hidden costs may be unknowingly bought over by the new company.

Retirement planning (pensions candidates)
The retirement planning paper first required the adviser to explain to an employer the legal framework for the operation of pension funds, provident funds and benefit funds, and the reasons why any particular system would be more attractive to a client.

The consequent tax treatment of benefits arising from the above funds had then to be practically explained to members retiring from various funds. The State old age pension was also covered in advice required by a company with employees outside the pension fund. The detrimental effect of an attempt by the company to improve the standard of living of pensioners had also to be explained.

The adviser had to suggest the most appropriate course of action for a company with employees in various states of disability. What was appropriate for an employee with a degenerative disease, for example, was different to that required by two employees with bronchial problems, one of whom had deferred compensation benefits accruing.

Finally, the complicated yet essential provisions of deferred compensation were to be explained to a small company.

The need for know-how

Employers are demanding better quality advice from their pension fund advisers, and Ilpa is helping to ensure that they get it, says Liberty Life's Ben Lipschitz, convener of the pensions examinations committee

The Employee Benefit and Pensions Industry has experienced considerable change in recent years — change which has manifested itself both internally and externally.

Internally, the industry has had to adapt to the changing needs of both the employer (the buyer) and the employee (the end-user).

In addition, new factors have had an increasing influence on the design and structure of a pensions fund. These factors include inflation (decreasing buying power) and investment management (striving for a real rate of return over the long term).

Externally, the industry has seen more government intervention, such as regulated commission rates for insured pension funds which were introduced in 1977, an attempt to introduce Pension Preservation in 1980 and certain solvency requirements for the actuarial valuation of a pension fund in 1983. The issue of preserving accrued pensions money following a member's withdrawal, is currently being reviewed by a select committee of Parliament.

Not only is the industry experiencing some significant changes, but at the same time it is expanding at a very rapid rate. This expansion and rapid change requires an increasing level of knowledge and expertise by all people engaged in the industry.

The knowledge of employee benefit con-

SA pensioners . . . a right to the best advice

[illegible] has in the past largely been gained by practical experience and involvement with various aspects of pension funds. The aim of the Institute of Life and Pensions Advisers (Ilpa) is to promote and advance the education of the consultants to enhance the image and professionalism of the industry as a whole.

Pension Funds are separate legal entities and decisions are constantly required with regard to the administration, benefit design, investments and funding of the pension fund.

These decisions are taken by people such as the employer, trustees, administrators, investment advisers, legal advisers, actuaries and also the members of the fund.

There are many sources of advice in each of these fields. These include life insurance companies, actuaries, pensions consultants, pension administrators, investment houses, brokers and agents. There is a need for advisers to pension funds to be able to demonstrate their expertise to potential users of the services that they offer.

Ilpa has recognised this and the need to develop the competence of people engaged in the pensions industry.

The syllabus for the pension examination places emphasis on two main subjects: "Fund Constitution and Management" and "Fund Financing and Investments." The objective is to give the candidate a thorough understanding of the management and administration of employee benefits on the one hand, and a sufficient understanding of the advantages and disadvantages of the various methods of funding and the available investment vehicles on the other.

To support these, two other subjects — "Retirement Planning" and "Business Insurance" — have been included. These enable the candidate to apply legal, tax and other practical solutions in the area of retirement planning and identify and solve problems experienced by employers and members.

These subjects provide the pensions consultant with a balanced perspective of what is required to become a professional pensions adviser.

As to the future, the demand for good quality professional advice will no doubt expand. Professional consultants must keep pace with growing public awareness of the need to plan for retirement and consider the available ancillary benefits, such as group life insurance and disablement insurance. The industry must find acceptable solutions to problems, such as static retirement pensions in a climate of an increasing cost of living, the failure of pension fund investment to out-perform inflation, inadequate life and disability cover, and so on.

Retirement years . . . help from Ilpa

At this time of rapid change, there is a need to develop well formulated comments, suggestions, and recommendations on proposed legislation from people who have a good understanding of employee benefit provision. The main objective would be to influence future legislation for the benefit of the community as a whole.

The employer (who decides on the pensions fund to be introduced) will be demanding good value for money. Contributions to pensions and provident funds have increased in recent years, and will increase even further in the future. Techniques of financing a pensions fund will, therefore, become increasingly important and the employer expects the pensions consultant to provide high standards of professional expertise.

The main purpose of a retirement fund is to provide pensions or retirement benefits to retiring members. Nevertheless, there are other objectives such as attracting and retaining valued staff. Staff with special skills are becoming relatively scarce in SA. The fund, therefore, must be constructed to provide benefits to attract such staff.

An environment of change such as the SA business is now experiencing presents special problems. Retirement funds should be reviewed and updated regularly by pensions consultants. And they must have a good understanding of the changing circumstances and be qualified to provide effective solutions.

Effective communication is required to ensure that staff understand the benefits and appreciate what their employer is doing for them. Fringe benefit packages must be reviewed in terms of the pending fringe benefit taxation. Retirement provision will inevitably be high on the list of non-taxable items.

Consumerism is growing rapidly in the employee sphere and is likely to become more important in the future. Both the member and employer will demand value for money and the best advice. Consultants of high standard will be required to provide the expertise and maintain the professional image.

Ilpa has initiated this process — a process which will continue to gain impetus in the future.

Keeping tabs

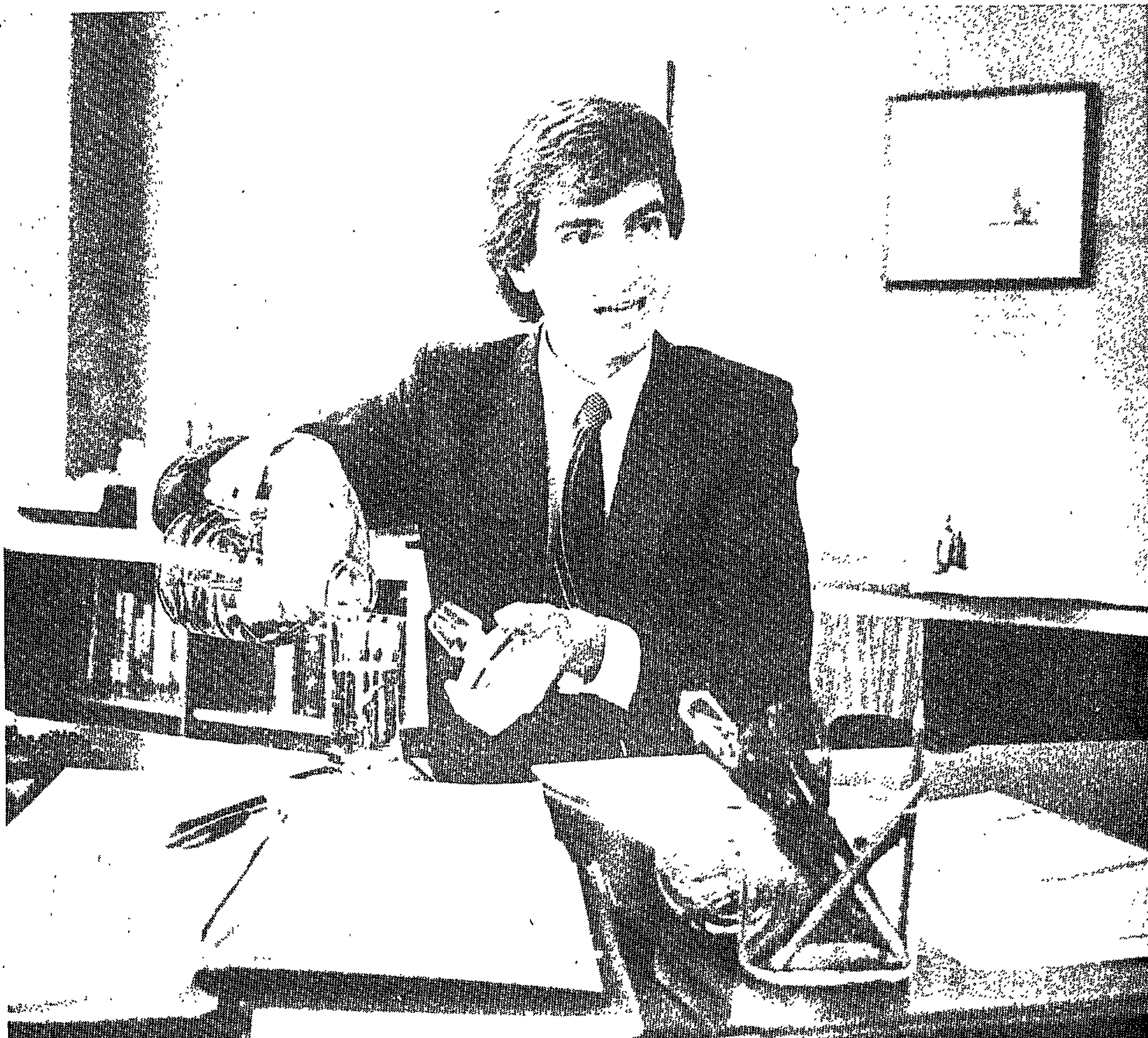
Staying up to date with rapidly changing tax laws is a priority for Ilpa members. Finanical Planning Services' Dr Bruce Ilsley elaborates

In life two things are certain: death and change. As far as the latter is concerned, financial legislation is no exception. Over the years there have been significant changes, especially in tax law.

We have seen more and more restrictive legislation like the sixth schedule to the Income Tax Act, amendments to section 11W governing the deduction of premiums on company owned policies, attacks on dividend stripping, leasing tax shelters and debit loan accounts. And, most recently, fringe benefits taxation.

The importance for us as members of Ilpa is that whatever changes take place we must keep up to date. And in achieving our professional Ilpa qualifications, we obtain the necessary groundwork so vital for appreciating the needs of our clients in a constantly changing environment. Here are just a few insights into the intricacies of legal evolution that so often become the stumbling block of the unprofessional intermediary.

□ **The payers and the collectors.** Tax planners are becoming increasingly active in arranging their clients' affairs to ensure that they pay the least amount of tax legal-



Tax buff Divaris ... more fluidity needed

ly necessary. Indeed, tax planning has become a rapid growth industry. This trend is quite understandable when one realises inflation is rapidly pushing taxpayers into ever higher tax brackets without a corresponding increase in their standard of living — the well-known and widely-resented phenomenon known as "fiscal drag" or "bracket creep."

As tax planners reduce the aggregate amount of tax clients pay, the Receiver of Revenue feels compelled to amend the laws — or introduce completely new ones — to collect more tax. Quite unintentionally, these changes often give rise to totally new opportunities for tax saving. The result is a constant running battle of wits between the financial adviser and the tax man.

□ **Pressure groups.** One often hears the complaint that tax legislation "isn't fair." A complaint of this nature is fatuous. As opposed to the interpretation of tax law by the courts, which is absolutely fair provided you can afford this route, tax legislation is always unfair to someone. After all, someone has to pay the tax.

Tax legislation responds to the needs of pressure groups and groups with "political clout." Big business, civil servants, farmers, politicians and Internal Revenue all represent groups with considerable clout. Changes in tax law reflect this.

What better example could be found than in the area of tax concessions. Tax concessions on building society investments have reduced considerably over the years but not so those on Post Office investments and Treasury Bonds. Which is the stronger pressure group?

The tax-free amount payable as a gratuity on retirement in terms of Section 10(1)(x) of the Income Tax Act — a fringe benefit available throughout the civil service — has over the past 20 years increased almost twice as much as the maximum tax-free amount that can be taken on retirement from a retirement annuity. One has only to answer the question as to which pressure group has the greatest vested interest in these gratuities to find the solution to this puzzling anomaly.

□ **The pace of change.** Back in the sleepy Sixties, it was possible for a company to make a single premium payment to an insurance company, write off the premium as an expense and immediately borrow back up to 90% of the investment. This not only saved companies tax, but also boosted their cash flow as follows:

Premium (say)	R10 000
Less tax savings	R 4 000
Cash Outflow	R 6 000
Add proceeds of loan	R 9 000
Net Cash Inflow	R 3 000

The life insurance industry of those days has been aptly described as a sleeping giant. Certainly brokers and salesmen were at that time slow to react to the marvellous opportunity they had and little of this business was transacted.

The law governing company-owned policies was amended several times over the years, but the practice of using insurance policies as "corporate tax-shelters" was not effectively stopped until 1982. What's more, the various amendments to section 11W were not retroactive.

Over the past few years, however, the pace has hotted up. Thrust and counter thrust follow much more rapidly. Insurance companies have specialist marketing and legal departments to rapidly analyse new legislation, looking for loopholes or opportunities. Within a matter of days they disseminate this information to brokers and agents.

Leading tax specialist Costa Divaris says: "In Johannesburg today, taxpayers and pedestrians both fall into two distinct categories — the quick and dead."

Since legislative changes are seldom retroactive, the nimble taxpayer often lives to pay much less tax than his less agile compatriot.

□ **The risks.** Besides being unfair, tax legislation is uncertain. Sometimes the Receiver of Revenue's accepted practice differs significantly from a strict interpretation of the law. Interpreting the law is also an uncertain business.

Decisions by lower courts can be reversed in higher courts and even when the highest court in the land gives a ruling, the authorities can then immediately change the law to achieve the result they are looking for. The result is that a taxpayer has no way of knowing with any certainty whether a perfectly legal tax saving opportunity will still be available next year.

□ **Tax strategy.** In deciding on a tax strategy, therefore, an Ilpa fellow, together with his client, follows these steps. They:

□ Make sure the tax plan is legal and is unlikely to be successfully attacked under section 103 of the Income Tax Act;

□ Assess the inherent risks;

□ Determine the possible benefits;

□ Decide whether the benefits outweigh the risks; and

□ Act fast.

The need to move rapidly is becoming urgent.

An ideal tax strategy is a conservative one but its implementation must be decisive. In these few simple steps lie a jungle of tax law, intricate amendments and legal precedent. It is up to us as Ilpa financial advisers to keep abreast of changing tax laws to provide our clients with the quality of service they will, in time, come to associate with the institute.

Running scared

For their own reason, there are are some who don't share the general enthusiasm for Ilpa qualifications

Not everyone's an Ilpa fan. Indeed, a small minority look on its efforts to improve professionalism in the insurance and pensions sectors as a waste of time. But, inevitably, the question which is asked of them is: "Are your reasons genuine, or are you just afraid of failing the exams?"

The *FM* spoke to several "abstainers" and, for the most part, they had convincing reasons for not getting involved. In some cases, the fear of failing was quite happily conceded.

One highly successful and experienced life salesman, who has built up a small empire on ability alone, does not believe the exams cover all the subjects in sufficient detail. When his clients need specialised advice, he says he calls in the experts — like lawyers for the establishment of trusts and wills, and investment experts and accountants to handle tricky tax situations.

He does not profess to be capable in all fields although he does know the life insurance market better than most. He believes a little knowledge is a dangerous thing and that the Ilpa exams only scratch the surface. He feels it is his duty to his clients to read everythng available on financial planning and keep abreast of all developments, but he does not consider the Ilpa qualification to be sufficient.

However, he supports the idea that industry new boys should sit the exams as a commitment to show that they do not want

Ilpa's Nel ... encountering extraordinary arrogance

to make a quick killing from their friends, and then quit.

Another expert, this time in the pension field, says he is far too qualified and senior to sit Ilpa exams and should be granted an honorary degree or qualification!

However, having recently become involved in the life business as well, he might consider taking the life exams. He is not anti-Ilpa. In fact, he feels it should be given every encouragement to develop. He does feel, however, that there should be two levels or grades to the exams — the lower as a recommended study for anyone first entering the industry. He also feels Ilpa is achieving a closer liaison with people in the pensions industry.

An actuary in Cape Town admits that "pure laziness" dissuaded him from taking the exams. But, he adds, there would be very little advantage for him even if he did — and passed. He suggests further that, perhaps, actuaries regard themselves as too superior to get involved in the Ilpa exams. But in his view Ilpa is a superb idea and a major advance for the industry. He might sit the exams eventually, he says — if there is no extra work involved.

Paul Nel, the first Ilpa executive director, has had much experience with abstainers, but has had even closer contact with those who have sat and failed. Some who fail, he says, exhibit extraordinary arrogance. They are usually certain that the examiners don't know as much as they do. He says the prospect of failing is the major concern of candidates, particularly to those over 40 who have forgotten how to tackle exam papers and how to give examiners what they want.

But the Ilpa influence is felt in different ways. Explains Nel: "New Fellows, after exams, often experience a period of consolidation, or even a decline in business. It's like changing a golf grip — once the approach is changed, results improve and remain at a higher level than before. The North American Chartered Life Underwriters' Association (NACLU) has experienced the same pattern, although it seems to find itself in different and better markets with higher commission levels."

So is it still necessary for Ilpa graduates to call in other professionals for advice? Nel concedes that outside experts like lawyers and accountants sometimes have to be consulted. But, he stresses, the Ilpa training enables the intermediary to understand what is being said by that expert.

Finally, Nel says, much criticism has been levied at Ilpa — some of which is valid, some not. His reaction: "We must be big enough to accept it."

An insurance executive, who failed the exams last year and is sitting again this year, says he has not finished one of the papers. He regards the exams as an endurance test, or a test of time. Most men in his position have lost the art of handwriting thanks to the dictaphone. So they struggle to put the necessary information down on paper in the time allotted. In his opinion, some questions to which quick answers are expected in the exam room, would require two days work if the information was compiled for presentation to a client.

But in spite of his examination ordeals, he thinks Ilpa is a good idea and he intends to persevere until he passes.

One Johannesburg intermediary, who earns nearly R140 000/year, has just finished sitting his exams and is certain he has failed.

His main worry is not so much the affect on his business, but the reaction of his family and colleagues to failing in a subject he should know well.

Liberty Life salutes the free spirit of these South Africans who took the tip of Africa to the forefront of the world.

General Christiaan De Wet. Elusive as the wind across the South African veld, he abandoned conventional warfare — routing superior forces to become the defiant symbol of a nation.

Eugène Marais. His haunting verse turned a language into literature. His observations of nature turned accepted views inside out. And he gave the world a vision of man's place in the universe.

Olive Schreiner. A farm girl from the Karoo. Her literary brilliance swept her into the internationl limelight and she carved a place for women in South African public life.

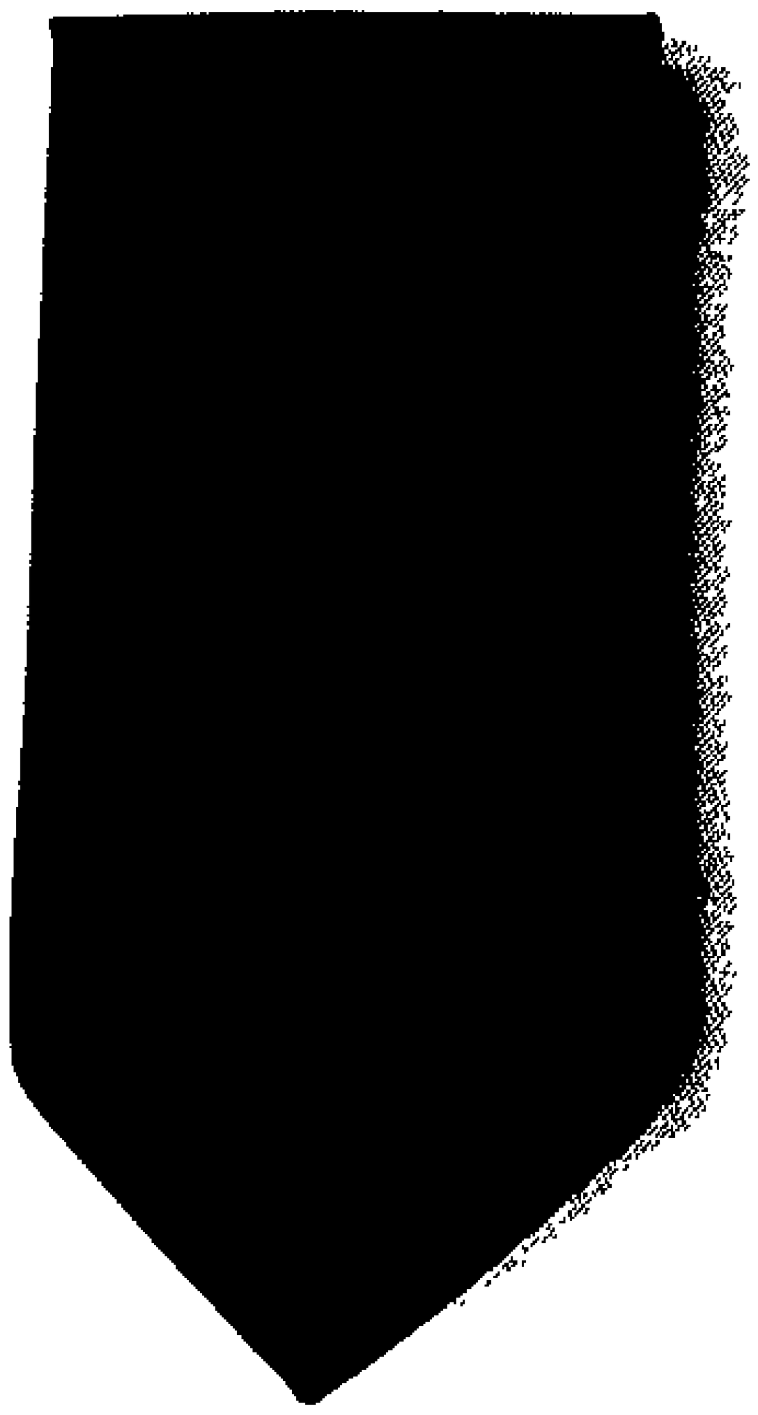
This tribute is brought to you by Liberty Life. A South African Company committed to the spirit of free enterprise, to entrepreneurial thinking and an independent point of view. That favours the exceptional rather than the expectation of mediocrity. With enormous investments in all sectors of the economy: Manufacturing, Retailing, Mining, Escom, Banks, Building Societies, and Government Stock. With this investment strategy Liberty Life's assets have grown from R84 000 to R3 400 000 000 in just 26 years.

Liberty Life

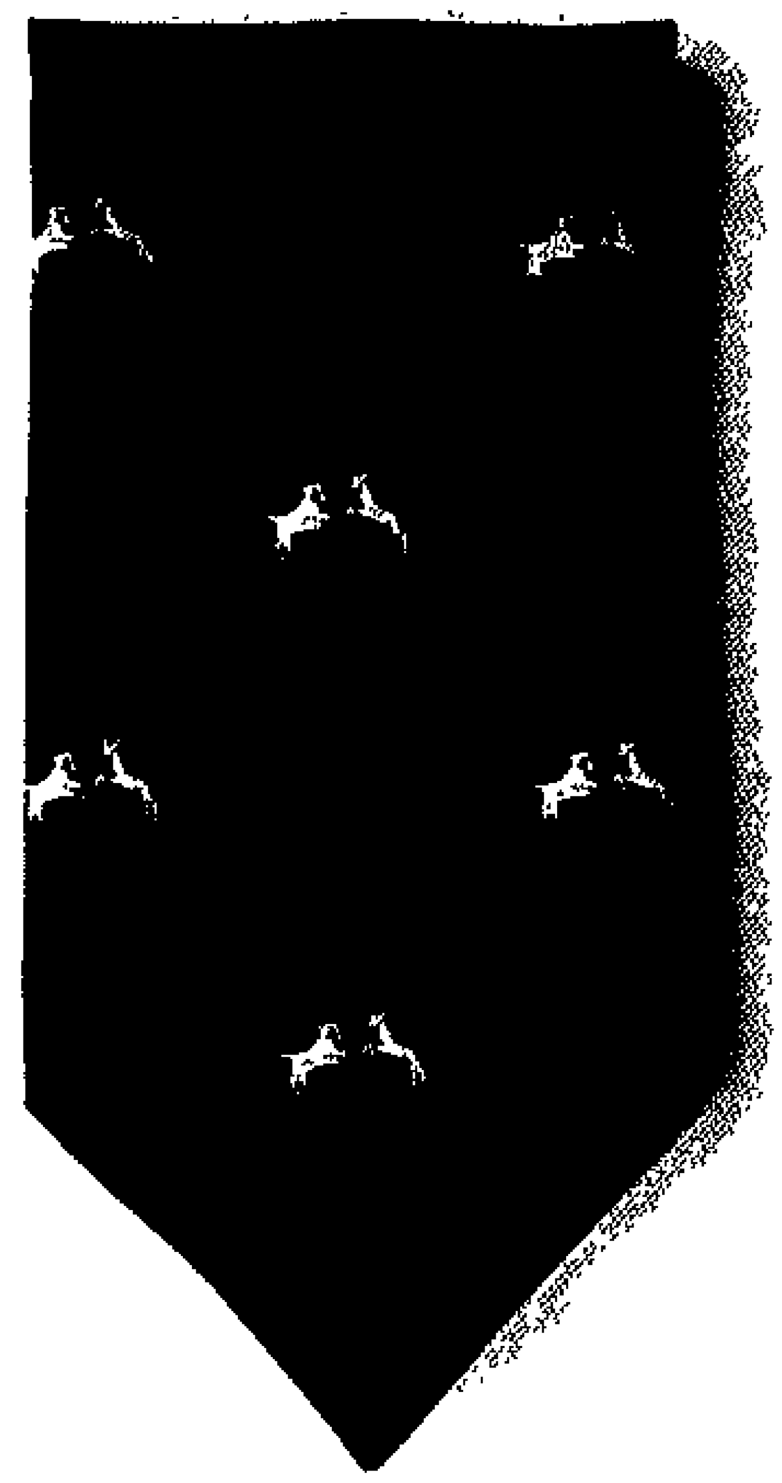
Ask your insurance consultant for details of the investment opportunities available from the Liberty Lifestyle series of policies.

The free spirit of insurance.

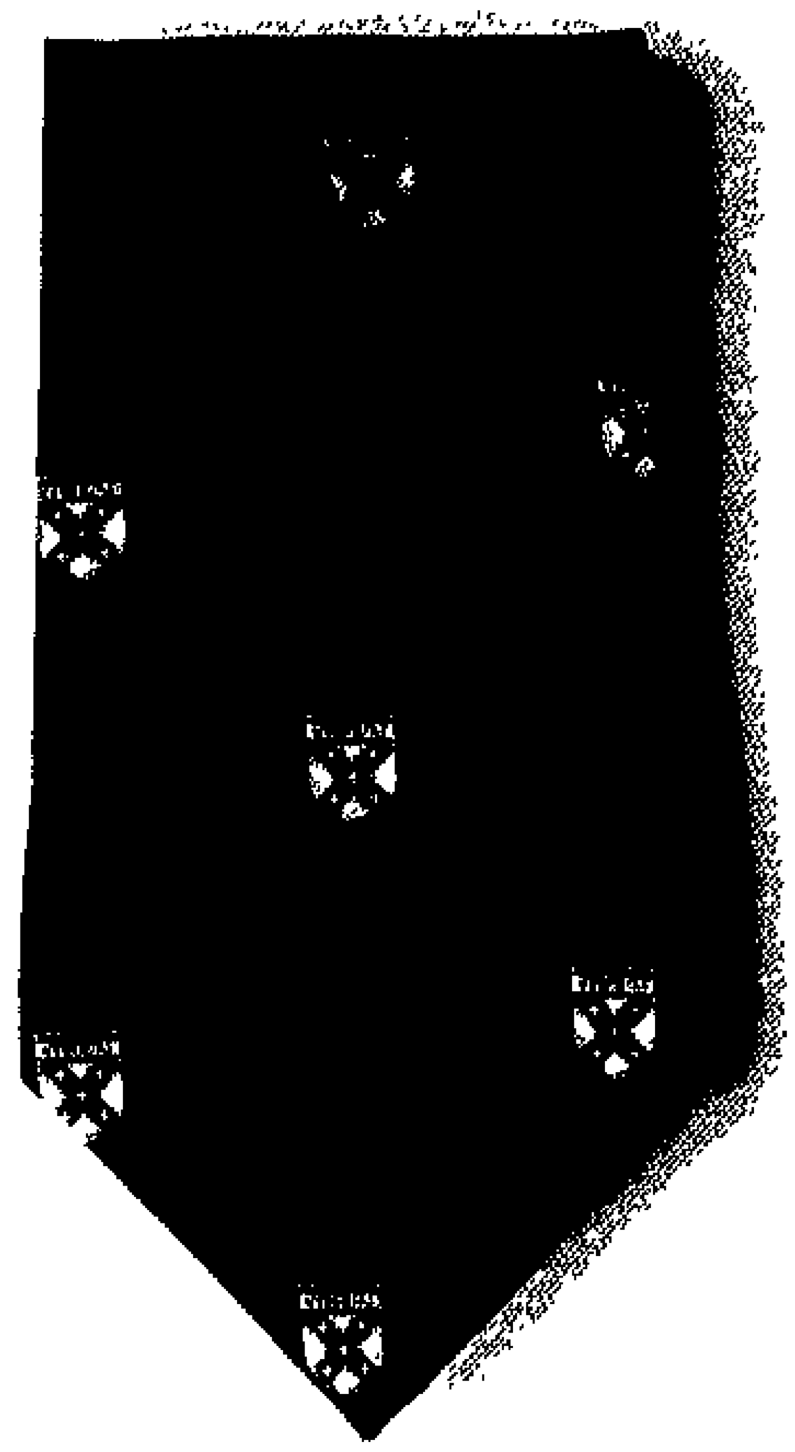
GREY PHILLIPS, BUNTON, MUNDEL & BLAKE 74117



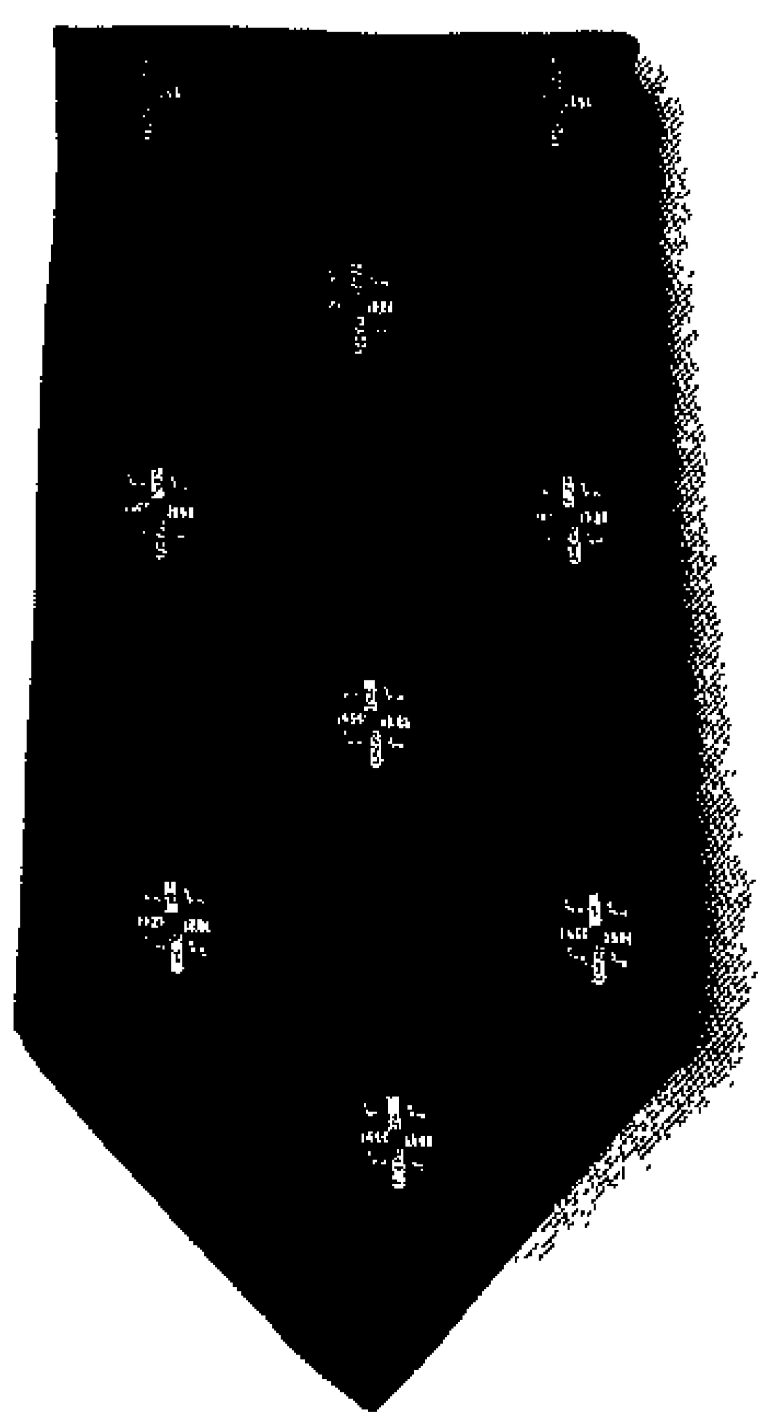
GUARDS



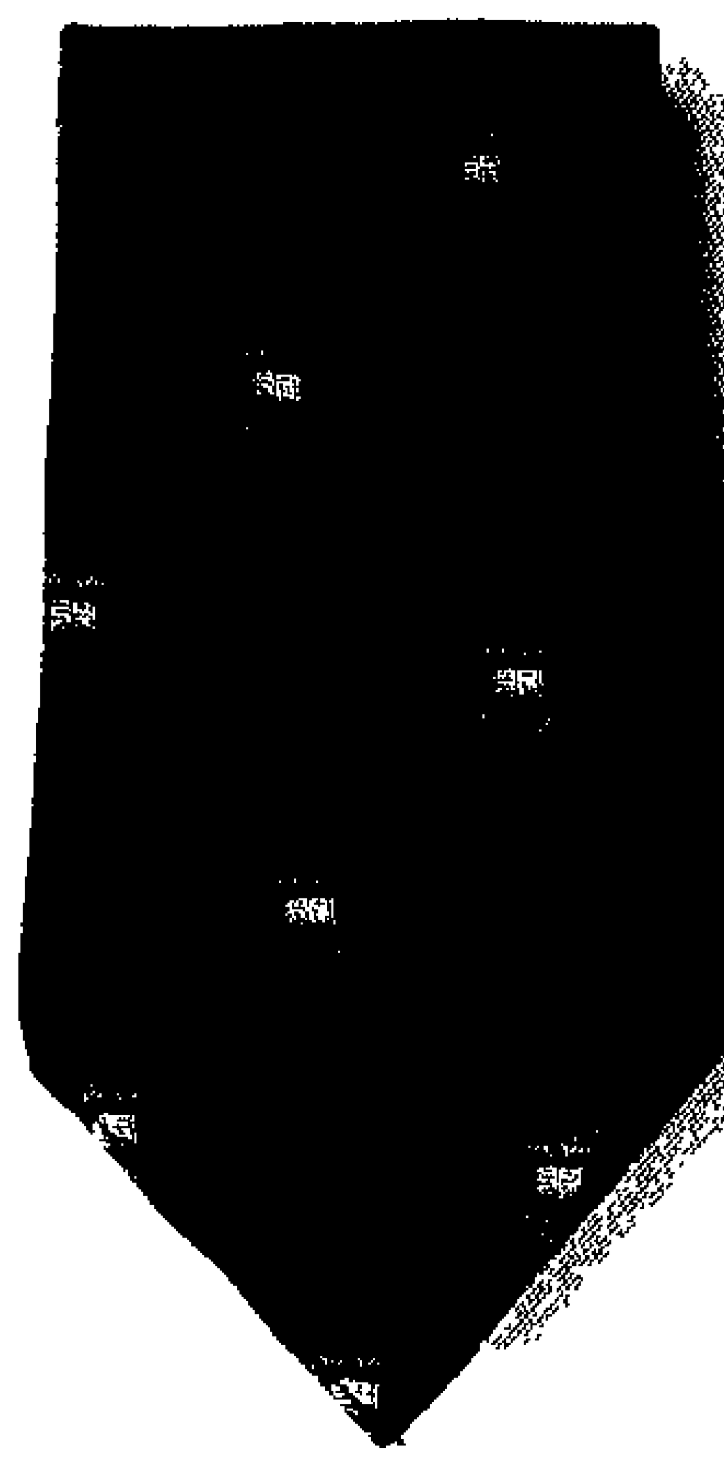
BARBARIANS



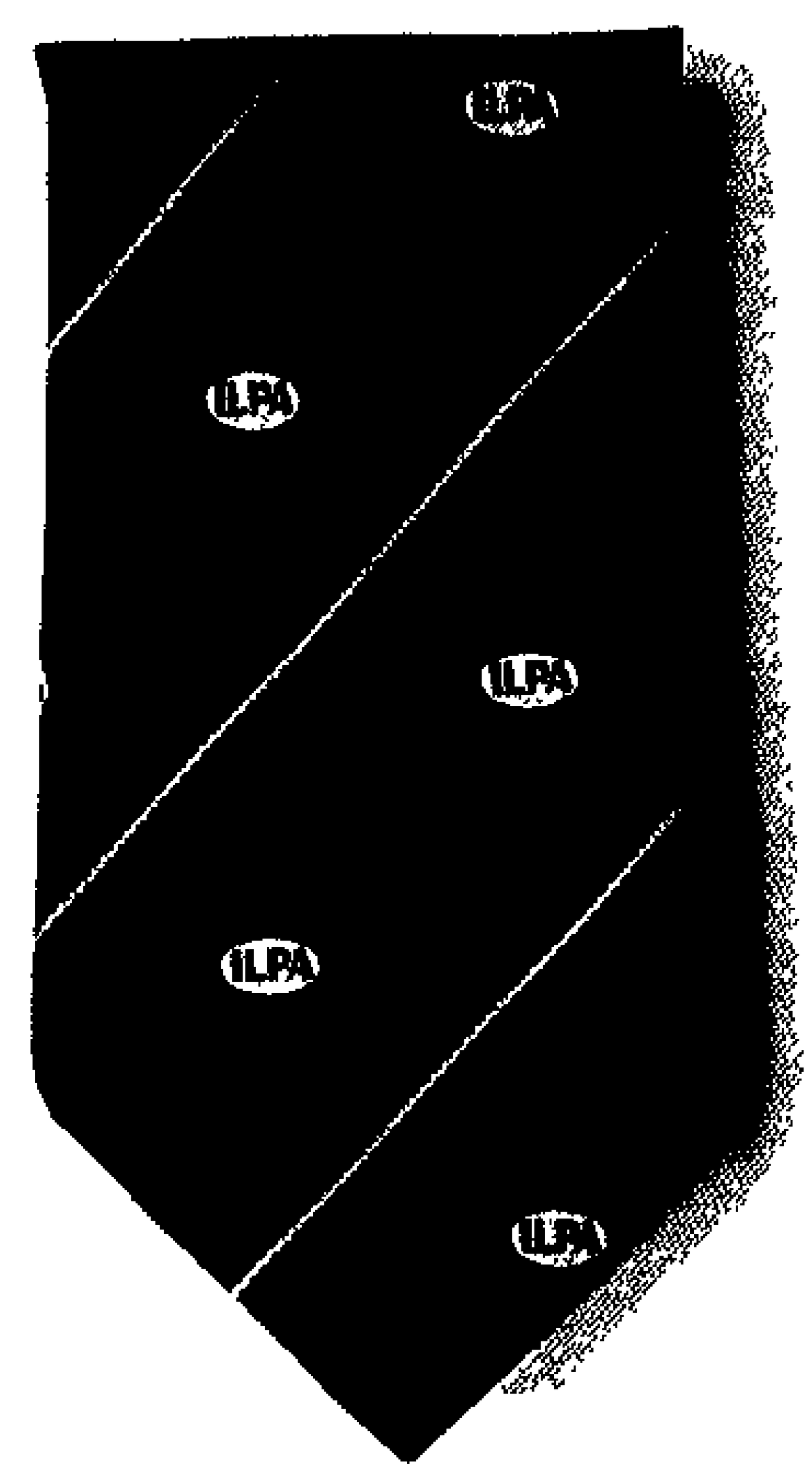
HARVARD



CAMBRIDGE



OXFORD



ILPA

Every field of endeavour has its recognized elite.

Distinction has to be earned.

And in financial planning, the highest distinction you can earn is to be admitted as a Fellow of The Institute of Life and Pension Advisers.

As a qualified F.I.L.P.A., you enjoy the recognition of being at the top of your profession.

You are better equipped to handle the increasing complexities of a rapidly developing area of specialization.

Most important of all, you are better able to meet the demands of clients who are becoming more selective every day.

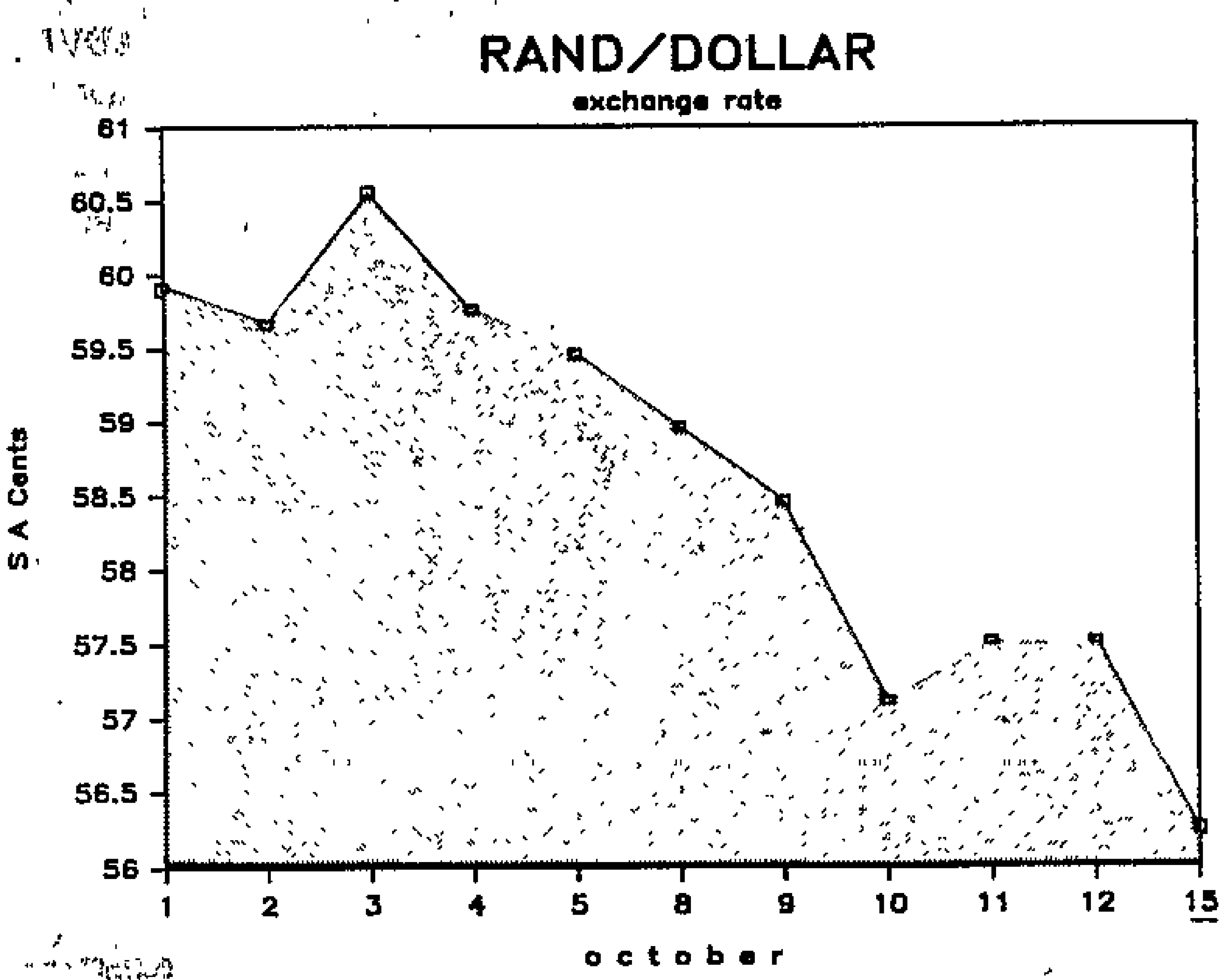
And who, as public awareness of The Institute grows, are increasingly basing their choice of financial adviser on his qualifications as a member of the industry's recognized elite.

The Institute of Life and Pension Advisers. ILPA

Argus 15/10/84

58

Rand drops to a new low



Graph shows the decline of the rand in the first two weeks of this month.

Financial Editor

MANY South African businessmen took another severe buffeting today as the rand continued its slide against the dollar, dropping to a new low of 56,20 US cents.

The rand has fallen against the dollar by 5,4 percent since the beginning of last week, by 10,6 percent since the beginning of September and by 31,5 percent since the beginning of this year.

The weakness of the rand against the dollar is partly the result of South Africa's poor balance-of-payments position and partly the great strength of the American dollar.

The British pound also eased against the dollar today, dropping in Hong Kong to a new low of $1,1995 before recovering to $1,2020.

The fall in the value of the rand against the dollar is hitting many South African businessmen, bankers say. Importers are having to pay more for goods brought from overseas and local businesses which have borrowed dollars from overseas banks are seeing their indebtedness increase daily.

RDM 16/10/84 (58)

GOVT SPENDING 3,9% OVER BUDGET

By HAROLD FRIDJHON

GOVERNMENT spending is running at 3,9% above the revised Budget target at the halfway mark of the fiscal year.

At September 30, the Treasury had spent R13,183bn out of a total Budget of R25,357bn. During the comparable period of last year the six-months expenditure was R11bn from a budgeted R21,175bn.

On these figures current expenditure is running at a rate of 19,7% above last year's. The average inflation rate for the eight months, as measured by the consumer price index, is about 11,05%.

With expenditure at R13,183bn and revenue at R10,891bn the deficit before borrowing amounted to R2,292bn. This was financed largely by raising R1,856bn in local issues of Government bonds and R566m in Treasury bills.

In September, RSA stock to the value of R360m was issued. Of this amount, R131m is said to have been taken up by the Public Investment Commissioners in the new bond 14,5% 2006, R200m in the 15% 1988 which market sources said was bought largely by overseas investors, and R29m in the 13% 2005.

Unless there are sharp curtailments of expenditure in the second half a number of departments appear to be overrunning their votes.

Transport is R50m ahead of budget. National Education has spent R552m — R120m ahead of budget. Defence, at R1,986bn, is more than R100m overspent. So is Agriculture, with spending of R446m. Industries & Commerce is R50m over budget, while other overspenders are the Commission for Administration and the Police.

Finance has already spent R2,115bn, whereas the halfway spending should have amounted to R1,745bn. Much of this overspending is a bookkeeping anomaly created by the issuing of Government bonds at a discount.

Well under budget are Co-operation & Development, Foreign Affairs and Community Development.

Looking at the departmental figures, it is difficult to see where the Minister of Finance, Mr Barend du Plessis, can introduce cuts to bring total Government expenditure into line with Budget estimates, let alone reduce the total burden of State spending.

NCE argus 19/10/84 (58) (2??)

Record rand gold price bonanza for SA mines

Argus Correspondent

JOHANNESBURG. — Although the rand has see-sawed wildly this week against a rampant US dollar, touching one new low after another, gold has held up surprisingly well on world markets with the result that South African gold mines are receiving their highest rand price yet for their production.

The lowest point touched by the rand against the dollar yesterday was around 55,45 US cents, while gold traded little changed at just under $340.

Based on this combination the country's gold producers will receive about R610 an ounce on gold sold overseas — the first time the rand gold price has exceeded R600.

Not even in the halcyon days of 1980, when the world gold price touched $800, did the gold mines receive such a high income — because the rand against the US dollar was then in the $1,35 range, giving the mines only R595 for their production.

By all indications the dollar has not yet run out of steam. Thus South Africa can look forward to a bonanza year in bullion production.

In practical terms this means that the Government will receive extremely good tax payments from the industry, while its own outlay in terms of assistance to marginal mines — there is not a single gold producer operating at a loss at the current rand gold price — will be extremely low.

This more than welcome bonanza will help the authorities to balance their books and keep off the pressure for another rise in tax rates.

It is not only the gold mining industry that is benefiting from the low rand-dollar exchange rate.

All the country's mineral exporters — such as the chrome mines, manganese producers, the coal, antimony, iron ore and other industries — have generally had their contracts written in dollar terms.

Should the current agricultural season benefit from normal weather and production recover to average levels, the country will not only benefit from the exports that will result but also from being able to avoid costly imports of essential foods such as those in the past two seasons.

CONFIDENCE LOW

Thus, while the domestic economy may be in for a battering with business confidence generally extremely low, industries and companies which rely heavily on exports for their existence are in for a good year.

The devaluation of the rand should have also given South Africa's manufacturers an edge in world markets. Regrettably this has not been the case

South Africa's inflation — running at a rate at least double that of major trading partners — has eroded any price edge that may have resulted from the low rand rate, while the country's abysmally low productivity, too, has not helped the manufacturing sector on world markets

Inflation and low productivity remain two of the major stumbling blocks the country must tackle before any progress can be made in terms of getting the economy moving again.

This week the Minister of Finance, Mr Barend du Plessis, told the 25th anniversary dinner of the Association of General Banks that the authorities were detemined to win the battle against these twin evils.

He said that recent, somewhat draconian, measures adopted by the authorities would remain in place until the battle against inflation was won or at least was a long way down the road to having been won.

His message was clear. The country will have to bite the bullet now in expectation of better times ahead

Business Day/ ECONOMIC SPOTLIGHT

Rory 19/10/84 (58)

Where to rein in State spending?

HOWARD PREECE ON THE ECONOMY

THERE is plenty talk about the need for drastic cuts in State spending. What is wanted now, though, is rather more thought on just what form these cuts should take.

The broad issue looks straightforward.

Government expenditure for 1984-85 is expected to account for about 26,4% of gross domestic product compared with less than 24% two years ago and about 20% 15 years ago.

The turning back of the State share of GDP achieved in the late 1970s has been more than reversed in the 1980s.

Standard Bank claimed in its October economic review that, without some countervailing action, "by the end of 1985 the South African economy will have a larger public sector and a smaller private sector than it had prior to the mini-boom of 1983".

But what should Mr Barend du Plessis, the Minister of Finance, propose to Cabinet colleagues? Where should the economy axe fall?

It is at this point that many people find themselves in favour of economy in general — and in support of expenditure in particular.

Let us look at some of the key areas of State spending.

SA is far from being a welfare state. It is not only the unemployed or sick blacks who know that bitter truth. White pensioners, for example, are far worse off than their counterparts in the major Western economies.

Across the board there is minimal scope for trimming back on health, housing and other social provisions without adding to appalling hardships that already exist.

Education and training are other areas where there are widespread demands for improving facilites rather than reducing them.

It is common cause that SA suffers from an acute shortage of many managerial and artisan skills — a shortage that adds to the employment problems of the unskilled because of the supply constraint it imposes on the whole economy.

Curbing spending on education will surely only make things worse.

Then there is defence.

Well, the case for slashing spending here can be argued back and forwards, but the fact is that no Nationalist government is, in practice, going to be much impressed by it.

Indeed, so long as that government is despised by the vast majority of people inside and outside South Africa it is at least logical to maintain a very formidable defence force.

Then are there those tempting but ultimately disastrous spending curbs that can be imposed on infrastructure development (something of that has already been taking place).

From an immediate political side there are fewer difficulies in reducing the resources going to roads, railways, harbours and so on than in most others.

But the economy will pay dearly in the long run for such action.

The one big redeeming feature of the excessive surge in government expenditure in the early 1970s was that much of it went on infrastructure — Richards Bay, Sishen-Saldhana etc — which paid handsome dividends in later years.

We come, of course, to the civil service.

There can be little doubt that the huge pay rises of the past year — about 25% on average — have added to the overall economic difficulties.

But it is no good thinking the answer simply lies in slamming the lid on civil service pay. That will produce an even more inefficient public service as many of the key people quit in frustration.

In the end the best bet must be to cut back drastically on the reason for there being so many civil servants.

That means sweeping abolition of controls, many of them at the heart of apartheid, so that there is no need for such a vast army of enforcement.

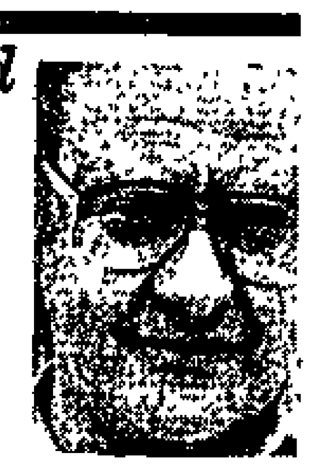
But will Mr Du Plessis tell that to the Cabinet — and, if he did, would his colleagues listen?

S-Express 21/10/84 (58)

Weighing the chances of another Great Slump

Robin Friedland

MONEY WORLD



I FREQUENTLY encounter the belief that the world is on the brink of another Great Depression — that 1929 has come again.

This belief is sometimes founded on theories such as Kondratieff Long Waves, which hardly need to be treated seriously. But the argument might have more realistic foundations than that.

It therefore requires very careful analysis, as the repercussions of another economic breakdown along the lines of that from 1929 to 1932 would be nothing less than catastrophic.

What went wrong in 1929 to turn what might have been no more than a normal cyclical downturn in the United States into a collapse of the entire economic mechanism?

In the first place there had been a long-sustained speculation on shares on Wall Street, financed by unlimited access to credit. (Contemporary margin requirements were imposed later in the light of the ultimately destructive effects of unlimited access to credit for share purchases.) The collapse in share prices that took place in October, 1929 had a damaging effect beyond the borders of the US.

Wisdom

Secondly, and critically, the responses of the American central bank, the Fed, to the downturn, were diametrically opposite to what they should have been in the light of contemporary wisdom.

One of the main effects of the downturn was to expose severe illiquidity in the American banking system. When a major bank — the Bank of the United States — was threatened with collapse, the Fed decided that it would be wrong to intervene to save it. So the three years from 1929 to 1932 saw the virtual collapse of the American banking system, while the money supply, according to Milton Friedman, declined by about a third.

Another characteristic of the US at that time was the remarkably small proportion of gross domestic product (GDP) spent by government. The idea that governments should borrow and spend money to deal with a slump came later.

Herbert Hoover's idea (and Roosevelt's too, before he was elected) was that the effect of the declining economy should be met by vigorous efforts to balance the budget at all tiers of government. Nor was there a strong system of unemployment benefits to counter the effect of unemployment on consumer demand.

Still worse, the economy of central Europe had not fully recovered from the effects of the First World War. Germany laboured under the pressures of the latest version of reparations, while the Balkans had been cut up into a multiplicity of small states which were not really able to survive on their own.

When the crash came, all these factors aggravated each other and so caused the downturn to attain catastrophic proportions.

How do current circumstances compare with the 1929 scenario for disaster? I will concede that there is one element in common — the US banking system is vulnerable as it has not been since the 1930s, partly through reckless lending to Latin American and other developing countries.

Hypothesis

The collapse of Continental Illinois is only the most striking consequence of what is actually widespread weakness. It is true, as supporters of the deflationary hypothesis argue, that a widespread liquidity crisis could develop almost overnight through default by countries such as Argentina which owe tens of billions of dollars to the American banks.

What is notably different is the attitude of the Fed to banking problems. Far from standing aloof and allowing depositors in Continental Illinois to stew in their own juice, the Fed extended billions in assistance, and, when that proved insufficient, virtually nationalised the defaulting bank.

Note that this was the seventh or eighth largest US bank before its downfall, so a powerful precedent has been set for bank rescues on any scale that may be necessary.

And the Fed, as the US central bank, is the bank of last resort. So it has the ability to create credit on any scale necessary to deal with the largest imaginable banking crisis.

Then, the widespread intervention of governments in the economic process has changed the rules of the game almost unrecognisably since 1929. Not only do governments control a large proportion (say up to 40%) of GDP in all Western industrial countries, but they can also spend themselves into deficit to counter the effects of a slump in the private sector.

The present American boom is a perfect illustration of how quickly a severe slump (the worst, in fact since the 1930s) can be reversed into boom by a combination of expansionary monetary policies and massive deficit spending at federal government level.

Preserve

And, in addition, there are generous unemployment benefits in most Western countries, so the unemployed are kept above starvation level and preserve some purchasing power despite being out of work.

In fact, it has been precisely the appalling experience of the Great Slump — which has etched itself so deeply into folk memories — which has brought it home to all governments that they must avoid another experience along those lines almost at any cost.

And governments in Latin America know as well that there are large — or potentially large — Marxist parties all too ready to pounce and reap the political harvest of a big slump.

I conclude that the risk of another Great Depression has been much overstated. It is far more likely that governments' terror of that eventuality will again cause them, sooner or later, to tilt their policies in the direction of renewed inflation.

Business Day/BUSINESS CONFIDENCE RDM 22/10/84 (58)

Don't look only at deficit, Govt urged

By MIKE JENSEN

GOVERNMENT has concentrated too much on minimising the size of the deficit and finding ways of financing it, without looking at overall income and expenditure.

These were the seeds of the current fiscal crisis, planted many years ago, Dr Louis Geldenhuys, assistant general manager of Senbank, told a University of Cape Town Graduate School of Business Association seminar in Johannesburg at the weekend.

He said the State had not taken enough cognisance of the effects of increasing the tax burden and expenditure.

The deficit was only 4,7% of GNP last year compared to 6,2% in 1976 and the increase in net indebtedness to the banking sector was only R25m last year.

This appeared to indicate that Government policy was on the right track but it concealed the real problem of higher taxation which was crowding out the private sector, said Dr Geldenhuys.

Exchequer receipts as a proportion of GDP had risen from 19,8% in 1976 to 21,3% in 1983, an increase in the tax burden of 1,5 percentage points — an actual rise of 7,6%.

"Our authorities have been too dogmatic by looking at the size of the deficit before borrowings and not worrying about increasing taxes which have a very negative effect on the economy's growth potential."

Government expenditure as a proportion of GDP was about 26% this year — the same as in 1977 — but this concealed the fact that many issues were now going off budget.

"Just taking in primary capital market issues would push the proportion up to 27% this year," said Dr Geldenhuys.

"So despite this so-called era of fiscal discipline, expenditure has not been reduced.

"It is also necessary to distinguish between Government capital expenditure and current expenditure."

Current expenditure had exploded over the last few years, rising from R4,8bn in 1976, to R10,3bn in 1981, R12,5bn in 1982 and R14,2bn in 1983.

"Also for the first time ever, last year there was a deficit in overall revenue compared to Government savings," he added.

The deficit stood at R849m in 1983. In the first six months of this year it is estimated at R1,99bn.

A cut-back in capital expenditure could not be regarded as a true cut-back in Government spending because it just put off the requirement for road building and other infrastructural projects.

Pointing to the 18,7% overall increase in Government salaries last year, compared to a 13,9% increase in the private sector, Dr Geldenhuys said the State should not be seen as leading the way for wage increases.

□ □ □

ONE of the main aims of the Government's tax policy would be to achieve a redistribution of revenue, the Deputy Director General of the Department of Finance, Dr Gerhard Croeser, told the seminar.

Less than 1% of the population contributed 50% of direct taxation while 70% of the population contributed less than 5%, Dr Croeser said.

"The present tax legislation is far from simple, but the major problem is that the man in the street is not prepared to fund his fair share of the tax burden.

"In particular, some people are able to employ the best brains in the country to minimise their taxes which means that others have to shoulder an additional burden."

Individual contributions made up 22% of the tax base in 81 — 82 with companies contributing another 22%.

Dr Croeser said a wider tax base was needed and this would be the principal focus of the new commission to investigate the tax system.

"Although the commission is unlikely to come up with any new solutions, it may be able to sell them better than has been done in the past," he said.

A better balance would have to be achieved between regressive, indirect taxes and progressive direct taxes.

In 1938, 56% of tax revenues were indirect; this sank to about 30% in the Seventies and it now stood at about 40%.

However, there would be substantial problems if too rapid a shift to direct taxes took place.

The commission was also looking at the possiblity of including a capital gains tax and a value added tax.

The new local authorities' taxes could coincide with a reduction in the individual and company tax rate, but "the overall level of taxation would have to be taken into consideration".

Dr Croeser said he hoped the tax commission would have finished its work in less than a year, but doubted this was possible.

□ □ □

THE seminar heard an unrepentantly bullish outlook for gold from the assistant general manager of the Chamber of Mines, Mr Tom Main.

He said there was absolutely no doubt that the dollar had to crack some time. When this happened, the cost of holding gold or other currencies would change with a higher gold price as the result.

The loss of US industry's competitiveness, its dependence on external capital and the prospects of a higher inflation rate were all ultimately bearish for the dollar.

Mr Main also pointed out that the low gold price in dollar and yen terms had led to very buoyant physical demand.

"In fact, gold has only been kept at the $340 level because of this high level of demand."

In 1983 total Japanese consumption was 175 tons and this year it was expected to rocket to 280 tons. A similar picture emerged in the US and Hong Kong.

In Europe, however, consumption had fallen significantly.

The massive increase in US awareness about gold and gold-related assets as a mode of investment augured well for South Africa's mines.

"When the US economy really picks up there will be a huge demand for gold and the price will rocket."

58

SASRIA

Facing the rioters

Sasria (SA Special Risks Insurance Association) has been experiencing a mad scramble for political riot insurance following the recent unrest in townships. New business for the association has been brisk since the middle of July when a decision to raise rents in Timahole near Parys precipitated the latest run of troubles.

Sasria was set up in 1979 to provide insurance against material damage and loss of rent arising from political riot and related disturbances. It is registered under the Companies and Insurance Acts as a non-profit consortium of local short-term insurers — including Lloyd's of London — and backed by government. Recently standing charges were extended from the bare cover of rents only to include salaries, wages, interest and fixed costs.

Traders in the townships, in particular, have been running for cover. According to Sasria manager Rodney Schneeberger, some people have even been buying riot insurance for their premises while crowds were thronging the street.

In one case a shopowner had been advised to close for the day so he spent the morning buying cover at his nearest insurance office. By the afternoon, he was back at his insurers filling out a claim form running into thousands of rands.

The consortium has received some 100 claims totalling about R35m since the beginning of August. This period has seen countless township incidents and several bomb blasts, including those at the Durban electrical sub-station, the Police District Commandant's offices in Roodepoort, the Railway Police offices in Johannesburg and government offices in Krugersdorp.

The disturbances have ebbed and flowed across the country embracing many townships with incidents variously described as civic upheavals, general looting and political unrest.

Schneeberger explains that provided requests for cover conform to the members' agreement and the Sasria regulations they cannot be refused. "So we have to accept all business. Also, there is no 'apprehensive' or waiting period. Insurance cover has immediate effect."

But executive director of Priceforbes Federale Volkskas and chairman of the SA Brokers' Association/Sasria liaison committee Don Gallimore believes this is unfair to those people who have been funding Sasria for some time through their premium payments. "Other people, by waiting until the riots are at the end of the street before buying cover, are taking advantage of the Sasria regulations that say a request for cover cannot be refused."

Gallimore adds that this is not the sort of principle that insurers would necessarily adopt when dealing on their own underwriting account.

Even so, as Schneeberger points out, most of the claims he has received come from established customers of Sasria. "True, we always get an increasing number of requests for cover during times such as these — in 1980 the same thing happened — but these do not necessarily turn into claims."

Various discussions

He adds that there have been various discussions about protecting Sasria against selective purchasing of cover. There could be an embargo whereby new clients buy cover today which does not become effective for three months. This would not apply to renewal policies. Another idea is to load the initial premium so that the newcomer pays double, three times, or even 10 times the premium rate for the first year before reverting to the normal rates on renewal.

"We are not considering this at the moment," says Schneeberger. He adds that the main emphasis is on providing a service for the public.

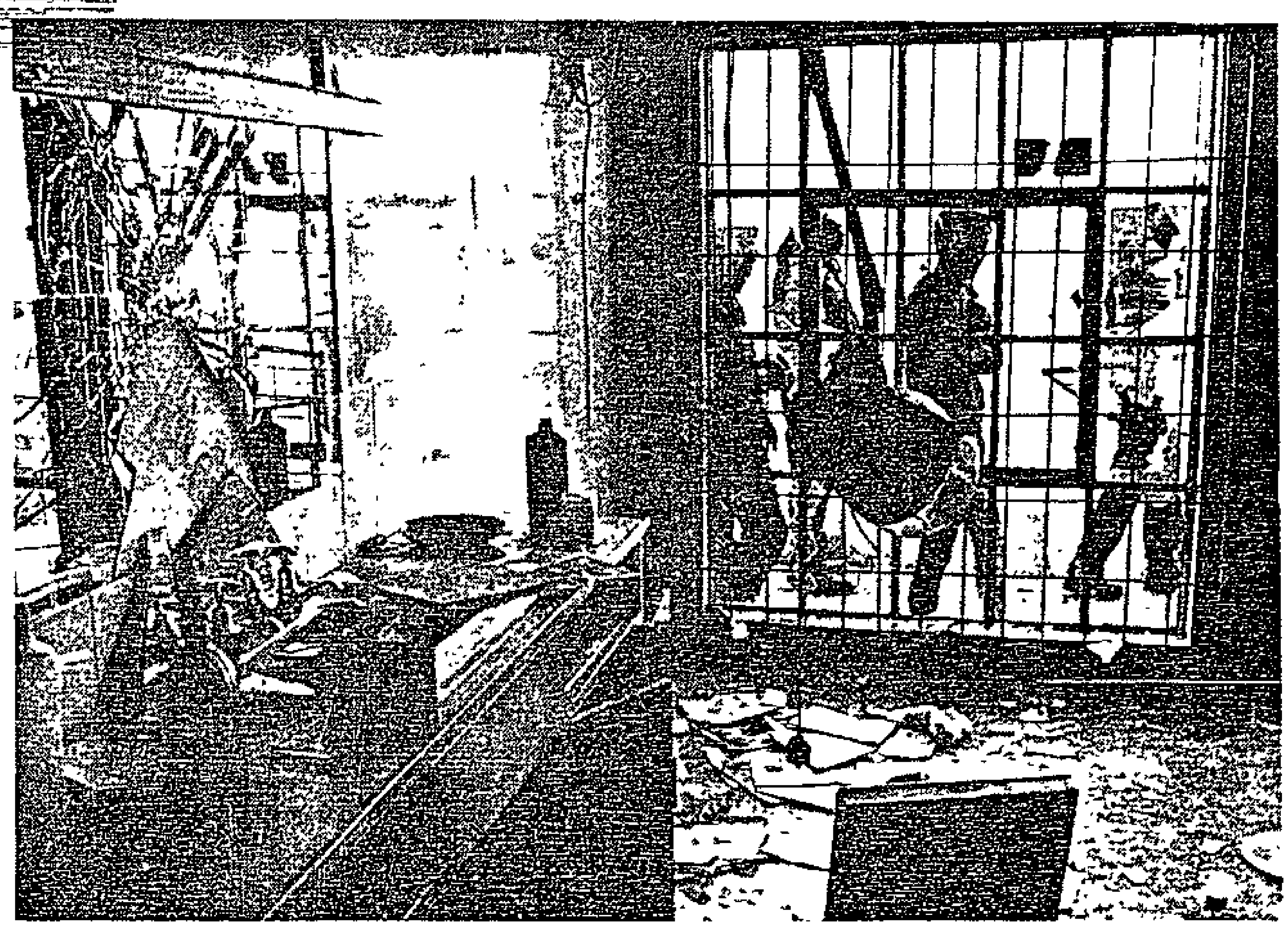
Gallimore says that Sasria has powers under the members' agreement to defer cover or prescribe higher premiums for new business. People who have been with the fund for five years, for example, could be protected this way.

He also mentions that when claims arise they are not always dealt with timeously. He had a recent case where a mechanical horse was destroyed by fire during the riots at a loss of R38 000. But the owner had to take out a bank loan to buy a replacement to keep in business while the insurer and Sasria decided who should foot the bill.

However, Schneeberger says that Sasria does have an "arrangement with insurance companies" whereby the claim is paid pending a final decision on which side should meet the amount. "Provided we are happy that the claimant is insured both under his own insurance company policy and the Sasria coupon, and that his claim is a valid one, then we have an arrangement to pay the claim as soon as possible.

"If it is likely to become a Sasria loss, then we pay out and recover from the insurance company should it turn out otherwise, and vice versa. If, on the other hand, we cannot decide whose claim it is then we fund it on a 50-50 basis, again pending the final decision."

He says only in cases of deficiency in documentation, or suspected fraud would there perhaps be a further delay. For instance, he cites a number of suspected arson cases where people may have deliberately set fire to their houses or cars under the guise of the recent riots. "There was also one case where rioters were motivated to attack the vehicles belonging to a rival taxi firm. Now this was facilitated by the township troubles, but was not caused by them."



Bomb blasts and riots ... claims business for Sasria

58 274 FM 2/11/84

There have also been several incidents where rioting has spilled over into white areas, and conversely, where visitors to townships have been caught up in the troubles. It is perhaps a timely reminder to the individual to consider arranging to buy political riot cover, both for his house and his motor vehicle.

"For the man in the street," says Schneeberger, "it's an absolute bargain. A car costs just R10/year, while private housing costs R2,50/R10 000 of declared value."

This means that for a house valued at R100 000 plus the family car costs just R35/year. Indeed, as Schneeberger says, the premium, particularly for the motor vehicle, barely covers the cost of the paperwork. He added that rates may be reviewed, especially where the more expensive cars are involved.

Next renewal date for this insurance is April 1 1984, when new rates may be implemented. In the meantime, though a coupon bought now for the annual premium will only be valid up to that date, it might be a wise purchase for those still without riot cover.

TAXATION

Trading allowances

Taxbase trading, outlawed by the authorities early this year, is apparently alive and kicking, and could cost the revenue authorities over R1 billion in the next ten years. Once vaunted as the most attractive corporate tax scheme in the country, it was ostensibly banned in an announcement on March 14 by former Finance Minister, Owen Horwood.

But latest changes to legislation now show that taxbase trading will be allowed to continue, albeit on a new tack, through the insertion of a new section, Section 12(6) to the Income Tax Act. Before this, banks had already been given a special dispensation in March to continue taxbase trading, but only based on profits derived from leasing.

Take a company undertaking heavy capital expenditure. It can claim allowances worth 130% of the cost of plant and machinery. Yet it is rare for such companies to have sufficient profits to use their tax allowances.

Michael Stein, co-editor of *Silke on SA Income Tax*, says: "The trouble with these massive allowances is that they are usually much too large to be absorbed by the firms expanding their productive capacity.

"To avoid the wasteful excess of allowances over taxable income, which cannot save any tax over the short and medium term, the excess is better passed over to another corporate taxpayer.

"Initially, excesses were absorbed by financial institutions acting as lessors of qualifying equipment. Yet the excesses became too large even for these financial institutions and a flourishing business grew up under the name, first, of 'leveraged leasing' and, later, 'taxbase trading.'

"Taxbase trading was extremely complicated, widely publicised and highly peculiar in its constitution and disclosure in financial statements. Nevertheless, it was promoted with the aid of voluminous clearances from Inland Revenue."

Tax consultants say that the 1984 Income Tax Amendment Act, far from ending the practice, perpetuated it. As a result, the quantum of tax revenue foregone may exceed R1 billion.

Initially, lease brokers overcame the constraints of the Act by using the lobbying power of their clients. Leveraged leases were set up, allowing a company with large "unusable" profits (part of which would go to Inland Revenue as tax) to "buy" tax allowances from companies that could not use them.

Banks joined the fray by financing clients for capital expansion from their own profits. They soon reached the stage where they had to resort to outside companies to "buy" tax allowances.

Sellers of taxbase, which by then included lease brokers, banks and other financial intermediaries, began to vie for the profits of participating companies. They began to offer them fees, signalling the birth of an industry.

At the height of this new delight, fees may have reached the 15% mark, but researchers say that in calculating what companies received for the trouble of signing a few documents, 10% is a safer benchmark.

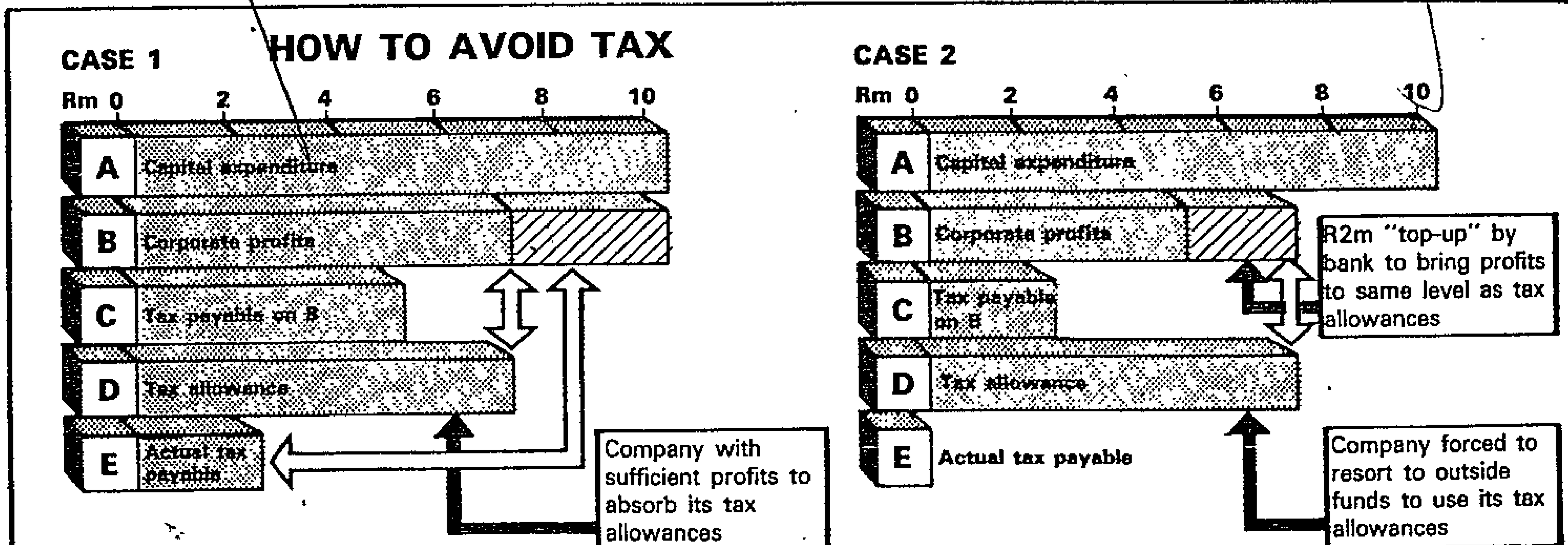
The only recorded evidence of what companies bought into taxbase schemes appears in annual reports of listed companies. Companies that sold tax allowances make oblique reference to the practice, referring to "lessor trusts," one of the many parties involved in taxbase trading.

Apparently auditors were concerned enough over the schemes to oblige their clients to reveal participation (see *Leaders*).

Thus the latest Rembrandt Holdings annual report (from a company which is notoriously reticent) shows that the company bought R18,5m worth of tax allowances in the year under review. This reduced its actual tax bill *(tax paid to Inland Revenue)* from R58,6m to R40,1m. Assuming a 10% fee, Rembrandt would be richer to the tune of R1,85m for signing a few documents without the assumption of any significant risk.

The mid-March 1984 clampdown on the taxbase trading followed widespread publicity that Pick 'n Pay had reduced its effective tax liability to around 2% against a prevailing rate of 46,2%. But tax consultants, who have studied the 1984 tax amendments, say taxbase trading has merely altered course.

The amounts of revenues foregone by Inland Revenue because of taxbase trading



CASE 1: Represents a company with capital expenditure of R10m and pretax profits of R10m. Tax allowance of R7m give actual tax payable of R2m.

CASE 2: Represents a company with the same capital expenditure but profits of just R5m. Tax allowances are therefore "topped-up" with R2m to provide the full R7m tax allowances with no taxes payable.

RDM 20/11/84 (58)

Danger seen in prime rate cut

By HOWARD PREECE

A NUMBER of leading private sector economists are worried that the 1,5% to 2% cuts in prime rate announced by the major banks will prove a case of too much, too soon.

They fear consumers and politicians may be led to believe that the economy is in a much healthier state than it really is.

There is speculation in money market circles that this concern is, in fact, shared by the Governor of the Reserve Bank, Dr Gerhard de Kock.

The Reserve Bank yesterday announced reductions of 1% in its rediscount rates — the rates at which the commercial banks and discount houses can borrow from the central bank against the security of paper assets.

It had been widely assumed after the prime rate cuts announced on Friday — particularly the 2% reduction to 23% by Barclays — that the rediscount rates would also be cut by 2%.

The commercial banks are still heavily in debt to the Reserve Bank.

The money shortage eased last week to around R1,5bn, but is expected to go back up towards R2bn by the end of the month.

This means that it is an expensive exercise for the banks to cut their prime rates by more than the fall in the rediscount rates.

Last week Dr De Kock let it be known that the Reserve Bank was considering reductions in the rediscount rates before Christmas.

The banks read that, rightly, as a signal that prime could be eased with the Reserve Bank's blessing.

However, Dr De Kock let the bankers know he did not want the Reserve Bank to appear to be deliberately pushing rates down.

That, he said, might give people the wrong view on the strength of the Reserve Bank's determination that sustained, strict monetary and fiscal policies would be needed for a long time yet.

It was, therefore, up to the commercial banks to take the lead.

Standard set the ball rolling on Friday by reducing its prime rate from 25% to 23,5%.

It was promptly overtaken by Barclays which cut its rate to 23%.

Nedbank, Volkskas and Trust joined Standard by making a 1,5% cut.

In rough line with this general trend, and in anticipation of a 2% cut in the rediscount rates, short-term money market rates eased appreciably on Friday.

Yesterday, however, these money market rates moved up — the key 90-day Bankers' Acceptance rate increased to 21% from the 20,75% to which it fell on Friday — after the Reserve Bank had announced it was cutting its rediscount rates by only 1%.

This, according to some money market sources, suggests that Dr De Kock would have preferred the banks to move more slowly and reduce prime by only 1% in the first instance.

There could perhaps then, under this scenario, have been another modest fall before Christmas, depending on economic developments.

Government political leaders may, however, be generally pleased by the prime rate cuts.

They are apparently worried about the possibility of a Conservative Party victory in the Primrose by-election next week.

The prime rates might be used, misleadingly according to most private sector economists, as evidence to voters that the economy was coming right.

What worries these economists is that this might also re-stimulate consumer spending and make it more difficult for the Minister of Finance, Mr Barend du Plessis, to convince his Cabinet colleagues of the need for ruthless curbing of State spending in the 1985-86 Budget.

By cutting the rediscount rates by only 1%, Dr De Kock has done something to allay these fears.

He appears to have signalled to the commercial banks, certainly to Barclays, that prime rates have gone further than he wanted — and that no additional early reduction is called for.

In fairness to the banks, however, and in particular to Barclays, it must be said that some previous official signals on interest rates have sometimes seemed a little confused.

That, in turn, could be explained by the possibility that Dr De Kock and Mr Du Plessis are themselves under some political pressures, at least implicitly.

SA exports soar to record levels

(58)

RDM 24/11/84

Huge R691m trade surplus

By HOWARD PREECE

SOUTH Africa's exports soared to a record R2,78bn in October to produce a whacking trade surplus of R691m.

Imports also bounded up, however, to R2,09bn from R1,55bn in September.

Both the export and import figures, on these preliminary figures from Customs and Excise, are rather puzzling.

This suggests that there is some element of statistical distortion.

By all accounts, imports are supposed to be dropping rapidly.

Indeed, this was one reason cited by the Governor of the Reserve Bank, Dr Gerhard de Kock, for encouraging a fall in the prime rate.

However, monthly figures can be affected considerably by special factors.

Purchases of oil and military equipment are obvious examples.

In any case, the October import bill was well under the August level of R2,42bn.

There is certainly no reason to suppose, at this stage anyway, that imports are likely to continue at excessive levels so far as the general balance of payments is concerned.

The severe fall in the foreign exchange value of the rand — which means, of course, heavy rises in the rand cost of imports — and the decelerating economic growth rate in South Africa should see to that.

There is no surprise in the fact that exports are rising.

Their rand value is inevitably going to show large increases simply because of the exchange rate factor.

At the same time, there are indications that the overseas sales volume of various raw materials and finished products from South Africa is rising.

But it is still not clear at this point why exports should have gone up quite so much last month.

At any rate, the overall effect is highly satisfactory as far as the balance of payments is concerned.

That will naturally please Dr De Kock.

South Africa runs a deficit at present of around R330m a month on net services payments.

But the October trade surplus of R691m means that there was a very comfortable surplus on the overall current account of the balance of payments.

Riot insurers have R30-m to pay out

STAR 28/11/84 (58)

A whopping R30 million in claims under special riot insurance cover have been made in the past six weeks in South Africa.

By Russell Gault

And the figure does not include property looted or production losses.

Nor does it reflect the entire losses associated with the rioting. This could amount to many more millions of rands. Many people perhaps had no cover.

Big organisations such as Putco and the development boards were covered, and their claims form part of the R30 million, *The Star* was told today.

The South African Special Risks Association (Sasra), formed in 1979, is carrying all the township riot claims and is concluding its assessments.

Managing director Mr R Schneeburger said the R30 million is made up of 100 fire claims in which shops, factories and houses were damaged or destroyed, and 140 motor vehicles, many of which were set on fire during the disturbances.

The claims represent the biggest run on Sasra since it opened for business.

He said Sasra offered the only comprehensive riot cover, and people who were especially sensitive, such as Putco and the boards, were making use of it.

"But a lot of individuals in the troubled areas who are after protection for their homes and cars are also looking for cover from us.

Mr Schneeburger said the association was formed to "provide material damage insurance arising from acts of political terrorism".

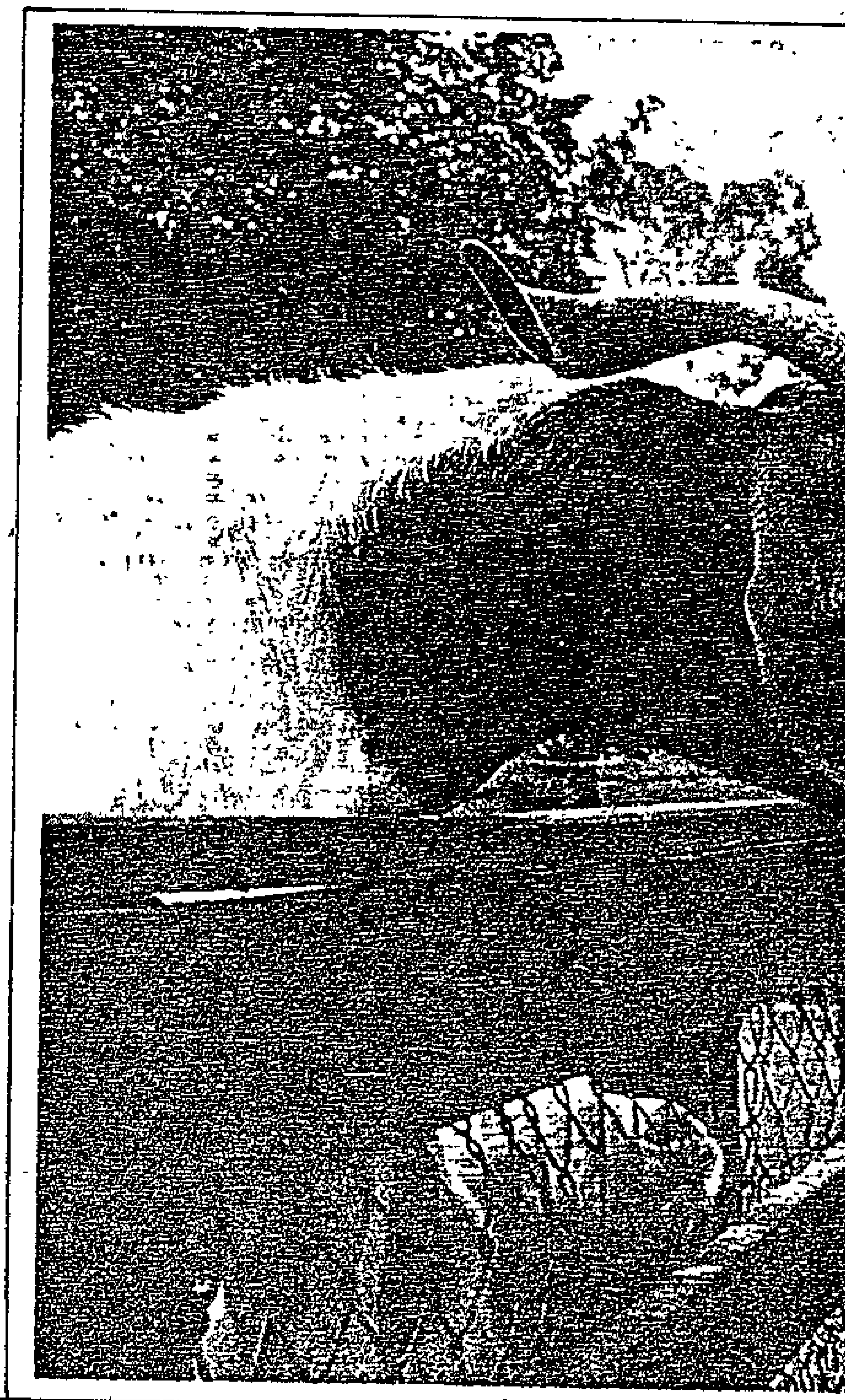
Insurance companies perform the general administrative functions, but the association is run for the benefit of policyholders.

In the background is the Government which, if all Sasra's funds were called on for claims, would step in and guarantee payment. It is, in effect, the "reinsurer of the last resort".

In March, Sasra will extend its cover to provide consequential loss insurance, which will cover lost wages, profits, and other expenses needed to re-establish a business after a riot.

Mr Schneeburger said South Africa was one of the few countries which had such insurance cover for political rioting and acts of terrorism.

He added that the special insurance cost only R10 a year, for example, for riot cover for a car.



Big rise in all premiums: payouts totalled R100-m

STAR 30/11/84 (58)

By Russell Gault

The insurance industry in South Africa has had to pay out more than R100 million in the past 11 months.

And today industry leaders warned that big increases in premiums would have to be introduced next year.

Said Mr Mike Newman, chairman of the South African Insurance Association and Allied Bodies: "It has been catastrophic. It's the worst year in insurance history in this country."

The association's chief executive, Mr Rodney Schneeberger, said that for every rand taken in by the industry this year in the form of premiums, R1,30 had been paid out in claims, commissions and administration.

Asked to outline the legitimacy of the association's claim that it was experiencing hard times, he explained: "These losses by the industry will take a long time to make up."

He said all premiums would have to go up significantly next year, including home and car charges. The brunt would be carried by industrial clients, and to a lesser extent commercial clients.

STORMS

Mr Schneeberger said the financial drain on the industry this year started on January 13 with a major storm at Bethal and Kriel.

This was followed next day by another big storm in the Pretoria area, and Cyclone Demoina from January 18 to February 3.

From February 16 to 19 more widespread damage was caused by cyclone Imboa and then, in May, storms raged in the Cape for several days.

Demoina brought claims of R37 million, and the Cape damage added another R23 million to the insurers' bill.

The total for all these storms — but not including other smaller storms during the year — was R61,5 million.

Mr Schneeberger said returns were not yet in from all insurance companies, but "very conservative" estimates placed the insurance bill at R60 million.

"Just these specified storms have resulted in claims of more than R120 million."

But the bleak picture for the industry does not end there, said Mr Schneeberger. Fire losses have added another R325 million toR350 million to the insurance tally for the six months to June 30. Figures for the following months still have to com

RDM 29/11/84
58

Gold falls still further

GOLD dropped below $330 to another 28-month low in London yesterday, but recovered some ground before the close.

The morning fixing was $329,10, compared with Tuesday's second fixing of $332,90.

In the afternoon the price dipped fractionally, to $329, but showed a firmer tone in late dealings. The closing range was $331,25/$331,75.

After further weakness in New York overnight, the opening level in London yesterday morning was about $328,50, while in Zurich the early quotes were as low as $327.

Zurich dealers said the dollar's continued strength was the main factor behind gold's weakness.

They added that on a chart basis, gold was looking very vulnerable.

This was particularly so since the key $330 barrier, the previous low this year for gold, had been broken.

Dealers said early trading was particularly nervous.

"This is further evidence of the general lack of confidence in the precious metals market", one dealer said.

Gold is usually neglected when investors' trust in the dollar is especially strong.

For most of this year gold trading has been sluggish and the market has been generally confined to professional operators.

Private investors have looked to the dollar and other investments denominated in the US currency.

Gold is now at its lowest levels since July 9, 1982, when the price traded between $328 and $331.

During 1983 gold traded between a low of $372 and a high of $515.

Other precious metals were also lower yesterday with silver quoted at $7,07/22 an ounce compared with the previous close of $7,25/45.

Platinum was quoted at $317,00/$320 against $320,50/$322,50.

Dealers said the only factor supporting gold prices was physical demand from operators buying into the metal at current lower prices.

But most traders believe this support is only temporary.

"There are still a lot of long gold positions in the market and they could soon be unwound,' one dealer said.

This trader put the next lower barrier for gold at $320.

"If this is broken there could be a real market shake-out and then we could see gold below $300," he said.

Gold has weakened and the dollar has risen despite easier US interest rates. The trend is confusing dealers.

"It is irrational and in defiance of all logic," said one senior trader.

In London, the dollar opened higher in line with the sharp overnight rise in New York. Dealers said the US currency remained well bid by corporate customers.

The dollar opened at 3,0735/45 marks, more than two pfennigs above the previous 3,0510/20.

Dealers said fear of Bundesbank intervention, which has cast a shadow over the market for the past two months, has diminished. The recent rise has been fueled more by corporate demand than long dollar positions held by banks or speculators. — Reuter-AP.

KDM1 11/12/84 (58)

Annual money supply figures show alarming rise

Body blow for Govt's economic policy hopes

By HOWARD PREECE

THE Government's economic policy hopes were dealt a severe blow yesterday by the latest money supply figures which showed a sharp rise in the annual rates to the end of October.

The broadly defined M3 measure — regarded by the Reserve Bank as the most important monetary indicator — showed a 23,1% growth, compared with 17,6% in the 12 months to September.

This means there is obviously excessive liquidity in cash and credit form overrhanging the economy.

That, in turn, will make it that much harder to get inflation down to 10% or less in 1985, even with a return of recessionary business conditions.

All this adds to the pressures on the Minister of Finance, Mr Barend du Plessis, and the Governor of the Reserve Bank, Dr Gerhard de Kock.

It may be, of course, that the November and December money supply figures will show a distinct reduction in growth.

The narrow M1 money supply measure soared by 36,6% in the year to October (31,2% to September) and the broader M2 was up by 28% (21,6%).

M1 comprises cash and demand deposits of the non-bank private sector, M2 is M1 plus savings deposits of the non-bank private sector and M3 is M2 plus all other deposits of the non-bank private sector.

The familiar caution against reading too much significance into any one month's developments must be voiced.

Money supply figures in SA are subject to a variety of distortions and errors — "statistical noise" is how Dr De Kock defines it.

But when every allowance is made, the fact is that SA's money supply expansion has patently been dangerously extravagant this year.

The latest economic opinion from Barclays National Bank suggests (see Page 2) that the August financial package, which saw prime rate move up to 25%, went too far.

That view, however, is not shared by most economists.

The general belief is that by August the underlying position in the economy had worsened to the point where crisis measures were necessary.

The real criticism is in the way the economy was run in the 12 months or more before August.

Tough action earlier would have saved some of the later grief.

At any rate, the latest money supply figures certainly do not suggest that the authorities have gone in for overkill.

They rather reinforce the anxiety of those who are concerned that the drop in prime rate to 23% may have been a little premature.

Opponents of that approach, including Barclays, argue, however, that overdraft and general credit rates are more than sufficient to deter any borrowers other than those who have no choice.

But why did money supply shoot up in October?

Various factors, including a large surplus on the current account of the balance of payments and Government spending, seem responsible.

Money supply figures could drop appreciably next year.

While all the attention tends to focus on the supply of money, it is important to look at the other side — the demand for money.

With interest rates, real and nominal, at forbidding levels, and the economy moving into another downphase, the demand for credit should ease.

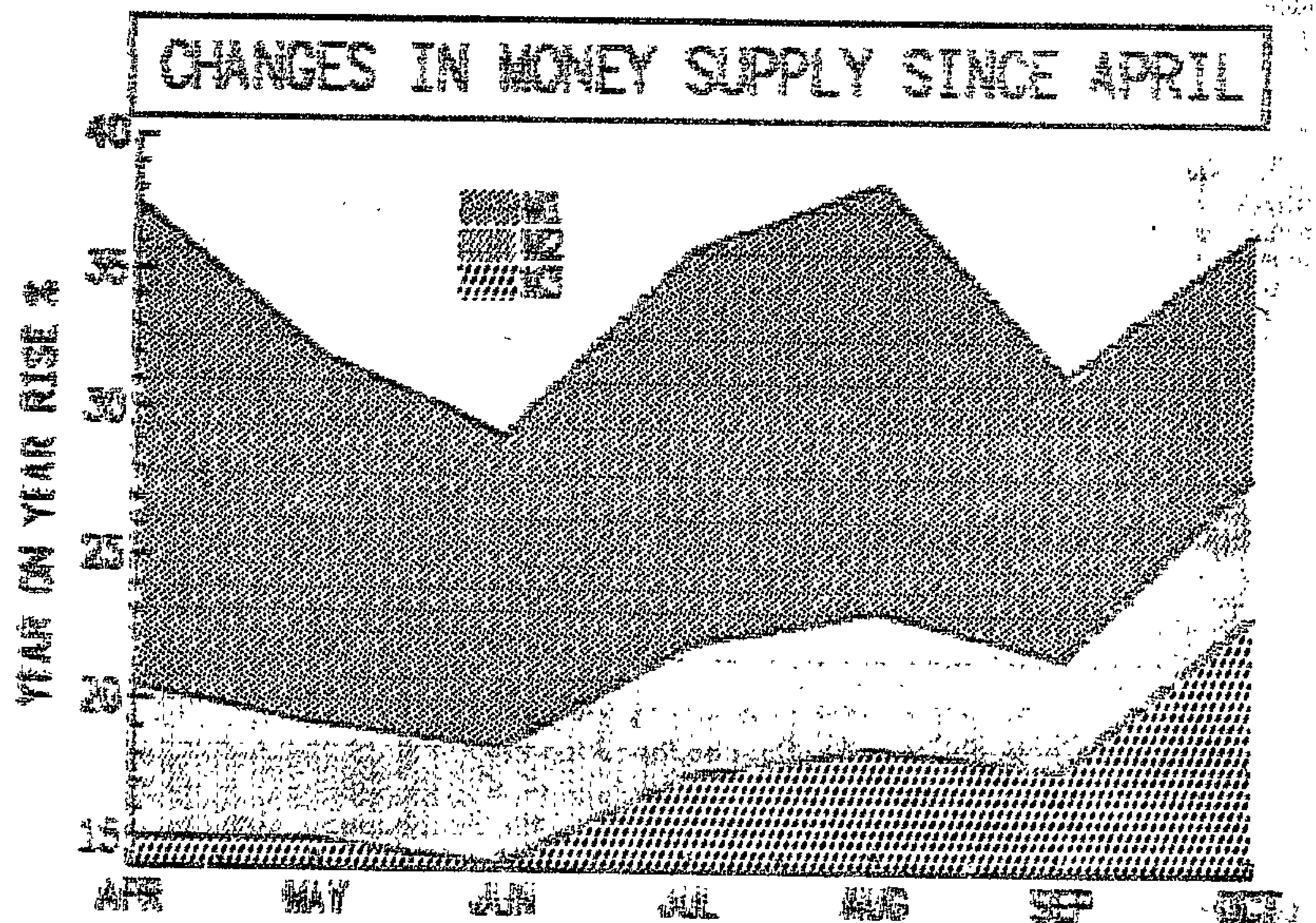
That must naturally have a major influence on the supply side of the equation.

So far as 1985 is concerned, however, the inflationary overhang is already there.

It is true that countries such as the US and Britain managed in the early 1980s to achieve large reductions in inflation despite huge previous rises in money supply.

But their economies, particularly that of the US, have a lower cost-push inflationary trend built into them than South Africa's.

Getting inflation below 10% is going to a protracted and painful exercise.



RDM 13/12/84 (58)

43% RISE IN LOANS

By HAROLD FRIDJHON

IN THE 12 months ended September 1984 total bank lending, including overdraft and instalment advances, increased by 43,5% to R37,741bn from R26,285bn.

Advances on instalment contracts — hire purchase and leasing — grew by 40%, from R11,03bn to R15,501bn. Loans on overdraft rose by 45,7% from R15,255bn to R22,24bn.

An analysis made by the Standard Bank's marketing and intelligence department of the BA9 quarterly returns submitted by the banks and other financial institutions to the Registrar of Financial Institutions suggests that the peak interest rates introduced at the beginning of August did not dull the public's appetite to borrow money.

Compared with an average increase of 10,6% in bank advances in the March and June quarters, the increase was 14,3% in September. This compares with 13,1% in September 1983. It seems that an above-average increase in lending occurs seasonally in September, probably as stocks and shipments are built up ahead of the customary December upsurge in trade.

And, despite high interest rates, this year appears to be following the normal pattern.

In the case of instalments-sale lending, the increase in the September quarter is out of pattern. This year the increase was 9,5% compared with 6,6% in September 1983. The increase was unusually high in both the March and June quarters.

Not only did the public go on a buying spree in May and June ahead of the increase in GST (and some of these transactions flowed over into July because of administrative difficulties). Higher rates of interest at the beginning of August also boosted bank's books because of increased finance charges.

The December issue of the Reserve Bank's Quarterly Bulletin says the further increase in bank credit to the private sector in the third quarter was concentrated in July and August.

The bank mentions the delay in processing hire purchase transactions over the June month-end, causing the increase in the September quarter and says "other contributing factors included the involuntary stock building because of reduced consumer and industrial demand, the re-intermediation of credit transactions resulting from tight conditions in the inter-company market for funds and a large flow of tax funds to the Government, and an increase in the holdings of Land Bank debentures by the discount houses".

The Reserve Bank notes a decline in bank lending in September and that preliminary information for October indicates a further deceleration in the rate of increase extended to the private sector.

In terms of market share, Barclays still has the largest portion of the market for overdraft advances (24,7%) with Standard Bank second at 23,8%, but Nedbank takes third place with 16,7% compared with 13,9% in June. September is the end of the Nedbank financial year and the bank, as happened last year when it held 19% of advances, appears to have brought many advances back onto balance sheet.

The Bankorp group was fourth with 14,7% with Volkskas fifth with 14,1% of the market.

~~Gold~~ GOLD hits '82

low as prime rate goes up

CAPE TIMES 18/12/84 (58

Own Correspondent

JOHANNESBURG. — The reeling South African economy received another two body blows yesterday from events on the local and international markets.

In London the gold price fell to below $315 an ounce at one stage which is the lowest level recorded since July 1982, while at home the prime interest rate was increased by one percent to 24 percent.

Indications are that things could get worse with gold analysts expecting gold to drop to levels around $300 an ounce while bankers believe the prime interest rate could again hit 25 percent.

Heavy slumps

The increase in the prime interest rate indicates there will be no early let-up of the austerity measures aimed at forcing South African consumers to live within their means and curb the country's high rate of inflation.

The high interest rates have caused heavy slumps in sales of furniture, cars and durable goods such as refrigerators and have brought protests from businessmen who claim they are being forced out of business by the measures.

Insurance giant Sanlam believes the poor business conditions will continue until late 1985 and the months ahead will make great demands of both businessman and consumer.

Sanlam believes, however, that the stringent restrictive measures are an essential adjustment to the economy and should not be relaxed too rapidly.

"If this were to happen, South Africa would once again merely experience a premature and short-lived upswing," the group says in its latest economic review.

Political move?

The overdraft rate has now changed three times in four weeks. These erratic moves within a very short space of time have resulted in businessmen questioning whether the prime rate should have come down in November in the first place.

When the Standard Bank cut the prime rate in November, some observers held that the adjustment in the rates had been politically inspired to strengthen the government's hand in the Primrose election — particularly as the Reserve Bank had responded with such alacrity by cutting its re-discount rates by 1 percent.

But political motivation has been strenuously denied by people in banking and by the authorities.

Rand slips

The immediate effect of yesterday's slide in the gold price was a drop in the value of the rand to US$0.5265 from Friday's closing level of US$0.5330.

The low rand has benefited many exporters who are earning more rands for their products sold overseas, but it poses major problems for South Africa's inflation rate which remains at levels twice that of the United States and the United Kingdom.

A persistent high rate of inflation has serious economic consequences for South Africa. Conversely, lack of inflation overseas is keeping the gold price low because the gold price is closely linked to international inflation.

Disinflation

Unlike South Africa, the major Western nations have experienced disinflation for several years and this trend is likely to continue. Despite high unemployment, governments from the UK to the United States are intent on controlling inflation.

The international oil market is also helping reduce inflation. Oil prices are weakening because of excess supplies. Lower oil prices are negative for gold because they reduce international inflation and the buying power of sheikhs and other Middle Eastern citizens.

Middle Eastern deposits in the Eurodollar market also decline, so international money supply shrinks. There is less money around to buy an asset such as gold which does not produce income.

'Hangover'

"Gold's two-year hangover shows little sign of ending; without the return of inflation the gold price won't pull out of its dive," comments Euromoney, the international banking magazine.

Even though jewellers' demand for gold improved this year, it cannot absorb all the supplies. Investors and possibly central banks must buy the rest. This demand, however, is weak.

crack of dawn

"I hope the security police posted early for Christmas. Just in case they sent their Christmas cards to the wrong address-es."

Hansel and Gretel c
these sweet-toothe
resist this 230 kilog
City hotel and mad
The visitors from J
Lara T

Three

Bette Midler

Bette

Own Corresp

NEW YORK. — Bette ten outrageous sin caught everyone by over the weekend w nounced she had got

On Saturday evening mony in Las Vegas, "quickie" weddings,

FINANCE – GENERAL
1985

January – August

Cape Times 31/1/85 58

Student loans: What the banks offer

IT'S the time of year again when university towns start doubling in population as students return from vacation.

You will notice their presence at busy supermarket tills, or working as waitresses or waiters in the local steakhouses.

However, the income is usually only enough to provide pocket money. In this two-part series Early Bird took a look at what the major banks offered to students in the way of loans.

BARCLAYS:

Each application for a loan is considered on its merits, with academic excellence playing a large part.

Loans are also made to first-year students.

Amounts go up to R3 500, but care is taken as to what repayments the student will be able to handle, following qualification.

Students taking commerce-related degrees are given up to R3 500, whereas those taking arts-related degrees are given a maximum of R2 500.

Those taking postgraduate and specialist degrees can be eligible for loans of more than R3 500, depending on the merit.

The current interest rate is 8,5 percent across the board.

Loans are also granted to technikon and Unisa students.

Students are required to fill in an application form and if it is for a first loan they must make an appointment with the person concerned with student loans. A letter of guarantee is required.

Repayment is over the period the loan was required for and is payable on completion of studies or when the student stops studying.

The interest payment must be met each month to avoid the compounding effect once the loan becomes repayable.

For more information contact Mr Richard Saner at (021)69-4384.

Students return from vacation — to studies and jobs, such as waitressing in restaurants.

NEDBANK:

Full-time students in residence at the university can get up to R3 000 a year and full-time non-resident students up to R2 000 a year.

Full-time students at tecnhikons or other tertiary-education institutes also qualify for up to R2 000 a year. However, in exceptional circumstances higher loans can be granted.

Students who already receive financial aid do not qualify.

Interest rates are 8 percent but subject to change.

The interest is calculated on the amount of the loan outstanding and debited to your account monthly.

Students are required to fill in application and budget forms.

The funds are released either in a lump sum or according to their needs. Students are expected to repay the loan on completion of their studies at which time they are sent a reminder of the amount owing as well as the minimum monthly repayment required.

Students under 21 require parental guarantees.

For more information contact your nearest Nedbank branch.

STANDARD BANK:

The bank offers students as much as they require for their studies, bearing in mind the end debt compared with the qualified student's earning capacity.

On average an amount of R3 000 is found to be sufficient but medical students may require more.

In the case of medics, the bank will provide additional finance for items like transport and elective studies.

The rate of interest is 8,5 percent.

Repayment is generally year for year, but is flexible depending on circumstances.

Application for a loan is made by making an appointment through any branch of the bank, although the bank closest to your chosen venue of study will probably be more aware of student needs.

Generally a form of surety is required, for instance a guarantee from a parent.

The bank has given R1 million, which is divided into 500 R2 0000 scholarships for exclusive use of first-year students.

These scholarships are administered by the universities. Students qualifying for these are automatically granted surety-free loans until the end of their studies.

Loans are also granted to technikon students and those following other types of tertiary education.

For more information call Mr Chris Downie at (021)69-8367.

Rand continues upward climb

ARGUS 30/1/85 (58)

Financial Editor

THE rand continued to climb strongly against the dollar in the foreign exchange markets today rising 3 US cents to 51,75 US cents at one stage to show a gain of almost 20 percent in the past week.

Exporters were reported to be bringing into the country huge sums of dollars in a bid to convert them into rands before the exchange rate rises any higher.

"They are dumping dollars on us," commented Mr A S DcDonald, a senior general manager at Barclays Bank.

Some foreign exchange dealers believe the rand could rise to as high as 55 US cents in the next few days.

The recovery in the rand in attributed by dealers to a number of factors. These include:

- The improvement in the country's balance of payments in the past few months, and expectations of an even more substantial improvement this year;
- Measures taken by the Reserve Bank to restore confidence in the rand's exchange rate; and
- Indications that the United States is prepared to take steps to prevent the dollar rising further in the foreign exchange markets.

Meanwhile, the Governor of the Reserve Bank, Dr Gerhard de Kock, and the Minister of Finance, Mr Barend du Plessis, have announced further measures — and indicated that others could be taken — to improve the rand's exchange.

The decision that the Reserve Bank will retain half the gold mines' dollar earnings, and paying them in rand instead, is seen as a sign that the Reserve Bank plans to participate more strongly in the foreign exchange markets.

It will give the Reserve Bank dollars which it could use to support the rand if it believed this to be necessary.

At the same time the decision to allow the banks to buy dollars forward without covering in the spot market is also seen as reducing pressure on the rand's spot exchange rate.

The suggestion that importers might have to pay a deposit if the volume of imports were to rise inordinately is seen more as a threat than a reality.

Other measures, including the decision that in certain conditions the banks will have to apply directly to the Reserve Bank for accomodation are seen as having the intention of curbing current consumption.

Rand surges to $0,4770 — gold shares fall sharply

Cape Times 29/1/85

58

By PAUL DOLD
FINANCIAL EDITOR

THE rand surged to $0,4770 yesterday in the strongest performance for weeks, reflecting closer monitoring of export proceeds and increasing nervousness that the Reserve Bank may soon announce new measures to strengthen the currency.

The change of sentiment caught the market by surprise and trading at times was hectic as dollars flooded the market in a sudden reversal of the leads and lags situation.

The rand's performance was even more impressive given the weak gold price which hovered below the $300 mark.

There was intense market speculation yesterday that the authorities are considering tightening the regulations covering the gold mines foreign exchange revenue.

Dealers are suggesting the authorities may be planning to retain some 50 percent of the dollar proceeds, while allowing the full proceeds in rand terms to be channeled to the mines.

The central bank would thus be in a stronger position to control the flow of dollars to the foreign exchange market.

A severe shortage of dollars has been one of the causes of the rand's recent sharp fall.

The rand which has been fundamentally underpriced for some time may well have bottomed although the weak gold price could again apply pressure.

The rand's strong rise is a notable achievement for the Reserve Bank Governor, Dr Gerhard de Kock, whose recent talks with the commercial banks has led to some shift in sentiment surrounding the rand.

The currency closed at $0,4690 after Friday's $0,4455.

Gold shares closed sharply lower reacting to the fall in the rand gold price and declines of six to 10 percent were widespread.

Randfontein fell R14 and Kloof nearly R6 with some 40 shares closing lower on the day.

The gold index fell more than 40 points towards the 909 level from Friday's 954,6.

The Kruger rand was also hit and the one ounce coin dived R35 to R640.

The industrial index came back to around the 790 level with sector leaders such as Barlows and Brews continuing to ease. But there were some notable gains among industrials with Kersaf, a firm spot, spurting 50c and Pick 'n Pay adding 25c. Some 42 shares eased while 12 were higher and 56 unchanged.

It was a dramatic day too for sterling with yet another rise in interest rates as the pound fell to new lows reflecting weaker oil prices.

Barclays led the rise in bank base lending rates to 14 percent (12 percent), bringing the gain to 4,5 percentage points in the past three weeks. The increase took rates to a three-year high.

The Bank of England later supported the move by the banks by increasing its money market dealing level by two percent.

● Against other major currencies, the rand closed at:

USA: 0,4680/4700.
UK: 2,3800/20.
Germany: 1,4835/55.
Switzerland: 1,2470/90.
Netherlands: 1,6760/80.
France: 4,5350/5450.
Japan: 119,00/50.

58

Liberty Life shows 41% new premium growth

JOHANNESBURG. — The Liberty Life Association had a marked growth in new business in 1984, with new sums assured increasing by 41 percent over 1983, while new recurring income increased by 30 percent.

Releasing these figures in here yesterday, Liberty's managing director, Mr Monty Hilkowitz, said that the increased in new sums assured from a total of R3 627m in 1983 to R5 119m last year reflected an increasing move by policyholders towards whole life policies in preference to endowment policies.

Life cover

Liberty Life's Universal Lifestyle policy, which combines life cover with investment according to the requirements of the client, was a major contributor to this trend, he said.

New recurring premium income last year totalled R114,4m, compared with R88,3m in 1983, while new single premiums and annuity considerations declined slightly to R112,7m (R120,5m).

The company, which launched its Universal Lifestyle policy in late 1983, also announced additions to the policy yesterday.

The new options to policyholders are a reduced life cover plan, where greater emphasis is placed initially on the investment benefits of the policy, and an escalating life cover plan which emphasizes the life cover aspect, while pegging the policyholder's monthly contribution at a fixed level.

The two new options bring the range of options available for opening a Universal policy to five.

The existing options are standard cover, which provides an even mix of insurance and investment components, extra cover which provides double the life cover of the standard policy and maximum cover, which provides three times the life cover of the standard policy.

Options

However, the "mix" on any of these options may be changed a year after the policy has been opened.

The new reduced cover plan, aimed at young adults and the endowment market, provides half the life cover offered under the standard plan.

The escalating plar gives a guaranteed escalation in life cover without increased contributions. It is considered suitable for, among other things, partnership protection and higher age groups. — Sapa

---

London stocks after hours: Blyvoors $8\frac{3}{16}$, Bracken 165, Driefontein $23\frac{5}{8}$, E Rand Prop 7, FS Geduld $22\frac{5}{8}$, Grootvlei $7\frac{1}{4}$, Harmony Gold $12\frac{3}{4}$, Leslie Gold 238, Randfont 90, SA Land Exp 263, Southvaal $34\frac{3}{4}$, Stilfont $9\frac{1}{4}$, Venters $7\frac{1}{2}$, W Rand Cons $4\frac{1}{4}$, Zandpan 82. — Reuter

Rand spurts as central banks push $ lower

CAPE TIMES 23/1/85

58

By PAUL DOLD
Financial Editor

THE rand rose over the $0,44 level yesterday in its strongest performance in weeks in foreign exchange markets, while the dollar moved down in the wake of concerted intervention by central banks.

The brighter performance of the currency lifted some of the gloom which has enveloped financial markets in recent weeks as the rand fell sharply, seemingly with little apparent floor.

Investors were also cheered by the no change in the inflation rate for the country in December, which suggests that the increasingly fierce competition for the consumer's rands since the August austerity package was introduced is having the desired effect.

Profit margins are being cut leading to lower prices and inflation.

While a sharp rise in the fuel price is likely and the effects of the lower rand still have to be digested, December's performance is nonetheless encouraging.

Yesterday's improved rand is a strong warning to gold share speculators. The sudden lift in the rand unnerved the gold board on the Johannesburg Stock Exchange which came back fairly sharply after earlier opening higher.

Investors should be highly cautious in accumulating gold shares at this stage in case the rand firms further.

With the rand grossly undervalued by any standard speculators are open to high risks in taking positions against the currency.

The Central Bank intervention against the dollar — the German, British, French and Austrian Banks sold dollars yesterday — is highly significant and flowed from the recent meeting of Western finance ministers in Washington.

The banks pushed the dollar down to 3.1650 marks and dealers said there now appears to be a ceiling of 3.18 marks on the dollar.

But for the central bank action the dollar might have climbed to new peaks yesterday after news was released that the United States economy in the fourth quarter grew at 3,9 percent instead of the earlier estimated 2,8 percent.

The overall economic growth last year was 6,8 percent — the highest in 33 years. This was coupled with an inflation rate of only 2.4 percent in the fourth quarter. The annual rate was 3,7 percent as against 3.8 percent in 1983.

There was no indication that the United States Federal Reserve intervened against the dollar yesterday but the central bank was selling dollars on Friday.

As trusts switch from equities... Rom 16/1/85 (58)

Registrar eyes cash mountain

By DAVID ROSS
Investment Editor

THE big switch by unit trusts away from equities and into liquid assets is causing official concern.

The funds are clearly nervous about the outlook for equity share prices.

They have been steadily increasing the extent of their holdings in liquid assets.

But the process has gone so far that the Assistant Registrar of Financial Institutions, Mr Jan Loubser, says the registrar's office is "keeping a close eye" on this development.

The worry is that some trusts could, unintentionally, be turning themselves into something approaching money funds — which are not allowed in this country.

The latest quarterly reports of the unit trusts to end-December showed that the 12 equity funds held R247,9m, or 22,2% of their portfolios, in liquid assets. As reported in Business Mail last week, this is the highest level of liquidity in the history of the industry.

Among the individual equity trusts, highest fixed-interest levels were those of Santamgro with 50% and UAL Mining and Resources with 42%. Taking into account 3% held for dividend distribution, Santamgro had less than 50% of its portfolio in equities.

Mr Philip van Zyl, of Santamgro, notes that the total of fixed-interest holdings in the trust at end-September was 40%.

This was composed of 22% in long-term gilt-edged stocks and 18% in liquid assets (short-term gilts and money market instruments).

By end-December a portion of the long-term gilts had less than three years to redemption, and consequently became rated as liquid assets. At that date the proportions were 13% in long-term gilts and 37% in liquid assets.

"To that extent", he says, "the high levels of liquid assets represent a technical position which has occured without any action on our part."

But for an equity trust to be holding less than 50% of its funds in equities might be construed by the registrar as setting up a kind of back-door money fund.

While such holdings may not transgress the letter of the Unit Trust Act, they might certainly be held to be transgressing its spirit. After all, the whole purpose of the Act was to allow the man in the street the opportunity to invest in equities.

At UAL, Mr Alister Colquhoun says he believes his duty is to provide investors with the best management of funds that he can.

"In circumstances of historically high interest rates, a poor economic outlook, and industrial equities generally at uninteresting levels, short-dated gilts at a discount are an attractive option for the moment.

"They offer a guaranteed element of capital appreciation as well as a good immediate yield."

Mr Van Zyl points out that the "technical" situation of Santamgro is no doubt a temporary one. But what is temporary?

"I feel sure that by the time the next quarterly figures for the trust is announced, funds will have been moved from liquid assets into other kinds of securities."

COMMENT: Investors in unit trusts are buying management of their funds. It is possible to have sympathy with investment managers of the trusts who are trying to do their best for their unit-holders.

On the other hand, one can earn 20% gross or more with R1 000 placed on call, although with no prospect of capital gain.

So the price of management may seem rather high on units yielding 9,5% (UAL mining) or 11,4% (Santamgro) when an appreciable portion of dividend distribution comes from interest receipts.

In the case of UAL Mining and Resources units, for example, 74% of the latest dividend derives from interest.

The refusal of the authorities to countenance money funds derives from a desire to protect such institutions as building societies. Overseas, unit trust managers might in current circumstances here advise switching part of a customer's funds to such an instrument.

Gold profits soar as dollar pushes rand to new lows

ARGUS 16/1/86

By TOM HOOD
Financial Staff

(58)

MANY South African gold mines are reaping record profits as a result of the United States dollar pulling the rand down to its worst level.

More mines today reported huge increases in profits for the December quarter — when their income from gold was far below today's rand price of gold.

They will now get about R700 an ounce for their gold — 52 percent more than a year ago when the rand price of gold was R464.

The rand has dropped 46 percent, from 80 cents on January 16 last year to about 43 cents.

LOWER-GRADE ORE

Some mines are taking advantage of the high price and switching to lower-grade ore that was previously unprofitable.

The giant Randfontein mine's profits jumped 64 percent to R75-million after tax for the December quarter.

Other mining profits reported are Western Areas, up 12 percent to R18-million; Hartbeestfontein, up 15 percent to R30,4-million; Loraine, R11,8-million, up 55 percent; Prieska Copper, R10,2-million, up 30 percent; Consoliated Murchison, up 62 percent and Harmony, R33,8-million, up 34 percent.

The rand, meanwhile, rose to between 45 and 48 US cents in New York last night after speculation that South Africa might bring back foreign exchange controls in a bid to check the rand's plunge against the dollar.

"MOUSETRAP"

After falling to a record low of 42,30 cents in Johannesburg yesterday, the rand was quoted at 43,55 cents today.

However, the governor of the Reserve Bank, Dr Gerhard de Kock, responding to the New York speculation, said today the bank had no intention of reintroducing foreign exchange controls on non-residents.

"South Africa does not want to change the rand into a mousetrap currency, something that one can get into but not out of," he said.

The rumours centred on the possible reintroduction of the financial rand and a possible limitation on the speculative positions of the foreign branches of South African banks.

● See Page 15.

Gold at $302,45

GOLD was fixed at $302,45 in London today, up on the New York close of $301,65 last night.

The rand was quoted at 43,55 US cents in Johannesburg, up from last night's 42,95 cents and the record low of 42,85 cents yesterday.

Rand dives to $0,4295

58

CAPE TIMES 16/1/85

By PAUL DOLD
Financial Editor

THE rand plunged close to the $0,42 mark yesterday as bearish market sentiment pushed the currency through the $0,43 level in spite of a steady gold price.

The record low yesterday was $0,4230 with the rand weakening throughout the day but edging off its lows towards the close ending trading at $0,4295.

Although some Reserve Bank support was seen, the weight of selling pressure pushed the rand steadily lower.

The rand lost more than $0,2 after closing the previous day at $0,4468/75. Dealers described trading conditions as hectic and chaotic as the currency slid amid a huge demand for dollars.

The table below shows how the rand has weakened substantially against leading currencies, even sterling.

How the Rand has fallen

	Latest	Jan 1984
Dollar	42,9500	78,5500
Sterling	2,6095	1,7775
Germany	1,3645	2,2265
Swiss	1,1475	1,7715
Netherlands	1,5420	2,4967
France	4,1833	6,7920
Japan	109,4000	183,0000

But there was a brighter side to financial markets yesterday with the diving rand leading to a record gold price in rand terms of around R710.

This led to another spurt in gold shares.

Brokers say that apart from local demand there has been overseas interest.

The gold index rose nearly 10 points yesterday having gained nearly 92 points since the start of the year when the rand/dollar rate was $0,4975.

Kruger rand prices are also rising sharply with the one ounce coin gaining R27 to R687 on the Johannesburg Stock Exchange yesterday. Only a few days ago the one ounce Kruger stood at R650.

In contrast to gold shares, industrials are easing with shares in the stores sector particularly weak.

There is tremendous pressure on the overdraft rate and a one percent rate increase cannot be ruled out.

While the authorities would probably seek to avoid an increase ahead of the new Parliamentary session, a rise will be necessary if the rand continues to fall through the $0,40 mark.

● A temporary respite for the battered rand could be seen later today following a new round of prime cuts by United States banks. This should lead to some profit-taking and the rand could steady.

Commodity Index	1965,9
Platinum	$271,00
Palladium	$116,75
Raw Sugar	£102,50

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.

New low of 45,07 US cents after latest flurry of dollar buying

Rand plunges

58 ARGUS 11/1/85

Financial Staff

PRICES of imported goods can be expected to rocket this year as a result of the rand's dropping to new lows on foreign exchange markets today.

The rand, hit by speculators and an ever-rising US dollar, slipped more than two US cents in Johannesburg today to its lowest so far of 45,07 cents.

Later, the rand recovered slightly to 45,45 cents, still below last night's 47,15 cents.

Dealers said a sudden flurry of dollar buying in chaotic trading drove the rand through its previous low of 46,55 cents set on Wednesday. The drop followed a large commercial order for dollars.

Interest rates

Bankers say many industrial companies are taking a conservative view of the rand and planning ahead on the assumption that it might drop as low as 40 cents and help to push interest rates higher, taking the prime rate to a penal 30 percent from today's 27 percent.

The drop pushed the rand price of gold to a record R674, based on the new low. This added fuel to a rush to buy gold shares on the Johannesburg Stock Exchange.

Forty gold shares moved up — Vaal Reefs topping the list with a 700c jump.

Investors saw the dramatic effect of a low rand today when Gold Fields, the first of the big gold mining groups to publish its quarterly reports, produced record net profits of R222-million compared with R163-million a year ago, when the gold price was $371,25, well above today's $304.

Highest sales

More than R16-million of shares changed hands on the JSE yesterday, the highest sales this year.

Since January 11 last year, the rand has depreciated by 74 percent against the dollar and by 36 percent against the British pound.

A year ago the rand was worth 78,25 cents.

Although the pound today dropped to its lowest ever — $1,12 — it is now worth R2,40 against R1,76 a year ago.

Gold was fixed at $304 in London today, the same as last night's price.

● See Page 9.

Offshore funds flow into SA

By PAUL DOLD
Financial Editor

Cape Times 1/1/85

LINES of offshore money are flowing into South Africa and leading to a drop in the short-term money market rates.

The capital inflow is occurring amid signs of greater confidence in the handling of the economy by the authorities following this week's new measures which have led to renewed stability in the rand.

The firmer gold price is also helping sentiment.

New measures

The new measures have been generally welcomed restoring stability to financial markets.

The Reserve Bank Governor, Dr Gerhard de Kock, has emphasized that monetary policy will remain tight until inflation declines.

Several banks are understood to have arranged offshore rates at well below South African rate levels raising two to three-month money at around 22,5 percent.

One bank alone secured R500m of finance.

This led to the market shortage falling sharply to below the R2 billion mark.

The increase in liquidity pushed the bankers' acceptance rate to 22,25 percent from Wednesday's 22,50 percent.

The bank loans are being fully covered.

The rand closed steady at $0,5055 yesterday after touching $0,5130 in earlier trading.

Gilt rates are tending to come off their recent peaks with the long RSA down to 17,23 from 17,34 and the long Escom easing back to 17,24 percent from 17,33 percent.

Weekly tender

The Reserve Bank announced it will be offering R30m of Treasury Bills at its weekly tender.

The following rates were indicated (in percent):

BAs: One month 22,40; two months 22,35; three months 22,25; fix 22,30.

NCDs: One month 23,40/70; two months 23,80; three months 23,80; six months 23,00; one year 22,00.

Treasury bill: 21,79.

Discount house call: 21,50.

CAPE. Times 8/2/85

Inflation, even if rand mends

(58)

Own Correspondent

JOHANNESBURG. — The stage for spiralling inflation, especially in foodstuffs, was set even if the rand strengthened, a major hypermarket chain predicted this week.

And consumer bodies have warned of the impact on the living standards of the lower-income groups if the government slashes food subsidies in the new financial year.

The fear is that a financially-embattled government will adopt crisis measures in the coming Budget to make ends meet, including possible sharp cuts in State subsidies.

There are also expected to be a series of meetings between consumer bodies and the Maize Board preceding an announcement of a huge increase in the maize price from May 1.

Food retailers were this week given price-increase figures on supermarket goods — expected to be effective by March — which indicate that consumers face inflation of at least 20 percent in the next few months, with imported items especially high.

On basic foods, rice will increase by 25pc, poultry 13pc, milk blends, creamers and soups up to 15pc, snack foods 11pc, spices 8pc, tinned fish up to 12pc, toothpaste and sweets 10pc and soap 16pc.

A spokesman for a major hypermarket chain said: "The tragedy is that the infrastructure for inflation already exists no matter what the position of the rand becomes."

● A spokesman for Dun and Bradstreet, business-information collectors, said 2 800 firms were forced into liquidation in 1984 and indications were that this would increase to 3 300 in 1985. There had been a 20 percent increase in default judgments.

MONDAY, 11 FEBRUARY 1985

†Indicates translated version.

Questions on general affairs for written reply:

58 Hansard Q.61. 37 11/2/85

Dollar value of rand

15. Mr J J B VAN ZYL asked the Minister of Finance:†

What was the dollar value of the rand on 23 January of each year from 1979 up to and including 1985?

The MINISTER OF FINANCE:

The value of the rand in terms of US dollar on 23 January

1979	1,1500
1980	1,2232
1981	1,3347
1982	1,0306
1983	0,9445
1984	0,7965
1985	0,4356

Balance of payments

16. Mr J J B VAN ZYL asked the Minister of Finance:†

What was the Republic's balance of payments in respect of the (a) current and (b) capital account for each specified quarter of 1984?

The MINISTER OF FINANCE:

(a) Balance on current account (R million):

1984	1st quarter	−439
	2nd quarter	−329
	3rd quarter	−523
	4th quarter (provisional figure)	+250

(b) nett inflow of foreign capital not related to reserves (R million):

1984	1st quarter	−105
	2nd quarter	+498
	3rd quarter	+295
	4th quarter	Not available

Sandton: bilharzia

17. Mr D J DALLING asked the Minister of Health and Welfare:

(1) Whether the water of the rivers and streams flowing through Sandton was tested for bilharzia by his Department in 1984; if not, why not; if so (a) on what dates and (b) where were such tests conducted;

(2) whether any traces of bilharzia or other dangerous elements were found; if so, what was the (a) nature and (b) extent of the traces found in each case?

The MINISTER OF HEALTH AND WELFARE:

(1) Yes.

(a) 15 May 1984, 14 September 1984, 7 November 1984, 6 December 1984 and 23 January 1985.

(b) Known potential snail habitates in the Klein-Jukskeirivier, Braamfonteinspruit and Sandspruit..

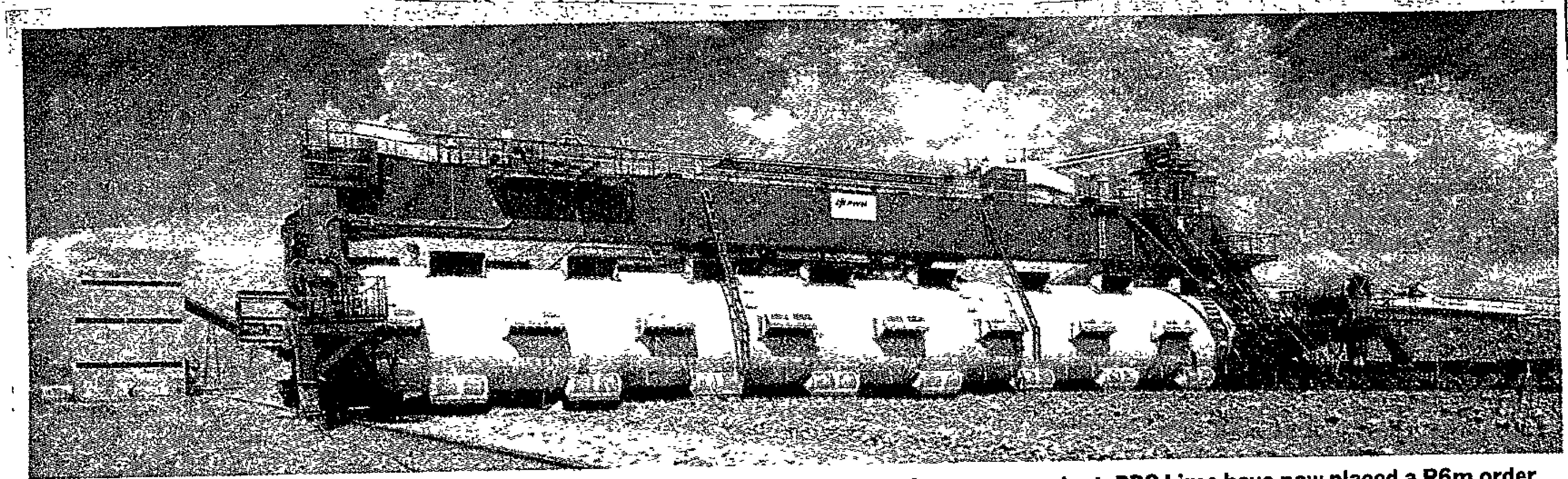
(2) No.

Hansard Q.61. 38 11/2/85

Immigrants

48. Mr A B WIDMAN asked the Minister of Constitutional Development and Planning:

(a) What is the estimated number of (i) males and (ii) females who entered the Republic as immigrants in the latest specified period of 12 months for which figures are available and (b) how many



This PHB Weserhutte 40m drum reclaimer was recently commissioned at the PPC Limeacres plant. PPC Lime have now placed a R6m order for the supply of a coal handling system at Limeacres. See Page 8.

RDM 14/2/85 (58)

Report of $200m overseas loan to SA

By NEIL BEHRMANN

LONDON. — The SA Government has been granted a $200m loan facility by European and American banks, says Agefi, an international credit newsletter.

The reported loan leader, Credit Suisse First Boston, vigorously denies the existence of the credit — but Agefi insists that the seven-year "revolving underwriting facility" is pitched at 3,8% above the London Interbank Offered Rate (Libor) of 9,5 %.

Agefi says bankers always deny their associations with SA but that the information is correct.

It was not possible to contact the Department of Finance for comment last night.

Under a "revolving underwriting facility" the SA Government may borrow or repay up to $200m within the seven-year period.

Recently Escom issued a $75m seven-year dollar bond at 12,25% and the Johannesburg City Council is believed to be negotiating a foreign loan.

Banks are sensitive about SA international borrowings because of the anti-apartheid lobby's success in the US.

Under pressure from the City of New York, Citibank said it would liquidate all loans made to the SA Government by the end of March.

It did not intend making any more of these loans in the foreseeable future.

The statement was made because New York City threatened to withdraw some $500m in deposits. Bankers say several other American banks severed ties with the SA Government several years ago.

Federal Reserve Bank statistics show total US bank loans to the SA public sector dropped from around $620m in June 1982 to $320m last September.

However, the banks, including Citibank, will continue to lend and provide trade finance for the SA private sector. They will also provide funds for public projects which help blacks.

Despite the pressure, SA borrowings have soared during the past few years.

The Organisation For Economic Co-operation and Development and the Bank for International Settlements (BIS) estimate that at the end of June last year, total borrowings were $19,65bn.

These loans include trade finance of $1,97bn and $2,1bn of Government-guaranteed credits.

Morgan Guaranty estimates SA borrowing in the international money and capital markets was $1,391bn last year, slightly higher than the $1,3bn raised in 1983.

With external debts of nearly $20bn, SA has entered the big league of international debtor nations.

Surveys by Morgan Guaranty and the Wall Street Journal list Brazil with gross external debts of $102bn, Mexico $95bn, Argentina $45bn, Korea $44bn, Venezuela $35bn, Indonesia $32bn, Poland $28bn, Phillipines $27bn, Turkey $25bn, Chile $21bn and Yugoslavia $20bn.

CAPE TIMES 14/2/85

Bank reviews ties with US city

From JOHN BATTERSBY

LONDON. — Barclays Bank (UK) has begun an urgent review of its operations in New York City following the introduction of legislation to cut city funds to banks that lend to the South African Government.

The top-level review by Barclays comes in the wake of fears that Barclays Bank of New York — a subsidiary of Barclays UK — could be directly threatened by the legislation.

The move by the New York City authorities — the first city to introduce such legislation — has already caused Citibank, the largest US lender to the South African Government, to say that it will liquidate all its loans to the government by the end of next month.

'Alarm'

The move to cut off hundreds of millions of rands in city business from banks and corporations that maintain ties with Pretoria has triggered an alarm at the Barclays headquarters in London — a frontline target of the anti-apartheid lobby.

Barclays Bank of New York has already lost millions of rands in business through forfeiture of the Rockland County account (New York State) following the adoption of anti-apartheid legislation in the mounting disinvestment campaign.

A spokesman for Barclays said yesterday that the situation in New York was "under review" but he would not disclose the extent of Barclays business with the New York City government under the client confidentiality rule.

Implications

He said Barclays had not yet had time to study the pending legislation or to make a comprehensive assessment of the implications of the move.

● In another move yesterday, Mrs Adelaide Tambo, wife of the president of the African National Congress, Mr Oliver Tambo, was appointed to the Barclays Shadow Board — an anti-apartheid lobby which monitors the activities of the Barclays Board in the UK.

ARGUS 19/2/85 (58)

Savings soar as credit slows

By TOM HOOD

A BIG slowdown in credit and a sharp rise in savings is disclosed in figures of bank assets and liabilities for the December quarter.

This reflects the Government's austerity clamp on credit at a time when financial institutions are offering record interest rates to savers.

Savings with all the banks rose in the December quarter by R221,5-million and constituted the bulk of the increase in savings for 1984.

The increase for the 12 months was R261,1-million.

At the end of December the banks' portion of the country's savings was R5 070-million or 5,4 percent more than the R4 809-million registered at the end of 1983.

Over the past four quarters, the trend in savings has been a negative 3 percent in the first quarter of 1984, 1,4 percent in the second quarter and 2,5 percent in the third quarter.

For the three months to December 31 the amount of credit the banks extended on lease and hire purchase agreements rose by only 1,9 percent compared with an average of 8,8 percent over the previous four quarters.

An analysis of the BA9 figures by Nedfin Bank shows the banking industry held R15 936-million in hire purchase and lease receivables at the end of December, only marginally ahead of the R15 632-million held at the end of the September quarter.

LEASE AGREEMENTS

Nedfin Bank's managing director, Mr Ron Rundle, says: "There is a noticeable slowdown in the rate of increase, which is just what the authorities want. As has been the case in the past, the rate of increase in HP receivables was higher than for lease agreements."

For the 12 months to September, HP receivables grew at 46,2 percent while for the 12 months ended December this figure slowed to 35,9 percent.

Leases for the 12 months to September increased by 30 percent, an item which declined to 23 percent by the end of December.

Barclays continued to dominate the receivables market with an unchanged 33,9 percent market share.

Standard held 21,4 percent (21,8 percent in the previous quarter), Bankorp gained 0,9 percentage points during the quarter to hold 20,5 percent and Nedbank lost 0,1 to hold 11,4 percent at December 31.

The Volkskas group at 8,1 percent gave up 0,4 during the fourth quarter.

photostat

butions paid by various Institutions from own funds).

(ii) R837 064 417.

8. (i) R8 918.

(ii) R207 291.

9. (i) Contributions paid by various authorities from own funds.

(ii) R334 043 906.

10. (i) Contributions paid by various authorities from own funds.

(ii) R19 359 739.

Independent/national states: investments

HANSARD 19/6/85 Q col 1987

945. Mr P G SOAL asked the Minister of Finance: UBD 58

(1) Whether he has received any representations concerning investments made by building societies in independent Black and national states; if so, (a) when, (b) from whom and (c) what was (i) the nature of these representations and (ii) his response thereto;

(2) whether he intends taking any steps in this regard; if not, why not; if so, (a) what steps and (b) when;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE:

(1) Yes.

(a) During March and April 1984.

(b) The Department of Co-operation, Development and Education and several building societies.

(c) (i) Representations were received requesting that building societies be indemnified by the Government against any losses they may incur in the national states after independence as the result of political factors.

(ii) The Government agrees in principle with the idea that building societies should make funds available to promote home-ownership within the national states. Due to the financial exposure this indemnity would impose on the taxpayer, an unconditional approval could not be granted.

(2) Yes

(a) and (b) The Government recommends that provision of an indemnity be approved in principle and that a limit or ceiling be determined for such loans. These recommendations were approved on 4 September 1984. Indemnities to building societies will be provided for in terms of section 35 of the Exchequer and Audit Act, 1975 (Act No 66 of 1975) in consultation with the Minister of Co-operation, Development and Education. Building societies are at present in possession of a draft indemnity prepared by the State Attorney. Comments by the building societies on the draft are awaited.

(3) Yes, as soon as the wording of the indemnity has been finalized and it has been signed by all parties concerned.

Contributions in respect of Black Labour Act

HANSARD 19/6/85 Q col 1989

976. Prof N J J OLIVIER asked the Minister of Co-operation, Development and Education:†

(a) What (i) total amount and (ii) amount was collected during the latest specified five years for which figures are available in respect of the area of jurisdiction of each specified (aa) development board and (bb) local authority in terms of section 2 of the Contributions in respect of Black Labour Act, No 29 of 1972, and (b) how were these amounts utilized in each case?

The MINISTER OF CO-OPERATION, DEVELOPMENT AND EDUCATION:

(a) (i) R375 987 008 (For the period 1 July 1979 to 30 June 1984).

(ii) (aa)

	R
*Port Natal	45 010 773
*Drakensberg	21 800 490
Natalia	13 763 356
Northern Transvaal	10 317 978
Eastern Transvaal	11 232 098
Western Cape	16 261 263
Central Transvaal	31 651 035
Highveld	18 532 547
Western Transvaal	18 040 921
Northern Cape	7 373 766
Orange Vaal	22 387 887
Southern Orange Free State	23 308 237
Eastern Cape	25 019 231
West Rand	65 296 468
East Rand	45 790 868
Total	375 786 918

*These boards were amalgamated with effect from 1 April 1984 into the Natalia Development Board.

(ii) (bb) For the period 1 April 1984 to 30 June 1984.

	R
Ikageng	1 016
Jouberton	1 172
Galeshewe	4 035
Bohlokong	4 664
Seeisoville	2 544
Evaton	740
Lekoa	8 704
Kyamnandi	23 649
KwaNobuhle	4 911
Rini	2 824
Lingelihle	1 668
Tokoza	7 860
Tembisa	3 548
Wattville	286
Daveyton	2 120
Katlehong	11 768
Vosloorus	10 734
Kwa-Thema	3 954
Total	96 197

The following amounts which were collected by development boards on behalf of local authorities, are excluded from the totals in (a)(ii)(aa):

	R
Soweto council	97 356
Atteridgeville	2 000
Mamelodi	1 000
Kwaguqu	1 570
Mhluzi	1 967
Total	103 893

(b) These amounts form part of the general revenue of the boards and are appropriated as follows:

to cover the expenditure of the labour bureaux and inspectorates and also to defray the expenditure in connection with aid centres;

FOR THE

PICK OF PROPERTY

See pages 26, 27 and 28 for Business, Commercial and Industrial property.

Abercom in the red — interim div maintained

CAPE TIMES 20/2/85

JOHANNESBURG. — The Abercom Group, in conflict with earlier expectations, went well into the red in the half-year to December and is headed for an overall net loss in the current financial year.

While maintaining net income of its continuing operations at a similar level as the same period of 1983, with after tax income of R4,8m (R4,6m), the group has incurred an after-tax loss on its discontinued operations of R14,8m in the period, resulting in a loss in total operations of R9,9m, equivalent to a loss per share of 46c (earnings per share 22c).

The directors, however, point out in the interim report that with the acquisition of Sturtevant in the United States in December and taking into account the worth of the rand in major world currencies since June last year, about 60 percent of Abercom's total assets were now situated abroad.

"Our February forecasts indicate that over 50 percent of sales revenue will be generated abroad in the present financial year and that this percentage will rise in 1985/86," they say.

"While it seems inevitable that conditions in South Africa will remain difficult for at least the next 12 to 18 months, we believe that Abercom is in some measure protected by its overseas activities, and by the strength of its balance sheet

"Pre-tax losses from discontinued operations are projected at some R20m for the current year, with earnings from continuing operations at a somewhat higher level than last year's R9,5m."

In the period under review, turnover of continuing operations was down from the comparable period to R89,1m (R103,3m) and income before interest and taxation was R4,6m (R7,7m).

The group has however maintained its interim dividend at 6c a share. — Sapa

Volkskas, Bankovs to merge

PRETORIA — The cur-

Protea raises dividend — life business up 55%

Cape Times 21/2/85

By PAUL DOLD
Financial Editor

58

IN SPITE OF cyclone Demoina and the Western Cape floods, Protea Assurance has continued its encouraging premium income growth and the final dividend is being raised by 2c to 14,5c making a total of 18c (16c).

The managing director, Mr Tony Crank, says pre-tax profits for the 12 months ended December were R4,2m as against R4m, but an increased tax bill pared net income by R115 000 to R3m.

Gross premium income rose by some 10 percent to R77,5m, while investment income spurted nine percent to R4,3m in spite of the participation by a subsidiary in the development of Protea House in Johannesburg.

Protea's performance is excellent given the heavy flood and hail damage particularly in the Transvaal last year.

Three storms over a three-week period in November cost the short-term industry an estimated R60m with Demoina and the Cape floods in May adding another R60m.

While profits were affected, Protea's wide geographic spread cushioned the impact.

There were two other significant features in the past year's performance:

- The marine department's record results with the transfer of R700 000 — their largest ever profit contribution.

Protea's managing director, Mr Tony Crank ... encouraging results.

- The life division — where new business premiums soared 55 percent.

Policyholders stand to benefit with Protea forecasting that the profit distributon from the life fund will be increased at the end of the 1984 triennium.

The take-over of the British Phoenix Assurance group by Protea's parent, Sun Alliance Group, has now been finalized.

Phoenix UK has a 62,5 percent stake in Phoenix Prudential Assurance of South Africa with the remaining 37,5 percent held by the Pru (UK).

Sun Alliance is taking over this minority interest and the Phoenix Prudential SA — and Protea Assurance's operations are to be integrated.

Protea says terms of the deal have now been agreed and details will be announced as the talks proceed.

Citibank spreads its SA wings

58 S. Times 24/2/85

By Ciaran Ryan

CITIBANK has extended its global telecommunications network to Port Elizabeth, scotching rumours that it is scaling down its South African representation.

Citibank is represented in Johannesburg, Cape Town and Durban. Port Elizabeth is now linked by satellite to Citibank's world network.

Launching the telecommunications link, Citibank's senior vice-president responsible for Northern Europe and South Africa, Gordon Phelps, said reports of Citibank's withdrawing from South Africa were erroneously reported in New York as reflecting a major policy decision to cease lending to the South African Government.

"Since the South American experience most United States banks have decided not to lend to governments. This decision is not aimed specifically at the South African Government, but at all governments.

"What has happened is that all loans by Citibank to the South African Government run out on 30 March this year and no further loans will be made. Lending to governments is not a profitable area for us as the margins are extremely small."

;pital ds 1000 nurses

● Short of 100 doctors
● Inferior drugs used
● Badly overcrowded

S. Express 3/3/85 58

.. fancy doesn't come in, there's always the solace of the traditional strawberries and cream. art, sporting elegant Ascot gear, got into the spirit of things at the Southern Sun Classic at

Picture DENIS FARRELL

By PAM KRAMER

BUDGET cuts have brought Baragwanath hospital to the point of breakdown.

Senior hospital staff warned this week that the Soweto hospital was buckling under the impact of 8% cuts ordered by the provincial administration

They said

● The hospital was short of 1 000 nurses and at least 100 doctors — but more were being retrenched and all medical posts had been frozen.
● Inferior drugs, which could have serious side effects, were being used
● There was a lack of rubber gloves — even for sterile surgical procedures
● Patients were paying for the use of theatre and outpatient facilities
● Medical equipment was not being properly maintained.
● Water that could be contaminated was being used to wash patients in theatre and labour wards

The hospital, which serves a population of over 2-million, is being overloaded by an influx of patients from the homelands and rural areas.

In addition, neighbouring states, including Zimbabwe, Mozambique, Swaziland and Malawi, are increasingly referring patients to Baragwanath.

Meanwhile, unemployment caused by the recession is contributing to a serious deterioration of health in Soweto.

A senior doctor said "A crisis such as happened in Crossroads recently could happen in Soweto at any time Because of the imminent cutback in staff, we will not be able to cope with casualties in six months' time"

Burden

One doctor said 200 beds installed at Leratong hospital in Krugersdorp, to alleviate the Baragwanath burden, were standing empty. Nursing staff could not be paid and doctors from Baragwanath, meant to fill posts there, were having to be laid off.

And plans first discussed in 1964 to build a new hospital in New Canada, Soweto, have gone no further.

The Sunday Express has learned that doctors in the departments of medicine and paediatrics, two of the most overloaded departments at Baragwanath, are to be retrenched.

It is understood that the hospital has been instructed to "phase out" nine doctors in the department of medicine and three in the paediatrics department.

Approached for comment, the superintendent of Baragwanath, Dr Chris van der Heever, admitted that "consideration at the highest level

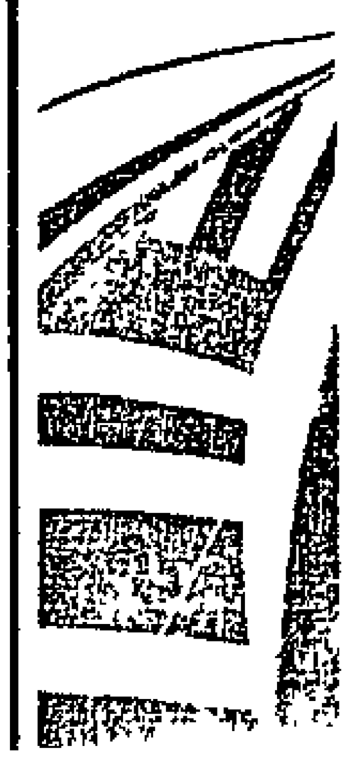
' man in Barry ked of money

RAY FAURE reports

- dire financial dif-

It appeared Mr Cross had needed the money to over-

Mr Cross, however, had always paid his bills at the shop promptly — sometimes even before taking delivery



● Medical equipment was not being properly maintained.
● Water that could be contaminated was being used to wash patients in theatre and labour wards.

The hospital, which serves a population of over 2-million, is being overloaded by an influx of patients from the homelands and rural areas.

In addition, neighbouring states, including Zimbabwe, Mozambique, Swaziland and Malawi, are increasingly referring patients to Baragwanath.

Meanwhile, unemployment caused by the recession is contributing to a serious deterioration of health in Soweto.

A senior doctor said: "A crisis such as happened in Crossroads recently could happen in Soweto at any time. Because of the imminent cutback in staff, we will not be able to cope with casualties in six months' time."

Burden

One doctor said 200 beds installed at Leratong hospital in Krugersdorp, to alleviate the Baragwanath burden, were standing empty. Nursing staff could not be paid and doctors from Baragwanath, meant to fill posts there, were having to be laid off.

And plans first discussed in 1964 to build a new hospital in New Canada, Soweto, have gone no further.

The Sunday Express has learned that doctors in the departments of medicine and paediatrics, two of the most overloaded departments at Baragwanath, are to be retrenched.

It is understood that the hospital has been instructed to "phase out" nine doctors in the department of medicine and three in the paediatrics department.

Approached for comment, the superintendent of Baragwanath, Dr Chris van der Heever, admitted that "consideration at the highest level is being given to these departments".

Unfilled

Although the hospital requires 4 564 nurses for its full complement, only 3 615 of the posts are filled. Asked why this was so, Dr van der Heever would only say that the 1 000 unfilled posts had been frozen "due to the financial squeeze"

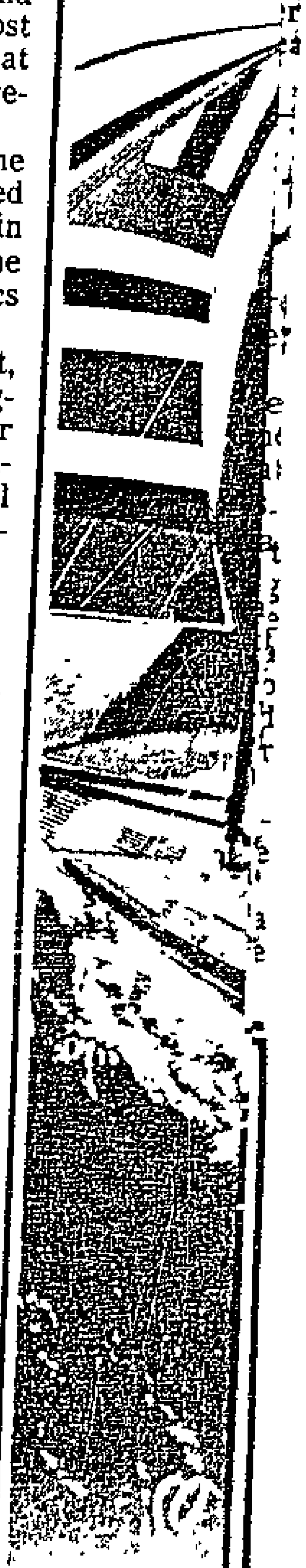
Several junior housemen at Baragwanath complained that some patients were being given inferior drugs, and courses of antibiotics were being cut back from the prescribed week's supply to a four-day supply.

As a result, doctors had to keep patients in the hospital to ensure they received adequate medication. This aggravated the overcrowding problem, the housemen said.

Dr van der Heever said that although antibiotic courses had been cut back, "on motivation from doctors and proof that patients do need longer courses, we can in individual cases extend the course".

A senior doctor said many of the more expensive, im-

● To PAGE 2



P.T.O.

Crisis looms at budget-cuts hospital

58

ported drugs required for specific diseases were being substituted with cheaper medicines that were more likely to cause serious side effects.

Dr van der Heever admitted that "alternative medicines" were replacing the more expensive drugs.

"In line with all hospitals in the Transvaal, Baragwanath has instituted rationalisation of, among other things, the use of drugs. Antibiotics . . are very expensive."

He added. "All drugs, under certain circumstances, could have side effects, some serious."

Junior housemen said certain essential medical items, such as nebulisers and rubber gloves, were not readily available.

One said he had asked a doctor friend at the Johannesburg hospital to supply him with "equipment throw-aways" that he could use at Baragwanath.

Essential

Dr van der Heever denied essential equipment was unavailable. "In general, we do have sufficient items of equipment to cope with the workload."

Asked if these items were adequately maintained, he said. "We are delaying re-

● From PAGE 1

pairs at the moment due to financial problems and only repairing the absolute essentials."

When confronted with the unavailability of rubber gloves for sterile procedures, Dr van der Heever said Baragwanath had already overspent its budget for gloves by R82 000.

Pressed on the issue, he admitted that gloves — still available in theatres — were not available in other departments where sterile procedures were carried out.

One source said the lack of theatre space had resulted in surgical procedures being performed in other departments.

Dr van der Heever admitted there was not enough theatre time available for all sterile procedures. But, he said, three new theatres were being built.

One houseman said severely ill patients — those with cancer and heart diseases — had to be prematurely discharged because of the lack of space. They then often had to be re-admitted.

According to one reliable source, cancer patients were accommodated in the already overcrowded gynaecology wards.

Asked about this, Dr van der Heever said: "We give the public the assurance that cancer patients will get treatment if they need it."

The directory of hospital services report of 1982/3 reveals that Baragwanath had 3½ times more admissions and 10 times more outpatients than the Johannesburg hospital.

Budget

Baragwanath's pharmaceutical budget was nearly R2-million less than that of the Johannesburg hospital.

Its budget for surgical and other supplies — which includes supplies for the hospital's satellite clinics — was R1,7-million less than that of the Johannesburg hospital.

The average occupancy of beds for white patients in the Transvaal, according to the report, was 59,1%, while for blacks it was 95,1%.

The report, described by a senior doctor as a "condemning document", stated that bed occupancy at Baragwanath was 106%. It has been known to go up to as high as 211% in winter.

The doctor said: "The provincial council represents the white taxpayer and so H F Verwoerd hospital (in Pretoria), rather than Soweto, has become a top priority."

The director of health services, Mr H van Wyk, and the MEC in charge of hospital services, Mr Daan Kirstein, were unavailable for comment.

Dr van der Heever refused to allow the Sunday Express to take photographs at Baragwanath

R16m forex loss hits Rex — R7m rights issue

By PAUL DOLD
Financial Editor

Cape Times 5/3/85 (58)

SOUTH AFRICA'S largest menswear manufacturer, blue chip Rex Trueform, has been hit by a R16,3m foreign exchange loss and is passing its dividend for the first time in more than three decades.

The forex loss flowed from the cancellation of an order by a major British store group.

The passing of the dividend will come as a shock to shareholders but was clearly prudent after the currency loss: Rex is raising R7m through a rights issue to strengthen liquidity.

The encouraging feature is that dividends should be resumed in the 1986 financial year and payments will be at the same rate on the enlarged share capital as last year's 55c.

Last night, the chairman, Mr Stewart Shub, said he was fairly confident on the outlook.

"Naturally we are very disappointed to have taken this forex knock. But it is manageable and we will be able to finance it. The rights issue is being underwritten by UAL.

Confidence

"African and Overseas (which owns 53 percent of Rex) is following its rights which in itself shows confidence in Rex Trueform. I am hoping that profitability will be restored relatively quickly."

The forex loss was apparently caused by Rex prudently covering its export proceeds but which through the cancellation of the order turned out to be in excess of requirements. The board decided to close the position and take the loss.

The forex jolt married what otherwise would have been a fair performance — certainly at the operating stage where profits at R5 044 000 were slightly ahead of last year.

Mr Stewart Shub . . . forecasting an early restoration of the profit trend.

But higher interest rates — the bill was nearly doubled at R2,2m — knocked net profits from R3,6m to R2,9m. No Tax was payable due to export allowances.

Earnings per share before the loss were 21 percent down at 96,9c. Including the abnormal loss, the net loss for the year was R13,5m as against the previous R3,6m profit.

Mr Shub says that local trading conditions remain difficult with demand weak and interest rates remaining high.

Export sales are being maintained at 1984 levels and provided there is no further weakening of the economy the current year's profits (before the abnormal loss) should be more than those achieved last year.

African & Overseas had operating profits of R5,5m (R5,3m).

Interest paid rose from R1,3m to R2,2m leaving taxed profits of R3,1m (R3,8m).

Earnings

Before the attributable loss from Rex, earnings per share were 69,9c (84c). The bottom line net loss was R6,8m (R2,9m profit).

The dividend is being passed.

African & Over will raise the R3,7m for the rights issue from existing resources and the proceeds of certain property sales.

Comment: Rex has a dominant share of the South African market and the export business has been growing steadily. It is a pity that the group as the country's largest clothing exporter should have had to take this knock through no fault of its own.

The shares are likely to remain depressed on the news of the heavy loss and the rights issue but investors should be alert for an eventual upturn in the price Rex produces outstanding products and has first rate management.

Sanlam earning high returns from property

Cape Times 6/3/85

(158)

By PAUL DOLD
Financial Editor

SANLAM'S net property income from existing developments rose by more than 15 percent in 1984 as a result of a policy of concentrating on short-term leases, the pension report discloses today.

A significant number of contracts expired in 1984 and Sanlam was able to conclude new leases at considerably higher rentals than were possible a few years ago.

"In addition vacant space in our property portfolio is negligible in spite of the over-supply of space which is developing."

Developments

As at the end of 1984 Sanlam was involved in R300m new developments. A substantial part of the projects are let.

Sanlam has been taking advantage of current exceptionally competitive tender prices to launch new projects and extend existing properties.

The projects, some of which have recently been completed or are close to completion include:

- A R37m Cape Town office block which has been fully pre-let and a R30m Pretoria office tower.
- Enlarged shopping centres in Empangeni (R11m), Parow (R17m) and Durban (R17m).
- A new R15m Welkom shopping centre with Checkers as the main tenant.
- Shopping centres at Shelley Beach and Kingsburgh totalling R20m.
- At Louis Trichard developments included a R9m shopping centre with the OK Bazaars as the main tenant.

Office market

With the office market in over-supply Sanlam says it has approached this market with caution and projects have been pre-let where any doubts on the viability existed.

On shopping centre developments care has been taken not to create a flood of shopping space and has instead concentrated on areas with growth potential. Major tenants are secured before development is undertaken.

Sanlam says the major trend over the past few years was a concentration of the portfolio in the Transvaal which the group regards as having the best growth potential.

The flat component has also been reduced due to the unattractive returns.

The group is tending to develop larger units to limit overheads and the tendency is expected to continue.

In 1984 about one fifth of cash flow was invested in "high class" property for clients. Some two-thirds flowed into lease-backs and one third into new property developments.

In share investments in the 1984 financial year, Sanlam says it further refined the portfolio replacing shares with poor growth prospects.

Selective purchases were made of shares with growth potential while rights options were exercised so that the group received compulsory convertible preference shares or debentures which in the hands of tax-free funds are more attractive.

In the year part of Sanlam's gold share holdings were sold as it considered gold share prices to have risen to unrealistically high levels in proportion to the gold price in rand terms.

Liberty Life and Guardian to form new life company

Cape Times 6/3/81 58

By BRENDAN RYAN

JOHANNESBURG. — A new life insurance company is to be formed using as its base the life insurance business of Guardian National Insurance.

The new company will be held 51 percent by Liberty Life and 49 percent by Guardian National.

That means control of Guardian's life insurance business will be acquired by the Liberty Holdings group from UK company Guardian Royal Exchange PLC (GRE) which controls Guardian National.

Guardian National in future will concentrate on the fire, accident, general, motor and marine insurance sectors.

Guardian National will continue to be controlled by GRE which holds 51 percent and Liberty Holdings interest in Guardian National will remain unchanged at 43,4 percent.

Subscribe

The new life insurance company will go into business with effect from January 1, 1985 and Liberty Life and Guardian National will subscribe in cash for R14m of capital in it.

The name of the new company has not yet been announced.

The new company will pay about R10,5m to Guardian National for its life business.

The new company will therefore start business with total assets of about R65m which will represent a significant margin over the net actuarial and other liabilities taken over from Guardian National.

A company announcement says the level of annual premium and investment income assumed from Guardian National will be about R19m based on Guardian National's results for the year to end December.

The transfer of Guardian's life business is subject to approval by the JSE, the London Stock Exchange and the Supreme Court of South Africa.

Protected

"The interests of all existing life policyholders of Guardian National will be fully protected and existing with-profit policy holders will continue to participate in the surplus which arises in respect of the aforementioned life business after January 1, 1985 on the same basis as was applied by Guardian National prior to such date," the company statement says.

The chairman of the new life insurance company will be Liberty Life group's chairman, Mr Donald Gordon.

The company statement says the new company will develop new marketing opportunities to improve the Liberty Life group's penetration of certain sectors of the South African life insurance market which are presently not catered for within its marketing range.

Opportunities

Liberty Life's managing director, Mr Monty Hilkowitz, last night declined to specify what the new opportunities were, saying that plans were still in formulation at this stage.

The deal will have a minimal immediate effect on the earnings and net asset value per share of Liberty Life but in the longer term will benefit both Liberty Life and Guardian National.

"There will be a marginally beneficial improvement in the earnings per share of Guardian National and its published net asset value will increase by approximately R1 a share," the company announcement says.

5 ★ CAPE TIMES 9/3/85 58

SA firms lose R600m on loans

Own Correspondent

JOHANNESBURG — South African companies have so far this year reported foreign-exchange losses of about R600-million from overseas loans, virtually all denominated in dollars.

This could easily reach R1 000-million over the whole year, although much depends on the rand dollar exchange rate which is what the issue is all about.

Major inroads have also been made into the profits of many companies by the sharp rise in the cost of imports.

Mining

But many other South African companies, essentially in mining, are making handsome profits from the rand slump.

Giant groups which have been hit by foreign-exchange losses include General Mining Union Corporation (Gencor), Anglo American, Barlows, Premier Group, Toyota, AECI, Federale Volksbeleggings and Sentrachem.

However, Gencor, Anglo and Barlows all have operations which have profited greatly from the rand's fall.

This is vividly illustrated in the results for 1984 from Gencor published this week.

In spite of the horrendous foreign-exchange losses in some of the industrial and other companies in the group, final net profit was down by only 17 percent to R251 700 000 from R310 600 000.

This was because of spectacular compensation from the base metals and minerals division — which includes the effective controlling stake in South African Manganese Amcor — to R54 100 000 from a R4-million loss in 1983.

Still, the obvious question being asked in financial circles is why so many companies have suffered such severe foreign-exchange losses from overseas loans.

Why did they borrow abroad in the first place? Could they not insure themselves against the great fall of the rand?

'Much cheaper'

Companies borrowed overseas, quite simply because at various times it was much cheaper than borrowing within South Africa.

These companies certainly could have protected themselves by taking out forward cover with the Reserve Bank against an appreciable decline in the rand.

However, the premium cost of this cover would have nearly, or entirely, wiped out the benefit of the lower interest rate cost.

So many companies took only partial cover or none at all because they reckoned it was not worth paying the premium.

This view was reinforced by the fact that there was widespread optimism in the first months of last year among many economists and generally encouraged by Government, that a rise in the rand against the dollar could be expected.

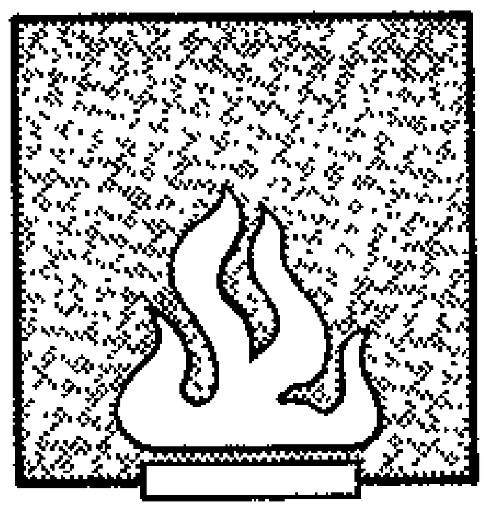
To have spent money insuring against a fall in the rand looked bad business to many companies.

With hindsight, of course, they know better now.

58

LIBERTY LIFE

Oh Donny Boy . . .



Once a year Liberty Life sponsors a marathon for which it enters several of its own teams. Invariably, it is said, a Liberty team wins. In other words, Liberty sets the standards and Liberty comes first. And that, some say, is characteristic of its success — not only in jogging but also in assurance over the past 30 years or so.

Put differently, Liberty has led the way as an innovator, and has done so against large and powerful competitors — which it has consistently outpaced with few serious setbacks.

Long ago, chairman Donald Gordon had a very clear vision of the market segment that his fledgling company would attack. He pursued it with all the cunning of a Scottish actuary and the energy and daring of a Jewish chartered accountant.

There's no truth in the story that he used to be found at the top of Liberty's black tower headquarters in Johannesburg's Smit Street humming the ancient refrain:

The mountain sheep are sweeter
But the valley sheep are fatter

In the flood of financial bad news the recession has brought, Liberty Life provides a shining exception. It has a lot to do with long-term managerial stability, which means running as a team with clearly-defined goals.

We therefore deemed it meeter
To carry off the latter.

But it was the affluent buyers of life assurance he carried off with singular success, to his own and their own enrichment. He was a child of the cult of the equity, which he skilfully wove into the fabric of conventional assurance via the investment-linked policy. His financial imagination thus turned, through equity growth, the inflationary expectations of middle-income and well-to-do families to pecuniary advantage — for them, his shareholders, his colleagues and himself.

After the equity cult faded, he moved substantially into property development, introducing into this country some of the largest, most innovative and successful shopping centres. He kept investment returns growing at a whacking pace.

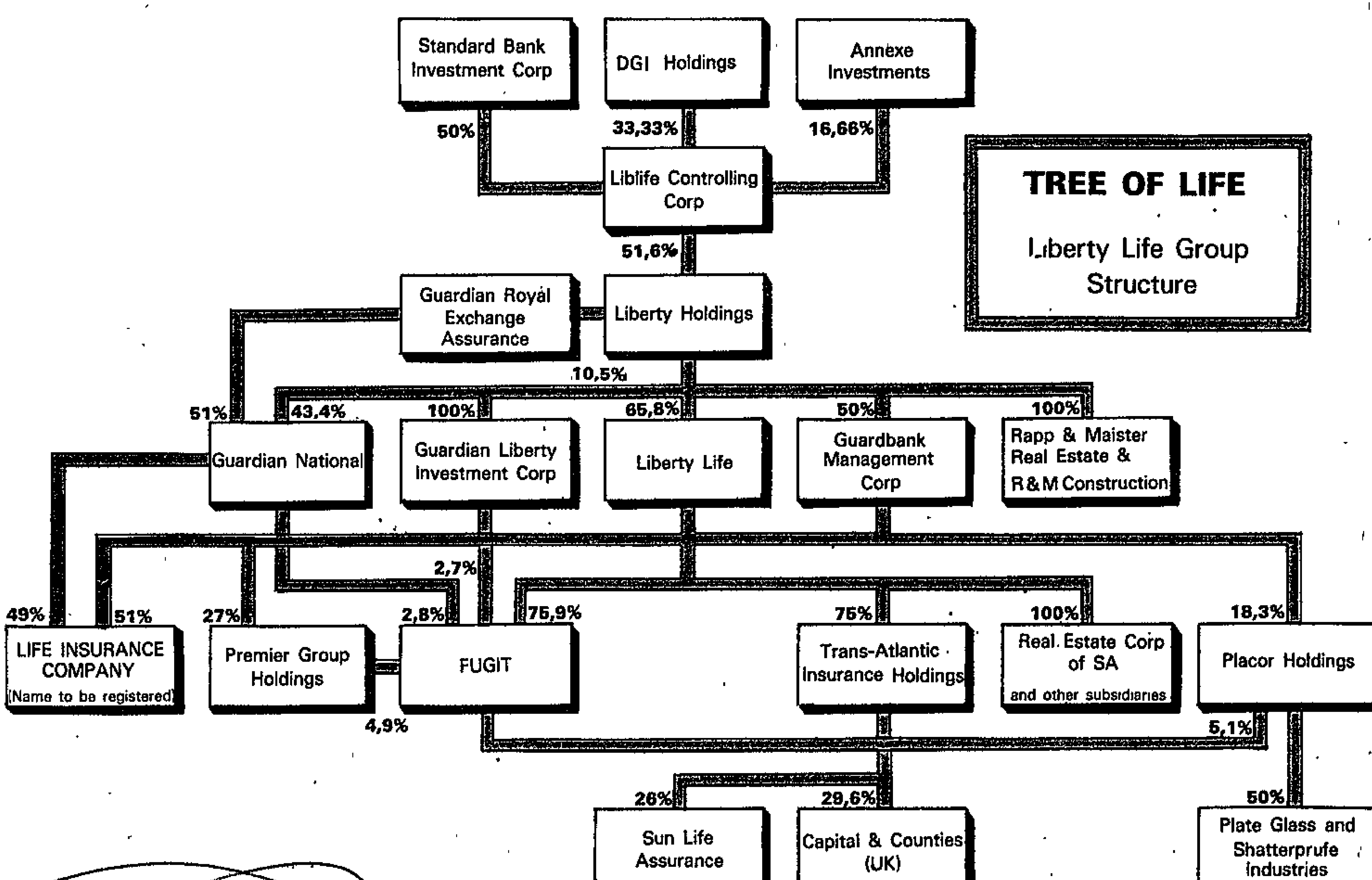
Moving down some years ago from the heights of the black tower to the four storeys of Ameshof Street's hanging gardens, he honed Liberty's administrative machine into a model of computerised productivity. His far-sighted investment in high-tech has kept the valley sheep growing fatter.

More recently, he visualised correctly the advantages of close ties with financial institutions. It was an early recognition of the changes to traditional financial markets that advanced technology was bringing about rapidly just as it blurred their edges.

Nor has he ever lost sight of the importance of people — those he set out to serve and those he welded together to do the serving. The teams of dedicated Liberty joggers are teams in spirit as well as in name.

But Donny is not himself a flamboyant man. Although short and portly, he has none of the glitter of the Schlesingers or the style of the Oppenheimers. He is no Lavish MacTavish. Sure, he has a Rolls Royce and a house in the richest part of Sandton. But neither is spectacular, given his wealth.

Probably — since he has never directly owned a mine or a bakery — he has not



made a fetish of social responsibility, or what passes for it. Nor does he have a noteworthy collection of works of art. By the standards of some of those among whom he lives, he is thus not assured of a place in heaven. But we who understand democratic capitalism know better.

His single-minded pursuit of business excellence has turned him not only into a social benefactor. On Johannesburg's social circuit, he reminds one of the late Duke of Norfolk, who once said that he himself had only two topics of conversation, one cricket and the other drains. He invited his dinner companions to choose. Donny at dinner offers, tacitly, a Hobson's choice of business or Liberty Life, and on either he can be equally knowledgeable, if repetitive.

And he's got quite a story to tell. The Liberty Life saga is as spectacular as it is successful. Since Liberty was floated at 270c in 1962, it has been an historic performer on the JSE. At the present R59, the share has appreciated by no less than six hundred fold after adjusting for splits and capitalisation issues, and ignoring the benefits of any rights issues.

As our graph shows, even after the general slump in share prices in 1969, Liberty has continued to climb higher, providing above-average returns to long-term shareholders. Investors' enthusiasm for the stock is understandable — since the listing 22 years ago, dividends have risen consistently, showing compound growth of 35,8%. Over the past 10 years, this has slowed to a more sedate, but nonetheless satisfying, 19%.

Donny made bold to say in his review last year that "in no year since dividends commenced has the group failed to increase its dividend by less than 15%. I doubt whether our record over this period has been equalled by any listed company anywhere." In his latest review, he notes more modestly that this claim remains unchallenged.

In the year to end-December Liberty's total assets advanced by 25% to R4,2 billion, with earnings at 340c and dividends at 250c a share — up some 19%. The 30% increase in new business, recurring annualised premium income to R114,4m, may indicate that the group gained market share. But the 6,5% dip in single premium and annuity new business is a contrary indicator.

MD Monty Hilkowitz explains: "Some R20m worth of new annual premium business was classified as single premium business in 1983. This had certain loan facilities attached which were subsequently withdrawn for future business and hence was not repeated in 1984."

The well-timed rights issue last year raised R152,2m of additional capital and helped boost earnings and investment income, which rose 32% to R275,7m. The high interest rates helped boost investment in-

58

come as cash in hand was R277m.

With 20% of its share portfolio represented by a 32% stake in troubled Premier, the prospect this year could be less buoyant. But probably a natural dilution of the proportion Premier constitutes will occur as cash flow is directed into alternative investments.

Of course, Premier could have strategic long-term advantages — as could Liberty's interests abroad, where further expansion appears likely. But that is for the future.

Looking back, since incorporation in 1957, Liberty's total assets have grown from just R84 000 to over R4 billion. Last year total capital and reserves jumped 55% to R1 billion. That is a far cry from the days when Donny Gordon stomped around among his friends raising in dribs and drabs the £42 000 he needed to kick off. It took him nine months to get it together. An investment in his new company of £1 000, as it was then, is now worth R4,4m after following all rights.

Liberty's success rests firmly, its chairman believes, on its equity base. If nothing else, shareholding interests have motivated both investors and staff alike toward pushing for growth.

Says Donny: "I believe that people motivated by a personal interest in a company can do a better job than those who are just basically managers without any financial involvement. That is probably the essential feature of our business. I don't think we could have achieved what we have unless we'd had this personal motivation."

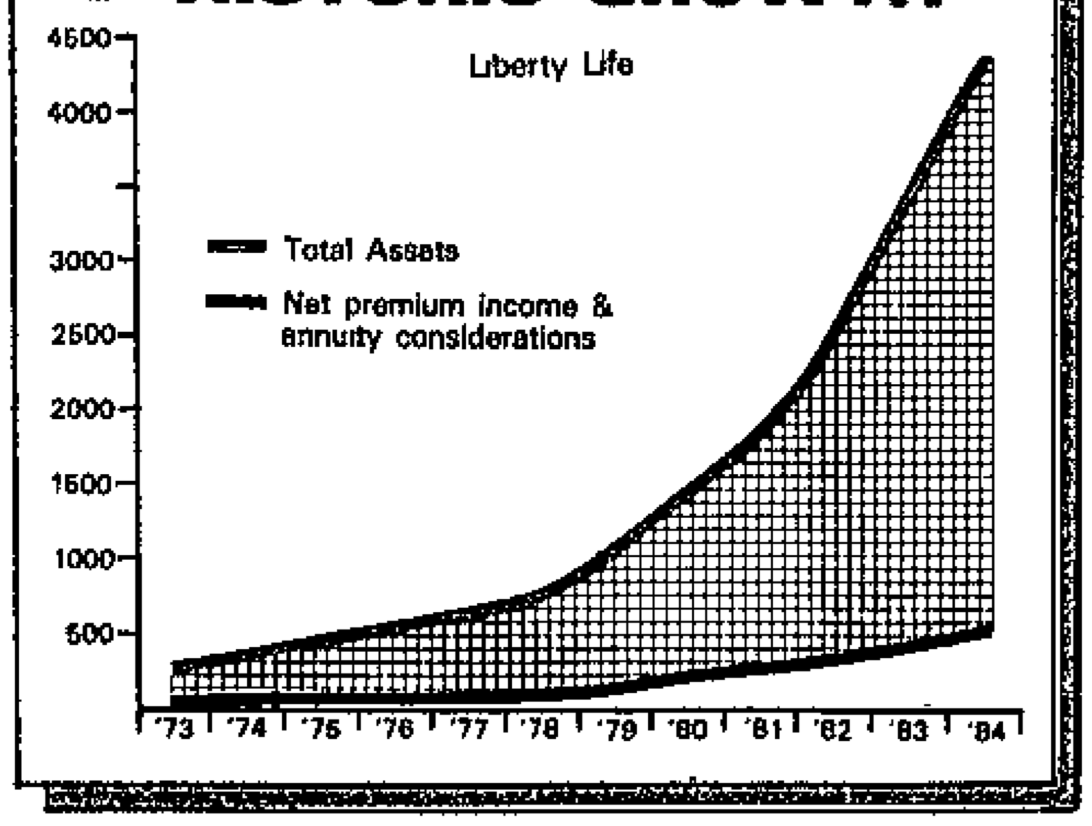
Basic principles

Innovation has been the lynch-pin in marketing, with product development continuing to be based on the market-linked concept. The concept runs right through Liberty's history, as Gordon explains: "As an accountant I was exposed to the life assurance industry which I think was very much down-at-heels in those days. And I began to realise the potential of linking the conventional concept of life assurance to the concept of equities as a hedge against inflation. We began those principles very early on in the company's history."

Later, linking policies to real estate, Gordon says, gave the company an enormous stimulus. Further development culminated in the Universal Life series of products, introduced 18 months ago. Already this has brought in over R40m. This incorporates an inflation adjustment and allows life cover to be varied at different stages in the life of the policy according to the needs of the policyholder. At times there is a heavy emphasis on cover, which can be adjusted as a person's need for it reduces and investment income becomes a priority.

Yves D'Halluin, sales and marketing chief, is expecting R60m in this type of policy this year alone, with current applications totalling almost one million rands of annual premiums a week. "By following Liberty Life's route, the life industry as a whole has given its seal of approval to this fairly revolutionary idea," he says, "and, oddly enough, this seems to have had a terrific impact on our sales."

HISTORIC GROWTH



D'Halluin adds that the development of new retirement annuity products is next in line for Liberty. "The fall-off in sales following the cut in commissions has left the market wide open."

Products have been developed as much from management and staff attitude toward accepting change as from anything else. The various staff share schemes over the years have been a strong motivational force toward growth. It makes the team flexible and forward thinking.

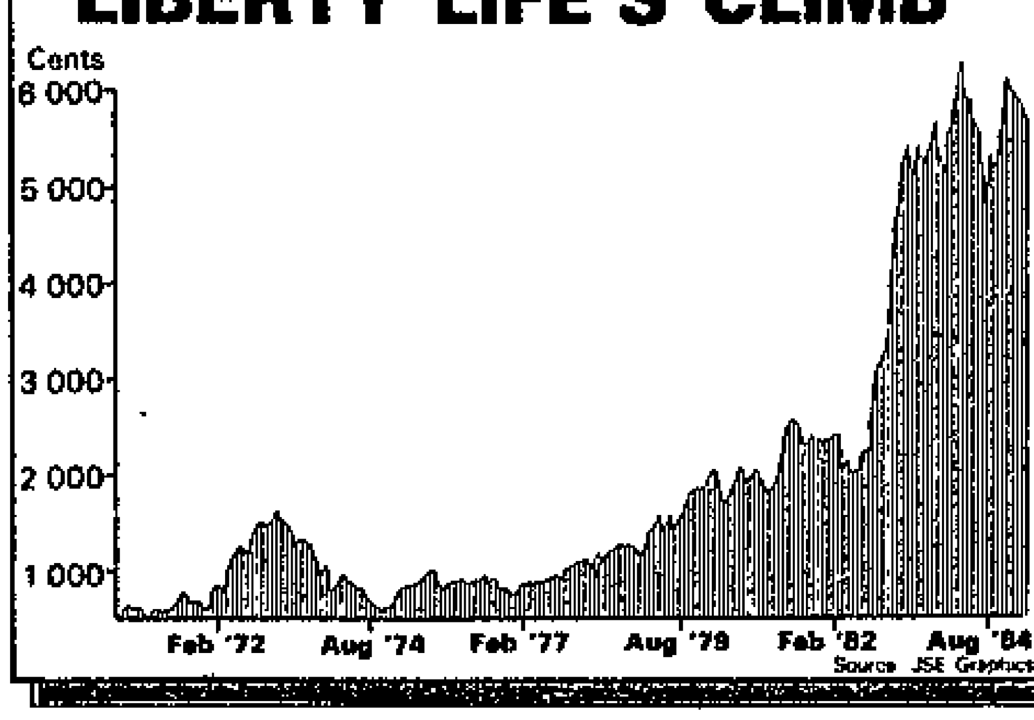
Hilkowitz is the group's peoples' man. He's a zealot on this, having, for example, managed to get a copy of *In Search of Excellence* from the publisher well before actual publication. His colleagues say it had no small part to play in his thinking at the time and that he is not averse to propounding its scriptures even now.

His deputy GM in the area of human resources, Mike Jackson, says that some 4,5% of management expenses goes on human resource development. That is R2,25m annually.

"The balance between administration and marketing must lie on the edge of a precipice. And unless you're at the edge, your productivity isn't good — you're running with spare people," says technical director Steve Handler. Administration chief Mark Winterton adds: "I agree it's nothing new, but what makes us different is that we are more conscious about it."

The past year, despite its manifest success financially, has been a tough one. This is clear from the increase in surrendered policies. Always a bad sign. Explains Hilkowitz: "Surrenders are up on two scores. One of them is in group business, which is really people withdrawing from funds — lots of lay-offs. And I think the general economic conditions also pushed surrenders up."

LIBERTY LIFE'S CLIMB



Gordon says Liberty has probably led more than any other life office with its investment expertise as its major marketing tool. Roy McAlpine, executive director of Liberty Holdings and MD of Guardian Liberty Investment — and a man who owns one of every linked policy Liberty ever brought out — reads an enormous amount to keep abreast of national and international developments. In addition to the usual market details, he says he must now take views on currencies, oil prices, and gold these days.

For the canny Scot that he is, it's not really a problem. "The main decision Jamie Inglis and myself are looking to for guidance at the moment is 'when do we make a switch from short to long term in the fixed interest market?' No one will ring the bell when interest rates top, and it's the same with equities."

Gordon says: "We tend to increase our investments, particularly in the equity market in times like these when the markets have drifted down and everybody else is depressed. And I'm beginning to see quite a lot of very good values on the JSE."

Property cushion

Liberty director Michael Rapp, who heads Rapp & Maister (R & M), says the group made a shrewd move when it bought R & M in 1976 and acquired a construction and property arm, headed up by Lewis Neuburger and Wolfe Cesman.

"With our own property administration and construction company within Liberty we are able to avoid the inevitable cost overruns that occur when there are several operators in the chain of command." Construction costs are also cheaper. Rapp cites the example of the recently completed Libridge House in Johannesburg at a cost of R28m. "A similar building, same office space, parking ratio, same everything, cost more than double."

He believes that Liberty has a cushion against a deeper slump in the property market through the size, location, tenant mix, parking and "dominance" of its shopping centres. "When consumption expenditure goes down, it will be the small centres that get hit," not the Sandton Cities or Eastgates, for example.

For the future, the group's *wunderkind* Hilkowitz, who is also on the board of Standard Bank, says: "I see a bank as the financial institution with the most powerful client relationship. And in any concept of financial services, a bank is going to be a key player."

Monty may have disappointed his mum by failing to become a doctor — he became an actuary instead — but he is one of the few executives in this country with an Autobank in his foyer.

Liberty, he explains, is also expanding into other segments of life assurance, having recently announced its intention to take over the life licence of Guardian National (GN). In addition to GN's conventional business, says Hilkowitz, direct mail selling will be an important additional thrust. The plan is to aim the new company at a broad market spectrum with Liberty itself sticking to the fat sheep.

The last word goes to the redoubtable Donny who says he is now more confident than ever of reaching assets of R10 billion by 1990. "I still hold with that," he says, "though I don't think we'll ever catch up to the likes of the two mutuals in my life time. But, quite honestly, I think I'm quite happy to be where we are." And so you should be, Donald.

Nigel Vardy and Brian Zlotnick

PUBLIC SERVICE CUTS

Touching the untouchable

Government's attempt to reduce its share of the economy has shifted from capital account to current account. That is the ticket.

It was never going to be less than traumatic, since governments cannot trim current expenditure without reducing staff remuneration. In the South African context it is always worth noting that more than 46% of all whites work in the public sector. It is traditionally the feedstock of Nationalist Afrikaner power, possibly even more potent than the schools and the universities. Consequently, civil servants have enjoyed 37 years of mollycoddling — and maybe a good many years of careful treatment before that.

In fact, it has been suggested that the current proposal to trim the public-sector worker's cherished 13th cheque may well be the first such move since 1929 when SA went off the gold standard at the onset of the Great Depression. But that was before Afrikaner political power was properly mobilised.

But not even President P W Botha could have been prepared for the howls of protest that greeted last week's austerity package. That he has not run for cover and relented in the face of such tough threats of retaliation is possibly the most eloquent testimony to date that white politics has moved irretrievably into a new lane. Whether it is faster, better — or even moving in the right direction — remains to be seen. But it is different, and that is to be welcomed.

Botha could be forgiven for feeling that he is seldom given credit for having the courage to do the right thing. Public servants could be expected to be hostile to attempts to reduce their emoluments, and the rightwing opposition was bound to use the opportunity to go fishing for public-service votes.

The Progressive Federal Party, mindful of its commitment to "social democracy," had some trouble with Botha's proposals, presumably on the grounds that even bureaucrats have some sort of inalienable right (like the minimum wage) to be elevated above financial sacrifice; but in the end the party gave grudging endorsement. Manpower spokesman Alex Boraine commented lamely that it was "natural" for public-service staff associations to say they were being "penalised" for government's mismanagement of the economy.

It has taken an economic crisis to bring home to government the waste inherent in our public-service structure. If the attention on the public service and parastatals results in new initiatives, the crisis will have served a purpose.

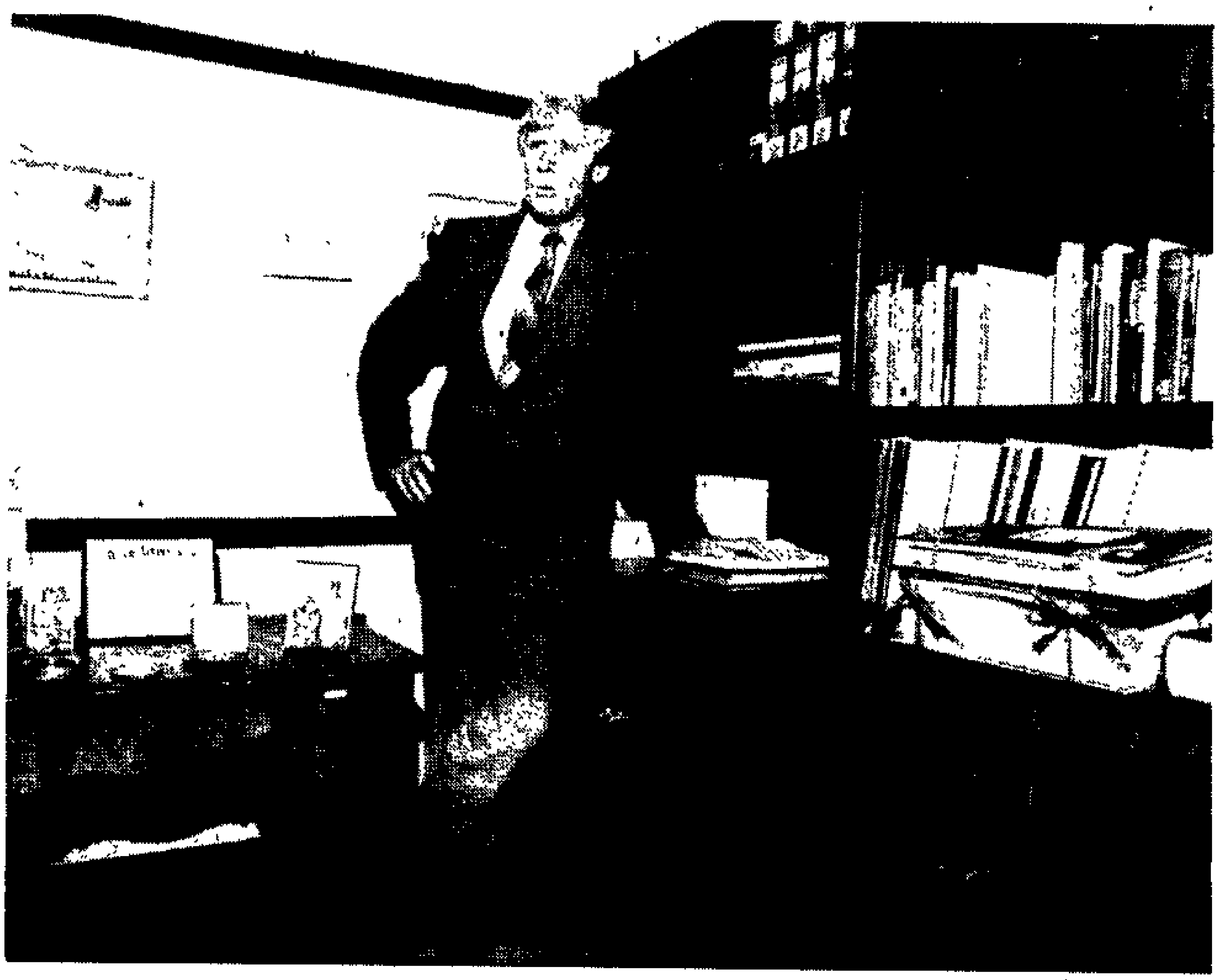
This is not the point. The civil service is part of the problem of an excessive government share of the economy. The private sector, whose employees are exposed to the cyclical whims of the market and do not have the ironclad security of tenure government patronage demands, is coping with present difficulties to the best of its ability by means of pay cuts, rationalisation, and retrenchment. Or, quite simply, by going to the wall. The civil service is now being asked to be part of the solution, although the modest sacrifice demanded by the President does not nearly begin to match the solution inflicted on private employment.

This seems to have escaped Boraine, whose political instincts tell him there is a point to be scored here. He appears to have overlooked the fact that, by and large, civil-service emoluments (pay plus perks) are now "market-related." As members of the Cabinet are proud to proclaim at election time, this means that public servants are now rewarded at the levels they used to envy in their private-sector counterparts.

What it also means is that the public service, now in a position of financial equality with other sectors, should be subject to the same harsh economic laws that govern everyone else.

The *FM*'s reservation about government's largely symbolic action is that it does not go nearly far enough. From the viewpoint of thousands of out-of-work private-sector employees the public service has hardly been touched.

At worst, public servants will sacrifice a few hundred rands a year. Their jobs, overall perks and basic salaries remain untouched — as does their unconscionable



PFP's Boraine . . . grudging endorsement of cuts

Sanlam takes over sinking motor giant

ARGUS 19/3/85

Financial Editor

CAPE-BASED Sanlam, one of the country's big two insurance companies, is to rescue the financially troubled motor giant, Nissan Holdings South Africa.

It will buy the company from Messina and incorporate it in its newly-formed and wholly-owned investment company, Sankorp.

The move follows a R121-million loss last year by Nissan Holdings and its associated companies.

Nissan is one of South Africa's largest motor assemblers and one of the country's major sellers of light commercial vehicles.

Sanlam officials said today the insurance company was offering R8,5-million to Nissan's parent company, Messina, for the motor operation and Magnis truck company. Sanlam would be buying assets worth R334-million but also taking on debts of R315-m

Messina's managing director, Mr Peter Whitfield, said demand for passenger car and

(Turn to Page 2, col 8)

58

Sanlam

ARGUS 19/3/85

Cont from Page 1

light commercial vehicles dropped 30 per cent in the second half of last year while import costs rose about 40 per cent. This gave Nissan an operating loss of R50,8-million. Nissan also had a foreign exchange loss of R71,8-million.

Mr Whitfield will move to Sankorp while Mr John Newbury remains chief executive of Nissan.

Minority shareholders in Messina are expected to accept Sanlam's offer, otherwise they will have to make substantial capital injections into the company.

Sanlam's chairman, Dr Fred du Plessis, said he did not envisage Nissan merging with any other manufacturer.

Recently Ford South Africa announced a merger with Anglo American's Amcar.

CAPE TIMES 20/3/85

Rush for gold amid US crisis

By PAUL DOLD

A NEW American banking crisis has led to United States investors seeking refuge in bullion and gold shares and has sent the dollar sharply lower.

Gold shares rose strongly yesterday following the closing of 70 Ohio savings and loan associations after a run on the institutions by depositors.

American investors fearing more defaults by institutions hedged into bullion and gold shares.

Bullion surged to $316,75 as the dollar tumbled for the second day and there was fairly heavy buying on the Johannesburg Stock Exchange with gold shares showing gains of up to 14 percent.

More than R500 000 trading was seen in several shares with Randfontein topping the R1-million mark.

The rand rose above the previous day's 50c to close at 52,05 United States cents yesterday.

The Ohio crisis which triggered heavy buying of gold comes at a time when the dollar is vulnerable to a temporary setback after its record climb of the past month.

The British pound rose strongly yesterday to close at $1,1360.

● **Gold closes at $316,75, page 10**

58

Gold rockets in biggest one-day leap for decade

ARGUS 20/3/85

Financial Staff

THE rush to buy gold sent the price up to $337 an ounce today, a rise of about $36 since yesterday morning and the biggest daily gain in more than a decade.

It was fuelled by the plunge of the American dollar on world foreign exchanges yesterday — the biggest one-day slide in at least 14 years.

The dollar recovered slightly in Tokyo foreign exchange markets today but the price of gold was steady in Far East markets.

After trading at $337 in Hong Kong this morning, gold steadied later at $332.

The rand is also benefiting and was quoted at 54 US cents in Johannesburg today — up from 52,05 cents last night and 49,80 cents on Monday.

The rush boosted gold mining shares on the Johannesburg Stock Exchange and R30-million of shares changed hands yesterday, treble Monday's business and the highest figure since February 1983.

Economists believe yesterday's gold rush may have marked a significant turn of market psychology against the dollar and toward precious metals.

They caution, however, that this sudden one-day rise could lead to profit-taking which could depress the price.

Among the currencies gaining sharply against the dollar was the British pound, which also has been helped by the recent rebound in oil prices, which raises the value of the United Kingdom's vast North Sea oil reserves.

The full effect of a banking crisis in Ohio began to be felt on the international markets yesterday.

On Friday 71 Ohio savings banks were closed following a surge of withdrawals sparked by the failure of the state's biggest savings and loan bank a week earlier.

TRIGGERED

Dealers said worries deepened yesterday when the Financial Corp of America, parent company of the biggest US savings bank, American Savings and Loan in California, disclosed depositors had withdrawn $286-million since March 8.

The rise in gold triggered sharp price increases too for platinum and silver. The London free market platinum price gained $15 to reach $270,25 an ounce.

Gold fever grips the stockmarket

Cape Times 21/3/85

By PAUL DOLD
Financial Editor

AMERICAN and Continental investors bought millions of rands of South African gold shares yesterday, with bullion reaching $347 amid the Ohio banking crisis but falling back again in late trading.

There was heavy buying of gold shares in Johannesburg as gold fever gripped the stockmarket for the second day.

Millions of rands' turnover were seen in individual shares: De Beers alone came close to the R3m-mark while the world's largest gold mine, Vaal Reefs, had trading of R1,5m, and mining house Anglo American ended the day with turnover of more than R1,25m.

There was heavy dealing in Driefontein, South Vaal and Loraine.

Industrials

The buying spilled over into industrial shares. Blue chips such as Barlows, Foschini and Clicks were bid higher.

Although gold shares surged in the morning as the metal approached $347, the shares came off the top later in the day on indications that some of the 71 Ohio savings associations would reopen today.

Bullion fell back to $324,00 at the late London fixing with markets losing some interest in Ohio.

Gains in gold shares were limited to five to 15 percent by the rand which rose to 55,15c at one stage.

The one-ounce Krugerrand added R27 to R622.

Last night the chairman of the Federal Reserve, Mr Paul Volcker, pledged aid to the savings associations.

"We are prepared to lend to them until they are deemed strong enough to reopen."

Fall of dollar

While the plight of the Ohio institutions held the attention of stockmarkets, far more significant was the fall by the dollar — the steepest one-day decline in 14 years.

This suggests that the gold price may be reaching a turning point even though the temporary strength due to the Ohio problems could be short-lived. Mr Volcker told the National Cattlemen's Association that the United States Budget deficit was increasing the risk of depressing the dollar and boosting inflationary pressures.

● The volume of shares traded on the JSE yesterday was 6 690 574 valued at R40 084 824 compared with 7 530 414 valued at R30 262 582 on Tuesday.

● More reports, page 17

BUSINESS BRIEF

Gold (close)	$322,50
Rand	$0,5220/40
FT index (close)	1 001,90
RDM 100	869,90
Dow Jones	1 265,24

ARGUS 27/3/85 58

BUSINESS TODAY

Stanchar may give up control of SA subsidiary

Argus Foreign Service

LONDON. — Standard Chartered Bank has acknowledged that it may eventually give up majority control of its South African subsidiary.

Last year the subsidiary, Standard Bank of South Africa, produced a third of the group's profits.

Stanchar's managing director, Mr Michael McWilliam, said: "It is likely that, in the course of time, it will go to less than 50 percent but we are not putting a for sale notice up now."

Standard Chartered has already reduced its stake in its South African subsidiary to 50,3 percent, mainly through not contributing new capital to back the bank's expansion, a trend which is likely to continue.

WEAK RAND

However, as a further reduction in shareholding would remove the bank's formal control of the subsidiary, Mr McWilliam said: "Any next step would be of a different order of consequence from the previous ones and there would have to be a major discussion."

He would not put a time scale on when the decision would come up.

Unlike Barclays Bank's, South African subsidiary, Standard Chartered did very well last year, with a 19 percent increase in profits in rand terms. But after translating this to sterling the profit was down on the year before because of the weakness of the rand.

STOP MAKING LOANS

The Bank of Boston has coincidentally announced in Boston that it will stop making loans to private firms and banks in South Africa out of opposition to apartheid.

The bank's chairman, Mr William Brown, said the bank last year made $75-million in loans to banks in South Africa. These loans would expire next year.

The Swedish Government, meanwhile, has said it will act to halt imports of South African coal if companies do not agree to stop them voluntarily.

Swedish imports of South African coal jumped to 28 403 tons in 1984 from 2 098 tons the year before.

Post B

5 Post 28/3/87

SA's credit rating abroad unaffected by E Cape violence

Post Correspondent

LONDON — South Africa's credit rating in the international market has been unaffected by the shootings in the Eastern Cape.

London and American stockbrokers also report that there has not been a direct impact on foreign gold share investors.

The attitudes of foreign lenders and share investors is in marked contrast to Sharpeville and Soweto in 1976.

London bankers are appalled with the shootings and statements emanating from Ministers.

But conditions for South African borrowers are unchanged so far. Margins on South African international borrowings remain at 0,25% to 0,38% above the six-month London Interbank Offered Rate (Libor) 9,75%.

"There has not been any change in sentiment; rates have not risen," says Patrick Dunkley, Barclays National Bank's London representative.

"Several banks are still willing to increase exposure to South Africa.

Escom's latest issue, a DM150-million (W German mark) (R93-million) bond was pitched this week at a coupon rate of 8,25%. On a placing price of 99,5 the yield of the eight-year loan was 8,34%.

The bond is trading at 98,5 points but Frankfurt bankers say that the discount is "normal" because the German bond market is depressed. Yields on South African issues are between 0,5% and 1% higher than rates of Australia and other countries with low political risk profiles.

Bankers stress, however, that it will not be easy for South African borrowers to raise large amounts of cash abroad.

Bankers note that total SA foreign borrowings surged from around $13 000 million (R26 000 million) three years ago to $19 600 million (R39 200 million) in June last year.

Even though South Africa's debt service ratio (proportion of interest payments to exports) fell from 9% a few years ago to 6,5%, it is still regarded as high, especially since rand depreciation has increased the burdens of South African borrowers markedly.

Yet corporations still have the capacity to increase borrowings. With the recession in the economy credit lines are underused, say London bankers.

London brokers say that share prices were hardly affected by the shootings.

"Most gold shares are in the hands of a few institutions," says Julian Baring, a partner at James Capel, stockbrokers. "These investors were not prepared to sell their shares, especially since the gold market has improved."

Mr David Ridley, however, contends that there could have been an indirect consequence from the shootings.

Fund managers who could have been buyers held back.

"One cannot underestimate the noises in the US Congress," he says.

ternatively, the patient can pay the bill in full and claim the Rams rate from medical aid.

Doctors are guaranteed the Rams rate in full. If the charge is less than the Rams rate the benefits will be passed on to the patient. If the higher Masa tariff is charged, doctors must claim directly from the patient who must then claim from the medical aid scheme.

Ernstzen hopes that these measures will enable medical aid societies more direct control over their finances and thus be able to budget on a more certain basis. Tariffs are to be reviewed annually to allow for forward budgeting. However, doubts have been expressed as to whether the Act will result in lower costs as there is little likelihood those doctors "contracted out" will reduce their rates. They will probably still charge higher rates. On the other hand those doctors "contracted in" will only be encouraged to charge more.

Ernstzen points out that those doctors "contracted in" increase the costs of medical aid payments by as much as 40% because they tend to see patients more frequently than do those doctors who are "contracted out." And they have higher service rates too.

He adds that the industry is not accumulating sufficient funds to cover the price increases which result from inflation and the depreciating rand. He feels that despite the amendments the structure is still too rigid and that they are obliged to pay for too many benefits. It would be more desirable to cover only the serious medical needs and not the whole spectrum, claims Ernstzen.

In SA approximately 20% of the population is under medical cover. ■

58

FACE TO FACE

MANFRED REICHARDT

Developing southern Africa

Manfred Reichardt is the recently appointed special adviser to the chief executive of the Development Bank of Southern Africa (DBSA). He studied economics at the universities of Zurich, Bonn, Cologne, Paris and the London School of Economics, and has more than 20 years' experience with the International Monetary Fund (IMF).

***FM*: How do you see your role in the DBSA?**

Reichardt: As part of the DBSA I want to help southern African states avoid some of the mistakes experienced by many African countries in their early phases of independence. In my 30 years' experience as businessman and international banker, mainly involving African countries, I have seen many achievements and many failures.

The DBSA, as a young, multinational body, has the potential to become the pivot of development efforts in the whole of southern Africa.

What were the mistakes?

The over-proportional growth of the government apparatus, the creation of too many public bodies and the decline in productivity; and the negative influence of some foreign businessmen trying to exploit the inexperience of some of the young governments, with the enormous swelling of the public debt as one consequence.

The debt crises of many less developed countries (LDCs) — not only in Africa — is ample proof of the wrong approach to their problems.

Were these danger signals understood?

About four to five years ago, the IMF recognised the link between these policies and their negative results. LDCs and their governments developed the impression that an efficient economic policy and budgetary discipline could be superseded by political exigencies. Resulting financial gaps would be covered, they believed, in some way or other by benevolent foreign donor countries or international institutions.

This approach resulted in an allocation of resources which was not optimal or, in some cases, even detrimental to the country concerned. This, in turn, led to disenchantment with the development idea, first in the industrial countries, but soon among the better elements in the recipient countries.

How did the IMF react?

The management of the IMF quite rightly changed its policy. It has since emphasised the "help yourself idea" and has been applying stricter economic principles when granting credit. In fact, credit is provided now only if the recipient country adopts economic policies leading to a balanced growth of the economy, based on sound economic principles.

So how do you see the DBSA's development role in southern Africa?

At the DBSA I will try to help participating states learn from the adverse experience of the past 25 years. The final aim will be to help these states grow more and more economically self-sufficient.

One could compare its activity with that of the World Bank. It provides project aid to the participating states in the form of finance and/or technical assistance, mainly in the fields of agriculture, rural development, industry and manpower development.

Project aid is provided only after it has been verified that no private sector initiative is forthcoming and that the project is economically viable.

I can foresee an even wider role for the DBSA. All participating states are within the rand monetary area (RMA) and members of the Southern African Customs Union. One day, the DBSA may be able to fulfil, not only the functions of the World Bank, but also some functions similar to those of the IMF.

For example, non-traditional lending, such as structural adjustment loans, are becoming more important for economic prospects of the recipient state than straight project lending. And the non-project loan would allow the DBSA to promote important policy changes and economic reforms.

Is your role limited to states in southern Africa?

Not at all. Being an international organisation, I cannot see why the DBSA should not attract other states into this part of the world. If they wish to contribute and benefit from the DBSA, they are welcome.

Can the DBSA obtain development funds from international sources?

The agreement establishing the DBSA authorises it to receive grants from any source, subject to certain conditions. It may also tap capital markets for additional sources in or outside the RMA. Indeed, we have already received various loan offers from outside the RMA.

Could economic development transcend political differences in future?

That's a difficult question. A sound economic policy in all states in southern Africa should lead to a balanced growth and, in a free market system, the standard of living of all inhabitants should go up. That is the classic approach to reduce political differences as well.

Although all political differences may not be transcended by a considerable improvement in the living conditions of everyone, the economic interdependence of all states in southern Africa will play a significant role comprehending the importance of having an economically strong neighbour.

Is there a possibility of the IMF and the World Bank becoming more directly involved in southern Africa, once the DBSA starts spreading its wings?

International institutions tend to work in their own field. However, sooner or later they become aware of related interests or overlapping areas and they often exchange views or even come to some form of co-operation. I could foresee such possibilities, yes.

What is your view on disinvestment?

I share the view that disinvestment in SA is a politically short-sighted approach, regardless of your political stance. It will be harmful to both sides, to a variant degree. If applied, it will not achieve the final aim, as was proved by Ian Smith's Rhodesia and SA's experience with the arms embargo. ■

Star 2/4/85

UDF hold protest at bank

58

About 40 members of the United Democratic Front (UDF) protested against foreign investment in South Africa at the Johannesburg offices of an American bank today.

Senior UDF officials and bank management held discussions while demonstrators with placards marched around the Citibank offices on the 22nd floor of a city centre building singing protest songs.

Mr Ron Payne, a senior manager, said the discussions would not affect the bank's policies.

"Just because a guy comes in here brandishing an AK rifle, does not mean we will change our corporate policy," Mr Payne said.

None of the demonstators were armed.

Mr Sidney Mufamadi, UDF publicity secretary and head of the delegation, said they had demonstrated the disgust of the black majority at the so-called constructive engagement between the South African Government, the administration of American President Ronald Reagan and multi-national companies.

Another US bank stops loans to SA

Washington Bureau

WASHINGTON. — The North Carolina National Bank Corporation, for 10 years one of the most agrressive US lenders to South Africa, has decided join the growing wave of American banks refusing to extend further loans to the South African public sector.

The decision, reached at a board meeting in February and publicly confirmed by a company spokesman yesterday, represents a major policy reversal.

The bank had a higher proportion of its assets — 1,7% — invested in South Africa.

UDF protest halts banking

58 CAPE Times 3/4/85

Own Correspondent

JOHANNESBURG. — A United Democratic Front protest against foreign companies' "support" for apartheid yesterday brought the Johannesburg offices of Citibank to a standstill for about an hour.

About 40 supporters of the UDF and its affiliates marched into the offices of Citibank on the 22nd floor of the Anglo American Life Building in Commissioner Street, early yesterday.

Startled Citibank officials met with the leaders of the protest and the two groups held an hour-long discussion about the role of Citibank in South Africa

Mr Sydney Mufamadi, the UDF's Transvaal publicity secretary, told the Citibank representatives that anyone associated with "the apartheid regime" was an accomplice in its "crimes".

He said: "We have come to protest against your indifference to the people of this country. Because you have kept quiet about what is happening, you are not neutral.

"As long as you are indifferent to the problems of our people, then you will be identified with the enemies of the people. We expect you to respond to the killing of our people (in Uitenhage) in a tangible way," he said.

Mrs Emma Mashinini, of the Commercial, Catering and Allied Workers' Union, asked the Citibank officials to distance themselves from the "scandalous" reaction of United States President Ronald Reagan to the Uitenhage shootings.

Citibank personnel director Mr Neil Munro declined to do this.

He asked the group to make positive suggestions about what Citibank could do.

He also declined to tell them what Citibank were already doing about the situation in South Africa, saying it was policy to do these things quietly and discreetly.

The UDF officials later left the building without incident.

UDF points a finger at US bank

558 Star 3/4/85

By Stuart Flitton

Senior managers of an American bank and United Democratic Front officials yesterday engaged in an often heated debate about the role of foreign companies in South Africa.

The debate came after 40 chanting and placard-carrying UDF members demonstrated at the Citibank offices on the 22nd floor of a central Johannesburg building.

In a statement the front condemned President Reagan for condoning the Uitenhage massacre.

The statement protested at:

- The collaboration of America with apartheid under the guise of constructive engagement.
- The financial backbone that foreign companies provided for the apartheid machinery in South Africa.
- The silence of foreign companies each time the apartheid state violated the rights and humanity of people.This included periodic massacres.
- Pretensions of concern for the people by foreign companies and their puppets who claimed that foreign investment benefited the oppressed people of South Africa.

Five United Democratic Front members and trade unionists held talks in an office with three senior bank officials while the rest of the demonstrators sang and chanted in a hallway outside.

Mr Neil Munro, Citibank's personnel officer, told the delegation that the bank made regular representations to prominent people and conveyed its likes and dislikes concerning South African politics.

"We have not gone public about what we do outside the business sector," he said, "but I am prepared to speak to you individually in confidence."

"The bank finds apartheid morally unacceptable and deplores its continuation in South Africa.

"We remain committed to peaceful social reforms and this can best be accomplished by the bank's continued presence in this country."

Mr Sidney Mufamadi, a United Democratic Front publicity secretary, said the bank did not care about the majority of South Africans who were not prominent people.

"You must come out openly and tell us what you intend to do," Mr Mufamadi added.

He accused the bank delegation of being apathetic about matters concerning the black majority and criticised them for not having made a statement about the shooting of 19 people in Uitenhage.

After the debate Mr Munro said the United Democratic Front officials took emotive stances which clouded the issues.

"They don't appreciate the roles of foreign companies in this country," he said.

Mr Mufamadi said his delegation had indicated the disgust of the black majority at the so-called constructive engagement.

"The management's emphasis on the bank's so-called quiet way of influencing political change in South Africa was typical of people who benefit from the super-exploitation of the black majority," Mr Mufamadi said.

Gordon and Rapp trusts sell shares

Liblife, Stanbic in R80m deal

RDM 4/4/85 58

By **HAROLD FRIDJHON**

IN AN R80,4m deal, the Liberty Life group is to acquire at R12 a share 6,7-million ordinary shares in Standard Bank Investment Corporation (Stanbic) owned by the family trusts of Mr Donald Gordon and Mr Michael Rapp.

The total consideration will be met by the issue at R60 a share of 1 072 000 convertible redeemable cumulative preference shares of R1.

The transaction will be effected on an ex rights basis. Both family trusts, DGI Holdings (Pty) and Annexe Investments (Pty), will retain their rights to the 1,34-million preferred ordinary Stanbic shares to be issued at R12 a share.

The purpose of the deal is to increase the Liberty Life group's investment in Stanbic. The transfer of the 6,7-million Stanbic shares will give Liberty and its subsidiaries a holding of about 24% in the increased Stanbic capital.

Mr Donald Gordon, chairman of Liberty Life group, said yesterday that in accordance with the group's accounting policies, the Stanbic investment would be equity accounted. This will strengthen Liberty Life's reserves considerably because balance sheets will reflect its 24% of Stanbic's capital and reserves. And the growth potential of Stanbic will benefit policy-holders and shareholders alike.

DONALD GORDON . . . close relationship will continue.

(The latest Stanbic group balance sheet shows total capital and reserves of more than R751m).

Mr Gordon said that since Stanbic and Liberty had come closer together in 1983, considerably synergy had been effected between the two. He had no doubt this would continue at an accelerated rate. Liberty will become Stanbic's largest South African shareholder.

But the relationship is not one-sided. Stanbic owns 50% of Liberty Life Controlling (Libcon) which, in turn, owns 52% of Liberty Holdings.

The two family trusts acquired their parcel of Stanbic shares in July 1983 when Stanbic bought joint control of Libcon for R84,5m. Payment for the deal was effected by the issue of 6,7-million Stanbic shares at R9 a share and R24,2m in cash.

Thanks to the surge in the market price of Stanbic in the past 18 months, the family trusts will show a book profit of R3 a share — about R20m.

The new convertible pref shares to be allocated in the proportion of 714 667 to the Gordon trust and 357 333 to the Rapp trust will yield 9% a year. At the option of the two holders, the new prefs will be convertible into Liberty Life paid-up ordinary shares at a price of R60 a share any September over a four-year period beginning in 1988.

COMMENT: The close relationship between the two groups goes back to 1978 when Stanbic helped finance the transfer of control of Liberty from the UK-based Guardian Assurance to Mr Gordon and Mr Rapp. The Liberty Life Controlling pyramid was then formed with Stanbic and Mr Rapp holding 25% each and Mr Gordon holding 50%.

The 1983 deal enabled Stanbic to acquire an additional 25% in Libcon. Transferring the Gordon/Rapp holdings in Stanbic from their trusts to Liblife is a commendable gesture so far as Liberty policy-holders and shareholders are concerned. The move certainly adds to Liberty's strength.

FM 5/4/85

as 16% a year.

Despite a perceived rapid rise in the cost of living, particularly during the latter half of 1984 and through into 1985, earlier figures seemed to bely reality with reports of, for example, 12,2% and 12,8% for recent months.

The latest inflation rate figure for the 12 months to the end of February was reported as 16% — a year-on-year February increase from 157,6 to 182,8 in the official cpi. This new index is based on 1980 = 100. The year-on-year rate for January was 13,9%. Thus an increase of 2,1 percentage points has been recorded in comparison to January.

The 16% rate is near SA's 65-year-old record of 16,5% and is particularly serious when seen against the fact that SA's main trading partners have average annual inflation rates of between 2,5%-5%. This inflation differential is widening and is a major reason why the SA economy is currently so weak.

There were only five items which did not record an increase over the last month These were communication, furniture, reading matter, "other services" and education. Together these make up a mere 7% of the listed weights of items in the index.

This seems to indicate that the authorities are pushing through most of the increases now, rather than delaying them, as has been the case in the past.

Attie de Vries, the director of the Bureau for Economic Research, mentions the 40% petrol price rise as the most important reason for the cpi increase. Petrol and diesel make up 3,8% of the cpi. Therefore, a 40% increase means a jump of 1,5 percentage points in the inflation rate.

Furthermore "the secondary effects of the petrol price rise are still to be felt."

Volkskas economist At Engelbrecht, agrees and says that fuel and transport price increases probably contributed as much as two of the 2,1 percentage point increase in the February figure.

He adds that before the turning point is reached inflation will probably rise to over 17%. "Businesses have not yet absorbed the costs of the low rand and upward pressure on prices can still be expected."

Sanlam's Economic Survey for March estimates that the rise in gst from 10% to 12%, together with the higher customs and excise duties on certain items, will bring another one percentage point increase in the inflation rate. This will, however, "be moderated by the curbing of government spending and control over money supply." Sanlam expects an average inflation rate to turn out at 15,5% for the year. ■

CAR PERKS

Taxing anomalies

Just one month after its inception, tax experts have already discovered a number of anomalies in the car allowance and company car perks tax tables.

It is just one outcome of the hive of activity in this area. For instance, Ernst & Whinney Management Services have designed a computer programme that gives an employer 94 different ways of providing some form of car perk.

Car allowances are paid to employees who use their own vehicles for business The table provides the fixed costs and variable costs (fuel and maintenance) with which to calculate the tax-free portion of a car allowance. The fixed cost is related to the total kilometres travelled in a given year, while the variable cost is related to the business kilometres travelled.

One major anomaly here, however, is that the new car allowance perks tax tables (*FM* March 29) are based on the car's value, not on the car's engine size. The effect of such a method of calculation, for example, on a person who buys an inexpensive "gas-guzzler" would be to give him a relatively lower tax allowance than the real cost of running the car.

Authoritative tables, such as those published by the Automobile Association (AA), base fuel costs on the engine size and not on the value of the car. Also, the published variable rates are below the AA's, which would prejudice the taxpayer's position.

Because the fixed-element figure can only be calculated when it is known how far the taxpayer has travelled in a particular year, it is impossible to reimburse costs during the year.

Significant discrepancy

A significant discrepancy between the two tables, that for the car allowance and that for a company-owned car, relates to the gst position. For a company-owned car, gst is included in the calculations, pushing up the taxable value. For a car allowance, gst is not included in the calculations, which reduces the tax-free portion and therefore increases the tax.

It seems, either way, Revenue is having its cake and eating it.

The car allowance figures take no account of finance charges and interest that the owner of a privately-owned car would normally incur, on the principle of "expenditure in the production of income," based on the business distance charged.

Tax analysts are also puzzled by the discrepancies in tax groupings between the two methods of car provision. They say they don't understand what Revenue is trying to achieve. Because, in the case of the company car, for values above R40 000, the values with attendant costs are grouped in R1 000 brackets. In the case of the privately-owned car, over R30 000, values are bracketed in lots of R5 000; then, after R55 000, the fuel and maintenance costs remain unchanged.

One consolation is that both perks taxes are to be phased in over five years, so perhaps when the full extent of the taxes are applicable, the anomalies will have been eliminated. ■

GDP (49) FM 5/4/85

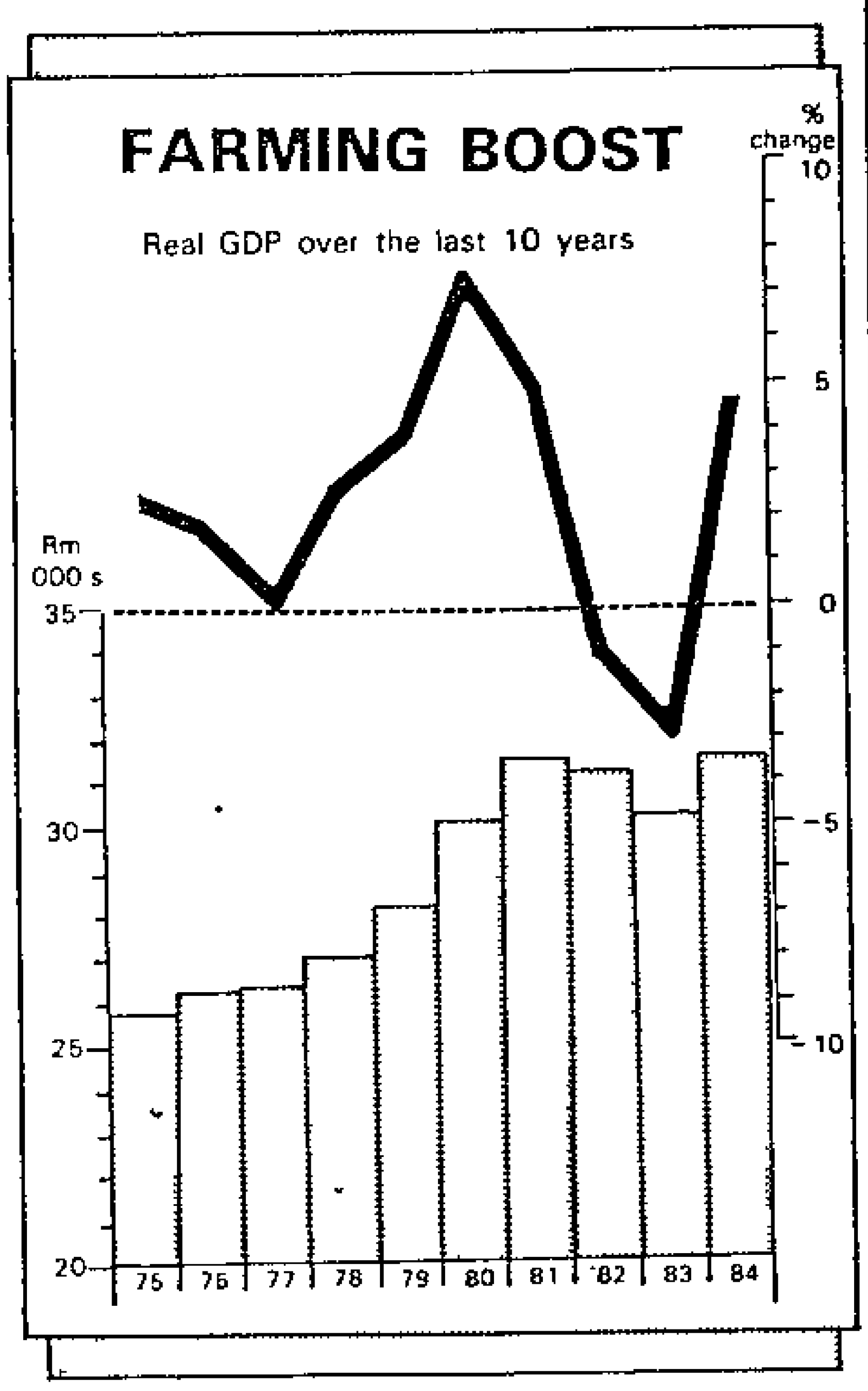
Gauging growth?

Last year SA saw unemployment and interest rates hit record levels, prices rose faster than those of our main trading partners and the money supply rocketed. To most businessmen, that suggests a disastrous year. Yet the SA economy managed a 4,7% increase in gross domestic product (gdp).

Aubrey Dickman, senior economist of Anglo American, doubts that the high gdp rate was based on sound economic growth. According to statistics from the latest Reserve Bank *Quarterly Bulletin*, it is clear the averaging is very deceptive.

Indeed, the average of 4,7% comprised quarterly figures that fluctuated over a band from a positive 13,6% in the first quarter to a minus 7,5% in the third.

Looking at 1984's figure, agriculture alone recorded 13,7% growth compared to an



enormous decline of 21,5% the previous year. Generally, agriculture contributes about 7% to total gdp, although in 1984 it was lower, at R5,1 billion out of a total R96,7 billion.

Johan Willemse, chief economist of the SA Agricultural Union, explains that the drought turned 1983 into a disastrous year and it is against this background that one must view the sharp growth in 1984. The improvement on a very poor year is, therefore, in the words of Assocom's economist Bill Lacey, "no great deal — positive growth after two years of negative growth does not say very much."

Last year's agricultural growth was largely through increased cattle slaughtering because of the drought. There were also increases in rand terms both from sales of fruit and vegetables, and from export earnings,

(19) 5/4/85

especially wool and mohair.

The Central Economic Advisory Service also confirmed recently that the gdp figure for 1984 does not give a good indication of the current underlying trends in the economy. It pointed out that "in comparison to the first half of the year, economic activity in the second half of 1984 declined very sharply as a result of, among other things, the severe restrictive policy measures introduced in August. At present, there is a growing number of liquidations and increasing unemployment."

The Standard Bank points out that: "One must look at patterns, not figures, as the first and second halves of 1984 show differing trends that annualised figures cannot explain."

Johan Cloete, Barclays' chief economist, comments that the increase in gdp is a reflection of considerable private and government consumption expenditure in the first half of last year which, as Finance Minister Barend du Plessis said in his Budget speech, could "not be sustained in the face of unfavourable extraneous developments in 1983 and 1984."

For 1985, Willemse believes growth will be slight but more soundly based, with major contributions coming from agriculture and exports. He expects growth in the non-agricultural sector to decrease slightly. ■

Natal firm has plan to help Africans with tax

NM 11/4/85

58

Finance Reporter

A DURBAN-based company, Syncrovision, has released an industrial-based audio- visual programme to assist Africans with the transition from black tax to P.A.Y.E.

The audio-visual has taken four months to compile and graphically illustrates step-by-step the completion of the new tax returns.

Mr Ian Fikuart, managing director of Syncrovision, said at the launch of the programme yesterday, that although the new P.A.Y.E. was for the better it had created all sorts of tensions and distrust among Africans.

'We researched and designed the programme with close co-operation of the Receiver of Revenue to explain in the simplest terms how income tax forms must be completed.'

Although its directed at assisting blacks the programme crosses all racial barriers and is available in English, Afrikaans and five African languages.

Prime overdraft rate cut not imminent

NM 12/4/85 (58)

Finance Editor

ECONOMIC factors continue to move in a favourable direction for a cut in the prime overdraft rate — but contrary to rumours emerging after the Reserve Bank meeting with bankers a fortnight ago the move is not imminent.

Yesterday, Dr Gerhard de Kock, Reserve Bank governor, squashed the market talk: 'I have no intention of doing it (cutting rates) today or tomorrow or this week.'

The last drop in re-discount rate coincided with the November Primrose by-election but the market is strong in its condemnation of that move which 'was too soon and too much' — there just happens to be a by-election in Newton Park next month.

This might have given some market observers the thought that lightning strikes twice!

Budget

Dr de Kock said the Reserve Bank intended in future to make more frequent adjustments in re-discount rate than in the past.

He noted that the fiscal 1986 Budget has set as one of its objectives an improved mix between fiscal and monetary policy and had prepared the way for a decline in interest rates.

He said that barring unforseen developments, he expected a decline in both short and long-term rates this year. Unforseen developments would include a slump in the gold price or a sudden rise in the dollar to say 3,45 marks.

De Kock said a decline would be for sound reasons, including a reduced budget deficit before borrowing, a current account surplus and an expected decline in credit demand

He added:'The Reserve Bank would welcome that kind of decline. It would bring relief to farmers and small businesses, home owners and the economy generally and will in due course stimulate fixed investment.'

Shortage

Money market rates have slid by over one percentage point in the past fortnight and are now 21 percent — indicating that prime should be about 23 percent.

The money market shortage has fallen below R2 billion but there must be a trend here before the Reserve Bank will touch its crucial rediscount rate.

Dr de Kock said this cut depended on such factors as the outcome of a special R200m special Tax Treasury Bill tender (it drew applications for R384m at 19,85 percent. The bills mature on August 30) and a Treasury Loan repayment on Monday and the bullion price.

The gold price has held up above $300 since the Budget and moved up again to near $330 yesterday.

But here again the hidden factor disclosed yesterday by the state of the foreign exchange reserves — the gold bullion component — is the amount of short-term loans which the Reserve Bank has raised and will have to repay soon either through gold bullion swops or cash.

Rediscount rates were raised by one point from January 8, taking the Treasury Bill rate to 21,75 percent from 20,75 percent, after being cut by one point last November.

Commercial banks immediately raised prime to 25 percent from 24 percent

Meanwhile, the public sector is expected to raise around R3,8 billion in fiscal 1986 which began on April 1, including R716m of new money for the central government, a domestic loans programme issued by the Finance Department shows.

Tap issues

It gave no comparisons. Included in the total are tap issues totalling about R900m which Escom, SATS, the Posts and Telecommunications department and Durban Corporation may offer, it said.

RSA issue's will raise a total of R1,53 billion, of which R716m is new money. The department said included in the total was R125m which universities and technical colleges would be seeking

It said not all borrowers listed had obtained borrowing powers and their names could be withdrawn.

The South African Government made net repayments of R178m on short-term domestic loans between April 1 and December 31 last year, Finance Minister Barend du Plessis said in reply to a parliamentary question.

Net short-term foreign loans obtained by the Government amounted to R16m in the same period, he said. Net issues of Treasury bills by the Government were R753m but net repayments of short-term Government stock totalled R931m.

Loans

In the same period the Reserve Bank obtained no short-term domestic loans but its net short-term foreign loans amounted to R90m.

The total amounts borrowed by the Government, including non-marketable debt, totalled R4,1 billion domestically and R506m abroad in between April 1 and December 31, 1984, Mr du Plessis said.

Long-term domestic stock issued totalled R3,89 billion, of which R1,9 billion was from the 13 percent 2005 stock, R600m from 15 percent 1988 stock and R1,39 billion from 14,5 percent 2006 stock.

, Friday, April 12, 1985

Business Mercury

NM 12/4/85 (58)

Receiver scores heavily from GFSA earnings

Mercury Correspondent

JOHANNESBURG— The Receiver of Revenue scored heavily in the March quarter from the earnings of the gold mines managed by Gold Fields of South Africa (GFSA).

Overall the results were largely unchanged from those of the December quarter; but while total taxed profits for GFSA's mines rose by R4,6m to R218,982m the Receiver's slice increased by R12,5m to R262,6m.

The group has restated the tax and earnings figures of its mines for the December quarter.

GFSA's mines have a June year-end and are therefore affected retrospectively by the tax changes announced in the Budget.

Record

The average price received by the group's mines for their gold sales rose to set yet another record of R19 796/kg compared with the December quarter's R19 439/kg.

This is the result of the slide in the value of the rand to an average of R1/$0,49 in the March quarter from R1/$0,55, which more than compensated for the continued slide of the dollar gold price during the March quarter.

The group dropped grades at nearly all the mines to take advantage of the rising rand gold price and its favourable effect on the mines' pay limits.

Net sundry revenue (mainly interest received) for the group's mines rose to R59m in the March quarter from R42,2m in the December quarter.

Kloof turned in an excellent set of results for the quarter, increasing net profits to R57,579m (R56,786m) and distributable earnings after capex to 113,5c (103,8c).

The increase in Kloof's milled tonnage to 540 000 from the December quarter's 525 000 is in spite of a fire in an electrical substation during January which led to a five-day suspension of milling.

The mine also managed to reduce its total working costs to R42,293m (R43,091m).

Tonnage

Venterspost had a clear quarter with no disruption to operations by fires and as a result tonnage milled rose to 390 000 from the March quarter's 358 000 tons.

Vlakfontein, at the end of the March quarter, was sitting with retained distributable earnings of R1,531m (25,5c a share) after making a stingy capital repayment of 15c at the interim stage.

This amount of retained cash seems excessive and unless GFSA has something in mind for the funds there should a very healthy final dividend to come from the company.

Parliament

Board for Indian farmers

58 ~~~~ Times 12/4/85

Political Reporter

AN Agricultural Credit Board (ACB) to assist Indian farmers has been launched, Mr Baldeo Dookie, Minister of Local Government, Housing and Agriculture, announced yesterday.

The new board had been allocated a total budget of R832 000 for this financial year, Mr Dookie said.

He added that it was a "historical development for Indians who had been here for 124 years and for the first time positive steps are being taken to meet their needs in the agricultural sector".

The minister has also appointed five members to the board which will be chaired by the chief director of local government, Mr R N Blumrick.

The five were Mr P R Bodasing, a farmer and president of the Natal Indian Cane Grower's Association; Mr M Naidoo, a farmer from Kearsney; Mr T A Govender of Umzinto who was previously associated with a part-time credit committee with Mr J N Bodasing and Mr Shun Naidoo, who both have a farming background; and Mr H J Backer, director of Local Government, who is vice-chairman.

The ACB will assist farmers, expand farming operations and supervise and undertake research and training.

Additional Agricultural Credit Committees may also be established by the Minister in terms of one or more magisterial districts to make recommendations to the Minister or the board. At present there are seven committees.

Inflation fears fuel market rally

W/E ARGUS 13/4/85 58

Financial Editor

IN SPITE of the recession, the drying up of consumer demand, the record high taxes and the record high interest rates — all factors which should depress investors — the industrial share market has started to move up strongly.

The industrial share price index jumped more than 20 points or 2,4 percent yesterday, which was more than it had risen in the previous three trading days. This rise was a continuation of the trend that has lifted the index more than 90 points, or 12 percent, since its March low.

The increased business this upsurge has brought stockbrokers has been most welcome as they have been going through a lean time recently, with clients as scarce as grapes in spring.

But not all brokers are happy about this turn of events.

It meant that people have taken the view that the country's high rate of inflation will be around a long time, one said.

"The share market rally is actually a vote of no-confidence in the Government's anti-inflation measures," he added. "It shows that people have again started seeking inflation hedges."

It seemed that a repeat of the 1983-84 industrial share rally was about to take place, he continued.

He was referring to the situation in late 1983 when investors sensed that a renewal of inflationary pressure was imminent. They invested heavily in industrial shares and were rewarded by seeing share prices rise by about 25 percent on average by early 1984.

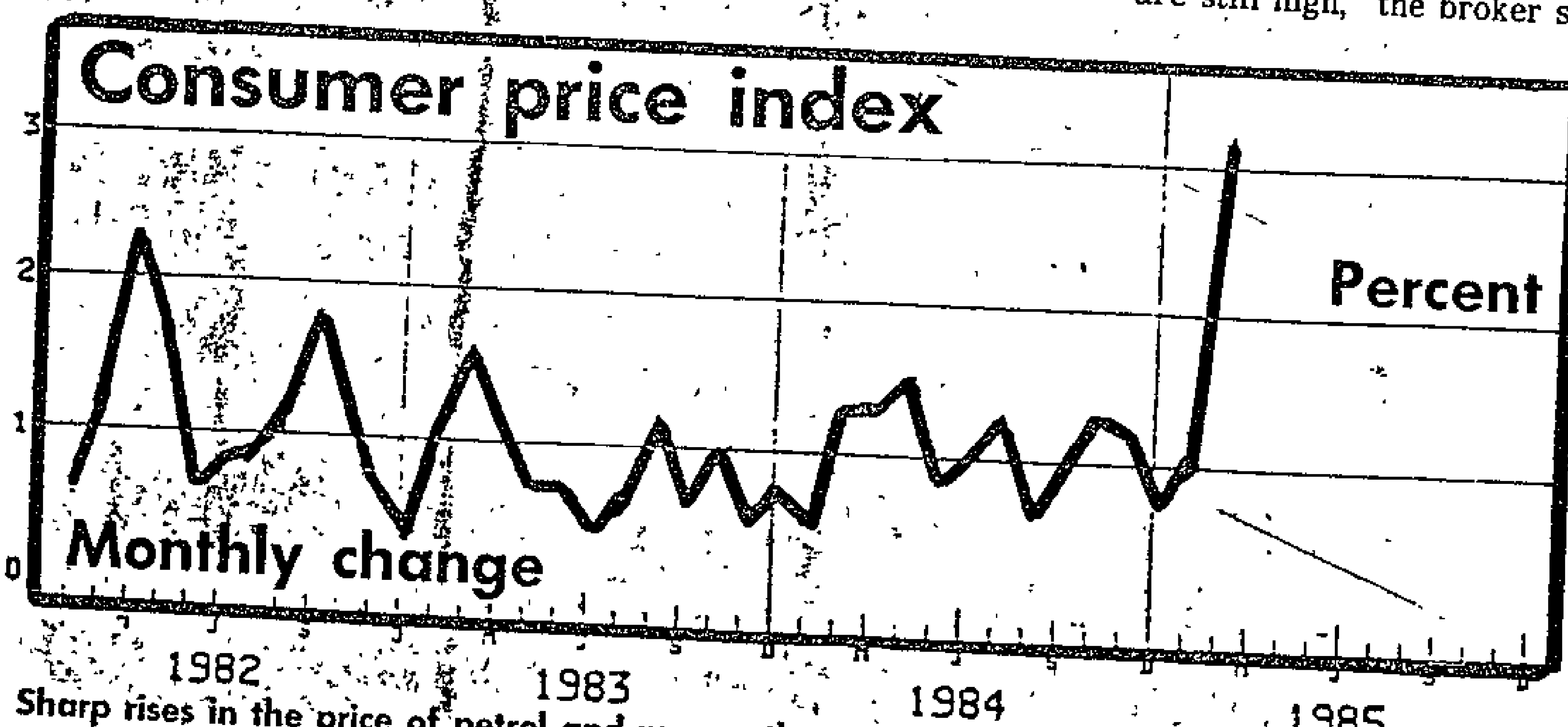
Their action in fleeing to an inflation hedge proved to be justified. The monthly inflation rate in the six-month period increased by about 50 percent from around 10 percent to 15 percent.

In recent weeks there has been plenty of evidence that South Africa is again riding the tidal wave of inflation. In the first two months of this year the consumer price index rose more than 4 percent, to give an annual inflation rate of more than 24 percent.

Since then a host of other prices, including postal and telephone tariffs and railway freight rates have been increased.

Motor manufacturers have been forecasting further sharp increases in car prices, even though the cost of running a car has risen 36 percent in the past 12 months, official figures show. And brick prices have also risen substantially in some parts of the country.

"If businessmen and Government departments see nothing wrong in increasing prices by up to 30 percent in today's business climate, then it is clear that inflationary expectations are still high," the broker said.



Sharp rises in the price of petrol and many other goods and commodities, including rail fares, caused the consumer price index to soar in February by more than 3 percent. This was the largest monthly rise for several years as this graph from Central Statistical Services shows.

Barclays target of anti-SA group

Cape Times 16/4/85

58

From STANLEY UYS

LONDON. — Barclays Bank has been singled out by anti-apartheid protesters here as the main target in a campaign to secure South African disinvestment.

A spokesman said the bank would not yield to pressure. "We continue to deplore apartheid, but we feel it is best to stay ... to employ constructive engagement."

The End Loans to South Africa (Eltsa) organization has produced its fifth Barclays "Shadow Report", designed to monitor the bank's activities in South Africa and SWA/Namibia.

Members include Labour leader Mr Neil Kinnock, actress Julie Christie and exiled editor Donald Woods.

Eltsa claims that accounts are being moved from Barclays in protest against the bank's South African involvement.

The Shadow Report claims that since 1980 Barclays Bank has lost accounts in Britain with a total annual turnover of more than R14 billion, the largest withdrawal being Rochdale Council's R480m-a-year account — the first time Liberal and Social Democratic councillors have joined Labour councillors to vote to boycott Barclays.

Barclays Bank in London holds a controlling 50,45 percent share in its SA subsidiary.

Barclays target of anti-SA group

Cape Times 16/4/85

58

From STANLEY UYS

LONDON. — Barclays Bank has been singled out by anti-apartheid protesters here as the main target in a campaign to secure South African disinvestment.

A spokesman said the bank would not yield to pressure. "We continue to deplore apartheid, but we feel it is best to stay ... to employ constructive engagement."

The End Loans to South Africa (Eltsa) organization has produced its fifth Barclays "Shadow Report", designed to monitor the bank's activities in South Africa and SWA/Namibia.

Members include Labour leader Mr Neil Kinnock, actress Julie Christie and exiled editor Donald Woods.

Eltsa claims that accounts are being moved from Barclays in protest against the bank's South African involvement.

The Shadow Report claims that since 1980 Barclays Bank has lost accounts in Britain with a total annual turnover of more than R14 billion, the largest withdrawal being Rochdale Council's R480m-a-year account — the first time Liberal and Social Democratic councillors have joined Labour councillors to vote to boycott Barclays.

Barclays Bank in London holds a controlling 50,45 percent share in its SA subsidiary.

Societies hoping to phase out tax-free concessions

MM 17/4/85 (58)

Finance Reporter

MAJOR building societies are hoping for a gradual phasing out of their tax free concessions rather than cause a sudden death when the new Building Society Act is introduced.

The annoucement of the phasing out was made this week during a speech by Mr Kent Durr, Deputy Minister of Finance and of Trade and Industry.

Mr Durr was speaking on implications of the new Building Societies Act, the draft of which goes before a standing committee this week.

Tax concessions enjoyed by the societies' investors had shielded borrowers from unwelcome fluctuations in the financial markets, Mr Durr said.

Those tax concessions are likely to disappear under the provisions of the new Act, either by a sudden death or by phasing out.

Mortgages

Mr Geoff Bowker, general manager of the Allied, said yesterday, if the tax-free investments were cancelled or phased out, societies would have to pay more for money, which would precipitate an increase in mortgage rates.

'But if the concessions are phased out, the longer the phasing out, the more likely it would be for us to postpone or defer bond increases.

Mr Brian Kemmey, senior general manager of the S A Perm, yesterday refused to comment on the Perm's attitude to the propsed new Act, but said cancellation of the tax-free benefits would have an effect on cost of capital.

'And for us to retain that money, we would have to pay higher interest rates, which would affect bond rates.

Current interest rates of tax-free investments offered by building societies are 10-1/2 percent up to R20 000, with a minimum investment of 18 months. The Post Office also offers the same interest rate, but has a ceiling of R70 000 and a minimum period of six months.

Durban-based Maurice Goudré, a former national president of the Institute of Estate Agents, said yesterday, that another increase in the mortgage bond rate would have a detrimental effect on the property market,

Mr Goudré said that in the past one had been able to say bond increases would not affect the market.

But recent increases had definitely had an effect.

'The main reason is relative to income and expenditure — people are finding it difficult to find the money,' he said.

Meanwhile, the Perm has raised its mortgage rates as from May 15 to bring them in line with those of other building societies.

Most rates will be increased by 0,75 percent, with the top rate for bonds over R60 000 increased by 1,5 percent to 21,5 percent.

Inflation

The Allied, Natal Building Society, Eastern Province Building Society and Sambou National Building Society have all increased their rates this month and many of the societies expect the rates to maintain their present high levels for at least another six months or possibly until the end of the year before easing.

Mr John Bennett, managing director of the Natal Building Society, believes that any reduction in mortgage rates is 'virtually impossible to predict because it is subject to so many imponderables.

'The price of gold, inflation and tight Government control over its financial expenditure are all factors that affect rates, but rates could ease towards the end of the year,' he said.

Mr Bowker also believes the end of the year could herald a drop in rates, but also stressed the importance of gold and inflation.

Mr Kemmey of the Perm, said he believed rates will generally slowly decline and foresees a 'meaningfuly dip towards the end of the year.'

Mr Goudré also believes any significant increase in the gold price might have a benefit in the form of an improved flow of funds to the building societies, which, in turn might enable them to lower their rates.

Listing

The Bill is designed to provide more flexibility for societies in their borrowing and lending activities and will offer societies, among other things, a choice to convert to companies and an eventual listing on the Johannesburg Stock Exchange.

Societies which convert to an equity base must maintain equity capital and untouched reserve funds of four percent of commitments to the public.

They will also be required to maintain cash reserves at the Reserve Bank equal to eight percent and four percent respectively of short and middle-term commitments to the public — and maintain liquid assets equal to 20 percent, 15 percent and five percent respectively of short, middle and long-term public commitments.

The present requirements with regard to prescribed investments will be scrapped.

Boland Bank expanding

NM 17/4/85

58

Finance Reporter

BOLAND Bank is expanding its commercial banking services and aims to increase its 40 district bank branches to 70 by the end of this year, having recently moved into the Transvaal and OFS and it plans to move into Natal and Eastern Cape shortly.

Mr Charl du Plessis, senior group general manager, said: 'When we took over the Stellenbosch District Bank in 1979, we didn't have the experience and expertise to begin expanding.

'But now we can offer a wide range of local and international banking services.'

Govt mum on secret accounts

NM 17/4/85

(58)

Parliamentary Correspondent

CAPE TOWN—The Government has refused to explain why its spending on secret accounts is to go up by R11 million to total R95 million during the current financial year.

In an explanatory memorandum, tabled in Parliament yesterday, the Department of Finance said that 'for obvious reasons' details of the provision for the secret services 'cannot be made public'.

It said the Secret Services Account had been established to centralise the budgets for all secret services.

Amounts were then transferred from this account to the Foreign Affairs Special Account, the Security Services Special Account, the Special Defence Account, the Information Services of South Africa Special Account 'and to other departments which may undertake secret services', the memorandum said.

Foreign investment in S A up

NM 17/4/85 (S8)

PORT ELIZABETH — Foreign investment in South africa has risen to R43 billion at present from R23 billion in 1979 despite intensified attempts to discourage it, Transport Minister Hendrik Schoeman said.

He said in prepared remarks that South Africa remained attractive because it recognised that foreigners would not invest in the country if they were not properly rewarded. — (Reuter).

Work starts on R33m Ladysmith factory

NM 20/4/85

(58)

Property Editor

LADYSMITH— Construction of a new R33-million factory here in times of worsening recessionary conditions was a sign of faith in the product and South Africa, deputy chairman of Gypsum Industries, Dr Rudolph Fockema said yesterday.

He was speaking on the occasion of 'turning the sod' for work on the huge plant to begin.

Dr Fockema said the plant had been sited in Ladysmith because of the encouragement given through attractive decentralisation incentives, the good location of Ladysmith relative to the Natal and north-eastern Orange Free State markets, and the positive attitude of the local authorities towards the industry.

'These are among the many factors that led to our decision in spite of the great distance from our Gypsum deposits in Bushmanland,' said Dr Fockema.

The factory, which is scheduled for completion in 1987, will ultimately employ about 200 people and will make a wide range of products for the building industry.

58

And then there was none . . .

South Africans should be saving, but they are not. On the surface, attractive propositions abound. For example, assuming that inflation will average 12,5%/year over the next three years, current long-term rates should yield a real return of 4%/year. Few investors would jib at that. The reason they do is not difficult to see: the propensity to save is being undermined by nagging inflationary expectations and, as bad, the demoralising effect of high marginal tax rates.

Over the past eight years, personal savings have dwindled to a meagre 8,2% of gross domestic savings from a high of 29,2% in 1977. Since that year, there has been a 70,8% drop (in 1977 rand terms) from R2,864 billion to R835m at the end of 1984. To make matters worse, savings have declined dramatically in real terms — notwithstanding the massive weight of contractual savings through the life assurance industry and private pension schemes.

On the other hand, corporate savings as a percentage of gross domestic savings rose to 35,9% in 1984 from 15,6% in 1977.

What should alarm economic policymakers is that, since 1977, total savings have risen only 3,7% in real terms, while gross

The decline of personal savings is alarming. It reflects a kind of condemned-man syndrome. Despite attractive long-term yields, the pervading mood is to spend rather than surrender proceeds to inflation and the taxman.

domestic investment has increased by 13%. The difference has been made up by borrowing overseas, often short term.

Savings can come from three sources — individuals, corporations or government. But if the level of total savings is to keep pace with SA's need for investment, then corporate and government savings are not enough — the present downward trend in personal savings will have to be reversed.

Saving money is essentially a hedge against inflation for the man-in-the-street. Although projections for inflation vary, a reasonable, if not slightly optimistic view would peg it at an average of 12,5% for the next three years. For example, an individual who puts money away in fixed deposit for three years could expect, at present rates, his investment to grow at 16,6%/year.

But tax casts gloom over his expectations.

PERSONAL SAVINGS — CONTRIBUTING LESS

Components of savings as a % of Gross Domestic Savings

	1977	1978	1979	1980	1981	1982	1983	1984
Personal	29,2	19,1	21,1	18,3	11,1	9,0	6,9	8,2
Corporate	15,6	22,9	29,3	34,3	34,5	24,7	35,4	35,9
Government	5,2	7,9	7,1	10,9	7,3	1,5	−3,8	−8,8
Depreciation	49,9	50,0	42,4	35,9	47,2	64,8	61,5	64,7

Source: Reserve Bank Bulletin.

earned savings would be worth only 95% of their present value in three years' time. At a 50% marginal tax rate, the money would be worth only 87,9% of its present value.

Given that interest rates look set to drop while inflationary expectations are rising, there is less, rather than more incentive to save in the months ahead.

As things stand, three things will encourage people to save more: interest rates must rise, inflationary expectations curbed, or the marginal tax rate lowered.

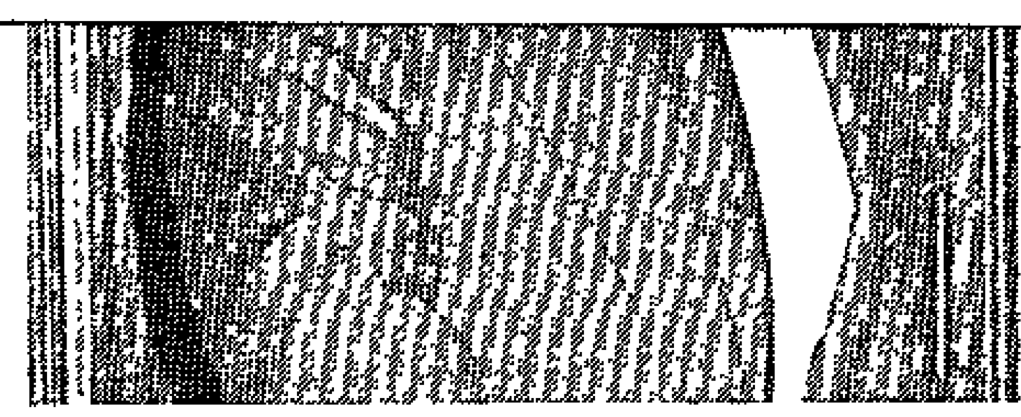
Higher long-term interest rates would increase the real return on savings after tax. But higher rates, while they might encourage savings, would inhibit private fixed investment on the other hand. What business, besides government, can carry the cost of borrowing long term at, say, 20%, given that a return on fixed investment will materialise only in two to three years? It is pointless having savings if high interest rates inhibit productive investment.

That leaves a convincing argument for tax reform.

"Our tax structure relies too much on individuals to support government revenues," says Standard Bank's Andre Hamersma.

Says Assocom's Raymond Parsons: "The general public needs to be convinced not only that interest rates will be reduced, but that taxation will also be eased. At the moment, taxation falls heaviest on those with the biggest potential for personal savings.

"And it will not be possible for the Margo



Assocom's Parsons . . . convince the public

Commission to recommend fundamental changes in the tax structure to put this right if there is no room to manoeuvre on the fiscal front.

"It will not be possible to walk down the road of reducing the net tax burden as a barrier to higher personal saving unless the State is able to reduce its claims on the resources of the country," he adds.

inflation appears to have become entrenched.

Take, for example, the mini-boom of 1983-1984, which was fuelled by consumer spending without being matched by productive investment and was, and still is, being financed out of future rather than current earnings. The economy, it appears, is borrowing to keep running.

Worse, there is a sneaking suspicion that honest attempts to fight inflation are continually subverted by political expediency. That is what people believe.

"Unless inflation is reduced, personal debt liquidated and savings restored, it may be potentially disastrous for SA to permit another major upturn in the economy," says Parsons. ■

SAVINGS — NOT MEASURING UP

(In Real 1977 R millions)

	Personal Savings	Gross Domestic Savings	Gross Domestic Investment	Gross Domestic Product
1977	2864	9796	9384	34120
1978	1976	10323	9116	35979
1979	2682	12689	10377	38057
1980	2852	15622	13635	43647
1981	1367	12353	14786	43210
1982	869	9648	11362	42625
1983	736	10655	10529	42457
1984	835	10161	10604	44596

Source: Reserve Bank Bulletin.

First-time buyers to benefit from mortgage offer

NM 20/4/85

(58)

JOHANNESBURG—The Natal Building Society announced yesterday it has made available 'several million rand' primarily for first-time home buyers.

In a statement, the NBS says that its lending position has improved because of a 'more favourable investment trend over recent months'.

The managing director, Mr John Bennett, said: 'We're even inviting prospective first-time buyers who are not current clients of the society to avail themselves of these funds.'

'Even though loans of more than R60 000 — which first-time buyers do not normally require — are more profitable we feel that it is important for as many young people as possible to be able to purchase their own homes.

'If the step is taken at the expense of short-term profit — and may be queried by some people in the light of our intention to become an equity-based instead of a mutual society — from a long-term viewpoint, it is enlightened self-interest.

'And it is particularly meaningful to the public at large at a time when mortgage bond rates are so high,' he said.

'In a country with a rising population that is generally poorly housed, it is essential that the socio-economic benefits of owning one's own home be spread as widely as possible in all race groups.

'Building societies obviously have a large role to play in the achievement of that goal, and an emphasis on profitability does not mean we should not follow socially acceptable policies.

'Stability, self-fulfilment, and capital appreciation of a major asset in a highly inflationary economy are some of the many "spin-offs" of home ownership in a country that has many hallmarks of the Third World.

'The opportunity to benefit from capital appreciation is especially important, as it demonstrates in practice the virtues of the free enterprise system,' says Mr Bennett. — (Sapa)

HOMES CASH: There's more for BUREAUCRATS than for BLACKS

58

THE Government will spend more money this year on housing subsidies for its largely white public-service corps than it is to spend in housing for blacks.

The shock statistic has again focused attention on the massive state housing bonanza which absorbs millions of tax rands every year.

And a new government accounting method introduced three weeks ago buries this vast hidden cost to the taxpayer in the budgets of the individual state departments — thus making it that much more difficult to control.

By BRIAN POTTINGER, Political Correspondent

This week opposition members demanded — and were denied — an independent inquiry into the home-loans scheme, which they now describe as a "monster".

Rough estimates compiled by the Sunday Times indicate that at a very minimum the State will spend more than R300-million on subsidising home loans for all state employees this year.

In the central-government sector alone — it employs about 600 000 people — the Government has budgeted a wholly inadequate R135-million this year for the scheme

That is R4-million more than the Departments of Public Works and Co-operation and Development have jointly budgeted for black housing in the whole of the country.

But Treasury officials this week admitted that the R135-million budgeted was based on the hope that interest rates would "soften" during the year — a prospect they themselves admit is unlikely.

In 1983 the Government budgeted R47-million for the scheme, but had to pump in substantially more during the year as interest rates on loans rose.

Last year it earmarked R102,8-million, but had hastily to pour another R82,8-million — an 80-percent budget overshoot — into the kitty as the interest rates soared.

Splurge

This year the budgeted amount is 35 percent more than last year's figure, but will be substantially higher than estimated — perhaps even exceeding last year's record high of R188,8-million.

State spending on the scheme has increased exponentially. In the past seven years it has gone up twelve fold for central-sector employees, and in services such as Transport Services it has increased 2 000 percent in 10 years.

The state burden in housing costs has deeply concerned opposition quarters, which claim that the open-ended policy has locked the Government into an enormously expensive scheme

The Government pegs interest rates at between three and five percent for employees and foots the bill for the rest — which today can be as much as 15 percent on the loan's interest

A typical scheme for a provincial educational department, for example, requires the authorities to pay R456 a month in subsidy on a R40 000 loan over 25 years for an employee with a basic salary above R18 000.

The proliferation of state burdens in connection with the schemes has been highlighted in the latest report of the Department of Community Development — now the Department of Public Works.

Between March 1983 and March 1984 the number of loans approved by the Government for all public-sector employees increased by 11,5 percent. But the total amount loaned increased by 39,1 percent while the guaranteed amount shot up 37,4 percent.

The State went on an even greater lending splurge subsequently. In the 21 months from March 1983 to December last year the number of officials qualifying for subsidies on loans leapt by 32,5 percent

Concern about the housing subsidies is only part of a much deeper concern about the state wage bill as a whole.

This year the total wage bill — central sector, services, provinces, statutory bodies, self-governing bodies and control boards — reached R9 300-million compared with last year's R7 800-million

Cost-cutting, claims the Commission for Administration, will knock the total increase back to R8 800-million, or about 12,5 percent increase over last year.

But a study of the increase in the main budget estimates of expenditure on personnel in central government alone shows an increase of 16,8 percent.

Explanatory memoranda from each department refer, inter alia, to cost increases which are then only partly attributed to the housing-loan subsidies.

But a snap Sunday Times analysis of some of the government departments shows a disturbing trend in increases on personnel expenditure — despite government pledges to trim the fat and peg staff expenditure increases to 10 percent.

The Department of Co-operation and Development, for example, has increased its personnel budget by 17,7 percent despite only an 0,9 percent rise in staff strengths.

Bank grows

Sowetan 22/4/85

58

THE African Bank Limited last week announced the formation of its Corporate Banking Division.

This division will strive to participate in the money market, primary capital market and foreign exchange.

It is envisaged that the bank's clients will be procured from the ranks of both large South African and large multinational corporations.

The bank's activities in the primary capital market will be geared mainly towards the Black local authorities and independent states, raising capital in both the local and overseas markets.

The African Bank, formed in 1974, has been growing from strength to strength and the formation of its Corporate Division is viewed in the light of improving the standard of the bank to be like any other in the country.

Building societies likely to lower deposit rates

ARGUS 23/4/85 (58)

Financial Editor

LOWER building society deposit rates are likely within the next few weeks. The United, the country's largest, has already trimmed its 12-month deposit rate from 20,5 percent to 20 percent and other societies are expected to announce similar reductions shortly.

Most of the societies have reduced their wholesale money rates in recent days.

A building society official said the high rates which the societies had been offering on 12-month deposits recently had proved highly successful in attracting new money.

These rates had led to the cash positon of at least some of the societies becoming much easier than it had been for several months.

FIRST TIME HOME BUYERS

An indication of this is the announcement by the Natal Building Society at the weekend that it was making several million rand available for lending to first time home buyers.

It says this had been made possible by its lending position having "improved due to the more favourable investment trend over recent months". The society's managing director, Mr John Bennett, said it was even inviting prospective first time borrowers who were not current clients of the NBS to avail themselves of these funds.

This was being done even though loans of more than R60 000, which first time borrowers did not normally require, were more profitable to the society.

It does seem that the societies are finding the demand for new bonds, especially above R60 000 beginning to slacken.

This is only to be expected in view the recession which has trimmed many people's income and the high interest rates being charged for bonds.

Anyone who borrows money at 23 percent, the going mortgage rate on sums of more than R60 000 is paying out R13 800 a year in interest alone, a fact which must inevitably depress the demand for bonds.

However, building society officials point out that it could be some time before lower deposits rates lead to lower mortgage rates, as they are committed for at least a year to paying high rates of interest on deposits.

Metboard buys P-E Corporate Services

RDM 24/4/85

By HOWARD PREECE

METBOARD, a leading trust and financial services group, has taken over P-E Corporate Services, South Africa's largest management consultancy and training group.

Financial details of the deal have not been revealed.

Metboard, a part of the Unisec group, has funds under administration of about R420m.

In the 18 months to June 1984, it made a pre-tax profit of R4,495m.

Net profit attributable to ordinary shareholders was R2,553m — roughly R1,7m on an annualised basis.

Mr John Perkins, the managing director of Metboard, says the acquisition of P-E should boost earnings by 10% to 15% in 1985-86.

P-E, formerly P-E Consulting Group, was set up in 1950 as a subsidiary of the international P-E group.

In 1978, however, control was bought by the South African management headed by Mr John Fleming, who has been the executive chairman and the majority shareholder.

There is no longer any direct financial tie with P-E International but, according to Mr Martin Westcott, the managing director of P-E, there are still some important working links.

Mr Fleming is to take up a position in the City of London with effect from July 1 this year.

Metboard will have 80% of P-E, with the remaining 20% held by the executive directors of P-E.

P-E found itself in some financial difficulties last year after a computer software venture.

That led to P-E seeking some advice and assistance from Metboard. That, in turn, led to the take-over of P-E by Metboard.

P-E is one of the main executive recruitment agencies in South Africa — a business worth close to R15m a year countrywide.

It also lays claim to being the largest group in South Africa in management training (annual industry turnover is reckoned at R20m) and general management consultancy (annual turnover is in the R15m to R20m).

Barclays loans to SA: Bevan explains

ARGUS 25/4/85

Argus Foreign Service

LONDON. — Stockholders protested vigorously at the flood of "political questions" with which Barclays Bank chairman Sir Timothy Bevan was bombarded at the bank's annual general meeting here yesterday.

But Sir Timothy, while giving preference to stockholders, also allowed the holders of "yellow cards" (proxies) to question him at length about a variety of South African and SWA/Namibian issues affecting the bank.

First, however, he told the crowded meeting that the bank continued to be opposed to apartheid, and that its policy on loans to South Africa was simple: it did not lend to the South African Government, either from London, Europe or the United States, unless that loan was in part to improve the living standards of the black population and could be demonstrably monitored.

The bank had participated in modest underwritings of foreign issues by nationalised industries, particularly by Escom because it was felt that electrification projects were of benefit to the wider population. None of the underwritings remained on the bank's books.

Reviewing what had been achieved in South Africa, Sir Timothy said Barclays National represented about a quarter of the banking system in South Africa yet employed 43 percent of the total number of non-whites employed in banks. Volkskas employed about 1 percent.

Between 1983 and 1988, Barclays National gave R2,44-million to the Urban Foundation in South Africa — the largest single donation ever made by any part of the Barclays group.

But most of all, the bank believed it helped to set a good example. As a British company, it reported annually to the British Department of Trade under the EEC Code of Conduct, and "comprehensively met" the criteria of the code.

"Taken together, companies following such codes must surely represent a substantial force for peaceful, evolutionary change," he said.

He added: "When talking of disinvestment, it seems to me the burden of proof is on the disinvestors to show how much more they can achieve than we have achieved with our policies of constructive engagement."

Sir Timothy, replying to a question, disclosed that the bank had sent a telex to President P W Botha after the Uitenhage shootings. It described the shootings as "an unmitigated disaster" and Barclays had called on President Botha to intervene directly and for an inquiry to be held.

Banks' interest rate cuts herald downward trend

ARGUS 25/4/85 (58)

By DEREK TOMMEY
Financial Editor

THE high interest rates which in the past year or so have crippled businesses and hurt the house buyer are beginning to decline.

This is today's good news from Volkskas and Standard Bank which have both cut their 12-months deposit rates from 20,5 percent to 19,5 percent with immediate effect.

The last time the fixed deposit rate was reduced was in the first quarter of 1983 when it fell from 15,5 percent to 11 percent.

The Standard Bank has also reduced its savings rates by varying amounts, from 0,42 percentage points on deposits of R40 000 or more to 0,74 percentage points on deposits of between R15 000 and R19 999.

GOVERNMENT STOCK

The lower rates follow cuts by certain building societies. However, they go further as the societies at the start of business today were still offering a minimum of 20 percent on 12-months money.

Bankers say the move reflects growing downward pressure on interest rates owing to a build-up of money in the hands of the institutions for investment on a medium and long term basis.

In previous years much of this money would have been put in Government stock and would have had little direct impact on interest rates.

BORROWING SLASHED

But this year the Government has slashed its borrowing requirement to R716-million from roughly R2 000-million last year which has resulted in the institutions having had to find alternative investment avenues.

Accordingly, they have investing heavily with the banks and building societies and this is now helping to depress interest rates.

This development was not unexpected.

It was forecast by the Minister of Finance, Mr Barend du Plessis, in his Budget speech five weeks ago when he said the lower level of State activity in the capital market should contribute towards a lower interest rate structure.

INSURANCE PREMIUMS

With the institutions continuing to take in large sums of money by way of pension fund contributions and insurance premiums it seems that the downward pressure on interest rates could continue for the rest of the year which should ultimately lead to some reduction in mortage and other rates.

However, the building societies say that only minor cuts can be made in mortage rates in the next 12 months because they are committed to paying high interest rates on large sums of money for most of this period.

Meanwhile, the easing in medium-term rates will undoubtedly create speculation about when short-term interest rates and overdraft rates also start declining.

DISCOUNT RATE

With the money market heavily indebted to the Reserve Bank — the current shortage in the market is around R1,5-billion — the timing of this rests with the Governor of the Reserve Bank.

Bankers point out that short-term rates cannot be reduced until the Reserve Bank cuts its discount rate. And for policy reasons, such as curbing inflation and attracting foreign funds to the country, the Reserve Bank might want to keep short-term rates at their present levels for a while longer.

The change in Standard Bank's rates (with previous rates in brackets) are:

Plusplan: R15 000 - R19 999: 17,95 percent (18,79); R20 000 - R24 999: 18,37 percent (19,21); R25 000 - R39 999: 19,21 percent (19,84); R40 000 and over: 20,05 percent (20,47).

Stannic and Standard Merchant Bank have amended their special savings rates to 20,05 percent.

BUSINESS

Clampdown on public service housing bonds

W/E ARGUS 27/4/85

58

Weekend Argus Correspondent

DURBAN. — The Government has taken the first steps towards restraining public service housing subsidies, which have been blamed for pushing up house prices.

A building society says it has received an official "recommendation" to ensure that no subsidised public servant or semi-State employee is helped to the point where his bond amount, under normal circumstances (ie, on an unsubsidised bases), would involve repayments exceeding 50 percent of his salary.

The normal building society rule is that buyers should not pay — after subsidies are taken into account — more than 25 percent of salary.

However, subsidies enable bond amounts to be pushed substantially higher than this.

DRASTIC RETHINK

This move is in keeping with a drastic rethink on housing subsidies in the private sector.

Following introduction of the fringe benefit legislation, the country's largest building society — the United — has switched from providing new staff with bonds at only 3 percent to the more market-related 18 percent

Old staff still enjoy the lower rates.

The tougher general stance on staff bond subsidies — and the "50 percent" ceiling on public servant loans — partly are aimed at ensuring that subsidised employees do not face huge increases in tax over the seven-year phase-in period for taxation of housing fringe benefits.

"OFFICIAL" RATE

At present the "official" housing interest rate is 18 percent, below which an employee will become liable for tax on his "fringe benefit".

Even at 18 percent staff benefit substantially — the official UBS rate for amounts over R60 000, for example, is 23 percent.

Interpreting the new instruction regarding public servants, building society men say a public servant with a bond "worth" 50 percent of his salary can expect natural salary increases over the next seven years.

They believe these increases gradually will reduce the repayment percentage closer to the normal 25 percent of salary rule they apply to the man in the street.

THE RIGHT STAFF

The question of State subsidies has become a controversial issue, with strong contenders on both sides.

The State says they are necessary to attract and keep the right staff

Critics allege that subsidies are to blame for abnormally high property prices and that the rules can be twisted.

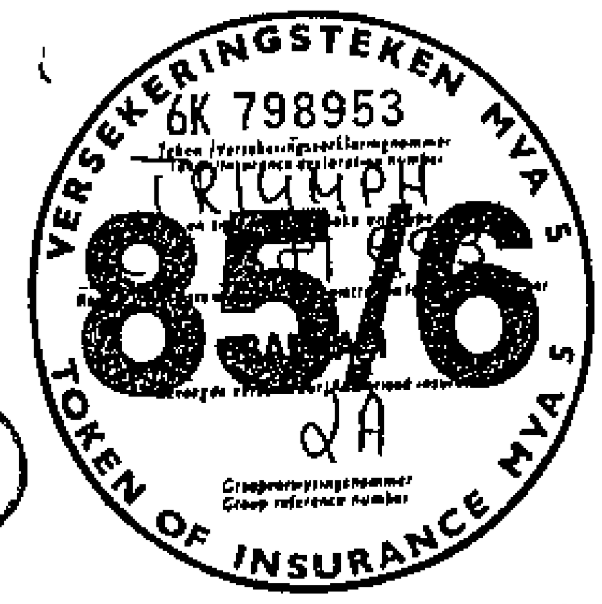
For example, it is claimed that:

- A public servant with a low bond recently needed R10 000 to add on a study. However, he discovered he could apply for a loan of R40 000, placing the R30 000 extra on call with a bank at 20 percent.

Building society men say the scope to do this is limited to State employees with low bonds — State subsidisation carries a ceiling of R50 000.

- With the State scheme designed around subsidising a percentage of the repayment, some public servants speed up their repayments in order to get higher subsidisation.

Car insurance costs may jump by up to 30 percent



D-Day for 1985/86 Third Party discs.

ARGUS 30/4/85

Argus Correspondent

JOHANNESBURG. — Motorists carrying the burden of the higher petrol price are now faced with dramatic increases — as high as 30 percent — on private car insurance cover.

Experts forecast that average premium costs will soar by about R180 a year as policies are reviewed for annual renewal.

Several big insurance companies will launch the new round of increases tomorrow and more are expected to follow suit.

The new shock to motorists comes on the Third Party deadline. The 1985/86 third party discs must be fixed to windscreens by midnight to avert the risk of R50 fines.

Mr C J Oosthuizen, managing director of Santam Insurance, said the surge in premium rates was unavoidable because of a "tremendous rise in claims" now costing his company alone nearly R1-million a day.

Santam, which claims to be the largest motor insurer, will increase the premiums on all renewals of policies from tomorrow — by 30 percent for motorists in Johannesburg and other metropolitan centres to 20 percent in rural villages.

IGI Insurance intends to raise premiums by up to 25 percent from tomorrow.

At Guardian National, a spokesman said average increases on policy renewals from June 1 should work out at between 15 and 20 percent — but in isolated instances the premiums would be increased by 50 percent or more.

S A makes Eurobond deal

58

61 NM 30/4/85

CAPE TOWN— South African Finance Minister Barend du Plessis signed a Eurobond deal with joint lead managers Commerzbank and Union Bank of Switzerland (Securities) to borrow $75m.

Mr Du Plessis said the bond, a six-year bullet issue with a coupon of 12,5 percent and an issue price of 99,5 percent, was doing well on the secondary market.

Payment date is April 30 and the bond has been on the market since April 2.

He said the foreign debt of the South African central goverment was R3,6 billion on March 31 this year, or $1,9 billion.

He said the level of foreign debt could not be regarded as excessive and amounted to 10 pc of central government's total debt in 1984.

Prospects

Du Plessis said South Africa's international loans reflected the widespread confidence of investors in the long-term growth prospects of the South African economy.

Du Plessis said that between 1978 and 1984 South African public sector borrowers succeeded in reducing premiums payable above the London interbank offered rate (Libor) to very moderate margins.

In 1978, the average maturity of marketable central government debt was 42 months, rising to 62 months in 1984, he added.

Nedbank, London, is one of the managers of the $75m Eurobond. — (Reuter)

Societies slated for refusing to invest in KwaZulu

NM 3/5/85

58

African Affairs Correspondent

ULUNDI—The Minister of the Interior for KwaZulu, Dr Dennis Madide, says it is 'immoral' for building societies to refuse to invest in KwaZulu when many black people invest their money in these building societies.

Delivering his policy speech in the KwaZulu Legislative Assembly yesterday, Dr Madide said the building societies had an objection to the possibility that KwaZulu would take independence and nationalise their investments.

He said they wanted guarantees from the South African Government that their investment would be secured in such an eventuality.

Dr Madide said he wanted to implore the building society movement to stop its 'disinvestment stance' against KwaZulu.

This type of objection seemed very strange to him since the KwaZulu Chief Minister, Chief Mangosuthu Buthelezi had stated many times that, for KwaZulu this 'Pretoria type of pseudo-independence' was out'.

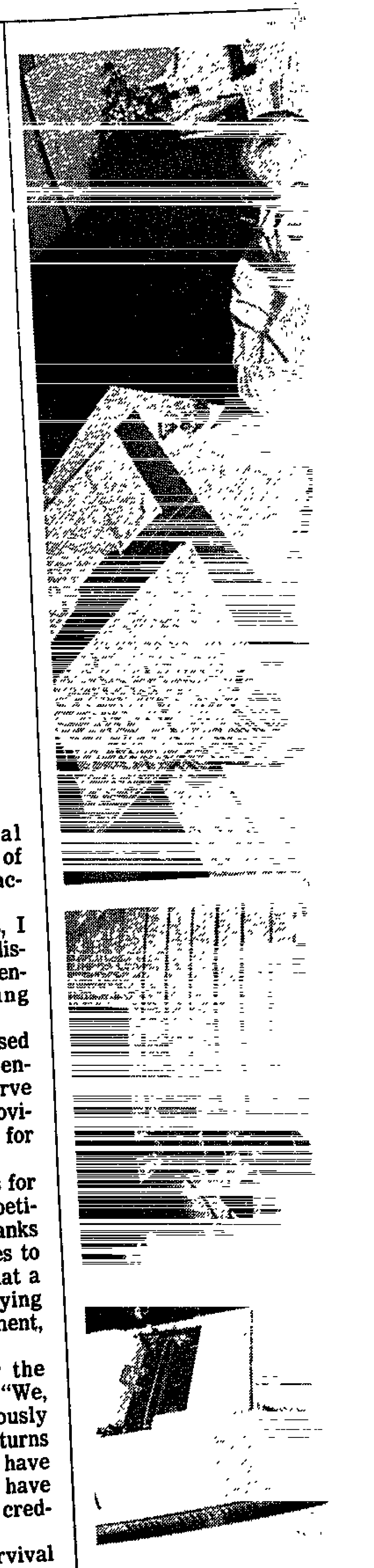
'Surely if they had any fears of political instability then KwaZulu is just the place with which they would want to do business as it is undoubtedly one of the most stable areas,' the minister said.

Dr Madide urged the private sector to put 'its money where its mouth was'.

'Those who have been vociferous in condemning influx control must now show it by helping to provide urban housing for blacks so that they can be accommodated,' he said.

Special survey: general banks

Thin times for general banking



The days of South Africa's general banks earning the highest returns in banking are over.

In fact, today, so paper thin are the general banks' margins that their profitability is being seriously eroded. This projection comes from Ron Rundle, the managing director of Nedfin Bank.

Mr Rundle says: "Historically general banks have operated on margins somewhere between 5 and 8 percent above the cost of money. But in recent months, these margins have been whittled away to less than 5 percent.

"In an economic downturn such as we have at the moment, one would expect increasing competition to trim those margins and this has happened. But competition has become so fierce, many general banks are operating on margins which are dangerously thin.

"Added to this, in the ongoing battle for market share, credit standards have been lowered and additional provisions for bad debts are being made against declining profit levels — another alarming development."

Mr Rundle points out that because in the past the general banks did better, rand for rand, than the commercial banks, banking groups tended to push their general banking operations. "One can see this from the explosion in receivables in the past five years."

At the end of December 1979 the receivables held by South Africa's general banks stood at R2 800 million. Five years later, his figure had risen to R12 000 million and these assets earned a greater return for the banking groups than many of their other operations.

"But, I believe," says Mr Rundle, "that the return of general bank assets could be misread. With this proliferation to receivables, the banking groups' risk profile has increased, added to which the groups are locked into fairly lengthy contracts, sometimes at uneconomic intest rates."

Mr Rundle expresses a concern that, in the minds of the large banking groups, these attractive returns have created expectations of a continuing rising income from their general banks.

"This is no longer true. Competition has eroded almost all of those returns and with the growth in business slowing, because of the recession, general banks are today operating on very thin margins."

Mr Rundle also draws attention to the fact that, with the phasing out of the tax allowances on productive equipment, competition among the country's general banks, already fierce because of the slowdown in business, has accelerated.

"In addition to these factors, I anticipate that in the not too distant future there will be new entrants in the general banking arena — the building societies.

"I would not be at all surprised to see the building societies encroach on the traditional preserve of the general banks — the provision of medium-term finance for consumers.

"The days of wider margins for general banks are over. Competition has forced the general banks to reduce their corporate rates to around prime and I believe that a customer, accustomed to paying the prime rate on his agreement, won't again pay prime plus."

What does this mean for the general banks? Mr Rundle: "We, as general banks, will obviously have to get used to lower returns but we will, at the same tme, have to take less risk. We will also have to implement more stringent credit rating systems.

"Crucial to the future survival of general banks is going to be our control over costs and operating efficiencies and we are going to have to seek out lower cost funds."

Santambank doubles branches to become one of big six

At the merging seven years ago of the Bank of Johannesburg, Credit Bank and Santam Bank (previously two words) Santambank had 62 branches.

Today it has more than doubled this figure.

It is well established as one of the "big six" in South African banking. After only five years, assets have more than tripled and profits have increased four-fold.

The top management is dynamic, energetic and modern thinking, without relinquishing the well proven banking traditions.

James Hogg, assistant general manager: marketing, says that in 1922, when the then Sasbank opened its doors, the accent was on individuals in the middle income group, small and personal loans, savings and investment facilities.

"We are still doing the same thing, but with a difference," he says, "the fundamental difference probably being that the bank has left no stone unturned to keep up with modern trends and expecially the intriguing, but often frightening world of electronics."

But coming back to "the same things" and questioned about Santambank's positioning in the market, Mr Hogg points out: "In a present publicity campaign we tell the people that we open doors.

"That is true, but the fact of the situation is that we still regard ourselves as the bank for the individual — more particularly the salaried person, or if you want to call him that, the man in the street.

"The reason for this? Well, all the other banks reach the salaried man, but no other bank serves them exclusively in such a way as to provide them with benefits for which they can only qualify if they were rich or influential.

"A good example is the recently announced Gold Rate savings account. While the investor normally requires approximately R30 000 or even up to R40 000 to ensure an interest rate of 20 percent, Santambank's Gold Rate is presently paying 20 percent interest on amounts of more than R200.

"On an annual basis, assuming that interest is compounded and the rate remains the same, the Gold Rate yields an effective rate of 21,94 percent.

"Needless to say, this savings plan has to date attracted substantial amounts of money but there are similar exciting products on the drawing board."

Mr Hogg stresses that Santambank is constantly tailoring and improving its services.

One of these is trade finance and the bank has positioned itself to serve the motor dealers.

General manager of the division, Joe Kirsten, says: "When we first came into the market, we operated quietly and were known to be efficient. But we wanted more than that and have since concentrated on upgrading our service to the point where our specialist division can provide for every need."

Like other banks, Santambank is also in the business of providing a service for the general public.

The personal banking division (PBD) under the control of general manager Dolf Wright renders services which can be compared to Volkskas, Standard and other commercial banks.

In this way the PBD helps the dealers by financing Santambank clients to purchase motor vehicles.

The two divisions, however, operate under the single name of Santambank.

Dealing with the dutiful after their demise

The administration of trusts and estates forms an integral part of Fidelity Bank's activities.

In current times, says Len Fleischer, the bank's assistant general manager trusts and estates, when inflationary influences have escalated property prices, even the man in the street has a vague awareness of the possibility of his surviving spouse having to face the payment of estate duty.

In the past, he points out, when John Citizen died, his home would have been moderately valued and his other assets would not have exceeded the rebate limits above which duty was payable.

These limits presently are:

- Primary rebate R50 000
- Surving spouse R50 000
- Say, two children at R40 000 each.
- Total R180 000.

The dutiable value of the estate would therefore have to exceed this sum for duty to be payable. Duty was therefore only a problem to more affluent members of society.

However, in today's market with the average price of houses, and higher incomes, the man in the street should take professional advice regarding estate planning.

Mr Fleischer advises that this service is offered by the trust arm of Fidelity Bank and will enable the client to be guided in the planning of trusts (if necessary) and to take whatever other legitimate steps are available to him to reduce the impact of duty in the future.

In 1984 the then Minister of Finance was quoted as having said: "It will not be possible to absorb the loss of State revenue which the abolition of estate duty would cause."

In his recent budget speech Minister Barend du Plessis said that the Margo Commission had been informed that in the government's opinion estate duty, at least in its present form, was no longer appropriate to the needs of our time.

Mr Fleischer comments: "We will have to await the outcome of the Margo commission report but it would appear that estate duty may increase and this would make it even more necessary to seek estate planning advice.

"Strange as it may seem, many clients have little or no idea of the dutiable value of their estates.

"In this respect, the staff of the trust and estates department of Fidelity Bank would be able to assist, not only in planning the estate and the duty to be paid but investigating and guiding the client in regard to investing during his lifetime.

"Since 1977 the abatements on estate duty have been increased by 80 percent but the value of estates has exceeded such beneficial increase by at least four times.

"One method of pegging the value of assets is to create an intervivos trust and the assets of the trust acquired from the donor will then be at current market value.

"It is assumed that such assets will have growth potential so that it will readily be appreciated that should the donor die in ten years the amount of the loan by him to the trust will be an asset in his estate. However all growth value of the assets in the trust will be for the benefit of the trust beneficiaries and does not fall into the donor's estate.

"This method may not suit the requirements of all clients, but each estate plan can be tailor made to meet the peronal and specific needs of any client.

"In addition to the functions of the administration of estates and trusts, the trust department undertakes the rendition of tax returns for clients and the secretarial and accounting work connected with property owning companies.

"It also handles the affairs of clients both resident and non resident and acts as agent for clients should they be out of the country.

"The emphasis has always been and will continue to be an efficient and personal service to all our clients."

M

Taking paper out of debt collection

Debt collection before (top) ... and after.

Imagine the scene — a person surrounded by hundreds of pieces of paper, filing boxes bulging at their seams and debts not being collected.

That's how debt collection departments used to operate — a team of harried people, encumbered by paper and procedures, muddled through to collect outstanding amounts not knowing which debt was the most important to chase.

The general banks, which have out on loan to the public on lease and instalment sale approximately R12 000-million at any one time, are amongst the country's largest debt collectors. But traditionally, they too, have collected debts in this inefficient manner.

Yet today, with interest in excess of 25 percent and the economy in the doldrums, debt collection has become a vital function in a general bank.

Nedfin Bank, recognising this, has devised a computerised collections system which involves no paper at all. The system has been developed by the Nedfin computer department in conjunction with Nedacom, the computer division of the Nedbank group.

Nedfin general manager, Trevor Jones, explains that the system takes all arrears accounts and ranks these in order of priority. It indicates to the clerk which accounts require action and the collections clerk then simply telephones the arrears clients or alerts someone to visit the client to discuss his financial difficulties.

Mr Jones says: "We see our role in collections as helping our client. Today, with disposable incomes being eroded all the time by high inflation, if someone misses a payment it is extremely difficult for them to catch up. Ours is a genuine attempt to help the client resolve his financial problems".

The new system has slashed the time and cost of writing letters to clients — Nedfin's contact with client today is personal, either by telephone or a visit.

Mr Jones adds: "When we monitored a collections clerk's activity we found that 40 percent of the day was spent writing letters to people, looking for the correct filing card, supporting documents and papers — generally being busy with paper.

"The new system does away with all this. The clerk sits at the terminal screen and keys in relevant actions. No memos to other staff members are necessary. All information is in the computer and all the clerk's actions get logged into the system and consequently appear on the screen.

"And any funds which are paid into an account in the system, anywhere in the country, are automatically recorded because we are on line — real time."

Mr Jones says that, with more than 100 000 contracts on Nedfin's books, about R20-million can be outstanding at certain times of the month.

"The new system gives management information and precise control over collections. It also speeds up our collection procedures. No longer does management have to wait for a bulky computer printout at the end of the month.

"At any moment during the month management can access this information and it will be correct, and right up to date."

Interest rates set to drop

Cape Times 4/5/88

58

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates are heading down again, after the eight percent rise which began some two years ago, bringing relief to both consumer and corporate pockets.

The drop will lead to most hire-purchase and leasing rates declining but no immediate fall is forecast in the cost of mortgage bonds.

Industrial shares on the Johannesburg Stock Exchange should spurt next week reflecting the improved business climate flowing from the lower interest rate structure.

The Reserve Bank yesterday cut its rediscount rates — the rate at which commercial banks can borrow from the central bank — by one percent and was quickly followed by Nedbank which lowered its prime overdraft rate one percent to 24 percent. Standard Bank is reducing its rate by the same percentage from Wednesday.

Money market deposit rates as well as the key bankers' acceptance rate and participation bond rates will move down on this development, and cuts in building society and bank deposit rates should follow within the next week or two.

Expected

A cut in overdraft rates has been expected for some time but two factors are believed to have led to the fall only being announced yesterday.

Firstly, the gold price has weakened in recent days and there was some initial concern that gold could decline below $300 again.

Secondly, the central bank was probably reluctant to announce a cut in rates just ahead of the past week's elections.

The lower rate pattern signals that the authorities believe the austerity package introduced last August has achieved its goals and have decided to ease the squeeze on the private sector.

● **Dr De Kock's full statement, page 10**

Trucks are now part of Barnib's fleet management scheme.

Barnib extends fleet control plan to trucks

The South African trucking industry stands to save millions of rands yearly through the use of the country's first on-line computer based truck fleet management system.

Launched recently by the Auto Division of Barnib (Barclays National Industrial Bank Limited), the new system enables fleet managers to have effective 24-hour control of their vehicles.

"This means that an operator can pinpoint a faulty truck at a very early stage and take the necessary steps to correct it," says Derrik van Houten, senior manager, trucking of Barnib's Auto Division.

He sees three primary areas of benefit for both the professional haulier as well as the operator running a fleet of trucks as peripheral to his main business. Firstly cost savings result from better fuel utilisation. Secondly increased staff motivation results from a more efficient working environment. Finally effective driver control and fleet profitability result from better vehicle management and maintenance and reduction in costly downtime or unnecessary repairs.

Three options are available in the system. Level one, particularly suitable for the smaller fleet operator, breaks costs down into basic categories such as maintenance, tyres, repairs etc.

Level two, for the larger fleet operator, breaks these categories down further into the relevant parts of a vehicle such as engine, front axle, suspension etc.

Level three, for the professional national haulier, enables one to identify even closer the sources of costs eg fuel pump, turbocharger etc.

Barnib's Truck Fleet Management System is based on its Auto Division's proven car fleet management system which has been in operation in SA for the past six years and currently controls 74 000 vehicles for 2 500 customers.

The main features of the new truck system, which can be operated either through the Barnib Auto Division central computer or by clients themselves through using terminals in a country-wide network linked to Barnib's computer in Johannesburg, are:

- it is easy to operate
- immediate information on fleet performance
- reduced fuel costs through effective control of fuel consumption, payload efficiencies and drivers
- effective monitoring of repairs, maintenance and overhauls (RMO) through accurate and up-to-date records
- meaningful information for determining whether to replace or simply refurbish a vehicle
- accurate records and statistics reflecting vehicle efficiencies, and variance reports which highlight possible exceptions
- up-to-the-minute driver control cutting down on vehicle abuse and increasing efficiency, and
- meaningful and accurate budget controls through the use of (Barnib's) Autocard and the truck system's tight checks on all fixed and variable costs, covering current month, through previous three averages to financial year to date costs.
- flexibility to meet operator's needs.

"The system has been especially designed and developed to allow us to tailor it to the district and specific needs of each and every client," says Derek van Houten, senior manager at Barnib Auto Division.

The Barnib Truck System saves operators money in the following areas:

- management time
- vehicle efficiency
- workshop costs
- fuel and oil costs

Barnib Auto also offers a trailer control system and modules for earthmoving equipment.

Wesbank wheels on to wider fields

In 1977 Wesbank decided to concentrate its market efforts on vehicle financing. Today it is the market leader in vehicle finance — with 33,9 percent of the market — according to the latest BA9 banking returns.

Says Wesbank's managing director, Peter Thompson, "We owe a large part of our success to the motor industry — our dealers and the manufacturers. We currently have 350 manned finance centres on dealer showroom floors in South Africa, many of which are on-line. This is part of our overall service to the dealer and his customer."

"We positioned ourselves as the 'Wheels' bank — offering fast and friendly service, aiming to help the motor dealer in his vehicle sales. The industry has supported us well over the years, the relationships we have with our dealers being extremely important to us. This was a major factor in our recent policy decision not to increase interest rates on current customers' accounts. Being perceived as the 'fixed rate' finance bank, we decided that it was in the interests of our dealers and their customers not to raise the rates albeit prime has increased substantially over the past couple of years," he said.

As to the future, Wesbank anticipates an increase in repossessions in line with the current economic climate. The bank has experienced a drop in new loans of approximately 10 percent in rand value and a 25 percent decrease in unit turnover for the first quarter of 1985. This is not a result of tightened finance conditions, but is rather a reflection of the current economic climate.

Wesbank has recently developed its market base, moving into areas such as agriculture, home improvements and commercial vehicles.

Although "Wheels" business remains the primary business of the bank, the new areas are proving to be most successful.

The agricultural business is spearheaded by a team of specialists known as the Wesbank "Bloukoppe" — after their symbol, the "bloukopkoggelmander", known to be a good omen for farmers — offering Wesbank's "EFPAK" package. This is a complete cash flow programme designed to assist farmers in anticipating their financing needs and allowing them to plan accordingly.

"WesHome" offers finance for the entire range of home improvements, including do-it-yourself projects. Having currently launched a full home improvement branch in Randburg, the bank anticipates three more branches opening this year, in Durban, Benoni and Pretoria. Home improvement finance is available through all branches of WesBank at present. The new branches represent Wesbank's commitment to this market, where it is experiencing considerable success.

WesBanks's heavy commercial vehicle division provides a total service operation for all purchasers of commercial vehicles. This includes professional or private hauliers and small business firms purchasing one or two trucks.

Part bonds — small man's property route

One of the investment facilities offered by Fidelity Bank is a participation in one of the properties managed by it through its nominee scheme (Fidelity Nominees).

In essence, explains Tony Bennett, the bank's general manager specialised services and marketing, the bank's participation bond investment is, as the name suggests, a loan to a borrower, secured by a first mortgage bond over prime fixed property.

Investors have the satisfaction of knowing that the security and the circumstances pertaining to the property in which the investment has been placed, has been fully investigated by a team of competent employees of the bank.

The investment is therefore a safe way for the smaller investor, who may not have sufficient funds or expertise to invest directly into property, to become involved in a scheme or project.

According to Mr Bennett: "Unlike other fixed interest rate investments, the rate of interest can fluctuate over a period of time and this ensures that the participant is at all times receiving a market orientated rate of interest.

"The present rate of interest is an attractive 22,25 percent which is paid quarterly in advance, which means that the effective rate could be higher if the interest paid is re-invested.

"Whilst in terms of the Participation Bond Act which came into force primarily to protect the interest of investors) the minimum period of investment is five years, the investment may be left in the scheme for an indefinite period despite the fact that it becomes available for repayment at any time after the initial five year prescribed period.

"It should be noted however, that in the event of death, insolvency or certain other circumstances as laid down in the Act, the five year restriction period falls away and the funds may be paid out as and when required.

"Again, in certain circumstances Fidelity Bank can advance loans of up to 90 percent of the investment amount at the then ruling rate of interest.

"Whilst interest is fully taxable, the high nominal (and effective) rate of interest makes this type of investment ideal for the investor who is not seeking tax relief."

Stannic and General Motors executives sign the credit card agreement. They are (from left) Mike Crankshaw and Gutch Vickers (Stannic), Bill Mansfield (Standard Bank Card) and Hal Carpenter and Lou Wilking of GM.

Stannic launches credit card for car owners

Stannic and General Motors have joined forces to launch a credit card for Opel Kadett owners.

The GM Protection Plan Credit Card will come into operation on May 19. It was developed, with assistance from the Standard Bank Card division to co-incide with the launch of the new Kadett.

"The card will be used for the purchase of spares, accessories and servicing," said Gutch Vickers, managing director of Stannic.

"An appropriate discount will be offered by GM to promote card usage with the credit limit set at R500."

Initially the card would only be offered to owners of the new Kadett. It would, however, later be expanded to include owners of other GM models.

"The agreement with General Motors is a major breakthrough for Stannic. It presents significant opportunities for us to generate new business and, at the same time, offers exceptional service to new Kadett owners.

The card is a proper credit card, administered by the card division of Standard Bank and may only be used at GM dealerships.

Embattled leasing: introspection needed

Under threat from monetary and fiscal authorities and reeling under the impact of amendments to the Sales Tax Act, leasing, a long-time stalwart in the industrial financing arena, is currently having to take an incisive look at itself.

"At present the leasing market is inhibited by the lamentable state of the economy, part of the cure for which we are told are high interest rates," says Angus Prentice, divisional general manager, leasing, of Barnib.

Despite this, Mr Prentice believes there is still a significant role for instalment credit finance to play in South Africa.

"The real challenge lies in finding new and meaningful financial solutions to the problems facing leasing. This may even entail the creation of new financing concepts to enable corporate clients to acquire the vital capital assets they need to operate effectively," says Mr Prentice.

"The most damaging blow to the leasing industry in South Africa has been the legislation preventing banks from offsetting the lease allowance against the bank's taxable income derived from other sources, and therefore it is more difficult for the banks to pass those benefits on to the lessees.

"This now makes leases more expensive and less competitive in the face of ordinary long-term loans," he says

The Canadian Government in fact implemented much the same type of legislation some 10 to 15 years ago, but has recently reversed it in the face of its failure.

Despite the current adverse economic climate, Barnib leasing division was able to record an operating profit of R26,2 million last year, an increase of 23percent on 1983. Total assets for the division now stand at more than R523 million.

The unfavourable climate also did not stop the leasing division opening three new offices; in Oxford Park, in Johannesburg, in Pietermaritzburg and in East London.

"In the light of the current economic structures, and without divulging strategy which could adversely affect us in a highly competitive environment, it would be safe to say that the months ahead are going to demand greater innovation to meet the challenges posed, tighter cost control and more effective management and aggressive marketing endeavours," says Mr Prentice.

"Barnib has a proud history of precisely these characteristics which have seen it become market leaders in industrial finance," he adds.

Fitting finance

Fidelity Bank places a high premium on a well-considered analysis of its clients' financial needs to develop the financial package which will best suit their needs.

The fundamental principle of finance is to match the life of the assets with the term of financing, accounting for the client's particular tax profile, as the ultimate objective is to minimize the net after tax cost of the investment.

The client must also consider available cash flow when deciding on acquisition by cash payment or medium term financing.

Loans by Natal manufacturing firms double

N.M. 6/5/85

Finance Reporter

LOANS by Natal manufacturing companies have practically doubled between 1983 and 1984 according to a survey released yesterday.

This is one of the staggering findings of a survey of local industry carried out by Deloitte Haskins and Sells Management Consultants (DH+S MC) in Durban.

The survey, which compared the published annual accounts of a sample of 62 Natal-based companies and groups for accounting periods ending during 1983 and 1984, looked at borrowings, interest payments, turnover and profitability.

The sample companies had a total capital employed of R1,6bn, ranging from R280 000 to R650m and total sales of R2,6bn, ranging from R140 000 to R470m

Sixty percent of the companies in the sample were in the manufacturing sector, 15 percent in the retail sector, eight percent in shipping and the remainder split between agriculture, construction and the service industry.

Although financial analysts have reported on the trend of increased borrowing in the recent past, the magnitude of the increase, as revealed by the survey, is substantial.

Manufacturing companies displayed the largest increase in borrowings in the survey, at 94 percent, with construction companies showing 45 percent and services industries 42 percent The most fortunate sector was shipping, where borrowings actually fell by 26 percent

Another significant finding, according to Alan Gitsham, senior consultant with DH+S MC, was the wide variations in the results of the different sectors

For example, although the manufacturing sector had an average increase in turnover of only 6.5 percent, the shipping industry's turnover increased by 34 percent. Retailing at least kept up with inflation with a 13.7 percent increase in sales

Even the construction industry showed a 21.6 percent increase in turnover, but it is important to note that many of the companies in the survey ended their financial accounting periods in March, June and September 1984 before the full impact of the Governments's austerity measures had been felt.

Similarly, profits in the manufacturing industry (before interest and tax) fell by 18,5 percent on average, in contrast to the shipping sector where profits increased by 113 percent

Interest

As expected, all sectors showed an increase in the amount of interest paid during the period 1983/84, even where borrowings had been reduced

The significant feature, however, was that although larger companies (capital employed over R10m) had increased their borrowings by 77 percent (compared to 23-24pc for medium and small companies) their interest payments increased by only 42pc compared to 45-46pc for the rest of the sample. This indicates the ability of larger concerns to borrow at more favourable rates.

The results of the survey are, however, indicative of the state of Natal industry as it entered what we now know to be a deepening recession.

Turnover

Firstly, profitability was already suffering in most sectors during 1983/84, in terms of both profit on turnover and return on capital employed, before any further worsening of the economy.

Secondly, as companies have increased their borrowings, they have increased their interest commitment for future years and are going to find it increasingly difficult to cover their interest payments with 1985 and 1986 earnings

Thirdly, debt to equity leverage increased by an average of 10.4pc, imposing a greater burden on companies to provide earinings for their shareholders after paying for interest-bearing capital. This increased leverage will make it difficult for companies either to borrow more capital in the future for survival or expansion, or to retain sufficient profits for internal financing

Conclusion

The inevitable conclusion, according to Mike Murray, associate director of DH+S MC, is that even if the dollar falls and gold picks up in the near future, it will take manufacturing industries a considerable period to get back on their feet and move forward again.

'We are advising our clients,' he says 'to recognise that existing economic conditions will prevail for the next few years and to adjust their operating and marketing strategies accordingly. This includes reducing expenses where possible, eliminating unprofitable lines and ensuring that every cost centre is covered by a profit centre'

More banks cut prime

Star 6/5/85 (58)

Financial Staff

The money market was fairly quiet at the outset this morning with dealers digesting the one percentage point cut in the Reserve Bank's rediscount rate late on Friday.

Nedbank, Volkskas and Standard have anounced one point cuts in their prime overdraft rates to 24 percent, but the others have yet to decide.

While there was some talk that Barclays might lower its prime rate by 1,5 points, it seemed certain that the bank would at least follow and announce a lower rate today.

Most dealers believe short-term rates will keep easing in coming weeks. But even at 20 percent, rates will still be punitive.

The 90-day BA rate was quoted initially at 20,90 percent and drifted off slightly later in the morning.

The downward path of short-term interest rates and the stance of the Treasury bodes well for the economy this year. For the first time in at least three years it seems fiscal and monetary policies are at last working together.

On the foreign exchange market, the rand was buffeted by the rapidly rising dollar. The US currency this morning and on Friday moved sharply ahead in European and US trading.

As a result the rand dipped through the 50 US cent barrier at the opening this morning and fell sharply further to its noon quote of 48,70/80c.

Standard Bank says in its weekly foreign exchange comment that last week trading was relatively thin as commercial operators remained on the sidelines waiting for a clearer trend.

There apppears to be little reason for the rand to trade above 50,00c against the stronger dollar, Standard adds. The main supporting factor for the rand has been the basically steady gold price up to early last Wednesday.

The strong US dollar then dampened investors interest in gold and the metal lost about $12 last week.

The fall by the rand below 50,00c will result in increased demand for dollars from importers and a fall in supply of the currency from exporters - the effect of such a development would be increased downward pressure on the spot rand, the bank says.

The extent to which the spot rand depreciates will depend largely on the Reserve Bank's ability to support it in the local market.

There is little potential for any rand appreciation against the stronger dollar although the position on the trade account of SA's balance of payments continues to improve.

This week Standard forecasts a rand trading range of 50,00-45,00c provided that the gold bullion price trades within a $305-$315 range.

Accordingly, importers with rand-dollar committments should consider a high level of cover on their rand-dollar leg of all outstanding committments. Exporters would be exposed to little risk at the stage by staying out of the forward market, Standard says.

14 Cape Times, Friday, May 10, 1985

58

Colonial Mutual increases premium income by 30,8%

COLONIAL MUTUAL'S premium income increased by 30,8 percent to a record R57,4m in 1984.

In the society's annual report, the chairman, Mr Hans Middelmann, said the premium income from life business increased by 21,1 percent and pensions premium income by 77,7 percent.

Investment income increased by 33,1 percent.

Mr Middelmann said investment strategy towards the end of 1983 had left the society well positioned to take advantage of the high interest rates in 1984.

"The success of the strategy is reflected in the high all-in yield of 16,2 percent earned by the society's managed fund, almost double the average arned by the industry.

"This fund, which was started two years ago, has been independently rated as one of the best performing funds."

Reversionary bonuses added to the cover held by the society's policyholders totalled R50,4m, compared with R42,4m in 1983.

A further R2,8m had been earmarked for the provision of terminal bonuses on policy claims in 1985.

Mr Middelmann said the year had been highly successful in spite of the difficult economic conditions which were likely to continue into 1986.

Mr Middelmann ... investment strategy left Colonial Mutual well positioned to take advantage of the high interest rates.

The society faced 1985 with confidence, particularly following the launch of its new Grow-Plan policies which were designed specifically to counter the effects of inflation on life assurance.

Mr Middelmann, sharply criticized the proposed 7,5 percent levy on the life insurance industry and called for "this iniquitous tax measure" to be dropped.

While it was accepted that strict monetary and fiscal measures were required in the current economic climate, the proposed imposition of a 7,5 percent levy on the gross investment income derived from "taxed" life insurance business was a drastic step.

"In a mutual society such as ours there are not shareholders on whose shoulders the additional tax burden will fall.

"Instead, our policyholders, who are predominantly in the middle and lower-income groups, now have the investment income on their earnings — entrusted to us — subjected to an increased tax of 27,5 percent."

Mr Middelmann said this rate was much higher than the average rate at which the other earnings of the society's policyholders were being taxed. It was in the national interest that personal savings be increased and that breadwinners took out adequate life insurance cover to protect their families.

"One hopes that, on reconsideration, this iniquitous tax measure will be dropped."

CAPE TIMES 10/5/85

58

Fidelity Group profits up 25%

By ROBERT GREIG

THE FIDELITY GROUP whose main operating subsidiaries are Fidelity Bank and The Board of Executors has boosted after-tax profits by 25 percent in spite of a tax bill which increased by 165 percent to R2m.

Earnings per share have risen by 23 percent to 164c from 113c.

The chairman, Mr S Lewis, explained that the bloated tax figure was partly the result of the loss of allowances and increased company tax.

Mr Lewis expects a challenging year in which the management will continue to exploit the flexibility which he says is a function of the group's size and go for new business, mainly in Durban and Johannesburg.

Assets under administration have risen in the year by 23 percent, from R480m to R590m (with a market value of R680m).

Profit growth was on an operating income increase of 68 percent (from 1984's R2,5m to R4,29m). This excludes transfers of undisclosed amounts (in line with South African banking practice) to inner reserves.

Provision has also been made for the "one-off levy on bank deposits" announced by the Minister of Finance in his last Budget.

The group's contribution is expected to be in the region of R50 000.

Dividend cover is up to 2,2 (1984: 2), with the group paying a dividend of 75c (66c), a 14 percent increase.

58

● Charles Bothner

Merger leads to birth of broking giant

B. Day 15/5/85

By CHRIS CAIRNCROSS

TWO of the country's oldest and largest insurance brokers, Robert Enthoven & Co and Willis Faber South Africa, have joined forces to create one of the largest insurance broking groups in the country.

The new company, to be known as Willis Faber Enthoven, currently handles premiums of at least R150m a year. This makes it the fourth-largest broking group in the country after Bowring Barclays, PFV and Minets.

The merger has been the subject of speculation for some time and follows the continued rationalisation of Safmarine and Rennies holdings, combined under the umbrella of the enlarged Safren group. Safren held 50% of the shares of each company.

In terms of the new arrangement, Safren has a controlling interest in the new broking group with 60% of the equity. The remaining 40% is held by Willis Faber of London.

The new company will have the support of Safren's substantial resources in Southern Africa, and access to the international strengths of Willis Faber. The latter has an exclusive association with Johnson & Higgins, one of the largest insurance broking companies in the United States.

Chairman of the broking group is Bill de la Harpe Beck, deputy chairman and chief executive is Charles Bothner and group managing director is Chris Marais.

Enthoven's founder, Robert Enthoven, maintains his association with the broking group as a director and president.

Registrar urged to tighten safety net

By PAUL DOLD
Financial Editor

CAPE TIMES
15/5/85 (58)

THE managing director of Santam Insurance, Mr C J Oosthuizen has called on the Registrar of Financial Institutions to act before several short-term insurance groups are unable to meet their obligations.

The outlook for the industry is causing concern and while Santam's earnings should improve in the second half, Mr Oosthuizen says certain companies are writing some business at a loss to boost market share.

"Some companies have been and still are risk spreaders and not risk carriers in that having secured the business they then pass virtually the entire risk on to reinsurers and carry very little themselves.

"The reinsurers are however doing their job correctly and are reducing the facilities and commissions more and more so that some companies are securing business at a loss to themselves, and carrying risks which they might not be able to meet if the need arises."

While the reinsurers are pointing the industry in the right direction, Mr Oosthuizen feels that something must be done quickly before some companies are unable to meet their obligations.

"I feel quite strongly that the Registrar of Financial Institutions should consider steping in and restraining companies from overtrading and accepting risks which they cannot finance from their own resources.

"Possibly this could be achieved by the Registrar providing a formula whereby an insurance company must carry a certain percentage of a risk itself and that this be limited to a fixed percentage, ratio or multiple of its shareholders' equity."

Mr Oosthuizen emphasizes that he was not advocating a cartel — free enterprise must remain the cornerstone of the industry — but some form of restraint would be in the interests of both insurer and the insured.

Referring to recent premium increases, he says the rises have brought premiums more into line with price hikes.

"But if the insurance industry looks at an inflation rate of 16 to 17 percent and then has to contend with increases of 100 percent as in the case of certain motor car spares or 40 percent in the price of clothing which is being suggested then a complete rethink will be necessary."

There was still a need for a major revamp of commercial and industrial premiums with the industry looking for 50 to 100 percent increases but only receiving seven to 10 percent increments.

This situation would have to be resolved.

"There is mounting pressure for a reduction in commission paid to brokers and some believe the solution to rising premiums lies here. But this is not the answer. The insurance industry must first put its whole underwriting system on a sound footing."

Order gives gold dealers the jitters

Mercury Correspondent

NM 18/5/85

JOHANNESBURG—Anxious investors and gold dealers reacted with shock in Johannesburg and London last night hours after South Africa's biggest Krugerrand and gold coin dealer was voluntarily placed under provisional judicial management.

In an urgent application to the Rand Supreme Court, the South African Gold Coin Exchange applied to be put under provisional judicial management in order to take pressure off the business and solve its cash flow problems.

There was an immediate stampede late yesterday by clients of the company, and those of other gold dealers whose metal dealings were channelled through the exchange and who are 'exposed' by the possibility that the exchange could be put into liquidation

The order was granted to Mr Elias Levine's coin exchange to stave off provisional liquidation by anxious clients.

In papers before the Supreme Court, the exchange was said to be solvent but facing liquidity problems

Mr Levine said in his application that any move to provisionally liquidate the exchange would 'be destructive to the orderly marketplace in which the exchange has 20 percent in ordinary Krugerrands and 70 percent of proof Krugerrands'. It would have interrupted the evaluation of proofs, he added.

Mr Levine said he believed that given the opportunity to carry on with its operations under a provisional judicial manager, the exchange would be able to overcome its present problems.

The Court papers emphasised that 'proof Krugerrands of customers of the exchange, which have been lodged with the exchange for whatever purpose, are presently all in the possession of the exchange in safe keeping, as was intended at the time of the lodging of the coins with the applicants'.

Main source

One concerned gold dealer said last night: 'My clients are telephoning every five minutes to find out the situation and we've got no clarity on just what it means.'

Within hours the news had spread to London gold dealers who said they had heard the exhange was in difficulty and that it had been their main source of proof Krugerrands in which it's chairman, Mr Levine, specialised.

The coins are so rare in London at the moment that they are trading at around R140 above the normal market rate

Rumours about the financial position of the exchange have recently been spreading, said Mr Levine, and might have led to an application for its provisional liquidation.

Yesterday's application to court was brought by the directors of the company. They include Mr Levine's son, Leo, Miss Adele Levine, Mr Carlof Ferreira and Miss Lynette Rice.

The return day of the rule nisi is June 25 when it will be decided whether to place the exchange under final judicial management.

Tax perks needed for savers — Sanlam chief

W/Times 18/5/85

By DEREK TOMMEY
Financial Editor

DR FRED du Plessis, chairman of Sanlam and therefore trustee of a substantial portion of the country's savings, this week called on the Government to give further encouragement to savers by offering them tax concessions.

He warned that South Africa was not getting the foreign investment it wanted and that the present level of savings would have to be increased if South Africa were to achieve sustained long-term growth.

He also described current wage levels as excessive and called on the Government to fight inflation by introducing guidelines for wage and price increases.

Speaking at Ernst and Whinney's offices in Bellville, Dr du Plessis said this would be a difficult year. He could not say when the upturn would come and doubted whether the country could afford one.

Overspend

South Africa still had to overcome the tendency to overspend and also the high level of inflation.

One reason for the overspending was that an increasing proportion of income was accruing to the lower income groups. There had thus been a switch in the distribution of wealth from high level savers to high level consumers.

A second reason was that many people chose to spend their money because they believed it did not pay them to save, particularly after taking tax into account.

Company savings had helped to compensate for the low level of private savings, but in the next year or so company savings were likely to decline.

Devaluation

This development must be seen against the background of the trend in the country's foreign relationships.

After a devaluation such as South Africa has had one would normally expect a strong inflow of foreign capital. But it was not happening in text book fashion so South Africa had a problem.

Overseas investors were seeing the South African economy differently from the way South Africans were seeing it. They saw reform leading to friction and instability and were concerned about putting money in this country.

"We will have to supply ourselves the capital which we cannot get from overseas and so it is important that there are more incentives for people to save."

Imports

Another problem facing South Africa was that the low inflow of foreign capital meant that if there were an upturn and a big increase in imports, the foreign exchange reserves could not finance them.

Dr du Plessis said that something had to be done about inflation. For the past 10 years it had averaged 10 percent.

'People cannot save if they do not have confidence in the currency.'

Cape Times 22/5/85

(58)

(182)

Protea—Phoenix merger approved

THE acquisition of Phoenix Prudential Assurance was given final approval by shareholders of Protea Assurance at a special meeting held in the City.

The resolution was carried with a majority of 83 percent.

The merger flows from the aquisition in the UK of Phoenix by the Sun Alliance group, holder of 74 percent of Protea's equity.

To finance the deal, 1 750 000 new Protea ordinary shares will be issued to the Sun Alliance.

The Phoenix operation in South Africa will be absorbed into Protea Assurance and the enlarged group will operate under the name Protea Assurance Co Ltd.

Figures for 1984 give the group total assets of some R110m, with a combined gross short-term premium income of over R136m.

The board anticipates that the effect on earnings will be positive although it is nevertheless expected that the enlarged Protea Group's earnings a share for 1985 will reflect a marginal decline compared with those of 1984, primarily as a result of continuing difficulties in the short-term insurance market.

Dividends are not expected to be adversely affected in the short term, while in the longer term the expected benefits of the merger should enhance dividend prospects.

On the basis of the audited consolidated balance sheets of Protea and Phoenix Prudential as at December 31, 1984, the pro forma effect on the net asset value per Protea ordinary share, with investments taken at market value, would have been an increase of four percent from 678c to 704c.

Commenting on the Phoenix acquisition, Protea's managing director, Mr Tony Crank, says that it offers the potential of significant rationalization, lower expense ratios and increased profits.

"We are now firmly positioned as one of South Africa's largest composite insurers.

"Our general management has been strengthened, our operating and marketing base has broadened and our prospects for profitability and growth, particularly in the longer term, are excellent," he said.

CAPE TIMES 22/5/85 (58)

NBS assets rise — profits up 11%

IN spite of a difficult financial climate, the Natal Building Society produced a pre-tax profit 11 percent better than a year ago in its financial year to March 31.

This was just more than R33m, compared with R29,7m last year, and after transferring R17,5m to its reserves, the society is within a whisker of the four percent reserves-to-liabilities ratio recommended by the De Kock Commission.

In keeping with the more difficult financial situation, the society reports that balances owing on properties in possession rose from a minimal R25 000 to R967 000 — spread over 22 properties.

It considers, however, that its provision of R200 000 against possible losses on mortgages or properties in possession is still adequate.

The increase in assets in the year was R120m — to R1 948m — and NBS now has 58 671 borrowers.

In a situation in which demand for mortgages outstriped available funds in spite of the high level of interest rates, it granted 10 264 new loans totalling R362m — the average new loan being R44 576, compared with R40 152 in the previous financial year.

Continuing its deliberate policy of encouraging first-time buyers of homes, the society met the needs of 817 of them — devoting R36m to the purpose.

It acted thus "at the expense of short-term profit considerations, but mindful of our social responsibility . . ."

NBS says that, in an unfavourable operating environment, it decided against seeding institutional funds at uneconomic rates merely in order to increase its market share. Share capital and deposits rose by only R97m — or 5,6 percent.

The society had to stop marketing its money market investment accounts, as these did not win the approval of the authorities, and all money invested is to be repaid by the end of this month.

It stresses that these funds were not applied to mortgage lending, but were invested in short-term instruments for the purpose of matching maturities of assets and liabilities.

The delay in enacting the new building societies legislation is frustrating, says the NBS.

In company with other societies it has made numerous submissions to the authorities on the proposed legislation.

Share prices boom

W/t Argus 25/5/85 (58)

By DEREK TOMMEY
Financial Editor

IN spite of recession, unrest, disinvestment threats and high inflation, industrial shares are booming on the Johannesburg Stock Exchange.

In the nine weeks since the budget on March 18 industrial shares have risen by almost 25 percent, growing in value by around R9-billion.

Not all sections have shown the same gains. The clothing index has risen 44 percent in the nine-week period but the pharmaceutical share index has shown hardly any movement.

Sectors showing strong gains included Beverages and Hotels where the index rose 34,8 percent, the clothing sector with a 44,6 percent rise in is index and the furniture sector where the index gained 36,0 percent.

It seems that the Budget did much to restore confidence, a broker said today. Until the Budget the market appeared to be apprehensive about the future and few buyers were in sight, he said. As a result the market reached a low point around March 18.

Since then confidence — and buyers — have returned in force.

He attributed much of the increase in share prices to a build-up of money, intensified by the decline in medium and short-term interest rates — on the one hand, and a shortage of shares on the other.

With interest rates falling and inflation still high, many investors believed the only way to protect their capital was to invest in the share market, he said. However, they were also encouraged by the prospects that interest rates would fall, reducing manufacturing costs.

Short supply

Another broker pointed out that many private firms had been running down their stocks and now had surplus cash. A large number, remembering the large profits they made by investing in the share market under similar circumstances in the 1970s, had been following the same course.

Good quality shares were in extremely short supply, a dealer said. "We have reached the situation where only a small buying order can cause the price of a share to rise several hundred cents."

Brokers divided

Brokers were divided about whether the share market rally would continue further.

One suggested that it was perhaps time for share traders to start taking profits. However, long-term investors should remain in the market as they could have difficulty buying back the shares they sold.

This table shows the increase in price of selected shares since March 18.

	Gain
Mining	
AAC	27,9
Anglovaal	30,8
Cons Gold	31,7
Fed Mynbou	33,4
Gencor	40,0
GFSA	27,6
JCI	22,8
TCL	14,8
Amgold	10,8
Mid Wits	27,6
Banks	
Bankorp	45,9
Barclays	44,6
Boland	25,0
Hillsam	44,2
Nedbank	41,5
Sage	48,5
Stanbic	37,1
Trust	32,0
Volkskas	18,7
Insurance	
Guardian	38,9
Liberty Hold	30,8
Liberty Life	25,0
Prosure	25,0
Santam	25,0
Industrial	
Amic	39,1
Barlows	27,8
Fed Volks	13,6
M & R	22,7
Picbel	22,7
Protea	80,0
Liquor and Hotels	
SA Breweries	39,5
Southsun	24,3
Suncrush	72,2
Chemicals	
AECI	18,5
Sasol	13,6
Electronics	
ASEA	46,7
Clothing	
Seardel	34,9
Engineering	
Aberdare	36,0
Dorbijl	25,2
Motor	
Toyota	29,4
Retailers	
Clicks	30,4
Edgars	36,7
Kirsh	38,5
OK	20,4
Pepkor	50,0
Pick 'n Pay	41,3
Wooltru	25,5
Tobacco	
Rembrandt	17,0

Food price cuts may dent inflation

Financial Editor

MR RAYMOND Ackerman whose Pick 'n Pay supermarket chain has caused a major upheaval in food retailing in South Africa, now looks set to do it again. This time by giving the coup de grace to the country's worst ever inflation.

The chain, undeniably the country's strongest food retailing group, has allocated R10-million to be used for cutting prices during the next three months. Every month a large number of items would be sold at below cost, at cost or marginally above cost.

A spokesman for the group said this was a sincere step to help millions of South Africans who were being hit by the rising cost of living and the recession.

Increased competition

However, retailers point out that the group's move will greatly increase competition in the food industry. But most of the other chains lack the resources to meet the group's cuts. Consequently, they are expected to put increasing pressure on their suppliers to help them meet the group's challenge.

The result of this could well be a halt and even a reversal in the inflationary trend in food prices, and with the consumer for once benefiting.

It this were to happen it would certainly delight the monetary authorities, as it would be firm evidence that their disinflationary policies are at last doing the job for which they were designed.

~~206~~ ~~123~~ ~~339~~ FM 31/5/85

should be drastically lowered to give blacks the right to house themselves in whatever manner they see fit or can afford — subject to the maintenance of basic health. The experiences of Crossroads and "Soweto on the sea" point towards an urbanisation process less distorted by influx control and expensive standards.

Self-help schemes cannot in themselves obliterate the housing backlog. They should not preclude government-initiated housing programmes in which the private sector can play its rightful role.

However, endemic urban unrest suggests even the abolition of influx control will not be enough. New benefits cannot immediately allay black resistance to a system that has excluded them for so long. And this resistance hangs like a cloud over the reform initiative. Dissatisfaction with inadequate township housing fuels other grievances relating to wages and education. The spark of a single rent increase can ignite these feelings into a broader conflagration. This is what happened in Parys and the Vaal Triangle last year. It is happening now in the eastern Cape. Many blacks demand political rights as a condition for peaceful change in SA.

So ultimately the removal of influx control and the reduction of building standards will not have the desired effect unless blacks are given the opportunity to participate in central political forums. That, of course, lies a little further down the reform path than Pretoria is at present prepared to look. ■

OWNING THEIR OWN
Number of black homeowners in South Africa

Development Board Areas	Number of Registered 30-year leaseholds 1955 -1968	1976 -1980	Number of Registered 99-year leaseholds : 1980 - 1984 Great Sale	Other 99 yr.	TOTALS
West Rand	8 081	5 849	6 871	10 240	31 041
East Rand	3 658	3 583	—	2 014	9 255
Northern Tvl	1 005	1449	—	—	2 454
Western Tvl	6 028	90	8	—	6 126
Eastern Tvl	2 414	1 370	—	—	3 784
Central Tvl	11 262	9 871	221	267	21 621
Highveld	1 026	3 158	33	411	4 628
Southern Tvl	3 334	19			3 453
Orange-Vaal			776	906	1 681
Vaal Triangle	6 124	4 330			10 454
Southern OFS	10 271	1 809	206	226	12 512
Central OFS	6 297	893			7 190
Northern OFS	15 419	414			15 833
Natalia			—	—	—
Northern Natal	358	—			358
Drakensburg	42	1 067			1 109
Port Natal	5 749	—			5 749
Eastern Cape	6 759	1 145	46	357	8 307
Northern Cape	2 204	—	424	306	2 934
Karoo	4 082	—			4 082
Cape Midlands	13 540	588			14 128
Diamond Fields	5 095	286			5 381
TOTALS	112 748	35 921	8 584	14 727	172 080

ELECTRONIC BANKING

Turning time into value

58

Today, the adage "time is money" has never been more true. Skyrocketing interest rates, accelerating inflation and the wild currency swings that emerged in the Seventies and early Eighties have driven home how millions can be made or lost each year — depending on how accurately trends are read.

Economic realities, in short, have forced bank treasurers out of the backrooms and onto computer keyboards. Needless to say, like everyone else, banks are having their share of hard times under the regime of high interest rates and high inflation. As the bonds of regulation are rolled back, survival has become a matter of holding the line on costs. And so treasury departments have emerged from paper-logged desks to rank as major profit centres.

Initially, the impetus was internal. Original electronic banking technology was developed to increase productivity by eliminating repetitive tasks and reducing the chance of operational error in the banks. Fundamentally, it was designed to enable them to keep up with the flows of paper created by their transactions.

These sweeping changes have also paved the way to rationalising staff and reducing personal interchange with that most difficult visitor, the paying customer.

In SA, the decision to computerise internally was taken by some banks as far back as the late Fifties and early Sixties. Initially

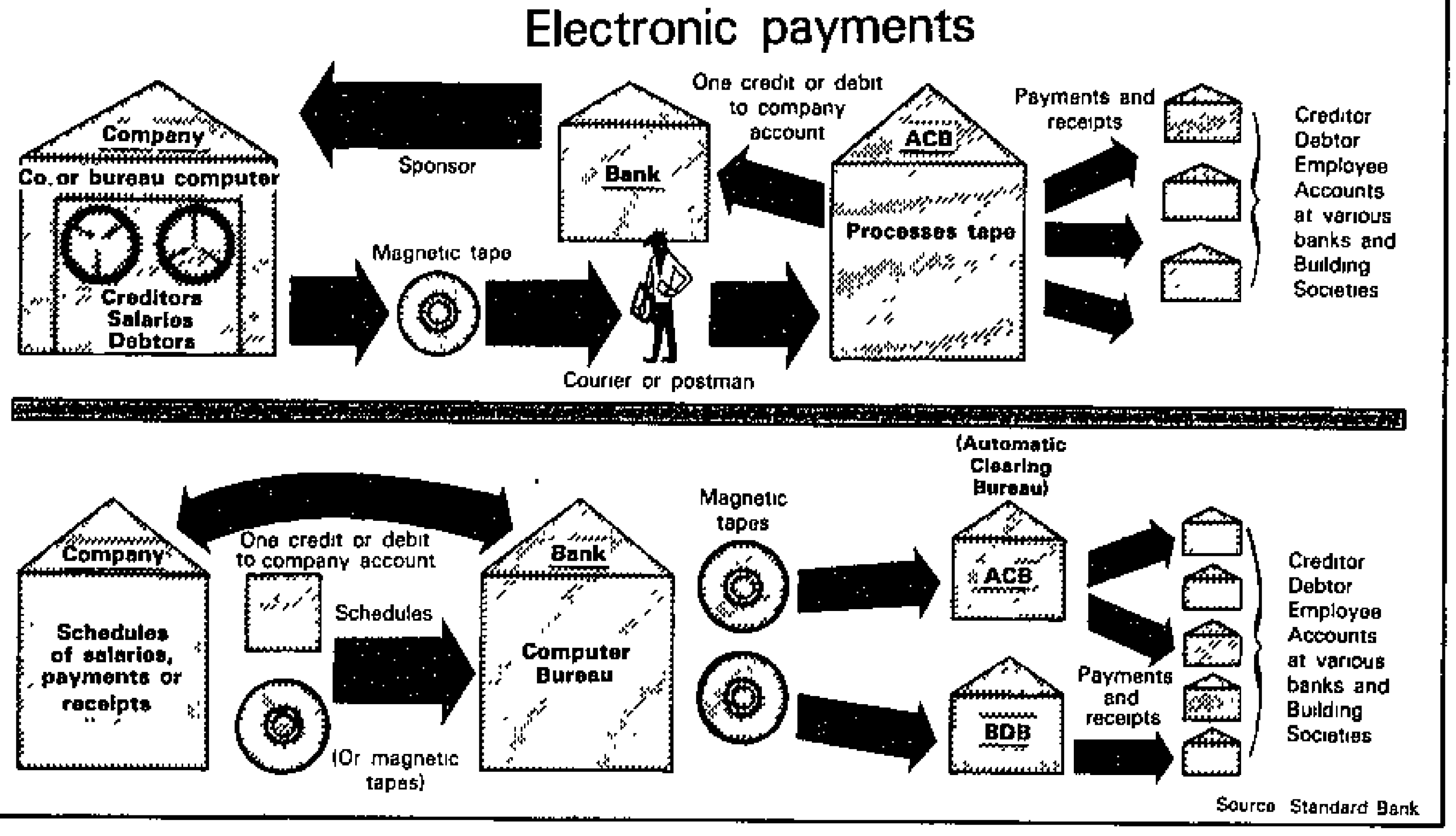
Electronic banking is characterised, for the most, by the automated teller machines (ATMs) that have mushroomed in urban thoroughfares of late. For the banks, however, electronics has far greater significance.

restricted to courier areas and those areas covered by the Automatic Clearing Bureau, it remained a trickle until the Eighties.

The final goal of complete branch computerisation was attacked with renewed vigour, in line with hotted-up competition between and among financial institutions, and changing economic conditions. The race was on — especially by the top five — for "on-line" operations.

At an advantage were the urban-based banks — Trust Bank and Nedbank — with the highest assets per capita. Says Trust Bank senior manager Etienne du Toit: "It was a strategic decision taken by Jan Marais right from the outset. We were the first to

PAPER SAVER
Electronic payments



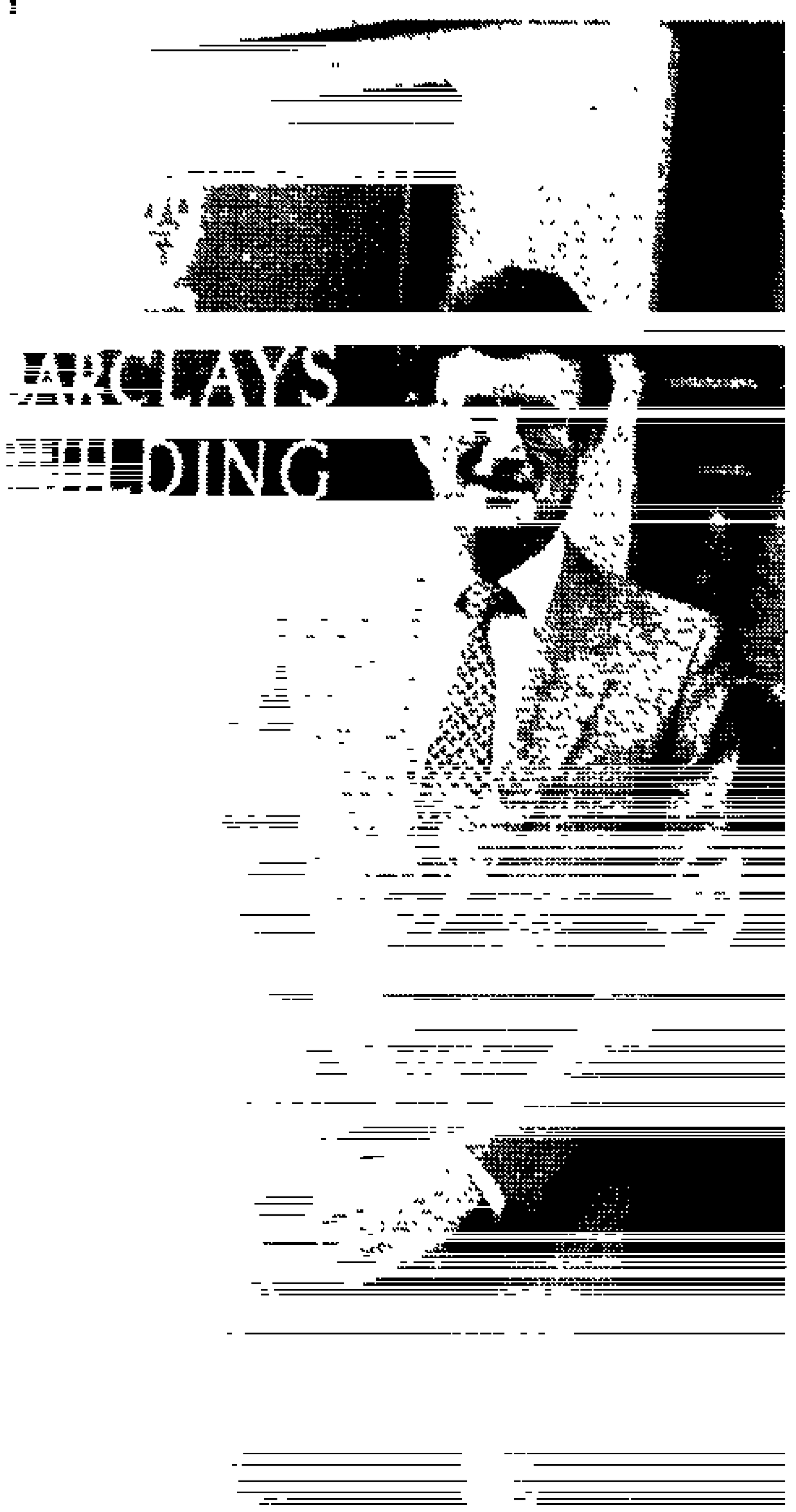
Source: Standard Bank

have all branches on-line, real time — that is, where the balance is immediately entered and not memo-adjusted through batch processing.

"We would like to follow the example of the Scandinavian banks, which have assets about the size of Barclays — but less staff than us."

Barclays, which last year invested R100m in its computerisation programme, hopes to have all branches fully computerised later this year.

GM Ken Boyd says: "We have all the equipment ready for installation to complete the computerisation of our remaining 44 branches. We hope to do this within the next few months, depending on whether the Post Office manages to lay the data lines."



Barclays' Boyd . . . ready to roll

Standard Bank began its internal computerisation in 1968. Most branches are now computerised, and the remaining 80-odd will be by the end of the year. Says deputy GM Roderick Hyde: "It is difficult to quantify at this stage how much this capital development has cost us. But it is significant, running into nine figures. You can measure how much it has saved us, however, through our improved profitability. It was our streamlined infrastructure which gave us this ability."

Nedbank's first electronic device was connected to its central computer in 1970. Now, all Nedbank branches are on-line, and there are 2 500 terminals connected directly to the mainframe.

But the retail side is only the tip of the iceberg of computerisation. More significant is the movement of funds between one bank and another, and sometimes across national boundaries. This high volume of daily transactions has to be laboriously fulfilled, recorded and reconciled.

For the banks, these transfers — within local currency and between different countries or currencies — need to be computerised. There is no room in today's financial markets for inaccurate and unreliable transactions. Simply put, it costs too much.

However, it is not only the banks' own dealings that must be speeded up. The corporate client is demanding services that are competitive and reliable.

The answer provided by the banks is "cash management." Although not a new concept, cash management techniques have changed in recent years to become closely associated with, and allied to, technology. And they have been expanded to include a span of services for corporate money management, aimed at giving clients the smallest overdraft possible and maximising investments.

Trust's Du Toit . . . it all has to be paid for

The most advanced operator in SA is Citibank, with a clearly defined target market: the top 300 companies in the country. With electronic links to about 7 000 institutional customers in more than 120 countries, this is one of the most sophisticated operations in the world.

In the last 10 years, Citibank has spent US$100m on research and development alone, excluding hardware. The results are tangible. One large US company, with a short-term investment portfolio averaging $80m, makes an extra eighth to a quarter percentage point by getting to the market in the morning. That works out at between $100 000 and $200 000/year in additional interest income.

Competition is intense. One banker says: "It will be difficult to build up or maintain a corporate customer base without electronic services."

In spite of the apparent conflict of providing expensive services at low prices, banks are aggressively marketing their wares. For example, some banks have been offering terminals to their clients on a free trial basis to undercut certain others' lead.

Trust Bank is still in the experimental stage, with a number of "test locations" in operation at present. They have not yet officially marketed their system; but will, however, be charging for services. "Development costs are high, and someone must pay for it all," says Du Toit.

Barclays is also beginning to charge for services and terminals, but is not prepared to divulge at what rates.

Standard does not charge for services, but customers must have their own terminals and modems to link up with the bank. This will be reviewed later this year when charges are expected to be introduced. Volkskas is in the process of reorganising its operations, and, as yet, has no corporate electronic services.

But the terminals are only a means to an end. The range of services offered is impressive and can basically be classified into five groups:

☐ There are the account management services, which enable companies to consolidate and offset bank account balances against one another on a daily basis;

☐ There are the electronic funds transfer facilities. These accommodate intra-group transfers, as well as local and foreign payments through an office terminal;

☐ A number of foreign exchange services are offered — from offshore trade finance details to forward exchange contract details and forward cover advice;

☐ International cash management systems offer clients the facility of obtaining information on all their accounts with banks throughout the world; and

☐ An advanced array of information services is in the process of being developed. Although some banks are offering only the traditional financial information services such as Reuters, others are developing their own. Particularly advanced is Standard Bank, with economic time series data and economic forecasts, as well as the capacity for the graphic representation of the company's own operations.

These attempts to eliminate the voracious paper tiger, however, require a highly sophisticated communications system. At present, the banks must use magnetic tapes, which eliminate paper but still have to be physically moved.

The lack of an efficient communications network in SA, say the banks, is hampering further developments. The postal system is poor, and there is no adequate telecommunications system for data transmission. In the long term, they would like to see the development of an electronic clearing bureau operating via satellite.

There is every reason for it to happen, but as Du Toit notes: "This will only be possible once the Post Office lets go of the stranglehold on communications in SA." ■

Assurance curbs: Alternative plans proposed

CAPE TIMES 31/5/85

58

By PAUL DOLD
Financial Editor

THE insurance industry has slammed the recent curbs on endowment policies announced by the Minister of Finance, Mr Barend du Plessis, and is to propose alternative methods of achieving the minister's aims.

Mr Theo Hartwig

In an unprecedented response, life offices — while acknowledging the need to close tax loopholes — have warned that the measures are too far reaching and will hurt personal savings which already is at all time lows.

The Old Mutual's chief actuary, Mr Theo Hartwig, said that the industry was "very disturbed" at the extent of the attack but understood the minister's underlying objectives in announcing the measures.

Freedom

"These measures not only prevent pure endowment policies but also curb the freedom of the average policyholder to effect insurance policies and to deal with them according to his needs," he said.

Personal savings in South Africa, which are vital for econimic growth, have sunk to deplorably low levels in recent years. Life assurance is the only major savings medium which has shown positive growth.

"It is doubly unfortunate that the minister has seen fit to single out the industry once again for adverse treatment," Mr Hartwig added.

Old Mutual is preparing alternative suggestions which will achieve the minister's aim without affecting other legitimate business as well.

The general manger of National Mutual, Mr Geoff Tomlinson, said that the sudden clamp down on endowment policies will lead to retirement annuities becoming the prime vehicle for retirement planning and RA's need to be made more attractive to the man in the street.

Loophole

Mr Tomlinson said that while it closed the tax loophole for large-scale investors, in the process it hit the man in the street very hard.

In particular, the R4 000 annual premium limit had major implications.

"This limit penalises the prudent man in the street, particularly if he has exceeded the limit because he has used endowment policies as a genuine funding for his retirement.

"The figure was set in the Act in November 1981, but inflation in the four years since then has more than halved it in real terms.

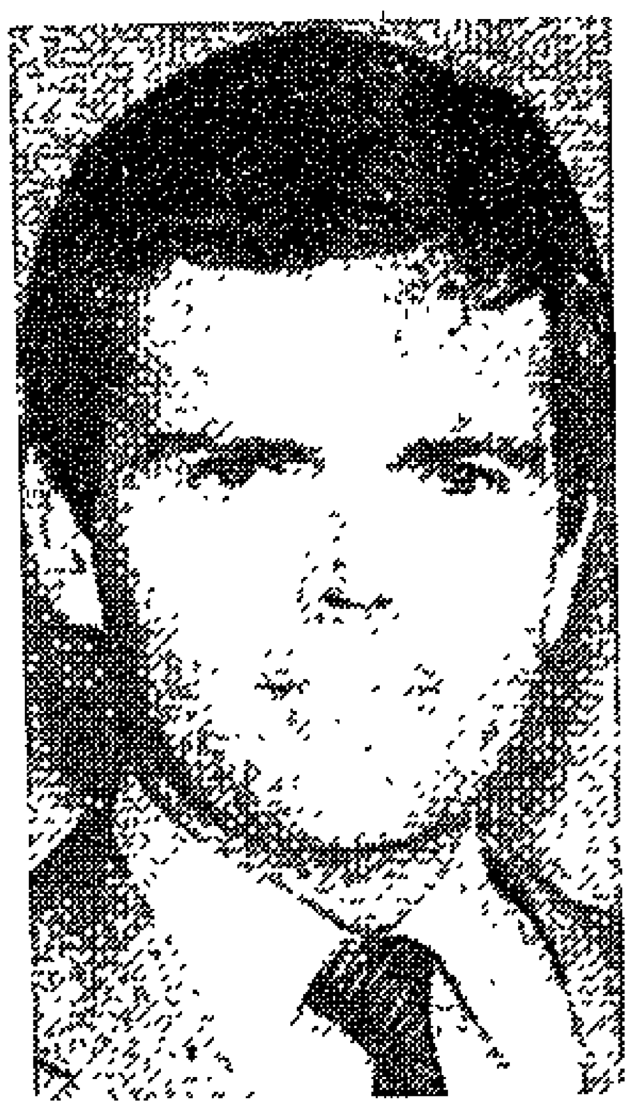
"We would recommend, therefore, that the limit be raised to R10 000 to allow for endowments being sold for retirement planning.

The death cover requirement of the new legislation of at least eight times annual premium is also unrealistic, says Mr Tomlinson, particularly for older people where death cover is so expensive and for people who don't qualify for life cover for health reasons.

Retirement

Mr Tomlinson said that those who would have used endowment policies for retirement planning will now probably turn to RA's, but it was up to the government to encourage sound retirement planning in this manner.

"Legislation governing RA's has been sadly neglected and needs attention if the burden of retirement provision is to be carried by the individual rather than fall on the state now."



Mr Geoff Tomlinson

Improvements suggested by National Mutual include:

- An increase in the R3 500 contribution limit — set many years ago — to allow for inflation;
- An equivalent increase in the tax-free lump sum limit;
- Relaxing of prescribed asset requirements laid down by legislation, which would lead to improved investment returns on retirement annuity funds.

Most life assurers offer flexible retirement annuities and are well placed to provide products that meet retirement planning needs.

In particular, Mr Tomlinson said that the "smoothed bonus" concept that National Mutual pioneered in South Africa had gained acceptance and was particularly appropriate for RA's, where the mix of high security and high return was critical.

FACE TO FACE

58

PIERRE STEYN

Sanlam's investment strategy

Pierre Steyn is the new MD of Sanlam.

***FM*: Whenever people talk about the growth of power concentration these days Sanlam's name invariably crops up, being perhaps one of the five largest corporate entities in SA. Do you feel its "fat cat" image is justified?**

Steyn: Too much focus is centred on assets instead of payments. So when people see that we have assets in excess of R6 billion they naturally view us as being large. But this should be seen in perspective. Our death cover is around R50 billion.

We want to project an image centred on the services we provide to policyholders, rather than one of a huge company with large assets. After all, the purpose of insurance is to provide protection and security. In addition, it must be remembered that we are a mutual company where all our assets belong to our policyholders.

Do you not consider it true that the SA economy is highly monopolised?

Those who argue this usually refer to listed companies which form only a small portion of the total economy. This is a distorted view as there are many unlisted companies in business. And research has shown that the broader economy is not highly monopolised.

But aren't many of these unlisted companies controlled by the listed companies?

Not really. Think of the numerous small businesses in existence. Hopefully many more will emerge and contribute to the SA economy. This is what the Small Business Development Corporation is trying to encourage.

It is contended that the life offices are so flush with cash that there are not enough investment opportunities in SA. Cash happy institutions are one reason mentioned when explaining why the JSE has not fallen to an extent that reflects the current economic crisis. In the light of this do you feel that the authorities should open up the foreign markets to the assurers?

No. SA as a developing country needs capital to be invested locally. An outflow of capital is undesirable. SA will always be a net importer of capital. Life offices have an obligation to policyholders and to society to invest in SA. From experience, investment opportunities always exceed available capital. The problem is not too few opportunities but too little cash. Even if Sanlam were allowed to invest abroad it would respond with limited cash and for a limited period.

And you say this for economic rather than patriotic reasons?

Absolutely. No other country has the investment opportunities we have in SA. Purely for economic reasons Sanlam would not invest abroad on a large and sustained scale.

Sanlam is still associated with Afrikaans capital. Do you feel this is desirable?

We do not define our market in terms of language, sex or race but in terms of purchasing power. Although most of our clients are Afrikaans speaking, English speakers make up an ever-increasing percentage.

What is Sanlam's investment strategy?

We aim for a balanced spread. Some 40% of our assets are invested in prescribed assets (government and semi-government stock). Of the 60% in discretionary investments, 20% is in property, 20-25% in ordinary shares (including unlisted shares), and the remaining assets are in mortgages, policy loans and debentures.

How do you prefer to hold your shares?

There are two categories. Firstly, in portfolio investments we buy shares which we feel are good investments. This is always a small stake so we are easily able to sell off these shares without causing too much disruption in the market, while we do not have to perform a salvage operation if things go wrong. Secondly, in companies which we like and cannot restrict ourselves to a small portfolio investment, we rather move into a controlling position where we can influence management and policy. We do not want control for control's sake but to safeguard the interests of our policyholders. We prefer not to be in a middle position where we have a large stake in a company and cannot do anything to protect our investment. This we want to avoid.

What about Kirsh Industries, could your holding here not be seen as a "middle" position?

True, we do not have a say in its day-to-day running but we have an arrangement whereby we can have an influence on the broad direction of the company. There are set targets which Kirsh aims at.

Insurance curbs: Life offices face huge income loss

w/L-Argus 1/6/85 58

By DEREK TOMMEY
Financial Editor

THE life insurance industry is engaged in vigorous behind the scenes lobbying to get the Government to alter some of the regulations announced last weekend affecting the tax position of pure endowment policies.

Unless some of these regulations are changed the industry could experience a substantial reduction in premium income and the loss of some of its most profitable business, insurance sources say.

The amount of endowment policies sold by the industry is not known. But according to industry sources, it could make up between 20 percent and 50 percent of many companies' business.

However, a report that it could amount to up to 80 percent of Sanlam's business was not really true.

Disability benefits

Mr Walter Scheffler, an assistant general manager at Sanlam, said this report had been based on the fact that a great many of the company's ordinary endowment policies contained additional features such as disability benefits which terminated once the policy holder reached the age of 60.

Under the new regulations features such as this could make these policies non-standard and the capital gains on these policies subject to tax. However, he did not believe it was the Government's intention to restrict the sale of these types of policies and he expected the regulations to be altered to accommodate them.

Tax free

Industry spokesmen say that what the Government wants to stop is the use of 10-year endowment policies as a commercial investment.

In the past few years many commercial concerns have taken advantage of the fact that the long-term return on these policies is high and tax free. Insurance companies have been forecasting a long-term rate of around 14 percent on these policies, but in practice the return on these policies in the past year or two been running as high as 20 percent.

Companies have been profiting from these policies by investing large sums in them and then immediately borrowing against them.

They have to pay interest of around 24 percent. But as this interest is tax deductible, the effective cost to the company is only 12 percent.

Lump sum

Overall, therefore, the company get a net return on its money — at the moment about 8 percent — and also the full use of this money.

Apart from using these policies as a form of investment, companies have also been taking them out on behalf of their staff with a view to providing them with a tax free lump sum at some time in the future.

To stop the abuse of these policies, the Minister of Finance, Mr Barend du Plessis, last weekend announced new regulations for them. If these regulations are breached the policies become non-standard and tax has to be paid on any gains made.

The new regulations specify that:

- The policies can only be issued to a natural person and remain his or her property — thus stopping companies buying these policies.
- For the first 10 years no cash bonuses must be paid on these policies. They also may not be used as security for loans in this period.. These provisions will also apply to existing policies and is one of the regulations which the insurance industry wants altered. The industry says that existing policies should not be subjected to retrospective legislation. The industry also wants normal endowment policy holders to be able to borrow against their policies.
- All policies issued must provide life cover equal to eight times the annual premium. The insurance industry also wants this changed as it prevents them from selling endowment policies to people who are uninsurable and also to children under 16 years of age.
- Premiums must now be paid for a minimum of 10 years instead of for five years. However, the insurance industry does not see this as much of a problem. In the past policy holders who wanted to make only one investment have got around this requirement through buying reducing annuities which paid the second, third, fourth and fifth premiums. This practice is likely to continue with nine year reducing annuities employed instead.
- Premiums must not exceed R4 000 a year. The industry says this figure is too low in relation to current income levels and inflation. This is probably the most critical of all the new regulations as if this level is maintained it could significantly reduce the sale of endowment policies for investment purposes.

Mr Ralph Roseman, general manager, services, of the Old Mutual, said the Minister was correct in outlawing the type of policy that involves the investment and the immediate borrowing back of the premium by a company. This should not be general insurance business.

Insurance act

Unfortunately the legislation had been drafted in a way that had made many other policies non-standard.

The industry was prepared to hold discussions with the Minister. Both sides were aware of the intention of the Insurance Act, he said.

Mr Roseman said if the Government was prepared to make the changes the industry wanted, the new regulations would have little effect on the industry. However, the industry would be greatly affected if these changes were not made.

Representative of all the life insurance companies are to meet in Cape Town on Tuesday to hold discussions on the new regulations.

60% rise in loans to SA states

S. Times 2/6/85 (58)

By Ciaran Ryan

THE Development Bank increased its loans to Southern African states by R123,1-million, or 60%, in the year to March 1985.

Total income was R36-million, of which R33-million was interest. This is almost 800% higher than 1984's income of R4,5-million, according to the annual report.

High interest rates and a slower outflow of funds than expected resulted in a larger income than budgeted. Administrative expenditure amounted to R15-million.

Cash grants

The loans were funded by an increase in share capital of R36-million, a contribution of R160-million from South Africa to the development fund and a surplus in the general reserve of R19-million.

The Development Bank, although non-political, receives most of its capital from the South African Government which is trying to scale down its cash grants to homelands and self-governing states because it has little control over how the money is spent.

The Development Bank of Southern Africa assesses projects on the basis of private sector viability. Loans more than cash grants are seen by the South African Government as the most efficient means of developing Southern African states.

The bank increased its investments from R75,5-million in 1984 to R171-million in 1985. Only R4,7-million of loans were repaid.

Largest

Of the 52 loans approved by the Bank 19 were for the promotion of industrial development — this amounted to 66% of the total loan amount for the year. The bank envisages a shift to agricultural and rural development projects in its future allocation of loan funds at the expense of industrial and infrastructural projects.

Almost 45% of the loans or R561-million went to Region D, which includes Ciskei and most of Transkei. About 17% of lending of R1 254-million since its inception has gone to Region E, which includes KwaZulu. The loans are all long-term with repayment periods varying from three to 40 years at interest rates of between 4% and 16,9%.

The largest single loan of R79,7-million went to KwaZulu for the development of industrial centres at Madadeni, Ezakheni and Isithebe. Ciskei received loans of more than R50-million.

The Development Bank projects its lending for the present financial year at almost R300-million and R450-million by 1987. A total of 272 projects are in various stages of planning.

The bank is exempt from income tax.

 ARGUS 3/6/85 58

Car, house insurance premiums set to rise

Argus Correspondent

JOHANNESBURG. — Sweeping increases in premiums on almost all private motor and household insurance can be expected.

Much of the blame is because of the R135-million mountain of claims lodged in the past 12 months to repair damage left by storms that lashed South Africa.

It is almost three times higher than total insurance claims in 1981 — the year of the Laingsburg floods.

The lead in new motor rates may have been set by Santam Insurance, which has set premiums between 20 and 30 percent higher, and IGI Insurance with 25-percent increases for urban motorists.

Mr Rodney Schneeberger, general manager of the SA Insurance Association, advised homeowners and motorists to brace themselves for across-the-board rises in premiums as they came round for annual renewal.

One single hailstorm alone — the one that pounded Johannesburg through the night on November 19 — cost the insurance companies more than R20-million in repairs to thousands of cars battered by hailstones.

Two weeks earlier a storm that pounded Vereeniging on November 5 resulted in claims that soared to more than R4-million to mend the damage to cars from golfball-size hailstones and vehicles that were swept away in the torrents that rushed through the town and demolished roads and bridges.

The full-year toll of claims from natural catastrophes climbed by a further R110-million when account is taken of the damage left behind by storms that hit Pretoria, the Eastern Transvaal and the Cape, plus the havoc caused by Cyclone Domoina and Cyclone Imboa.

"There is little chance of escaping major increases in premiums on either business or private insurance," said Mr Schneeberger.

"What has made matters worse is the strong surge in the cost of motor components when the rand exchange rate sank so low and imports became dearer. There were also more road accidents than ever as repair costs rocketed.

"All in all, insurance claims in the fire and catastrophe classes alone jumped to a record R414-million — more than three times more than in 1980.

"On average insurance companies last year paid out R1,34 for every R1 income in premiums. There's no possible way that premiums can escape hefty increases."

CAPE TIMES 4/6/85

58

Allied pre-tax profits soar 42%

JOHANNESBURG. — The Allied Building Society had a net increase in profit after tax of nearly 27 percent at R22,77m for the year ended March 31, a statement from the society says.

Allied recorded a 42 percent increase in net pre-tax profit for the year, R45,27m as against R31,95m in 1984.

The deputy managing director, Mr Alan Tindall, says that in spite of difficult market conditions and the effects of inflation on the desire and ability to save, the Allied increased its mortgage lending by a net amount of R239,3m to a total of R3 045,3m.

Taking into account both new and re-advanced mortgages, the total made available in the year was R636,8m.

Mr Tindall says in the past five years the Allied increased its mortgage lending by 72 percent, from R1 768m in 1981 to R3 045m in 1985.

Allied's assets increased by R369m to R3 921m in the 12 months and total share capital and deposits were higher by R349,8m to R3 793,6m.

Reserves and retained income reached R92,3m, an increase of R22,8m, the statement says. — Sapa

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes

CAPE TIMES 4/6/85 (58)

Anglos lifts profits — dividend up 12,5%

JOHANNESBURG. — Anglo American Corporation of South Africa has increased its dividend for the year to March 31, 1985, by 12,5 percent to 135c a share from 120c paid last year.

The final dividend of 100c (1984: 85c) was declared yesterday, which together with the unchanged dividend of 35c declared last November provides the total distribution of 135c.

Group profit excluding retained profits of associates increased to a record level of R601,2m (263,6c a share) from R556,1m (244,6c).

Profits including retained profits of associated companies were also at record levels having increased by 8,7 percent to R880,4m, or 386c a share, from R810,1m or 356,4c a share.

These results reflect the satisfactory spread of investments held by the corporation where earnings and dividends from export orientated, mining operations, particularly coal, have counteracted the difficult conditions being experienced by industry in South Africa, a statement by Anglo American said yesterday.

In addition, the buoyant prices on the Johannesburg Stock Exchange have enabled the Corporation to increase its surplus on realization of investments although this has been partially offset by higher prospecting expenditure.

"The directors have declared the increased dividend in the expectation that the Corporation will continue to benefit from the diversity of its sound investment portfolio," the statement said..

The market and directors' value of listed and unlisted investments at March 31, 1985 was R10 696,8m compared with R10 098,2m the previous year and the net asset value per share was 4 650c, compared with 4 313c last year.

There is a charge of extraordinary items this year of R63,3m compared with a surplus the previous year of R64,5m.

In addition extraordinary losses arose from merger adjustments and discontinued operations in Amcar Motor Holdings. — Sapa.

They didn't pay, they 'hassled'

Sowetan 6/6/85

THE FAMILY of Mrs Lizzie Kwala, who died last year after an illness, has waited for more than a year before they could receive a payout from her life policy.

Mrs Kwala's former employer, Mrs P Cook, of Krugersdorp, said enquiries with the IGI Assurance company on behalf of her former employee's eight children had drawn a blank over the past. Instead her enquiries met with promises "which were never kept," she said.

Mrs Cook said: "After her death, I spent weeks trying to contact IGI branches in Newcastle (where she was buried) and in Krugersdorp. I then decided to contact their head office in Johannesburg, where a Mr Smedy promised to settle the matter within three weeks.

But by February this year, Mrs Kwala's children had not received any payout. I contacted the IGI head office again, and was told that Mr Smedy (who was handling the matter) had left the company. They promised to phone me back, but this was not done," she said.

According to Mrs Cook, repeated enquiries months later drew the same response:

"We will pay the money within the two weeks." On checking with the Commissioner of Estates Department, no money had been paid into Mrs Kwala's estate.

IGI's claims manager, Mr J Dawkins, said his client's former employer was making "wild allegations" against the company. He said birth certificates of Mrs Kwala's three children had not been submitted to the company, hence the money had not been paid out. But Mrs Cook told Consumer Corner that she had proof that she had sent all the birth certificates.

The manager said a certain sum of money had already been paid into a trust at the offices of the commissioner. This money would be paid out to five of Mrs Kwala's children when they reached the age of 18. The three other children would receive their money as soon as they submitted their birth certificates, he said.

"As a company we also make mistakes, just like human beings," Mr Dawkins said.

Cape Times (SP) 6/6/85

No change in rates on bonds

By NEILL HURFORD
Property Editor

TOO MUCH "expensive" money was currently invested in the financial institutions for an immediate or sharp drop in lending rates on property, according to building societies surveyed yesterday.

In spite of a sharp easing in investment interest rates, building societies would take some months before being able to make adjustments to mortgage bond rates, in the general opinion of regional management in major building societies.

Mr Kingsley Loney, regional manager of the Natal Building Society, said that bond interest rates would be unlikely to move before the end of the year. "Although investment rates are coming down, we are locked into some expensive money which will take time to work out of the system."

Mr Loney added that there had been a dramatic turnabout in the lending pattern, and his and other big building societies were looking for mortgage loan applications at all ends of the market, with particular emphasis on new home-owners. While the attraction at this stage could not be lower interest rates, availability of funds was refreshing in a previously difficult market.

NBS is currently lending at between 19 and 21,5 percent.

The EP Building Society has only two rates of interest — 20,5 up to R60 000 and 22 percent above this figure, and there was no plan to bring the rates down, said Mr Ian Gobregts, acting regional manager.

He said that market forces may change this view, should there be a big pile-up of liquid money. However, the EP was still experiencing a reasonable demand, particularly in the coloured market, where he said large numbers of buyers were subsidized.

Barclays Bank, top lenders in the residential market, are unlikely to drop their rates in the near future, according to Mr Bob Wood, area general manager of the Western Cape.

Should the prime rate continue to drop and reach 20 percent by the end of the year, then there would be a drop in the home loan rates, although he subscribed to the view that a sudden slide would not be healthy. He said Barclays was watching the rediscount rates carefully.

Exits were locked

10/6/85

R90m for development in Ciskei and Transkei

58

Business Editor

EAST LONDON — The Development Bank of Southern Africa is committed to financial aid totalling R90 million for development projects in Ciskei and Transkei.

According to statistics given in the bank's annual report, amounts approved under its lending and technical assistance programmes between April last year and March this year totalled more than R49 million for Ciskei projects and more than R36 million for Transkei projects. The total value of the projects is about R99 million in Ciskei and R103 million in Transkei.

A spokesman for the bank said the projects were at various stages of implementation. In some cases loan agreements had already been signed and in others the loans had been approved but the terms of the loan agreements were still being negotiated.

Work is already underway on some of the projects and in some cases, such as industrial and infrastructural projects at Fort Jackson and Dimbaza in Ciskei, buildings have been completed and occupied.

The Development Bank started operations in February last year. Its founding members were South Africa, Transkei, Ciskei, Bophuthatswana and Venda with the non-independent states participating in its activities as constituent parts of South Africa.

Its objectives are to provide finance for development requirements on favourable terms, to promote the investment of public and private capital and to provide technical assistance and training.

Of its initial authorised share capital of R2 000 million, R200 million is being paid up by the member states, leaving R1 800 million in callable shares against which loans can be raised in capital markets. The South African government has pledged to pay R1 500 million into the development fund of the bank in the first five-year period.

Loans approved for Ciskei projects under the bank's lending programme between April last year and March this year were:

- R2,585 million for a commercial pineapple farming project in Ciskei's coastal region which will create a total of 385 jobs. Total project cost is R3,238 million;
- R3,536 million for labour intensive industry at Fort Jackson to create 5 000 jobs. Total cost: R8,991 million;
- R1,291 million for factory flat complexes, rural workshops and market stalls to encourage small business and industry. Total cost: R1,583 million;
- R39,2 million for factory buildings and infrastructure at Fort Jackson and Dimbaza. Total cost: R83,850 million;
- R469 000 for the upgrading of infrastructure at the Potsdam informal settlement and improvement of health standards — a move which the report says will reduce pollution of the Buffalo River, East London and Mdantsane's main source of drinking water. Total cost: R520 800;
- R3 million for infrastructure, additional training facilities and accommodation at the Ithemba Training Centre The object, the bank says, is to meet manpower and skills requirements of commerce and industry in both Ciskei and the rest of the Region D development area. Total cost: R3,460 million.

The Development Bank also approved financing for various urban and rural development projects in Ciskei under its technical assistance programme:

- A grant of R304 000 to extend the activities of the African Co-operative Action Trust (Acat) in establishing savings clubs to mobilise funds for agricultural projects. Total project cost is R664 000;
- A loan of R555 000 for the design of 550 infill sites and 600 low service sites for a housing project at Dimbaza. The project includes a self-help centre, design of core houses and a self-help manual and design of a town centre. The project will assist in the bank's appraisal of a possible R9 million housing project at Dimbaza;
- A loan of R735 000 for the first phase of a major R5,8 million residential project at Potsdam. The first phase consists of the preparation for self-help housing on 600 erven and planning of an area of about 2 500 sites;
- A grant of R547 950 towards the planning of urban development at Laphumilanga. Financing will eventually be sought for an urban centre of 600 core units, primary school, post office, clinic, shops and small business units. The project is aimed at lower income groups and the creation of a "total urban environment" that includes job opportunities:
- A loan of R216 000 for the planning of co-ordinated development strategies for the towns of Sada, Whittlesea, Alice, Keiskammahoek and Peddie;
- Loans of R247 500 and R148 500 for preliminary planning for the improvement and resurfacing of 20 km of gravel road between the Dimbaza turn-off and Keiskammahoek and 12 km of gravel road from the Yellowoods River to Berlin;
- A loan option of R74 700 and a grant option of R50 000 for a demographic information study to estimate population and other aspects such as age, sex and occupational distribution in Ciskei.

The Development Bank also agreed to provide a guarantee for R20 million to provide a financial base for the Ciskei Building Society. The society will issue debentures on the local capital market with a guarantee from the Ciskei government and back-up guarantee from the bank.

Loans approved for Transkei projects were:

- R8,093 million for a particle board factory at Langeni near Umtata which will create direct job opportunities for 220 with a further 100 jobs in the forest plantations. Total project cost is R28,293 million;
- R4,140 million for expansion of the Langeni sawmill at a total cost of R13,4 million to create 600 direct and 900 indirect job opportunities;
- R4,820 million for upgrading urban infrastructure at Ilinge, including adequate sewage disposal, potable water for every household, and promotion of self-help housing. Total cost: R6,371 million;
- R1,7 million for the provision of general facilities at 25 towns in Transkei. The first phase involves the provision of adequate water and its purification at Idutywa, Ngqeleni, Engcobo, Nqamakwe, Willowvale, Mqanduli, Libode and Qumbu;
- R2,2 million to extend the sewage disposal works at Umtata to improve the town's viability as an industrial development point;
- R7,4 million for building a hall, lecture rooms and offices at the University of Transkei;
- R3,7 million for a new road bridge over the Tsitsa River, R6,4 million for the re-construction of 8,5 km of the national road through Brooke's Nek Pass on the Transkei/Natal border. Total cost of these two projects is R11,18 million;
- Two loans totalling R3,3 million for the improvement of Transkei's national electricity grid. Total cost of the two phases of the project is R14,836 million;
- R13,5 million for the Sterkspruit rural water supply scheme. Reservoirs and pipelines will distribute purified water from main purification works to 35 rural communities, two villages and two hospitals in the Herschel district.

Amounts allocated to

for development
kei and Transkei

D. Nofatch 10/6/85

blic and private
! and to provide
cal assistance and

is initial author-
share capital of
million, R200 mil-
being paid up by
member states, leav-
800 million in cal-
shares against
loans can be
in capital mar-
The South African
ment has pledged
R1 500 million
the development
the bank in the
-year period.

approved for
projects under
nk's lending pro-
between April
ar and March this
ere:

2,585 million for a
cial pineapple
project in Cis-
coastal region
will create a total
jobs. Total project
R3,238 million;

3,536 million for
intensive indus-
Fort Jackson to
5 000 jobs. Total
8,991 million;

1,291 million for
flat complexes,
workshops and
stalls to encour-
small business and
ry. Total cost:
million;

R39,2 million for
y buildings and in-
ucture at Fort
on and Dimbaza.
cost: R83,850 mil-

469 000 for the up-
ng of infrastructure
Potsdam informal
ment and improve-
of health standards
re which the re-
says will reduce
tion of the Buffalo
East London and
ne's main
of drinking
Total cost:
800;

● R3 million for infrastructure, additional training facilities and accommodation at the Ithemba Training Centre. The object, the bank says, is to meet manpower and skills requirements of commerce and industry in both Ciskei and the rest of the Region D development area Total cost. R3,460 million.

The Development Bank also approved financing for various urban and rural development projects in Ciskei under its technical assistance programme:

● A grant of R304 000 to extend the activities of the African Co-operative Action Trust (Acat) in establishing savings clubs to mobilise funds for agricultural projects. Total project cost is R664 000;

● A loan of R555 000 for the design of 550 infill sites and 600 low service sites for a housing project at Dimbaza. The project includes a self-help centre, design of core houses and a self-help manual and design of a town centre. The project will assist in the bank's appraisal of a possible R9 million housing project at Dimbaza;

● A loan of R735 000 for the first phase of a major R5,8 million residential project at Potsdam. The first phase consists of the preparation for self-help housing on 600 erven and planning of an area of about 2 500 sites;

● A grant of R547 950 towards the planning of urban development at Laphumilanga. Financing will eventually be sought for an urban centre of 600 core units, primary school, post office, clinic, shops and small business units. The project is aimed at lower income groups and the creation of a "total urban environment" that includes job opportunities,

● A loan of R216 000 for the planning of co-ordinated development strategies for the towns of Sada, Whittlesea, Alice, Keiskammahoek and Peddie.

● Loans of R247 500 and R148 500 for preliminary planning for the improvement and resurfacing of 20 km of gravel road between the Dimbaza turn-off and Keiskammahoek and 12 km of gravel road from the Yellowoods River to Berlin;

● A loan option of R74 700 and a grant option of R50 000 for a demographic information study to estimate population and other aspects such as age, sex and occupational distribution in Ciskei.

The Development Bank also agreed to provide a guarantee for R20 million to provide a financial base for the Ciskei Building Society. The society will issue debentures on the local capital market with a guarantee from the Ciskei government and back-up guarantee from the bank.

Loans approved for Transkei projects were:

● R8,093 million for a particle board factory at Langeni near Umtata which will create direct job opportunities for 220 with a further 100 jobs in the forest plantations. Total project cost is R28,293 million;

● R4,140 million for expansion of the Langeni sawmill at a total cost of R13,4 million to create 600 direct and 900 indirect job opportunities;

● R4,820 million for upgrading urban infrastructure at Ilinge, including adequate sewage disposal, potable water for every household, and promotion of self-help housing. Total cost: R6,371 million;

● R1,7 million for the provision of general facilities at 25 towns in Transkei. The first phase involves the provision of adequate water and its purification at Idutywa, Ngqeleni, Engcobo, Nqamakwe, Willowvale, Mqanduli, Libode and Qumbu;

● R2,2 million to extend the sewage disposal works at Umtata to improve the town's viability as an industrial development point;

● R7,4 million for building a hall, lecture rooms and offices at the University of Transkei;

● R3,7 million for a new road bridge over the Tsitsa River; R6,4 million for the re-construction of 8,5 km of the national road through Brooke's Nek Pass on the Transkei/Natal border. Total cost of these two projects is R11,18 million;

● Two loans totalling R3,3 million for the improvement of Transkei's national electricity grid. Total cost of the two phases of the project is R14,836 million;

● R13,5 million for the Sterkspruit rural water supply scheme. Reservoirs and pipelines will distribute purified water from main purification works to 35 rural communities, two villages and two hospitals in the Herschel district.

Amounts allocated to Transkei projects approved under the bank's technical assistance programme were:

● A grant of R500 000 for the establishment of the Local Initiative Fund of Transkei (Lift). Total cost of the first phase of the project is R950 000. The fund will foster small, self-help village projects using appropriate technology;

● A loan option of R312 000 and a grant option of R208 000 for a rural water programme which aims at the self-help establishment of 60 small rural water supply systems;

● A loan option of R117 000 and a grant option of R130 000 for the preparation of a national urbanisation strategy for Transkei.

In addition to the projects in Ciskei and Transkei, the Development Bank is also involved in projects which entail co-operation across the borders of South Africa and national states.

The bank says it is appraising a loan application for the Lower Fish River irrigation project which would provide 1 800 ha of irrigable area in South Africa and 2 100 in Ciskei.

The report says that further development of a pilot irrigation project at Tyefu in Ciskei was restricted by the quality and quantity of water available from the Fish River. "The release of water from the Hendrik Verwoerd Dam into the Fish River, which can overcome these restrictions, has been approved in principle by the South African government for future development of the scheme."

Liberty Life in R430-million bid for UK company

ARGUS 12/6/85 (58)

Argus Foreign Service

LONDON. — Liberty Life Association, South Africa's third largest life company, has put in a cash bid for Capital and Counties, pricing the company at R430-million.

The move is in line with the current vogue among South Africans for building up assets outside the country, says Patrick Weever of The Standard.

Liberty Life bought just under 30 percent of Capital and Counties four years ago and yesterday lifted the stake to 34,5 percent ahead of the announcement. The cash bid of 225p a share does not look very exciting as the last balance sheet showed net assets worth around 250p a share, says Weever.

He adds: "The modest price offered clearly indicates that the South Africans want to get control so that they can use Capital and Counties as an investment vehicle rather than acquire the whole company.

The Board launches international investment trust

CAPE TIMES 15/6/85 58

SOUTH AFRICANS will be able to invest in overseas companies following the acquisition by The Board of Executors of a controlling interest in a UK investment trust.

The implications of this transaction — providing South Africans with a rand hedge and an opportunity for an international portfolio spread — amount to a major "first" for The Board of Executors.

The managing director of The Board, Mr Bill McAdam, said approval had been obtained from the South African exchange control authorities for a rights issue of £10m (R25m).

Listing

The authorities had also agreed not to block the listing of the resultant units on the Johannesburg Stock Exchange (JSE).

The investment trust in which The Board has acquired a 50,8 percent controlling interest is Oceana. An offer has also been made to acquire the shares of minorities for 550c.

Oceana is registered in the UK, but listed on both the London and JSE. It has been approved by the UK Inland Revenue as an investment trust for tax purposes.

Mr McAdam said that under The Board's control Oceana would provide a unique investment opportunity for South African resident investors.

"By purchasing units in the trust, clients of The Board of Executors and the South African investing public at large will be able to achieve a geographical spread in their portfolios and a hedge against the rand — features which have historically not been available to South Africans.

Oceana presently has assets of approximately R1m, comprising an international share portfolio and mineral rights.

Equities

It is The Board's intention to develop Oceana into a fully-fledged international investment trust with investments in carefully selected, top-quality, growth orientated international equities.

The underlying portfolio will be reasonably concentrated and not too widely spread.

Within the parameters of Oceana's investment trust status, the managers will be looking specifically at investments in the financial services sector.

In the rights issue prospectus, which will be published as soon as possible, will emphasize that the trust is likely to have a relatively low yield because of the spread and blue-chip status of its investments and that the managers will be paying special attention to spreading currency risks.

Development

A recent development in the investment trust sector of the UK market has been strong interest from international investors, particularly those from dollar denominated investment houses.

Investment trusts have traditionally traded at a discount to net asset value and they are therefore often regarded as a cheap means of entering the equity market. These developments are expected to accelerate.

The Board has established a subsidiary, The Board of Executors (UK) Ltd, which will have its registered office in London. The management of the trust's investments will be contracted to this company.

Mr Bill McAdam ... approval obtained from for a rights issue of (R25m).

Three years ago, The Board was instrumental in floating First Southern Investment Co Ltd, a Luxembourg-based company, with its entire investment in South African industrial equities.

First Southern's portfolio is managed by the London-based Global Investment Management Ltd.

The Board holds a large minority shareholding in Global. Its partner in Global is Lombard Odier International Portfolio Management which is the London arm of Lombard Odier, a prestigious, private Swiss bank, managing assets exceeding $8 billion.

Mr McAdam is chairman of Global and through this international link, The Board of Executors has developed ties with Mr Robert van Maasdyk, who is the managing director of Lombard Odier International Portfolio Management.

The activities of Global are to be rationalized with those of The Board of Executors (UK) Ltd, as the management company for Oceana.

Services

The Board aims to develop the expertise of its London-based subsidiary to provide a comprehensive range of financial services for South African residents who own international assets.

In addition, the UK management company will continue to promote the investment attraction of South Africa to overseas investors.

There has already been considerable interest in the proposed rights issue from the existing shareholders of Oceana, clients, brokers and several major institutions.

The sponsoring brokers will be Rowe & Pitman in London and Fergusson Bros Hall Stewart & Co in Johannesburg.

CAPE TIMES 18/6/85

58

Allied profit soars 41%

Own Correspondent

JOHANNESBURG. — The Allied Building Society has announced a pre-tax profit of R45 271m for the year ended March 1985 — 41 percent more than the previous year.

Its taxed profit rose 26,8 percent to R22 771m.

While the Allied's share capital eased by R51m to R1,216 bilion, its deposits increased R400m to R2,577 billion.

Fixed deposits grew by R185m to R1,489billion and savings jumped by R157m from R761m.

The Allied was active in the money market and raised R135,7m on Negotiable Certificates of Deposit compared with R61,882m the previous year.

In the year, the Allied Insurance Company increased its authorised share capital to R25m. The society acquired the additional R23,5m in share capital in exchange for certain investment stocks at market value which gave rise to a book loss of R9m.

Assets increased by R369m to R3,921 billion.

Reserves and retained income amounted to R92,3m, an increase of R22,8m.

The Allied granted R636,8m on new mortgage advances and re-advances in the year. Total value of mortgages increased by R349,8m to R3,793 billion.

"The 1984/85 financial year saw interest rates rising to levels of more than 21 percent and and prime rate to 25 percent.

"These high rates make it difficult to synchronize movements in the mortgage rate with other rates of interest." according to Allied's report.

"On the other hand, the investor has had the benefit of high interest rates from building societies. This has been particularly the case on fixed deposit investments, with the interest rate reaching 20,5 percent per annum."

SA Perm profits soar 85%

CAPE TIMES 21/6/85

(58)

JOHANNESBURG — The SA Permanent Building Society achieved an 85 percent increase in net after-tax profits in the year to March, the year-end figures released yesterday show.

Its net profit totalled R37m, compared with R20m in the previous year.

In the year the number of accounts for shares and depositors increased by 22 percent, from 2 170 732 to 2 640 416.

Total funds attributable to savers, depositors and shareholders increased by 10 percent or R414m.

The managing director of Perm, Mr Bob Tucker, said these figures were in line with the building society's declared objective to operate within a reasonable level of profitability, "having regard to our need to enhance our technology and service outlets".

New loans of between R60m and R75m were granted each month to the general public, the average value of home loan granted being R41 000.

This compares with loans of between R70m and R85m in the previous year, when the average value of home loan was R37 700.

In the year under review, the total amount of loans granted was R1 004m.

Perm's reserves at year-end totalled R143m (R106m). — Sapa

Cape Times 21/6/85 (58) 189

IGI pre-tax loss R7,5m — div slashed

Own Correspondent

JOHANNESBURG. — IGI reported an attributable loss of R4m, equal to a loss of 49,4c a share, (previous year — earnings a share of 87,8c), and the final dividend has been chopped down to 2,5c (10c) a share.

However, the managing director, Mr Mike Lewis says: "IGI is a lean, hungry insurer that has been through a long tunnel. But it is now right out of that tunnel."

He said: "I have absolute confidence that 1986 will be a good year and that the dividend payout will be reinstated in 1986 to its former 1984 level."

The major problem for the insurer appears to have stemmed from its monthly personal lines of insurance that accounted for more than 70 percent of the pre-tax loss of R7,5m.

According to Mr Lewis the unprofitable personal lines of insurance have been shed and would no longer serve as a drag on IGI's overall performance.

No doubt a heavy underwriting loss caused by natural hazards did not help mattters either. But a reversal of taxation — deferred tax no longer needed because of the loss — amounting to R3,7m softened the bottom-line loss.

IGI's moves to rationalize and clean up its portfolio are evidenced by the fall in gross premium income to R186,4m from the previous year's R197,1m and the fall in real terms of net premium income to R133,9m (R134,5m).

The costs of closing down unprofitable branches and the harsher reinsurance terms imposed by reinsurers also dented profitability.

Considering that IGI had raised R8,8m by way of a rights issue last year and that this year's prospects are much brighter, it is somewhat surprising that the final dividend was reduced to a quarter of its previous level.

Mr Lewis says, however, that it is prudent to reduce the payout as he believes dividends should be well covered, and it makes good sense to relate dividends to actual performance.

Subsidiary **IGI Life**, listed for the first time last year, turned in a satisfactory set of results in the 15 months to end-March.

Mr Lewis says he is extremely delighted with the results as they are even ahead of the forecast in the prospectus.

For the record, IGI Life earned 7,5c a share on an annualized basis, with net premium income of R17,7m and attributable profits of R1,7m.

A dividend of 4c a share for the period has been declared.

New cut in prime looms as interest rates slide

By PAUL DOLD
Financial Editor

CAHG Times 21/6/85 (58)

SOUTH AFRICAN interest rates are sliding again and further sharp falls in the prime overdraft rate are posssible soon.

Prime could be down to 18 percent by the year end.

The latest rate falls are bringing to a close an era of extremely high cost money which has severely hit both the corporate customer and the consumer.

They also reflect the weak demand for credit even at the existing rates and it will be some months before consumer spending once again increases.

The shortage in the money market which at one stage exceeded R2 billion is now only R268m and the key three month's Bankers Acceptance rate is falling rapidly.

At current levels the acceptance rate is indicating a two percent fall in prime.

It touched 17 percent at one stage yesterday and is likely to decline even further once the outcome of the latest Treasury Bill tender is known.

However, sentiment may be somewhat influenced by the easing of the gold price yesterday.

Gold fell due to indications that the United States economy is showing better than expected growth.

This led to the dollar rebounding and gold sliding back from the morning's levels.

Bullion was fixed in the afternoon at $318,10 after opening at $322,50-$323,00 and continued to ease after the fixing.

The United States economy is again showing a healthy growth rate — the April — June gross national product figures showed 3,1 percent after the dismal 0,3 percent in the first quarter.

The tender outcome will provide some indication of how the Reserve Bank views current developments and some market segments believe the central bank stance on rates has altered with the Bank no longer opposing the slide in rates.

There is little danger with consumer demand so depressed of a sudden rise in the inflation rate.

Both retail and wholesale deposit rates are being cut virtually daily with the gap between the two narrowing.

Wholesale call rates are heading for the 16 percent mark and retail fixed deposit rates are falling rapidly.

The rapidity of the falls seem to have taken the market by surprise — particularly the sharp falls in call rates.

If the trend continues, further cuts in participation mortgage bond rates as well as building society bond rates are likely.

Big SA money boom

W/E Argus 29/6/85 (58)

TRISHA BAM, Weekend Argus Reporter

MOST building societies are now so flush with cash they are offering to lend money for trips overseas, cars and luxury durables.

Some banks are furious about this "unfair" competition for business, because the building societies are able to borrow under some circumstances at lower rates and provide tax-free benefits.

Other critics say the invitation to "come and get cash" could cause a consumer spending spree — a spree neither individuals nor the country can afford.

The reason building societies have so much money is the drastic decline in the demand for loans for homes. One reason for this is the present high interest rates the societies are asking. Many people cannot afford them.

Readily available

Six months ago, home buyers had to pay raising fees as high as seven percent or get someone to provide "matching finance" before most societies would consider lending them money.

All this has ended. Instant housing loans are readily available to people who earn enough to satisfy the societies' repayment rules.

Big cash surpluses have prompted building societies to cut some of their top bond rates.

Estate agents hope that available funds and profits from surplus capital will result in an impressive drop in the bond rate by the end of the year and encourage people to buy into the property market again.

Tempting

Some building societies are tempting the public with money for luxuries; others are more conservatively urging borrowing for home improvements.

And at least one building society is critical of its competitors' new directions.

However, the general manager of Provincial Building Society, Mr J C Russel, said societies generally were not taking off on a new tack.

"Our primary aim is to provide the public with money for housing. When the demand is insufficient we provide for home improvements and when there is little demand for that too we offer money in apparent competition with banks for luxury items.

"I do not think we are fostering a consumer boom by doing this because, judging from inquiries, people are being cautious about borrowing money for luxuries and are only interested in finance for things like home improvements."

Cusaf holds div

NM 2/8/85

(58)

JOHANNESBURG— Commercial Union Assurance (Cusaf), the country's largest composite insurer, has maintained its dividend for the six months ended June 30.

This is in spite of a 52 percent drop in after-tax income compared to the June 30, 1984 figure, reflecting what the managing director, Bill Rutherford, calls 'an extremely difficult operating climate.'

The interim dividend is unchanged at 14 cents.

Taxed profits dropped to R2,3-million from R4,9-million in the review period, though net premiums written increased by 21 percent and the shareholders' portion of life profits was up by 57 percent.

Earnings per share are 30c (June 1984: 62c) and net assets per share up at 713c (643c). short term:

Income up

Though income from net premiums for fire, accident and marine jumped to R53,6-million (R43,9-million), Cusaf reports a short-term insurance underwriting deficit of R2,2-million, compared to a surplus of R3,0-million.

Mr Rutherford says that underwriting result reflects increasing incidence of claims in the fire, motor and crime portfolios, combined with inadequate premium ratings.

'The gravity of the problem of inadequate premium ratings has been highlighted by the depressed economic climate in which the incidence of claims has risen sharply.'

'Further rates increases, however regrettable, will be necessary and inevitable until underwriting gets back into a break-even situation.'

8/7/85 (58) (78) (2280) B. Day

Vatican lends SA funds

By NEIL BEHRMANN

VATICAN CITY has been a major lender to South Africa between 1982 and 1984. It lent a total of \$172m to the public sector and to the Johannesburg municipality.

Out of the total, SA Transport Services received \$113,4m, the Department of Post and Telecommunications \$38,5m, and Johannesburg \$20m.

The loans were made through Banco di Roma per La Svizzera.

The loans by the Vatican City were documented in an extensive report on South African borrowing overseas by the anti-apartheid group End Loans to South Africa. No one at Vatican City was unavailable for comment.

The comments by the pressure group are partisan but statistics are comprehensive and well-documented.

Restrictive laws, segregation, all hinder black businessmen

Star 10/7/85

Own Correspondent

DURBAN — A plethora of rules and regulations inappropriate to small business, combined with others based on racial segregation, constitute a formidable prospect for black would-be business owners.

For this reason, small-business consultants consider legal problems to have contributed significantly to 80 percent of black business failures.

This contrasts with a less-than-50 percent figure among whites.

These statistics come from a survey conducted in Natal by University of Natal (Maritzburg) senior lecturer in business finance, Ms Fiona Halse, as part of a thesis on the training of black small-business owners.

She maintains that with the tendency of business owners to blame outside factors for their failures, they would see difficulties associated with legislation as the major factor for their going bust.

"All the writers in this field have pointed to the unnecessary complexity and often insensitive handling of both the Companies Act and the numerous licensing regulations, both of which were doubtless developed with large companies in mind, and yet are applied even to parts of the emerging informal sector."

Ms Halse says the close corporations option is not the solution as it is "couched in legalese, far removed from the requirements of the small-business operator".

"More important are the numerous licence requirements which remain unaltered, frequently controlled by more than one administrative body and involving delays, money and red tape."

REIGN SUPREME

She points to the paradox of the "national states" desperately seeking to attract investment, while their burgeoning bureaucracies merely serve to worsen the situation.

And in the areas where informal activities should thrive — the black urban areas — restrictions such as the Machinery and Occupational Safety Act and the administration boards-controlled zoning practices laws reign supreme.

"The Machinery and Occupational Safety Act has built in requirements that a safety officer be appointed in each concern to monitor adherance to the provisions of the Act. Some of the requirements listed under such headings as 'illuminance', 'thermal requirements' and 'ventilation' clearly militate against the official acceptance of current manufacturing concerns in townships where facilities simply cannot hope to meet them.

"And the only redress built into the Act is to appeal to the Industrial Court on an inspector's decision."

Under the heading "inefficient management", a factor consultants say occurs in 96 out of 100 black business failures, Ms Halse says active discouragement by successive governments of black entrepreneurs has lead to a dearth of skilled, experienced and thriving businessmen and consequently a lack of models for today's emergent businessmen to emulate.

They have been hampered by statutory job reservation which, though applied to a relatively percentage of the labour force, has been observed in spirit throughout commerce and industry.

"Thirdly, business partnerships across the colour bar were forbidden in terms of licensing and zoning until recent amendments allowed for the 49/51 partnership combination.

Thus there were few opportunities for a junior partner to learn the trade and move into a profit-sharing position as occurs in many small professional and family businesses in the white community.

Lack of business skills and fluency in English and Afrikaans are also problems.

OVERBEARING

Ms Halse says marketing problems of inexperience are exacerbated by the overbearing influence of administrative boards in approving who can trade, where they are able to set themselves up and whether their enterprise is required and they have the qualifications and funds to run businesses.

"Clearly these requirements give the administration boards vast scope to turn down applications on a whim and deprive the potential businessman of the crucial locational decision."

Industrial share boom continues as JSE index reaches 1 019,8

Cape Times 11/7/85 (58)

By PAUL DOLD, Financial Editor

INDUSTRIAL shares are continuing to reach new peaks amid heavy buying by both institutions and small investors. The JSE Industrial Index reached a record high of 1019,8 yesterday as industrials advanced across a broad front.

The continuing unrest in black townships is having no impact on share prices or investor sentiment although some light overseas selling of gold shares may have reflected the disinvestment campaign.

The inherent strength of the market has surprised most analysts particularly in view of the gloomy short-term economic outlook and little likelihood of a rapid rebound in corporate profits in the near future.

The sheet weight of institutional funds seeking investments is probably the major factor in the sharp advance.

A leading Cape Town stockbroker said yesterday that although dividend yields were low and the market offered little value, investors appeared to be more concerned with earnings yields.

"The breadth of the upswing is incredible and the shortage of scrip remains a fundamental factor.

"With competition between the institutions increasing and the funds becoming far more performance-orientated the large investors cannot afford to be out of this market."

While it was increasingly difficult to commit fresh funds to the market, his firm is advising clients to remain in equities and has been aggressively buying lines of the second level stocks.

The market had been led higher by sharp gains in the property trust, banking and insurance sectors and he forecast that the new Southern Life issue would attract a record subscription.

Yesterday's trading brought fresh advances across the board to industrials and brokers again reported difficulty in finding large lines of industrials at reasonable prices.

Stanbic rose 125c to 1950c, while Liberty added 250c and Clicks Stores 25c.

Cheaper shares are moving sharply ahead and one stock priced at R2 a few weeks ago is now close to the 400c-mark.

The man in the street is now aware that the stockmarket is running ahead and has been buying equities.

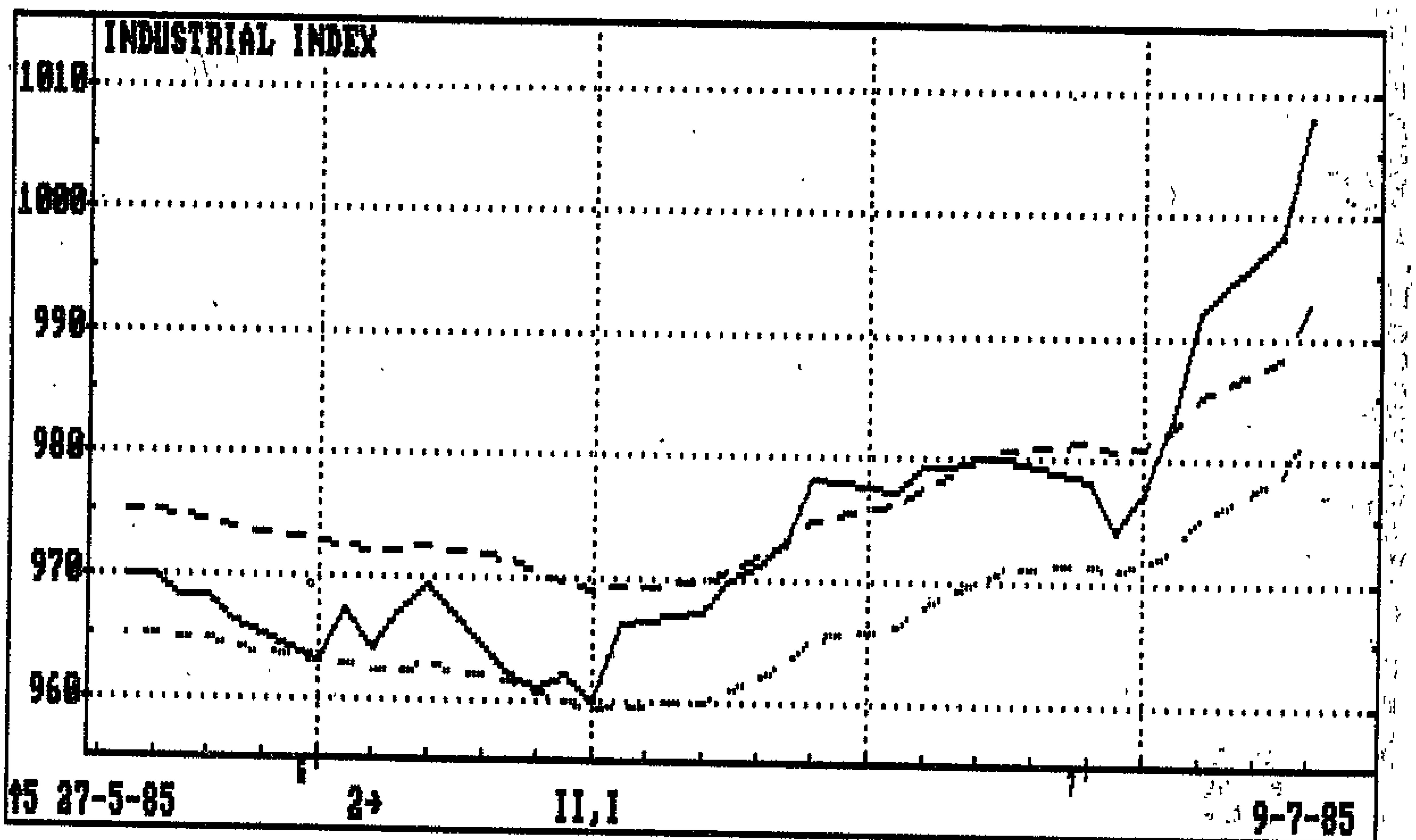
In the past, the appearance of the small investor in large numbers has coincided with a peak in the market.

Gold shares in contrast have failed to reflect the impact of the higher gold price following the easier trend in the dollar.

While there has been no dumping from overseas, light London and New York selling has been seen. This volume has been easily absorbed by the market.

Brokers do not believe there will be large scale offloading by foreign investors due to disinvestment pressures.

The firmer rand — reflecting the gold price — has tended to hold back gold share performance but on fundamentals gold shares appear oversold and could rebound rapidly if the bullion price remains firm.



This Cape Times graph shows the new peak reached by the JSE Industrial Index which has now touched the 1 020-mark. The index has breached short-term moving averages which are charted alongside the index figure and technically the market remains strong.

SA gold shares decline on world markets

Cape Times 12/7/85

From NEIL BEHRMANN

LONDON. — South African gold shares have been falling on international markets because of the United States disinvestment campaign, the threat of a miners' strike, sporadic riots and disappointment over the gold price.

Since the end of May, the Financial Times index of gold shares in dollar terms fell 11 percent to 549 points

But with the pound appreciating sharply against the dollar, the fall in sterling terms has been much greater.

The Financial Times index of gold shares tumbled 18 percent to 398 points. This poor performance has been in the face of a steady gold price which has traded between $310 and $320.

American brokers who refused to be quoted on record said that there were large offerings of shares from United States funds. The fund managers were selling in anticipation of redemptions, say the brokers.

They also believe that there have already been redemptions by the public because some people fear that Congress will interfere with their right to hold South African shares.

The funds which were massive buyers of stock in 1983 and 1984 were not dumping shares. But if they found buyers they would willingly part with them.

The shares were being absorbed by South African institutions.

Gold shares in Johannesburg, however, have also been relatively weak.

With gilt yields tumbling from a February peak of 17.8 percent to 15.2 percent, the action has been in fixed income securities and industrial shares.

Mr David Ridley, partner at brokers Williams de Broe Hill Chaplin, contends that there were less sales than were rumoured.

Mr Ridley believes that some American brokers took advantage of the United States disinvestment campaign to generate business.

The institutions phoned up various United States funds, believes Mr Ridley and offered to place lines of shares for them.

Rumours multiplied when inquiries were made on the Johannesburg Stock Exchange.

Other brokers say that large lines of gold, and platinum shares were sold.

This, they say, is reflected in the Business Day gold share index which has slid six percent since the end of May.

There were also sales from disenchanted United Kingdom fund managers who were disappointed with the performance of gold at a time of considerable dollar weakness

The sharp appreciation of sterling pulled the FT Gold Index to the lowest levels since 1982

Mr Norman Kessel, head of mining research at brokers Vickers da Costa, recalls that United States funds were behind the dramatic increase in gold shares in the past few years

He says it is "significant" that the funds have stopped buying but with continual reports of violence enamating from Johannesburg and the vocal disinvestment campaign in the United States, he is "hardly surprised".

The strength of currencies against the dollar hardly helped European stockmarkets either.

The Financial Times Industrial Index has dropped by nine percent, from its peak, although a cut in interest rates yesterday pulled the market up from its lows.

In the past three days, Germany's share averages have tumbled by seven percent, partly because shares were overbought but also on worries that exports would decline.

(57) (??) B. Day 16/7/85

Call for overhaul of riot-cover association

By ALAN RUDDOCK

INSURANCE brokers are becoming increasingly frustrated with the SA Special Risks Insurance Association (Sasria).

They say the association, which specialises in riot cover, is cumbersome and should be overhauled completely.

"Its administration is extremely cumbersome, complicated and difficult. While the concept is excellent, Sasria is definitely an animal designed by a committee," says broker David Hersch.

Sasria board members reject allegations of inefficiency, saying the system is designed to be as simple and as administration-free as possible.

A senior official said yesterday: "It is easy to criticise from outside, but I would like them to come and do a better job."

Price Forbes Federale Volkskas executive director Don Gallimore, who chairs the SA Brokers' Association subcommittee liaising with Sasria, said: "After dealing with Sasria for the past six years I am in a very frustrated state. I am frustrated with the mechanics of the system. Sasria are very difficult to talk to in a business sense and it is almost impossible to get reasonable, commercial, commonsense answers out of them.

"While I can sympathise with their problems, there are just too many parties involved. The whole system is to blame."

Sasria came in for sharp criticism last week when it refused to pay out a claim by the Argus newspaper group after a reporter's car was damaged in township violence. Sasria said the reporter was negligent in driving into a riot area, while Argus pointed out he was doing his job.

Brokers warned that the Sasria decision cast doubt over much of its other riot cover.

Multiplan insurance under fire

58

STAR LINE

By June Bearzi

Star 18/7/85

An insurance company which has made great inroads into the domestic market in the past five years has come in for strong criticism from dozens of clients who claim they have lost badly after signing up with the company.

The allegations have been strongly denied. In fact, the company claims that it gives an excellent and speedy service.

The directors of the company include a PFP member of Parliament, a Nationalist MP, and a former PRP member of Parliament.

Star Line examined Multiplan Insurance Brokers (Pty) Ltd and the firm which underwrites its policies exclusively, the Hollard Insurance Co Ltd, when many policyholders claimed that Multiplan's widely advertised special package for domestic insurance had not cushioned their losses.

A four-month investigation established, among other things, that clients felt they had been straitjacketed by the 14 000 words in small print and several critical stop-watch precision deadlines which were used to reject their claims.

But Mr David Dalling, Sandton MP and PFP spokesman for justice, who is a director of the Hollard, believes that the criticism of the company is not justified and has told Star Line that he believes the company's servicing of policies and the speed with which claims are settled is without equal.

Several clients who believed their motor car and household claims, some for as much

● To Page 3, Col 1

Angry clients slam insurers

58

Star 18/7/85

● From Page 1.

as R17 000, were rejected unfairly or on doubtful legal grounds said they did not have the resources to take the multi-million-rand business to court and so wrote off their losses.

Others, who decided to fight the matter, said they found they were handicapped by yet more small print.

Members of the Indian, coloured and black communities claim that the company has discriminated against them because it refused to give them household cover. And a letter instructing staff not to allow "non-Europeans" into the Multiplan sales department has been called blatantly racist.

Mr Dalling has vigorously denied charges of unfair repudiations and racism.

He said that the company insured people of all races.

He also stressed that the Hollard had invested a great deal of time and effort in highlighting all the important conditions of the policy in the front of the policy book in bold print and reinforced this with a gramophone record which drew the insured's attention to the major points of the policy conditions.

● See Page 13.

AA Mutual launches novel life assurance concepts

58

By Duncan Collings

AA Mutual Life has introduced two novel life assurance concepts to the local market which should find widespread acceptance from the life insurance-buying public.

It has introduced a clause of incontestability into all its new contracts and has launched a policy of guaran teed acceptance.

The new policy — a 10-year convertible level-term contract — is guaranteed to be accepted by AA Mutual Life, provided that the applicant is working at the time of application.

The only other information requested on the proposal form is the applicant's age at next birthday. The policy provides immediate life cover of up to R250 000. No medical examination is required, nor do applicants have to give their medical histories.

For the first 24 months of the policy accidental death only is covered thereafter full death cover is provided. Anyone up to age 50 next is eligible.

INCONTESTABILITY

On expiry the policy may be converted at standard rates with no medical examination into an endowment or whole life plan.

The clause of incontestability to be introduced into all new contracts issued by AA Mutual Life states that the company will not — in the event of a claim — contest any of the information given on the original contract provided the claim occurs more than five years from the issue of the policy.

This, says AA Mutual Life managing director, Mr Brian Benfield, is being done by placing emphasis on correct underwriting at the time of the issue of the policy, and prevents underwriting at the claim stage.

Star 18/7/85

Mr Brian Benfield, AA Mutual Life MD.

It will, he says, provide peace of mind to beneficiaries under any policy, as in the event of a claim all that will normally be required is a death certificate without the need for any painful enquiries into the cause of death.

Both the innovations have been welcomed by the Consumer Council, and as one of the main areas of adverse publicity surrounding the life industry in the past has been the contesting of claims, AA Mutual Life's incontestability clause should set a precedent in the industry which is bound to be followed by other life offices in time.

It is not a new concept worldwide as clauses of incontestability after a suitable time lapse have in fact been regulatory in many states in the US.

S8

Brokers slated over payouts

Multiplan clients allege raw deals

(58) Star 18/7/85

By June Bearzi

More than 60 clients of a major, mass-marketing insurance broking company believe they have received "raw deals" by claims being repudiated.

In a four-month investigation, Star Line found that Multiplan Insurance Brokers (Pty) Ltd, often mistaken as an insurer, and the company which underwrites its domestic packages exclusively, The Hollard Insurance Company Ltd, have a reputation among clients, lawyers and some in the insurance industry for seeking to repudiate claims.

DENIED

The allegations have been vigorously denied.

But in certain cases taken up by Star Line, ex-gratia payments were made to clients after an initial repudiation and it was conceded that one claim had been thrown out on doubtful grounds.

The probe found that Multiplan is the most criticised in the insurance market place. Complaints included:

- The firm adopts a racist policy, actively discouraging coloured people, Indians and blacks.
- It adopts a stopwatch schedule to repudiate claims.
- It uses ambiguous advertising.
- Deception is used by a Multiplan specialist consultant.
- It charges administration fees equal to one month's premium plus a premium to start or reinstate policies when payments were even one day late.
- It sells policies which state that reasons for repudiating claims need not be given.
- It claims the right to impound and sell clients' cars if premiums are unpaid in the same month of an accident payout.

Policyholders who came unstuck said they felt they had been lulled into a false sense of security by assurances such as "although small print has come to mean catch or draw-back, Multiplan never wants its clients to feel that way" and "we have 40 000 satisfied policyholders".

Many of the people who complained to Star Line felt they had been tripped up by a policy with a minefield of small print (printed in a 12-page book), some of it foreign to insurance, and that their claims had been thrown out on unfair or technical grounds.

The Hollard's directors include Mr David Dalling, the justice spokesman for the Progressive Federal Party and MP for Sandton, Mr Wynand Malan, the Randburg MP for the Nationalist Party, as well as former politician Mr Richard Enthoven.

Members of the Indian, coloured and black communities told Star Line they were enraged because Multiplan refused to insure their homes and that in October last year had issued a written directive to Multiplan sales personnel to order "non-europeans" who called to sign up for insurance off the premises.

Four former members of the Multiplan claims staff told Star Line that much time had been spent in looking for reasons to overturn claims.

One of them said: "At the end of the day I would compare notes with some of the staff members to see how many claims I had been able to reject."

One claim was thrown out because a woman, injured and in hospital after a car crash, could not claim by registered mail for her wrecked car within the stipulated 21 days.

Multiplan's young chairman, Mr Douw Steyn — who drives to work from Sandton in a Rolls-Royce — is said to set the tough policy rules.

REPUDIATE

His associate, Mr Patrick Enthoven, brother of Richard and general manager of The Hollard, said in the presence of a Star Line investigator: "If clients are five minutes late in abiding by these rulings for whatever reason, Mr Steyn has instructed us to repudiate."

The irate client involved in this case was 10 hours over the deadline.

Another slogan has been questioned. Many believed "65 percent of claims settled within 48 hours" referred to its payout record. But Star Line established that repudiated and paid out claims, as well as incorrectly completed claim forms, were lumped together to give the 65 percent settlement figure.

Multiplan staff do not go through claims with a fine tooth comb to look for pegs to hang repudiations on, and most of the policy conditions and time limits are highlighted in bold print and reinforced with a gramophone record, Mr David Dalling has said.

Mr Dalling, a qualified lawyer and director of The Hollard Insurance Company Limited which underwrites the Multiplan domestic policy, was reacting to allegations made by four former Multiplan staffers that they had looked for both major and minor contraventions so that claims could be thrown out and complaints from dozens of policyholders that they had been tied up in knots by the policy when lodging their claims.

Fight for claim

Mr R P Smith of Parkhurst only got his Multiplan motor accident claim paid out after he summonsed the insurer — and Mr David Dalling has conceded to Star Line that the claim had initially been thrown out on doubtful grounds.

Mr Smith and his wife Penny decided to take costly legal steps against the insurer because they stood to lose R5 000 and felt so strongly about the gross unfairness of the repudiation.

After they were in a collision with a car on the way to work it was agreed the other party would report it to the police immediately.

"We were in a state of shock and without transport and had to think of getting to and from work and seeing to our small children.

"We knew the matter had already been reported by the other driver so we went to the police two days later than the 48 hours given in the contract, when we were able to borrow a car.

"However Multiplan refused to pay us."

Conditions are emphasised — director

COMPETITIVE

"The Hollard has gone to a great deal of time and effort in highlighting all the important conditions," he said.

He said the monthly policy provided cover for motorists and householders at competitive rates and that these as well as exceptional service through speedy settlement of claims and general administration, could only be maintained if all policy conditions were adhered to.

"We are confident that The Hollard has no equal in the South African markets for the fast settlement of claims," Mr Dalling said.

He has also hotly refuted allegations from members of the black, Indian and coloured communities that Multiplan discriminated against them by not giving them householders cover or by not allowing them into the sales department.

NO CASH

"The Hollard insures persons of all races, although it is not our practice to accept monthly business where premiums are remitted in cash," he said.

He said that applications were declined on underwriting factors relating to risk and not to colour.

Mr Dalling has denied that Mr Douw Steyn the Multiplan chairman laid down the policy conditions or that Multiplan staff had the right to repudiate claims.

"The Hollard has the sole right to accept or refuse new risks and to pay or repudiate claims. The Multiplan claims administrators process claims to a point where a decision can be made within the framework set down by Hollard," he said.

Mr Douw Steyn, chairman of Multiplan, felt it was unfair to single out the Multiplan policy as the only non-standard domestic policy.

He felt the time limits in the Multiplan Personal policy were fair and reasonable and cited two other insurance companies which had similar deadlines for lodging claims, reporting to the police and 30 days to sue after repudiation or the file was closed.

HAPPY CLIENTS

In support of claims that Multiplan offered a fast and high standard of service to the public, the firm produced letters from 15 happy clients.

Insurance: winning and losing

A Boksburg man won his case when he took Multiplan to court on the grounds that he had been deceived when signing up for insurance.

But in another court action, Multiplan won a case against a Durban woman who was ordered to remove painted slogans "Multiplan Insurance won't pay" from the bonnet and sides of her damaged car. She was also prevented from having T-shirts made with "Multiplan won't pay my claim, will it pay yours?" on them and from writing defamatory letters to any newspapers.

In the first action the judge ordered Multiplan Insurance Brokers (Pty) Ltd to pay Mr T Nel R3 190 plus interest and costs for his wrecked car.

Mr Nel said the Multiplan specialist consultant had deceived him into omitting information on his proposal form and this was why his claim has been repudiated.

DECEIVED

The representative had told him in front of one of his business colleagues not to worry about a question which asked if he had any previous accidents or losses.

The representative told him he was starting off on a clean sheet and the information was not relevant.

But when he completed his claim form for the accident, he said, he quite openly mentioned his previous accident.

Multiplan used this information in conjunction with that on his proposal form to reject his claim on non-disclosure.

The judge said he believed Mr Nel had been deceived where a reasonable layman might likewise have been misguided, and gave judgement in his favour.

When two of her claims were repudiated, Miss Mariette van Blerk had driven around with "Multiplan insurance won't pay" painted on her car. She had also arranged to have T shirts printed with "Multiplan won't pay my claim, will it pay yours?"

She claimed the company had no lawful basis for repudiating her claim, adding: "I appreciate my action would do damage to Multiplan's name and reputation but I believe that what I said was true and the public should be aware of the firm's attitude towards my claim."

The judge said it was clear the implication was that Multiplan repudiated legitimate claims and did not honour its obligations.

He ruled she was not justified in defaming Multiplan this way and ordered her to remove the defamatory slogans, not to have T-shirts made and not to write defamatory letters to the Press.

Dalling set for new venture

One of the legal experts involved with Multiplan Insurance Brokers (Pty) Ltd is politician and qualified lawyer, Mr David Dalling.

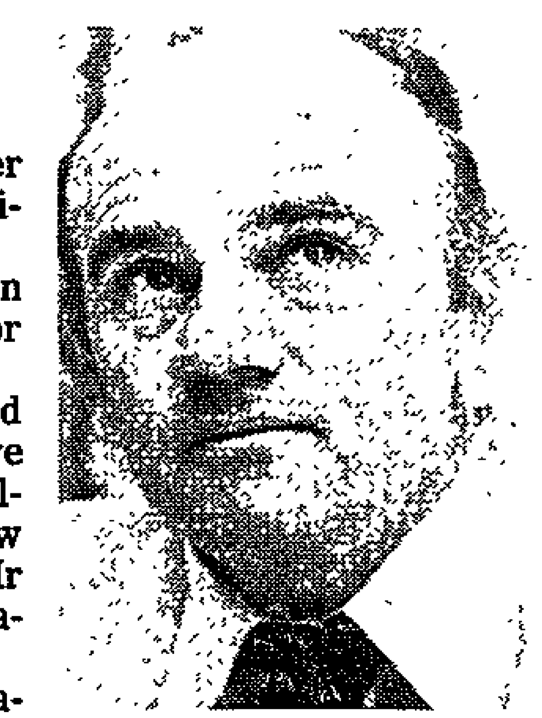
Mr Dalling, who is 45, has said his top priority is his insurance business, The Hollard Insurance Company, which underwrites Multiplan's package deals, and his two sons. His greatest weakness, he says, is his impatience.

As a director of The Hollard he works closely with Multiplan chairman, Mr Douw Steyn, with whom he will become a co-director in a new company, Auto and General Insurance, if the Financial Institutions office permits their takeover bid of the Crusader Insurance short term insurance licence.

Mr Dalling is PFP MP for Sandton and justice and media spokesman for the party.

As a future director of Auto and General he is said to be poised to move into the unexplored area of direct selling of insurance policies with Mr Douw Steyn and his Hollard associates Mr Richard Enthoven and his brother, Patrick.

Multiplan will remain as administrator of the scheme and Hollard will be the reinsurers.



Mr David Dalling ... into a new area.

Varsity drop-out went on to build insurance empire

Multiplan chairman Mr Douw Steyn, who is said to have made his first million through insurance when he was in his twenties, dropped out of university.

He is in his mid-thirties and commutes from his sumptuous Hyde Park home — "it has everything of the best that opens and closes" a colleague says — to his plush Richmond offices in his R200 000 telephone-equipped Rolls-Royce.

IMAGE

He started off with Multimerit and later launched Steyns Insurance Brokers followed by Multiplan Insurance Brokers.

Mr Steyn agrees Multiplan's image in the marketplace is not as good as he would like it to be, and has admitted a setback in his climb to the top was an investigation by the Financial Institutions offices into Steyns Insurance Brokers after complaints were lodged against his broking firm by a large insurance company.

Associates have described him as "a shrewd marketing man", "clever at drawing up contracts", "quick to take legal steps against anyone who crosses him" and a "smooth negotiator".

In his latest venture — Auto and General Insurance — he heads a consortium which includes Mr David Dalling and the Enthoven brothers, Richard and Patrick, which has made a bid to take over the short—term operating insurance licence of Crusader Insurance.

If the Registrar approves this Mr Steyn will no longer be restricted to acting as a broker, but will be able to operate as a registered insurer.

Star Line has been told it will enable him to launch a new concept in computer-linked phone-in type insurance.

He also has plans to introduce a specialised type of short—term insurance into the United States.

Star 19/7/85 (58)

Multiplan complaints spark calls for broker registration

● From Page 1.

cil of South Africa, told Star Line that they believed compulsory registration of brokers, the only way of introducing some measure of control into the industry, was long overdue.

SAIBA provided a recognised central organisation for brokers and promoted the general efficiency and ethical conduct of brokers thereby safeguarding the public's interest. Membership was voluntary and members had to subscribe to a code of conduct. A disciplinary committee heard complaints and ensured a fair deal for the public, Mr Alston said.

According to Mr Alston: "In terms of our regulations a group such as Multiplan would not be permitted to be registered as one of our members."

CONCERN

He added: "SAIBA is very concerned about the increasing number of complaints directed towards us, most of which are in respect of the fine print and repudiation of claims by Multiplan.

"Multiplan is not a member, and although the telephone directory describes them as a broker their policies appear to be underwritten by one particular insurance company only. So, in effect, they are not really a broker but an agent for an insurer."

Mr Olivier has voiced concern about the apparent public disatisfaction with Multiplan's handling of claims.

"Almost 50 percent of the complaints we get against insurance brokers are against Multiplan," he said.

Hollard replies: claims are not factually correct

Mr David Dalling, a director of the Hollard Insurance Company Limited, which underwrites the Multiplan domestic policy, has replied to the Star Line investigation into Multiplan. Mr Dalling's detailed comments are contained in these articles.

The Multiplan personal policy has been underwritten by The Hollard Insurance Company for four years. During this period the policy has become one of the best-selling insurances in South Africa. In 1984 alone, more than 24 000 new policy holders joined Multiplan.

Yesterday's Star Line article infers that The Hollard has a bad reputation in regard to the payment of claims. This is not factually correct.

● For every R100 received in premiums relating to Multiplan policies, The Hollard during the 1984/85 financial year paid back R75 to clients in settlement of claims.

● The 1985 Annual Report of The Hollard Insurance Co, just released, reveals that of net claims lodged during the 1984/85 year, claims amounting to 84,3 percent were actually paid in the same financial year. We believe that no other insurance company in South African can claim this achievement.

● Approximately 18 000 claims arising out of the Multiplan policy are dealt with per year, — that is between 60 and 90 claims per working day. The majority of these claims are finalised within the 48-hour period of the company receiving all necessary documentation and proofs from the client.

For from being the bad boy of the insurance market we believe the above proves that the Multiplan policy provides the best value for money in South Africa.

Report an 'unfair innuendo'

Star Line states that in support of claims that Multiplan offered a fast and high standard of service, the firm produced letters from 15 happy clients. This constitutes an unfair innuendo.

Multiplan did not show Star Line the *only* 15 letters it had received from happy clients. It handed to Starline 15 letters it had received at that time within a period of a few days. Multiplan receives many such unsolicited letters and phone calls a week.

Star Line reported a complaint that deception was used by a Multiplan consultant.

Any group employing upwards of 100 salesmen working on a commission basis occasionally goes through the experience of an individual representative making a wrong statement in order to clinch a sale. No reputable company, and certainly not Multiplan, wittingly allows such behaviour, for it constitutes injustice to the insurer and client. In the few and isolated cases where such an action has been discovered and proved, the salesman concerned has been dismissed.

UNDERSTAND

The Multiplan policy is singled out by Star Line as being a "minefield of small print" consisting of 14 000 words "printed in a 12-page book". However, more than one million people in South Africa are covered by a competitive product consisting of some 25 000 words contained a 50-page policy document. We must emphasise again, that unlike the policy documents of most other insurers, the Multiplan document highlights in BOLD PRINT virtually all the important aspects of the policy. Far from relying on the "small print", the Hollard has in this manner attempted to make it as simple as possible for policy holders to understand their rights and obligations.

Star Line states that a claim was thrown out "because a woman, injured and in hospital after a car crash, could not claim by registered mail for her wrecked car within the stipulated 21 days".

This allegation is specifically denied. The Hollard does not now and never has repudiated claims for late reporting when the client was unable to report timeously due to hospitalisation, injury or any other valid reason.

Even the facts of the case quoted are not strictly correct. In this instance the 21-day period in which claims must be lodged was only applied from the date the woman concerned was discharged from hospital.

Multiplan denies race bar

The Star Line article alleges that Multiplan refuses to insure people of colour. This is totally untrue.

Although direct statistics based on race are not kept, almost 2 000 persons who are not white are currently Multiplan policy holders. The Hollard insures people of all races.

Many applications for insurance are, however, declined each month and such decisions are based not on race but on factors relating to the risk. In some instances where the risk for a variety of reasons is assessed to be higher, the insurance is accepted at a higher rate of premium, or excesses are loaded.

In other instances insurance is often declined. This is no more than normal business practice and bears no racial connotation whatsoever.

'Valuable and efficient service on fair terms'

A few final points to rectify misconceptions created by the Star Line article:

● We have never ever impounded or even attempted to impound a client's car for non-payment of premium in the same month as an accident payout.

● The Hollard Insurance Company, Multiplan, and its forerunner, Steyns Insurance Brokers, have never been found guilty by any authority of any malpractice or irregularity whatsoever.

● In order to do everything possible to provide a first-class service, the Hollard has set up a committee of directors to deal with hard luck cases and instances in which client dissatisfaction has been reported to the company. During the past year about 85 such cases have been reviewed, resulting in ex gratia and other payments being made to more than 40 clients involving tens of thousands of rands.

The Star Line article is high on rhetoric and emotional language but, despite having been provided with as much information as possible prior to publication, it is lacking in factual substance. We believe that the Hollard and Multiplan provide a valuable and efficient service to thousands of clients, at realistic rates and on fair terms. We are proud of our product. And the thousands of current Multiplan policy holders surely agree.

Cape Times 20/7/85

Heavy profits for stags

Southern likely to be pitched at 425c

By PAUL DOLD, Financial Editor

THE Southern Life issue is likely to be pitched in the region of 425c at a generous yield of 4,58 percent providing investors with the most lucrative stagging opportunity in years.

Although the price will only be announced tomorrow I understand it is likely to be around the 425c level — which is well below the 475c — 500c currently being estimated by the stockmarket.

At 425c the share could yield a high 4,58 percent as against the 2,9 percent of Liberty Life and the Pru's 2,8 percent with the potential of at least a 50 percent immediate stagging profit if the industrial market remains firm.

Analysts are predicting the largest ever response from the public to an issue and due to the relatively small number of shares available, investors who can hold onto their allocations for several weeks are likely to make even larger profits once the initial stagging operations are over.

The Southern's share price trend may be as spectacular as Liberty Life's and earnings growth could be impressive in the medium term particularly in view of the link with the country's largest bank — Barclays.

The recently launched new range of Adaptable policies has been enthusiastically welcomed by brokers market and sharply rising sales should eventually be reflected in the profit statement.

SOUTHERN

Both Barclays which has 30 percent and Anglo American with 40 percent are unlikely to offload any of their shares, and other institutions seeking to buy strategic investment stakes in Southern for their portfolios will have to pick up shares in the open market.

This could lead to very keen bidding for the shares and a sharp rise in the price.

Some 41m shares (25 percent) will be on offer to 400 000 policymakers, staff, pension fund clients and the public. Comparatively few will thus be available to the general public.

One point which Southern should seriously consider is weighting the allocations in favour of policyholders.

Southern Life itself was previously a mutual company owned by policyholders and it seems more than fair that this group of investors should actually be given a significant stake in the new Southern and not merely a preferential right to apply for the shares.

The method of allocation will not be announced until after the offer has closed but at a guess I would expect Southern to favour small applications from individual investors to gain a wide spread of the shares.

The prospectus will be available from the three sponsoring stockbrokers — Davis Borkum, Max Pollak and George Huysamer.

Mr Neal Chapman, chief executive of the Southern Life Association.

Analysts believe that the inflow of funds to the issue will be so large that trading in industrials on the JSE may be in low key until after the funds are returned to the market.

There have already been signs of profit-taking in the market ahead of the issue as investors go liquid to subscribe for the issue.

Less risk capital now attracted to SA, says Old Mutual

Cape Times 22/7/85

By PAUL DOLD, Financial Editor

THE amount of risk capital South Africa now attracts from foreign investors is much less than it used to be. In addition the short-term component of total bank credit is "uncomfortably high".

This is shown by Old Mutual in a special section of its Economic Monitor for July dealing with South Africa's foreign debt position.

The report says that the nature of the country's outstanding foreign liabilities has changed noticeably over the past 25 years.

"Initially South Africa attracted more risk capital, that is, dividend-yielding liabilities, but since the sixties the share of interest-bearing capital (loans) has increased substantially."

The trend towards interest-bearing liabilities was also clearly illustrated by comparing interest payments to foreigners to the total dividend inflow.

"This ratio has increased from an average of 17 percent between 1965 and 1969 to 81 percent for the period 1980-1983.

"From a debt servicing point of view it is better to attract dividend-yielding investments instead of interest-bearing liabilities."

Short-term liabilities comprised on average 18,3 percent of total outstanding liabilities between 1956-1969.

"The corresponding figure rose to 21,1 percent for the period 1970-1979 and increased even further to 27,7 percent in the 1980s. At the end of 1984 roughly 40 percent of the outstanding foreign debt was, according to the budget speech of the Minister of Finance, of a short-term nature," Old Mutual says.

A clear pointer that South Africa was out of step in its foreign debt position in an international context was that the short-term component of its total bank credit was high.

At the end of June last year 66 percent of this country's international bank borrowings were of a short-term nature, compared with an average of 44 percent for comparable developed countries.

In addition, outstanding short-term international bank liabilities at the end of June 1984, measured as a percentage of export receipts for 1984 amounted to roughly 60 percent — well above the average ratio of 33,5 percent for the comparable developed economies.

Old Mutual states: "The monetary authorities, as well as other sectors, have used the surplus on the current account of the balance of payments to repay short-term debt over the past six months, as has recently been officially confirmed.

"Although potential short-term claims on our export receipts have therefore declined since mid-1984, the exposure is still likely to be uncomfortably high in relation to past experience and will probably continue to influence economic policy decisions in coming months."

(58)

Southern has impressive profit potential

By PAUL DOLD
FINANCIAL EDITOR

Mr Desmond Loch Davis, chairman of the Southern.

AS forecast on Saturday the Southern Life's issue is being pitched at 425c and the prospectus strengthens predictions that the JSE debut of the giant life insurance group with assets of more than R4 billion could be spectacular.

While it is still too early to predict what the response will be from the market the issue could draw R1 billion.

The prospectus indicates that Southern profit outlook is encouraging with the board forecasting a minimum 20 percent rise in earnings to R48m in the 1985 - 1986 financial year. This would be equivalent to earnings per share of 29,2 cents a share. There will be an interim and a final dividend — payable in December and June and the total dividend for the 1985-1986 year is not expected to be less than 19,5c a share.

Investors can take it for granted that this forecast is highly conservative but even so a profit rise of this dimension across a group the size of Southern warrants a Pick 'n Pay type rating. In addition the benefits flowing from the merger of Southern Life and Anglo Life will clearly take a year or two to impact on the profit statement.

Another bull point for the share is that the group plans to have a higher retention of profits than other groups such as Liberty and the Pru. The Southern will pay some two-thirds of earnings in dividends. This suggests the board is anticipating heavy expansion over the next few years.

Given the scarcity of blue chip scrip in the stockmarket and this profit potential investors I expect the shares to open at a heavy premium on the placing price. While some may be tempted to take stagging profits the group will be an outstanding investment and in my view the share should be locked away.

The prospectus is available from Cape Town brokers. The offer closes at noon on August 7 and investors must ensure that their applications have been received by Consolidated Share Registrars in Johannesburg by that deadline.

Cash will be returned to the unsuccessful applicants within 7 days of the closing date.

Some 12m shares or 7,3 percent of the issue will be offered to the general public with policyholders having a preferential right to 14,3m or 8,8 percent of the equity. About 2 percent or 3,4m is being placed with the board, staff, and insurance brokers while the Barclays pension fund will be issued with 8,2m or 5 percent. Thus only 23,2 percent or 38m of the total share capital will be issued in terms of the prospectus.

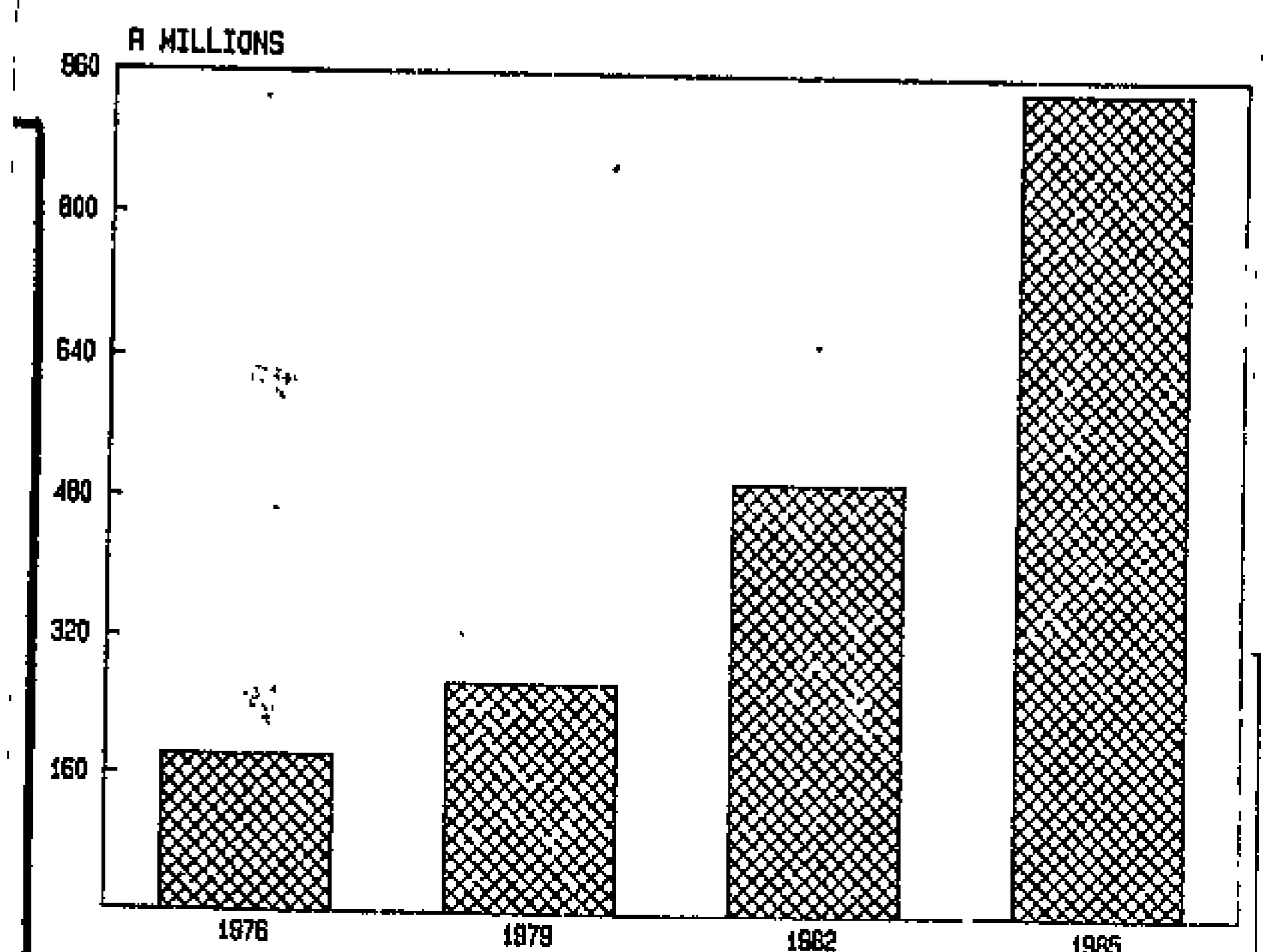
I understand that all policyholders will have an equal right to the 14,3m shares regardless of the size of their policy.

The listing itself is scheduled for August 21 under the JSE abbreviation of "Sothern".

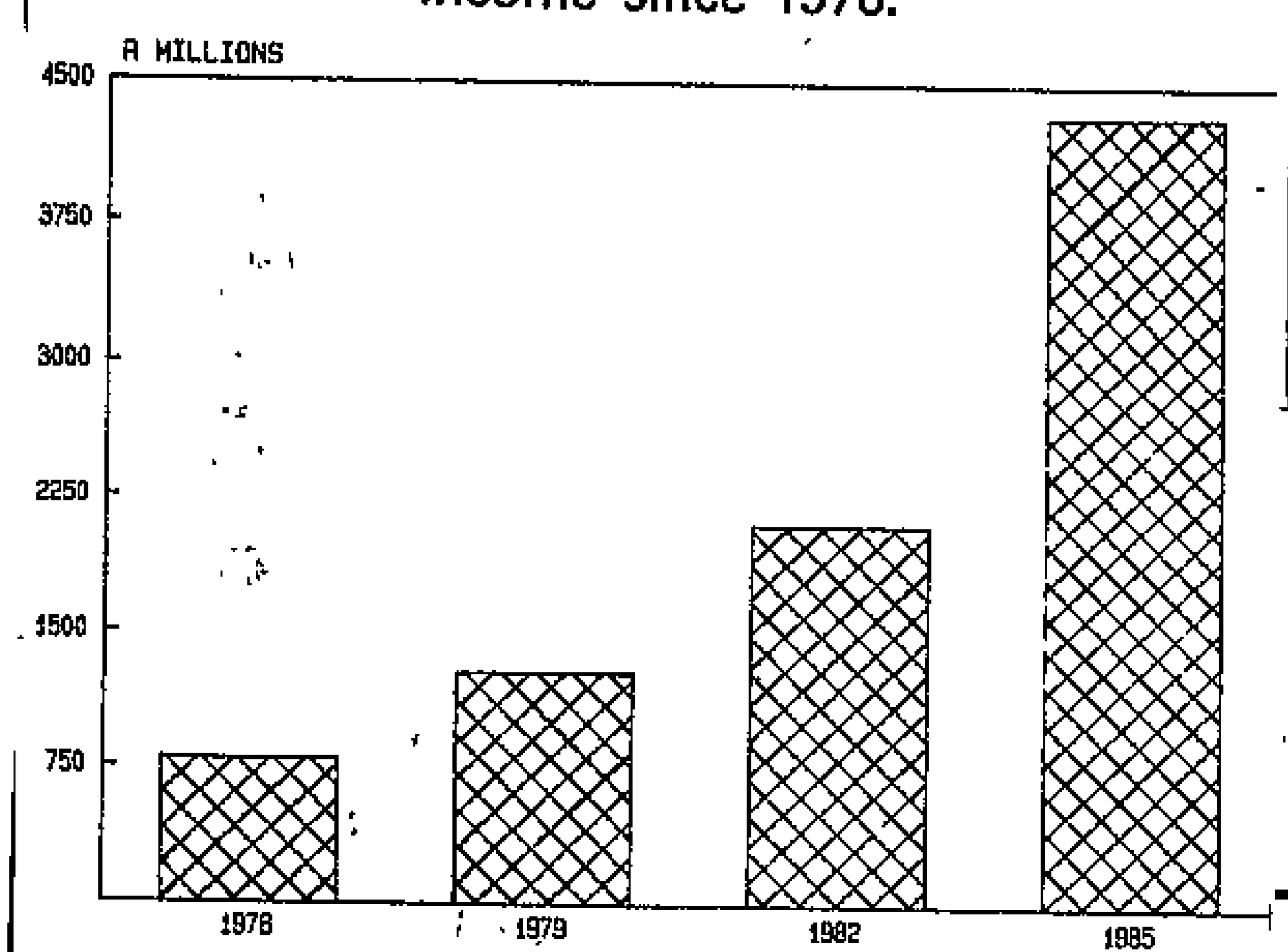
The gross cost of the listing could be around R3,75m and in a huge adminstrative operation more than 400 000 policyholders have already been offered shares.

● Applications must be for a minimum of 200 shares.

SOUTHERN



This graph shows the growth in the Southern's income since 1976.



This graph shows the Southern's assets now compared with 1976.

All financial news in this issue was compiled by Paul Dold and subedited by Audrey d'Angelo.

Share allocations

THE Cape Times will publish full details of the share allocations as soon as they are announced by Barclays Merchant Bank. The announcement is not expected until the share offer has closed.

The Southern

Premium income	R925,09m
Investment income	R362m
Net Operating income	R513,8m
Transfer to life funds	R473,8m
Shareholder earnings	R40m
Life funds	R3 891m
Total assets	R4 337m

*All figures for year ended March 1985

Gold, rand shine in the gloom

ARGUS 23/7/85

58

Financial Editor

DEVELOPMENTS in the bullion and currency markets today should help to sweeten for many South Africans the sour taste left by the declaration of the state of emergency at the weekend.

In early trading in London today the gold price jumped $4,75 to reach $323,00 an ounce. The metal is now at one of its highest points since early June.

The rise in the gold price follows a sharp drop in the dollar last night on fears about the outlook for the United States economy.

IMPROVEMENT

The weaker dollar and higher gold price led to an improvement in the exchange rate of the rand.

It jumped by just over one US cent at the start of trading today to reach $0,5330. This is about four US cents above its year's low and restored it to the levels prevailing in March.

On the Johannesburg Stock Exchange gold shares began to recover some of yesterday's losses, brokers said.

Industrial shares were also slightly firmer.

Liberty, UBS to form new life insurance group

Cape Times 25/7/88

58 RAA

LIBERTY LIFE is forming a new life insurance company in which South Africa's largest building society — the United Building Society (UBS) — will have a 20 percent stake.

Guardian National's life business is to be transferred to the new company and the other shareholders will be Liberty Life with 41 percent and Guardian National with 39 percent.

A Liberty spokesman says that the new life insurance company will seek to expand its penetration of the market through the introduction of new marketing systems and will also continue to develop its existing business through its traditional broker connection.

"The introduction of the UBS group as a significant participant in the new life insurance company, should in view of its vast client base, accelerate the market penetration and momentum of the new life insurance company's future development."

Liberty Life's chairman, Mr Donald Gordon ... a strategic link with South Africa's largest building Society — the UBS.

Early in March it was announced that the life business of Guardian would be transferred to a new life insurance company.

Liberty Life and Guardian National would in aggregate have subscribed in cash for R14 000 000 of capital in the new life insurance company which was to have been held as to 51 percent by Liberty Life and 49 percent by Guardian National.

"In accordance with the objective of developing new marketing opportunities to enhance the penetration of certain sectors of the South African life insurance market not presently catered for, arrangements have been concluded with UBS Insurance (wholly owned by the UBS) for it to participate with Liberty Life and Guardian National in the development of the new life insurance company."

A new company has been established as a subsidiary of Liberty Life which will be held at approximately 67 percent by Liberty and 33 percent by UBS Insurance.

This company will be capitalised with approximately R10,6m and Guardian National will acquire a 39,2 percent interest for R6,9m.

The new life insurance company will utilize approximately R10,5m to acquire Guardian's life business.

"Save for the revised equity holdings in the new life insurance company attributable to Liberty Life, Guardian National and UBS Insurance and the additional

To page 16

Barclays to pay same interim div

Argus 24/7/85

58

By PETER FARLEY
Argus Correspondent

JOHANNESBURG. — A dramatic reversal in fortunes could see Barclay's produce full-year pre-tax earnings equal to those of 1984, after its worst first-half performance in the past five years.

But this is unlikely to translate into a similar benefit on the bottom line as the bank's tax rate gradually moves back towards 50 percent.

In the six months to June, a 50 percent increase in the tax bill, following a rise in the effective rate to 27,3 percent from 18,5 percent, and a disastrous performance by leasing operation Wesbank were the main factors behind halfway earnings slumping to R30,2 million from R35,7 million.

The interim dividend was, however, kept at 35c.

Deputy managing director Mr Barry Swart said while the results were encouraging, given the improvement in the past two months, the major problem in the first half was at Wesbank.

BAD DEBTS, REPOSSESSIONS

While he declined to give a specific figure it seems likely that this division slid into the red in the six months. Apart from margins being squeezed because of deals written at fixed interest when prime was lower, there has been a massive increase in bad debts.

Mr Swart indicated that repossessions were running at around double last year's level, with a quarter of those volunteered.

However, in June Wesbank started to show a turnaround and he expected it to again be contributing to profits by the end of the year.

It was a period of mixed fortunes for the commercial bank, however, with an extremely tough first four months and only a gradual improvement as rates began to come down from the beginning of May.

Mr Swart said even the problematic home loan operation, which lost more than R30 million last year, was now starting to trade in the black. Barclay's now had around R1,25 billion committed to home finance at an average rate of 22 percent.

But, for the medium to long term, the most worrying factor is the tax rate. This has started to edge up as the bank feels the effect of the withdrawal of certain investment allowances.

The tax rate will gradually rise and probably only peak in a year or two at above 50 percent.

This means that while the earnings performance could improve dramatically over the next 12 months, there may not be a dividend increase until the end of 1986 at the earliest.

Big premium reductions available to all retired persons over 55

Finance Reporter

THE LARGE premium reductions on short-term insurance announced earlier this month are available to all retired people over 55 years, of age a spokesman for the firm offering the insurance said in Durban yesterday.

Mr Jack Rive, of insurance brokers Prestasi, said the 40 percent cuts on short-term insurance, such as cars, household effects and valuable items, were now available to all senior citizens. 58 / ~~300~~

Mr Rive said response to the benefits, first promoted by the South African Association of Retired Persons, had been so overwhelming that Prestasi had opened the scheme to all retired persons NM 24/7/85

Mr Daniel Murphy, Durban chairman of the Association of Retired Persons and Pensioners, has come out in full support of the project, which he believes will be of great assistance to retired people on fixed incomes

His organisation was fully prepared to assist with the paper work and help members or non-members using the scheme.

Benefits of the comprehensive umbrella-type insurance include

- R16 000 or more cover for the home contents,
- R1 000 all-risks cover for valuables and personal effects of risk away from your residence;
- R15 000 personal accident cover for policy-holders up to age 65;
- Televison service agreement;
- Comprehensive and limited car insurance;
- Guaranteed no premium increase for 12-months.

Further information from the Association of Retired Persons and Pensioners (304-6815) or the South African Association of Retired Persons (301-2220)

Barclays group raises pre-tax profits by 6%

CAPE TIMES 24/7/85

(58)

JOHANNESBURG. — Barclays National Bank group has raised its pre-tax profits by six percent for the six months ending June 30, to R47,4m from R44,7m, the managing director, Mr Chris Ball, announced yesterday.

But the tax bill rose by 57,3 percent to R12,9m compared with R8,2m the previous year, and net profit fell to R30m from R35,7m.

The effective tax rate rose from 18,5 percent to 27,3 percent largely because of the absence of lease-related investment allowances.

Earnings a share, on a weighted average basis of 58 075 000 shares in issue compared with 56 419 000 on June 30 last year, are down to 52c from 63c.

The dividend of 35c has been maintained, with dividend cover down marginally to 1,5 times (1,8 times).

The group's net income of R30m (R35,7m) was boosted by earnings from associated companies, which rose to R7m from R4,6m.

These include six months' earnings from the 30 percent stake in the Southern Life Association, compared with only three months' earnings for the same period last year.

Mr Ball says: "The improved interest turn is expected to continue in the second half, as is the high incidence of bad debts arising out of the recession."

Asset growth has reflected the slowdown in demand in the review period, with total assets of the group up 4,6 percent to R20,3 billion compared with R19,4 billion in December 1984 and deposits in the six-month period up by 4,4 percent to R14,3 billion compared with R13,7 billion in December last year.

Mr Chris Ball

UBS shareholders set to score

(58) B. Day 25/7/85

Liberty deal will challenge Cape giants

BRIAN ZLOTNICK

LIBERTY Life has done a remarkable deal with the United Building Society (UBS) that could propel its market share rapidly towards challenging those of the two Cape-based mutual giants. It could also provide future shareholders in the UBS with a major growth asset.

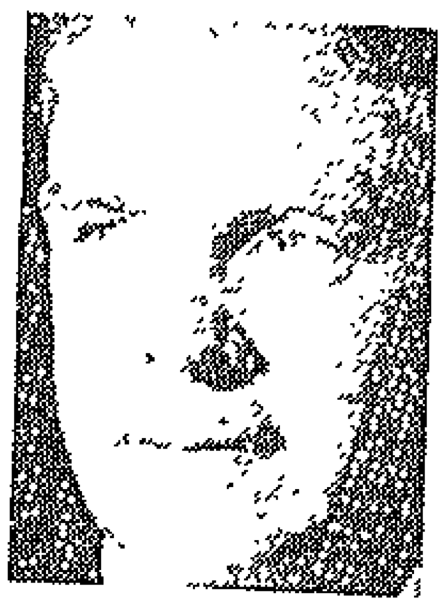
The deal might pip Southern Life's likely marketing thrust once it changes its status from a mutual to a quoted company — which it is doing through a share offer now current — through its association with Barclays, the country's largest bank.

In terms of the deal, the UBS will acquire a 20% stake in the new life assurer, Charter Life Insurance, which was to have been owned by Liberty and associate Guardian National and is planned to spearhead a drive in the medium and lower end of the life market.

Charter will now be held effectively 41% by Liberty, 20% by the UBS and 39% directly by Guardian National.

The neat arrangement will leave Liberty free to continue to concentrate on its main preserve: insuring the lives of rich citydwellers.

● Donny Gordon



● Piet Badenhorst

Charter will no doubt draw on the UBS' vast client base. It probably already has access to clients of Stanbic, which together with Donald Gordon controls Liberty's equity. Liberty has already swapped directors on a reciprocal basis with the UBS. Liberty chairman Donald Gordon is joint vice-chairman of the UBS and Piet Badenhorst, UBS senior MD, is on the Liberty board.

UBS general manager Martin Keyser said: "We have a vast client base which we will make available only on a selective basis."

Liberty director Farrell Sher said: "Charter Life will operate and market its products independently but will be able to draw on Liberty's technological, financial and marketing resources."

Charter is to kick off with the life business of Guardian which it is to acquire for R10,5m cash. Guardian in turn acquires a 39,2% stake in Charter for R6,9m.

The balance of Charter's equity is to be held through an intermediate company, whose equity will be held 67% by Liberty and 33% by UBS Insurance, a wholly-owned subsidiary of UBS.

The intermediate is to be funded in proportion to Liberty's and UBS's shareholding and will pay R10,6m for its 60,2% holding in Charter.

Charter initially will have total assets of some R70m and premium income of R19m. Surplus funds of R7m in cash can be quickly deployed to finance the new business drive.

UBS Insurance is to appoint a director to Charter's board.

Of course, Liberty Holdings, Liberty's pyramid holds 43,5% of Guardian's equity.

According to Sher, the deal should be of considerable benefit in the longer-term to both Liberty Life and Guardian.

The permission of the revelant authorities is required before Guardian's life business can be transferred to Charter Life.

Building Society reports progress

58

Dispatch 30.07

Dispatch Reporter

BISHO — The chairman of the Ciskei Building Society, Mr C. B. Jennings, told the annual meeting the society had made good progress in the five months they had been in full operation.

He said the main business of the society was to provide finance for Ciskeians to build and buy their own homes.

In addition, they provided a wide range of saving schemes for all interested people.

"Your society has recommended to the government that legislation be passed to improve the loan percentage allowed under the Building Society Act and that it be adjusted from 80 per cent to 90 per cent and so encourage people to own their own homes," he said.

Mr Jennings said the balance sheet showed assets had increased from R684 508 to R12 135 402 and the share capital increased from R683 123 to R12 449 348.

He said that one of the main highlights had been negotiating a guarantee from the Development Bank of Southern Africa for R12 million, to be raised for mortgage bonds for houses in Ciskei.

During the period under review they were able to assist 53 home buyers totalling R1 250 000. In addition to loans totalling R1 194 791 had been granted but not paid out and over the same period of five months they re-valued and took over 1533 existing housing loans totaling R5 593 048 from the Ciskei People's Development Bank.

Mr Jennings said that a further 1 600 existing loans totalling R15 000 000 would be taken over during the next financial year from the Ciskei People's Development Bank.

Ciskeian builders were assisted in every way in order to make them competitive in the market.

He said developers were encouraged to come to the Ciskei to build houses thus creating job opportunities for Ciskeians.

The building society had taken over the Allied Building Society's sub-branch in Mdantsane and now offered full building society services to that community. They were establishing additional sub-branches and agencies throughout Ciskei.

They had 23 staff members, 18 of whom had been drawn from Ciskei.

Management had embarked on a staff training programme for all staff who were encouraged to study for building society examinations.

The Minister of Finance, Chief M. E. P. Malefane, said that it was clear from the balance sheet and the chairman's report that the Ciskei Building Society, although only a few months old, had taken great strides in developing itself and making itself known in the market place.

"We as Ciskeians have every right to feel proud of our building society and the sound financial base on which it has started," he said.

It was the society's prime objective to assist all home owners with mortgage finance but this could not be accomplished without the support of Ciskeians.

Chief Malefane appealed to all Ciskeians to support the building society of their country.

Liberty Life and UBS join forces in new insurance deal

July 1985

By Duncan Collings

The Liberty Life group has brought the United Building Society in as a substantial minority shareholder in its new life insurance company, now named Charter Life, giving the new assurer access to the enormous UBS client base.

Charter Life is being formed to take over the life business of Guardian National, and will concentrate its efforts in the lower end of the market.

Originally it was to be owned by Liberty and Guardian National, but now will be held 41 percent by Liberty, 20 percent by the UBS and 39 percent by Guardian National.

The tie-up with the UBS could give Charter Life a healthy start to life — together with the life insurance base it will acquire from Guardian National — if it taps effectively into the potential new business from the UBS client list.

The deal is a further cementing of the ties between the Liberty/Guardian insurance grouping, Standard Bank and the UBS and appears to be a further step towards a single financial entity providing all financial services.

In terms of the deal UBS Insurance and the Liberty group will hold 33 percent and 67 percent in a new intermediary company capitalised at R10,6 million.

The new intermediary company will acquire a 60,8 percent interest in Charter Life for R10,6 million, with the balance in Charter acquired by Guardian for R6,9 million.

Charter Life will acquire the life insurance business of Guardian for R10,5 million.

Rand sinks to all-time low against pound

58

ARGUS 26/7/85

Financial Staff

THE rand sank to an all-time low against the British pound today with South African banks charging R3,09 for £1.

This was the rate for amounts below about £10 000, while "wholesale" money above that figure could cost about R2,90 to the £1.

This means the cost of holidays in Britain will rocket, while imports of a wide range of British goods will also soar.

South Africa imported R2 400-million of goods from Britain last year.

Both sterling and the German mark have risen steadily this week while the rand and the US dollar have dropped on foreign exchange markets.

The rand was quoted at 48,85 US cents at midday in Johannesburg today after earlier lows of around 47 cents.

European trade cuts are highly unlikely, says bank

NM
27/7/85.
~~250~~
58

Political Reporter

IT IS highly unlikely that any of South Africa's main European trading partners will be pressurised into taking economic action against this country because of its apartheid policies.

Standard Bank chief economist Nico Czypionka said yesterday the French Government's freeze on new investment in South Africa might cause Denmark, Belgium, the Netherlands and Australia to follow suit

Strong

He said there was also a small possibility Austria, which has a socialist government, might do something.

But, in spite of reports that the German Government was under strong pressure to take economic action against South Africa, this was 'out of the question', he said.

'The German business community is very strong and very pragmatic. There are huge German investments and a large German trade surplus with South Africa.'

There were also a large number of German citizens in South Africa.

'There are elections in Germany in about two years, but even if the socialists gain power, economic sanctions against South Africa are unlikely.'

Mr Czypionka said none of the actions already taken, including those by several Scandinavian countries, had prevented trade with South Africa

'There is likely to be a rising tide of symbolic and other gestures, but they will not have any real impact unless the major players all join in and co-ordinate their activities, which is unlikely.'

Britain's investments in South Africa, and the number of British citizens here, were far too great to make any meaningful economic moves feasible

'Even a Labour government would probably not do anything,' he said.

Investment and business links with Scandinavia were limited already, and any moves by Denmark to curb ties would not come as a surpise or make much difference.

'Spain and Italy are very pragmatic in their foreign policy and there are large Italian and Portuguese communities in South Africa.'

Businessmen seek to rearrange their finances

Demand leaps for part bond finance

Star 29/7/85 (58)

By Frank Jeans

There has been a dramatic increase in the demand for participation mortgage bond finance recently, clearly an indication that many businessmen strapped for ready money are rearranging their finance costs to improve their cash flows.

Mr Mike Hyslop, Transvaal general manager of The Board of Executors, says: "This demand coincides with falling interest rates and suggests that property owners are expecting the end of the economic recession and are gearing up for better times ahead."

Another reason could be that businessmen, wincing under soaring overdrafts brought about by trading and foreign exchange losses, have been forced to shift from ultra short-term money to longer-term through property transactions.

A businessman with a mounting overdraft of, say, R400 000 could take a R660 000 mortgage on his R1 million property with a part bond company over a five-year term.

He could then pay off the bank and have R260 000 in working capital, and score as the interest rate on longer-term part bonds is now the same as that for short-term overdrafts.

"Developers are taking advantage of the drop in rates, the availability of funds and fierce competition among builders to get ahead of the queue that can be expected once the economy improves," says Mr Hyslop

DROP IN RATES

The renewed demand comes at a time when the coffers of part bond schemes are full.

"The Board of Executors has substantial amounts of funds available, and I forecast a further drop in rates from the current level of 21 percent within the next few months," he says.

His company has branched out into a property venture with the establishment of The Board of Executors Properties (Transvaal) which is jointly owned by the Board of Executors and four property professionals.

Heading the new company is Mr Anthony Fletcher, a chartered accountant and former director of a major fertiliser company who has extensive financial merchant banking experience.

Other members of the team are Mr John Legh and Mr Simon Rosholt, formerly partners at RMS Syfrets, and Mr Glen Armstrong who has wide experience in property having been with the Urban Foundation and Old Mutual Properties.

They will be concentrating on property broking and development in the industrial, commercial and office sector of the Witwatersrand.

"We believe the timing is right for such a venture," says Mr Fletcher. "The property market is near to bottoming out with an abundance of stock in all sectors.

"By building up accurate information on this stock now the company will be well placed to service tenant and investor requirements when the market improves."

witl

st tasting A

RIGGIO T

Pay parity for teachers a step closer

Star 24/7/85

Further steps to bring about parity in the salary scales of teachers of all races have been announced by the Government.

The Minister of National Education, Mr F W de Klerk, said in a statement released in Pretoria yesterday that the service dispensation of certain coloured, Indian and black teachers would be improved from October 1 this year.

He said the Government would spend R56 million between October and March next year to reduce disparities between teachers of the various population groups. The adjustments were in accordance with the Government's commitment to the elimination of "unjustifiable disparities based on population group".

Mr de Klerk said about 100 000 teachers would benefit from the adjustments which applied to teachers in the lower qualification categories.

Lower qualified whites had already been placed on parity scales and would therefore not be affected. The same applied to teachers of other population groups who had already been placed on parity scales.

"Although good progress is being made with the elimination of disparities, in practice the process cannot be implemented faster than available funds allow."

Mr de Klerk said individual teachers would not receive the same percentage adjustment because the disparities were not of equal size at all levels.

The announcement gave only a general indication of the adjustment and any further information would be supplied by the individual ministers of education. — Sapa

Ban new loans says UK party

The Star Bureau

Star 24/7/85

LONDON — A statutory ban on new bank loans and new investment in South Africa throughout the European Economic Community has been proposed by the Social Democratic Party in a policy document.

SDP leader Dr David Owen said: "Britain should be working for a common European position in its policies towards South Africa and actively identifying with the excellent resolution put forward by France to the United Nations Security Council."

He warned there was a grave danger of Britain becoming isolated in the world community if it associated so completely with President Ronald Reagan's policies.

Insurers pay R35-m for riots

Star 30/7/85

58

South African insurers have agreed to pay out R35 million in less than a year in claims for damages caused by political unrest, the managing director of the South African Special Risks Insurance Association, Mr R Schneeberger, disclosed today.

He said the R35 million covered the amounts settled since the end of August 1984.

It is understood claims for damages from political unrest jumped dramatically after the outbreak of violence in the Vaal region in October.

It is now estimated to be three times the amount that would have been normally paid out.

Buildings and cars continue to be the main targets of riotous mobs throughout the country.

"The great bulk of the R35 million concerns damages in respect of material damages other than motor vehicles," said Mr Schneeberger.

There had been nearly 2 500 claims concerning vehicles, the majority of which were buses.

Insurers agree to pay R35-m in unrest damage

Argus 30/7/85

58 ~~27~~

Argus Correspondent

JOHANNESBURG. — Insurers have agreed to pay out R35-million in less than a year in claims for damages caused by the political unrest.

This was disclosed by the managing director of the South African Special Risks Insurance Association (Sasria), Mr R Schneeberger, today. The R35-million covered the amounts settled since the end of August 1984.

He said buildings and cars continued to be the targets of rioters.

Claims for damages caused by the unrest jumped after the outbreak of violence in the Vaal region last October.

Three times

The amount is estimated to be three times that which would have been claimed in normal times.

There had been nearly 2 500 claims concerning vehicles, most of which were buses.

Claims concerning damages to other property numbered about 750, he said.

Monetary target plans welcomed by Southern Life

58

Star 31/7/85

By Frank Jeans

South African business generally has welcomed the De Kock Commission recommendations to go for monetary targets in the battle against inflation, and joining the chorus is the Southern Life Association.

"The change in policy from focusing on the level of interest rates to one of controlling the quantity of money is to be enthusiastically received," says Southern in its latest *Economic Comment*.

"Targeting involves the setting up of a 'monetary rule' or growth channel which the markets can take as the Reserve Bank's commitment to money supply growth, and thus the extent to which it is prepared to finance inflation."

Southern sees the advantage in that markets can take strategic price decisions, provided the target is credible and the bank has the confidence in the markets.

And there can be little doubt that if these conditions are met, the inflation rate will fall in time followed by nominal interest rates, with little disruption to the real economy.

The question, however, is what target will the bank set?

Will it be at a high growth rate of, for example, 18 percent against current broad money growth of 24 percent?

This might be credible and achievable, but it implies an inflation rate of 16 percent at a real economic growth rate of say two percent.

The alternative could be a 10 percent target, in which case, how would the bank respond to the probable overshoot?

"On the theoretical level, there is an alternative, non-monetarist view which contends that the money supply, far from being an entity 'out there' that can be controlled, instead responds passively to the needs of the economy for credit and deficit-spending."

STABLE VELOCITY

"To limit money supply growth, economic activity must be restricted, implying that severe recessionary conditions must be imposed.

"The notion of targeting is predicated on a stable velocity of circulation money so that changes in the money supply impact in a fairly direct and predictable way on prices.

"Velocity has been far from stable in recent years in South Africa and problems for monetary targeting could arise if it continues to be so."

Southern compares the Federal Reserve in the US and the fact that relevant monetary aggregates must be continuously redefined as financial innovation changes the nature of "broad" and "narrow" money.

The Federal Reserve has admitted its research cannot keep up with which definition yields the best relationship with economic activity, and it is now openly questioned whether targeting the aggregates is the best way to achieve its broader goals.

"South Africa may be walking into the same difficulties," says *Economic Comment*.

Nevertheless, Southern welcomes the shift by the Reserve Bank away from interest rate control towards money supply growth, and believes that what is really necessary is to ensure that the money supply does not grow excessively by allowing the exchange rate to move freely and accepting the required level of interest rates.

CITY CAVENDISH S

Banks rumour: Rand slumps

58

By PAUL DOLD
Financial Editor

THE rand slumped to $0,435 yesterday — close to its all-time low against the dollar — as speculation swept the market that several United States banks were to close their South African operations.

Last night two US banks — Citibank and Chase Manhattan — denied the rumours.

Yesterday's fall by the rand of some $0,5 from the $0,4925 opening was one of the heaviest ever by the currency.

The Reserve Bank intervened several times during the day to support the currency with the rand finally closing at $0,4565, well down from the previous $0,4860 close.

The pressure on the rand was caused by importers who feared a reduction of their facilities from the US banks.

They bought dollars heavily, leading to the rand diving against most currencies.

Markets were also unnerved by rumours of a reintroduction of the financial rand and foreign-exchange control.

Rates up

Senior foreign-exchange dealers discounted the possibility of such a move by the government although they believe the rand may remain weak for the next few weeks.

The weaker rand is leading to pressure on interest rates and there was a dramatic rise in short-term money market rates.

The key three-months Bankers' Acceptance (BA) rates reached 18,30 percent after Tuesday's 17,80 percent.

The fall in the rand caused a surge in gold shares due to the higher rand price now being received by the mines for their gold which is sold in dollars. The rand price at current exchange rates is around R718 an ounce.

The fall in the rand could have an inflationary impact on the economy at a time when most economists are predicting the inflation rate will fall to 10 percent.

● US banks to stay, page 12
● Impact of emergency on economy, page 12

...ket by the central bank.

Cash-rich Rembrandt expands its investments

58

Star 2/8/85

By Peter Farley

Stellenbosch-based investment conglomerate Rembrandt expanded its sphere of interest in strategic South African financial services and industrial corporations last year.

But with its massive spread of international holdings and vast cash resources, expansionary spending of more than R200 million has hardly even made a dent on the group's balance sheet. And this is alongside the spending of another R175 million on existing international businesses.

In fact, in the year to end-March, shareholders' funds leapt to R2,7 billion from R2,1 billion a year previously. This was principally because of the slump in the rand on world markets, which forced an upwards revaluation of Rembrandt's extensive offshore investments.

Other positive factors during the year were the combined impact of a sharp reduction in short-term loans and bank overdrafts, to R8,2 million from R58,7 million, and a rise in cash on hand to R728 million from R704 million at end-1984.

Major shifts in investment holdings during the past year saw the stake in Volkskas lifted to 30 percent from 20 percent, the share in engineering holding company Metkor — which effectively controls Dorbyl and Stewarts & Lloyds — to 50 percent and a 50 percent stake in Sage's unlisted holding company Sagecor.

In addition, it extended its growing grip on the private hospital sector with almost R10 million spent during the year and the R16 million acquisition of an additional private hospital chain after March 31.

On the income side, however, earnings were pretty static, with only the cash assets and portfolio investments showing much growth.

Tobacco and liquor income was fractionally down at R121 million. Mining investments yielded R45,7 million after R48,2 million in 1984. Returns from engineering investments halved to R7,3 million, while the cash side was up R73 million from R57 million.

Without a doubt, the group continues to go from strength to strength. This has been reflected in a share price which even after slipping back from a recent peak of R32 to R28 yesterday is still almost a third above its low earlier this year of R20,85.

Remgro shares now yield a slim 2,2 percent, even given the recent 10 percent fall in industrial shares. With the paucity of quality scrip in the current economic environment the shares still offer good value.

Building society profits soar while asset growth declines

Star 3/8/85

Own Correspondent

DURBAN — A marked reduction in the rate of building societies' asset growth — and an average net before-tax profits increase of 85 percent — are evident from an analysis of results of the country's nine societies for the year ended March 31.

Flowing from the emphasis placed on profits, rather than assets, the annual average growth in societies' assets has declined fairly steadily from 20,3 percent in 1981 to just 10,2 percent (to a shade over R20,33 billion) in the latest full year. In 1984, assets were R18,45 billion, 14,3 percent over the 1983 figure.

In contrast, pre-tax profits for the movement as a whole have escalated by about R168 million to R366 million — an increase of 85 percent.

Profit after tax, but before disclosed capital items and provisions, was R220 million which, as a percentage of assets, works out at 1,08 percent.

This percentage has risen steadily year-by-year: 0,19 percent in 1981, 0,28 percent in 1982, 0,30 percent in 1983, and 0,59 percent in 1984.

PRE—TAX PROFITS

The taxman has not been short-changed, either. The societies paid roughly 40 percent of their pre-tax profits — or a whopping R146 million — to the receiver during the year.

Mr John Russell, managing director of the Durban-based Provincial Building Society, confirmed that growth in the movement's assets had slowed by about half in the past four or five years and that pre-tax profits had nearly doubled in the past year.

Asked about repossessions, which totalled about R13 million in the year to March 31, he said this represented only about 0,065 percent of total assets, though he conceded the rate of repossessions must have escalated fairly sharply since March, as a result of the severe recession.

The societies' annual reports show most societies have been able to contain expenses fairly well, despite inflation.

Total expenses, as a percentage of total assets, rose by an average of just 5,4 percent in the year (against nearly 10 percent last year). Individual society increases, however, ranged from a high of nearly 16 percent in one case to actual declines in the cases of the UBS and the Provincial.

South Africa's largest society, the UBS, which has been shedding unprofitable business, saw its expenses ratio drop by an estimated 3,9 percent.

Auto tellers in link-up

58 Mercury 7/8/85

THE Allied Building Society and the Nedbank group are linking their automated teller machine (atm) services.

Mr Johan Westraat, general manager (domestic banking) at Nedbank said: 'The service will provide both Nedbank, Allied and Nedfin clients with faster and more convenient banking.'

'Nedmatic 24 and AHA cards will allow cardholders to draw cash from, and inquire into their card accounts through any of the 200 Nedmatic, AHA and Nedfin machines around the country.

'Clients will not be limited to through-the-wall ATMs, but will also be able to operate lobby ATMs inside the banking halls.'

Mr Roy Pascoe, Allied's group managing director, said the negotiations for the sharing of cash machines began in July 1984.

Cheque, savings and transmission accounts can be operated through the link-up.

Clients will have access to in-lobby ATMs during normal banking and building society hours, while through-the-wall ATMs will be linked from 7 am to 11 pm Monday to Saturday and 7 am to 1 pm on Sundays.

The ATMs of the two organisations operate in slightly different ways and to ensure success, clients are led through the operation with simple-to-understand instructions.

Nedmatic24 cards will require re-encoding to operate through Allied AHA machines and this re-encoding can be done at Nedbank branches which have the special encoders.

The re-encoding takes only a few minutes. Allied AHA cards are already compatible and no recoding is necessary.

Unrest a nightmare for insurance industry

58

13/8/85

MERCURY

THE CURRENT state of unrest and violence is a nightmare for the short-term insurance industry. Looting, arson and motor vehicle damage and theft are consequences of this prevailing climate of lawlessness, according to Mr F N Haslett, managing director of S A Eagle.

Mr Haslett was announcing S Eagle's unaudited figures for the six months ending June 30.

The company, which has declared an unchanged dividend of 21 cents for the period under review, increased gross premiums by 19,5 percent to R122,5m. Investment income (net of investment expenses) also increased marginally to R9,7m.

'However, we experienced a shortfall in our underwriting surplus of R1,5m,' said Mr Haslett.

'Our results were also seriously affected by the recession and the continuing high rate of inflation.'

Earnings

Earnings per share for the six-month period declined only marginally to 57,2 (1,7 percent down).

Net income after taxation attributable to members of the company declined to R6 865 000 (R6 987 000)

'Underwriting results have been affected during the period by the inadequate rating of industrial and commercial business, the increase in incidence of motor and crime class claims as well as the effects of inflation.

'The anticipated increase in re-insurance costs has materialised and will continue to impact on underwriting profitability. Every effort is being made to correct adverse trends,' Mr Haslett said. — (Sapa)

This lightweight, 2-seater aircraft developed by land speed record-holder Richard Noble, is challenging the opposition by slashing the cost of flying by almost half. Available in kit form, with extremely low running costs, it brings the dream of flying lessons and private ownership within reach of many more people. Smaller and lighter than other aircraft in its class, the all-British ARV Super-2 has a brand new 2-stroke, 3-cylinder engine designed by a British company specialising in gearboxes for grand prix cars. Water-cooled and weighing only just over 50kg, it generates 77 hp as against the 108 hp of a typical 4-stroke engine weighing over 100 kg.

Car rental firms' bid to revive trade

Finance Reporter

TWO large car rental companies have announced R5m deals to revive the depressed industry. They have each bought 200 cars which will be offered to customers at low rates.

Avis has purchased 200 Mercedes 230 models to be rented at less than half price and Budget Rent-a-Car has completed a deal with Toyota for 200 Cressida's for hire at Corolla prices.

Avis's Mercedes deal is the biggest single South African order ever placed with the local German manufacturer.

The Budget/Toyota arrangement is probably an answer to the major discounting by other manufacturers which Toyota says it will not match.

Avis said yesterday the new cars would be available for R39 a day plus 59 cents/km and claim the rates are at a 65 percent discount.

Natal Mercury removed from mailing list

MALAYSIA's policy towards South Africa has led to the British-based Tun Abdul Razak Laboratory deciding to stop sending its publications on rubber to South

Dunlop Holds has unchanged 29c div

Business Mercury

Flexibility is the keynote of Sanlam assurance policy

58

Finance Editor

TOTAL flexibility is a keynote of the Sanlam universal assurance policy which was launched in Durban yesterday.

Mercury 14/8/85

While several other life assurers have 'universal' policies that combine variable amounts of life cover and investment possibilities, Sanlam offers, as an unique feature, to convert any of their existing policies to the new policy titled the One Policy.

They will vary the terms of the policy during its life.

Policyholders can switch their investment component from one avenue to another: the Stable investment offers a current 14 percent return while the Market Value investment fluctuates closely with the stock market.

Clients need not set a maturity date when they take out the policy — this can be varied according to needs.

The policy is aimed at the top end of the market with a minimum monthly premium of R50, or an annual payment in cash, and a requirement that the policy-holder has a cheque account.

A typical policy would offer standard initial cover of R184 000 and a cash value of R1,4m at 65 for a person taking the policy at 30, paying R100 a month and paying a 10 percent premium increase annually.

The upper limit, with the same premium increases and age, is initial cover of R263 00 and a cash value of R1,068m at 65—while the minimum cover would be R9 600 with a cash value at 65 of R2,07m.

Additional items such as disability cover can be included.

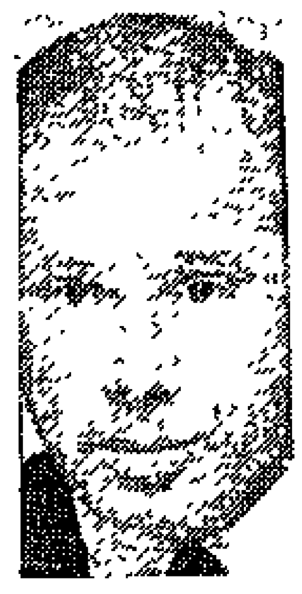
Sanlam has also launched an endowment policy with high life cover for the lower segments of the assurance market.

Barclays PLC forgoes rights on issue to raise R254m

58 B. Day 15/8/85

Barnat control returns to SA

● Basil Hersov



● Chris Ball

HAROLD FRIDJHON

BARCLAYS

CONTROL of Barclays National Bank (Barnat) will return to South Africa after a rights issue to raise R254m announced yesterday.

As parent company Barclays Bank PLC of London will not follow its rights — which will be taken up by the Anglo American group and Southern Life Association — the control of the bank will once again be in SA hands after a lapse of 60 years.

At present Barclays PLC controls Barnat with a 50,4% shareholding. After the rights issue (of 14,5-million preferred ordinary shares at 1 750c a share) the parent's interest in Barnat will drop to 40,4% with Anglo becoming the seond largest shareholder with a 25% stake, up from 19%. Southern Life's holding will rise from 3% to in excess of 7,5%.

The change of control will also bring about a change of name "within a few years", according to Barnat chairman Basil Hersov at a Press conference in Johannesburg yesterday.

Barnat MD Chris Ball added that the parent company did not approve of the use of the Barclays' name when it did not control a bank. A case in point was the Union Bank of Nigeria. He also said that when Barnat went international, as it would in time, the use of Barclays in the bank's name could cause confusion in foreign financial circles.

But Barnat was in no hurry to bring about a change of name. "As far as we are concerned it's business as usual."

Hersov insisted no form of disinvestment by Barclays PLC was involved. "It had not sold any shares and would continue to be the largest single shareholder in Barnat.

"The shareholding of PLC in Barnat started to reduce in 1973 when we went public. It reduced further on the acquisition of Wesbank, on the acquisition of our interest in Southern Life and as a result of sales of shares in Barnat by PLC to SA investors. On this occasion PLC again had decided not to subscribe."

However, NEIL BEHRMANN reports from London that banking analysts believe the timing of the announcement, especially when linked to a name-change, indicated political pressure was a major factor.

Chief general manager of the UK bank, Peter Lesley, was overwhelmed with questions relating to disinvestment at yesterday's London Press conference. Barnat's assets of some £6bn are 8,2% of total Barclays assets. But pre-tax profits, as high as 25% in previous years, are now running at only 0,9%.

Barclays PLC had systematically allowed its percentage holding in Barnat to drop following the request in 1973 by the South African monetary authorities for foreign banks to lower their shareholdings in their SA subsidiaries to 50%.

Hersov said the decision to proceed with the rights issue at this stage was motivated by Barnat's capital needs and because funds were available in the marketplace at present.

"With the outlook for growth and profitability now improving, we decided this was the appropriate moment. We had to weigh the implications for the bank against the need to improve its capital structure."

The capital position of SA banks had been eroded in the last few years by the rapid increase in the demand for credit.

● Turn to Page 2

58.

Barnat control for SA

B. Day 15/8/85

● From Page 1

At the same time there had been a general re-assessment around the world of banks' capital requirements. This had been precipitated to some extent by the international debt crisis.

In South Africa these trends had resulted in amendments to the Banks Act which modified the method of measurement of capital adequacy.

In addition Barnat had embarked on a huge capital expenditure programme aimed at enhancing its electronic systems and this investment had to be funded from capital resources.

Ball estimated this capital expenditure would amount to about R140m in the current financial year, the same amount as had been spent in the previous year.

Hersov said the profit outlook for the next few years was good.

"While we appreciate the political situation at this time is difficult, we believe there is a good chance the climate both inside and towards South Africa will improve over the next few months and we clearly had to take a long-term view."

The change of control does not mean there will be any change in the relationship between PLC and Barnat — including lines of credit and facilities which Barnat enjoyed.

The new preferred shares which will be issued on the basis of one new share for every four held will pay a fixed non-accumulative annual cash dividend of 157,5c, payable half-yearly. This will give a yield of 9% a year on the issue price of 1 750c. The preferred ordinaries will automatically be converted into ordinary shares when the ordinary dividends amount to 157,5c for the year. The cost of paying the preferential dividend will be R22,9m in a full year.

Ball pointed out that the rights issue will result in a saving of interest to the bank of about R44,5m before tax if the funds were used to redeem deposits costing 17,5%. The net after-tax saving will be about R22,9m.

Ball forecast results for this year at a level not much different than those of last year "in view of the high level of bad debts in the current recession".

ARGUS 16/8/85

Rand wavers, but gold up $6

Finance Editor

THE rand tumbled more than six US cents to a new low of $0,3900 in confused trading when the foreign exchange markets opened today, but it quickly recovered much of its loss and by mid-morning was at $0,4325.

Dealers said the amount of business transacted at $0,3900 was probably small. They attributed the low rate to buyers holding back to see what effect President Botha's speech would have on the market.

The speech was seen as a letdown but a $6 spurt in the gold price on the weak dollar to $336 an ounce — its highest point since last November — helped to reduce negative reaction.

UNCERTAINTY

On the international markets the dollar has fallen against most major currencies. This, with the higher gold price and the improvement in the balance of payments, should have led to the rand rising to around %0,55. That this has not happened can be blamed entirely on political uncertainties.

● The rand dropped 10 percent against the British pound today to a new low

At noon Barclays Bank was buying pounds at R3,41 and selling at R3,52.

Yesterday its rate was R3,08/R3,17.

● The Argus Political Staff report from Durban that the Minister of Finance, Mr Barend du Plessis, said today that the drop in the rand was temporary.

In an interview Mr du Plessis said the reaction was "emotional, caused by the great expectations that were created about the President's speech".

Life insurance industry grows apace despite the recession

58

16/8/85 STAR

By Duncan Collings

Whatever the life insurance industry may feel about current measures the authorities are taking concerning the industry, there has been little or no slowdown in the rate of growth in the industry.

Coming hard on the heels of the results announced by the Prudential Wednesday, Commercial Union now reports a 250 percent increase in new life and pensions business in the first half of this year and the betting is that Liberty will not be far behind when its interims are announced next week.

RECORD YEAR

Not surprisingly, CU life and pensions general manager, Mr John van der Linde, expects 1985 to be a record year as far as life business is concerned.

CU wrote R30,6 million in new life and pensions premiums in the first half, compared with R8,7 million in the previous year.

Immediate annuities in which area the company has recently made a strong drive, accounted for the majority of the new business bringing in R20 million.

Direct response and pensions business were the other success areas, and excluding immediate annuities, were 37 percent ahead of the previous year.

The company's new product Cubic Universal Life Policy is expected to perform well in the second half and there is already some new pensions business in the pipeline.

NEW FROM SANLAM

Sanlam has introduced a new policy which it calls The One Policy giving the group a strong presence in the top end of the market.

The new policy is based on the Universal Lifestyle concept. The policy offers a choice of life cover combined with a savings plan and can be adapted and changed at will as the client's circumstances alter.

Savings increase as credit boom eases

58 STAR 19/8/85

There has been a marked slowing in the rate of credit creation, Nedfin Bank says.

In the June quarter the banks held R16 156,7 million in hire purchase and lease receivables as against the R16 277,1 million held at the end of the March quarter.

This is a decline of R120,4 million or almost one percent

In an analysis of the BA9 returns, Nedfin shows how the credit explosion has tailed off.

Though there was a decline in the level of receivables held at June end, the year-on-year figures show how considerable the credit explosion has been.

HP receivables at R10 568,2 million for the industry are 16,2 percent ahead of June 1984 and lease receivables at R5 588,5 million are 7,3 percent higher than a year ago.

Commenting on these figures, Nedfin's managing director, Mr Ron Rundle, says: "These figures are not a surprise to us and reflect the current state of the economy.

"They also mirror, to some extent, the declining trend in interest rates which began in the second quarter of the year. Certainly, however, one can read from these figures a sharp decline in credit and the fact that business and consumers are purchasing less on HP lease."

For the 12 months ended December 1984, HP receivables showed a growth of 35,9 percent which slowed to 27,4 percent at the end of the March quarter.

The picture is similar for the lease book.

For the 12 months ended December 1984, the rate of increase in lease receivables was 23,2 percent. This declined in March quarter to 14,7 percent and further to 7,3 percent at the end of June.

The analysis shows that the instalment credit market is dominated by Barclays, which held a 33,2 percent share of the market at the end of June.

The Standard Bank group held 21,9 percent of the market, while Nedbank held an 11,8 percent share.

The Nedfin analysis also highlights an improving trend in the savings picture.

The South African public had invested R5 410,2 million with the banking industry at the end of June, 7,3 percent more than at the end of March and 14,4 percent more than a year ago.

Mr Rundle noted that this increase in the level of the nation's savings was pleasing to see and reflected the quieter economic climate.

"The savings trend over the past year has been rising slowly, having fallen as South Africans dipped into their savings to make ends meet."

An analysis of the selected liabilities of the banks shows that the public held R7 137,2 million in cheque accounts at June 30 with Volkskas having gained the leading position in this market.

It held 24,3 percent of the cheque account market, knocking Standard from the prime position. Barclays held on to the number two spot with 19,6 percent and Standard came in third with 19,3 percent of the market.— Sapa.

Cheaper loans

Argus 20/8/80

TOM HOOD, Property Editor and
DEREK TOMMEY, Finance Editor

HOME-LOAN rates were reduced today by a major bank when, with other banks, it lowered its prime overdraft rate by 1,5 percent.

Mr Jimmy McKenzie, senior general manager of Barclays, said the present home loan rates of 23,5 percent for new loans would be lowered to 22,25 percent and loans over R40 000 would be cut to 21,5 percent from September 23.

The bank's rate for loans under R40 000 is already 21,5 percent.

Barclays is consolidating all its home loans to one rate, said Mr McKenzie, who did not expect this to generate new home loan business for the bank.

Give relief

"We are reducing our rates because we believe it is time to give relief to our home loan clients," he said.

The move by Barclays is expected to lead to a drop in mortgage rates by the building societies.

But borrowers from societies will have to wait at least two months before their mortgage rates drop.

Mr Bob Tucker, managing director of the Perm, said he believed bond rates would come down in the fourth quarter, probably in October, by between one and two percent.

A borrower would save R35 a month from a one percent drop on a R45 000 (now costing 20 percent or R765 a month).

Pay it off

But if he continued his repayments at R765 could would save R52 641 in the eventual cost of the house and pay it off in 14½ years instead of 20.

This borrower would save R70 a month from a two percent drop. If he carried on paying he would eventually save R73 222 and the house would be paid off in 12 years.

Most societies charge 19 percent on bonds below R20 000, then 19,5 percent on bonds between R20 000 and R40 000, followed by 20 percent on R40 000 to R60 000 and R21,5 percent on loans over R60 000.

Today's bank cuts in overdraft rates to 19,5 percent for blue-chip customers leave most home buyers paying more to building societies — up to 21,5 percent on home loans.

However, only about six percent of bank customers get this favourable rate, says Mr Hendrik Sloet, managing director of Sambou building society. Other people pay considerably more.

Interest rates paid out on building society deposits, savings and shares would have to fall first and he believed it would be about November before societies "could start giving a little relief on the mortgage side."

More affordable

Property economist Mr Neville Berkowitz said a cut in bond rates would make houses more affordable and it would stimulate the housing market by the second quarter of next year.

Building societies could not lower the rates they paid for money until after the banks moved. Then they had to give borrowers 30 days' notice before they changed mortgage rates. End-October or November was the earliest that societies could lower the rates, he said.

The Reserve Bank discount rate cut came as a surprise to the banks, but business conditions show that it is badly needed.

From remarks by the Governor of the Reserve Bank, Dr Gerhard de Kock, it seems that the economy is in a nosedive.

"The real growth rate is negative and the lower turning of the business cycle has probably not yet been reached," he said when announcing the cut in the discount rate.

(Turn to Page 3, col 2)

P.T.O.

Big bank rate cut a boost for economy

58

20/8/85 Mercury

CAPE TOWN—In a surprise development the Government yesterday signalled their intention to reflate the South African economy by a sudden 1,75 percent cut in central bank lending rates to 16 percent.

Mercury Correspondent

The drop has been coupled to the reintroduction of the old bank rate, and Reserve Bank Governor Dr Gerhard de Kock forecast last night that prime rates of commercial banks would fall from the current 21 percent down to between 19 percent and 20 percent.

This will be the fifth cut in the prime rate this year from the record 25 percent level.

Significantly, Dr de Kock also gave the nod to building societies to cut their rates, saying that bond rates can be expected to move lower in time. Hire-purchase and leasing rates will move down in tandem with prime.

While the fall in interest rates will be widely welcomed, particularly by the depressed motor industry, there is little doubt that current unrest in black areas and high black unemployment were key factors behind the timing of the decision.

The Minister of Finance, Mr Barend du Plessis, has largely achieved the objectives of the austerity package last August.

Inflation is expected to decline rapidly soon to around 11 percent, reflecting the economy's severe cooling off period.

However, the new depreciation of the rand due to black unrest and the lack of reform measures seems bound to inject fresh inflationary pressure into the economy in the short term.

The inflation rate and interest rates may fall sharply in coming months but could rise swiftly again once the impact of the weaker rand is felt in the economy.

In pushing interest rates lower, the central bank is showing its determination not to allow recent political events to slow the downtrend in interest rates which began earlier this year.

Surplus

Money market rates as well as gilt rates have been under some pressure in recent weeks and without the Reserve Bank action rates could easily have firmed once again.

Rising exports and falling imports are steadily creating a net surplus on the country's trading account. Not only is the surplus mounting but the rate of the rise is increasing.

The rand's depreciation will, however, add heavily to the import bill but at the same time the gold mines are receiving more than R800 an ounce for their gold.

Last night Dr de Kock said that the reintroduced bank rate would be set and varied by the Reserve Bank.

The Reserve Bank is cutting its interest rates on overnight loans to discount houses and banks as well as its rediscount rates. Prime rate and mortgage rates are expected to follow.

'The inducement for banks and their borrowing clients to use offshore credits will not be diminished, as the Reserve Bank will make appropriate adjustments to the margins it quotes on forward exchange,' Dr de Kock said.

Reasons for the move included the fact that the restrictive monetary policy applied over the past year and fiscal measures introduced in the March Budget had fully achieved their initial objective of curbing spending.

South Africa's real growth rate was currently negative and the lower turning point of the business cycle had not yet been reached, he said.

The managing director

◆ TURN TO PAGE 2

Big bank rate cut

◆ FROM PAGE 1

of the Natal Building Society, Mr John Bennett, said he had expected bond rates to fall in October and yesterday's announcement reinforced that prediction.

'But it all depends on what the other banks and building societies do. It is very much a follow my leader affair — we are all in a pack waiting for someone to make a move.'

Mr Bennett did not want to speculate on how much any fall in bond rates would be. 'When a bank or building society finds it is unable to lend enough money at the present rates, it will drop the rate accordingly.'

CA/G TIMES 21/8/85 58

Abercom's loss R14m

JOHANNESBURG. — Abercom's loss from its total operations for the year to June amounted to R14m, the primary financial report released yesterday shows.

The after-tax loss from discontinued operations was more than the R20m projected by the directors at the interim stage, being R25,4m, while after-tax income from continuing operations was R11,3m (R7,1m).

Earnings per share from continuing operations were 53c (33c), while the total operations figure was a loss of 66c a share.

The group has maintained its final dividend at 6c a share to make total distribution an unchanged 12c.

The directors point out that the shareholders' equity of R76,9m at June 30 (R86,2m) reflects the past year's loss from total operations.

It also "takes into account an increase in currency conversion reserve relating to foreign operations, dividends and a reduction of capital as approved by shareholders on August 7, 1985".

Looking to the future, they state: "We expect trading conditions in South Africa to remain very difficult for at least the next 12 months.

"Our fan manufacturing activity in South Africa will be affected by this, but to a lesser extent than component manufacturing.

"Overseas conditions are stable at present and we expect considerable improvement on last year's performance in dollar and sterling terms." — Sapa

SA's exports boom

Drop in rand exchange rate boosts business

DEREK TOMMEY, Financial Editor

WHILE much of the economy is in recession the country's exporters are experiencing a major boom.

Helped by the drop in the rand's exchange rate, South African goods have become more competitive in overseas markets and demand for them has greatly increased.

The lower rand has made South African coal the cheapest in the world. Everyone is buying it, whether or not they like South Africa's politics, and the industry is planning for a further huge rise in export sales.

Sales of most other metals and minerals are booming. South Africa is selling more platinum, manganese and ferro-chrome than before — and at record prices.

Rising strongly

Exports of food and processed products are also rising strongly.

Customs figures show that South African exporters did outstanding business last month.

Altogether they sold R2 800-million worth of goods. This brought the value of export sales in the first seven months of this year to R19 300-million. It was R13 600-million in the same period last year.

Faring badly

Compared with the exporters, importers are faring badly.

Imports last month were only R1 870-million, which brought the total for the first seven months of this year to R13 000-million — from R11 900-million a year ago.

This gave South Africa a trading surplus of R6 300-million for the first seven months of the year, which was almost four times higher than the R1 680-million surplus last year.

The latest trade figures show that Europe is South Africa's major trading partner, taking R5 000-million worth of exports in the January-July period and selling us goods worth R6 200-million in return.

From America

Imports from America were R2 100-million, while exports were R1 900-million. Asian countries sold R1 900-million worth of goods to South Africa and bought goods worth R1 900-million in return.

African countries bought R932-million worth of goods and sold us R243-million worth.

Weekend Argus, August 24

Rand slumps — Kruger rand soars to R900

Cape Times 28/8/85

By PAUL DOLD
Financial Editor

THE rand slumped to a new low of $0,3545 yesterday as the currency fell more than 11 percent in foreign exchange markets reflecting concern over the continuing unrest in black townships and foreign debt repayments.

The rand's decline sent Kruger rand prices soaring R75 to a record R900 for the one ounce coin — well past the peak set last week of R845.

The half ounce coin closed at R420 (R407) and the quarter at R212 (R205).

At last night's ruling gold price the mines are receiving a record R928 an ounce for their gold.

The rand fell sharply against other currencies as well — about R3,83 was needed yesterday to buy £1 sterling (as against R3,56 the previous day), while the rand was about equal to a mark and was worth only 0,83 Swiss francs or three french francs.

Plunging from the opening indication of $0,39 it fell to $0,37c even before trading opened.

The currency closed at $0,3625 — a fall of over $0,3 on its Monday price — but off its low for the day — amid a strong demand for dollars.

Dealers said there was some Reserve Bank support yesterday.

The rand is being hit by bearish sentiment and an outflow of short-term capital.

Reserve Bank Governor, Dr Gerhard de Kock, said yesterday that the black unrest and political developments had detracted from the sound progress being made in the economic sphere.

Referring to market speculation that the authorities may be forced to reintroduce the financial rand he said: "It would be unfortunate if this state of affairs left South Africa little option but to protect itself by imposing additional restrictions of one kind or another on outward capital movements.

"As long as we have a choice, we would prefer not to move in that direction.

"We remain convinced that the enormous growth potential of Southern Africa can best be realized in a private enterprise and basically market-oriented system.

"It is only in such a system that adequate incentives can be provided for profitable investment by both foreign and domestic business enterprises — investment that will create employment and raise living standards for all."

Dr De Kock emphasized that the capital outflow was not justified by economic fundamentals and meant a lower living standard for the whole of Southern Africa.

Gold shares reflecting the weaker rand, rose strongly on the Johannesburg stock exchange with blue chips such as Randfontein up 700c, Rustplats 40c and De Beers 53c.

Cape Times 29/8/85 58

Hour stop on travel dealings

By DI CASSERE

MAJOR foreign-exchange dealers yesterday suspended all travel and travel cheque transactions for an hour at the order of the Reserve Bank.

Urgent board meetings were called to discuss the effects of suspension and the disastrous implications it would have for tourists here and travellers abroad.

Mr Brian Stainforth, financial director of American Express, confirmed that from 9am to 10am yesterday the company closed its foreign-exchange counters and could not sell or cash travellers cheques.

However, they were given the go-ahead — with limitations — an hour later to resume cashing travellers cheques and undertake travel transactions between now and Monday.

Thomas Cook Rennies Travel yesterday came up with a "money-to-keep-you-moving" package to assist travellers. The plan also covers visitors to South Africa and ensures they will not be stranded without cash.

The emergency travel money plan would operate until Monday when the Reserve Bank suspension of foreign-exchange dealing was expected to be lifted.

BUSINESS

Building societies push up home loans

STAR 29/8/85

58

By Frank Jeans

Building societies, flush with funds, have pushed up home lending levels in recent months, with the largest society, the United, granting bonds totalling nearly R1 000 million in the past five months.

This figure compares with a total of R1 400 million in loans for all of 1984.

The Allied has experienced a loans rush, with bonds value hitting more than R446 million for the five-month period, as against a total for last year of R640,7 million.

The SA Permanent, while recording increased lending in the past two months, has maintained an average of about R70 million a month since January this year. If the trend continues, it will more or less match the 1984 total loans of R883 million.

"We continue with our policy of providing a stable flow of funds across the full spectrum of home loans," says Mr Sarel Liebenberg, public relations manager of the Perm.

HOME LOANS TREBLE

The United's monthly figures illustrate the recent rush for loans. In April the figure was R122 million, May R151 million, June R214 million, July R266 million and August R235 million.

Commenting on the figures, Mr Piet Badenhorst, chief executive of the United, says: "Of particular significance, is the fact that our home loans under R60 000 have trebled since the beginning of the year. In January we lent R50,2 million in this category while in July, we lent a record R146 million. "The past five months have been extraordinary, and I believe our lending will drop slightly in the remaining months of this year.

"We will, nevertheless, be lending at levels that exceed the monthly average of 1984."

The Natal Building Society reports that the August lending figure was double that of January this year.

"The main reason for the lending surge has been the improvement in society inflows and the change in legislation in prescribed investments," says Mr Trevor Olivier, loans manager of the NBS.

Economists say rand may re-open at $0,50

Cape Times 30/8/85

(58)

JOHANNESBURG. — If South Africa succeeds in rescheduling foreign debt before Monday, in the breathing space created by suspending foreign exchange and stock exchange deals, the rand may re-open at $0,50.

This is the opinion of some economists, who are reasonably confident that the governor of the S A Reserve Bank, Dr Gerhard de Kock, will be successful in his negotiations with overseas banks.

The chief economist at Anglo American, Mr Aubrey Dickman, told Reuters a rescheduling in debt repayment could be expected "and a significant recovery in the rand".

South Africa owed $19 billion to foreign banks at the end of 1984, and $12 billion of that is due for repayment in 1985 unless extended, bankers estimate.

It was confirmed yesterday that Dr De Kock's departure to London last night was to negotiate the rescheduling of short-term South African debt and standby credit packages in a tough bargaining session with top Western bankers.

Economists and financial analysts said they did not believe an earlier two-tier currency system, separating financial from commercial dealings, would be reintroduced.

South Africa abolished the tier for financial dealings, the financial rand, in 1983.

A gold swap agreement could be negotiated on a portion of South Africa's monetary gold reserves.

But most economists said they thought the government would rather opt for stretching the deadline for repaying foreign debts as this would stem a flight of capital.

Bankers and monetary officials in Washington estimate that the short-term debt due within a year far outstrips available reserves.

"I believe a rescheduling of foreign debt must be on the cards and, given this, it will largely remove the danger of a flight of capital which has been pushing the rand down," one money market economist told Reuters.

He said a rescheduling would also ease the debt burden of local firms which have seen their commitment to overseas companies climb as the local currency has plunged.

"If the fall in the rand continued it would have forced many companies to close shop, throwing thousands out of work," another economist added. — Reuter

Reserve Bank offers R500m aid

PRETORIA. — The Reserve Bank said it is prepared to enter into R500m short-term repurchase agreements with banks to help tide the money market over the tight August month-end.

The pacts will start today and expire on September 4, with only liquid assets and prescribed investments accepted as cover. — Reuter

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.