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LIBERTY GROUP

Opening its treasure chest

What does Liberty's deal mean for shareholders?

A premium for the rand hedge element due to its overseas interests has long been a part of Liberty's share price. Now a direct entry into these foreign assets has been offered to group shareholders, but do the individual shareholders gain or lose?

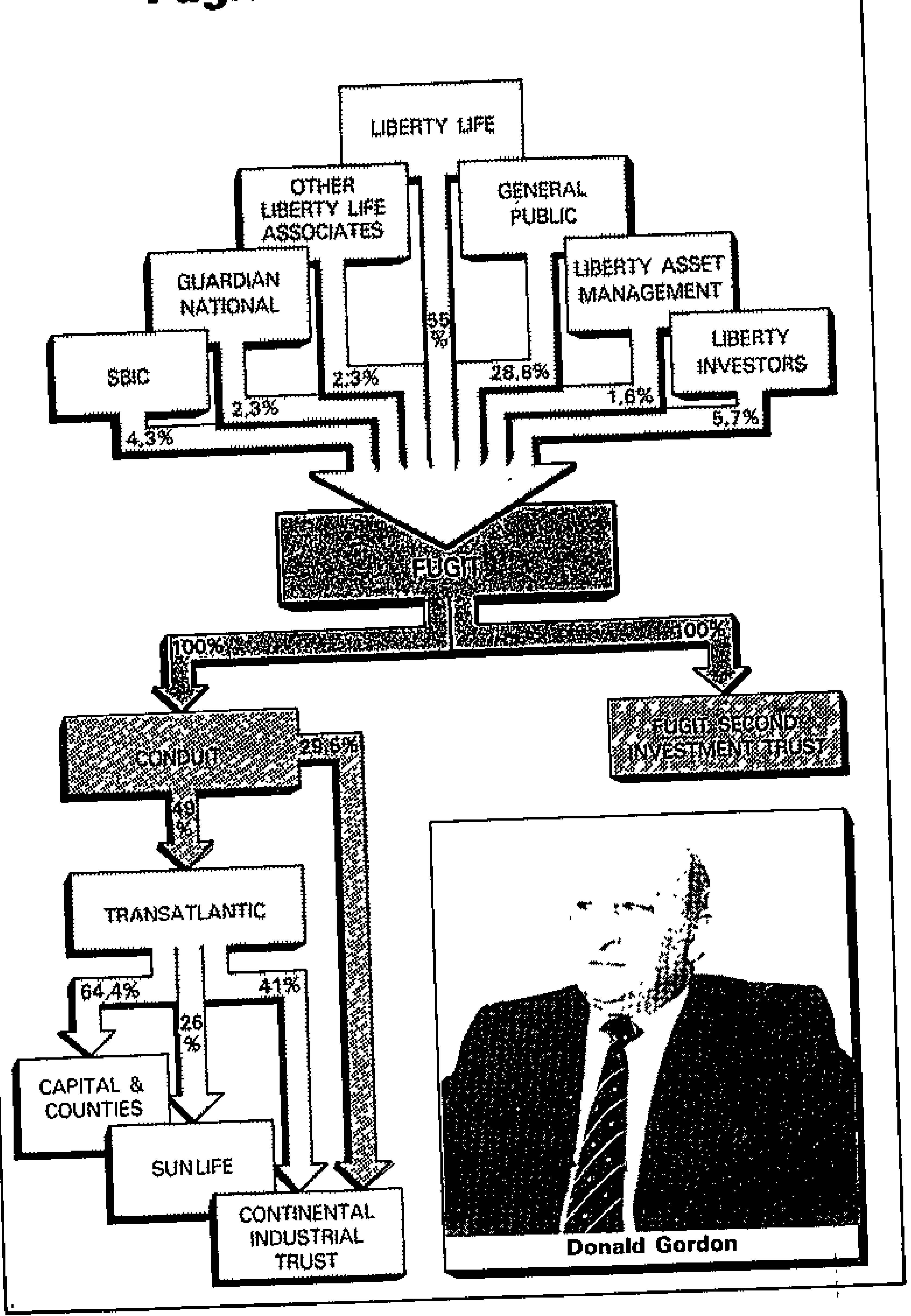
With what has been widely vaunted as the biggest rights issue in SA's history, valued at R475m, Liberty has reconstructed its organisation to take its overseas interests out of Liberty Life (Liblife) and offer the shareholders of Fugit, Liblife and Liberty Holdings a direct stake in its foreign assets, which are to be held ultimately in a reconstructed Fugit.

There were some straws in the wind before the official announcement last Friday, partly because of a similar deal announced by Rembrandt in the previous week. But there are differences.

From the standpoint of Liberty group shareholders, the main difference is that the pure overseas interests were simply given to the Rembrandt shareholders, but the Liberty group shareholders (other than those of Fugit) will have to buy them. Gordon says that the legal position is that Liberty could not do this as it would be unacceptable for the capital backing of policyholders to be reduced.

The terms of the reconstruction are fairly simple: Fugit disposes of its entire portfolio to Liblife; Fugit acquires Liblife's offshore interests; and, to raise the difference between the net worth of the Fugit portfolio and of the offshore interests, Fugit has a rights issue. Liblife, which owns 84,9% of Fugit, will renounce most of its rights in favour of its shareholders. By virtue of this renunciation, Liberty Holdings (Libhold) will receive some rights, because of its 52% holding in Liblife, and will in turn renounce these rights in favour of its shareholders.

Fugit's new framework



Donald Gordon

The rights offer terms are expected to be 75 new Fugit shares at R8 each for 100 old Fugit shares, 200 Fugit for each 100 Liblife and 50 Fugit for each 100 Libhold.

The effect is that Fugit becomes the investment holding company of the Liberty group's international interests, and loses its London listing because it would not be able to conform to London stock exchange regulations.

Shareholders have been given the opportunity to invest in a company the assets of which are abroad, thereby being able to spread their investment risk internationally. But they have to put up cash to make the most of this opportunity. However, Liblife chairman Donald Gordon explains that, for the purpose of the deal, the net worth of these holdings is calculated, conservatively, at the commercial rand rate, though it is more usual to use the financial rand (finrand) rate in valuing overseas assets. The finrand discount to the commercial rand translates into a premium on the asset value for local shareholders.

The big scorers are the Fugit minorities — especially those who held the shares before the reconstruction was announced. The net worth of their company rises from R600m to R1,1bn or from R8 to R12 per share fully diluted, and the share price has already increased from R7,50 to R12 since the announcement. A number of brokers think this is too high, though Libhold director Farrel Sher says that the net worth cum rights is around R15 and R12 ex rights at the finrand rate and the shareholder will receive the 18c dividend as well. In other words, each share now bought entitles the holder to 0,75 of another share at R8 which translates into R12 for the share plus R3 for the right itself.

Essentially, what Fugit has to offer is high growth from quality assets. How much will be paid in dividends from the overseas operations is not certain at this stage. As the foreign operations have been built on borrowings, there has been negative gearing and negative cash flow until now, but Gordon expects this to reverse and income could soon climb dramatically. The immediate income decline per Fugit share as a result of the deal could be about 18c, which must be offset against the benefits of hedging assets in another currency.

Less certain is the impact upon Liblife shareholders. Liblife is selling 45% of its holding in its overseas interests for the Fugit portfolio of local shares plus R475m cash or R370m net of its own contribution.

If Liblife shareholders (who are seeing their foreign assets reduced) are really to benefit from this deal, they need to be assured of an increased pace of dividend growth in the future. That may take some doing. To this should be added the point that the Liblife shareholders have taken the risks inherent in the overseas operations (these investments

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were kept strictly for the account of shareholders and not policyholders). Now that they could reap the benefits of a positive income flow, they are losing almost half, but are picking up the other half when they take up their rights. Or they will get a premium if they sell their rights.

Liberty spokesmen point out that foreign assets now constitute 68% of shareholders' funds. This resulted both from the rapid expansion of the sterling value of offshore interests — shareholders' funds of 49%-held UK holding company TransAtlantic have grown from £145,3m in 1983 to more than £840m in June 1988 — and from the decline of the rand.

Liberty maintains that although this deal will effectively raise R375m in additional cash, this is not because the balance sheet needs strengthening but represents an exchange of assets.

We have no doubt that this massive rights issue will be assured of success despite the fact that the insurance sector has been out of favour with investors for some time. "Gordon is making another rights issue without saturating the market with paper," says an institutional portfolio manager. But what needs to be asked is what Gordon is going to do with the massive amount of cash arising out of the asset exchange.

Another reason why the issue is assured of success is that Liblife shareholders who value an international spread of assets will have little choice now but to take up their rights and buy back into the assets sold to Fugit — or take the premium on selling the rights.

But for Liblife itself, the deal means that it is selling hard sterling assets that are likely to appreciate as the rand depreciates for assets denominated in a weaker currency. Is that really such a good deal?

Bearing this in mind, the potential rise in the Liblife share price could be circumscribed. Capitalising the local operations on the same dividend yield as Southern Life would put a value on them of about R110 per share. The foreign assets could add another R50 or more, bringing the total potential price to more than R160. With the foreign assets reduced to 55% of the previous figure the possible price is reduced to R135 odd. However Southern Life's rating has never been the same as Liberty's.

There will be the benefit of the Fugit portfolio and the income on the R375m. But the crucial thing is how the cash is going to be invested.

Of course, another reason for this reconstruction is that given the international constraints of our times, it might make sense to begin a process of so packaging hard foreign assets that their connection with this country appears at best to be tenuous. To achieve this, it is often thought wise to move control of these assets closer to the ultimate holding company in the group.

To return to the implications of the deal, for an individual investor who does not currently hold Liberty shares, the best way of investing in the overseas assets would be to buy the Fugit rights and take them up rather than buy shares now. Liblife and Libhold shares, after all, will end up with their foreign assets substantially reduced and with local assets amounting to more than half of the total. The rights are to trade at around R2 to R3 each.

As Liberty's foreign reconstruction follows so closely the Rembrandt one, investors interested in acquiring a spread of hard assets (that is hedging their rand bets) will be tempted to compare the relative prospects of Fugit and Rembrandt. After all, Rembrandt does have 20% of TransAtlantic, of which Fugit will now have 49%.

Trouble is that, despite this common interest, Rembrandt remains essentially an upper-crust consumer orientated trading group while Fugit is into financial services. Prospects for the two could be very different, but some portfolio managers guess that if a TransAtlantic stake is desirable the Rembrandt route is at a discount compared to Fugit's.

There is little doubt, though, that most Liberty group shareholders will take up their rights and invest in a pure rand hedge. It is also clear that many will opt to go for the ride with Gordon, whose record speaks for itself. But it is certainly intriguing to guess what this deal portends, and how Gordon's ultimate game plan will unfold. *Pat Kenney*

Inflation 'most serious danger'

EROSION of capital by rising inflation is the most serious risk facing an investor today, says Syfrets Managed Assets director Leon Campher

"Generally the only investments that consistently beat inflation in the long term are quality shares and property."

Syfrets Managed Assets is the investment management company that is a wholly-owned subsidiary of the Syfrets financial services group.

OVERVIEW

Giving an overview of the investment climate with particular reference to the investment needs of over-50s, Campher said the most significant stumbling block for the SA economy was the unfavourable balance of payments.

Liquidity constraints imposed by the debt standstill agreements and large-scale capital were putting undue pressure on the economy. He predicted that it would be difficult for the country to meet the growth levels of 2,5% to 3% forecast by the Reserve Bank for 1988.

Consumer spending was a major driving force behind the positive growth reported this year, with government trying to contain it with rising interest rates.

"Rising interest rates, increasing commodity prices and the decline of the rand are all contributing to a bottoming out of the winter's respite from rampant inflation.

"A consequent upward spiral in the inflation rate could remove surplus cash from the pockets of the unwary during summer."

Financial planning that took into account the effects of inflation was necessary to protect capital, Campher said.

In a well-balanced portfolio, risk should be balanced against capital and income growth, while a measure of liquidity should be retained to cope with cash emergencies, like illness and accidents.

Campher warns that at an assumed 15% annual growth in share and property values over a five-year period, and a portfolio mix comprising 60% growth investments (shares and property) and a 40% fixed capital non-growth investments, the total investment portfolio would only retain its value in real terms if the inflation rate did not exceed 10% a year.

"In other words, an inflation rate higher than 10%, as has been the case over the past decade and will be so for the foreseeable future, will result in a fall of the capital in real terms."

"This emphasises the need for adequate 'growth' provision and an appropriate portfolio investment mix.

"Although most white-collar workers contribute to well-managed pension funds, one cannot trust inflation not to reduce the buying power of eventual payouts substantially over the next 10 or 15 years.

"In fact, out of every 100 pensioners, only nine can expect to be financially independent."

Retirement annuities are useful in building up future income.

The three pillars

CASH, equity and property are the three pillars of investment, says Metboard

"With the share market in a bear phase and inflation likely to continue rising, investment becomes more serious and complex than before," Metboard says.

What are the principles of investing in each of the three categories?

☐ CASH: A cash investment can protect a portfolio against capital depreciation and will probably comprise a short-term — or liquid — and a long-term investment.

Many institutions operate money market operations and some a call operation. These, by means of marshalling funds, give private investors access to preferential, wholesale rates which may be as much as 5% higher than retail rates.

The call option also gives investors short-notice access to funds.

☐ EQUITY: Although, as Metboard says, equity markets are fickle, they are an attractive long-term investment avenue.

A popular form of access for smaller investors is the unit trust.

Unit trust schemes allow participation in quality shares for a relatively small investment, relying on institutional expertise and research.

Unit trust schemes vary: some specialise in particular stocks and sectors, others invest across the board.

Some institutions' investment advisors include specialists in government stocks (gilts). Investment in gilts is highly specialised and requires a large capital outlay. Again, access to gilts investment is possible for private investors with relatively small sums through several institutions on a monthly basis.

FRINGE BENEFITS TAX: SOFTENING THE BLOW

FRINGE benefits tax will bite more and more — but there are still advantages in "soft loans" for housing and in private use of company cars, says Aiken & Peat partner Ed Hoffman.

He says the Margo Commission recommended the abolition of giveaways by employers to employees to soften the tax burden or as incentives to attract and keep staff.

Perhaps by 1992, when the last concessions on housing loans, low-interest or no-interest or "soft loans" are phased out, taxpayers will accept as normal the taxation of car allowances and other employee benefits.

The phasing-in concession for soft loans for share incentive and other schemes and for subsidised residential accommodation will end in the tax year 1989/90

Hoffman says in spite of this, it would help taxpayers to accept soft loans at a low interest rate (say 3%).

They would then pay tax on the "deemed value". This deemed value — based on the difference between the rate paid and the official rate of 13% — compared well with taking out a bank or building society loan at, say 15% repayable monthly out of after-tax income

Hoffman says an employee earning R100 000 a year, for example, who took out a 20-year bond at 15%, would actually pay about R1 000 more in income tax than another employee on the same income who borrowed the money from his employer to buy a house at a rate of 3%.

More important, his deduction for interest and capital repayments at 3% over 20 years of the life of the soft loan would mean that he enjoyed a larger monthly take-home pay. And he would be paying off his loan more quickly than the man with a bank or building society loan.

Turning to the use of company cars, Hoffman says in spite of increasing taxation, employees would still derive a financial benefit from using a company car for private use.

If an employee bought a R80 000 3/ car for cash or on hire-purchase or lease, rule-of-thumb calculations said it would cost him roughly R40 000 to maintain and run it in the first year

However, if the employer bore the cost of purchase and running costs, the monthly tax paid by the employee would amount to a deemed value of R529 or R6 348 a year. The tax on that is R2 865,60.

"Now tell me whether the taxpayer would not prefer his employer to provide him with a car rather than buy one on his pwn account," Hoffman says.

For the record, Hoffman says, the Income Tax Act of 1988 has increased by 15% the monthly value to be added to gross income applicable to private use of cars provided for employees by companies.

"The phasing-in of taxation on company car benefit is being speeded up."

Only those employees who have housing mortgages provided by an approved housing scheme which was in operation on March 28 1984 still enjoy the phasing-in concessionary tax benefits.

These cease in 1990, when the taxable percentage of the housing or loan subsidy to be included in the employee's taxable income will be 100%. This year, the fringe benefit has been reduced by 45%.

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TAKE A CLOSE LOOK AT PROFIT PARTICIPATION

INVESTORS should closely examine the ways life assurance policies participate in profits, says Peter Atkinson, assistant general manager for life marketing of Southern Life.

This is particularly important when selecting a policy, and is not a suggestion that one should swop insurance companies or policies after having had them for some time, as financial loss would result.

"Policyholders still seem to believe that growth on insurance plans will be automatic each year," he comments.

"The adverse performance of the JSE in the six months between October and April this year, has highlighted the need for policyholders to take a far closer look at the way in which life assurance policies participate in profits," he says.

Explaining, Atkinson said there were two different classes of profit-sharing policies — linked or conventional plans.

The growth under linked plans is usually related to the performance of the specific fund to which that class of policy is linked.

Fluctuations over time are influenced by cyclical movements of the JSE, the property market, interest rates or a combination of these.

Growth under conventional plans is derived from a general spread of investments. It takes into account actual investment returns, expenses, expected performance and the company's ability to maintain the rate of growth.

Annual declarations by the actuary of the life assurance company usually smooth out the peaks and valleys of investment conditions and result in a steadier growth pattern.

Return values for the two classes of policy vary substantially.

"For example, in the case of Southern Life, growth on the various linked portfolios for the year ending March 1988 varied between minus eight percent and plus eight percent.

"Sure profit policyholders enjoyed growth of the order of 16% to 16,5%, and reversionary bonus policyholders saw a return bonus declaration."

"However," adds Atkinson, "one should bear in mind that in the previous year, linked policyholders saw returns of up to 30% and more."

Risks are part of investments

THE object of any investment is to maximise the return on funds invested and to protect the real value of the funds, while taking a given amount of risk.

Although this seems an uncomplicated objective on the face of it, it is questionable whether many individual investors really understand the meaning of risk when they invest, says Econometrix director and chief economist Azar Jammine.

"When they make an investment, many individuals may acknowledge that they are undertaking a risky venture, but it is often only after large losses are incurred that they will admit to not having fully appreciated the risks involved when they initially invested.

"At the same time, risk should not be seen only in terms of the potential for losing money Risk should also be seen in terms of not being invested in a particular asset when that asset's price rises strongly — in other words the risk of foregoing a good opportunity to accumulate capital."

Jammine says it's not only in respect of his grasp of the risk concept that the man in the street is often lacking, but more importantly in respect of knowing what his own personal risk aversion may be both financially and psychologically.

"From a financial viewpoint, the individual needs to feel secure that even in the worst case outcome for his investment portfolio, he shall not be left destitute. He must ensure that his normal living expenses can be met in all eventualities and also that he will have enough in reserve to finance, say, unexpected medical costs or other commitments such as his childrens' education.

"Also, he must protect his capital well enough to be able to retire comfortably on income earned on his capital.

"Psychologically, the individual needs to ensure that the overall level of his wealth will not fall dramatically at any time."

Jammine points out that many investors only realise their risk aversion after a stock or property market crash. "There is often the temptation — partly because of lack of knowledge or information about alternatives — to put all one's eggs into one basket, looking only at the potential return on an investment in a single asset, and seldom considering the implications of the risks involved."

It's this lack of knowledge of the concept of risk on the part of individual investors which professional managers try to overcome.

"Any portfolio manager worth his salt will initially determine what his client's minimal financial needs are, as well as the kind of capital reserve which needs to be accumulated for the client to accommodate both unforeseen expenses as well as those future known outlays which the client has planned.

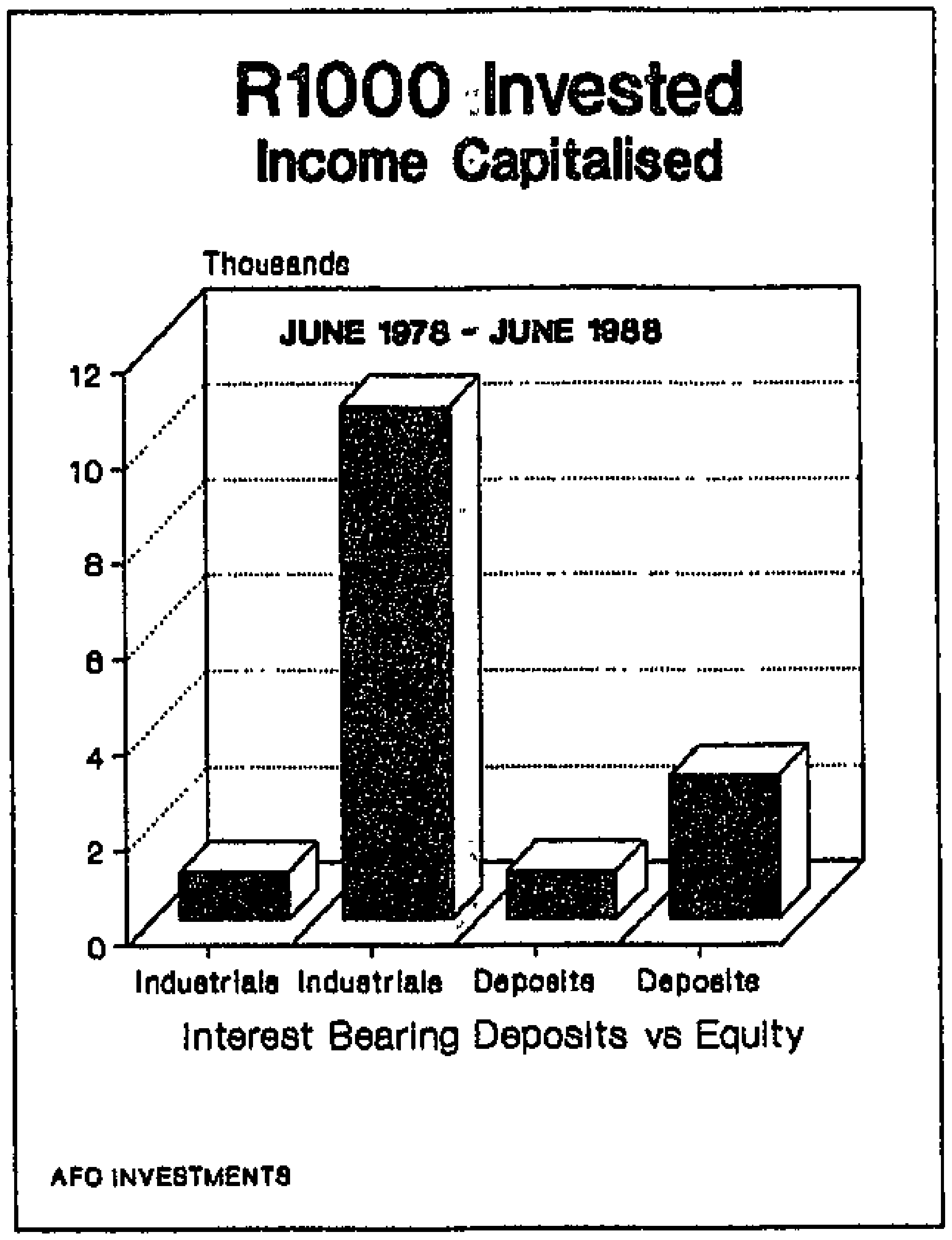
"Having established the client's income needs and risk aversion, and knowing the need to protect his client's capital base, the manager will turn his attention to investing in those assets which will provide the best capital appreciation given the need to satisfy the risk and income generating constraints."

But the manager must also pay special attention to the client's tax status. Some investments, notably fixed interest securities or money market instruments may seem like excellent income generating assets until one takes account of the tax payable on this income.

Instead, property unit trusts or some other equity instruments may be chosen because the tax burden does not erode income to badly.

Jammine says there are basically five types of assets from which to choose:equities, fixed property, medium- and long-term fixed interest securities, short-term money market instruments and hard assets such as coins, stamps, paintings or carpets.

"Each has advantages and drawbacks. Over the very long term, equities on the whole have outperformed most other types of assets and have more than adequately protected capital against erosion by inflation. Equities are also reasonably marketable."



AFO INVESTMENTS

Liquidity in investments

MAINTAIN a liquidity of at least 20% of the investment portfolio, AFC Investments' investment manager Bob Phipps advises clients in the September newsletter.

AFC is an investment holding company operating in the financial services sector dealing with a select group of private and corporate clients.

In the newsletter, Phipps writes: "With no real return of investor confidence and the position likely to deteriorate in the short term, we believe that liquidity of at least 20% of the portfolio should be maintained.

"Investments should be concentrated in blue-chip companies whose operations will be less vulnerable during these turbulent times."

AFC recommends investment in rand hedges; companies with assets offshore; financial (mining finance/assurance); inflation-proof industries including selected counters in beverages, food and electronics; companies involves in import replacement; and companies with low gearing.

Commenting on international markets, Phipps says that all major stock markets are looking fully valued and interest rates are rising worldwide.

Writing before recent news of pay rises for public servants and pensions boosts, Phipps predicts: "In the short term, leading up to the October municipal elections, the authorities are likely to try and keep the picture as rosy as possible.

"Thereafter we can expect conditions to deteriorate more rapidly, especially in the first and second quarters of 1989.

"However, we believe that for the serious long-term investor, the share market remains one of the best hedges against inflation."

Pension v provident fund

THE provident versus pension fund debate is a hot topic in financial planning circles.

But employees wishing to convert from pension to provident fund should move carefully, says Fedlife assistant general manager of pensions development, Bob Woodgate.

Woodgate says many employees want their companies to institute provident funds in response to trade union pressure.

"I find it difficult to understand why so many workers are moving to provident funds, and do not believe that the advantages and disadvantages have been sufficiently weighed up."

Employees lose out when they transfer their capital from pension to provident funds, he says.

The Income Tax Act makes no provision for a conversion of a pension to a provident fund.

However, an Inland Revenue spokesman says this has changed.

"Due to the ever-increasing occurrence of strikes and labour unrest, it has become necessary to accommodate such transfers,"

Seek a good tax shelter timeously

FEW need reminding that income tax has a significant effect on virtually all aspects of financial life, but this is particularly true in the investment field.

According to Price Waterhouse's Mark Badenhorst, tax reduces cash flow and plays an important role in the investment decisions which are made.

"In these inflationary times, the accumulation of capital through the reinvestment of investment income is made even more difficult by the drain which taxes have on income.

"Tax planning aims at cutting taxes by maximising allowable deductions and ensuring that investments are tax efficient. Tax efficient investments cut the overall tax burden and ensure that there is more money left for reinvestment. Capital can thus be accumulated faster."

To be a successful investor, it's vital to beat inflation by earning a real return. "This is achieved by ensuring that the capital growth of your investment together with your after tax income exceeds the inflation rate." Two ways to achieve returns in excess of inflation are:

☐ To invest in deposits or securities which pay interest at a rate higher than inflation; and

☐ To invest in deposits or securities where the return is taxed at a favourable rate or is tax-free.

Where it is not possible to remove or reduce tax on income from investments and not possible to make investments which are deductible for tax purposes and produce tax-free gains, the investor can invest after-tax income in areas which do not once again produce taxable income.

"One method of achieving long-term financial security in a country with a high inflation and tax rate is to invest in appreciating capital assets and to secure deduction for this investment against current income where possible. This is especially the case where capital gains are not taxed."

This can be achieved by investing directly in property and shares with long-term capital appreciation potential or indirectly by investing in a business.

"An excellent example of a tax haven is to be found in investment in a farm. The value of the investment will appreciate by building-up the value of the asset through expenditure which is at least partly offset against income generated by the farm.

"This principle may be applied to any business although the final return will depend on the tax deductibility of capital expenditure in that particular business activity," he says.

A recent amendment to the tax law will ensure that tax losses generated by the purchase of livestock can now only be set off against farming income.

Badenhorst says tests to determine whether the taxpayer is a farmer and entitled to the various allowances, may be introduced in SA in the near future.

However, farming is not the only tax haven available, although it clearly illustrates the principle. Other examples of tax shelters abound and vary from simple forms of tax shelters such as pension schemes, retirement annuities and life assurance policies to more complex types.

"For less faint-hearted artful dodgers, various other tax shelters are available. These more sophisticated forms are usually constructed around particular sections of the tax legislation

"These forms of investment are reputed to have caused an enormous erosion of revenue for the taxman so legislation to combat the perceived abuses has been introduced.

"And it may be anticipated that more legislation will follow. If SA follows examples of countries like the US, these forms of tax shelter will eventually become practically useless."

INFORMAL CREDIT

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Buddy, can you spare a dime?

▩ Outside formal financial structures, huge sums change hands each year

Black taxis, black builders — and now black bankers — of a sort. Stoking the economic furnace of the townships is a thriving network of informal, do-it-yourself credit which has sprung up because the mainstream financial institutions simply neglect this market. A few billion honest pennies turned in this way could eventually add up to bigger things. Which is what happened with Sabta.

How does it work? When a cleaner in a bank faces a cash shortfall — for taxi money, say, or to pay an outstanding account — he turns not to the institution which employs him, but to the resident *mashonisa*. Literally translated, he is "the one who kills" — because of the high interest rates he charges. *Mashonisas* are informal moneylenders — and there is at least one in every building in town, if not most offices (including banks and building societies) and factories.

They are often senior persons in a firm earning an above-average income and they provide short-term credit to colleagues to be repaid on the next payday with interest — typically about 20% a week, although there is some evidence that interest on larger loans is lower.

Mashonisas keep a tight rein on their clients. They generally lend only to people they know, usually fellow employees, or those recommended to them. They have few bad debts. While there is the ultimate sanction of bringing in a few heavies to persuade a tardy debtor, there is another more rational reason for this healthy repayment situation. Quite simply, if you default on a debt, the opportunity to borrow is never again available. Furthermore, *mashonisas* operate an informal credit bureau and defaulters will find credit lines to others closed as well.

While *mashonisas* are largely limited to the workplace, other credit networks operate within the townships. These include loan sharks, sometimes called *skoppe*; but also involve interpersonal debts between families and friends, as well as various types of savings clubs, commonly called stokvels, investment syndicates and burial schemes.

By definition, informal sector credit cannot be quantified — but in a study done on a small peri-urban community outside Durban, Catherine Cross of Unisa's Development Administration and Politics Department discovered a dense web of such transactions. Loans covered cash shortfalls for food, personal emergencies, capital for small selling enterprises or funds for home improvements (**see graph**).

She also discovered that, like the formal sector, establishing a reputation of creditworthiness was essential for obtaining credit. But, unlike the formal institutions which base their assessment on the potential borrower's hire purchase record, overdrafts and shop accounts — or the provision of collateral — becoming locked into an informal credit network involves not only being a borrower, but a lender. Loans to other people become a form of safe savings against which debts can be incurred. Being a member of a stokvel helps, as it is known that at some time all members receive funds from the pool.

Stokvels are probably the biggest generators of informal funds. The term is a catch-all phrase for savings clubs, of which there are a great variety.

Decades ago, the illegal shebeen queens contributed to a kitty in the event of "cops or other misfortunes." When one of them was raided and ended up in prison, the fund supported her family. Thus was born a form of indigenous insurance of which today's burial societies are a continuing example.

Members of stokvels tend to know each other and the club operates on trust, the ideal of "collective responsibility," says chairman of the recently formed National Stokvels Association, Andrew Lukhele.

"It's an abomination to default," he says. "Money lands where it has to land." Even if it means borrowing to ensure that it does.

In some clubs, members contribute a prescribed amount of money on a regular basis and rotate the kitty. Another kind of stokvel involves members putting money into a savings account which is split up at the end of the year.

There are stokvels which operate as buying clubs. There are birthday clubs where the celebrant receives the kitty and a present from each member. Some are closed; members meet and discreetly partake of tea and cake before handing over the funds. Others are simply an excuse for a party.

But then some clubs open their parties to the public and charge for food and drink. With the formation of the National Stokvels Association, this kind is destined to become the best-known.

The number of members in these stokvels is kept low, says Lukhele, "so that each member has the chance of hosting the party at least twice a year." The reason for this is that more money is made from the party than from the savings procedure. Contributions may amount to R2 000, but this can be doubled from a swinging bash.

Stokvels are more than money-making ventures. There is a whole sub-culture around the clubs, starting with the colourful names they choose for themselves. There are clubs called Mighty Monday Blues, Tell-Me-Why and Sweet Sunday. There is even a Barlow Rand. Others identify with a brand name and make sure the product is available at the party: Charles Glass, Southern Comfort Syndicate, Pushkin, Smirnoff and Tuesday Martell are some operating on the Reef.

Increasingly, stokvels are becoming popu-

Stokvels' Lukhele . . . an abomination to default

lar with young upper-income blacks, whose clubs are fashion oriented. Some of these select, as their alter egos, shops of Johannesburg's northern suburbs. So there are clubs called Benetton, Palazzo Pitti, Lacoste, Daks of London and Kappa Sport, whose members patronise these shops. Group identification is important and members often wear clothes from the shops or invest in a kind of uniform of T-shirts and caps.

At times, clubs are set up with a specific aim in mind. "They are a way of financing large purchases that avoids hire purchase agreements," says Lukhele. There is a Johannesburg group buying cars; a group in Pretoria is buying houses. There have been groups set up with the goal of establishing business ventures — a taxi outfit, for example.

Evidence suggests that the amounts being generated by stokvels amount to millions of rand each year. The question is how big a part this money plays in funding the informal sector — and, more important, how the funds being generated could be harnessed to this end.

Money raised from stokvels *does* help to capitalise the production sector, specifically construction work through investment in home improvements. The multiplier effect of keeping the money moving in the informal sector cannot be underestimated. According to Cross, "recipients will lend funds because they know they will get the money back or be able to borrow themselves when they need to. In this way, stokvels are capitalising a lot of small-scale selling."

A major problem with stokvels, though, is their infrequent payout.

University of Natal, Durban, lecturer Marlene Hesketh agrees that stokvels do sometimes provide start-up capital, but says they are inadequate for financing running costs. "Small businessmen face a cash shortfall battle," she says. "There is a great gap in the market for working capital."

The formal financial institutions have not filled this gap because they cannot do so in a cost-effective way. Administrative costs of small, short-term loans are expensive and interest is limited in terms of the Usury Act.

Mashonisas are attempting to bridge the gap in some way, but they don't have access to large amounts and are forced to operate outside the law. Any change in the Usury Act will undoubtedly lead to cries of exploitation. But Job Creation MD Ian Hetherington says that for the small businessman the problem is not the high interest but the availability of funds. He believes that *mashonisas* provide a service that is needed — in effect a kind of credit card for the poor, mainly to finance consumption. "Most customers use them repeatedly, so it's rubbish to say they are being exploited."

Other Third World countries have effective small lending schemes supported by government. In Mexico, there are banks which service one-day borrowers. A hawker can borrow, say, R100 in the morning, buy from the market and sell all day. At the end of the day he pays back R100 plus 1% and is free to take up a similar loan the next day. The annualised interest is in excess of 300% — far above what our Usury Act would allow.

"We need some sort of a bank to address this gap, a bank which would lend small amounts for short periods to lots of people," comments Hetherington.

A number of semi-formal funds have developed in the attempt to fill this gap, from the Small Business Development Corporation's Mini Loan scheme which requires formal assessment of ventures, to the Get Up scheme which works with community coordinators who allocate funds with minimal paperwork.

A number of credit guarantee schemes which operate as collateral for people borrowing from the formal sector are in the offing, including one being considered by Black Enterprise Trust and another by the African Council of Hawkers and Informal Businesses.

Applying the notion of collective responsibility is Get Ahead with its recently launched Stokvel Loan Programme which is offering loans from R100-R600 to individual borrowers but requiring them to form stokvels as collateral. The reason for establishing this scheme, says Get Ahead's John de Wit, was the bad debt ratio they previously had. "With our friendly image we were seen as a soft touch and were often paid after clients had honoured their other debts — like those to loan sharks."

De Wit notes that although the number of semi-formal institutions is proliferating, the numbers benefiting are probably only a drop in the ocean "Friends and family probably still play the biggest part in financing the informal sector," he says. Both Hetherington and Hesketh agree with this assessment.

One of the most successful financing schemes has been the Sabta Foundation, which is similar to a stokvel in that it also involves collective responsibility.

Members pay into a fund — now in excess of R10m — but can borrow well above what they put in because the fund is being held as collateral. Taxis are obtained on a suspense of sale agreement and if any member falls behind in his payments officials within Sabta structures follow through to see what is wrong.

Given the amount of money being raised by stokvels, the question is: could they fill the gap and become a kind of indigenous bank?

Obviously, special interest groups like builders or tavern owners could learn from the Sabta experience. But could other funds being generated be shifted from consumption to venture capital?

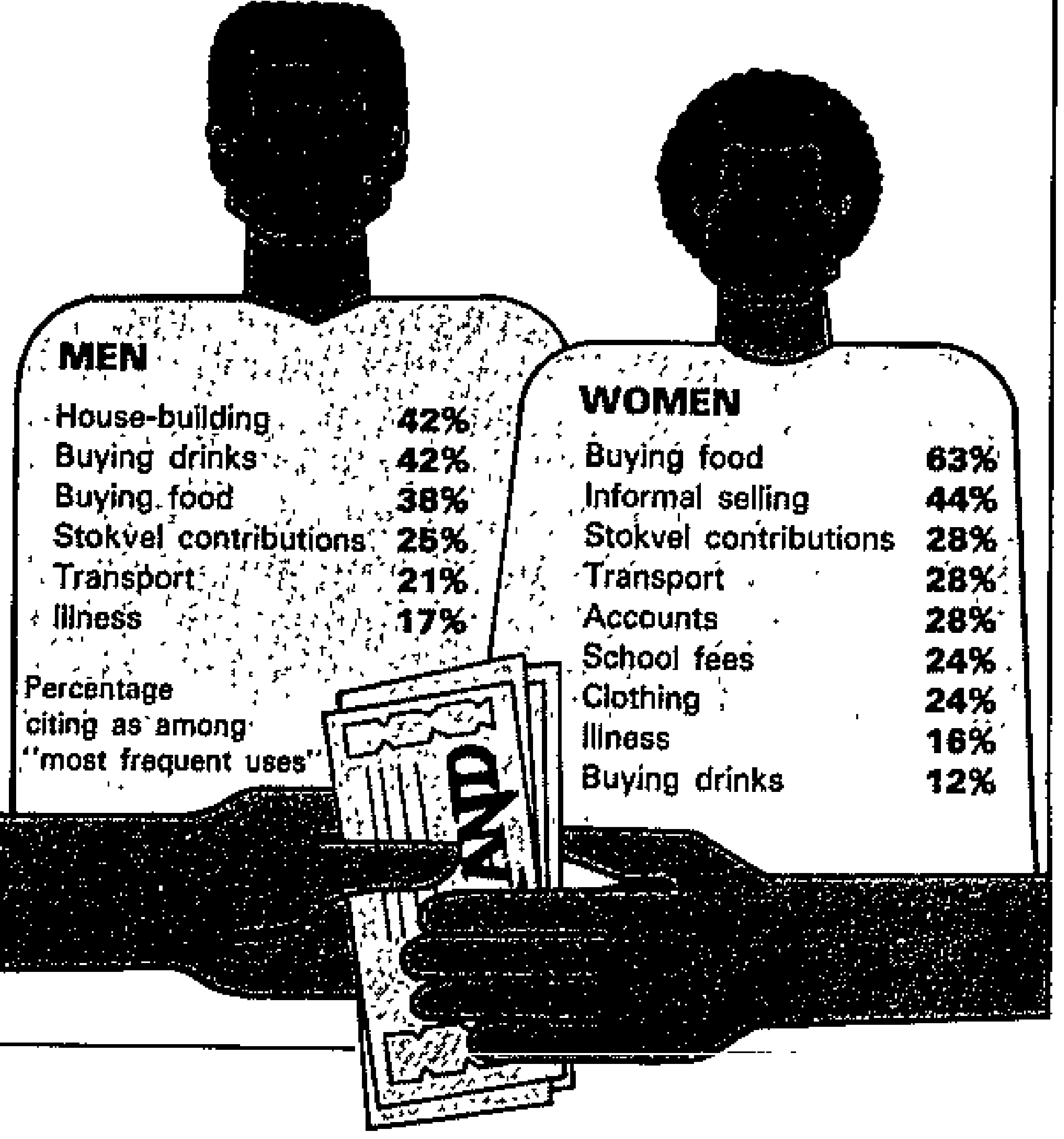
There is some evidence that this is already happening. Some well-established stokvels are now lending out their capital.

The growth of what are called "investment syndicates" is another indication. In these schemes, funds from members are invested; when the money collected has reached a certain figure, it is used to start up a business, or sometimes divided among the members pro rata according to contributions. Others lend out money for a profit. These syndicates often last for a year after which they are dissolved and the profits shared.

The problem is that, should they grow, they will hit up against existing legislation. But regulation is the last thing we need now. They should simply be allowed to flourish. How did banks originate in the first place? ■

Do-it-yourself credit

The most common uses of informal credit



MEN

House-building	42%
Buying drinks	42%
Buying food	38%
Stokvel contributions	25%
Transport	21%
Illness	17%

Percentage citing as among "most frequent uses"

WOMEN

Buying food	63%
Informal selling	44%
Stokvel contributions	28%
Transport	28%
Accounts	28%
School fees	24%
Clothing	24%
Illness	16%
Buying drinks	12%

Du Plessis escapes petrol-bomb

58 B/day

30/9/88

IMF says SA interest rates too low

GRETA STEYN
in West Berlin

THE IMF regarded the level of SA's interest rates as too low in real terms, Finance Minister Barend du Plessis said yesterday.

At a media conference for SA journalists, he said the IMF was in favour of positive real rates of interest.

"But remember, the IMF is thinking in terms of the ideal — the textbook situation. And it should be borne in mind that nominal rates, and not real rates, cause cashflow problems. The level of interest rates should be judged in terms of the current domestic economic indicators of a country."

Du Plessis also said he had narrowly escaped a petrol-bomb hurled by angry demonstrators at the car behind his while he was travelling to the conference venue yesterday.

He touched on a wide range of topics, from SA's foreign debt situation to the attitude of West German bankers who were under enormous pressure to stop providing trade credits to SA. He also said structural adjustment, and economic priority at the IMF, was urgently needed for SA.

On foreign debt, he said the European banks were relaxed about the situation. He noted that $3bn of short-term debt inside the net had been converted into longer-term debt outside the net.

While nothing new had emerged on the bonded debt which fell due in 1990/91, he said economic policy in SA would be geared towards building up the

● To Page 2 ⇨

IMF says SA's interest rates too low

B/day

⇦ ● From Page 1

30/9/88.

necessary reserves to meet those commitments. Bankers had not appeared worried about the issue and any reference to 1990 at this time was speculation.

West German bankers were under great pressure, not only from the country's churches but also from the US, to stop all business with SA.

"The Americans are pressing the Europeans by threatening to cut business ties and calling on them to make laws against bankers doing business with us.

"But the Europeans tell me that they are withstanding the pressure. The Americans have lost credibility on sanctions and the Europeans perceive them to be acting in self-interest."

He blamed the US for SA's unfortunate position at the IMF.

"We have to effect credit. We are like a business which has to manage its cashflows without an overdraft facility. I found it ironic that (US) Treasury Secretary (James) Brady could piously praise IMF aid for structural adjustment. We have to effect adjustment at great cost to the country."

Nonetheless, adjustment was an urgent priority. SA needed to address the nature of its growth, specifically its dependence on gold.

The country had to lower its propensity to import at times of strong growth.

Better utilisation of SA's labour resources, export promotion, privatisation and deregulation were part of the structural adjustment programme.

Du Plessis noted that most of the important speakers at the joint IMF/World Bank annual meeting had rejected protectionism and called for freer world trade.

"But the more the major countries talk against protectionism, the more they put it into practice. The US recently implemented protectionist measures in its textile industry. The world is paying lip service to free markets while sanctions and protectionism is a reality."

● See Pages 3 and 16

FINANCE - GENERAL

1989

JANUARY

S/Times 1/1/89

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Insurers locked in battle

COMPETITION among short-term insurers for business is so strong that an increase in premiums, usually implemented at this time of the year, seems unlikely.

Insurers and brokers, including South Africa's biggest personal lines insurer Santam, say there is so much underwriting capacity that they are battling to fill their books.

Some companies hope to increase market share by introducing group personal insurance schemes for blacks. That would be a breakthrough for the industry because this sector, which some insurers still regard as high risk, has never been touched.

By Udo Rypstra

Other insurers argue that several black sectors are good risks and that anyone building up statistics about them would stand to make a lot of money.

More and more affluent blacks believe they need insurance. Some are being forced by employers and retailers to buy it as security for cars and goods bought on company loans and credit.

Prestasi Brokers, which specialises in group schemes run in conjunction with labour organisations and has computerised underwriting facilities, is believed to be leading in this field.

"We have designed a product and are still negotiating. We hope to make an announcement within a month or two," says managing director Abrie du Preez.

The bad news is that the cost of new cars, spare parts and imported goods will soar because of inflation and surcharges.

Don Gallimore, managing director of insurance broker Priceforbes Federale Volkskas, says many policyholders will be underinsured. They will have to raise their sums insured and pay higher premiums.

Mr Gallimore says that although the average value of claims should rise sharply and justify premium increases in the normal course of events, all insurers have plenty of capacity, causing fierce competition. He says most insurers have had a profitable year. Even the latest Natal floods will not affect business. There was little hail in November-December on the Reef and insurers have been spared the usual spate of claims.

"I cannot see any reason for an increase in premiums. I am not aware of any insurer planning to do so. However, by the end of January the cost of claims for homes that have been ransacked, goods lost and cars damaged during the holidays will start coming through.

"The result will be higher loss ratios and they could lead to higher premiums in the second half of the year."

It is said that the latest Natal floods should result in claims for no more than R1,5-million.

S/Times 1/1/89

8/5

Standard rate rises

STANDARD Bank will increase its home-loan interest rate by 0,75 percentage points to 17,75% from February 1. But concessionary interest rates of 16,75% and 17,25% will continue to apply to its PrestigePlan account holders. Its new rate is below the 18% charged by most financial institutions.

House owners face mortgage crunch

Star 3/1/89

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By Sven Forssman

Houseowners will have to dig deep into their pockets to hold on to their houses this year as the new bond rate increases take effect.

Most banks and building societies' rates move up to 18 percent on February 1.

But some relief is in sight. Economists point out that interest rates, including mortgage rates, are close to their cyclical peak and should start declining sometime around mid-year, if not earlier.

Mr Anthony Gibson, senior investment manager at Syfrets, says the prospects for lower interest rates depend to a large extent on government exercising a measure of fiscal restraint.

The shock rise in the cost of mortgage bonds was led by First National Bank which put its rates to 18 percent last November, while Standard Bank is lifting its rate to 17,75 percent from February 1. This is below that charged by most major financial institutions

The monthly repayment on a R50 000 mortgage spread over 20 years has jumped to R770 at 18 percent from R568 at 12,5 percent last January.

"Called up"

Speculation is mounting that banks and building societies have had to call up an increasing number of house loans in recent months, but Mr Terry Power, general manager home loans at Standard Bank, said yesterday there was no cause for alarm.

"There has been a slight increase in the number of home loans called up, but most of the houses we have sold have been through insolvent estates.

"We see the demand for houses being sustained throughout the year and we don't foresee any cutback in bond allocations — if houseowners can pay for their money, we will continue to provide

"People buying houses this year will have to lower their sights as we don't see the prices of houses in the middle price range coming off much.

"Luxury homes might be a little more difficult to sell, but from our experience the people buying these homes usually pay cash."

Mr Power said Standard's average bond was between R80 000 and R85 000 and it was not into low-cost housing.

"We give bonds for houses between R35 000 and R40 000 but nothing below that."

NBS expects an increase in the number of defaulters as a result of the interest rate level.

Mr Terry Bradshaw, Transvaal manager of the building society, said recently that the bond rate rise was sure to hurt some people.

Hans Falkena, chief economist of UBS, said recently the debt situation could get worse, but he believed that while the R80 000 bondholder was paying R900 at the beginning of the year compared with R1 200 it all evened up over the long term.

Investment

Homeowners can take heart from the words of estate agent Wendy Machanik, who believes owning a house is still one of the best investments a person can make

"A homeowner who bought 10 years ago would be able to sell his home today for at least five times what he paid for it."

"A R15 000 stake in a R50 000 property 10 years ago relates to a current value of R250 000 — a capital gain of R200 000.

"The same amount invested at an institution at 15 percent over a 10-year period barely reaches double the amount of the investment"

'Banking industry in a dilemma' (58)

Regulation of liquidity needs review: Hersov

B/Day 3/1/89

KAY TURVEY

BANK liquidity should not become a pawn of monetary policy, First National Bank chairman Basil Hersov warns in the bank's latest annual review.

Liquidity measurement and regulation in SA are highly artificial, punitively costly and in need of review, says Hersov.

The logical corrective to costly credit growth is to allow the price of credit, as determined by the bank and prime rate to rise in line with other money market rates.

"The authorities' obvious inhibition in this respect has, in our view, been economically counter-productive and damaging to the viability of the banking system."

Hersov says endeavours by the authorities to curb the rapid consumer-led growth of credit in the past year has put the banking industry in a dilemma, caught between the forces of free market entrepreneurial competition and public monetary policy.

Prime rate rises have been artificially held back, squeezing bank lending margins, "an indiscriminate technique" which damages the margin on the aggregate lending books of the bank.

Further, expectations of rising interest rates have led to an unbalanced rise in deposits. Of the R25bn in deposit and current accounts, R22bn matured within six months.

This short-term nature of available funding has led in turn to a high statutory liquid-asset requirement, and consequently to rapid growth in this low-yielding investment portfolio.

Hersov says although the bank cannot object to monetary policy constraints being imposed on private enterprise banking, they are entitled to question the instruments.

The authorities' use of moral suasion on the banks and warnings of limited and expensive "window" assistance cannot turn off consumer demand or shrink the sizeable pipeline of committed home loans in the course of registration.

Neither can individual bankers feel comfortable that an unquantified exhortation will be uniformly interpreted to engender no competitive shift of advantage, says Hersov. He tentatively recommends "quantified credit growth ceilings (themselves an admitted contortion) would be more effective" to control money supply.

Bank keeps interest rates in check

HAROLD FRIDJHON

PROMPT Reserve Bank intervention held short-term interest rates steady as the public demand for cash during the Christmas holiday soared to just under R8bn, a 33% leap from the previous year's R6bn.

From mid-November, the banks had to find an additional R1bn to "buy" banknotes from the Bank, thereby compounding their financing difficulties which had stemmed from last year's escalating demand for credit. B/Day 4/1/89

The Bank had assured the banks it would stand by with assistance by lending overnight money on the pledge of prescribed assets. This put a halter on the large institutions which had been lending overnight money at rates as high as 17,5%.

During December, the banks' cost of

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Reserve Bank holds interest rates steady

B/Day 4/1/89

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From Page 1

overnight wholesale money rarely exceeded 16,5% because the institutions realised the central bank could offer cheaper facilities if it wished.

During the critical month-end week, the Bank lent no more than R900m overnight to the banks and this was reduced quickly to R400m. The average rate charged was no more than 16,04%.

As a result, the rate for 90-day bankers acceptances dropped to 15,65% during the month from a peak 16,40%.

The money market's borrowing from the Bank through the discount window was held to a manageable R2,5bn, financed against the pledge of the banks' surplus liquid assets.

On December 31, 1987, the banks' debt to the central bank was a paltry R366m — a R2,134bn difference accumulated in 12 months during which the gold reserves had reduced from 6,48-million ounces to 3,43-million ounces as about 3-million ounces had to be monetised to meet foreign liabilities.

Life assurers expecting a comeback

BDay 4/1/89

58

MERVYN HARRIS

LIFE insurance shares, neglected for most of 1988, could come out of the shadows this year — with some analysts expecting the sector to outperform the overall market.

In an uncertain economic climate, life insurance shares have the advantage of being non-cyclical and earnings growth of 20% is well within the capabilities of most companies in the sector.

This would exceed earnings growth forecast for most industrial companies, but the cloud overhanging the life insurance sector is the uncertainty of a new tax for assurers as government seeks to milk the sector of more of its huge cash flows.

The sharp increase in tax on life offices, announced in the 1988-89 budget, hit sentiment and led to a decline in most companies' shares relative to the insurance index.

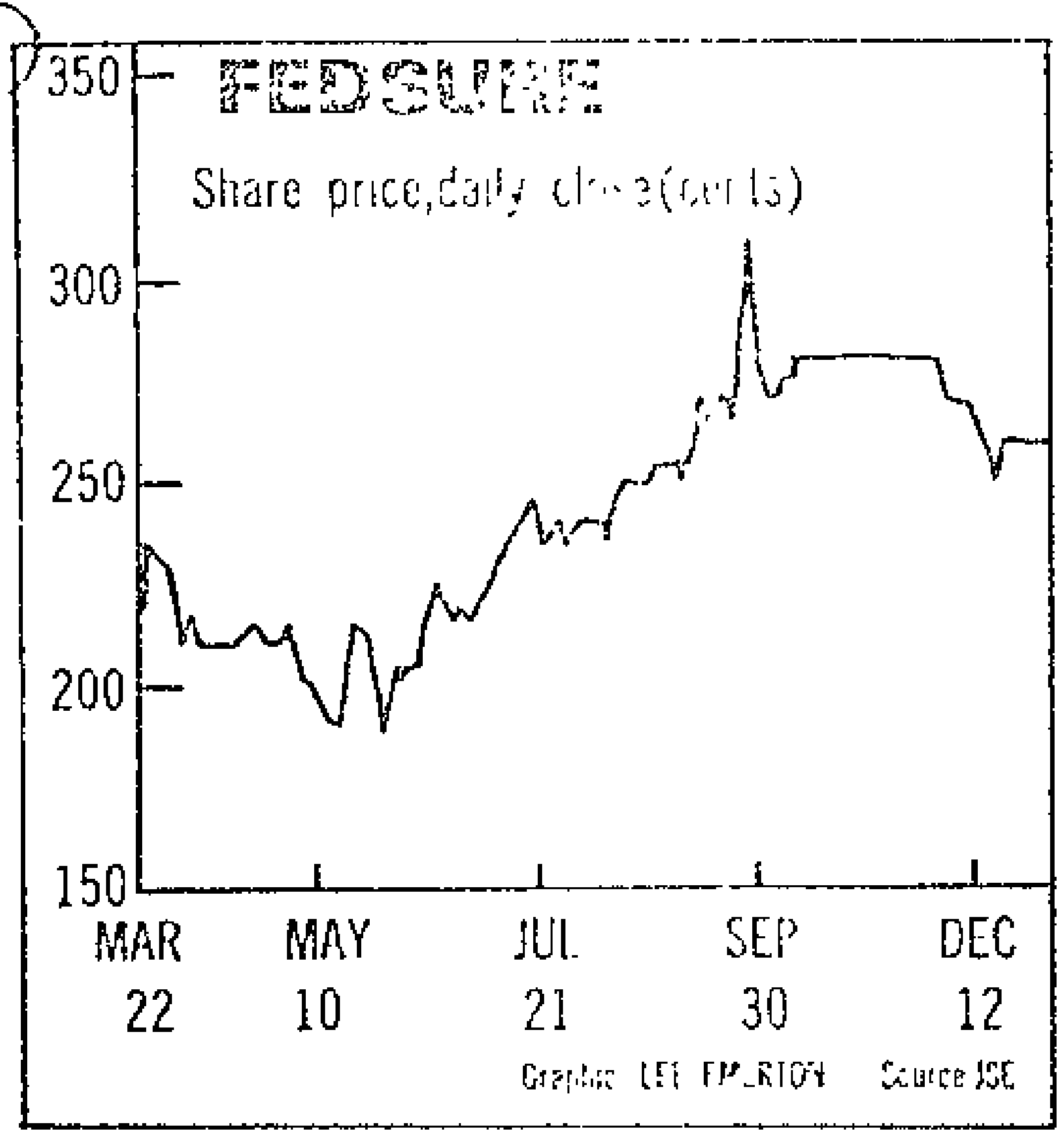
While the higher tax is expected to knock between 3% and 15% off assurers' earnings growth in 1988, analysts believe assurers' earnings in the long term will not be seriously affected by any new tax system

The life insurance sector suffered a further setback last year because of troubled Lifegro, which is to be taken over by the smaller, unlisted Momentum.

Life stocks nevertheless look among the soundest recession-proof shares on the market in the light of the slowing economy, weak rand and sluggish gold price.

Liberty maintained its position as the front runner in the sector last year but the shares benefited from the special circumstance of the group hiving off its overseas interests in the new home of First International Trust.

Fedsure, the holding company for Fedlife which represents about 97% of group assets and contributes 98% of group profits, has been the other strong performer in the sector.



Graphic: LEE EMERTON Source JSE

Momentum set to shine after Lifegro merger

B/Day 4/1/89

58

KAY TURVEY

UNLISTED Momentum Life, which is to acquire the entire issued share capital of beleaguered Lifegro, promises to capture a sizeable slice of the assurance market a few years down the line.

Max Pollak & Freemantle analyst David Southey says although the rationalisation will be a long-term process, the true benefits are likely to emerge only after June 1990.

However, he recommends accumulating the Lifegro share at around the 16Oc to 175c level. The shares closed yesterday at 180c.

Writing in the firm's latest financial report, Southey forecasts investors will benefit handsomely in two or three years time from solid capital and dividend growth in line with the rest of the assurance industry — a sector noted for its recession-proof nature.

The backing of some of SA's largest financial institutions, including the vast Rembrandt, Volkskas, United Group stable, also bode well for the new group.

At 210c, Southey says Momentum shares are particularly conservatively valued, as the group's reserves contain substantial surpluses that will accrue to policyholders and shareholders

This surplus will also contribute towards the enlarged group's capital requirements, although a capital injection by way of a rights issue is planned for early 1991 in order to fund new business growth.

The rationalisation will rectify the acknowledged capital shortage in Lifegro, where shareholders' funds to total assets amounted to only 1,5% in 1987 — the lowest ratio in the industry.

Southey says it is likely that the new Momentum Group will be aiming for a ratio somewhere between Fedsure's 3,2% and Southern Life's 5,4%.

Lifegro's shares, valued at 200c in terms of the deal, give Lifegro shareholders' funds amounting to some R104m. A further R60m will acrue from Momentum's accumulated reserves and since the combined assets of the two companies will be in excess of R4bn, a capital ratio of about 4% will have been achieved.

Further, in the course of the year Lifegro will move the bulk of its head office in Sandton to the new Momentum Life offices in Verwoerdburg. The Sandton building will be sold or sub-let and plans are underway to trim back Lifegro's 530-strong agent force. Combined savings from these developments are estimated at around R30m to R40m a year.

Southey points out that while rationalisation is underway profits will be investment driven as the existing policyholder base is consolidated

Mometum's expense ratio at 11,8% for 1988 is the lowest in the industry as the group has a significantly larger proportion of recurring premiums which provide a significantly better profit margin than in single premium business, on which Lifegro has concentrated.

Southey suggests the new group's marketing efforts may be hampered by the negative publicity surrounding Lifegro over the past few years, but adds this is why the Lifegro name is being abandon and it is being put in the smaller more successful Momentum

B/Day 4/1/89

Bond rates to remain stable

THE ECONOMY did not indicate an increase in bond rates in the immediate future, said Standard Bank Treasury deputy GM John Lloyd.

He said the demand for credit had not been accelerating and this had helped keep bond rates stable.

Estate Agents Board immediate past chairman J T M van Straten said the present interest rates being asked by banks and building societies had had an adverse effect on the amount of property sold.

He said a decrease in house prices was already becoming evident and many homebuyers were being forced to buy smaller homes.

Most seriously effected were the homes in the R80 000 to R150 000 bracket.

(58) ([illegible])

Standard Bank home loans division deputy GM Terry Power said yesterday there had been a falling off in the number of home loan applications during the past few months and his bank had granted mortgages of R100m in December as compared to the R255m in July. — Sapa.

Tax and interest rates could rise again in '89

B/Day 5/1/89

(58)

ADAM PAYNE

LOOKING at the economic prospects for 1989, Davis Borkum Hare economist Mike Brown sees the restrictive economic measures introduced in 1988 aimed at reducing domestic demands remaining in place for most of this year.

Dampening measures likely to be introduced could include higher taxation. He says: "Government spending was largely restrained in 1988 but the salary increases for civil servants and the probable early general election should see higher state spending over the next six months. It seems taxes will be increased to help finance state spending."

Implementation of the Margo Commission proposals seemingly provide a perfect excuse for higher taxes, as seen in 1988 with about R2bn in tax increases introduced up to December.

Brown recalled that weakness in the current and capital accounts of the balance of payments forced the authorities to adopt stricter economic measures and said they were aimed at rebuilding a solid surplus on the current account and at increasing foreign exchange reserves ahead of 1990 debt negotiations and repayment commitments.

Measures

The dampening measures in force and those likely to be introduced include:

☐ Higher interest rates: the recent 2% hike in bank rates probably brought interest rates up to the level at which they will start biting into consumer spending. However, if overseas interest rates rise further and/or local demand for credit continues at high levels, further increases in interest rates cannot be discounted;

☐ Indirect measures — import surcharges, increased fuel prices — met the double objective of reducing imports and pushing up state revenue. More measures of this kind should not be discounted. For some years, the consumer has been wooed into increased spending by low interest rates, declining taxes, stable petrol prices but now the opposite side of the coin is being presented. Also lurking is the spectre of higher GST and/or VAT, although this could be delayed until after the election — mooted for March or April.

At present, the outlook is for economic growth to slow from about 3% this year to 1,5% or less in 1989. The sluggish growth trend could drag into 1990.

Cape Times 6/1/89

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Metfund growth beats inflation

CAREFUL share selection and changes in the weighting of the portfolio has enabled the Metboard Mutual Fund (Metfund) to achieve growth ahead of inflation and the JSE indices while continuing to maintain a risk aversion profile.

Taking into account income distributions of 6,86c, the repurchase price of 102,41c a unit at December 31, 1988 (90,53c), returned an overall growth of 20,7% for the 12 months.

This compares with the increase of 9,3% in the JSE Overall Index for the same period.

The last quarter of the year saw a broadly based advance in equity prices on the Johannesburg Stock Exchange. The JSE Actuaries Share Index increased by 7,6%, the All Gold Index by 2,8% and Industrial Index by 11,3%.

Rand-hedge and currency related counters once again provided stability against the volatility of the rand and the US dollar gold price.

In summary, Metfund says 1988 has been a year of recovery since the market correction of October 1987, with industrials and rand-hedge stocks providing the best returns.

Metfund has used this period to acquire quality counters thereby reducing the liquidity content from 73% at the start of the year, to 35% by December 31, 1988.

Although sentiment has improved of late, the outlook for 1989 remains one of caution.

Fundamentals suggest that a measure of liquidity is still appropriate.

Business Report

OM Mining Fund distribution rises by 34,6%

CM Times
6/1/89

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OLD MUTUAL Mining Fund has declared an interim distribution of 7c for the six months ended December 30, 1988, a 34,6% increase on the distribution of 5,2c declared six months earlier.

The purchase price of both Old Mutual funds strengthened considerably over the last quarter, rising by 7,8% in the Mining Fund and 8,4% in the Investors' Fund.

Old Mutual unit trusts took advantage of a number of value situations in the quarter with the result that both funds were net buyers, with liquidity decreasing by more than two percentage points in both funds.

The Investors' Fund substantially increased its holdings in Safren and Nedbank, acquired more shares in Amic and Anglos and added TSI to its portfolio.

The fund did not sell any shares in the quarter.

The Mining Fund established new holdings with 250 000 Keely group holding and 340 000 Vansa Vanadium shares.

Significant increases were in Gold Fields Coal, Winkelhaak and Driefontein.

The Investors' Fund had a net inflow of R49,9m, with assets now exceeding R1,2bn.

The 10 largest holdings in the portfolio are Anamint/De Beers, Richemont, Rembrandt Group, Safren, Anglos, Sasol, JCI, Anglovaal Industries, Gencor and Driefontein.

Mining fund portfolio manager Celotti said the total market value of the fund increased from R116,9m to R126,9m in the quarter.

A significant activity in the fund was the switch of 28 900 Lydenburg and 14 600 Rustenburg shares into 223 100 Lebowa Platinum shares.

The 10 top holdings are Gencor, Anamint/De Beers, Anglos, Driefontein Cons, Sasol, Samancor, Amcoal, Randfontein, Goldfields of SA and Lebowa Plat. — Sapa

CMT TRVS 6/1/89 (58)

Sutco attracts R22m

By BRUCE WILLAN

THE newly established unit trust arm of Southern Life, Sutco, has attracted R22m in investments, more than double than was anticipated when the two funds were launched three months ago.

In the three months since the launch of the two funds in October last year, the equity fund has attracted R15,8m and the mining fund R6,4m from more than 4 500 unitholders.

Aggressive share purchasing and a relatively low level of liquidity marked the debut of the two funds.

Both portfolios have been selected to offer good growth in the future and a steady flow of increasing income said Sutco chief, Carel de Ridder.

"At the time of the launch we believed the strength of the market would continue. We have been aggressive in our purchases, maintaining a fairly low liquidity level throughout the quarter."

The portfolio of shares held by the funds is impressive with the major holdings performing well.

Anglovaal increased by 33%, JCI by 21% and Stannic 20%. While Libanon, Elands, Genbel, Rusplat, Samancor, PP Cement and Altech also did very well.

Accounting for all acquisition costs, Sutco shares during the quarter stand at almost 8% higher than cost.

Largest holdings in the equity fund are JCI, PP Cement, Rusplats, Richemont, Genbel, East Dagga, Anamint, Anglos, De Beers and Gencor while Anglovaal loan stock, JCI, Rusplat, East Dagga, Genbel, Palamin, GFSA, Gencor, Anamint and Minorco, make up the 10 largest shares by market value in the mining fund.

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Unit trusts reduce their liquidity

Star 6/1/89

By Sven Forssman

Southern Life's Unit Trust Portfolio Managers are confident the JSE will go from strength to strength judging by the 14,6 percent liquidity they maintain in the EQUITY Fund and 11,7 percent in the mining fund for the quarter to December 31.

Aggressive share puchasing and an inflow of due funds in excess of R22 million characterised the performance of the newly established SOUTHERN UNITS TRUSTS MANAGEMENTS COMPANY (SUTCO).

In the 3 months since the launch of the funds on October 3 last year, the EQUITY fund attracted investments of R15,8 million and the mining fund R6,4 million from more than 4 500 unitholders. Executive Director Carel de Ridder said at the time of the launch Southern believed that strenghth of the market would continue.

"We saw good long term values in many shares and from the outset we have maintained a high level of investment," he said.

Major holdings which performed well during the quarter were Anglovaal (up 33 percent), JCI (21 percent) and STANBIC (20 percent), while Libanon, Elands, Genbel, Rusplat, Samancor, PP Cement and Altech also turned in creditable performances.

Mr de Ridder said both portfolios were well positioned to take advantage of growth within the local economy while still offering excellent rand's hedge opportunities.

While gold mining shares must be approached with caution, he said he expected the mining sector to perform in the years ahead.

"We believe in economic growth rate will slow down and interest rates will remain at fairly high levels in the next half year.

"However, beyond that we see the markets continuing an uptrend and we believe it is a good time to accumulate EQUITY investments.

"Although interest rates are at a high level, fixed interest after taxe's returns remain lower than inflation and the investors will loose real capital over time unless investments are made in unit trusts and similar vehicles."

The re-purchase price of units in the EQUITY fund rose from 92,63 cents to 101,37 cents on December 31, while the re-purchase price of units in the mining funds rose from 92,63 cents to 101,84 cents.

● Metboard Mutual Fund reduced liquidity from 73 percent at the beginning of last year to 35 percent by December 31, management company Investec announced yesterday (Thurs).

Taking into account income distribution of 6,86 cents, the re-purchase price of 102,41 cents per unit at December 31 (1987: 90,53 cents) returned an overall growth of 20,7 percent for the 12 months.

The market value of Metboard's Fund stood at R14,4 million, with cash resources and liquid assetts of R4,1 million.

● Old Mutual mining fund has declared an interim distribution of 7 cents for the six months ended December 30, a 34,6 percent increase on the 5,20c declared six months earlier.

The purchase price of both Old Mutual funds strengthened considerably over the last quarter, rising by 7,8 percent in the mining fund and 8,4 percent in the investors' fund.

The investors' fund had a net inflow of R49,9 million, with assets now exceeding R1,2 billion.

Bank's warning about Startrek

Business Day 6/1/89.

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MANDY JEAN WOODS

THE Reserve Bank yesterday warned investors against depositing money with a Pretoria-based company, Startrek Financial Holdings Ltd, as it was not registered in terms of the Bank Act.

The affairs of the company are the subject of a Bank investigation.

The Bank said: "The unlawful conducting of the business of a banking institution is mainly characterised by the offering of interest rates on deposits or investments which are substantially higher than the going interest rates on similar deposits or investments with registered banking institutions or building societies.

"Pursuant to various inquiries directed to the Reserve Bank in this regard the Bank wishes to point out that Startrek is not registered or provisionally registered as a banking institution."

Denied

The Bank said it had not approved or authorised any schemes — described by one source as "elaborate and technical" — offered to prospective investors by Startrek.

It also denied approving foreign exchange transactions contemplated by the company, contrary to what Startrek representatives had said in public.

Startrek advertised its scheme in national newspapers. One such ad, which appeared in Beeld on November 23, offered "investment opportunities" and mentioned the sums of R5 000 and R200 000.

"Earn a high monthly profit on your money. Capital amount invested guaranteed by big SA insurer," the ad said. It gave two Pretoria telephone numbers for people to contact for details.

Startrek chairman R Lack did not return calls to his office yesterday afternoon. Startrek marketing director Johan Venter said, however, the company had been operating since November.

He denied the company was taking deposits or investments and said it had never alleged the Bank had approved forex transactions.

He refused to give more details, saying: "The matter is in the hands of our attorneys and a full statement will be issued on Monday."

Sources said the company appeared to deal mainly in fixed property and housing. For a small fee, it offered to raise finance on small deposits for investors.

This is the second such warning the Bank has issued in the past few months. In July last year, the Registrar of Banks issued a similar statement warning investors the Ciskei-registered Eurobank was collecting deposits in SA contrary to the Act.

Old Mutual's unit trusts reduce their liquidity

B/Day 6/1/89

58

LIZ ROUSE

OLD Mutual's unit trusts both reduced their liquidity by two percentage points in the December quarter, taking advantage of a number of value situations.

The Investors' Fund substantially increased its holdings in Safren and Nedbank, acquired more shares in Amic and Anglos and added TSI to its portfolio. The fund did not sell any shares during the quarter.

The Mining Fund established new holdings with 250 000 Keeley Group Holdings and 340 000 Vansa Vanadium shares. Significant increases were made in Gold Fields Coal, Winkelhaak and Driefontein.

Old Mutual Mining Fund has declared an interim distribution of 7c for the six months to December, a 34,6% increase on the distribution of 5,20c declared six months earlier.

The purchase price of both funds strengthened considerably over the last quarter, rising by 7,8% in the Mining Fund and 8,4% in the Investors' Fund.

Both units in the Old Mutual stable enjoyed a steady interest from investors, largely among monthly investors who continued to take advantage of rand-cost averaging. The increase in the combined number of accounts during the quarter was more than 5 000.

Commenting on the December quarter, unit trust portfolio managers Rowland Chute and Marco Celotti said they continued to advocate a cautious approach to the market, with the emphasis being on value situations.

The Investors' Fund had a net inflow of R49,9m, with assets now exceeding R1,2bn.

The 10 largest holdings in the portfolio are Anamint/De Beers, Richemont, Rembrandt Group, Safren, Anglos, Sasol, JCI, Anglovaal Industries, Gencor and Driefontein.

Celotti said the total market value of the fund increased from R116,9m to R126,9m during the quarter. A significant activity in the fund was the switch of 28 900 Lydenburg and 14 600 Rustenburg shares into 223 100 Lebowa Platinum shares.

B/Day 6/1/89

Sutco attracts R22m after its first quarter

B/Day **STEPHEN RICHTER** 58

SOUTHERN Unit Trust Management Company (Sutco) has attracted new funds in excess of R22m during its first quarter of operation.

Sutco launched the Southern Equity Fund as well as Southern Mining Fund on 3 October last year. Southern Equity Fund was valued at R15,8m on 31 December while Southern Mining Fund attracted R6,4m.

Because both funds made their debut at a time when Sutco management saw good long-term value in many shares, liquidity has been kept to a minimum. At end-December, liquid assets accounted for a mere 14,6% of the equity fund and 11,7% of the mining fund.

The 10 largest equity fund holdings are as follows — JCI, PPC, Rusplats, Richemont, Genbel, East Dagga, Anamint, Anglos, DeBeers and Gencor.

The Mining Fund's 10 largest investments are — Anglovaal loan stock, JCI, Rusplats, East Dagga, Genbel, Palamin, GFSA, Gencor, Anamint and Minorco.

Looking at a breakdown of the equity fund, mining financials represent the largest sector, making up 20% of the total portfolio. This is followed by industrial holdings (13,5%), direct golds (9,0%) and diamonds (8,0%).

The mining financials sector is also the largest investment within the mining fund as these shares account for 37% of the total portfolio. This is followed by direct golds 21%, diamonds 10% and platinum 9%.

Sutco says both portfolios were well positioned to take advantage of growth within the local economy while still offering excellent rand-hedge opportunities.

Bad-debt judgments on the increase again

B/Day 6/1/89. (58)

GRETA STEYN

BAD-DEBT judgments are back on an uptrend after reaching the lowest point in four years in April 1988.

Central Statistical Services (CSS) figures show the number of civil judgments for debt in the three months to October 1988 grew by 6,3% compared with the previous three months. The rise from 1987 was 6,7%.

Information Trust Corporation (ITC) MD Paul Edwards said yesterday: "The trend will be higher this year as interest rate increases start to bite. There are already signs that individuals are finding it difficult to meet their commitments, largely because of a 50% increase in their mortgage bond instalments since the beginning of 1988."

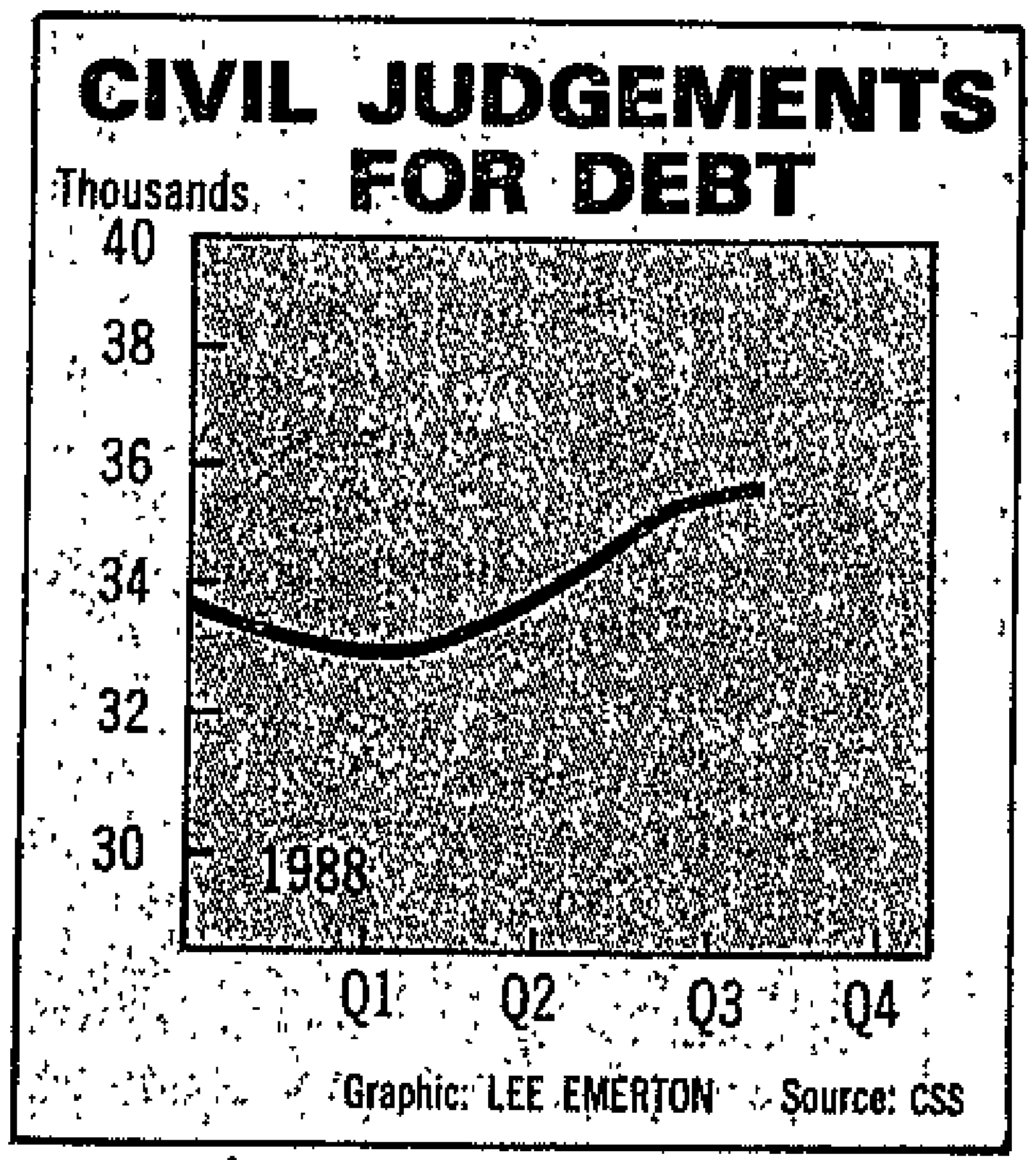
But he noted that the expected increase in bad debt was coming off a low base. With the economy buoyant, the number of judgements for debt touched their lowest level since 1984 in the first half of 1988.

The number of individuals defaulting on debt in the category: money lent rose by 12% in the three months to October from the previous three-month period. In October 1988, the number of individuals judged in all bad debt cases rose by 5% to 32 028.

Later figures are not available from CSS, but KreditInform's statistics show judgments fell back from the October levels towards the end of the year, indicating 1988 was a comfortable year on the whole.

KreditInform MD Ivor Jones said: "Most companies were paying their bills promptly, causing a slight decline in the outstanding debt between August and November."

CIVIL JUDGEMENTS FOR DEBT



Graphic: LEE EMERTON Source: CSS

Standard Bank credit GM Ian Gilbert, the Trust Bank's Kobus Roetz and FirstCard GM Tony Poriazis confirmed last year's bad debt situation was satisfactory. However, they expected bad debts to rise as the economy went into downswing.

But Gilbert added: "A repeat of the disastrous levels of 1985 is unlikely; the economy is strong enough to weather the latest round of interest rate increases."

Sage funds move away from gold shares

B/Day 6/1/88

MERVYN HARRIS

(58)

SAGE FUND reduced its holdings in several gold mine shares during the December quarter as the weaker trend in the sector was maintained in contrast to continued strength in the JSE's non-mining sector.

With ongoing increases in working costs having negative implications for producer profitability, the fund cut down sharply on its holdings in Doornfontein and Libanon and reduced its interests in Ofsil, Vaal Reefs and Western Deep.

Holdings were also reduced in Con Gold, Amgold, Nedbank, Amic, Kersaf and ICS while new holdings were established in FIT and Minorco. The split of the Rembrandt group's foreign and domestic activities resulted in the introduction to the portfolio of a holding in Richemont.

There was no change in the currency mix of the fund's foreign portfolio, and asset changes were limited to an increase in the holding of RTZ and a slight lengthening of the maturity profile of UK liquid assets.

Income distribution of 29c a unit for the half year to December was the highest in the fund's history and 32,4% above the 21,9c declared in December 1987.

Total distribution for 1988 was 54,2c against 42c in the previous year.

Sage Fund's top 10 holdings at end December were Richemont, Anglo ords, Allied, SA Breweries, JCI, Sage, Remgro, Remb Beheer, GFSA and Barlows.

Investment activity in Sage Resources Fund saw disposals of holdings in Doornfontein and Venters and reduced exposure to Lebowa Platinum and Sasol.

New holdings were established in Keeley and Minorco, while holdings in De Beers, Harties, Vansa, New Wits, Vogels and Fedfood were increased.

The Resources Fund's income distribution for the half year to December was 2,3c a unit. Launched in August 1987, the fund paid a maiden distribution of 2c fgor the period to December 31, 1987, while income for the first half of 1988 was 2,4c a unit.

Sage Resource Fund's top 10 holdings were De Beers, Lebowa, Anglos, Genbel, Mid Wits, Gencor, JCI, Sappi PP, Samanco and Tongaat.

Broking firm's tips for SA portfolio structure

BDay 6/1/89

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ADAM PAYNE

CONTINUING its excellency research series on asset allocation, broking firm Frankel Kruger Vinderine forecasts a gold price of $450 by the end of 1989 with an average for the year of $440.

It sets out a recommended portfolio structure for 1989 with equity investment in industrials rising to 17% from the 10% recommended in 1988: total mining rising to 50% (32%) and only the allocation to property falling at 5% (10%).

The firm recommends no change in the percentages allocated to the capital market at 10%; to liquid assets at the same figure and to financial equities at 8%.

The forecast nominal annual returns (capital plus income) — assuming that the investments are bought at the beginning of the year and sold at the year end — are: industrial equity 28,6%; gold share 19,1%; mining finance 31,7% and other mining 28,6%.

The forecast return on liquid assets is 15,8% (14%) and on the capital market 17,7% (up from the forecast 7,8% for 1988). The capital market return is compound with reinvestment at short-term rates.

Discussing the JSE outlook, Frankel Kruger forecasts a good performance in the gold sector by end 1989 into 1990.

"Concentrate on low-cost and select medium-cost mines," its says, adding: "Gross can be expected in the gold index through 1989 and 1990 via a slightly bullish gold price scenario and a declining R/$ echange rate. As a result, portfolio to gold should be increased to 13% by end 1989 and 20% by end 1990.

Non-gold mining is expected to continue out-performing the other sectors until late 1989.

"Industrials appeared top heavy and a rerating is expected in the short term." On the financial sector, rationalisation in industry could offer exciting opportunities.

At the end of 1988, sentiment in the capital market was made negative by civil servant salary increases and the lack of monetary control.

On timing, Frankel Kruger says: "Present cash flow should be primarily channelled into non-gold mining stocks and liquid assets (industrials are expected to fall in the first half of 1989)."

The exchange rates predictions are illuminating, with the rand forecast to fall from the R4,41 a pound in 1988 to R5,23 this year.

The rand is also expected to fall from R2,45 to the dollar last year to R2,75.

"The rand has been inflating much more rapidly than the dollar which resulted in the rand fall. However, it has been more than justified by the inflation differential alone and, as such, something of a catching-up period is expected during 1989, with the rand falling only 12% compared with a decline of 25% during 1989."

1988 pretty good year for building societies

WIC
Argus
7/1/89

58

By DAVID SOUTHEY
Analyst with a major stockbroking firm

MOST of the building societies haven't had a bad year, as the table below shows.

Neither NBS nor UBS disappointed, despite a tough competitive environment, reporting the expected 20 percent earnings growth at the halfway stage.

Both are likely to repeat this solid performance in the second six months, although a slowdown in the housing market will erode volume growth in 1989.

But margins are likely to be a lot better. The share prices of both should see steady appreciation, in line with the banking sector next year.

Allied proved the big disappointment of 1988, reporting a decline in earnings per share (EPS) to 8,6 c (10,5 c), although it managed to hold the dividend at five cents.

A marginally better second half is expected, but the group looks set for a year or so of consolidation.

Speculative buying

Its rating relative to NBS and UBS is likely to lag farther behind. It came in for some strong speculative buying in 1988, particularly when the share price plunged close to the R1 level.

Saambou is too new on the boards to form firm opinions. There was a lot of speculative interest in the society a couple of months back when rumour had it that Sanlam and Volkskas (each with 10 percent of the equity) were lining up for a takeover.

It yields over 10 percent on dividend and therefore looks ripe for some appreciation. But investors will want to see EPS growth in line with UBS and NBS before pushing it further.

Warning: The country is still over-supplied with financial services and the competition between banks and societies (and assurers in certain areas) is unlikely to diminish in the near term.

A slower economy will mean lower lending volumes, although an easier rate environment should help margins in most (but not all) cases.

Wholesaling institutions tend to score better in a declining rate environment than commercial banking operations. But the distinctions are becoming ever vaguer.

	Recent Price(c)	Low 1988	% Happy/Sad
Allied	140	105	33
NBS	340	225	51
UBS	385	260	48
Saambou	104	90	15,6

Crucial annuity choices to make on retirement

Star 7/1/89

(58)

Article contributed by WALTER POPE, MD of Computerised Pension Bureau

IF YOU'RE retiring in the near future, it is crucial that you maximise the income from accumulated capital.

Should you wish the income to be guaranteed and to continue for the rest of your life, you face two problems.

The first relates to the interest earned on your capital.

If you have to reinvest the capital (a bond or fixed deposit may mature), interest rates may be up or down at the time of maturity.

If they are down, you might find yourself having to secure a lower than expected income.

The second and more disturbing problem is that once you become dependent on the interest income you're earning on your investments, it is difficult for you to touch the capital.

If that interest income is insufficient, or if you have a sudden financial need, you might be tempted (or forced) to realise some of your investments to meet your immediate liquidity requirements.

However, doing so reduces the base on which your interest income depends.

How do you overcome these twin problems?

A life annuity offers a satisfactory solution. Its basic feature is that it gives you the opportunity of using the capital gradually to add to the interest income. At the same time, it provides a guaranteed income for life.

Here's how it works.

Obviously, a life assurance company has no way of knowing how long any individual will live.

But it does know the average future lifetime of an individual of a given age.

The company is thus able to design annuity plans that pay out the capital investment of any individual over his average expected future lifetime, in addition to the interest earnings on the capital as it gradually declines over the years.

These continuing and guaranteed payments — typically monthly — are made possible by using up the capital, slowly at first when interest payments are still a higher portion of the mix. Later, the capital is used up more quickly to supplement the declining interest element in the payment.

Throughout the process, the annuity payments remain level.

Should you live longer than the assurance company expected, you receive more in value by way of annuity payments than the amount paid to the company for the purchase of the annuity. In effect, your income is supplemented by those who live less than the expected lifetime.

Annuities can be classified as immediate or deferred.

An immediate annuity is bought with a single lump-sum payment and is usually bought by those who have accumulated capital and are executing plans for retirement.

A deferred annuity is one under which income payments commence at the end of a specified period of time — typically at retirement. This type of annuity may be bought via either a single premium or via regular instalments payable during the whole or part of the deferment period.

Deferred annuities usually have cash values and provide for a death benefit in the period before the income payments are scheduled to begin. For example, a deferred annuity typically provides as a death payment in the deferred period an amount equal to all the premiums paid or the cash value — whichever is the larger.

The deferred annuity owner can, at any time before the income payments start, surrender the policy, borrow on it or use the accumulated value as collateral.

Deferred annuities have the following additional features:

- You are not locked into the age you originally selected for annuity payments to begin. Should you opt for an earlier date, you would make fewer premium payments and the assurance company would make more payments to you, though each income payment received would be somewhat less.
- When your spouse, child, grandchild or parent is designated to receive death benefits from your life assurance or annuity, those funds are protected from creditors.
- The premium that purchases future retirement income is deductible from your taxable income up to certain limits. The amounts you receive as retirement income would be subject to income tax when you receive them.

Be aware that there is a wide variety of annuity plans available. These plans, like those of life assurance, are tailored to the individual needs and financial resources of each individual.

As a source of retirement income, a life annuity has distinct advantages over investments in shares, bonds or savings certificates. For, if you invest in the latter you are dependent on the interest and/or dividends earned on your accumulated capital as income, making it difficult for you to use any of the capital if you find that the income is insufficient for your needs.

A basic feature of a life annuity is to give you the opportunity of gradually using up your capital as an addition to the interest income, while at the same time providing guaranteed income for life.

Annuity premium rates change frequently and vary from one company to another. Accordingly, before you buy an annuity you should obtain information on annuity rates from an annuity broker.

Comparison shopping is essential if you are to secure the maximum retirement income.

The shrinking rand shrinks further

W/E Argus 7/1/89 (58)

By TOM HOOD
Business Editor

THE buying power of a rand shrank below 11c in 1988 from its 1970 value of R1 — and it could shrink to about 9c in 1989 if inflation trends continue, according to an economist.

The drop — 91 percent in 18 years — means someone earning R425 a month in 1970 must earn at least R4 860 today merely to "tread water", says Mr Willem Roets, a Stellenbosch consulting economist.

Earnings of any less mean that living standards must drop below the level of 1970, he said.

Many retired people live on the interest earned by their capital. But an investor's R1 000 in 1970 will have been eroded to R110 in today's money unless the interest was reinvested.

In a survey of the rand's purchasing power, the Stellenbosch Bureau for Economic Research used 1970 as the base year — when a rand was a rand.

Going back to 1947, the researchers estimated the rand could have bought R2,11 of goods compared with R1 in 1970.

The bureau reckoned that since 1910, the beginning of the survey, the purchasing power dropped from R3,95 to 13c in 1987.

The slide to 11c last year means a 97 percent plunge in 78 years, and this could worsen to 98 percent in 1989 as inflation continues to bite.

Latest figures from the Central Statistical Service (CSS) show the Cape Peninsula's inflation rate in November was at an annualised 14.4 percent.

This rate, measured by the consumer price index, is believed to be more realistic than the 12,4 percent quoted for November when compared with November 1987.

Food prices in the Peninsula actually dropped in November, according to CSS figures.

Compared with a year earlier, food prices rose about 16 percent. But compared with October they dropped 0,5 percent — a trend pointing to an unlikely 6 percent annual hike in food prices.

However, the recent petrol price increase has still to work itself through the economy and give another boost to inflation.

And when it does, it could have a multiplier effect of at least eight times as at each stage of production someone adds his margin, forecasts Mr Roets.

Inflation could lower the purchasing power of the rand by at least 15 percent internally while against the American dollar, it could "drop like a laser", he said.

"We are actually shooting ourselves in the foot by trying to raise government revenue through higher petrol levies.

"We dont seem to realise that the transport component of the country's cost structure is enormous. We have a very big country with vast distances to be covered.

"Most people are forced to use a car to get to their jobs because there is no public transport. The moment we mess around with the cost of transport, we do ourselves a great injustice.

"All sorts of raw materials here are cheap but if you move them the cost goes up astronomically."

The landed price of petrol is only a few cents a litre yet it was costing the motorist more than R1 a litre.

Mr Roets said R350-million had been taken from the Fuel Equalisation Fund to finance coloured housing. It was the most expensive money in the world and "we cannot afford to use it".

● See graph on page 3.

Economy like 'mad train out of control' says FCI

Business Staff

ECONOMIC activity, especially in the manufacturing sector, is showing no signs of cooling down and further increases in interest rates are unavoidable, says Dr Gadd Ariovich, economic consultant to the SA Federated Chamber of Industries (FCI).

Commenting on the FCI's latest opinion survey, which shows an ever increasing level of optimism among South African industrialists, Dr Ariovich says the economy is now like a "mad train gone out of control".

"Considering the restraints imposed upon the economy by the balance of payments, it looks like the authorities will have no option but to tighten monetary policy even further.

"Monetary policy in the form of higher interest rates is always preferable to politicians who can then blame the Reserve Bank for any economic inconvenience experienced by the voters," he said.

FCI's survey, which was done early last month and is considered to be a very up-to-date reflection of business thinking, reveals that business optimism is at its highest since the launch of the survey.

SAIA calls for end to price war in short-term industry

Star 9/1/89

58

By Sven Forssman

The price war which erupted among short-term insurers in the second half of 1988 must be brought under control this year, says executive director of the South African Insurance Association (SAIA), Rodney Schneeberger.

Experience has shown that sustained rating wars — and not catastrophes such as the Natal floods — causes immeasurable harm to the short term insurance industry.

The increased recovery rate of stolen vehicles in 1988 resulted in some short-term insurers slashing their premiums and others promising no further increases until the end of the year.

Guardian National decreased motor premiums by an average of 20 percent on June 1, while Commercial Union gave policyholders a 10 percent reduction on August 1.

Several other leading insurers such as Mutual & Federal, SA Eagle, Protea and Santam told policyholders there would be no further increases in 1988.

Says Mr Schneeberger: "It is especially important for us to bring this rating war to a close this year before the majority of the recommendations in the Melamet Commission's report are implemented.

Rodney Schneeberger ... rating wars hurt the insurance industry.

"The solvency margin for short term insurers has already been increased from 15 percent to 50 percent with effect from January 1."

Mr Schneeberger says an end to the price war does not imply another increase in premiums.

"It is quite possible," he says, "with specific reference to motor insurance, that there won't be any increases in the forseeable future. It is important to bear in mind that premiums reflect experience, and from experience we know that premiums are still too high."

Motor premiums have increased an average of 350 percent since 1982, while new car prices have gone up by about 200 percent and the inflation rate by 125 percent.

However, while the insurance industry, together with the police, have been successful over the past year in reducing the number of car thefts and increasing the recovery rate, a problem with identification was still being experienced.

"This means a large number of stolen vehicles are not being returned to insurance companies because they can't be identified," says Mr Scheeberger.

With regard to household insurance, statistics reveal the incidence rate is still too high, said Mr Schneeberger.

Mr Schneeberger says another of SAIA's aims this year is to embark on a comprehensive statistics project.

"We will also be looking to the authorities to help curb the unecessary export of premiums and to wrap up the vexed question of credit control (Section 20 bis of the Insurance Act).

"SAIA also expects to have a lot to do with the Registrar of Insurance, not only because of matters arising from Melamet, but also a number of other matters of common concern."

HCI negotiating to hive off its overseas interests?

B/Day 9/1/89 (58)

MERVYN HARRIS

SPECULATION is rife that insurance group Hosken Consolidated Investments (HCI) will make a mini "Liberty-Fugit" reorganisation and hive off its overseas interests in a separate company.

Some analysts, however, believe that HCI, which has been actively seeking a partner to increase the size and scope of its activities, could announce a merger or be taken over by another group.

About two years ago there was talk that subsidiary IGI would merge with SA Eagle.

HCI officials declined to comment on the speculation, but an announcement is expected later this month.

The current speculation has been fuelled by HCI and its subsidiaries, IGI and Saflife, issuing a cautionary statement last week that negotiations were taking place which could affect the share prices. News of the negotiations pushed HCI to a fresh peak of 500c, a gain of almost 43% since November, IGI firmed from 410c to 435c, while Saflife is testing its recent high of 140c.

The group's foreign interests include HCI UK, IGI UK, IGI Zimbabwe, IGI Lesotho and IGI Bophuthatswana. In 1976, IGI established the first SA-controlled insurance company in the UK which, in the financial year to March 1988, increased taxed profits from R388 000 to R684 000, or 5c a share.

From April last year, HCI owns 60% of the merged Richardson Hosken group which is the only SA-controlled Lloyds broker.

HCI has a fragmented shareholding, with chairman Michael Lewis holding 15,6% of the equity and directors controlling a toal of 50,2%. Duros last year bought a stake in Saflife.

The group has many irons in the fire outside its insurance and broking interests. These range from construction and manufacturing to computers, security, printing and property.

Difficult

IGI has stakes in Investec Bank, Duros and Interboard besides a well-diversified porfolio. But investors seem not to have recognised the strength of its portfolio, which may explain why analysts consider IGI shares among the most underrated on the market.

After going through a difficult period three years ago, IGI has re-established a good earnings record, but the key to any reorganisation is parent HCI.

Some analysts believe HCI UK could well be the vehicle if the group's foreign interests are hived off separately.

Standard's Mutual does best

(58)

Stev 10/1/89

By Sven Forssman

Standard Bank Mutual Fund's repurchase price increased from 587,39c a unit to 621,61c for the December quarter.

The fund's unit price had a total return of 25,36 percent for the year, of which 17,55 percent was capital appreciation and 7,81 percent income. A distribution of 21c a unit has been declared.

The Extra Income Fund did not perform as well, its repurchase price increasing only 0,9c a unit, providing a total return for the year of 13,78 percent.

The Gold Fund's repurchase price rose by 5,96 percent during the quarter just ended from 167,56c a unit to 177,55c. But the fund had a negative total return of 12,81 percent against a negative capital performance of 26,55 percent in the JSE All Gold index. A distribution of 5,38c a unit has been declared.

● Syfrets Growth Fund repurchase price has provided unit holders with a total return of 23,7 percent during 1988. This compares with a return of 9,4 percent on the JSE overall index.

The fund has declared an income payment of 1,33 cents for the last quarter of the year bringing the total for the year to 5,53 cents for 1988.

The Syfrets Income Fund declared a maiden dividend of 3,57 cents a unit.

By the end of December the fund, which was launched in October, had 300 new investors and the market value of the fund had grown to over R9 million.

Sanlam funds produce sound 1988 growth

B/Day 10/1/89

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CAPE TOWN — Three of Sanlam's five unit trusts — the Index Trust, Industrial Trust and Mining Trust — not only declared record high income distributions for the past six months to the end of December, they also yielded sound growth for the 1988 year.

The Index Trust declared a distribution of 14,6c a unit, which is 52% higher than that for the corresponding period a year ago. This brings the total distribution for 1988 to 26,2c a unit as against 20,7c for 1987.

The Industrial Trust declared an income distribution of 12,6c a unit — almost 97% higher than the previous year's corresponding one. Industrial Trust's total income distribution of 23,5c a unit for 1988 easily outstripped the 13,3c declared for 1987.

The Mining Trust's distribution of 7,2c a unit is nearly 57% higher than the comparable distribution a year ago.

This Trust's total distribution for 1988 was 12,9c a unit as against 9,6c for 1987. — Sapa.

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The right investment route to take for 1989 . . .

TANIA LEVY

REMAINING relatively fully invested in high quality equities would be the correct investment strategy for 1989, says Syfret's Growth Fund manager Anthony Gibson.

He says although the economic scenario of slowing growth, high interest rates and rising inflation does not augur well for share prices, investors should bear in mind that an expected R6bn to R9bn of institutional cash will be channelled into share investment in 1989.

"Coupled with this is the outlook for falling interest rates in the second half of the year and the emphasis of the fund will remain on shares with the strength to sustain periods of adversity through continued profit and dividend growth."

Syfret's Growth Fund repurchase price has provided unitholders with a total return of 23,7% for the 12 months to December.

This not only compares favourably with the inflation rate of 12,5% but also the 9,4% return from the JSE overall index which tracks the performance of the share market.

By taking advantage of market weaknesses in the fourth quarter, Syfret's Growth Fund has declared an income payment of 1,33c per unit (a total of 5,33c per unit for the year).

"We focused the portfolio into shares which fulfil our investment criteria of business focus, strong mangement, financial strength and an ability to produce sustainable dividend growth," says Gibson.

Delta Electrical, Anglo American, JCI, Foschini and Irvin and Johnson were the fund's top five holdings at quarter end.

● GIBSON

New holdings were added in the form of First International Trust (167 350 shares) and Richemont Securities (248 941 shares), while 43 000 shares in Metro Group were disposed of.

Further investments were made in SA Breweries, Sasol and Foschini.

The equity section of the fund's portfolio is heavily weighted towards industrials (49%) and mining (42%).

The remainder of the portfolio consists of industrials (49%), property trust (2%) and financial holdings (7%).

Syfret's Income Fund was launched in October and is aimed at investors seeking long-term professional managements of fixed interest investments.

By December 31 the fund market value had grown to more than R9m.

By retaining the bulk of the trust's portfolio in short-term deposits, the Income Fund has been able to declare a maiden income distribution of 3,57c per unit for the last quarter.

"We were concerned over the upward momentum of the interest rate cycle," says Gibson.

Caution reflects belief in bear trend

BDay 10/1/89

MERVYN HARRIS

STANDARD Bank Fund Managers still believe equity markets are in a bear trend and are adopting a cautious approach while constantly seeking possible undervalued situations.

Changes in the Mutual Fund portfolio were minimal during the December quarter but, on the view that the worst of the fall had already taken place in the gold market, which has depreciated by more than 50% since August 1987, the bank's Gold Fund marginally increased its holdings.

Strategy

The spread of investment of the bank's third fund — Extra Income Fund — reflects a strategy geared towards maximising income and providing potential for capital gains in a capital market, which the managers expect to exhibit a downward bias in long-term interest rates.

The mutual fund increased its distribution for the six months to December by 70% from 12,35c to 21c a unit.

This was made up of 14,14c of income and 6,86c of dividend income.

During the quarter, the repurchase price of the fund's units rose by 5,83% from 587,39c to 621,61c a unit against a 7,63% rise in the JSE all-share index.

For the year, the fund's unit price had a total return of 25,36% of which 17,55% was capital appreciation and 7,81% income, against a capital return of 9,4% in the JSE all-share index.

The structure of the portfolio is currently made up of 26,41% mining, 10,27% banks and insurance, and 27,42% industrials.

At end-December, equities comprised 64,1% of the fund's portfolio, and liquid assets, which included 3,38% for distribution, were 35,9%.

The only changes in the fund's holdings during the quarter was a 3 700 rise in holdings of Amcoal shares to 85 000, an increase in JCI shares from 7 000 to 8 000 and the introduction of First Internationl Trust and Richemont shares to the portfolio.

Distribution

The Gold Fund's unit price had a negative total return of 12,81% against a negative capital performance of 26,65% in the JSE all-gold index.

But the fund's repurchase price increased by 5,96% from 167,56c to 177,55c a unit in the December quarter, which was higher than the 2,76% improvement in the all gold index in the same period.

The distribution of 5,38c a unit for the six months to December was made up of 2,56c of interest income and 2,82c of dividend income.

During the quarter, holdings were increased marginally in Ergo, ET Cons, Vaal Reefs, Beatrix, Deelkraal, Dries and Barnex, while reducing its stake in Loraine and Lydex options.

The Extra Income Fund declared interest income of 2,94c a unit for the December quarter to lift income to 10,74c a unit for 1988.

The unit price appreciated by 0,90c a unit to provide a total return for the year of 13,78%.

The structure of the fund's portfolio currently consists of 18,54% in debentures and notes, 20,9% in government securities (short-term maturities) and 35,15% in government securities (medium- and long-term securities.

The fund had 25,41% in liquid assets available for investment at end December.

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ES / MEDIA PUBLICATION

Startrek suspends its operations

B|Day 10/1/89

58

MANDY JEAN WOODS

PRETORIA-based Startrek Financial Holdings, whose affairs are being scrutinised by the Reserve Bank for possible contraventions of the Banks Act, yesterday suspended operations on legal advice pending the outcome of the investigation, chairman Roger Lack said.

He said the company had lost "close to R1m, if not more" as a result of the adverse publicity and having to suspend its business — while dozens of people had phoned the company and many others had stopped payments on their cheques.

Startrek, which was registered on November 4 last year, had until midnight to submit responses to questions posed by the Bank. The Bank is to decide today whether or not to take action. Lack said his attorneys planned to meet with Bank officials this morning.

He denied the company had ever taken investments or deposits from the public even though an advert, published in Beeld in November, advertised "investment opportunities" in bold type.

"We had quite a good response from our advert but we took no money from anyone. We never followed up the adverts. We have given a list of callers to the Bank so it can check it out."

● To Page 2 ⇨

Bank probe: Startrek suspends operations

58

⇦ ● From Page 1

Lack was reported earlier as saying several millions of rands from 58 SA clients had already been solicited.

He said: "We only charged clients the costs involved in acquiring the loans for them. We have only taken costs from people who have completed a purchase order form.".

B| Day 10/1/89

The company's financial consultants, of which there were about 20, advised prospective clients on the scheme.

The only investors in Startrek were 10 subscribers to the memorandum, whom he described as "housewives, secretaries, one attorney — who has 100 shares at 0,002 cents each — and myself".

The company planned to help people raise loans (mainly for houses) by buying surety bonds overseas and bringing them into SA via commercial rands. Lack said the scheme was structured in such a way that no money would leave the country but he hoped to bring in $1,5bn over the next 12 months.

He refused to disclose the names of the overseas agents saying only it was a monoline assurer (one who deals only with surety bonds).

High-profile banker calls it a day

(58)

Star 11/1/89

Mr Chris Ball . . . tight-lipped about South African politics

By MICHAEL CHESTER

First National Bank MD Mr Chris Ball, who leaves for Europe in April, laments South Africa's failure to live up to its potential.

One may have expected Mr Chris Ball to unleash a sharp political commentary on South Africa when he was interviewed by journalists yesterday about the surprise announcement of his resignation as managing director First National Bank and his imminent move to Europe.

Instead, he dodged the whole issue of the 1987 controversy when right-wing opponents dragged him through the political mud.

The issue centred on an accusation that Mr Ball had helped approve bank loans to finance a series of advertisements run by the United Democratic Front for the African National Congress. The drumbeating reached a crescendo with a heated exchange of words between State President P W Botha and Mr Ball.

Controversy

The controversy dragged on even after Mr Ball and board of Barclays Bank — as FNB was known at the time — had set out to prove the allegations wrong.

The controversy ended only after suspicions grew that the episode had been rigged as a political ploy at election time in an attempt to discredit business moderates who were outraged by apartheid and who pressed the cause of socio-economic reform.

Mr Ball had long been an outspoken critic of apartheid policies. And business and non-business colleagues now look back in admiration at the courageous stand he made when the reform process appeared to waver.

But yesterday Mr Ball insisted on staying tight-lipped about his views on the South African politic scene.

The closest he could be drawn into talking about South African politics was to lament: "South Africa, one fears, still faces a period of performing below its real potential.

"The country has always had a phenomenal future. The problem is that, at the moment, the future has been frustrated. But its time will come . . ."

Mr Ball also dodged searching questions about when he was leaving South Africa — and where he was going.

The answers were scant. All he divulged was that he had been offered a post in Europe. "No, not necessarily Britain, that could prove inaccurate. Let's just say Europe."

He declined to explain the precise nature of the job he was going to, or who was employing him.

"That will all come out in the next few weeks — I expect before April 1, which is the date I have mentioned I will be available."

Does he have any regrets about leaving? "Of course. I have 49 years' experience of South Africa and there are lots of good things to remember, as well as plenty of frustrations."

The 49 years began when he was born in Johannesburg into a family that had traditionally produced lawyers rather than bankers. (His maternal great-grandfather was the first lawyer to start a practice in the city).

After completing his schooling at St John's College, Chris Ball spent five years studying law at Wits University.

But then he changed direction and decided to go to Cambridge University to read economics and sociology.

His career in banking began when he returned to South Africa and joined the corporate-finance and venture-capital firm of Outwich, started here by the London merchant bankers Baring Brothers.

After some years in South Africa, he returned to London to learn more about merchant banking.

After gaining experience in London he then crossed the Atlantic to join the New York finance giants Kidder, Peabody.

In 1972 he joined the team at Barclays, the forerunners of First National Bank in South Africa. He was made corporate manager of the newly-registered Barclays National Merchant Bank, and then became its general manager.

Within six years he had been appointed managing director of Wesbank.

Plum job

A stir was created in banking circles when Mr Ball was called back to Britain by Barclays Bank in 1980, and given the plum job of general manager of the key region that embraced the City of London.

Within two years he was sent to Barclays in South Africa — the biggest bank in the country — first to be groomed for 12 months, and then to take over as managing director.

He was 44 at the time and the youngest executive ever to fill the role.

How does he feel about returning to Europe.?

"Naturally, I'll be leaving South Africa again with extreme reluctance in many ways. But it's the next challenge ."

CAPE TIMES 11/1/89

Credit average growth rate 22%

58

Financial Staff

OLD MUTUAL in its latest Economic Monitor estimates the amount of credit extended by the banking sector increased from R11,4bn in 1978 to R85bn at the end of 1988, an average annual growth rate of 22%.

However, in real terms the increase has been considerably lower at 7% per annum.

The monitor says that in the first five years of this decade, credit extended to the private sector jumped by a staggering 187%, resulting in debt burdens of both the corporate and household sectors escalating sharply.

From 1979 to 1985 bank lending to individuals as a percentage of personal disposable income increased by 10% to 18%.

This dramatic increase in the debt burden on the economy was further aggravated by the foreign debt crisis in August 1985, coupled with the very high short-term interest rates, says the Monitor.

This led to a sharp decline in the amount of the credit created in the economy.

In nominal terms, bank credit given to the private sector slowed from a peak of 25% in 1985 to less than 10% in the latter half of 1986.

However, towards the end of 1987 demand for credit started to pick up and from Septemeber 1987 to September 1988 became very bouyant, rising by 40%.

Eurobank investments 'not irregular'

(58) B\Day 14.11.89

GERALD REILLY

THE Public Servants' Association (PSA) investments in Eurobank were in no way irregular, an editorial in the PSA's official organ said.

Referring to evidence given by the PSA's finance director to the Harms Commission investigating a cross-border financial transaction, the PSA said reports on the investments were distorted.

No money was borrowed primarily against overdraft facilities to make the investment.

Additional guarantees were also obtained as a protective measure before the investments were made.

The PSA's board of directors had approved the appointment of attorneys to protect the PSA's interests and at this stage it was not opportune to enter into public debate on the issue.

The editorial said the increase in membership fees had no bearing on the present problem in respect of the investment in Eurobank.

On the 15% pay hike from January 1 for public-sector workers, the editorial said, as expected, the announcement drew criticism from organisations such as AHI and Assocom. They claimed the increases would be inflationary and should have been granted from April 1.

The editorial said civil servants were at the end of the inflation and salary spiral It was, therefore, only just that adjustments should be made.

It asked why public servants alone should suffer the consequences of inflation.

Business Day, in an editorial in September, had stated: "Civil servants will pick up some R9,5bn cut from social upliftment programmes for black people."

Other sources had accepted the "poor taxpayers and the private sector would have to bear the cost of the increase"— as if civil servants are not also taxpayers".

Businessmen now more reluctant to take up loans

By Derek Tommey.

Although it is still early days to make a firm judgment, the Government's bid to cool the economy through making borrowers pay more for money appears to be having some effect.

Trust companies report that firms which use participation mortgage fund money to finance new investments in buildings and factory premises are beginning to show some hesitancy in applying for new borrowings.

Mr Mike Hyslop, The Board of Executor's general manager, Transvaal, said that in the past few days he had heard of a number of important projects which had been postponed because of the increased cost of borrowing money.

In line with other rates, the interest payable on money invested in part bond schemes was recently raised from 15,5 percent to 17,5 percent. As a result borrowers using part bond finance are having to pay 19,1 percent.

He said companies were showing reluctance to borrow money at tbis level, especially as there was a feeling that interest rates may go a little higher yet.

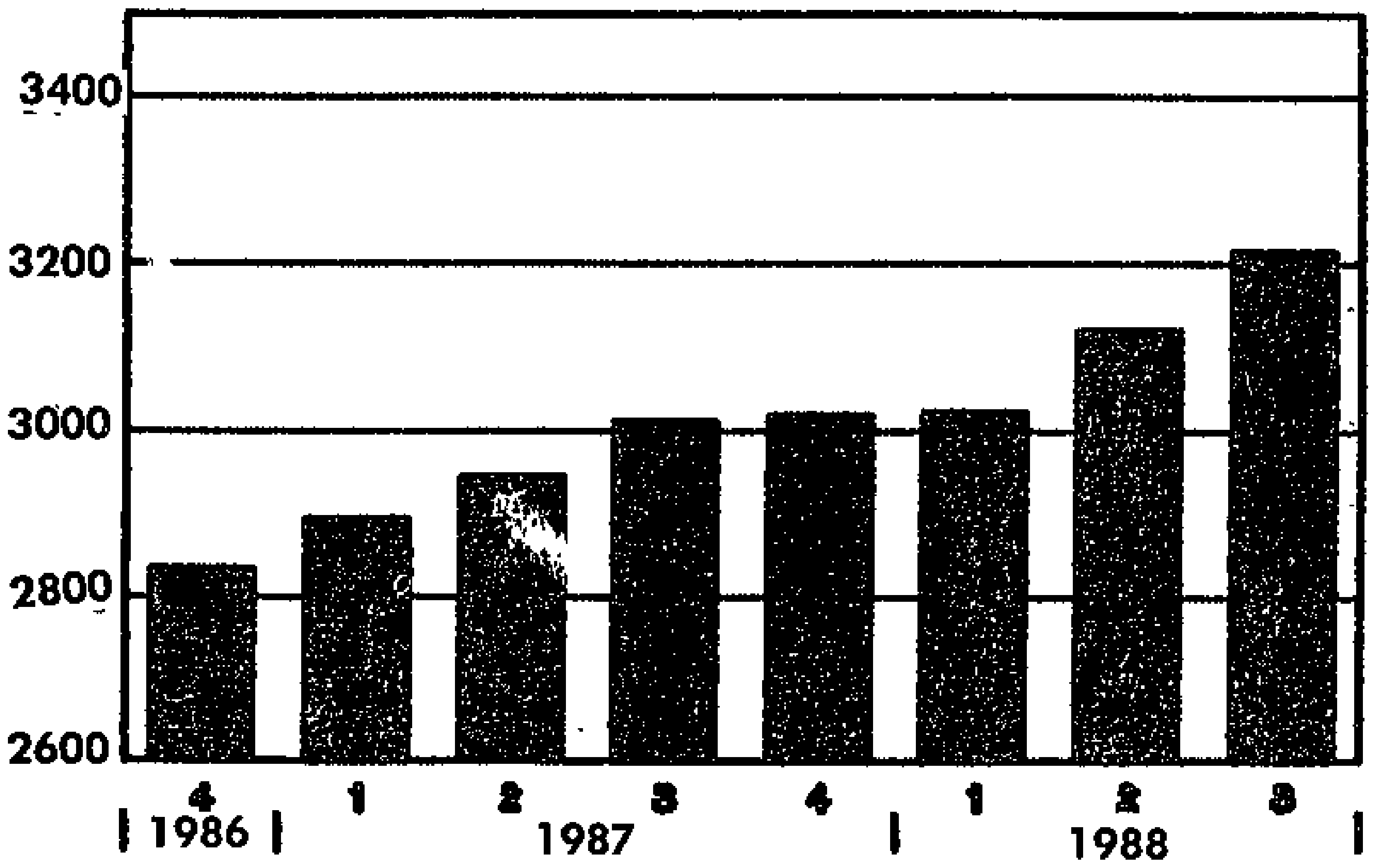
While borrowers were not expecting rates to rocket to 25 percent, as happened in 1985, they believed that they could possibly increase another one percent in the next few months.

Cautious

Mr Hyslop welcomed signs that borrowers were becoming more cautious. It meant the economy could start slowing down to more manageable levels without the Government having to impose more restrictive measures.

Mr John Cragg, a director of Syfrets, said he had also noticed a slight slow-down in the number of inquiries for participation bond loans for new projects. Syfrets Bank had been less affected.

He said the higher rates of interest had not led to any abrupt ending in the demand for loans or to plans for expansion. Many borrowers believed that by June interest rates would be starting to decline. As many projects in the pipeline would not need to be financed until next year, the present high interest rate would not be a deterrent.



Part bond investments in R millions.

Participation mortgage bond schemes managed by Syfrets are paying investors 17 percent which is a little below that paid by most other schemes.

"This enables us to charge half a percent less on mortgage loans which means we attract the blue chip borrowers and can offer investors greater security," Mr Cragg said.

The participation mortgage bond industry is a large one and at the end of September was managing R3,2 billion, an increase of more than R200 million on a year earlier.

Because most participation mortgage bonds are advanced on commercial and industrial property, scheme managers are able to charge borrowers higher rates than building societies and so also are able to pay above building society rates.

But investors putting money into part bond schemes have to leave it there for five years, which some investors have resented. This has led to calls for the initial investment period to be reduced to three years.

But the Registrar of Financial Institutions has refused to alter this condition. According to a Government official the trust companies had been informed recently that a line had to be drawn between a financial institution which was taking deposits and subject to Reserve Bank control, and participation mortgage schemes which were not subject to the same controls and were even exempt from many of the Unit Trust Act provisions.

It had been decided to draw the line at the five year investment period. One reason was that borrowers should be assured of funds for a minimum of five years.

In view of this, a reduction in the investment period to, say, three years would require the scheme manager to have to roll over funds. And should this not be possible the scheme could be in trouble.

However, the Registrar would treat favourably any application for a withdrawal of funds from a participation bond scheme if there was a good reason for this and the scheme had surplus funds.

Soaring credit 'factor in unstable growth'

B/Day 11/1/89.

58

CHRIS CAIRNCROSS

CAPE TOWN — Total credit extended by the banking sector has soared at an annual growth rate of 22%, from R11,5bn in 1978 to an estimated R85bn at the end of 1988, an Old Mutual (OM) analysis notes.

Excessive credit creation has contributed to the unstable growth performance of the economy, concludes OM chief economist David Mohr.

Writing in the latest Economic Monitor, Mohr notes that credit extension to the private sector has portrayed a broad cyclical trend since 1978, accelerating during cyclical upswings in business activity and slowing down as the downswing progresses, and also that recent trends in credit creation by the banks has been strongly influenced by the change in monetary policy approach since 1980.

In September 1980 direct controls on the creation of credit were removed and, as a result, a large volume of lending activity moved back onto the bank books. Acceleration was marked by real credit creation peaking at a year-on-year rate of 28,6% in July 1981.

In the first five years of the 1980s the level of bank credit extended to the private sector jumped by 187%, resulting in the debt burden of the corporate and household sectors rising sharply.

The dramatic rise in the debt burden of the economy, aggravated by the foreign debt crisis in August 1985 and the very high level of real short-term interest rates, led to a sharp deceleration in the amount of credit created during the last recession.

From September 1987 the demand for credit again began to pick up, jumping by 40% by September last year.

Within less than two years the year-on-year growth in real credit extended rose from roughly 10% to 25%.

Startrek mum on meeting

BDay 11/1/89

BRUCE ANDERSON

58

SPOKESMEN for both the Reserve Bank and Startrek Financial Holdings were tightlipped about yesterday's meeting between the Bank and attorneys for Startrek.

It was reported yesterday the company was under scrutiny for possible contravention of the Banks Act.

Startrek chairman Roger Lack yesterday referred Business Day to his firm's attorney, Gey van Pittius, of Truter and Wessels in Pretoria.

"He (Van Pittius) is handling all comment and all the releases," said Lack.

Van Pittius confirmed he had met Reserve Bank officials yesterday and sumbmitted responses to their questions.

"There are still a few problems we have to sort out but we hope to be able to make a full statement during the week," said Van Pittius.

A Reserve Bank spokesman said comment on the meeting would be issued today.

Liquidity boost raises questions

(58) B/Day 11/1/89

GRETA STEYN

THE Reserve Bank continued to pump liquidity into a tight money market yesterday to signal it saw no need for higher interest rates in the near future.

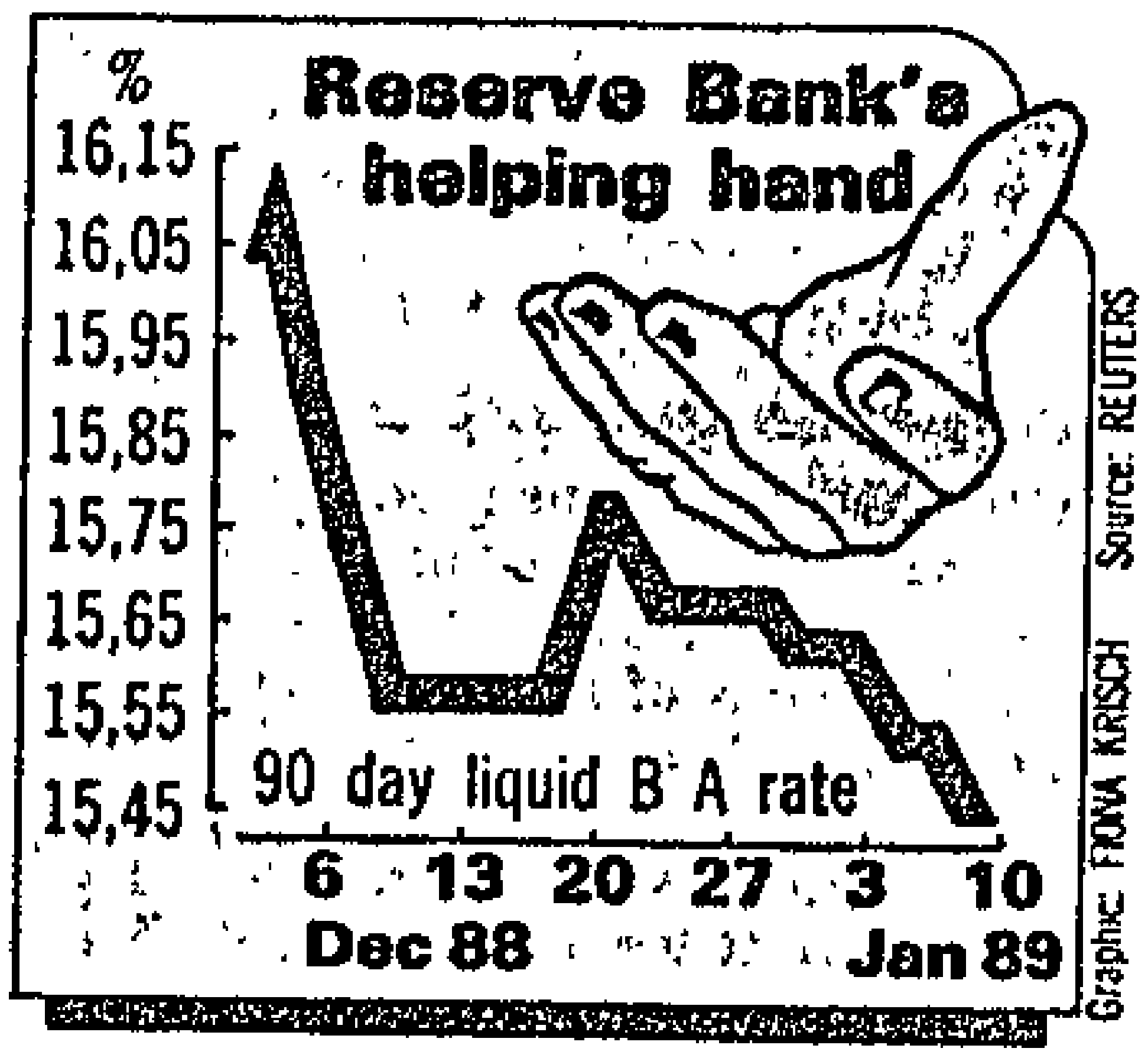
The 90-day liquid BA rate eased further to 15,45% from 15,5% on Monday. Other rates, such as on NCDs, also eased. Dealers expressed surprise at the liquidity support, saying the Bank's help had continued longer than expected. They interpreted the Bank's actions as a clear signal that it wanted to keep rates firmly where they were.

With no sign of the liquidity squeeze abating the Bank yesterday offered another R600m of overnight repurchase agreements (repos) to the market after Monday's R500m.

The questions now being asked are: Has the Reserve Bank been too helpful? Has it relaxed monetary policy?

Treasury analysts said the Bank was merely fine-tuning the market to keep rates stable until a clearer picture emerged on the economy. It had deliberately created uncertainty over its next move on Bank rate to stave off speculative rises in money market rates.

They also pointed out that abnormal factors, such as massive tax payments by mining houses last month, were still affecting the market. The market was waiting for government to start spending the huge pile of cash (R4,9bn) deposited with the Reserve Bank.



Source: REUTERS Graphic: FIONA KRISCH

Guardbank Growth lives up to its name

Star 12/1/89 . (58)

By Ann Crotty

A consistent commitment to the bluest of blue chip industrial equities has underpinned the 32,1 percent overall return that Guardbank's Growth Fund achieved in 1988.

The result puts the Growth Fund at the head of general equity fund performances.

Growth Fund's portfolio at end-December 1988 showed 82,66 percent of the R537,7 million under management was invested in equities. Gilts accounted for 6,55 percent and the remaining 10,79 percent was committed to cash resources and liquid assets.

The liquidity element was down from the December 1987 level of 13,7 percent.

In the first quarter of 1988 the fund lifted its liquid portion to 18,1 percent and there was a slight decline in the equity content to 81,9 percent. Over the rest of the year liquidity was gradually reduced and top-quality blue chips added when they could be bought at reasonable prices.

Guardbank's year-end liquidity level constrasts sharply with that of Standard Bank's Mutual Fund, which had liquidity of 35,9 percent at end-December.

The different liquidity levels reflect the difference in views about the prospects for the equity market.

Standard believes the equity market is still in a bear phase, while Guardbank's Roy McAlpine refers to the October 1987 collapse as the shortest bear market in recent times.

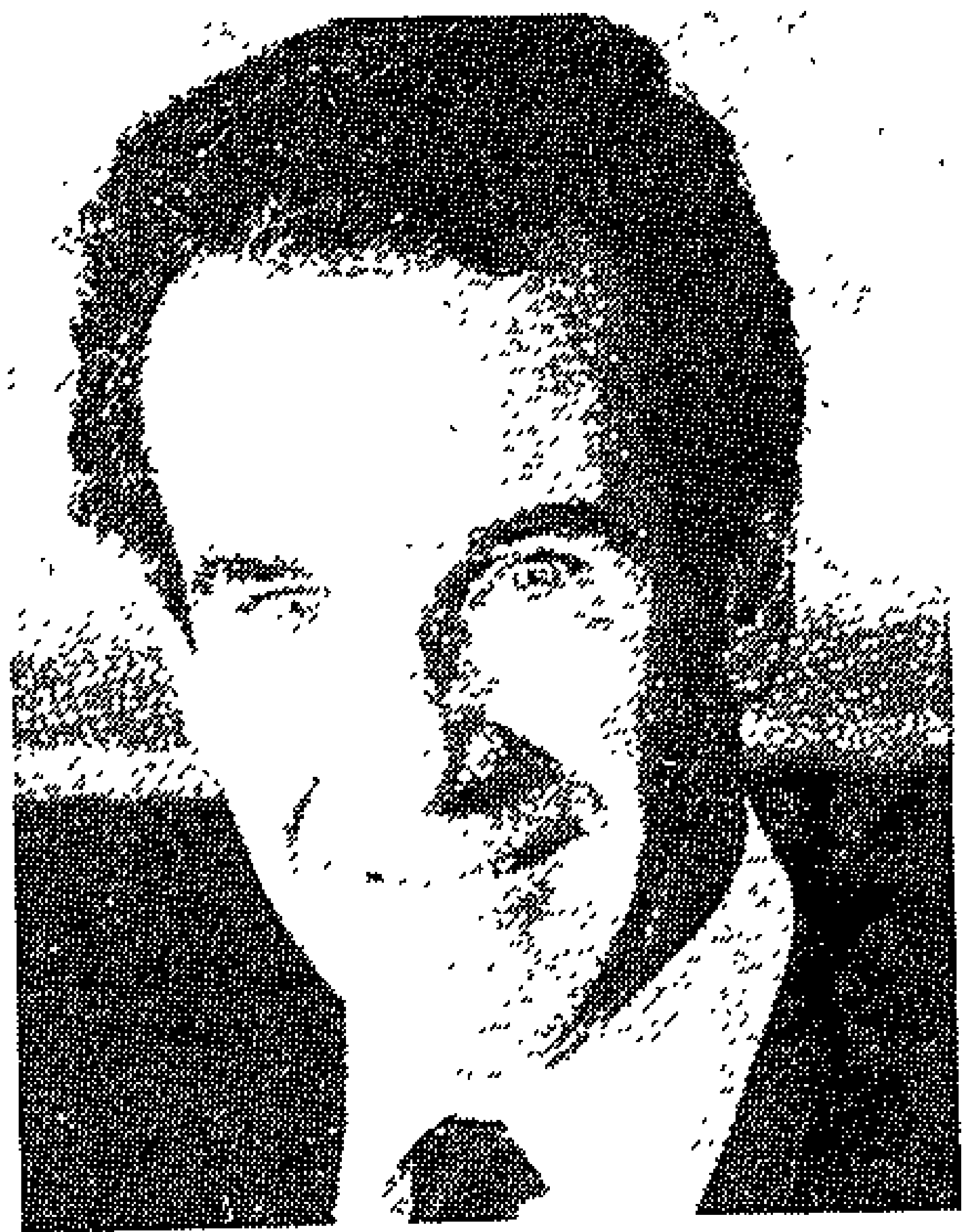
"There is no doubt that the precipitous decline in the SA equity market which occurred in the aftermath of the collapse of world stock markets in October 1987 was excessive and that certain counters in the financial and industrial sectors were offering outstanding value in the first half of 1988," he says.

According to Guardbank, as it became increasingly evident there would be no further falls in major international markets, SA institutions found themselves with excess liquidity and scrambled to buy quality counters. This was particularly the case in the final quarter of 1988.

"On account of a severe shortage of scrip in the case of the majority of blue chips, price movements were at times very sharp in low volume of turnover."

This surge in share prices was of great benefit to the valuation of the Growth Fund's equity portfolio, which consists primarily of shares in short supply.

Mr McAlpine believes it is unlikely that the current strength of financial and industrial shares will abate in the near future.



Mr Roy McAlpine

Guardbank compares its 1988 overall return of 32,1 percent with the JSE indices (the latter have been adjusted to include dividend income as well as capital appreciation):

- All share — up 14,8 percent,
- All gold — down 22 percent,
- Mining financial — up 7,3 percent,
- Financial and industrial — up 34,6 percent.
- Financial — up 17,4 percent,
- Industrial — up 40,6 percent.

A little more than half Growth Fund's equity exposure is committed to industrial shares (42,89 percent, compared with total equity exposure of 82,66 percent).

Some 16,33 percent is invested in mining houses; 8,05 percent in insurance; 3,83 percent in banks and 3,25 percent in investment trusts.

The equity portfolio is dominated by the top ten holdings, which saw little change during 1988.

They are Richemont, Liberty Holdings, Anglo, Gencor, Adcock-Ingram, FIT, SAB, Placor, De Beers and Barlows.

Richemont and FIT are new to the top ten list. Remgro and Rem Beheer have moved off the list.The fund has no direct exposure to gold shares.

Guardbank's Resources Fund reported a return of 21,6 percent for 1988. This compares very favourably with the 22 percent drop in the all gold index over the same period. The fund had an 18,8 percent liquidity level.

Guardbank's Income Fund, which was established in April 1987, reported an 11,8 percent overall growth in the unit price for the year to end-December.

The fund was 44,29 percent liquid at that time.

Startrek asked for more information

(58) Star 12/1/89

The way Startrek Financial Holdings' scheme had been set out in its lawyers' letter to the Reserve Bank differed "considerably" from schemes Startrek proffered to the public up to now, the Bank said in a statement in Pretoria yesterday.

The Reserve Bank statement added that the Deputy Registrar of Banks, Mr Gert Steenkamp, had requested further information regarding particular aspects of Startrek's affairs. This would receive further attention, "in so far as it may be necessary".

The Bank's statement was released in reaction to an explanatory letter Startrek's legal advisers, Truter and Wessels, sent to the Bank earlier.

The letter, from Mr Gey van Pittius, said that Startrek had initially planned to obtain deposits locally, but had immediately ceased acquiring funds on the strength of advice it had obtained.

It had repaid all deposits, currently held no deposits from the public or elsewhere, and did not intend obtaining any such deposits in future, Mr van Pittius said.

Truter and Wessels did not believe that Startrek had contravened the provisions of the Bank Act, and was of the opinion that Startrek did not hold any money that had been obtained by practising a bank's business, Mr van Pittius said.

Mr van Pittius said Startrek conducted its business by obtaining investments from foreign clients, which it loaned — at a current interest rate of 17 percent — to South African clients.

Half of all loans had to be used for buying fixed property, and the other half for purchasing an endowment policy.

The Reserve Bank noted that Startrek should apply for exchange control approval where necessary as "up to now no such applications have reached the SA Reserve Bank." — Sapa.

Favourable prospects for property market

Star 12/1/89

(58)

'The implementation of the Angolan peace accord and of UN Resolution 435 on Namibia could lead to an era of stability, with favourable implications for the property market, says Mr Les Weil, executive chairman of the JH Isaacs.

In his annual review of the property investment market, Mr Weil says the outlook for 1989 has also been improved by expectations of positive real economic growth and banking views that short-term interest rates are peaking.

This compares with negative growth expectations a few month ago and sharply rising interest rates.

"Accordingly, although commercial rentals in 1989 may tend to level out following the 1988 year when they increased by up to 40 percent, prices of commercial properties will continue upwards as a result of building-cost escalations, shortage of quality stock and the prospect of interest rates reducing."

Mr Weil forecasts that building costs, still feeling the pressure from low margins of previous years, are likely to escalate by 15 to 18 percent this year.

Existing accommodation

"Having regard to lower-than-inflation-rate increases in rentals, compared with a year ago, resulting from a build-up of vacant space in certain office and industrial areas, the purchase and occupation of existing accommodation is likely to result in better value compared with new development.

"Accordingly, the potential for refurbishment and development of existing structures will continue to be pursued by investors and tenants. This is being borne out by demand through our broking and participation bond divisions."

Pointing out that major institutions tended to reduce their investment in property in the second half of 1988 as prospects for growth slowed and interest rates increased, he said the picture should change this year, along with an expected decline in interest rates.

He says that since existing leases are unlikely to reflect current market conditions, the growth recently experienced in rentals in commercial and industrial property will only flow through to investors over the next few years as old leases are renewed and escalations in unit earnings are spread.

The residential market tended to adjust rapidly to lower prices after increased bond rates, but sales volumes had again improved after falling to low levels in August and September.

"Having regard to high costs of replacement, exsisting homes generally offer better intrinsic value than new developments.

"Overall, it can be expected that house prices will tend upwards in 1989, particularly in the latter half of the year," says Mr Weil.

Mr Les Weil

Profitable returns at Southern

58

Star 12/1/89

By Sven Forssman

Southern Life's pensions portfolio posted a return of 18,9 percent for 1988.

Executive director Jan Calitz said the return comfortably outperformed inflation and provided a real return on investment.

The inflation for the period was an estimated 13 percent, implying a real gain of six percent.

"Pension fund investments are, however, long term in nature and performance of this level is no flash in the pan — the compound annual growth rate in this portfolio in the 10 years to end December 1988 has been 20 percent," Mr Calitz said.

"When compared with an estimated 14,6 inflation rate, clients received a real return of almost six percent per annum over the long term."

The JSE overall index gained 9,4 percent for the year, led by the industrial index which rose 35,4 percent. The All Gold index returned a disappointing negative 26,7 percent while mining financials increased by 2,6 percent in the 12 months.

Astute selection

Mr Calitz said Southerns' performance, despite a fairly heavy exposure to mining shares, could be attributed to astute share selection and a return to the market early in 1988 when share prices were depressed after the crash.

"Early in 1988 we bought heavily into mining stocks like De Beers, JCI, Gencor, Anglos, Minorco and Anamint, which offered good value. The biggest single counter in the portfolio was Rembrandt."

Discussing the outlook for equity investments in 1989, Mr Calitz said he believed the JSE would continue its upward trend which commenced in February March last year.

"The so-called weight of funds argument is acquiring some validity again as many investors appear to have increased their liquidity following the 1987 crash and these funds have begun to exert upward pressure on share prices as they turn bullish on shares.

"However, the industrial dividend yield at 3,8 percent and the mining financial dividend yield at 4,1 percent can place some limitation on the upward potential of the market."

Bank of Lisbon doubles profit

58

Star 12/1/89

Finance Staff

Bank of Lisbon International doubled profits to R2 million in the year to September 1988, says managing director Mr D Marques in his review accompanying the annual report.

A total dividend payout of R1 million has been declared.

Total assets increased by 29,6 percent to R484,4 million, compared with the previous financial year.

Total deposits rose by 25,6 percent to R402,9 million and total loan discounts and advances by 34,5 percent to R345 million.

12/1/89

Included in the latter figure was instalment finance, which rose by 84,1 percent to R50,8 million.

Dr Marques said the new organisational structure introduced in the previous financial year was firmly in place and should serve the bank well in meeting challenges of the future.

Although 1987/88 had produced exceptionally good profit results, the bank was confident it could improve on them still further in its new financial year.

Business Report

GuardBank funds increase equity holdings

Cape
Times
12/1/89

58

JOHANNESBURG. — GuardBank Mutual Fund says there is no doubt that the precipitious decline in the SA equity market which occurred in the aftermath of the collapse of world stockmarkets in October 1987 was excessive.

As it became increasingly improbable that further major falls in international markets would occur, many SA institutions found themselves with excess liquidity and scrambled to buy quality counters — particularly over the last quarter of 1988.

On account of a severe shortage of scrip in the case of the majority of blue chip counters, price movements were at times very sharp in low volume of turnover.

It said: "Although economic prospects for 1989 will be adversely affected by the need to curb consumer demand and thus protect the balance of payments, we have not deviated from the view, which we have stated consistently throughout 1988, that a high quality equity portfolio offers the long-term investor the best available medium to protect his savings in a climate of high inflation and a weak currency.

"It is always dangerous to forecast the short-term trend of equity prices but it does appear that the current strength of the equity market in financial and industrial shares is unlikely to abate in the near future."

The market value of the GuardBank Growth Fund at December 31 1988, excluding compulsory charges, totalled R537 692 985.

Just over 82% was in equities, 6,55% in gilts and 10,79% in liquid assets.

The repurchase price of 1 195,77c a unit (inclusive of income distribution of 30,04c a unit) as at December 31, 1988 reflects an increase of 8,1% over the repurchase price of 1 106,08c a unit as at September 30, 1988.

The ex-distribution repurchase price of 1 165,73c a unit at December 31, 1988 reflects an increase of 26,3% over the corresponding repurchase price of 923,04c a unit as at December 31, 1987.

Total income distributions for 1988 were 53,28c a unit.

The overall increase in the unit price for the 12 months ended December 31, 1988 (reflecting both income and capital appreciation) amounts to 32,1%.

The income distribution of for the last six months of the year was 30,04c a unit.

The group said "The GuardBank Resources Fund had a very satisfactory quarter. The achievement of an overall return of 8,1% can be considered as very satisfactory.

"New equity holdings Vansa, Amcoal and Lindum. Significant additions were made to the holdings of De Beers, Randfontein, Kinross, Southvaal, Vaal Reefs, Zandpan, and East Daggafontein. The holding of Anglo Vaal Loan Stock was disposed of while the exposure to Lebowa Plats, Consolidated Gold Fields, Rand Mines, and Sappi was reduced".

The market value of the GuardBank Income Fund as at December 31, 1988, excluding compulsory charges, totalled R7 649 269.

The repurchase price of 110,47c a unit at December 1988 31 (inclusive of income distribution of 7,45c a unit) reflects an increase of 3,25% over the repurchase price of 106,99c a unit as at September 30, 1988.

The ex-distribution repurchase price of 103,03c a unit at December 31, 1988 reflects a decrease of 1,3% over the repurchase price of 104,40c a unit at December 31, 1987.

In addition, income distributions totalling 13,67c a unit were declared in respect of the year ending 31 December 1988. The overall growth in the unit price for the year ending 31 December 1988 (reflecting both income and capital appreciation) amounted to 11,8%.

The income distribution for the six month period ended December 31, 1988 of 7,45c a unit.

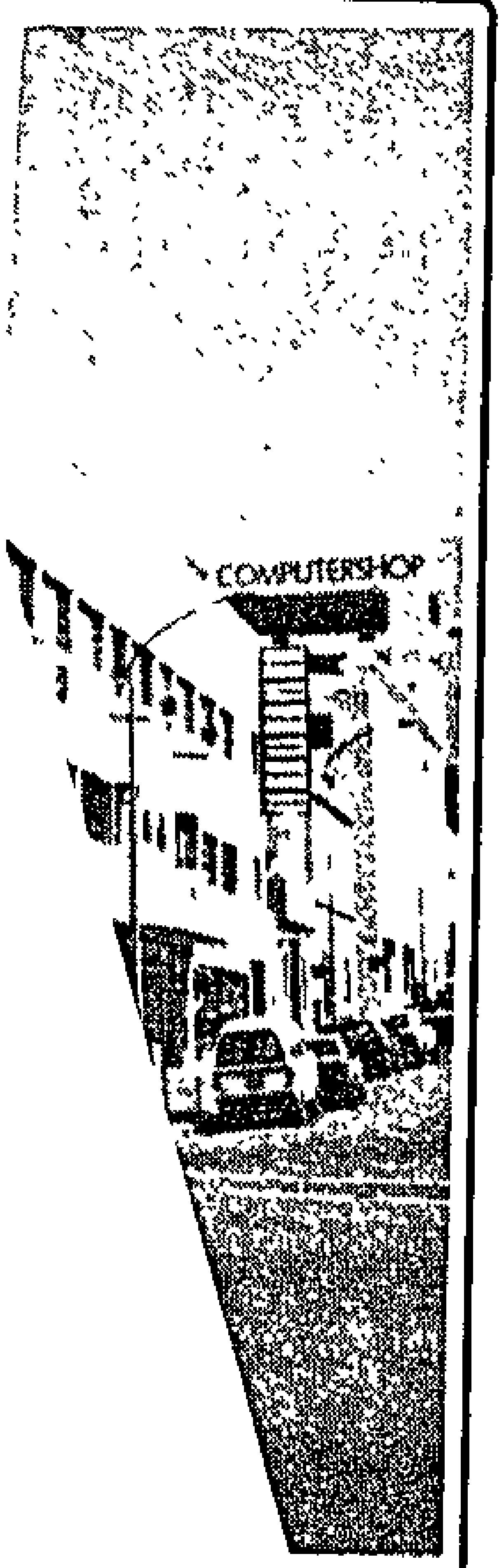
For the year ended December 31, 1988 income distributions totalling 13,67c a unit were declared.

The fund managers said: "The upward pressure on short-term interest rates spilled over into the capital market resulting in all capital market rates rising over the quarter.

"However, the increase in capital market rates was less than the increase in money market rates with the result that the yield curve was almost flat by the end of the quarter.

"Notwithstanding the sharp rises in both money and capital market rates in 1988 it is still a matter of doubt as to whether the momentum in consumer expenditure has been arrested.

"Further rises in interest rates — particularly short-term interest rates — cannot therefore be ruled out in 1989." — Sapa



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Southern Life investments show strong growth

5-8

CAR 1/10 12/1/89

By **BRUCE WILLAN**

SOUTHERN LIFE'S investments have made a strong comeback after the market crash of October 1987, with its flagship pensions portfolio, Managegrowth, posting an annual return of 18,9% for the 1988 calendar year.

Executive director (investments) Jan Calitz said the return of 18,9% comfortably outperformed inflation.

"The inflation rate for the period was an estimated 13%, implying a real gain of some 6% for the funds under Southern's management," said Calitz.

Southern's investment recovery is cleary illustrated when compared to the relevant share indices over the past year.

While the JSE All Gold Index returned a disappointing negative 26,7%, the Overall Index gained 9,4% for the year, led by the Industrial Index which rose by 35,4%. Mining financials increased by a mere 2,6% for the 12 months under review.

In spite of a fairly heavy exposure to the mining sector, Calitz attributes Southern's outperformance of the market to astute share selection and a return to the market early in 1998 when prices were low following the crash of October 1987.

More than 50% of the portfolio's market value is in equities, with an even spread of mining and industrial/financial shares.

The equity portion of the portfolio yielded 31,5% for the year.

Calitz said the exposure to property was kept at a relatively low level in 1988 as better value was seen in equity investments, although property did provide a very good real return.

He is of the opinion the JSE will continue its upward trend which started in February/March last year.

"The firmness of share prices evident in the first few trading days of 1989 are possibly setting the trend provided the gold price holds," said Calitz.

Southerns on acquisition trail

Star 12/1/89

[illegible] 58

By Sven Forssman

Southern Life are negotiating to acquire an interest in an unnamed UK life company.

The group yesterday issued a cautionary announcement, advising shareholders of its negotiations.

"Based on current negotiations, this will not have any effect in the short term on disclosed earnings per share, but it is expected to bring advantages to Southern in the future," the announcement said.

A spokesman for Southerns said he hoped the negotiations would be finalised within a month.

The group saw the UK company as an investment, as well as a rand-hedge.

Southerns' share price edged 5c higher yesterday to close at 745c.

Startrek 'not contravening Act'

BRUCE ANDERSON

STARTREK Financial Holdings was not contravening the Banks Act regarding the acceptance of deposits from the public, the Reserve Bank said yesterday.

However, the Bank drew attention to the fact the company had, in the past, accepted deposits from the public, which had since been repaid.

Yesterday, the Bank released to Business Day an extract of a letter it wrote to Startrek's attorneys on Tuesday, together with submissions made by Startrek's attorneys. The release of the documents follows a meeting on Tuesday between Bank officials and Startrek's attorney Gey van Pittius.

In its letter, the Bank said: "According to Startrek all deposits accepted by it have been repaid. If, as is now maintained in your letter, no money is accepted by Startrek from residents of the Republic by way of investments, loans or deposits, it would appear that Startrek is not contravening the Banks Act 1965, with regard to the acceptance of

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Startrek 'not contravening Banks Act'

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deposits from the public."

However, the Bank referred Business Day to a paragraph in Van Pittius's letter which said Startrek originally intended to acquire investments locally but, upon taking advice, immediately stopped doing so.

The Bank also noted in its response that Startrek's scheme, as set out in submissions to the Bank, "differs considerably from schemes proffered to the public by Startrek up to now".

Startrek said in its letter it had appointed agents to recruit clients.

It said: "It unfortunately came to our attention that certain of these agents alleged that certain transactions were approved by the Reserve Bank. These statements were made without the authority of Startrek."

Startrek had since fired the agents who said transactions were approved by the Bank.

A Bank spokesman said the Bank was not empowered to approve financial schemes and only acted to check contraventions of exchange control regulations or the Act.

Last week, the Bank warned investors against depositing money in Startrek and said the affairs of the company, which was registered on November last year, were the subject of a Bank investigation.

On Monday, Startrek chairman Roger Lack said the company had suspended operations on legal advice pending the outcome of the Bank investigation.

In its letter to the Bank, Startrek submitted that it had not contravened the Act and that the Pretoria-based company did not hold any money which it had obtained through operating as a bank.

The Bank has, through Startrek's attorneys, requested more information regarding particular aspects of Startrek's affairs which would "in so far as it may be necessary, receive further attention".

Southern Life set to acquire UK company

B|Day 17|1|89 (58) (223)

TANIA LEVY

● BERNSTEIN

SOUTHERN Life looks set to acquire an unnamed UK life company with former deputy CE Morris Bernstein as the probable MD.

Southern yesterday confirmed its negotiations by issuing a cautionary announcement, advising shareholders of the likely deal.

Bernstein, who had planned to emigrate to Australia last year before the two sets of negotiations began, said: "Southern Life's acquisition and my position are strong possibilities."

Southern Life executive director Bill Haslam said he hoped the negotiations would be finalised within a month.

Haslam said Southern Life saw the UK company as a potential investment as well as a rand-hedge. It was also strategically important as an entree to the EC when it became a barrier-free economic market in 1992.

If successful, the deal is not expected to affect Southern Life's earnings a share in the short term.

Southern said another announcement would be made as soon as the outcome of the negotiations were known.

Southern's share price closed at 745c yesterday, 5c up and just off its year's high of 760c.

Since September, the share price has climbed rapidly from 650c to a level of 720c at the end of October.

Yesterday, Southern featured in 22 deals with 16 600 shares changing hands. The volume during the past month has been more than 106 000 shares.

Lloyd's refuses to limit liability

Star 13/1/89

LONDON — The Lloyd's of London insurance market, which prides itself on having never failed to settle a claim, said this week it would maintain its policy of unlimited liability.

Lloyd's, whose syndicates insure anything from tankers, space satellites and oil cargoes to pianists' hands, said members would continue to be liable on their entire fortune when an exceptional claim arose.

Meanwhile, it was announced yesterday that Lloyds is to join the South African Insurance Association (SAIA).

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SAIA chief executive Rodney Schneeburger has welcomed the move and said the organisation's constitution will be amended at its AGM to be held in May to make Lloyds membership official.

He said that it was becoming increasingly clear that by not being members of SAIA neither Lloyds nor the local insurance industry were being kept fully informed of their respective activities

He stated that there were several benefits expected to flow from the agreement. A few of them are:

- There will be better communication on an ongoing basis.
- Lloyds will provide information to the local market on world-wide insurance trends.
- Suspicions that Lloyds might have an unfair competitive advantage on the local market will be removed.

Overall index gains 20 points

Shares reach post-crash highs on JSE

Cm. Tms
13/1/89

By BRUCE WILLAN

SHARES reached post-crash highs on the Johannesburg Stock Exchange (JSE) yesterday in a continued wave of bullish sentiment around the world.

A new year share-buying spree started on the Tokyo stock exchange and permeated markets around the world fuelled even higher by the prospect of healthier economies.

On the JSE yesterday vast amounts of money continued to find its way onto the market.

Dealers said the shortage of scrip was getting tighter and buyers led by financial institutions were prepared to pay up for shares.

The overall index closed 20 points higher at 2 095 with industrials up 12 at 2 079, and the all gold index up 8 at 1 331.

Leading industrial share Barlows hit the 2 900c level yesterday, while De Beers touched 4 575 to ease back 25c to close at 4 550.

A slightly firmer gold price helped to support gold shares.

Top mover was Cargo Carriers which gained 55c to close at 285c, an increase of 24%.

Other shares which made substantial gains were Score adding 100c to 1 050c, Liberty Life gained 1 350c to close at 15 500c, Hunts added 95c to end at 725c, while Formscaff pref ord's closed 55c higher at 400c.

Although the smaller investor does not appear to be as active in the market as in the previous bull market, the present rally could spark off a sense of confidence in the market and see the return of the this investor.

However, the rally may not be sustained as happened prior to the crash of 1987 and money may be lost again by the smaller investor when the present rally subsides.

Leading Japanese indicator, the Nikkei Index gained just over 3% on Monday, while in Hong Kong the Hang Seng Index closed at a post crash high for the fourth consecutive day.

On Wall street, the Dow Jones has broken the psycological resistance barrier of 2 200 for the first time since the "Black Monday" on October 19, 1987.

Chartists are of the opinion that this could be the breakout which financial markets have been waiting for paticularly in New York.

But dealers have warned the volatility of the currency markets could be a signal that the new year boom will not last.

The dollar has been rampant even in the face of collective intervention by European central banks to stem its upward trend.

Any gains made by the dollar increase the rate of inflation in Europe and causes a capital outflow which is not wanted.

Retail figures due out today in the US will give an indication of the possible growth in the economy which can be expected in the US for 1989.

In New York gold futures hardened in reaction to a higher oil price renewing inflationary fears in the US.

Futures traders are monitoring the oil price close as any further gains could fire up the fears about inflation set gold off on an upward streak.

While Throgmorton Street is being mared by takeover bids and mergers, a looming interest rate war could spark off a massive divestment from equities into interest bearing investments.

Raising interest rates in the US has been seen as a possible solution to staving off inflation and this would spark off other interest rate hikes in the UK an Europe to attract funds.

Tight liquidity in our own economy is being accommodated by the Reserve Bank but could be withdrawn at any time which may force interest rates up.

Recently economists predicted that short-term interest rates will go up. This coupled with fears of a world interest rate war may be restrictive to a continuing bull market.

R9,5-billion share-price bonanza

Abu 5 13/1/89

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Business Editor

THE mini-boom on the Johannesburg Stock Exchange has boosted the value of industrial shares by about R9,5-billion to R170-billion since the beginning of the year, according to stockbrokers.

The rush to buy scarce, quality shares has pushed up the value of shares by more than six percent, with the JSE's industrial shares index jumping by 118 points to 2 079 last night — the highest level since the Black Monday crash in 1987 and only 8 percent or 185 points below the peak of 2 264 on the day before the crash.

The boom received a new boost from New York last night when small investors climbed on the bandwagon and pushed Wall Street's key Dow Jones industrial index up a further 15 points to 2 222 — only 24 below the record 2 246 before the Black Monday crash.

In Johannesburg more than 50 companies saw their shares hit new peaks yesterday.

More than R35-million in industrial shares changed hands, up from R28-million on Wednesday.

More than R77-million worth of shares was traded overall against R60-million on Wednesday — the highest figure since last November.

About R7,7-million of De Beers shares were bought and sold, many by overseas investors who bought cheaply through the weak financial rand at R4 to the American dollar.

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Market briefing on Unex

(58)

GRETA STEYN

THE innovators of a universal exchange (Unex) — providing a single electronic clearing house for all financial markets except equities — are briefing the markets on the proposal.

Standard Merchant Bank special projects manager Burgert Oosthuizen, who investigated the feasibility of the exchange for more than a year, started spreading the word this week. Oosthuizen researched the feasibility of the exchange at the request of the Merchant Bankers' Association.

Although feedback has been positive so far, one concern appears to be the independence of the company which will run the exchange, along with a suspicion that the banks want control.

But Oosthuizen said the company, Unexcor, would exist independently from the markets it served. "We want to open up the shareholding of Unexcor. A share issue of R42m will be made, and anyone can apply."

He said this approach would reduce the barriers of entry and a greater range of firms would be able to become members.

Unex will focus initially on providing exchange facilities that will support the markets to be licensed in terms of the draft Financial Markets Control Act. These include the futures and gilts markets during the initial stages, followed by the options, forex and money markets.

A major innovation will be a real-time on-line interbank transfer system.

Low risk brings home the bacon

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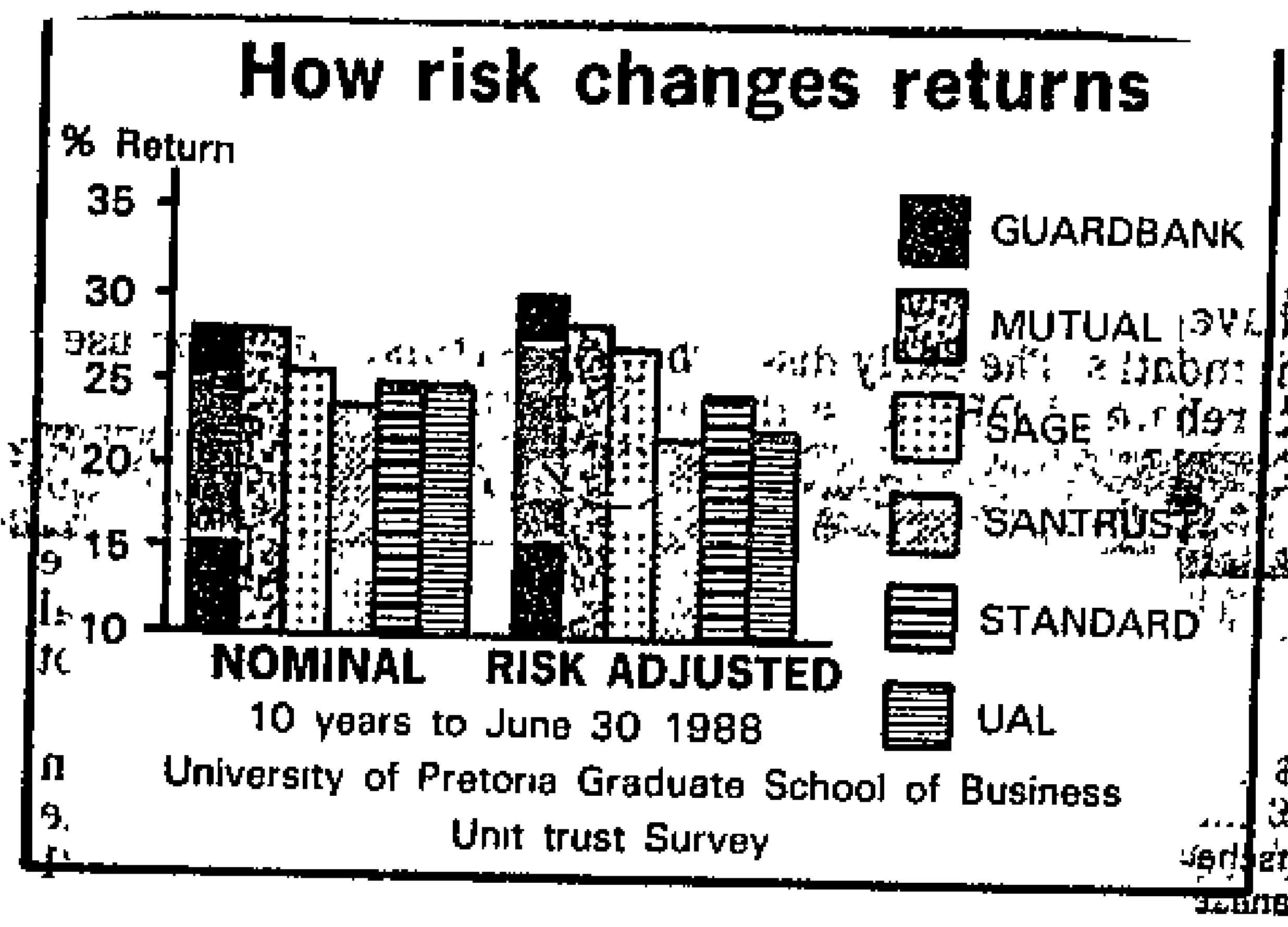

By David Carte

AN investor can be happier with a return of 20% than one of 25% — if the lower return is achieved with much lower risk.

This simple hypothesis lies behind a move to reform the way investment performance of fund managers is measured.

Leon Brummer, of the Graduate School of Business at the University of Pretoria, says that comparing nominal rates of return could be misleading.

He advocates performance comparisons being made on the basis of return a unit of risk. He says surveys are incomplete because they do not take into account performance volatility.

Winner

In a study of the performance of the unit trusts in the 10 years to June 1988, the Pretoria University business school found that Guardbank, managed by Liberty Life, and Old Mutual tied for first place among general funds.

But on a risk-adjusted basis Guardbank emerged a clear winner (see graph).

It is hardly surprising in view of Professor Brummer's findings that of all the assurance houses, Liberty has grasped the concept of risk adjustment most eagerly.

Having suffered the slings and arrows of performance numbers that were less than impressive without risk adjustment in 1987 and 1988, while the stock market boomed, Liberty has been telling pension fund and other investment clients about Professor Brummer's findings.

Liberty measured standard deviation of returns based on figures published in the Alexander Forbes survey of investment performance over 10 years to 1987, encompassing a boom and a recession.

The results are to be seen in the table, which shows, for example, that Liberty's balanced portfolio returned 21,4% a year — less than Lifegro, which returned 22,4%.

But turning to the risk side

HARRY BREWS

of the equation, Liberty's standard deviation of return was only 8,1, compared to Lifegro's 13,3 (see table). There was thus nearly 40% less risk in Liberty.

The table shows that Liberty's property portfolio returned 17,4% a year in the 10 years to December 1987 — but the standard deviation in return over the years was only 5,7.

Liberty deputy general manager investment marketing Harry Brews says many portfolios are light in property. Some fund managers say it gives a lower return than equities, but Liberty likes the stability offered by a high-quality property portfolio.

"Our income return on a property portfolio worth R1,4-billion at the end of 1987 was 8% a year since we started it — but there was capital appreciation of about 12% a year, making the total return 20% a year.

Rivals

"In property, the total return has always been positive, which is not true for equities. We have discovered that in 37 of 68 years, the stock market has gone downwards or sideways.

Mr Brews says because of its large property portfolio, Liberty is bound to underperform rivals when the stock market is booming. But when the market declines, Liberty enjoys more protection.

"I am not saying we have the perfect portfolio mix for every period. We want trustees to understand that different portfolio make-up inevitably leads to differing performance, according to the state of the investment cycle."

History of investment performance
10 years to December 1987
Risk return ratio

	Average return	Standard deviation
Liberty Equities	25,2%	12,8
Federated	20,9%	12,1
Lifegro	22,4%	13,3
Mutual	20,0%	12,5
Prudential	21,8%	12,5
Southern	21,7%	12,5
Sanlam	19,8%	11,8
Liberty	21,4%	8,1
Liberty Property	17,4%	5,7

In the 10 years reflected in the table, the Liberty equity portfolio gave an average return of 25,2% a year while the standard deviation was 13,8 — much in line with other assurers' balanced portfolios.

Mr Brews says: "In equities, Liberty has gone for quality industrials, while others, such as our colleagues at Prudential, have emphasised mining stocks. They all have their moments.

Rampant

Thanks to a rampant bull market Liberty slipped to sixth and seventh in performance survey rankings in 1986 and 1987 — but it made a comeback shortly after the stock-market crash.

The market is running again — but Liberty does not expect to fall in the rankings even on a non risk-adjusted measure. It claims top-quality industrials are making the running.

A consulting actuary says that risk can be "a good thing" if it is accompanied by a commensurately higher investment return. In his experience, few boards of trustees understand risk adjustment or are interested in it. Standard deviation is not the only way to measure risk and the introduction of other ideas could confuse the matter further.

He says risk lies not only in volatility but in mismatching assets and liabilities. This has been prevalent recently.

CARTE BLANCHE

S/Times 15/1/84

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By David Carte, BUSINESS TIMES Editor

Family strife bedevils Rentbel

The battle for control of Rentmeesterbeleggings may not be over.

The share price of the underperforming, low-profile, insurance, aviation, property and industrial conglomerate fell from a peak of 700c to the present 400c after it appeared that the present managing director, Joachim Vermooten, and friends had sewn up control.

The Supreme Court, Pretoria, ruled that former chairman Rossouw Snyman could not sell his half-stake in Rentekor, the controlling company, to a raiding consortium headed by entrepreneur Jan Lombard, son of the Deputy Governor of the Reserve Bank, without first offering the shares to his partners in Rentekor.

Mr Snyman is appealing against the decision. His argument is that he sold a private pyramid company, Tjospomie, which holds his Rentekor shares He maintains there was no "grandfather clause" prohibiting the sale of a holding company. The appeal is expected to be heard in April

Rentekor holds 37% of Rentbel

Mr Vermooten, who has the support of the De Meulenaere family, told me this week that he and his partners could not forfeit control even if they lost in court

They fired Mr Snyman as executive chairman last year when he tried to sell his shares They have run the company since then

Interested parties note that if Mr Vermooten prevails in court, he has to find a large amount of money to take up Mr Snyman's shares

If another bidder is prepared to offer 800c, which is close to net asset value, Mr Vermooten and friends could be looking for nearly R5-million

The hope of more than one consortium still looking at Rentbel is that the Vermootens will not be able to raise the money Certain parties have travelled the platteland, offering shareholders large premiums to the market price of R4.

Mr Lombard believes that including the effective 18,5% held through Rentekor, he has 25% — "enough to block any special resolutions".

When the Rentbel share price rose last year, Mr Vermooten warned that it had gone too high

His controlling consortium has since rejected a higher offer from one of the interested parties Mr Vermooten says "The company was founded by my father and it has sentimental value to me"

Finabel, an investment company owned mainly by a group of farmers and operating from the offices of the National Maize Producers Organisation (Nampo) in the Free State, owns 3,3% It has demanded R11 a share from one of many suitors.

Finabel chairman Tiny van Niekerk says "We have had approaches from several parties, but we are not prepared to sell only the Rentbel shares Whoever buys, has to take our shares in Volkskas worth R4-million, plus unlisted interests, such as 49% of Cyclops, the engineering company, and 34% of Woolnit"

Safren has 38% of Trek and could well be interested either in Rentbel's 45% stake in Trek — or even Rentbel itself

Among other things, Rentmeester owns Explo Carriers, a specialised explosives transport operation, James Sydney, a manufacturer of fuses for explosives, Apeldoorn-Lighthouse Net & Twine, which makes fishing and other nets, and — most interesting of all — President Insurance and Rentmeester Versekeraars

It has 11% of Metkor, controller of Dorbyl and, like its associate, Finabel, a large parcel of Volkskas shares

Rentbel produced a threadbare annual report last month — three months later than usual The auditors were late with one company, explains Mr Vermooten

The skimpy amount of information in the report has been reduced A diagram of control and any mention of Trek or Luxavia have been removed There is no five-year record and no segmental reporting The report meets the minimum requirements of the Companies Act

The directors value an unnamed associate company at R6-million It had no value the previous year

The Rentbel report shows that insurance funds account for R73,8-million of R128,4-million of capital employed Shareholders' funds are stated at R26-million, or 717c a share

If investments are valued at market and directors' valuations and cost of control is eliminated, net asset value is close to 824c. Total debt was R47,9-million, but there was R18,5-million of cash, making net debt R29,4-million (R25,8-million)

A most unusual income statement shows net operating income of R5,5-million on sales of R148,7-million This is almost wiped out by interest costs of R4,7-million The pre-tax profit of R704 000 is dwarfed by a tax bill of R1,98-million There is no explanation Tax pushed the group into the red

It comes back into the black only by virtue of the equity-accounted earnings of associates — R2,6-million — and somehow the outside shareholders' interest is a positive, suggesting a monumental loss somewhere in the group That is the tortuous method by which "earnings" of R2-million are stated

The company believes in keeping things close to the family for the auditors are Meintjies, Vermooten & Partners

Rentbel is reminiscent of Metkor and Union Steel before Rembrandt came on board and started kicking backsides — and Bonuskor before Keith Jenkins took over and turned a loss of R20-million into a profit

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Rentbel dispute

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rder in two years. tbel has been poorly naged for years. The insurance companies kicked off at the same time as Liberty, yet have got not one-hundredth as far.

Mr Vermooten's new management has improved what it calls earnings by 65%. It has resolved to transform the group.

But why Rentbel should cut back on information and why it paid a dividend when debt exceeds equity and without equity acounted earnings of associates, it would have incurred a loss, is hard to understand.

It seems that the best thing that could happen to this group would be a takeover by proven operators who could either make the assets work or sell them for the benefit of all shareholders.

Fratricidal strife and secrecy have debilitated what could be good assets in the right hands.

Unit trusts back on top

S/Times. 15/1/89

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By David Carte

THE surging stock market and a net inflow of more than R393-million of public money have boosted the value of South Africa's 30 unit trusts to R4,4-billion.

The value of the trusts is not far short of the R4,8-billion reached before the October 1987 crash.

Their value soared by R900-million from R3,4-billion in December 1987 and the number of holders reached 490 000.

Performance

The average performance of the general funds was 25%. Specialist funds returned 10,6% on average. The average five-year return on general funds was 19,5% a year.

Sales of units for the year came to R786,6-million, and repurchases were R392,8-million, leaving a net inflow of R393,8-million. The net inflow in the last quarter was R137,7-million, the best for the year.

The funds were fairly fully invested with about 80% of the general and specialist trusts invested in equities.

There was much variation between trusts. Bullish trusts, such as Guardbank, were more than 80% invested in shares and bearish ones, such as Standard and some in the Sanlam house, holding slightly more than 60% of their money in shares.

The combined portfolios of the general and specialist trusts were 18% liquid.

The unit trust portfolios give the public its only view of institutional investment strategy. The main portfolios of the assurers and pension funds are a closely guarded secret. They are obliged to plough more than half of their funds into government stock. But otherwise their strategies with unit trusts tent to reveal their general investment strategy.

The general equity funds had 47% of their money in industrial shares, 16% in mining finance and 6% in golds.

The specialist trusts held 22% in gold, 20% in mining finance, 14% in other mining and 24% in industrials.

The arch-bears among established general trusts were Sanlam Unit Trust (32% liquid) and Standard's general fund (27%).

Guardbank was the best performer on the year, giving holders a total return of 32%. Runners-up were Sage (28,2%) and UAL (28%).

Guardbank's performance is no surprise. It is heavily laden with quality industrial shares, major beneficiaries of the present market run. No less than 58% of its portfolio is in industrials. The trust was least liquid of all the large established trusts, with only 11% of its funds in cash.

Applause

Over five years, Old Mutual was best performer, returning 24% a year to holders. Old Mutual has 43% of its fund in industrials, 16% in mining finance shares and was 19% liquid at the year end.

Guardbank was the runner-up over five years, returning 21,1% a year. It was followed by Sanlam, which returned 16,8% a year.

Standard Bank received much applause for being liquid before the market crash in October 1987. It has continued to be bearish and has paid a price. Its general fund, 27% liquid, gave a return of 25,3% for the year and 19,9% a year over five years.

Reflecting high interest rates, not to mention 54% liquidity, Standard's Income trust, which invests in gilts, returned only 10,7% a year

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Unit trusts recover

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over five years and 13,7% for a year.

Reflecting the disappointing performance of gold shares in the past year, the Standard Gold fund returned 15,9% a year over five years and over one year gave a negative return of 12,8%.

Sanlam Dividend returned only 12,8% a year over five years and 4,1% for a year. It was 37% liquid on New Year's Eve. Sanlam's general trust also did relatively poorly, returning 15,2% a year over five years and 15,6% over a year.

Volkskas goes in search of a new image

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S Times 15/1/89

By Robyn Chalmers

Background to a banking revamp

VOLKSKAS is considering revamping its logo, its signage and its cheque forms in the next phase of its much-ballyhooed "service excellence" campaign.

It claims the campaign has given it a major performance boost — but rivals are conceding nothing.

Volkskas contends that since the campaign was launched, it has increased its market share. It also says it has dispelled its image of being unapproachable and forbidding.

As evidence, Volkskas cites a Market Research Africa survey conducted last year. The survey showed that public awareness of Volkskas as a bank increased from 18% in May 1987 to 22% in March 1988.

The huge Rembrandt-controlled banking group claims that it has increased the number of accounts it holds. In 1986 and 1987 the bank's net profit in cheque accounts rose by 52% and by 92% on savings accounts, it says.


Koot van Vuuren . . . obsession with service excellence

According to Volkskas, the MRA survey, which also monitored First National, Standard, Nedbank, Santam and Trust Bank, ranked Volkskas top in several areas.

Respondents are reported to have found that Volkskas has the most friendly and helpful personnel, the best administration, the most approachable management, offering the best value for money.

Rival banks are sceptical of the claims. Perhaps understandably, they are not keen to comment on the claimed success of the campaign, particularly the increase in market share.

[redacted]

The belief of the banks appears to be: "Well, good luck to them, but it really isn't affecting us."

Nedbank managing director Chris Liebenberg says it is indeed a high profile campaign.

"Volkskas claims great success with it, but this has not been our experience. We have not lost market share, but perhaps we have a different target market."

A stockbroker's analyst is also sceptical. He asks when Volkskas last made an important banking innovation, how many English accounts it has captured recently and why any upwardly mobile urban black would put his money into the bank.

He says industrial interests sold to Keith Jenkins incurred losses of R20-million under Volkskas and today are making profits of that order. Volkskas would counter that the industrial interests were an unfortunate legacy.

A major embarrassment working against the improved image was Volkskas's involvement in the Albert Vermaas scandal.

A Volkskas official testified to the Harms Commission that he had broken exhange control rules to help Mr Vermaas.

Critics concede that Volkskas has done much to revamp itself since former group chief executive Pieter Morkel recruited banking experts PA Consulting of London to advise it on how it could realise its potential.

The result was that Volkskas pumped millions of rands into upgrading its computer system, into advertising and moved into the corporate market.

Volkskas believes the most important development in the group has been the change of attitude to its staff. The main reason for this was the need to penetrate the corporate market.

[redacted]

To serve corporate clients, a market held almost exclusively by First National and Standard Bank, Volkskas had to recruit top-quality staff.

Johan Coetzee was recruited from Bankorp to head the corporate division, and he had to start from scratch. He reports that finding people was a problem.

"We needed specialised knowledge in many fields, from project financing to relationship banking. We solved our staff problem by employing and training young graduates.

"We selected them carefully to make sure they would fit in with us. We made sure they had both banking and people skills."

Training was encouraged by a R7-million investment in a training centre in Pretoria.

Staff members were told by managing director Koot van Vuuren that they had to have an obsession with service excellence. The idea for the campaign originated some four years ago, nurtured and built on by advertising agency McCann's.

It was launched on September 25, 1987, when Mr van Vuuren said Volkskas would spend R10-million on the campaign.

The campaign was based on the fact that the client primarily wanted good service from his bank. It would be maintained for at least five years and would not change the basic character of the bank, said Mr Van Vuuren.

The bank has employed a design consultancy to investigate the possibility of changing its corporate image and culture.

Sources say Volkskas is changing the look of its cheque-books, stationery and logo among other things as part of its service excellence campaign.

[redacted]

Public relations officer Willie Roux confirms that the bank is looking into the possibility of changing its image and corporate culture.

"Although it is not strictly true that Volkskas is an Afrikaans bank, it is seen as such and we are investigating whether this is the best image to have.

"It is best to build on areas where you are strongest, but if we find it is right to change, we will do so."

Interest rates may have peaked, says Standard

Star 16/11/89

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By Magnus Heystek
Finance Editor

Interest rates may have peaked unless fiscal policy becomes excessively stimulatory during 1989, says Standard Bank in its latest economic survey.

Consumer demand and the demand for credit are showing tentative signs of moderation in reaction to government measures to keep the economy from overheating.

Added to this is the unexpectedly strong performance of exports during the second half of last year, which has significantly eased possible pressures for further restrictive policies caused by balance of payments considerations.

Standard says the chances are very good that the economy will continue to grow positively this year without major interest rates shocks, provided the demand for credit falls to more manageable levels.

And, also, if the surplus on the current account of the balance of payments is sufficient to meet foreign debt repayments and allow for a gradual build-up in foreign exchange reserves.

According to the survey, growth in domestic production last year was insufficient to meet the rapid increase in overall demand.

Gross domestic product (GDP) grew by almost three percent, but that was only enough to meet about one third of the increase in domestic demand.

This resulted in the volume of imports increasing by 22,5 percent to supplement domestic production levels.

In response to the strength of credit demand, lending interest rates such as prime overdraft rate, mortgage interest rates and the official Reserve Bank rediscount rates were gradually increased, albeit somewhat belatedly and reluctantly.

For most of 1988, monetary policy cannot be characterised as having been overtly restrictive, says Standard.

"If a repeat of the economic debacle of 1984 is to be avoided this year, private consumption expenditure, gross fixed investment and government expnditure cannot all grow strongly at the same time.

"Were this to happen, imports would fail to moderate, let alone fall.

"Recent evidence suggests that a potential crisis resulting from a simultaneous strong expansion of all components of domestic expenditure can be averted.

"For the first time in many months there are some encouraging signs that demand for credit is slowing.

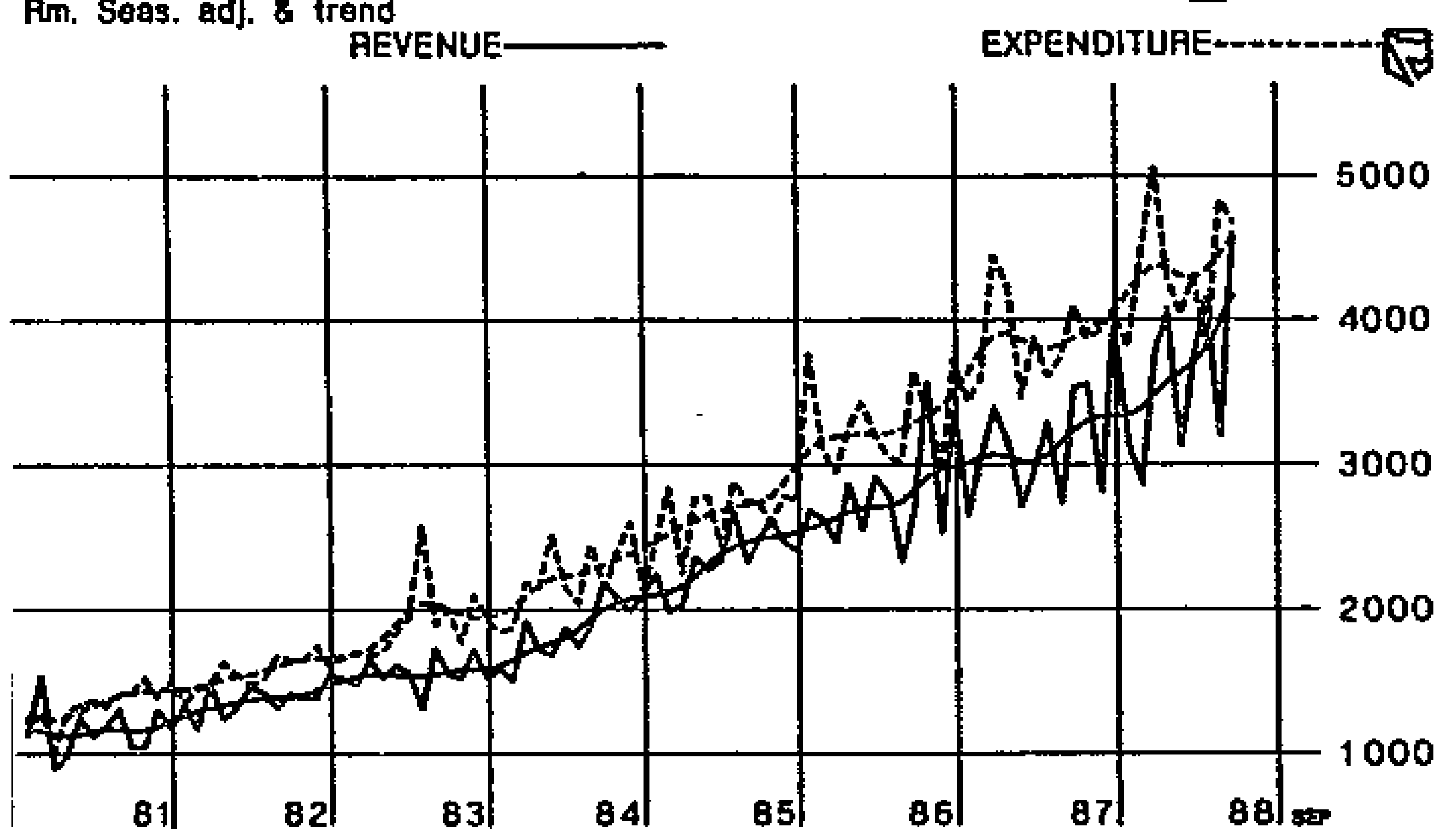
"This apparent slowdown is broadly based, affirming that the monetary and other measures introduced over the course of the last few months are finally having a dampening effect," says Standard.

At this stage there is very little else that monetary policy alone can do to further cool down private expenditure growth.

With interest as high as 18 percent on prime overdraft and much higher on most other consumer lending rates, the cost of credit has already become painful, particularly for mortgage-seekers.

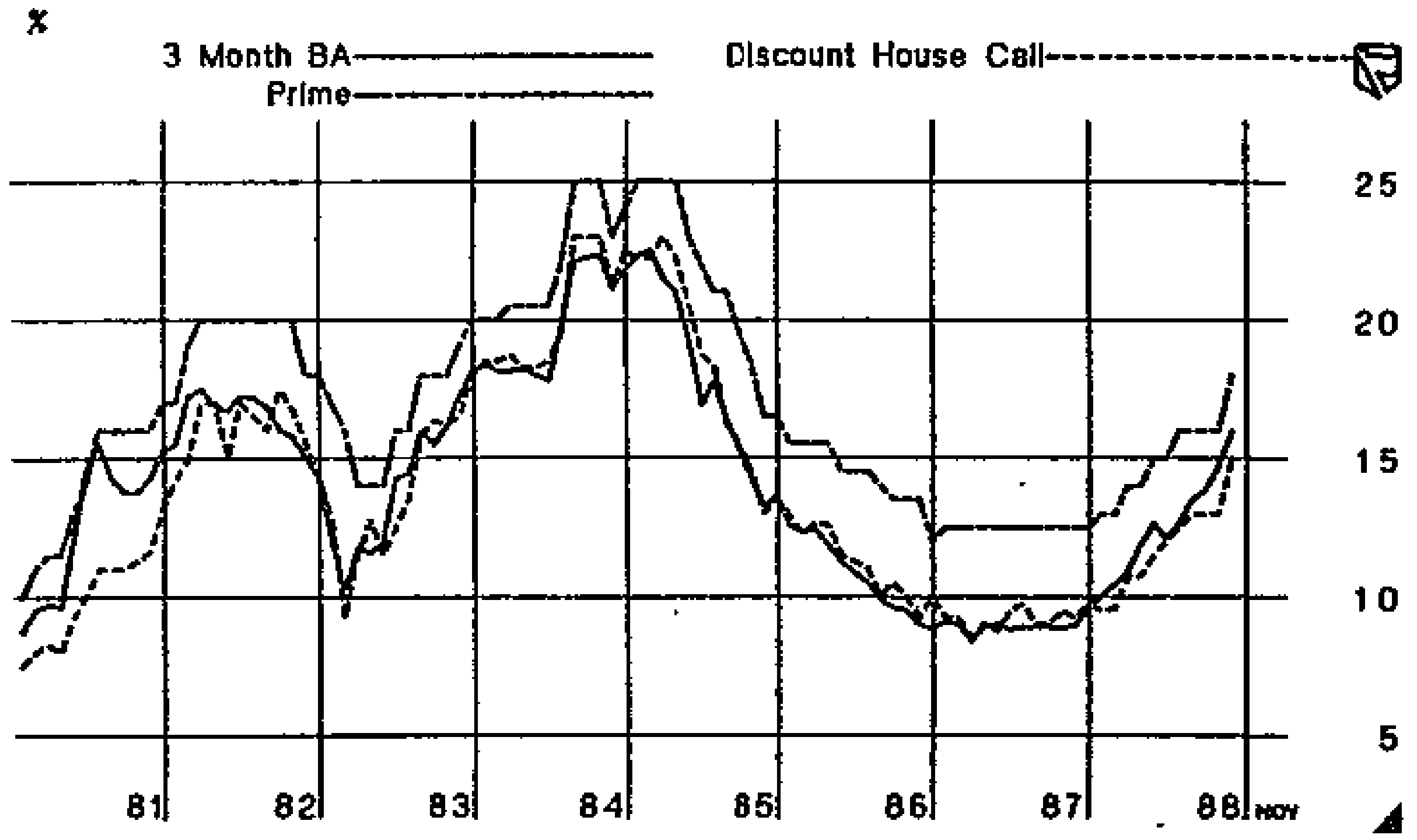
Standard warns that to adopt a policy of keeping interest rates high without government expenditure being brought under control could easily result, as in 1984, in a collapse in business and consumer confidence.

REVENUE & EXPENDITURE



Government finance

SHORT TERM INTEREST RATES



Interest rates

Repurchase agreements withdrawn

Reserve Bank stops extra cash supply

Cpt Times 16/1/87

58

From GRETA STEYN

JOHANNESBURG. — The Reserve Bank stopped supplying extra cash to the money market as liquidity flowed in on Friday in the form of government spending.

The Bank's withdrawal of daily repurchase agreements signals it has no intention of being too helpful now that the market is more comfortable.

Dealers say liquidity improved because government slowly started spending its huge cash deposit with the Reserve Bank. The Exchequer's balance was R4,9bn at the end of December.

Standard Bank economist Nico Czypionka said: "When, in the next three months, government starts to disburse this cash, it will increase liquidity in the banking sector, effectively reducing upward pressure on interest rates or even exerting a downward push on money market rates."

About R1bn is expected to flow into the market as government salaries are paid this week.

Czypionka, writing in the bank's latest review, said the Reserve Bank might be forced to counteract any undue "technical" easing of liquidity, due to government spending.

"The significant acceleration of the pace of government expenditure in the coming months effectively means that fiscal policy will become stimulatory, at least in the three months until the end of the current fiscal year."

However, the current situation warranted great care on the part of the Reserve Bank, as the 18% levels of prime overdraft and mortgage rates were already high and inflicted a great deal of economic pain to borrowers.

Pressure for restrictive policies has eased — the balance of payments situation had improved and the demand for credit was showing signs of slowing down.

At this stage, there was "very little else" that monetary policy alone could do further to cool private expenditure growth.

Though further increases might not be necessary, rates would have to remain high to avoid balance of payments problems.

"Interest rates may have peaked, unless fiscal policy becomes excessively stimulatory in 1989," the review states.

Business confidence could easily collapse if the burden of cooling the economy was left to interest rates alone while government spending remains excessively high.

He said a general election could spark expansionary fiscal policy, raising the possibility of a repeat of 1984.

"At that time the application of penal interest rates, plus tax increases, was the only option left to combat an untenably fast expansion of domestic expenditure."

RMB offer for odd-lot Huntcor shares

58

ZILLA EFRAT

HUNTCOR shareholders holding less than 100 shares each are being made an offer by Rand Merchant Bank (RMB).

RMB will buy odd-lot shareholdings at 1 200c a share or sell additional shares to round up odd-lot shareholdings to 100 each.

BDay 16/11/89

Odd-lot shareholders can retain their existing investments if they indicate their preference to remain invested in Huntcor.

The shareholdings of those who do not respond to RMB's offer and who do not elect to remain in Huntcor will be converted to redeemable preference shares and redeemed at 1 200c, subject to the approval of Huntcor shareholders at a general meeting.

Various developments have led to the current situation where 91% of the Huntcor shareholders represent 1,1% of the total issued shares and hold less than 100 shares each.

Sanlam policy-holders were given the opportunity to invest their annual cash bonuses in Bonuskor, an industrial investment company created in 1945.

As a result, Bonuskor's share register contained a large number of individual shareholders

Bonuskor became a subsidiary of Hunt Leuchars & Hepburn (HL & H), a subsidiary of Rembrandt-controlled Huntcor, in April 1988. And its shareholders either received 186 HL & H shares or 93 Huntcor shares for every 100 Bonuskor shares.

A substantial number of small shareholders received Huntcor shares for their Bonuskor shares.

Huntcor now wishes to reduce the high costs and administrative burden in maintaining its share register.

Crusader Life to establish UK assurer

B/Day 16/1/89

58

TANIA LEVY

CRUSADER Life is to establish a life assurance company in the UK.

CE Don Rowand said on Friday agreement had been reached in principle with various London partners to establish a life assurance venture, including the development of a life broking financial planning concern, a specialist computer company and four estate agencies.

The venture will be funded with a substantial amount of the R12m raised in terms of a rights offer in October 1987. This was followed by Crusader's listing in December 1987.

Rowand said it would be premature to comment on the amount involved until various arrangements had been finalised. He expected the deal to be completed within three weeks.

CRUSADER LIFE
Crusader Life Assurance Corporation Limited

The UK life assurance company will market Crusader's existing life assurance policies, in particular their world-first Dread Disease products which were introduced in 1983.

Crusader plans to generate life assurance business from a London broker in whom it gained a controlling interest through a R1,3m investment in 1987.

Crusader's announcement comes hot on the heels of Southern Life's confirmation last week that it is negotiating to acquire a UK life company.

In Crusader Life's annual report, Rowand said that the huge premium placed on the shares of existing small UK life companies had made the acquisition of one well-nigh impossible.

This had prompted Crusader to form its own company in the UK.

Property investment on the increase again

58

MERVYN HARRIS

B/Day 16/11/89

MOST institutional property investors/developers do not invest contra-cyclically, which tends to suggest property performance is measured in the short term, when it should be perceived as a long-term investment, says Max Pollak and Freemantle's John Rayner in an analysis of institutional investment patterns in his latest property review.

He says at the start of the last property upswing in 1979, pension and provident funds invested 4,9% and long-term insurers 6% of their total investment in physical property.

By 1982, the top of the property market, this had increased to 10,8% and 21,8%, respectively.

Investment for 1987 by pension and provident funds declined to 2,4% and by long-term insurers to 3,8%, the lowest percentage of new cash flow to be allocated to fixed property investment over the past 11 years.

The figures for the first quarter of 1988 reflect increased investment in fixed property with pension and provident funds investing 2,9% and insurers 11,7% of new cash flow.

This increased exposure to the property market coincides with the peak of the current property cycle.

Property trusts' latest annual reports show institutions are the major players in this market. The market capitalisation of the property trust sector is about R2bn, with 85% (R1,7bn) held by institutions and 15% (R300m) in the hands of individuals.

BDay 16/1/89

(58)

Reserve Bank to reduce forex role

GRETA STEYN

THE Reserve Bank wants to reduce its role in the spot foreign exchange market as early as next month.

Bankers said at the weekend that February 1 was the date the Bank had provisionally set for ending its control over the dollar proceeds of gold sales. The Bank said late last year it intended to pay the dollar proceeds directly to the gold mines, leaving them to put the dollars into the market.

The Bank held talks with the mining houses on Friday to finalise the plan.

The move has been hailed as a step to free the market, with bankers saying it will much improve the balance between the demand for and the supply of dollars. It also frees the market by reducing the Bank's ability to manipulate the rand/dollar exchange rate.

However, bankers remain sceptical about the Bank's intention to withdraw from the forward exchange market. Doubts about its ability to free that market were conveyed to the Bank at a meeting to discuss the issue last week.

A banker said: "While the rand continues on a downtrend, the demand for forward dollars from importers far exceeds the supply from exporters. The Bank will battle to reduce its role as long as this imbalance exists."

● See Page 5

FINANCE

Crutches preferable to wheel chairs

B/Day 16/11/87

(58)

IN THE MONEY MARKETS

Harold Fridjhon

THE money market has lost its crutch and from today must limp unaided into an uncertain future. The Reserve Bank has stopped offering facilities which had enabled them to balance their books through a critical period.

For the past four weeks the Bank has supported a banking sector which, without help, would have been crippled by the demands of a free-spending public celebrating Christmas and having a holiday fling, perhaps oblivious of the inevitable day of reckoning. This on top of the borrowing of merchants stock-piling either to meet the spending spree or to beat import prices and surcharges.

The alternative to the inexpensive wooden crutch provided by the central bank would have been the wheel chairs which the giant financial institutions would have been so willing to supply — at a price. And that price would have been blood-sweating interest rates on overnight deposits.

Calculated

Let it not be thought that the Reserve Bank had proferred its helping hand through any motives of Christian charity in order to save the banks from that fate worse than death faced by heroines in Victorian melodramas.

To the contrary, the Reserve Bank's calculated and pragmatic support of the money market was not to rescue near-ravished banks but to stifle a whirlwind of escalating interest rates. If the banks had been forced to buy costly deposits, the BA rate and all associated rates would have zoomed. Prime would have been pressured and expectations — that powerful, invisible force which triggers market madness — might have caused an upheaval in the interest rate pattern that could have been difficult to control.

By judiciously monitoring the market, the Reserve Bank fed in on a day-to-day basis just that marginal amount of liquidity at market-related rates to balance the books and keep down the banks' cost of money.

There was nothing arbitrary about the decision not to offer help to the banks on Friday. The Reserve Bank knew that the market would receive a large inflow of funds over the weekend from public servants' pay-packages and, possibly, other government spending. This will considerakly reduce the R2,2bn shortage which the market currently owes the Bank.

Crabwise

Intense seasonal pressure on the banks has been relieved but not their or the system's fundamental illiquidity. This remains and it could affect the level of interest rates in the months ahead.

Some bank treasury managers have the gutfeel that rates will move crabwise for the next few months; one said for eight months. But it would seem that elements in the market do not hold similar views.

The Treasury bill (TB) rate edged up to 15,22% from 15,21%, an insignificant move, but it could be a straw in the wind. The rate for 90-day bankers' acceptances (BAs) rose to 15,55% on Friday, 10 points up from Monday's 15,45%. Twelve months certificates of deposit (CDs) have been showing an upward tilt from 16,5% towards the 17% mark. And the UBS, offering 12-month CDs at 16,5%, is not finding takers.

These could reflect expectations of higher rates, but the Reserve Bank correctly will not want to tinker with Bank rate until it has reliable data undistorted by the December/January bulges. And certainly the politicians will fight like feral cats to prevent a Bank rate rise ahead of an election, if there is to be an early election.

But external forces might force the authorities to make an earlier move than they might have envisaged. Interest rates are rising in Britain and the US and, in spite of the favourable forward cover facilities provided by the Reserve Bank, importers might again switch from offshore finance to local borrowing.

This would seriously affect the gold and foreign reserves which governor De Kock is striving to rebuild. And any diminution in the reserves would add to the banking sectors' illiquidity.

The present interest-rate structure looks fragile, particularly with the sickly gold price.

Smaller investors ‘missed chance’

B/Day 16/1/89

58

MERVYN HARRIS

SMALLER investors missed a “once in a decade” opportunity of coming into the stockmarket when shares were at bargain basement prices after the crash of October 1987, Association of Unit Trusts figures have shown.

While there was a net inflow of R393,8m into the industry’s 30 trusts in 1988, 34,9% — or R137,7m — of that amount only flowed through to the funds in the December quarter.

Association of Unit Trusts chairman Roy McAlpine said the net inflow had shown a substantial increase for the first time since the stockmarket collapse. Sales for the year improved substantially to R786,6m and repurchases declined marginally to R392,8m.

He said: “However, it is something of a disappointment that, after the market crash, when the equity market was offering outstanding value, the inflow into the industry declined materially.

“It only started to increase significantly after the prices of most unit trusts increased by more than 20%. Investors who held their ground after the crash earned substantially on their investments, and have seen the value of their portfolios rising significantly.”

The total market value of funds, which have about 490 000 unitholders, is now R4,38bn, which is close to the record of R4,88bn at September 30, 1987.

The average performance of the 12 general equity funds was 25,2% with 6% of their holdings in gold shares, 19% in mining financials, 10% in other mining shares and 47% in industrials. Funds held in liquid assets averaged 18%.

For the 11 specialist equity funds, the average performance was 10,6%, with 24% of their portfolios in industrial shares, 22% in gold shares, 20% in mining finance, 14% in other minings and 18% in liquid assets.

The six high income funds, represent-

● To Page 2 ⇨

Smaller investors ‘missed chance of decade’

(58) B/Day 16/1/89

⇦ ● From Page 1

ing investments of about 7 500 unitholders who spread their portfolios beyond equities, now hold assets of R219,7m.

The income funds maintained a highly defensive posture because of steadily rising interest rates and their liquidity content averaged 34%.

An analysis of the portfolios of all the funds shows that they are fairly fully invested with equity content averaging 80%.

However, within individual equity funds, the equity contents vary from as low as 64% to as high as 86%, reflecting the differing views held by the respective fund managers on the likely trend of the equity market in 1989.

● See money market report — Page 5

FNB frustrated by slow growth

(58)

Star 17/11/89.

By Derek Tommey

Perhaps with the benefit of hindsight, investors should have been aware that something was happening at the First National Bank from which Mr Chris Ball yesterday announced his resignation as managing director.

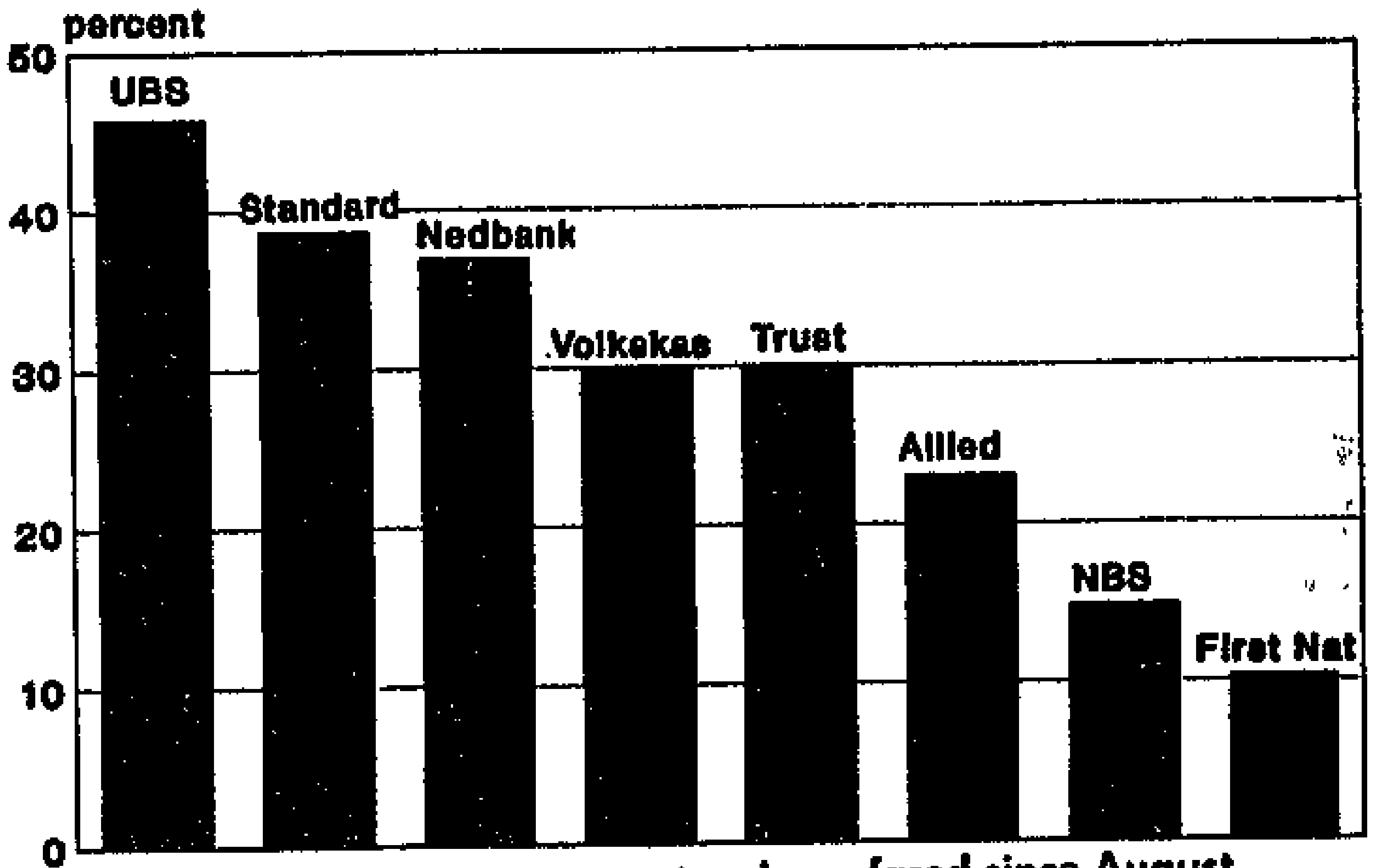
Since August the share market has been saying fairly clearly that all was not well at South Africa's biggest bank.

The institutions have been happily buying shares in UBS, Standard, Nedbank, Volkskas, Trust and Allied, pushing up their prices in the process by between 23 percent and 46 percent in the process. But they have virtually ignored First National, and its share prices has risen just over 10 percent.

The institutions are not saying why but the annual report for the year ended September 1988, highlights one problem the bank faces — the slow growth in pre-taxed earnings.

Although advances by First National grew by 29 percent in the 1987-88 financial year, and the balance sheet by 37 percent, pre-taxed profits grew by only 1,4 percent from R301,9 million to R306,4 million.

Fortunately, a R11,6 million drop in tax and a R6,1 million increase in income from associated companies enabled the bank to report a reasonable 11,7 percent rise in earnings a share from 254,6c to 284,5c. And the absence of any write-offs after 1986-87's R106,6 million helped it to produce a highly creditable net income after extraordinary items of R206,8 million — more than two-and-half times the R78,0 million in 1986-87 and which will have greatly helped the bank's cash position.



How the banks' share prices have fared since August.

But for long-term growth one looks at the earnings before tax, and the bank's poor performance last year could be a key factor in the current poor rating of its share.

Not that the bank can be blamed entirely for the small increase in pre-taxed profits. Along with other banks it found itself squeezed by the Government's refusal to let them increase lending rates to their customers at a time when borrowing rates were rising sharply.

Against this it can be said that other banks were also in the same situation and apparently weathered it fairly well, which suggests that First National may also have other problems, though there is no concrete evidence of what these are.

However, there has been speculation about some of Mr Ball's actions at the time of those controversial advertisements concerning the ANC, and the impact this may have had on the bank's business in the platteland.

This has been one of its major strengths in the past, as it has the biggest country branch network of any of the banks.

Should First National be losing ground in the platteland for the reason mentioned, then Mr Ball's resignation, though probably a bitter blow to such an able man and partly sacrificial, would seem to be in the bank's interest.

Some improvement in First National's pre-taxed profit seems badly needed if, as seems likely, the recent sharp expansion in its lending activities necessitates an increase in capital by way of a rights issue.

58

Court application to stop liquidators

Vermaas fears further questioning

Pretoria Correspondent

High-flying millionaire Mr Albert Vermaas has gone to the Pretoria Supreme Court in a bid to stop liquidators of his estate from questioning him about his assets and liabilities for fear it might prejudice him criminally.

The application was made yesterday.

Mr Vermaas, who was arrested in November on charges of fraud, contravention of the Banks Act and contempt of court, has claimed in court documents that he feared interrogation by liquidators could possibly further incriminate him.

The provisional curators are Mr W H Edelstein, Mr B B Nel, Mr A J Hessels, Mr L Klopper and the Master of the Supreme Court, Pretoria.

Mr Vermaas further stated that even though no formal charge sheet had been drawn up, he had been advised that questioning of him by curators could prejudice him.

In a court affidavit, Mr Edelstein said it was the duty of provisional curators to control all the assets of the insolvent's estate to the advantage of creditors.

He said curators were in possession of two statements outlining Mr Vermaas' assets and liabilities, but the information was contradictory.

Mr Edelstein said the aim of questioning Mr Vermaas was to gain a total picture of the attorney's assets and liabilities and to ensure that all the assets of Mr Vermaas' were traced and placed under the control of provisional liquidators.

It was not the curators' intention, Mr Edelstein continued, to extend the extent of questioning further than Mr Vermaas' assets and liabilities.

In the circumstances, there could be no question of prejudice of Mr Vermaas in any possible criminal proceedings, Mr Edelstein added.

He said Mr Vermaas' creditors would, however, be prejudiced unless curators took control of his assets and liabilities in terms of the Insolvency Act.

The case was postponed until February 21 so that liquidators could file further affidavits. Meanwhile, the Harms Commission, inquiring into the financial dealings of Mr Vermaas, resumes in Pretoria today.

Evidence heard by the Commission last year led to the arrest of the Pretoria attorney in connection with fraud and contravention of the Banks Act.

A teacher was stabbed at Bopa-Senatla Second- ther attacks were expected

FNB chief 'frustrated'

Buzz over Ball's decision to leave

(58)

Star 17/1/89.

By David Braun and Ann Crotty

The sudden resignation of First National Bank managing director Mr Chris Ball yesterday has raised a storm of speculation over the full reasons for his departure.

Politicians today doubted his sudden resignation "with immediate effect" had any direct connection with his political activities or his fierce clash with the State President, Mr P W Botha, in 1987.

Mr Ball's resignation came against the background of First National Bank faring badly in its stock market rating compared with other financial institutions.

Frustrations

FNB has shown slow growth in pre-tax earnings and in profits, in spite of growth in its balance sheet and in advances

It is believed that personal frustrations appear to have been the major reason for Mr Ball's decision to quit South Africa. He is to take up a post with a banking group in Europe

Mr Ball was at the centre of a heated controversy in 1987 when President Botha sharply attacked him in Parliament by alleging he had been involved in the funding of certain newspaper advertisements placed by activist organisations in support of the ANC

Mr Ball challenged Mr Botha to repeat his innuendo outside Parliament. Mr Botha responded by appointing a commission of inquiry to establish the source of the advertisement funding and whether Mr Ball had been in any way involved.

The commission found Mr Ball had been involved in the granting of a loan to an individual who used it to place the advertisements.

Mr Ball, an outspoken critic of the Government, adopted a noticeably lower political profile in the wake of the controversy.

A spokesman for the Office of the State President today said he had no comment on Mr Ball's resignation.

It was understood from sources close to Mr Ball today that the banker announced his decision to the board of the bank some weeks ago and he gave details of the new job he is to take up in Europe.

The sources said Mr Ball may have become frustrated in his business career both because of his abrasive personal style, which did not lend itself to easy communications with people, and because he was a man in a hurry to do things.

'Apolitical'

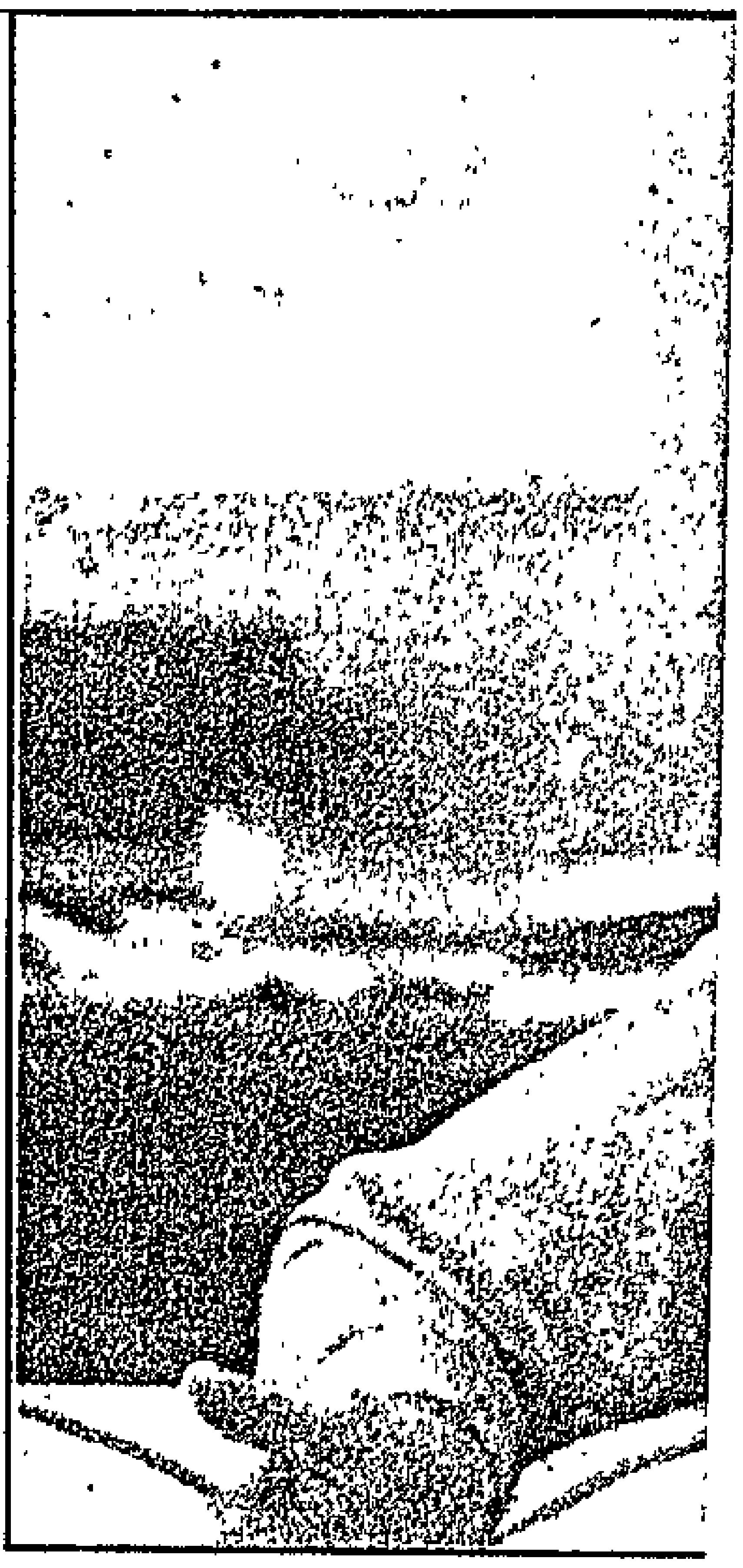
It is likely that the new controlling shareholders, who took over in 1987 when Barclays UK disinvested, were also keen to see Mr Ball take a lower public profile on political issues and concentrate on the management of the bank's assets.

Mr Ball's announcement comes almost one year after Premier Group chief executive Mr Tony Bloom announced his resignation and his decision to move to England. Mr Bloom's departure was seen as a major blow to the liberal movement's attempts to use the power of the business community to effect change in South Africa.

It appears that Mr Ball's successor, Mr Barry Swart, will take a very low public profile. Mr Swart describes himself as "apolitical".

Mr Swart, who joined FNB in 1957 at the age of 17, is believed to have a much more hands-on approach and is seen as more of a "people's person" than Mr Ball.

● See Pages 17 and 19.



Mr Chris Ball speaking to repo largest bank, and leaving the cou Swart has a reputation for the ha

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Merger may negotiation f

Star 17/1/8

By Peter Fabricius, Politica

The merger of the two major bla the United Municipalities of SA (Um cils' Association of SA (Ucasa) — negotiating forum could provide th ing with urban blacks.

Sources in both camps said today likely to merge soon to establish a blacks at national level and to par negotiations for a new national cons

This body will probably becom provides urban blacks with a platf the Government's proposed Nationa

The decision to create the new n yesterday at a meeting between th 65 black council leaders from aroun

For Umsa the decision indicate tactics

It had previously refused to join Government until all black leaders

Minister of Constitutional Develo Chris Heunis, who convened the me tive was very important and under evolutionary movement was "gain tum against the radicals".

$ rises

NEW YORK. — The dollar closed sharply higher in light holiday trading yesterday, hitting the best level in three months on speculation that Western trading partners are tolerating a stronger US currency.

It jumped to 1,8550 West German marks at the close from Friday's 1,8445, which had also been a three-month high.

It also advanced against Japan's currency to 128 yen from 127,40.

Trading was slow, however, with banks closed for the Martin Luther King Federal holiday.

"There is natural demand for the dollar," a New York banker said. — Sapa-Reuter

Radical changes needed in insurance industry

Cape Times 17/1/89 SF

EXTENSIVE social, political, economic and technological changes in the next decade would demand far greater action from the insurance industry, the manager of the life division of Protea assurance, Jim Brayson, said yesterday.

Addressing the Insurance Institute of the Cape of Good Hope, Bryson warned of the impact on the industry of the "explosive aids issue", and the need to avoid "perilously high risk, through the exercising of considerable responsibility in protecting policyholders' interests".

"We will have to become as bold, as aggressive, and as military in our marketing as any other industry selling goods and services to the average consumer," he said.

Predicting likely marketing trends in the industry, Brayson said that by 1995, multiple funds — the administration of more than one investment portfolio on a single life assurance policy — would be mandatory for assurers wishing to continue writing meaningful investment business.

This view was borne out by a survey of the major life offices in the USA, conducted by Arthur Anderson.

"Other factors in our present and future landscape are the continually changing laws governing the industry, rising taxation, and the emergence of banks and building societies as assurance and insurance competitors.

"In order to cope with these changing legal, financial and market pressures, we need to look increasingly for ways to reduce our costs and amend our products."

Brayson further pointed out that the rapid development of information technology represented one of the most far-reaching changes in the industry's environment. — Sapa

FNB: A rights issue in the next year or two

Cape Times 17/1/89 $

From GRETA STEYN

JOHANNESBURG. — First National Bank (FNB) will make a rights issue in the next year or two to bring its ratio of capital to assets to a more comfortable level.

This was revealed by new MD Barry Swart on his first day at the helm of SA's largest bank.

Swart touched on topics ranging from politics to computer problems in an interview with Business Day.

On politics, Swart plans to keep a low profile, saying: "I personally do not believe in mixing business with politics."

Swart was open when questioned about the bank's need to raise capital, underscored by its massive 37% asset growth in its previous financial year.

He could not rule out that First National might go to the market in 1989.

"Although we are sufficiently capitalized to comply with banking legislation, the bank is relatively under-capitalized

"While we are not planning a rights issue at the moment, I cannot categorically say that we will not raise capital in 1989."

"It will depend on factors such as the state of the market and how cheaply we can get capital. But clearly, in the next year or two we will require capital."

Analysts said First National might raise between R100m and R300m, depending on the growth of its balance sheet this year.

They said if market conditions were right, the bank could decide to raise much more.

Swart said not only First National, but the industry as a whole should become less intent on putting business on the books at all costs.

On the role of business in politics, Swart said: "This is a difficult question. I prefer to talk less and let the example of our equal opportunities programme give a lead to government on how we think."

The bank had committed itself to blacks comprising 40% of its management and supervisory staff by 1990.

"At present about 26% of our clerical and management staff are black. We will continue this programme and are confident of reaching our target by end-1990."

Turning to challenges he faced as new MD, he said it was a priority to "fine-tune" the bank's computer systems.

"Let's face it — all is not hunky dory. But we tackled a massive job five years ago and we have made a lot of progress."

He said the installation of the Hogan system was a problem affecting everyone in the bank and required extensive staff training.

"We hope to have it all sorted out in the next 18 months, perhaps sooner.

"Running Hogan and ICL side by side is proving to be expensive. When Hogan is up and running, we can scrap the ICL and start reaping the benefits."

The bank had spent over R400m over the last four or five years on software and hardware.

"We are already seeing some of the benefits," Swart said.

Cape Times
17/1/89

58


CHRIS BALL: 'Societal' reasons

Chris Ball: Why I'm leaving SA

Own Correspondent

JOHANNESBURG. — Mr Chris Ball, who has resigned as managing director of First National Bank and will soon leave South Africa, said yesterday his decision had been based on "personal and societal" reasons.

Mr Ball, 49, said there were "absolutely no issues" between him and the bank.

Asked to explain "societal" reasons, Mr Ball said: "You know what my views are. You can look them up all over the place. I don't want to kick anyone or demotivate anyone."

He said he still believed South Africa had a future, but that he was frustrated by the inefficiencies and wastage in the administration of the country. Asked whether he thought he should stay and do something about that, he said: "Would you tell me what one can do?"

He was leaving the bank in a "very good position indeed", and his relations with the board were excellent.

"The difficulty in the earnings of the bank are those of the banking sector, in that there is intervention in the financial markets which affects the performance of the banks.

"But we have not embarked on adventures into preference shares or other techniques to boost earnings," he said. None the less, he agreed the bank had the potential to do better.

Mr Ball refused to reveal details of his new job beyond saying it was with a banking group in Europe and that he would not be in competition with First National.

He said he was available to First National as long as he was needed and that he did not expect to be in his new post before April, by which time he, his wife Suzy and their three children would have moved to Europe.

Asked if he intended to renounce his SA citizenship, Mr Ball said he had not given it a moment's thought. "I remain a South African."

His new job was not tied to South Africa in any way, but he would maintain his personal links with the country, he said. "I have family here, I will keep property here, and I expect to return to SA at least twice a year."

NEW MAN: The new managing director of First National Bank, Mr Barend Swart.

ARGUS 17/1/89

The new man at big bank's helm

58

The Argus Correspondent

JOHANNESBURG. — Mr Barry Swart, who takes over as managing director of First National Bank on January 16, brings to the top echelons of South African banking all the international financial flair that was displayed by the man he replaced.

Barend Jacobus Swart, born in East London in 1940, joined Barclays Bank DCO within 12 months of matriculating at Selborne College.

Between various general banking duties, he completed a B Comm degree at Rhodes University and an MBA degree at Cape Town University Business School.

In 1966 he was posted to the head office of Barclays in London and in two years was put in charge of the bank's lending operations in New York.

PROMOTION

In fact, Barry Swart was responsible for the creation of Barclays Bank in New York three years later — and was made vice-president and secretary/treasurer. He also garnished his career with a coveted business degree from Harvard University.

In 1974 he was appointed to Barclays's South African head office in Johannesburg, and was soon promoted to general manager at Wesbank.

Before long he was back across the Atlantic, now as president and chief executive of Barclays Bank in New York.

In 1984 it was back home to become deputy managing director in South Africa, joining Mr Chris Ball in an hierarchy that not only weathered Barclays's decision in London to disinvest but managed the massive changeover to First National Bank — and set it on its new course.

Mr Ball is to take up a post with a banking group in Europe.

See page 13.

Heads gather to discuss charismatic school closure

Argus 17/1/89 (58)

By JEREMY DOWSON
Staff Reporter

PRINCIPALS of 11 Christian schools in the Cape told to close their gates, have been called to an urgent meeting of school heads in Johannesburg tomorrow to decide what action to take.

This follows the Department of Education and Culture's clampdown last week on about 48 charismatic church-connected schools countrywide which use the American-developed Accelerated Christian Education (ACE) system of teaching.

The department maintains that the schools are unregistered.

The ACE schools, which have an estimated total of more than 2 000 pupils, were expected to open this week for the year's first term Almost half are in the Transvaal, where 25 schools have been told to close. There are 12 in Natal and 11 in the Cape.

Negotiation

ACE national co-ordinator Mr Ashton Sparrow said a meeting of all pastors and principals was being planned for tomorrow "as a starting point for negotiation with the government".

The schools were entitled to a 30-day period in which to lodge an appeal and most would remain open during this time, he said. Legal advice was being sought to provide "a unified course of action".

The schools' closure had been greeted with "shock and disbelief", said Mr Sparrow, who added that his office had been inundated with calls of support from around the country

"It has always been, and still is, ACE's policy to work with the department in resolving any difficulties.

"We have taken cognisance of what the department is saying and, generally speaking, while there may be individual schools which do not comply with departmental requirements, many feel that they do."

ACE ensured that every school had a copy of the Private Schools Act, which clearly defined all educational guidelines.

ACE had been operating throughout South Africa since 1984 and, because of a large growth rate, an estimated 85 schools had applied for registration with ACE by the beginning of this year.

Compatible

Its core curriculum, developed in the US, was "compatible with existing departmental curriculums".

Mr Sparrow said some principals reported having had no response from the department to applications for registration made up to three years ago.

"In many instances, no list of required facilities has ever been issued to schools in receipt of letters," Mr Sparrow said.

The department confirmed that it has closed the following Cape ACE schools: Agape school in Fish Hoek, the Word of Faith, Harvest and Kings schools in Port Elizabeth; Swellendam School; Plettenberg Bay School; Jeffreys Bay School; the George and Deo Gloria schools in George; Bosko Christian School in Hermanus; and the Abundant Life School in King William's Town.

Picture PETER STANFORD, The Argus

SCHOOL DAZE: Relax kids, this [illegible] Junior pair — dressed up a day early just for show — should be the only pupils at coloured and white Cape schools today. Opening day was first announced as January 17 and then changed to tomorrow

UCT appeal for urgent student accommodation

Staff Reporter

WITH the annual rush for student accommodation about to begin, the University of Cape Town has asked nearby householders willing to put up students to contact the university urgently.

Deputy vice-chancellor Professor James Leatt said it was "too early to say" how many students would need to be accommodated this year.

However, there were about 2 700 places available in residences for UCT's expected student population of more than 13 000.

"This means there is likely to be a lot of people looking for accommodation."

Professor Leatt appealed to "people living near the campus or on a major bus or rail route" to contact the university's student affairs department as soon as possible if they wished to let out rooms.

"This will help us with our planning."

He added that in previous years Cape Town residents had been "very good about responding to our appeals for help with accommodation"

UCT's director of residences and refectories, Mrs Isabelle Franzen, said more than 4 000 people had applied for places in residences this year.

However, some were likely to be people who had also applied to go to other campuses.

Mrs Franzen said that UCT's uncertainty about numbers was compounded by the fact that some matric results had come out later than expected.

Two telephone lines (☎ 650 3533/6) have been laid on in UCT's student affairs department for calls to be taken from 9am to 12.30pm and 1.30pm to 4.30pm daily

Bank plans for a rights issue and . . .

B|Day 17/1/89 (58)

No politics, says FNB boss

GRETA STEYN

FIRST National Bank would make a rights issue in the next year or two to bring its ratio of capital to assets to a more comfortable level, new MD Barry Swart said yesterday.

Swart, 49, on his first day at the helm of SA's largest bank, touched on topics ranging from politics to computer problems in an interview with Business Day.

On politics, Swart plans to keep a low profile, saying: "I personally do not believe in mixing business with politics."

Swart was open when questioned about the bank's need to raise capital, underscored by its 37% asset growth in its previous financial year. He could not rule out that First National might go to the market this year.

He said: "Although we are sufficiently capitalised to comply with banking legislation, the bank is relatively undercapitalised. While we are not planning a rights issue at the moment, I cannot categorically say we will not raise capital in 1989.

"It will depend on factors such as the state of the market and how cheaply we can get capital. But clearly, in the next year or two, we will require capital."

Analysts said First National might raise between R100m and R300m, depending on the growth of its balance sheet this year. They said if market conditions were right, the bank could decide to raise much more.

Swart said not only First National, but the industry as a whole, should become less intent on putting business on the books at all costs.

On the role of business in politics, Swart said: "This is a difficult question. I prefer to talk less and let the example of our equal opportunities programme give a lead to government on how we think."

The bank had committed itself to blacks comprising 40% of its management and supervisory staff by 1990. "At present, about 26% of our clerical and management staff are black. We will continue this programme and are confident of reaching our target by end-1990."

Turning to challenges he faced as new MD, Swart said it was a priority to "fine-tune" the bank's computer systems. "Let's face it — all is not hunky dory. But we tackled a massive job five years ago and we have made a lot of progress."

Swart said the installation of the Hogan system was a problem affecting everyone in the bank and required extensive staff training.

"We hope to have it all sorted out in the next 18 months, perhaps sooner."

The bank had spent more than R400m during the past four or five years on software and hardware. "We are already seeing some of the benefits."

● SWART

● BALL

Ball leaving SA for personal reasons

NEIL JACOBSOHN

FIRST National Bank former MD Chris Ball, 49, said yesterday there were "absolutely no issues" between him and the bank and that his decision to resign and go abroad was based on "personal and societal" reasons.

Pushed for an explanation of "societal", Ball said: "You know what my views are. You can look them up all over the place. I don't want to kick anyone or demotivate anyone."

● Comment Page 6

He said he still believed SA had a future but was frustrated by the inefficiencies and wastage in the administration of the country. Asked whether he thought he should stay and do something about that, he asked: "Would you tell me

● To Page 2 ⇨

Ball leaving SA for personal reasons

⇦ ● From Page 1

B|Day 17/1/89 (58)

what one can do?"

Ball said he was leaving the bank in a "very good position indeed" and his relations with the board were excellent. "The difficulty in the earnings of the bank are those of the banking sector, in that there is intervention in the financial markets which affects the performance of the banks.

"But we have not embarked on adventures into preference shares or other techniques to boost earnings." Nonetheless, he agreed the bank had the potential to do better.

Ball refused to give details of his new job beyond saying it was with a European banking group and that he would not be in competition with First National.

He said he was available to First National as long as he was needed and that he did not expect to be in his new post before April, by which time he, his wife Suzy, and their three children would have relocated to Europe.

Asked whether he intended to renounce his SA citizenship, Ball said he had not given it a moment's thought. "I remain a South African. I can't renounce my SA citizenship without citizenship of another country, and I don't have that."

His new job was not tied to SA in any way, but he would maintain his personal links with the country. "I have family here, I will keep property here and I expect to return to SA at least twice a year on private business."

Ball said he had not bought property abroad. "No, how will I buy property abroad as a South African? I can't." Nor had he yet decided whether or not he was emigrating.

Ball, who joined the then Barclays Bank in 1972, became MD in March 1984. Before that he ran Wesbank and was regional GM of Barclays Bank in London.

De Pontes a partner in crime, says Harms

58

B/Day 17/1/89

MANDY JEAN WOODS

MR JUSTICE Louis Harms found NP MP Peet de Pontes had been a partner to crimes involving corruption, fraud, theft of trust money and perjury, and has referred his recommendations to the Cape Attorney-General for consideration of criminal action.

In a 100-page report, completed on November 29 last year but only released yesterday, the judge said there was substantial evidence De Pontes had:

☐ Used his position as MP for personal financial gain and to introduce convicted drug smuggler Vito Palazzolo to his political contacts;

☐ Used his "intimate relationship" with Ciskeian officials to help secure Ciskei citizenship for Palazzolo;

☐ Contravened the Aliens Act by helping Palazzolo enter the country illegally and obtain residence;

☐ Given false information regarding Palazzolo and the importation of Palazzolo's cars to the Home Affairs Department, and made reservations under false names for Palazzolo and Home Affairs clerk John Scheffer;

☐ Committed currency fraud by bringing Palazzolo's money into the country in an illegal manner;

☐ Committed perjury by giving testimony that was different to his sworn statement;

☐ Abused his professional capacity as an attorney by receiving trust money subsequently deposited in his personal account;

☐ Been involved in corruption because he had paid for Scheffer's travel and hotel bills, and influenced a number of prominent politicians and academics to accept Palazzolo's sons in a SA university.

The judge made no recommendations regarding Palazzolo because he is serving a prison sentence in Switzerland.

Responding to the report, De Pontes said last night all the facts of the matter had not been laid bare and he would welcome the opportunity to present them in open court.

He reiterated his refusal to resign as an MP.

● Harms Commission — Page 4

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SADF service ‘insurance

GERALD REILLY

PRETORIA — SA's National Service system was an insurance policy for a peaceful future and could not be tampered with, Defence Minister Magnus Malan said at Richards Bay yesterday.

Opening new premises for Prowtec Computers and High Street clothing export group, Malan said the system was the basic source of supply for the most cost effective manpower. It supplied soldiers trained to protect peace.

Malan said those who conducted punitive economic measures against SA hampered the development and progress on the sub continent. Their actions led to conflict and confrontation. Punitive measures therefore had a direct bearing on the country's security.

It had been claimed SA had elevated security to an ideology. This failed to take into account that without security, none of the country's other goals could be achieved.

Security was the pre-condition needed to improve the quality of life of all South Africans, the broadening of democracy and the protection of peace.

B/Day 3/11/87

Star 18/1/89 (58)

Bank moves to end R43-million loan to Shareworld complex

By Lloyd Coutts and Tim Cohen

Standard Bank has called in a R43 million loan from the Shareworld Education and Entertainment Company, operators of the giant Shareworld entertainment complex south of Johannesburg.

The bank announced yesterday that the development cost of Shareworld was now significantly higher than its economic value and the bank's support for the project had reached a level "far beyond that judged prudent against normal commercial criteria".

The bank said it had decided to move towards termination of its credit facilities to the company but was holding discussions with its management to forge a new financial agreement.

Scenario

After an emergency shareholders' meeting last night, the chairman of the Shareworld's board, Mr Reuel Khoza, said there was no question of the centre being closed down. The worst scenario was that Shareworld would become a public facility.

Mr Khoza said he was not dissapointed with Standard Bank, which he said had been as supportive as any financial institution could be.

There would be a restructuring of the entertainment centre, which would place it on a more sound financial footing.

The details of the restructuring had not been finalised and would be the subject of on-going negotiations with the bank, he said.

It is understood that the cost of the Shareworld project was initially expected to run to R17 million, but costs escalated to R43 million because of capital overruns and poor management.

Interest on this amount was about R500 000 a month, a bank source said.

The bank sources said it believed that, with a degree of financial restructuring and given the quality of its new management, Shareworld would be in a position to attract new investors and work towards eventual viability.

"Although it is unable to extend further credit facilities, the bank has offered what assistance it can to support Shareworld's new management and will make available its good offices in coming to an arrangement designed to assure the continuation of the facility."

It is understood Standard Bank would prefer to avoid legal action to recover its investment. The bank realised it had lost on a bad risk — income from the project had been overestimated — and had no desire to see the complex shut down, the source said.

Standard Bank said the decision had been taken with regret but it in no way reflected on its appreciation of the real and urgent needs of the communities concerned for the leisure facilities offered by Shareworld.

Interest rates dent home-loan demand

B/Day 18/1/89 58 1[illegible]

GRETA STEYN

HIGHER interest rates have dented the demand for home loans, with banks and building societies reporting quieter times after the mad rush for credit.

While the holiday lull distorted the picture, they expected demand to continue at lower levels as interest-rate increases started biting.

Reserve Bank figures showed demand was strong until November last year. Building societies' balance sheets grew by R1,1bn in the three months to November, compared with R954m in the previous three-month period.

UBS group marketing GM Tinie van den Berg said the demand for home loans had remained surprisingly buoyant until mid-November. This was in the face of interest-rate increases from 12,5% at the start of the year to 16% in November.

"But a survey among estate agents showed consumer resistance against the higher rates started to pick up at that time. In mid-November, applications for home loans were 15% down on six months previously. In some cases, the drop-off was as much as 20%."

Compared with two years ago, when rates were at 12,5%, applications for home loans had dropped by between 25% and 30%. But certain areas had remained unaffected, such as Pretoria, the western Cape and the northern suburbs of Johannesburg.

However, the Standard Bank noticed a drop-off at the upper-end of the market. Financial services MD Dennis Matfield said this had become evident in mid-1988 and was expected to continue in response to higher rates.

The Trust Bank's Kobus Roetz said the year had got off to a slow start, with the number of applications in January running at about 30% below December's figures. He ascribed the decline mainly to seasonal factors, but said demand for home finance was likely to remain at lower levels because of the higher interest rates.

The SA Perm's Peter von Broembsen said it was mainly the upper-end of the market which was quieter, with the middle and lower end of the market still buoyant.

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B|Day 18/11/89

'Undue pressure' from Matanzima

Kerzner paid R2m bribe

● KERZNER

MANDY JEAN WOODS

HOTEL tycoon Sol Kerzner yesterday admitted to the Harms Commission that he and his business associate, Cape Town attorney David Bloomberg, had knowingly made a R2m bribe to former Transkei Prime Minister George Matanzima.

In a statement submitted with affidavits by Kerzner and Bloomberg, Matanzima is accused of abusing his "official and autocratic" position to threaten and extort R2m from Sun International.

In the affidavits, Kerzner and Bloomberg said "undue pressure" from Matanzima resulted in the payment being made.

Kerzner's affidavit: Page 2
How SI denied the bribe: Page 2
Comment: Page 8

Kerzner said: "I accept responsibility for this jointly with Bloomberg."

The two are not expected to be called to give further testimony before the commission.

The statement noted that at the time the bribe took place (late 1986, beginning 1987), Transkei was governed by politicians with a strong tribal influence in a traditional system "which rendered it acceptable to receive gifts and distribute favours among their followers.

"The circumstances under which the payment was exacted by Chief George amounted to at least commercial extortion on the part of the then corrupt regime in the Transkei."

The statement said in the last quarter of 1986, Matanzima let it be known he was considering the grant of casino rights in Umtata to a group headed by Lexi Ceza and supported by SA financiers.

● MATANZIMA

The grant of such rights would have been in breach of the rights held by Wild Coast Sun (WCS) and Transgames and would have led to the fragmentation of the market to the detriment of Transkei and WCS.

"In the circumstances — and in the face of a threat that the government would not respect its rights — WCS was forced, as a defen-

● To Page 2

Kerzner admits to paying R2m bribe

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● From Page 1

sive measure to protect its investment, to put forward a competing application for casino rights in Umtata.

"In truth, if anyone were to obtain casino rights in Umtata, WCS was the only party lawfully entitled thereto. The award of the rights to WCS would also have been the only commercially sound decision in the interests of Transkei and WCS."

The statement said Matanzima, requiring money to purchase a farm for himself, abused his official and autocratic position by threatening to override the legitimate rights and interests of WCS.

He thereby managed to extort — if not legally then certainly commercially — undue payment to himself.

In these circumstances, the payment may properly be regarded as having been made, not for obtaining benefits improperly, but rather — because of undue pressure — to protect rights which WCS and Transgames already held.

The payment was also to ensure that sound commercial policy was not overridden by the private ambitions of Matanzima, said the statement.

X

Saambou denies Bankorp link-up

KAY TURVEY

SAAMBOU Holdings MD Chris Kuun yesterday denied the group was involved in negotiations with Bankorp to tie up interests.

Responding to market rumours that Bankorp is looking to buy a stake in Saambou at 180c a share, Kuun said he knew nothing about it.

"We have operated independently up until now and there is no reason why we should not continue to do so."

Kuun ascribes the sharp run-up in the share price to a high of 140c last week as simply due to a re-rating, given the asset value of about 219c.

The share has subsequently fallen back 18c to close at 122c yesterday.

Bankorp directors could not be contacted for comment, however it is well-publicised group policy to increase market share through organic growth and not take-overs.

Yet further rationalisation in the over-traded sector is widely expected after the Volkskas/-UBS merger and Nedbank/Perm tie-up.

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● KUUN

A deal merging assets and liabilities in a move similiar to that of Nedbank and Perm cannot be discounted.

A bank may not have more than a 10% holding in a building society and a building society may not own more than 30% of a bank. Bankorp and Saambou are linked through a mutual shareholder. Bankorp is 60% held by Sanlam, which in turn has a 10% stake in Saambou.

BDay 18/1/89

Boards unanimously resolve to back Sol

B/Day 18/1/89.

MANDY JEAN WOODS

(58)

THE boards of three companies in which Sol Kerzner held executive positions had all unanimously resolved to continue to support him fully, the Harms Commission was told yesterday.

It was told Safmarine/Rennies Holdings (Safren), Kersaf Investments and Sun International (SI) had been informed of Kerzner's affadavit submitted to the commission on November 28 at an in camera hearing in which Kerzner and his business associate, Cape Town attorney David Bloomberg, admitted they had made a bribe of R2m to former Transkei Prime Minister George Matanzima.

Kerzner is on the board of SI, vice-chairman of Kersaf and an executive director of Safren.

Counsel for Kerzner said during the period of the commission's adjournment the boards were given copies of the affidavits and informed of all relevant matters and circumstances. "They all resolved that Kerzner would continue to enjoy their confident support."

Shortly before the commission adjourned for two days, Mr Justice Harms said it was necessary to explain the

● To Page 2 ⇨

Boards unanimously resolve to back Sol

(58) ⇦ B/Day 18/1/89.

● From Page 1

background of Kerzner's and Bloomberg's evidence.

He said the commission began its hearing on the gambling issue on September 26 last year and, after only a few days of evidence, the Palazzolo-De Pontes matter was interposed.

"That matter gathered such momentum that it was decided to complete it before returning to the gambling rights. The first available date to proceed was November 28."

On that date, the commission was informed that Kerzner's and Bloomberg's affidavits would be submitted and that disclosure of these facts could adversely affect the share price and that members of the public could suffer as a result.

Mr Justice Harms said: "The commission was also told it was Kerzner's intention to inform the relevant boards of directors of the content of his proposed affidavit in order to enable them to consider what steps to take to protect investors."

He said he ruled that sealed affidavits be filed during the course of the day which would be opened only during the formal hearing to be convened in January. The matter was then postponed until yesterday.

But, prior to the affidavits being submitted to the commission, counsel for Kerzner and Bloomberg tried on several occasions during the opening stages of the commission, to argue the commission should not hear evidence about who paid R2m to Matanzima.

Fanie Cilliers, SC, arguing on behalf of Kerzner and Bloomberg, sought to show that bribery of a foreign official was not covered by SA law, thus neither the common-law offence of bribery nor the statutory offence of corruption covered the situation.

He argued if no offence had been committed, there was no reason for the commission to be looking into the matter.

The commission's chief investigating officer, Advocate Frank Kahn, SC, replied that whether or not an offence had been committed, the incident was manifestly in SA's interest and, therefore, within the ambit of the commission's brief.

Mr Justice Harms subsequently ruled that irrespective of the correctness of the legal submissions, the issue of the payment to Matanzima was to form part of the evidence of the commission.

Credit ended

Sowetan 19/1/87

SOWETAN REPORTERS

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STANDARD Bank has called in a R43 million loan from the Shareworld Education and Entertainment Company, operators of the giant Shareworld entertainment complex south of Johannesburg.

The bank announced on Tuesday that the development cost of Shareworld was not significantly higher than its economic value and the bank's support for the project has reached a level "far beyond that judged prudent against normal commercial criteria."

The bank said it had decided to move towards termination of its credit facilities to the company but was holding discussions with its management to forge a new financial agreement.

58 FMAIL 20/1/89.

FIRST NATIONAL

Volumes leap, margins tighten

Activities: *Banking and other financial services.*
Control: *Anglo American and its subsidiaries own 54,8% of the equity.*
Chairman: *B E Hersov; managing director: C J W Ball.*
Capital structure: *54,2m ords of R1; 14,5m convertible preferred ords of R1. Market capitalisation: R1,09bn.*
Share market: *Price: 1 600c; pref ords 1 800c. Yields: 7,1% on dividend; 17,8% on earnings; PE ratio, 5,6; cover, 2,3. 12-month high, 2050c; low, 1300c. Trading volume last quarter, 1,3m ord shares.*
Financial: *Year to September 30.*

	'85	'86**	'87	'88
Advances (Rbn)	15,5	14,5	16,4	21,1
Total assets (Rbn) ...	18,7	18,2	20,6	28,2
Pre-tax profit (Rm) .	181	181	302	306
Attributable profit (Rm)	112	107	185	207
Earnings (c)	182	148	255	285
Dividends (c)	95	71,25	105	112,5

**9 months

At first glance 1988 was First National's best year ever. The group remained the country's largest with 29,3% of the banking market; total assets rose 37%; mortgage lending increased by 122%; and profits were raised 12% to record levels. All this though was only achieved with some considerable strain on the balance sheet and operating margins — strain which should show this year and next.

INCOME MIX

Taxed earnings (Rm)

	1987	1988
First National Bank	121,8	111,3
Wesbank	40,4	52,3
First Industrial	11,7	13,4
FirstCorp	5,5	13,9
Other subsidiaries	5,2	15,9
Total	**184,6**	**206,8**

The most obvious point of balance sheet strain is in capital and reserves. Chairman Basil Hersov and the then MD Chris Ball say the group had a capital surplus of R192m at the end of the financial year. But that surplus was only achieved after including part of the R155m of additional subordinated debentures — dollar-denominated debentures borrowed in dollars abroad.

The notes to the accounts say the foreign currency amounts are covered against exchange rate fluctuations. It does not mean expensive foreign cover has been taken out for the life of the debentures, rather that a large portion has been loaned as dollars to local clients who have themselves assumed the exchange rate risk.

First National's Hersov ... lending margins were badly squeezed

Were the debentures needed because of the previous year's R100m goodwill write-off when Citibank was acquired? If so, did First National overpay when it bought Citibank for R130m? When it was bought Ball reckoned Citibank would earn R15m after tax as a subsidiary of First National; it fell well short of that last year despite being put together with First Merchant. Assuming everything else remained the same (it didn't of course, but it's not possible to tell precisely from the accounts), Citibank contributed no more than R8,3m last year — less than the R9m it was earning despite the restrictions of American ownership.

The dollar-denominated debentures are repayable in two tranches in 1997, followed the next year by redemption of R100m of other debentures issued in 1987. Those two commitments alone would seem to ensure First National will be looking for further equity funds within the next few years.

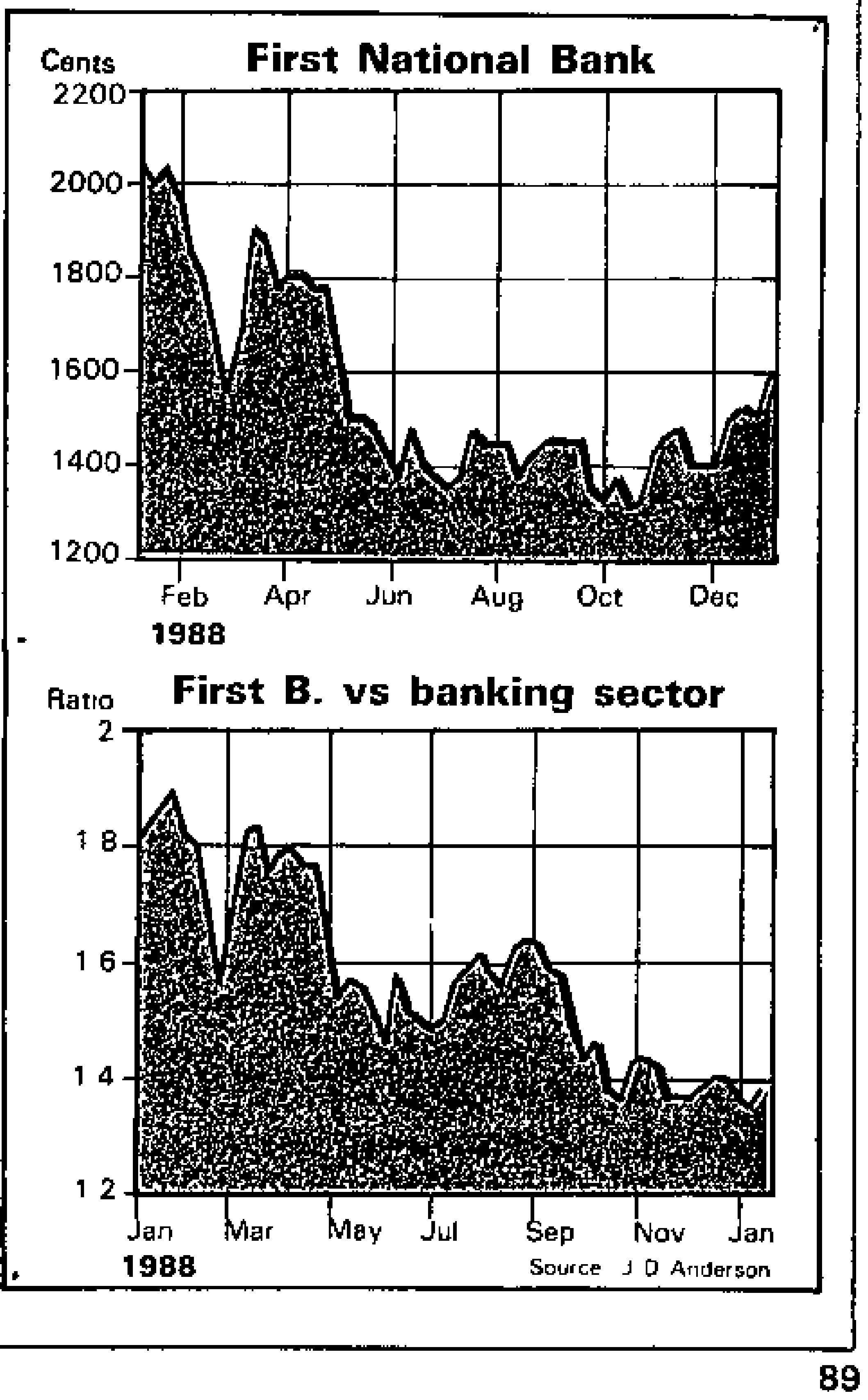
First National itself calculates it needs a 1,4% post-tax return on total assets if internally generated capital is to be sufficient to sustain an annual 16% growth in total assets assuming a twice covered dividend and a capital:assets ratio of 5%. That's twice the return First National earned last year, so alternative sources of capital may soon have to be found if balance sheet growth is to be sustained.

Issuing more subordinated debentures is out of the question — they already represent 20% of total required capital, and that's the legal limit. At the end of financial 1987 capital (including debentures) equated to 4,85% of total assets, by the end of financial 1988 it was down to 4,52% — again underscoring the fact that capital creation hasn't matched asset growth. Reliance on increasing dividend cover is not a real option as it will simply confirm market caution over future distributions and leave the share rated unattractively ahead of a probable rights issue later in the year.

Of course financial 1988 was a tough year as banking margins were squeezed as the Reserve Bank apparently kowtowed to government and held interest rates down ahead of October's sensitive municipal elections. Hersov and Ball don't mince words when discussing the squeeze on bank margins of artificial delays in prime rate rises. It was "economically counter-productive, and simultaneously damaging to the viability of the banking system," they say.

First National, caught up in a comparatively heavy round of capital spending on new computer equipment, probably felt the margin squeeze more than its competitors. And if the prime and Bank rates are not allowed to respond to market forces, the squeeze could become tighter as spending on the massive Johannesburg office development is added to rising expenditure on electronics and systems.

The pay-off from this capital spending will not be seen until the 1990s — until then First National's ratios and dividends could well look poorer than other banks'. So though the



First National Bank

First B. vs banking sector

Source J D Anderson

(58) FMAIL 20/1/89.

post-tax return on year-end shareholders' funds was a healthy 20,3% last year it was lower than 1987's 20,5% and was accompanied by another increase in dividend cover. Further cover increases are in the pipeline given the bank's capital spending commitments.

Introduction of the new computer systems hasn't been altogether smooth — hence the special Care-Line phone numbers for irate customers whose cards have regularly been swallowed by BOB machines and whose bank statements are displaying weird and wonderful electronic transactions. Competitors have been rubbing their hands in anticipation of winning customers away from First National.

Debugging the electronic system should be completed this year, while banking margins should improve with the higher prime rates. Last year advances increased by R4,74bn of which R1,7bn or more than one-third was represented by home loans. They are one of the safest advances, but rates are no better than prime and margins are narrow.

That was acceptable last year given the long-term nature of mortgage lending, but the squeeze on margins reduced the commercial bank's post-tax profit despite the increase in advances.

Wesbank helped margins and its returns were far better — its advances rose by 31,8% last year while its pre-tax profit increased 33,1%.

Compare that with the consolidated 29% increase in advances and pre-tax profit increase of only 1,5%. Just how much of the discrepancy was due to the Reserve Bank's dickering with interest rates and how much due to First National chasing volume at the expense of margins?

The market is taking a jaundiced view of First National's immediate prospects. Through much of last year the share lagged the banking sector (**see graph**) and currently yields 7,0% against the more positive ratings of 4,4% for Stanbic, 5,3% for Nedbank and even 6,2% for Trust. There seems little reason for the relative ratings to change just yet — though the share's rating may benefit from Chris Ball's departure particularly if investors believe Barry Swart can win back platteland business lost in the wake of the ANC advertisement fiasco.

Jim Jones

DATES TO REMEMBER

Last day to register for dividends:
Friday Jan 27: GF Prop 20c; New Wits 15c; Ozz 1c; Sel Min 25c; Vogels 29c; Wit Deep 13c.

Meetings:
Monday Jan 23: Beatrix; Bracken; Kinross; Leslie; Oryx; Unisel; Winkelhaak.
Tuesday Jan 24: Curnow (S); Fed Mynb; Gencor; Leppin; Lydex; Presto (Boksburg); Suregro (S).
Wednesday Jan 25: CDS (Bedfordview); Haddons, Nu-World (Sandton); TSI (Sandton).
Thursday Jan 26: Cor Synd; Duiker; Fenner (Isando); Tweefontein; Wit Cons.
Friday Jan 27: First Bank (Sandton); Springtex (S) (Ndabeni, Cape).

All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

CGS FOOD

Nourishing profits

Activities: *Interests in SA food industry including controlling interests in Tiger Oats, C G Smith Sugar, Adcock-Ingram and Oceana.*

Control: *C G Smith which is in turn controlled by Barlow.*

Chairman: *R A Williams; managing director: C Wolpert.*

Capital structure: *94,3m ords of 25c each. Market capitalisation: R1 933m.*

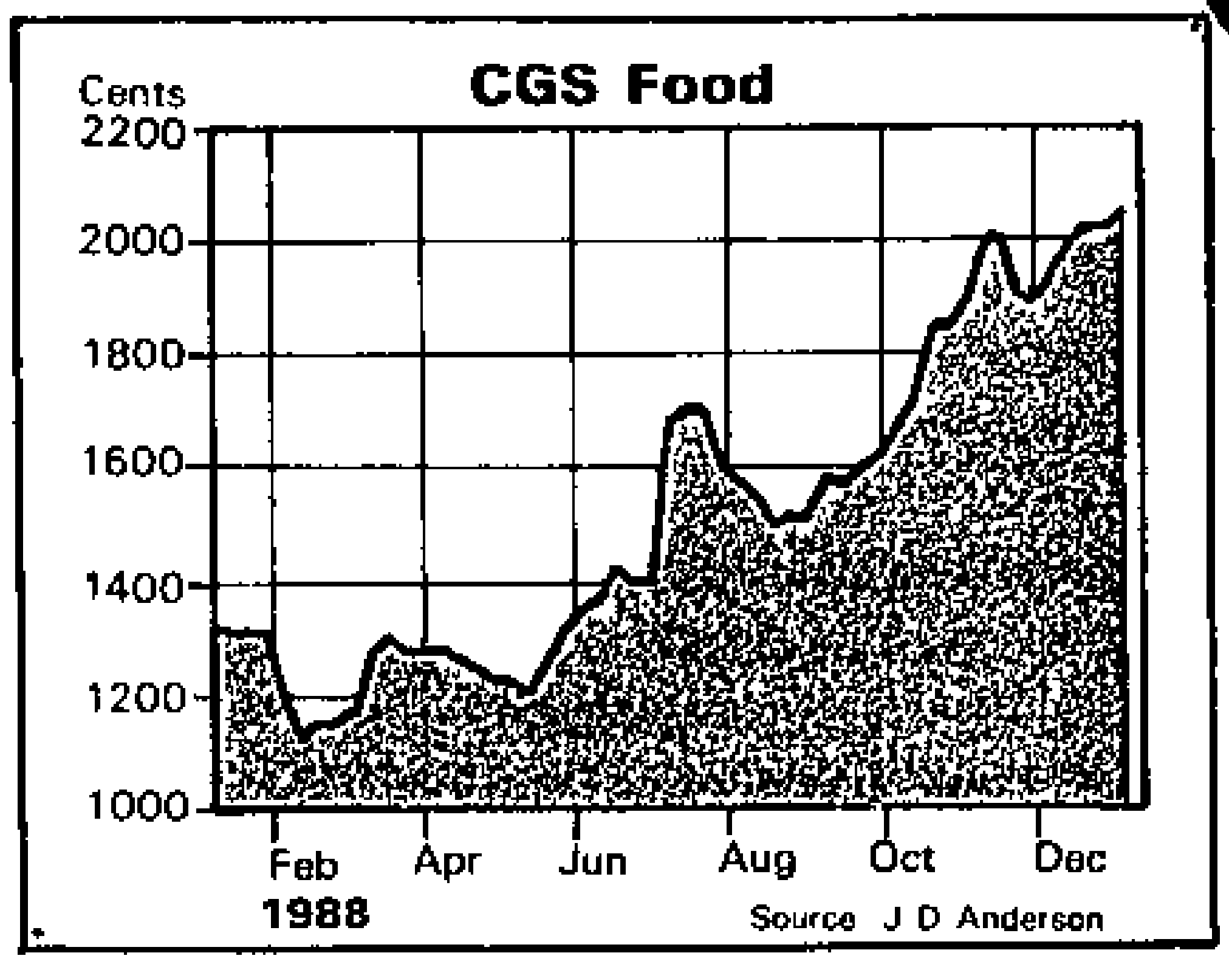
Share market: *Price: 2 050c. Yields: 3,1% on dividend; 9,4% on earnings; PE ratio, 10,6; cover, 3. 12-month high, 2 050c; low, 1 125c. Trading volume last quarter, 793 000 shares.*

Financial: *Year to September 30.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm) ..	340,2	440,6	355,8	489,9
Long-term (Rm) ...	204,0	276,2	249,3	331,9
Debt:equity ratio	0,45	0,31	0,21	0,50
Shareholders' interest	0,49	0,46	0,47	0,44
Int & leasing cover .	3,1	8,1	8,9	8,8
Debt cover	0,43	0,37	0,56	0,87
Performance:				
	'85	**'86**	**'87**	**'88**
Return on cap (%) ..	9,6	10,2	12,2	13,4
Turnover (Rm)	4 026	4 951	5 613	6 864
Pre-int profit (Rm) ...	235,9	296,5	370,3	508,1
Pre-int margin (%) ..	4,1	5,4	5,9	6,9
Taxed profit (Rm)	140,0	157,8	218,6	301,5
Earnings (c)	88,6	97,5	137,7	192,6
Dividends (c)	37	40	51	64
Net worth (c)	799	903	959	1 061

Investors have favoured the food sector in the recent stock market rise and, as in other sectors, attention has centred upon the blue chips. Among these is C G Smith Food, whose listed interests consist of ICS (69%), Tiger Oats (53%), Oceana Fishing (69%) and Adcock-Ingram (76%) as well as 100% of unlisted C G Smith Sugar.

The listed subsidiaries have been covered separately over the past few weeks with the last, ICS, appearing in this edition. Tiger, which accounts for 44% of pre-tax profit, has made a number of acquisitions and has been rerated (*Companies* January 13); so has Adcock-Ingram (*Companies* December 16), which contributed 10%. Oceana (January 6), which brought CGS Food 7% of its income, has a relatively small exposure to Namibian fishing and has shown consistent growth for five years. ICS, which contributes 15%, achieved a turnaround in 1986-1987 and has strengthened further.



Source J D Anderson

Second largest contributor CGS Sugar (24%) also did well in the year to end-September, lifting pre-tax profit 27% on a 14% rise in turnover. Unfortunately the tax rate leapt from 28,7% to 31,7%, cutting the increase in attributable profits to 22%. Though the group is relatively highly geared borrowings are still at a comfortable level in a capital-intensive industry and in view of the problems that sugar producers suffered in recent years.

CGS Sugar will be the largest sugar producer in the industry in the coming season, supplying 40% of total. It will benefit strongly from repayment of price support loans, the interest on which is a first charge against income. Repayment can be made as world price levels increased sharply last year, reaching a seven-year high. Added to this benefit was the reversal of the declining local sales trend of recent years.

The 49% interest in Unitrans Sugar was sold and the chemicals section did well. Three marginal operations were closed and a project for producing hydrogen peroxide was undertaken as a joint venture with AECI.

The outlook for CGS Sugar depends to a large extent upon world sugar prices in the current year, but present trends suggest that increased earnings can be expected.

The investor must look with a certain wariness at shares whose prices have exceeded their pre-crash highs, especially with a number of stockbrokers suggesting the purchases should be withheld until a correction in the market. Nevertheless, CGS Food is in the basic industries which have the dual benefit of being recession-resistant and able to benefit from improved standards of living of the lower-income groups. In addition, as chairman Robbie Williams points out, with 15% of turnover from exports, it has a rand hedge element. All this must make the share an excellent long-term investment.

Pat Kenney

METKOR

Dorbyl-driven

Relative contributions to Metkor's income from its various investments are not disclosed in the annual report. But from latest results, Dorbyl apparently contributes about three-quarters, and Union Steel Corp (Usco) about 10%.

Dorbyl's results are consolidated because 60%-held International Pipe & Steel Investments SA (IPSA) has 52,6% of Dorbyl. Metkor has a further 3% direct holding in

Activities: *Holding company with interests in the steel, engineering and allied industries. Holds an effective 34,6% in Dorbyl; also holds 27,8% of Union Steel.*

Control: *Rembrandt Industrial Mining Holding has 49,9%.*

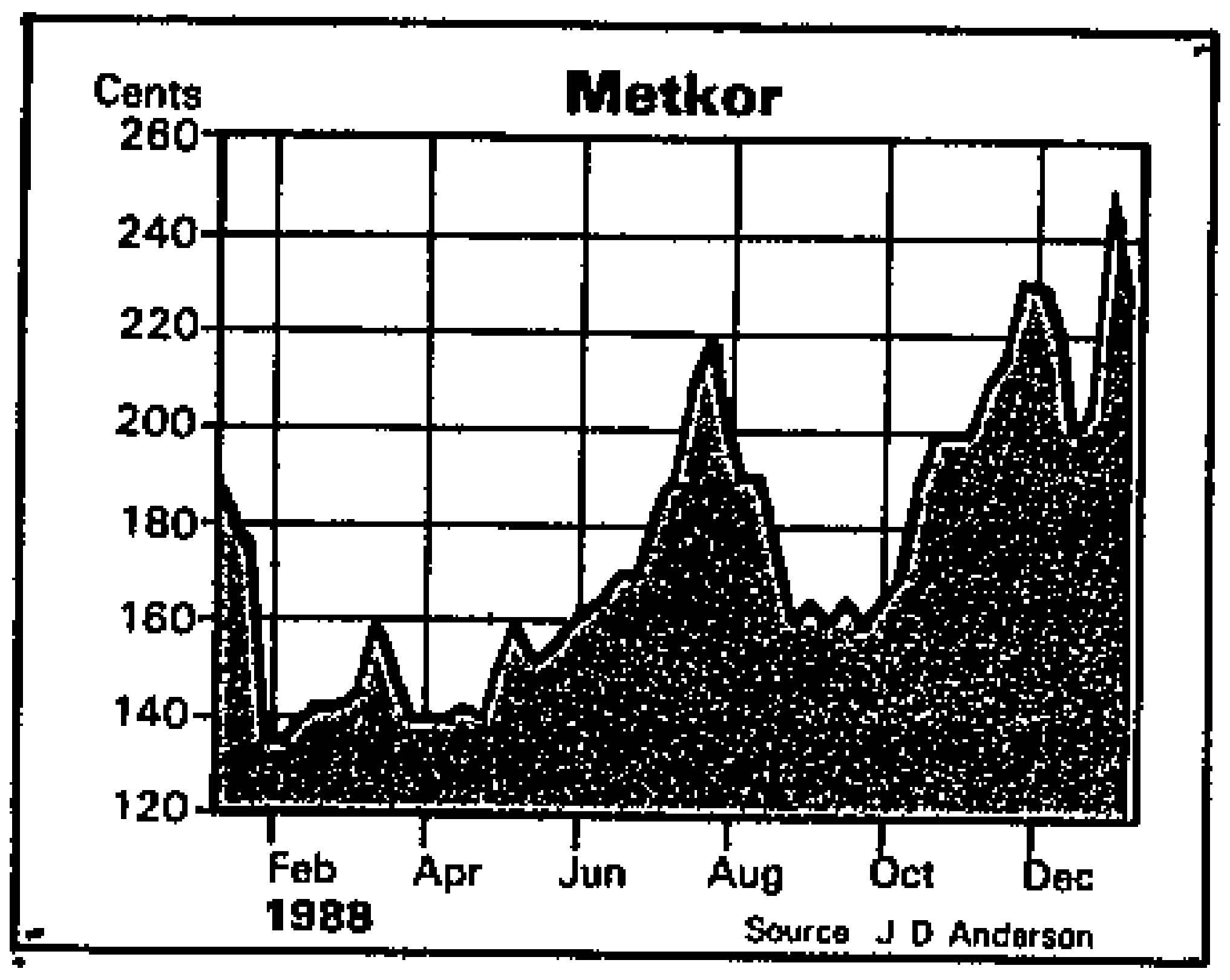
Chairman: *F P Kotzee.*

Capital structure: *108,5m ords. Market capitalisation: R249,7m.*

Share market: *Price: 230c. Yields: 5,4% on dividend; 14,4% on earnings; PE ratio, 7; cover, 2,7. 12-month high, 250c; low, 135c. Trading volume last quarter, 578 000 shares.*

Financial: *Year to September 30.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm) ..	194,5	181,5	150,4	205,5
Long-term (Rm) ...	151,6	87,9	78,4	73,3
Debt:equity ratio	0,51	0,31	0,30	0,35
Shareholders' interest	0,50	0,57	0,55	0,61
Int & leasing cover .	1,9	2,6	3,8	3,72
Debt cover	0,23	0,42	0,47	0,50
Performance:				
	'85	**'86**	**'87**	**'88**
Return on cap (%) ..	7,1	7,1	7,7	9,4
Turnover (Rm)	1 653	1 737	1 973	2 417
Pre-int profit (Rm) ...	97	88	107	144,6
Pre-int margin (%) ..	5,9	5,1	5,3	5,7
Taxed profit (Rm)	31	52	66	86,3
Earnings (c)	5,7	14,1	26,5	33,1
Dividends (c)	3,0	6,5	10	12,6
Net worth (c)	288	274	304,4	326,7



Source J D Anderson

Dorbyl, making its total effective holding 34,6%. The results of Usco, of which Metkor holds 27,8%, are equity accounted.

Metkor's unlisted investments include 50% of Apsap Gas (equity accounted), and wholly owned Wispeco, Titan Industries and Metkor Industries. Divisions of Metkor Industries are Hart, Hendler, Lasher, Metkor Trading, Metpro, Racec and Ringrollers.

Floors Kotzee, chairman of Metkor, Dorbyl and Usco, says growth in Metkor's unlisted subsidiaries has been "reasonable" given the competitive environment in which some operate. He says Metkor, formerly an Iscor investment company, has no thought of taking up any of Iscor, or its assets, on privatisation. Iscor still holds about 27% of Metkor.

Both Dorbyl and Usco appear to be on a growth trajectory (*Companies* January 13). Dorbyl's CE Dawid Mostert expects earnings growth ahead of inflation this year. After Usco's dramatic profit recovery, Kotzee has said profitability may come under pressure this year; stock exchange investors think otherwise, judging from the continued rise in the share.

The value of Metkor's listed investments in Dorbyl and Usco, is at current market prices, about R208m, or 191c per Metkor share. However, the current share price is well below net worth of 326,7c.

Metkor is slightly better rated than Dorbyl, with a dividend yield of 5,4% (Dorbyl 5,9%) and a p:e of 7 (5,3). This is probably because Metkor's share price is less than a fifth of Dorbyl's and because of the resumption of Usco dividends.

Teigue Payne

UNION STEEL

Building cash

Activities: *Manufacturing and marketing steel and non-ferrous metal products.*

Control: *Iscor is the controlling company by virtue of the voting rights vested in the "A" cum pref shares.*

Chairman: *F P Kotzee; managing director: J H Kalswasser.*

Capital structure: *29,01m ords of 50c; 125 000 "A" cum prefs of R2; 125 000 "B" cum prefs of R2; 20,307m 14% compulsorily convertible cum prefs of 50c; 30 000 variable rate red cum prefs of R1 000 each.*

Market capitalisation: *R70m (ords only).*

Share market: *Price: 240c. Yields: 5,4% on dividend; 38,6% on earnings; PE ratio, 2,6; cover, 7,1. 12-month high, 250c; low, 700c. Trading volume last quarter, 1,97m shares.*

Financial: *Year to September 30.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm) ..	70,0	26,9	22,0	17,1
Long-term (Rm) ...	36,0	66,9	52,7	38,2
Debt:equity ratio	1,05	1,26	0,84	0,49
Shareholders' interest	0,43	0,37	0,45	0,50
Int & leasing cover .	—	—	2,1	4,6
Debt cover	—	—	0,20	0,72
Performance:				
	'85	**'86**	**'87**	**'88**
Return on cap (%) ..	—	—	7,4	14,1
Turnover (Rm)	264	321	378	435
Pre-int profit (Rm) ...	(5,6)	(10,0)	19,9	40,4
Pre-int margin (%) ..	—	—	5,1	9,3
Taxed profit (Rm) ..	(19,5)	(4,5)	25,0	32,5
Earnings (c)	(69,3)	(28,6)	16,6	92,6
Dividends (c)	—	—	—	13
Net worth (c)	303	302	350	436

A year ago chairman Floors Kotzee painted a gloomy picture of Union Steel's (Usco's) immediate prospects. In the event the company's profits moved sharply ahead and, against most expectations, ordinary dividends were resumed. With that record shareholders might be forgiven for taking the gloom in Kotzee's latest chairman's statement with a pinch of salt even though analysis is made difficult by Usco's decision to stop reporting divisional profits.

Usco's problems haven't changed. The direct reduction plant — designed to produce sponge iron as an alternative to scrap steel feedstock — continues to be plagued by technical difficulties. Management has little choice but to spend more on trying to sort out the plant's problems and put an end to its losses now running at more than R6m a year. Goodness knows how long it will take; previous efforts failed to produce any appreciable improvement.

The weaker rand, better world steel prices and deteriorating domestic market prospects have persuaded Usco to resume exports of billets. Last year domestic sales rose 20%, helping return the steel division to profits. But with economic growth likely to be in the region of 2% this year, Kotzee believes there is no hope of domestic steel sales increasing, though he expects the steel division will remain profitable.

On the other hand he forecasts lower sales of aluminium cable as Eskom has frozen new projects and cut purchases. Copper cable sales are improving while sales of copper and stainless steel wire are unlikely to increase this year.

On that basis it's difficult to dissent with Kotzee's cautious profit forecast that profitability will be under pressure, but operations are only one side of the story. This year R30m of pref shares are due for redemption, which will save a fraction less than R2,8m a year when they are finally removed from the balance sheet. There's no reason for vast amounts of new debt to be raised to redeem the prefs even though capital projects totalling R22,8m are in the pipeline.

By year's end cash resources totalled R12,7m with none earmarked to finance specific increases in working capital. If this year's operating cash flow is in line with last year's R35m the prefs could be redeemed with little sweat. Presumably it will be much the same story in financial 1990 when some pretty heavy long-term debts fall due for repayment. Kotzee believes financial ratios are satisfactory, but that does not mean they will not be further improved by reducing debt.

Apart from improvements to the direct reduction plant Usco has no obvious major capital spending plans. Under those circumstances the company could feasibly become something of a cash cow for the next few years, at least until the tax loss is worked off. That helps explain the decision to resume ordinary dividends though they were covered almost eight times by earnings.

Scheduled debt redemptions could necessitate comparatively high cover persisting for the next couple of years. Whether it changes will depend on management's views of sales prospects in the century's final decade and whether they justify heavy spending on new plant capacity.

Jim Jones

ICS

Cold profits

A year ago we said that ICS was a sleeping giant which was waking up and that, after the turnaround in the 1986-1987 financial year, there were further benefits ahead.

This has proved correct. Though the climb in EPS in the year to end-September was only an inflation-matching 16%, achieved despite a 20% increase in issued shares, 5,4m

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FIRST NATIONAL

Facing the problems

After more than five years in office, First National MD Chris Ball has announced his resignation at a time when the stock market has for months been casting a harsh judgment on the share. During the last year the share has underperformed the banking sector index, and market view is shown in the relative yields: First National stands on a dividend yield of about 7% compared with far lower yields for its major competitors (see ***Companies***).

Ball's successor, Barry Swart, the more extrovert deputy MD who became MD this week, is well aware of the dour perceptions that investors hold of the group. His view, unsurprisingly, is that the market is treating the share unfairly but he also concedes that the group has had to grapple with considerable problems. And while all of the banking groups have been exposed to a difficult economic environment, certain of First National's problems arose inside the group.

What Swart describes as "morale sappers" started with the Bob Aldworth affair before Ball became MD. Subsequently such events included the costly and problematic installation of new electronic systems, which involved a change from ICL to IBM and effectively running two systems simultaneously; the Munnik Commission fiasco; and the group's loss of profitability.

Recent profitability and the state of the balance sheet probably best explain the soggy share price. The EPS advance of 12% for the year to end-September 1988 failed to impress, and the return on assets of 0,6% contrasts dismally with the impressive return on shareholders' funds of 20,3%. In its comparable second-half period, Nedbank, though moving off a lower base, did at least achieve acceptable bottom-line growth.

As Swart points out, the high return on equity can be ascribed to the fact that the group is under-capitalised, which could eventually place constraints on the bank's ability to grow. The stock market has formed its own views on the group's future capital requirements, and analysts believe the possibility of a rights issue has contributed to the weak share price performance.

Swart says management is considering its options on funding requirements though there are no plans to go to the market at present. The dilemma is that while an equity issue would obviously be unattractive for the group with the share price at current levels, investors are unlikely to be overly enthusiastic about bidding the price up when they might be asked to take up more shares in a rights issue later.

"Something will have to change first," says Swart. "I think we could be looking forward to a lacklustre economy for two years, and our balance sheet growth may slow during that period."

Among the criticisms that have been made of management's recent policies is that it has allowed assets to grow rapidly at the expense of margins. Again, Swart contends the criticism is unjustified: he argues that home loans, which grew by R1,7bn or 122% to R3,1bn, represent stable, long-term business while good profits were made on Wesbank's growth.

Critics say that the group should have lifted its lending rates to levels that would have curtailed its asset growth but enabled a better bottom line result. There are different views on this: some analysts feel that to some extent First National's pace of asset growth was involuntary, and that a deliberately slower rate might have meant loss of market share which would have attracted equally harsh criticism.

That may be fair comment but there remains a market perception that the group has spent money too freely and that controls are not tight enough — and the image is unlikely to recover fully until the computer systems are seen to be working. For his part, Swart says that by the third quarter of this year the new Hogan system will be operating at all of the branches, and after fine tuning over the next 18 months it should be a "super success."

Capex to fall

Capital spending last year absorbed R385m, comprising about R115m on computers, R50m on vehicles, R110m on property and a further R120m on the group's new head office being built in Johannesburg. Total annual capex is expected to tail down from this year, though spending on property will remain an on-going expense over the next five to eight years.

An advantage that Swart cites as regards prospects is that the group has ridden itself of virtually all significant non-performing assets, with the exception of the property at Fourways.

There is also the question of morale. Some investors think the more outgoing Swart can boost morale and prove a more effective leader than Ball, who has a reputation for being somewhat aloof and even abrasive. As Swart puts it, "I hope that with my advent our managers will become even more motivated. I say that because I know them well and they know me well."

First National's Swart . . . working on morale

While some measures, such as the share price, would suggest that Ball is departing on a low note there have been achievements: he took over shortly after the Aldworth affair when the group was already at a low ebb; systems have been extensively restructured; disclosure of information is much improved; and the group has emerged with its market share intact or in some areas larger after three years of torrid recession. There have not been the major commercial embarrassments that have beset certain other major banking groups.

Will the group perform better in future? It probably will, and much of the improvement may well have occurred irrespective of management changes. A leading banking analyst who believes the market is rating the share too harshly thinks a share price of about R18 is justified instead of the present 1575c. That still suggests First National has failed in the area of investor relations. *Andrew McNulty*

UNIT TRUSTS

Some relief

For investors who bought unit trusts, or established regular monthly purchases of units shortly before the 1987 crash, the recent rise in the market must come as a great relief. In the year to end-December, the Unit Trust index improved by 17,2%, considerably more than the 9,4% rise in the JSE Overall index, but the Trust index remains 20,7% below the figure for the end of September 1987, immediately before the crash.

Best performer was Guardbank. Though its units at the end of December were still 12% below the September 1987 figure, they were 26,6% above the year-ago figure. Though the overall performance was excellent, some of Guardbank's portfolio changes prove that no one is infallible. During the October to December 1987 quarter, 100 000 De Beers were sold and 20 000 were bought a year later, when the price was about 42% higher.

Liberty Asset Management MD Roy McAlpine said in early November that with an alternative of investing in the Financial and Industrial index at its then current level or five-year government stock, with income reinvested in each case, the five-year government stock would be a better investment on a risk-adjusted basis. Taking what is admittedly a short-term view since then, the Financial and Industrial index has risen 11,6% and the five-year stock has climbed only 3% cum interest.

But this is the advantage of investing in trusts. The portfolio spread enables some errors to be made, which, if made by a small investor in a small portfolio, would be very serious. It also permits the small investor to enjoy the benefit of investments he might never make himself, such as Consolidated Gold Fields. Guardbank had 250 000 and sold nearly half after the recent price run.

Of course, unit trust managers contend that their performance should not be judged on a short-term basis but over the longer term, as unit trusts should be a long-term investment. For the average investor who invested in 1987 and has sweated over the past 15 months with the value of his investment below cost, short-term performance does matter. He must be able to decide whether to continue investing in unit trusts or rather to place his funds in investments with less down-side risk.

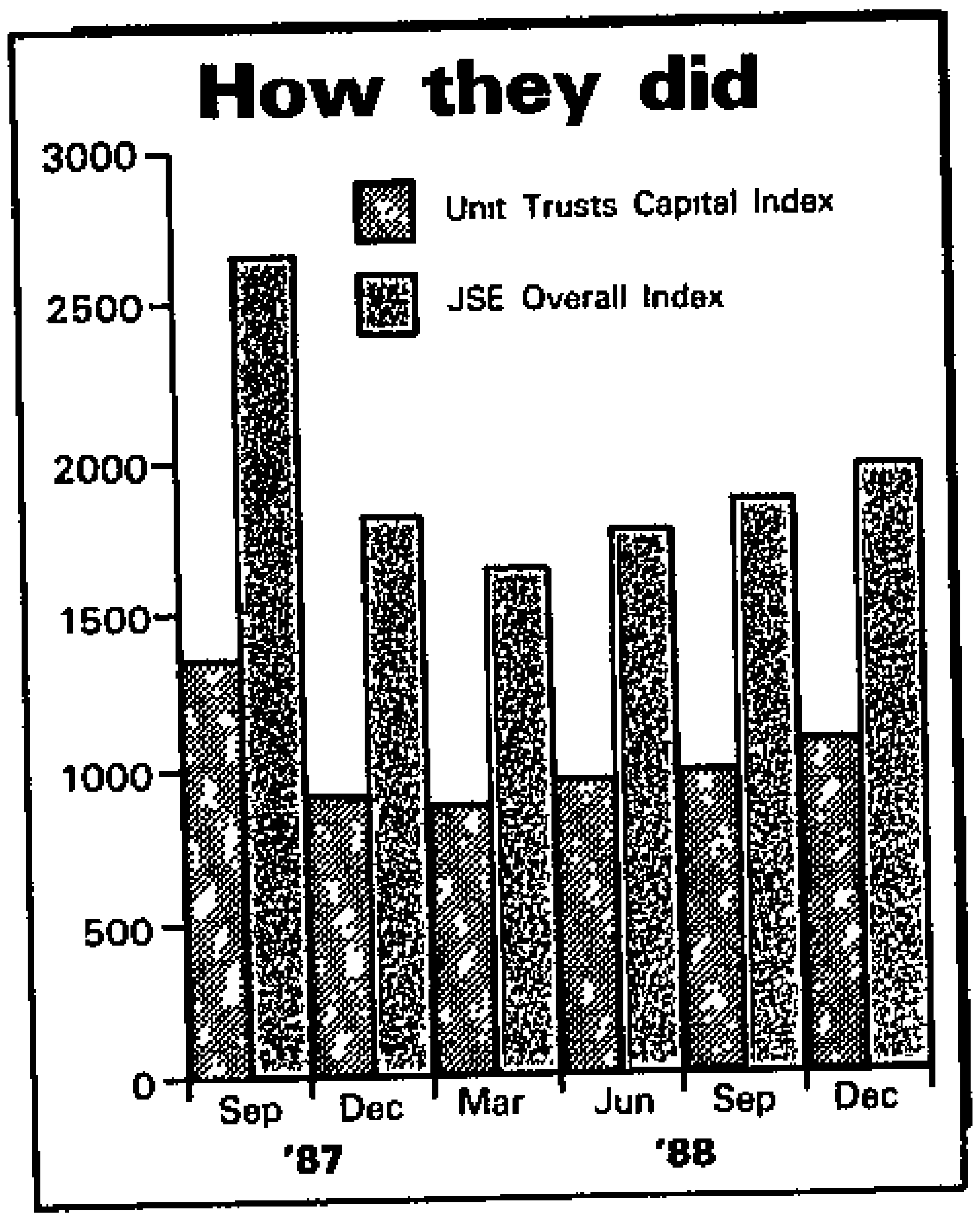
As share prices improved, the decision was to invest even more. Net inflow fell to a low of R70m in the September quarter, but leapt to R137,7m in the latest quarter — considerably lower than the peak of R453,8m for the September 1987 quarter, but still a substantial improvement.

UNIT TRUSTS

Boom Bust Boom

Trust	Percentage change December '88 compared with		
	Sep '87	Dec '87	Mar '88
General			
Guardbank	−12,0	+26,6	+27,5
Old Mutual.....	−17,2	+20,9	+24,9
Sage	−16,0	+22,6	+21,1
Sanlam	−26,6	+10,8	+12,3
Standard........	−12,9	+18,7	+19,0
Syfrets	−18,3	+18,3	+20,3
UAL	−22,9	+22,2	+20,8
Lifegro...........	—	+19,4	+14,1
Metfund.........	—	+14,1	+11,9
Specialist			
Sanlam Index.	−19,6	+22,4	+23,2
Guard Res	−19,0	+15,9	+24,6
Sanlam Div	−34,9	−2,7	+3,3
Sanlam Indus.	−19,4	+21,6	+17,9
Std Gold........	−37,5	−17,8	—
Sanlam Min ...	−34,2	+3,0	+10,7
UAL Min........	−28,3	+4,4	+14,1
UAL Select	−24,9	+7,8	+4,7
Old Mut Min..	−30,3	−1,9	+11,7
Sage Res.......	−29,2	+1,8	+12,9

Portfolios of individual trusts have changed substantially since the crash. At the market peak, liquid assets amounted to only 9% of general and specialist trusts. By the end of March (when the value of the equity portion had fallen without taking into account the impact of any sales, and when there was minimal investment of inflow), liquidity increased from R346,5m to R503,8m (22%) in the case of general trusts and from R130,4m to R173,6m for specialist trusts. The latest figure shows some reduction to 18% for both types of trusts, but the improvement in the market is responsible for a large part of the fall as, in rand terms, the value of liquid assets has increased by R67,8m to R745,2m.



Another major change since the pre-crash situation is the loss of interest in gold. Gold shares fell from 10% of general equity portfolios to 6% (the specialist funds cannot be evaluated, as they are restricted to the areas in which they can invest). Mining finance has also lost favour moving from 19% to 16% and other mining from 13% to 10%.

But where will the trusts go from here? They are inevitably affected by market trends. Though specialist trusts which are supposed to outperform the market have burgeoned in the past two years, our table shows that they have not done better than the general trusts, which place far fewer limitations upon the types of investments they can make. Only two specialist trusts outperformed the Unit Trust index in the past year, but seven out of the nine general trusts in existence for the full period did better.

The message seems to be that if you are prepared to invest your funds with a unit trust, don't put limitations upon what it can invest in. The other message is that the best action to take with unit trust investments seems to be to invest long-term and forget about them until the day when they need to be redeemed.

Pat Kenney

GFSA

Base metal boost

Gold Fields of South Africa (GFSA) shareholders have the group's base metal investments to thank for the 14% increase in attributable earnings for the six months to end-December. Their performance more than compensated for a flat performance from the group's gold division.

Deelkraal was the only one of the group's gold mines to increase its interim dividend in the period thanks to a higher gold production from better grade and greater milled throughput. The unchanged gold price in rand terms over the past year meant that Driefontein and Kloof, by far the major contributors to GFSA's investment income, only maintained interim payouts.

Instead, payouts were sharply increased at Black Mountain, O'okiep Copper and Gold Fields Namibia where revenues had soared along with the commodity prices, particularly copper. O'okiep Copper really delivered the goods with a final dividend of 150c, making a total of 300c for the year to December, compared with a total dividend of 20c for the 1987 financial year (**see story on base metals**).

Despite this, GFSA remains overwhelmingly dependent on gold, which accounted for 80% of group income in the year to end-June 1988. That means movements in the gold price during the second half of the financial year will determine whether the improvement shown at the interim can be maintained.

The house is, predictably, cautious in its forecast, saying earnings should be "modestly" higher than those for financial 1988 if average metal prices in the second half are not significantly lower than those received in the first half.

Problem is the rand gold price is expected to remain unchanged. Gold mine dividends will, at best, be maintained and could well be cut depending on how the mines manage to control their working costs. Improved base metal dividends could end up compensating for lowering gold income.

The house also showed a 30% increase in income from fees, interest and other sources to R73,9m from R57,9m the previous comparable six months. That is a result of the high level of capital expenditure on major projects such as Northam Platinum and Leeudoorn from which the house earns fees. This income should remain high, with other projects underway such as Deelkraal's new shaft system and the expansion at Ventersport.

Brendan Ryan

MOVING UP

Six months to	Dec '87	June '88	Dec '88
Pre-tax profit (Rm)	144,0	186,1	166,4
Attributable (Rm) ..	131,9	176,0	150,8
Earnings (c)	161,0	216,0	184,0
Dividends (c)	65,0	125,0	70,0

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THE BARCLAYS/FIRST NATIONAL SAGA

In the twilight of Empire

There is no doubt that the bank Chris Ball will be leaving shortly is not the one it was a decade or more ago under the stewardship of Harold Morony and Frank Dolling, with the formidable Arthur Aiken in the chair. It was then the leader of its sector in almost every respect: the largest and, by most yardsticks, most profitable bank, exuding enormous prestige and self-confidence.

At the time we thought it was run by inflexible geriatrics, whose manner was imperious (if not imperial) and whose management style had been crystallised in the Western Desert — "the colonels," as they were not always affectionately known. How wrong we were.

The bank today is by no means in trouble, but its prestige in the marketplace has been reduced, its self-confidence eroded, and it no longer regularly records the financial sparkle of the past.

That is a matter of fact. What is an interesting matter of speculation, however, is to what extent its former fickle shareholder in London and its decorative board of directors are to blame.

It did not matter too much when Morony and Dolling were chief executives if the directors were appointed as a reward for their long-standing custom or because they were jolly good fellows. The direction from London at that time was clear and unequivocal from a controlling shareholder that knew its own mind. And Aiken was not a man to be taken lightly.

But as the bank began to South-Africanise, and the first signs of Barclays' wariness of this country began to intrude and Aiken had retired; just as the local directors might have been expected to take up the reins, the extraordinary phenomenon of Bob Aldworth and his girlfriend Sandra van der Merwe occurred.

What the board of directors was doing while this was happening has never been satisfactorily explained, considering non-executive directors have precisely the same fiduciary responsibilities as executive ones. In the light of the media event that Aldworth and Van der Merwe became, it would be difficult for them to claim ignorance.

The consequences of what happened then are by no means divorced from the situation faced by the bank now. Presumably its computer problems had their roots in the decisions taken at about that time. Aldworth was held out as a computer boffin.

Had the chairman Michael Barry been a stronger personality, and had the directors chosen to be more aware of what was happening (Aldworth worked through an executive committee), the situation might not have reached its subsequent absurd extremities.

The bank's directors are, by and large, successful men in diverse fields. What they have in common is that most represent the bank's largest customers and have no special knowledge of banking. It would be interesting to know when they vote in First National's boardroom, whether they are able to place the bank's interests before those of their own companies.

Ball had not only to pick up the pieces from the Aldworth era. He had to face a political situation unusual for a banker. For a time this was complicated by the ambivalence of the controlling shareholder abroad. And, after its withdrawal, Ball was left facing the electioneering legerdemain of the State President, and the resounding silence of most other bank directors.

By the yardsticks of the past, Ball was intellectually well suited to the banking tasks he faced. However, very soon it was clear that he had little ability to handle adroitly the complex and often rough politics of this country, that have become so intrusive upon business. They have certainly intruded into the business of the bank — and he may have ended up their victim.

Politically and socially Ball positioned the bank according to the lights of its absentee main shareholder, whose interests were not necessarily the same as the growing number of local shareholders later perceived theirs to be. This must have placed him in an increasingly difficult position. Barclays in London is probably heavily in his debt. It owes him a good position abroad.

First National is by no means unique in having mainly decorative customers on its board of directors. It is a weakness of our banking system and one that ought to be rectified now that the imperial shareholders have withdrawn and banks move into a new era of rising competition in a technology-intensive financial services market.

It would not be difficult — and, indeed, be highly desirable — to replace retiring non-executive directors with executives more attuned to banking and conscious of fiduciary responsibilities, and then to set about trimming down bank boards to workmanlike size.

Of course, retiring a non-executive director who is also a large customer might, like closing superfluous bank branches, lead to some loss of business. That is no doubt a consideration that will be kept in mind. But what bank shareholders must equally bear in mind is that if directorships have to be used as a lure for corporate business, it could be business coming with strings attached and, therefore, ultimately perhaps not worth the candle.

In the Anglo American Corporation, First National has once again an influential controlling shareholder. That must be a matter of some solace to Barry Swart who, perhaps rather naively, seems to feel he can avoid political issues by keeping his head down.

Trouble is that the last time Anglo had banking interests — it owned Union Acceptances — it tended to rule with a velvet hand in an iron glove. So perhaps Swart might not be quite as distant from Ball's problems as he might have hoped. ■

(58) WMAIL 20-26/1/89.

First, the good news: OUCH!

Some economic ironies

Opinion is divided as to whether there will be one further round of rises around March, reports BRIAN GOLD

LAST year's surge in short-term rates — when the prime overdraft rate went from 12,5 percent to 18 percent — is slowly beginning to take its toll on home-owners, consumers and other borrowers. Paradoxically this is the "good" news, as a slower economy means there is less pressure on the authorities to increase rates.

Whether the slowdown is sufficient to avoid a further round of hikes is a hotly discussed issue in the markets. Opinion is divided as to whether there will be one further round of rises around March (assuming no general election is around the corner) or whether we have seen the last.

An increase of over two percentage points is no longer considered a serious possibility. What is clear is the downside will be slower and smaller than in 1985 and 1986. The Bank will not forget in a hurry how difficult it is to get the Cabinet to sanction higher rates even off a relatively low base.

In saying and indicating it will not increase rates for the time being the Bank is also identifying the issues which are guiding its decisions. The main concern is to secure a current account surplus of around R4-billion for 1989 in order to both repay foreign debt in terms of the standstill arrangement and make provision for future payments after it expires in June 1990. The December gold and foreign exchange reserve figures were better than many, including the Bank, anticipated. If this proves a trend it is unlikely that the Bank will need to increase rates.

Then the Bank, although more flexible than with the current account, is committed to see M3 money supply grow between its targeted 12 to 16 percent. At the moment M3 is expanding way beyond these targets.

Finally, the Bank is also nervous about fiscal policy. A large fiscal stimulus — by pushing too much money into the economy through, for instance, paying civil servants more — will have to be counter-balanced by extra vigilance on the side of monetary policy.

Surprisingly few in the Bank and private sector are questioning the principles underlying such a policy. Interest rate policy the world over is a political issue as it effects different sectors and people differently. A choice has to be made which inevitably has political overtones.

Yet an extraordinary feature in South Africa is that where one would expect interest rates to be more "politicised" than in other countries the extent of the political pressure surrounding rates is confined to how it effects farmers, homeowners and consumers. When whites are due to go to the polls rate rises are often delayed (last October's local authority elections are the latest case in point) or their falls speeded up. Subsidies to some homeowners and farmers as part-compensation are occasionally adjusted when rates change.

But the extent of concern for workers and the jobless, who often feel the after-effects of higher rates not only through a reduction in their purchasing power but in a threat to their survival through a slower economy, is confined to patronising platitudes. Senior government officials and business leaders do express (cold) concern about the plight of the poor when rates rise, yet show no interest in negotiating an economic policy.

There are sound reasons why government, with business support, persists with its present monetary policy. There are also compelling reasons why those in desperate situations are not interested in the logical explanations which they dismiss as another example of callous indifference by government and business. It is such divergent views and understandings that ought to be discussed.

So, for instance, it is no longer seriously debated whether repayment of foreign debt should be a priority (a major reason for higher rates at present) even if it is at the expense of growth and jobs.

This absence of economic debate and even negotiation cannot fairly be solely attributed to government nor to the business community. Part of the problem is in the lack of "economic" expertise in those organisations, particularly trade unions, who would be expected to call for jobs and growth (and hence lower interest rates).

Far more resources, enthusiasm, and even political flexibility will have to go into research and analysis in order to present viable and sophisticated arguments against the mainsteam economic orthodoxy. Without this there is little chance of developing strategies that present a serious challenge to the mainstream view and policies. At the moment there are no indications of any such challenge emerging.

Expect pressure for lower rates to continue to come from farmers and homeowners. Expect rates to fall modestly.

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Exit Ball, just as he entered: Without speeches

The ironic thing about Chris Ball, who became the most politically controversial businessman in the country, is that he made no political speeches, mounted no soapboxes and styled himself a pragmatist. Yet he earned the wrath of the State President and was silenced for two years by his own board.

HILARY JOFFE reports

CHRIS Ball, who resigned as managing director of First National Bank on Tuesday to take up a job "somewhere in Europe", has never been one for standing on soapboxes.

He is not in the habit of making political speeches. His public statements on politics have more often than not been couched in economic terms — he has tended to stress the "opportunity cost of the apartheid system" in terms of lost economic growth.

Ball also has little time for what he calls "ideological zealots". He prefers to see himself as a political pragmatist. In his view, useful debate only starts when people explore the socio-economic consequences of their ideas.

His political profile was probably highest in 1985 when he appeared on a BBC radio programme with African National Congress representatives and was part of a delegation, led by Anglo American's Gavin Relly, which met the ANC in Lusaka.

But the "Ball Affair" in 1986, as it came to be known, guaranteed him the role of South Africa's highest-profile business "radical". Many may see his departure, following that of former Premier Milling chief Tony Bloom last year, as a low point for business liberalism.

The Ball Affair itself played a major part in the decline of the high-profile business opposition to apartheid which characterised 1985 and 1986. The Munnik Commission, set up after PW Botha's veiled innuendos about Ball in parliament, found Ball could not have been unaware that a R100 000 overdraft facility he approved for Johannesburg businessman Yusuf Surtee was to be used to finance an advert marking the ANC's 75th birthday.

Certainly Ball himself was silenced, apparently by his own board of directors. In the past two years, about the only issue on which he has spoken to the press is soccer.

So when he announced his resignation this week, it was inevitable that old rumours would surface that the Anglo American-controlled bank would wait for a time and then ask him to leave.

Some press reports this week have implied he was pressurised to resign because of his politics. Others have speculated that his departure was linked to First National's poor financial results for 1988.

In an interview with the *Weekly Mail* this week, Ball dismissed both kinds of speculation. "There is no story," he said. He reiterated that there were no problems between him and First National.

He is clearly excited about his new job, which he starts on April 1. He received what he describes as a "fantastic offer" — made to him as a banker rather than as a South African. The job is in banking, and is not with UK-based Barclays Bank.

Even his children don't know the identity of his new employer. And he hasn't yet told some of the bank's senior executives where he is going.

The Munnik Commission and its repercussions were not an issue in his decision, he said. According to Ball, the affair did not in fact result in a loss for the bank. It lost accounts worth about R8-million, but gained over R9-million worth of smaller accounts, plus a R15-million in corporate accounts.

Ball also hit back at suggestions that the bank, South Africa's largest in terms of assets, was in bad shape financially.

It has experienced problems with its computer system which have made life difficult for customers and may have contributed to adverse stock market sentiment.

First National decided in 1984 to change its entire system, hardware and software, from an ICL to an IBM system, because the existing system could not continue to serve the bank's needs.

The mammoth changeover, which has been implemented in stages since early last year, is likely to be complete within the next couple of months. The cost of development has added R25-million to R30-million a year to operating costs, although these should be justified in the longer term.

The bank's earnings growth for the 1988 financial year compared badly with those of its competitors. Ball's counter, however, is that First National has not engaged in tax saving devices such "roundtripping" of funds and preference shares, which have earned some of its competitors millions of rands, and against which Finance Minister Barend du Plessis warned just before Christmas last year.

Questions have also been asked about whether Ball has proved able to carry his own organisation with him. According to him, his stance on equal opportunity was not accepted at first, but it is now. The bank has set a target of 400 black managers by 1990. The figure is currently 300, up from 120 in 1983.

Ball talks of the "frantic" activity in the bank in his five years at its helm He took over Barclays following the Aldworth affair, and the "bank war" broke out shortly after his arrival.

During his time as MD, Barclays' disinvested and the name of the bank changed to First National; Citibank was acquired following the American bank's disinvestment; there have been two rights issues; the bank's management and financial systems have been restructured; a new information system has been installed and more.

Chris Ball ... major force behind the 'Broederstroom encounter' between business and union and political leaders

Picture: JUDA NGWENYA, REUTER

Ball's tone this week was not of a man who has just been forced resign.

But he appears to see himself constrained and isolated. He says does not believe he could "apolitical", but does not appear see an appropriate or effective political role for himself.

He makes it clear that while move was a career decision, it one influenced by "environmental factors".

He refuses to speak out on socic economic issues because he does not feel this would be constructive. He has however expressed frustration, particularly with the "waste and inefficiency" of South Africa's political system.

All he would offer in the way of political analysis was that he was not too depressed about South Africa's future. But he deplored "the opportunity cost of the system — not only its lack of humanity, but also the gap between what economic performance has been and what it is capable of being".

But, he added, history had show that things could change suddenly South Africa was possibly at a lo point, and much depended on ho people handled the process, he said.

While Ball's high-profile role ende after the Munnik Commission, he d not end his political activities.

He was largely responsible for initiating the series of discussions between business leaders and UDF Cosatu representatives which resulte in the formation of the Consultati Business Movement last year.

The "Broederstroom Encounter" the meeting from which the CBM emerged, is one Ball sees as an example of what can be done when different interest groups get away from "ideological zealotry" and discuss issues pragmatically. He points out it took only 12 hours for the Broederstroom delegates to reach agreement on seven fundamental principles.

"Exercises such as the CBM are of critical relevance because there can be no productive solutions except those based on that kind of openness of communication and freedom to establish relationships and ideas," he said.

Bonuses show healthy increase at Liberty

Star 20/1/89

(58)

Finance Staff

Liberty policyholders have earned substantial returns on their investments for 1988.

Individuals who invested in the equity performance portfolio, a new portfolio for Lifestyle policies established in November 1987 after the crash, did particularly well.

The bonus for retirement annuities was 24,84 percent, while taxable ordinary policies achieved 28,59 percent.

For the more conservative policyholders invested in the Managed fund, which includes property investments, the bonuses for 1988 ranged between 19,02 percent and 20,77 percent — compared with between 6,79 percent and 8,52 percent in 1987.

The yield for pension funds with investments in Liberty's equity market value portfolio has shot up from 7,15 percent in 1987 to 23,46 percent last year while a similar pattern of bonuses applied to fully administered pensions business and provident funds.

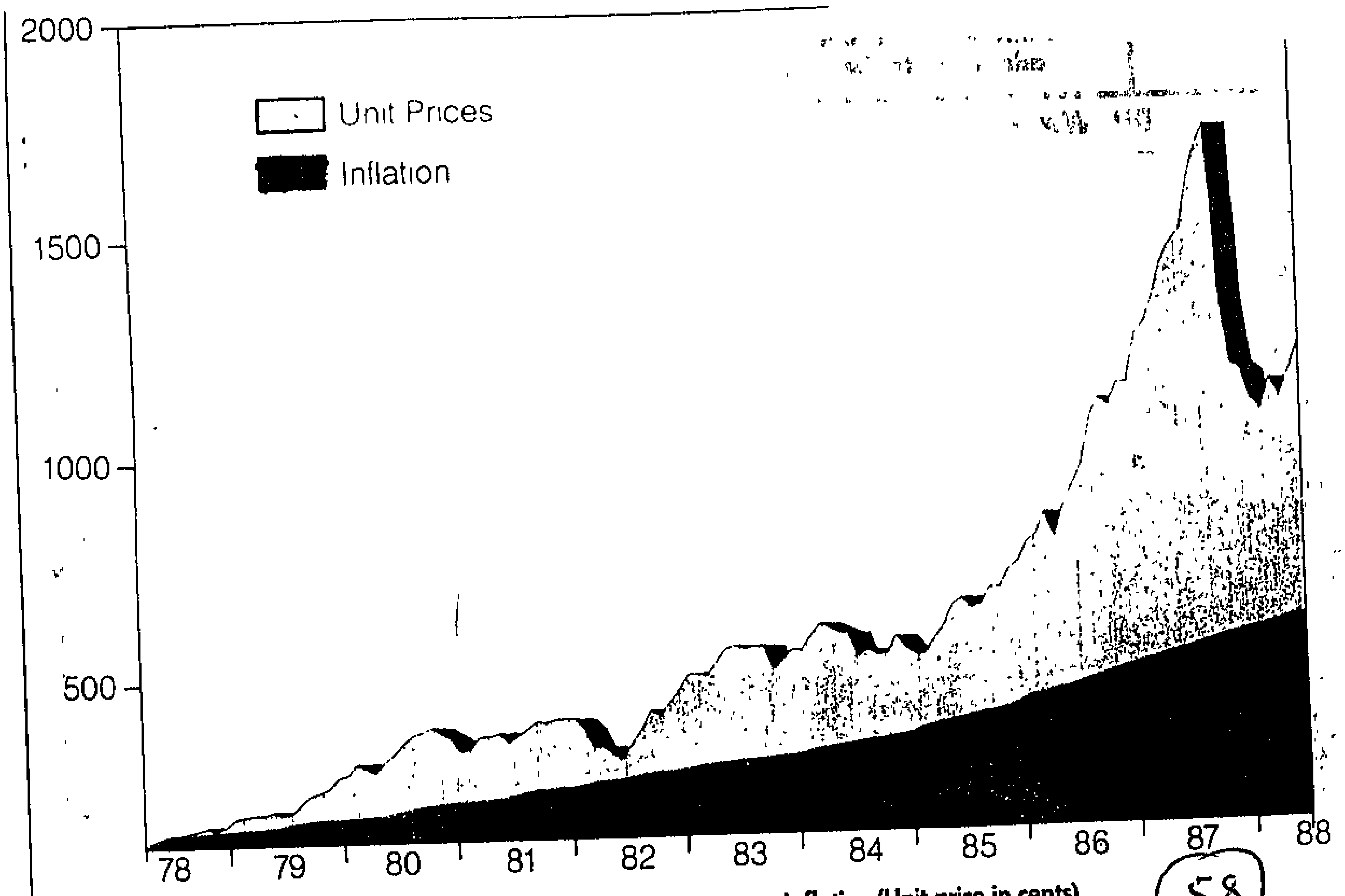
The yield for fully administered pensions business has also risen sharply, from 9,01 percent to 21,44 percent, while the Guaranteed Fund bonus of 19 percent has been maintained.

Joint managing director Dorian Wharton-Hood pointed out that the performance figures had been achieved in an environment made even more difficult by statutory requirement that 53 percent of Retirement Annuity and Pension Fund assets and 33 percent of investments in respect of ordinary life business must be invested in prescribed assets, such as government stock.

"Because interest rates rose during 1988 the market value of these investments depreciated. For all classes of taxable business (other than Retirement Annuities and Pension Funds) these yields have been achieved after allowing for the widely publicised 75 percent increase in the tax rate payable on behalf of policyholders."

Mr Wharton-Hood said Liberty was criticised for what was seen to be an ultra conservative investment stance prior to the crash.

"But, since the crash our investment philosophy has been vindicated. Our philosophy has always been to select only the highest quality counters and to maintain a low risk profile in all our portfolios."



Old Mutual's Investor Fund performance versus inflation.(Unit price in cents).

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Star 21\11\89

Investors who held their ground win handsomely

MAGNUS HEYSTEK

THE IMPROVED perceptions about the Johannesburg Stock Exchange is reflected in the rejuvenated inflow of funds into South Africa's 30 unit trusts last year.

The industry experienced a net inflow of R393,8 million while the total market value of funds, which have close on half a million unitholders, rose to R4 386,6 million.

Statistics for the past year indicate that the average performance of general funds was far better than any of the other, more specialised, funds.

On average the general funds, which have a wide spread of investments across all most sectors of the JSE, recorded a total return of 25,2 percent (capital growth plus dividends reinvested) while specialist funds managed an average growth of 10,6 percent.

Over a five-year period, the general equity funds achieved an average annual compound growth of 19,5 percent, which easily outperformed the inflation over this period.

Over this period, Old Mutual performed the best with an average annual compound growth rate of 24,05 percent, followed by Guardbank with 21,14 percent and Sage on 19,95 percent in third place.

Of the specialised funds, measured over five years, the Sanlam Index-fund managed an annual average compound growth of 20,21 percent, followed by Sanlam Industrial with 17,21 percent and Sanlam Mining in the third place with 16,81 percent.

Commenting on these results, the chairman of the Association of Unit Trusts, Roy McAlpine said: "It is very gratifying to note that while sales have improved substantially, repurchases have declined marginally. The net inflow has shown a substantial increase for the first time since the stock market collapse in October 1987.

"The performance of unit trusts over the last year vindicates the faith that unitholders have displayed in unit trusts as a long term investment.

"Notwithstanding the most severe stock market decline in history, the return obtained by the equity unit trusts over the medium and long term have been quite outstanding.

"Investors who held their ground after the stock market crash have earned significantly on their investments, and have seen the value of their portfolio rise substantially," he said.

The 12 general equity funds held some 6 percent of their total investment in gold shares on average, 19 percent in mining financial shares, 10 percent in other mining shares and 47 percent in industrials. On average, the funds held 18 percent of their assets in liquid form.

The 11 specialist equity funds, which concentrate on special opportunity investments, also held approximately 18 percent in liquid assets, while their portfolios reflected approximately 24 percent in industrials shares, 22 percent in gold shares, 20 percent in mining finance and 14 percent in other mining with the remainder in other assets.

The six high income funds, appealing to some 7 500 unitholders who wish to spread their portfolios beyond equities, now hold assets of R219,7 million. Because interest rates rose steadily throughout the year, these funds maintained a highly defensive posture with liquidity a high 34 percent.

Fraud millions

Reserve Bank special squad leads prob

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Cape Times 23/1/89

Own Correspondent

JOHANNESBURG. — The Reserve Bank is investigating foreign exchange fraud cases "totalling hundreds of millions of rands", Reserve Bank deputy governor Mr Jan Lombard said yesterday.

He would not say exactly how many cases were involved but said they ran "into double-digit figures, but not more than 50".

A special internal investigation team was established in December under Mr Lombard's directon to investigate the incidence of fraud and other problems relating to the use of the financial rand following disclosures by the Harms Commission that Pretoria attorney Mr Albert Vermaas allegedly fraudulently moved at least R100 million in foreign exchange last year.

The committee's members include the bank's forex department general manager Mr John Postmus — who on several occasions handled Mr Vermaas's applications, a police commercial branch officer and a Treasury department representative.

Reserve Bank governor Dr Gerhard de Kock said yesterday that an urgent meeting had been called on December 9 — after reports about the Reserve Bank's role in the Vermaas case — at which it was decided to establish a special committee to investigate cases of forex fraud reported to it.

He said the bank was tipped off on a number of alleged forex fraud cases in early December, but

To page 2

Cape Times 23/1/89

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From page 1

could not say if this was as a result of the evidence heard by the Harms Commission on Mr Vermaas's alleged over-invoicing.

Mr Lombard told the commission on Friday that over-invoicing was "the biggest evil in forex fraud" and was responsible for South Africa's greatest losses.

Dr De Kock said that other than the good faith of a client and the intuition of a foreign exchange official, no controls to prevent over-invoicing existed.

"Without tip-offs or other factors which arouse our suspicions there is no way we would know if over-invoicing was going on. Over-invoicing is the most difficult thing to check on," he said.

Mr Lombard said one way of checking over-invoicing was if the unit value of imports increased dramatically.

He told the commission that the bank was preparing a number of adjustments to the current system to limit the possibility of false invoicing.

He said the bank had "in the past few weeks" initiated an investigation into forex applications made by Mr Vermaas and his companies to see if there had been any contraventions of the exchange control regulations.

Under cross-examination by the commission's chief investigating officer, Mr Frank Kahn, Mr Lombard conceded that in hindsight bank staff could have been negligent. He was adamant, however, that there was nothing in the applications which would have aroused the suspicions of forex officials.

Growth in money supply slightly up

Star 23/1/89

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The rate of increase in South Africa's money supply increased slightly in December after declining in October and November.

The M3 figure for December over 12 months was 26,37 percent compared with the revised November figure of 25,03 percent.

The actual growth was R117,170 million compared with November's R114,823 million.

The M3 figures include the credit granted by the banks to consumers and corporations.

The M3 figures in September were 27,73 percent and 27,71 percent in October.

Bank spokesmen said that demand for credit was still very strong although there had been a very slight decline. They said it would take a long time for the measures introduced by the authorities last year to take effect.— Sapa.

Hopes pinned on Reserve Bank support

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GM Times 23/1/89

From HAROLD FRIDJHON

JOHANNESBURG. — Unless the Reserve Bank is prepared to be a friend in need, the money market has grave forebodings about what the end of January will bring.

Current forecasts circulating around the market are that the market shortage (its total debts to the Reserve Bank) could reach as high as a record R4,5bn, with R4bn considered to be a more conservative appraisal.

Market estimates are that the banks hold about R2,8bn in surplus liquid assets which can be discounted at the Reserve Bank without incurring penalty rate.

To raise the balance of possibly R1,7bn, the banks would be compelled to pledge prescribed assets to the Bank at an overnight rate of at least one percentage point above prime, a blood-letting rate which would emaciate banks' margins.

If the Reserve Bank is serious in its determination to hold interest rates in check for the time being it has no alternative but to offer the market repurchase facilities such as those which were made available at the end of December and the beginning of January.

Not to do so would be to force the banks to bid for deposits from the assurers and other financial institutions at equally penal rates.

At present the market is still chronically short of liquidity in spite of the inflow of funds from government spending.

On balance the outflow from the market is larger than the inflow.

The shortage has remained obstinately above R2bn, the week's low was R2,3bn before climbing again to above R2,5bn. And this mid-month with the notes issue at R6,4bn, R700m lower than it was in the first week of the year.

One identifiable drain from the market last week was the payment of GST, estimated to be well in excess of R1bn after December's shopping spree.

Bankers are hoping that the next two months will bring a flood of government spending into the market.

The Exchequer balance at the end of December was R4,9bn, the highest it has ever been.

This money will surely have to be spent before the fiscal year ends on March 31.

The banks would like to see some of this accelerated spending coming into the market before heavy February-end tax payments flood into the Treasury.

Fine-tuning by the Reserve Bank, aided and abetted by the Treasury, could carry the market over the crisis period, if the central bank gives its support and if the Treasury deposits tax cheques over a period of a couple of weeks, with the rate of the flow being carefully monitored by the Reserve Bank.

By taking the squeeze off the banks, albeit temporarily, immediate pressure on interest rates would be lessened, but longer-term rates cannot be held down while money supply soars and the gold and foreign exchange reserves are not restored to healthier levels.

It was widely believed that an early general election would have had a restraining influence on interest rates but with the State President's illness an early election appears to be improbable.

A logical scenario now is a tough Budget in March, with Bank rate moving up two full points to 16,5% — and a 20% prime.

Meanwhile special situations are creating a superficially easier trend in key rates.

The Treasury bill rate eased to 15,16% on Friday from 15,22% and the rate for 90-day bankers acceptances (BAs) shed a further 10 points to 15,40%, a drop of 15 points over the week.

The market attributes these changes to the building societies bidding for liquid assets to meet their new liquid asset requirements.

Mining houses and investors have focussed on non-liquid 90-day BAs which at 16,04% discount are yielding a return of 16,7%. Big money call is around 15,25% and prime 12-months certificates of desposit (CDs) are yielding 16,75%.

(58) B/Day 23/1/89

A friend in need

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IN THE MONEY MARKETS

Harold Fridjhon

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By taking the squeeze off the banks, albeit temporarily, immediate pressure on interest rates would be lessened, but longer-term rates cannot be held down while money supply soars and the gold and foreign exchange reserves are not restored to healthier levels.

Pressures

It was widely believed that an early general election would have had a restraining influence on interest rates, but with President P W Botha's illness an early election appears to be improbable.

A logical scenario now is a tough Budget in March, with Bank rate moving up two full points to 16,5% — and a 20% prime.

The pressures would then be eased gradually towards the end of this year as the economy cools down, leading to a give-away Budget in 1990, to prepare the way for a general election towards the end of that year.

Meanwhile special situations are creating a superficially easier trend in key rates. The Treasury bill rate eased to 15,16% on Friday from 15,22% and the rate for 90-day bankers' acceptances (BAs) shed a further 10 points to 15,40%, a drop of 15 points over the week. The market attributes these changes to building societies bidding for liquid assets to meet their new liquid asset requirements.

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Unex at vital stage of talks with financial markets in SA

B/Day 23/1/89

LESLEY LAMBERT

UNEX, the Universal Exchange which has proposed a centralised electronic exchange facility for SA's financial markets, has reached a vital stage of negotiation with these markets.

The proposal has been approved in principle by three of its major potential participants — the proposed futures exchange Safex, and Sash and Safcom, which provide exchange facilities to the bond and futures markets respectively.

Although their approval suggests a strong commitment to the proposal, all have made recommendations for changes they would like to see implemented before giving their full approval, Unex project manager Burgert Oosthuizen says.

The JSE and Bond Market Association (BMA) are expected to respond to the proposal within the next two weeks.

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Costs

If the BMA approves the project, Unex hopes to begin operating within 18 months, during which time it will install hardware and write computer programmes for the electronic system. The bond market has been pinpointed as a starting point because it is established and complex, which means systems for the other markets can be hung from it.

Oosthuizen anticipates start-up costs of about R5m, including a cost of R642 000 for bond market hardware and R3,5m for software, both of which include the core work for development of the other systems.

Unex aims to facilitate fast and efficient information dissemination, trade and central margining, clearing and settlement of trade. It also aims to reduce price anomalies in the market by assuring that all users get the same price at the same time, Oosthuizen says. Theoretically, this should help to reduce risk in volatile and growing financial markets.

Bears take a large bite

SS B/Day 23/1/84

THE bond market was excessively volatile last week and dealers expected it to continue on a similar tack this week as the expiry date for the February options on Eskom loan 168 drew closer.

On Wednesday, the bears took the bit between their teeth when the news broke of the President's illness. They sold persistently into a thin market, moving the yield on the Eskom 168 from 16,42% to above 16,5%.

Traditionally, bond markets react to disturbing news by selling, but the local operators also had an ulterior motive: they wanted to veer the yield on the 168 as close as possible to 16,5% when the the options expire on February 3. Option trading leading the market by the nose.

Friday's real prices were also affected as holders of put and call options started to unwind positions.

This dealing also reacted on the premier RSA bond, the 13% 2005, which moved within a 12-point margin between 16,60% and 16,72%.

Daily turnover last week was between R250m and R600m a day, a far cry from the R1,5bn to R2bn markets of last year.

Reserve Bank probes forex fraud cases of 'hundreds of millions'

Star 23/1/89

By Craig Kotze, Crime Reporter

A special Reserve Bank investigation team is probing foreign exchange fraud cases totalling hundreds of millions of rand — most due to over-invoicing, the Deputy Governor of the Reserve Bank, Dr Jan Lombard, said at the weekend.

Police are also known to be investigating forex fraud totalling millions of rand.

Dr Lombard said the number of cases being probed by the Reserve Bank ran into "double-digit figures" but was not more than 50.

The special Reserve Bank team was established in December under Dr Lombard's direction to investigate forex frauds and other problems relating to the use of the financial rand.

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'BIGGEST EVIL'

This was done after the Harms Commission disclosed that Pretoria attorney Mr Albert Vermaas allegedly moved at least R100 million in foreign exchange last year.

Reserve Bank Governor Dr Gerhard de Kock said a meeting was called on December 9 after reports about the Reserve Bank's role in the case. It was decided to establish the special investigative committee.

Dr de Kock said the bank had been tipped off about a number of alleged forex fraud cases in early December.

Dr Lombard told the commission on Friday that over-invoicing was "the biggest evil in forex fraud" and that South Africa suffered its greatest losses through this practice.

He said the Reserve Bank was preparing a number of "adjustments" to the system to limit false invoicing. One of these was to have an accountant certify invoices attached to forex applications before the client received money from the bank.

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Millions involved — Reserve Bank

Huge forex frauds under investigation

B/Day 23/1/89

MANDY JEAN WOODS

THE Reserve Bank is investigating foreign exchange fraud cases totalling hundreds of millions of rands, Reserve Bank Deputy Governor Jan Lombard said yesterday.

He would not say exactly how many cases were involved but said they ran "into double-digit figures, but not more than 50".


LOMBARD

A special internal investigation team was established in December under Lombard's directon to investigate forex frauds and other problems relating to the use of the financial rand after disclosures by the Harms Commission that Pretoria attorney Albert Vermaas allegedly moved at least R100m in foreign exchange last year.

The committee's members include the Bank's forex department GM John Postmus — who on several occasions handled Vermaas's applications — an SAP commercial branch representative and a treasury department representative.

Reserve Bank Governor Gerhard de Kock said yesterday an urgent meeting was called on December 9 after reports about the Reserve Bank's role in the Albert Vermaas case. It was decided to establish a special committee to investigate cases of forex fraud reported to it.

De Kock said the Bank had been tipped off about a number of alleged forex fraud cases in early December, but he could not say if this had been a result of the evidence to the Harms Commission on Vermaas's activities.

Lombard told the commission on Friday that over-invoicing was "the biggest evil in forex fraud" and that SA suffered its greatest losses through this practice.

De Kock said there were no controls to prevent over-invoicing, other than the good faith of a client and the intuition of a foreign exchange official.

"Without tip-offs or other factors which arouse our suspicions, there is no way we could know if over-invoicing is going on. Over-invoicing is the most difficult thing to check on."

Lombard said one indication of over-invoicing was a dramatic increase in the unit value of imports.

He told the commission on Friday the Bank was preparing a number of adjustments to the current system to limit the possibility of false invoicing.

One measure being contemplated was to have an accountant certify invoices

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Huge forex frauds under investigation

B/Day 23/1/89

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attached to forex applications before the client received the money from the bank.

"I have already had talks with the accountants association and some bankers. I have also made enquiries about other forms of control," he said.

The Bank had in the past few weeks initiated an investigation into forex applications made by Vermaas and his companies, to see if there had been any contraventions of the exchange control regulations.

Lombard told the commission he was satisfied with the conduct of Bank officials who processed Vermaas's forex applications.

Under cross-examination by the commission's chief investigating officer, Advocate Frank Kahn, Lombard admitted that in hindsight Bank staff could have been negligent. However, he was adamant there was nothing in the applications which would have aroused the suspicions of forex officials.

Bank move to curb vanishing millions

ARGUS 23/1/89 (58)

By TOM HOOD, Business Editor

THE Reserve Bank is planning a clamp on importers to prevent false invoicing — a practice blamed for heavy foreign exchange losses to the country.

Currency fraud cases involving hundreds of millions of rands are being investigated by the bank.

The number — "no more than 50" — includes investigations that have been going on since the beginning of last year, said the deputy governor, Dr Jan Lombard, in Cape Town today.

Dr Lombard said over-invoicing was a major problem internationally but its extent was not known in South Africa.

"It would not show up in the balance of payments," he said. "It would masquerade as imports. It is only when unit values of imports rise strongly that over-invoicing can be detected."

The bank was changing the system to limit the possibility of false invoicing. This would include accountants having to certify invoices attached to a foreign exchange application before the client received the money from the Bank.

The Reserve Bank has established a special investigating committee under Dr Lombard to probe currency frauds and other problems connected with the financial rand.

This step followed disclosures by the Harms Commission that Pretoria attorney Albert Vermaas allegedly moved at least R100-million out of the country last year.

Allegations of foreign exchange fraud reported to the committee will be investigated.

Dr Gerhard de Kock, governor of the bank, said over-invoicing was difficult to pick up without tip-offs or other factors to arouse suspicions.

R550-million foreign exchange probe

ARGUS 24/1/89

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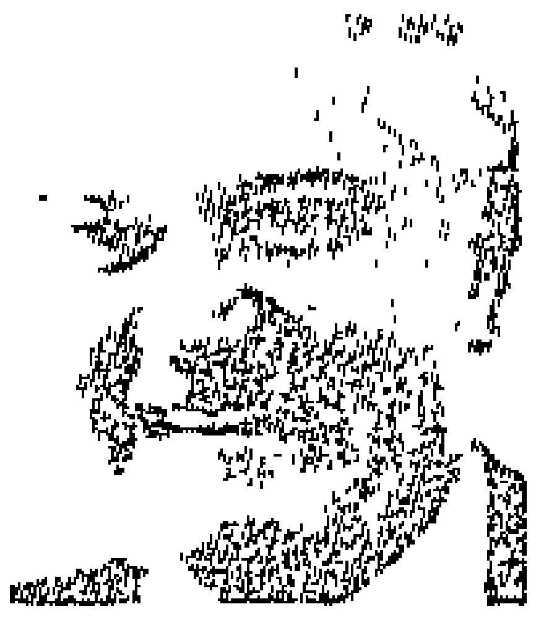

Mr Albert Vermaas

The Argus Correspondent

JOHANNESBURG. — Commercial Branch detectives are investigating foreign exchange contraventions totalling about R554-million, a spokesman said today.

The shock statement comes after an announcement at the weekend by the Reserve Bank that a special investigation team set up by the bank was investigating foreign exchange contraventions totalling hundreds of millions of rand.

Foreign exchange is regarded as the "lifeblood" of the South African economy.

Amounts involved in investigations being conducted by other offices of the Commercial Branch are not yet known.

Witwatersrand police spokesman Lieutenant-Colonel Frans Malherbe confirmed today that John Vorster Square detectives were investigating 20 cases of foreign exchange fraud involving "about" R554-million.

He said over-invoicing formed an "integral part" of the amounts involved but he did not say exactly how much. The Reserve Bank has identified over-invoicing as a great "evil" in foreign exchange contraventions.

Colonel Malherbe said some of the cases being probed by Johannesburg detectives were also being investigated by the Reserve Bank.

Most of the Reserve bank investigations are also concerned with over-invoicing.

According to deputy Reserve Bank Governor Dr Jan Lombard, cases being investigated by his team run into "double-digit" figures, but not more than 50.

The special Reserve Bank team was established in December under Dr Lombard's direction to investigate forex frauds and other problems relating to the use of the financial rand.

This was done after the Harms Commission disclosed that Pretoria attorney Mr Albert Vermaas allegedly moved at least R100-million in foreign exchange last year.

Mr Dave Dalling, PFP spokesman on justice, said today the commission seemed to be "opening a can of worms which stretched right into the highest circles of government".

Evidence about involvement of Cabinet Ministers in the affairs of Mr Vermaas "provided ample grounds for questions to be tabled in Parliament".

He said he would be doing this as soon as Parliament opened on February 3.

Meanwhile, Mr Harry Schwarz, PFP finance spokesman, has called for a full inquiry into Harms Commission evidence that Mr Vermaas's tax returns for three years lay unattended in the Receiver of Revenue's office.

Mr Schwarz said that he did not think this was the usual practice. "Most people's tax files are dealt with very expeditiously."

● See page 4.

Vermaas wanted official to speed up aircraft deals

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The Argus Correspondent

PRETORIA. — Mr Albert Vermaas attempted to pressure a Reserve Bank financial manager to speed up his exchange control transactions for aircraft — two days after the same officials questioned him about his illegal deposit-taking operation in South Africa.

Dr J H van Greunen, financial manager of the Reserve Bank, told the Harms Commission that he received a telephone call from the Minister of Finance, Mr Barend du Plessis, who requested an appointment on behalf of Mr Vermaas with him the same evening.

Dr van Greunen said the Minister of Foreign Affairs, Mr Pik Botha, had set up an interview between the Finance Minister and Mr Vermaas the same day.

Mr du Plessis referred Mr Vermaas to Dr van Greunen.

Dr van Greunen had, three days earlier, spent four hours interviewing Mr Vermaas with regard to his financial deposit-taking operation and was aware of his massive shortfall.

Urgency

"I, however, said I would gladly see Mr Vermaas. The minister did not ask me to do anything. He only asked me to see Vermaas."

"Mr du Plessis did state that there was a meeting the next morning with the black states and the State President and he did not want the State President embarrassed.

"Mr Pik Botha asked Mr du Plessis to see Mr Vermaas because of the urgency of the meeting the next day.

"My common sense told me that the meeting was with the Ciskei because a Ciskeian company was involved."

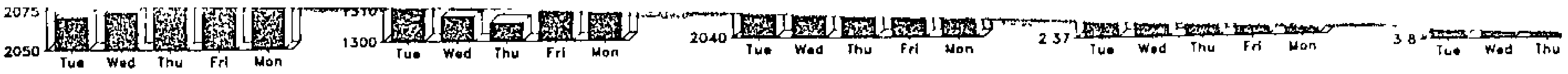
Dr van Greunen said that during his interview with Mr Vermaas he had insisted that a second Reserve Bank official be present, a Mr Steenkamp. Mr Vermaas's auditor was also present at the meeting.

"My common sense told me that I should not meet with Mr Vermaas alone. I knew the extent of the shortfall."

"I got the impression during the meeting that he thought we could help to influence the exchange transaction. Vermaas had a deal in mind of selling aircraft.

"He certainly knew that evening we were not the right people to speak to. He tried to convince us that the assets were there and that the assets exceeded the shortfall."

The commission also heard that Mr Vermaas failed to pay taxes for three years while his file lay in the inspectorate division of Inland Revenue.



Sanlam advises against interest-rate increases

Star 24/1/89.

(58)

By Derek Tommey

Sanlam has a quiet word of advice for the Government in its latest economic survey: don't raise interest rates again if it becomes necessary to curb consumer spending.

Instead, shorten the credit repayment periods, says the insurance giant.

Sanlam expects money market conditions to remain tight for the next few months.

If domestic spending does not slow down, there is a possibility of another rise in the banks' prime lending rate.

But it says consumer spending is relatively insensitive to interest-rate changes.

Housebuyers often neutralise the effect of higher rates on repayments by extending the repayment period, it says.

And the effect of higher rates on the purchase of goods on terms is not usually large.

However, higher short-term rates do have an effect on business decisions, especially "with widespread uncertainty in the Republic regarding both political and economic prospects".

Sharp rises in rates also have a detrimental effect on small businesses, which are playing an increasing role as providers of jobs.

"As a developing country with a rapidly growing population, SA cannot allow entrepreneurship to be curbed in this way."

Consumer spending can be better controlled by shortening the repayment period, which affects monthly repayments more drastically than a relatively sharp increase in rates.

It says that increasing the rate of interest from 16 to 18 percent on a R25 000 loan, repayable over 48 months, increases the monthly repayment by R25,75, or only 3,7 percent

But keeping the rate of interest at 16 percent and shortening the repayment period to 36 months increases the monthly repayment by R170,50, or 24,1 percent.

However, Sanlam is not expecting short-term rates to remain high for too long.

It expects liquidity in the money market to ease from the second quarter of this year because of larger surpluses on the current account of the balance of payments, a limited outflow of foreign capital and a decline in demand for credit

This should lead to the prime overdraft rate dropping to between 15 percent and 16 percent at the end of the year — against the current 18 percent.

Sanlam sees little change in long-term rates Though the trend may be downwards, it believes the expected high rate of inflation will keep them to around 16 percent.

Overall, Sanlam expects much slower growth this year. The drop in the annualised growth rate from five percent in the final quarter of 1987 to 3,5 percent in the first quarter of 1988, to two percent in the second and 2,5 percent in the third confirms that the upward movement of the business cycle is nearing its turning point

At this stage, it expects a growth rate of one to 1,5 percent this year, against an estimated three percent in 1988, which should help boost the balance of payments.

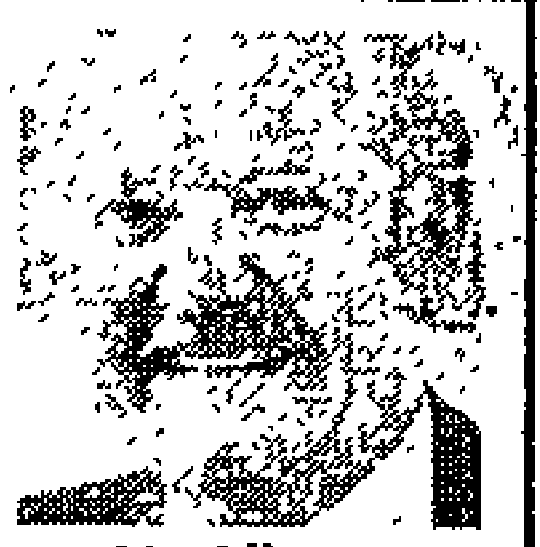
Sanlam believes merchandise imports in 1989, in line with the weaker economy, will continue to fall sharply. This, together with a reasonably favourable export performance, should lead to a balance of payments surplus of R5 billion this year, against an estimated R2 billion in 1988 and R7 billion in 1987

It says the surplus on current account should be considerably more than the estimated capital outflow.

This is a vital development in view of the low level of foreign reserves and the large foreign repayments that have to be made, particularly in the early 1990s.

Revenue officials 'didn't know what to do with tax file'

Star 24/1/89



Mr Albert Vermaas

Millionaire Mr Albert Vermaas failed to pay taxes for three years while his file lay in the Inspectorate Division of Inland Revenue — and officials claim they did not know what to do with it.

The Receiver of Revenue for Pretoria, Mr Dries Viljoen, told the Harms Commission yesterday when he inquired as to why the file had been in the inspectorate division for three years without being attended to, an official from Inland Revenue remarked: "We didn't know what to do with it."

The reason for avoiding submitting tax returns in the three years, according to Mr Vermaas's accountant, was that the attorney held "certain sensitive information which he did not want to disclose", Mr Viljoen testified.

Mr Viljoen conceded he did not inquire what the "sensitive issues" were.

According to Mr Viljoen, Mr Vermaas was fined for failing to submit tax returns.

Mr Viljoen also revealed that the file was at one stage in the possession of Mr Vermaas's nephew who was employed in the inspectorate division.

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POOR PROCEDURE

He described this as "poor procedure", that a relative of a person being investigated should be in possession of a file.

Mr Justice Harms remarked: "In other words, one's biggest luck is when your file lands up in the hands of the inspectorate."

Mr Viljoen responded lightly: "Especially if you nephew is there, sir."

The witness said he was first introduced to Mr Vermaas by a brigadier in the police force.

He also visited Mr Vermaas's game farm in the Transvaal, but declined an invitation to a game auction at the same farm when he (Mr Viljoen) became aware of investigations against Mr Vermaas.

He said he requested Mr Vermaaas's file from the inspectorate division after the attorney contacted him claiming to have a problem with tax returns.

"I considered Mr Vermaas's questions were of a general nature. I was at all times aware of the situation that he might try to use me to help him out of a situation." — Pretoria Correspondent and Pretoria Bureau.

PFP to put questions

Evidence to Harms causes concern

Star 24/1/89

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58

By Peter Fabricius, Political Correspondent

The Harms Commission of inquiry seemed to be "opening a can of worms which stretched right into the highest circles of government".

This claim was made today by the Progressive Federal Party spokesman on justice, Mr Dave Dalling, after further evidence yesterday about involvement of Cabinet Ministers in the affairs of Mr Albert Vermaas.

The Harms Commission heard in Pretoria yesterday that the Minister of Foreign Affairs, Mr Pik Botha, had set up an interview between Mr Vermaas and the Minister of Finance, Mr Barend du Plessis.

There was also evidence that a Reserve Bank official had twice been invited to Mr Vermaas's game farm in the Transvaal, even though he did not hunt, because he was considered "good company" for the Minister of Defence, General Magnus Malan, who was "looking for relaxation".

Mr Dalling said while it was difficult as an outside observer to form judgments at this point, the evidence produced so far by the commission "provided ample grounds for questions to be tabled in Parliament".

PFP finance spokesman Mr Harry Schwarz called for a full inquiry into Harms Commission evidence that Mr Vermaas's tax returns for three years lay unattended in the Receiver of Revenue's office.

The Star's Pretoria Correspondent reports that the Harms Commission heard yesterday that Dr J H van Greunen, financial manager of the Reserve Bank, received a telephone call from Mr Du Plessis, who requested that Dr Van Greunen see Mr Vermaas the same evening.

Dr Van Greunen saidMr Pik Botha had set up an interview between the Finance Minister and Mr Vermaas the same day.

Shortfall

Dr Van Greunen had three days before spent four hours interviewing Mr Vermaas about his financial deposit-taking operation and was aware of his massive shortfall.

"The Minister did not ask me to do anything He only asked me to see Vermaas.

"Mr Du Plessis did state that there was a meeting the next morning with the black states, and the State President and he did not want the State President embarrassed.

"Mr Pik Botha asked Mr Du Plessis to see Mr Vermaas because of the urgency of the meeting the next day."

Dr Van Greunen said that during his interview with Mr Vermaas, he insisted that a second Reserve Bank official be present. Mr Vermaas's auditor was also present at the meeting.

"I got the impression during the meeting that he thought we could help influence the exchange transaction. He certainly knew that evening we were not the right people to speak to."

ECONOMY

ARGUS 24/1/89 58

Curb credit repayment periods, State urged

Business Staff

SANLAM has a quiet word of advice for the government in its latest economic survey: don't raise interest rates again if it becomes necessary to curb consumer spending.

Instead, shorten the credit repayment periods, says the insurance giant.

Sanlam expects money market conditions to remain tight for the next few months.

If domestic spending does not slow down, there is a possibility of another rise in the banks' prime lending rate.

But it says consumer spending is relatively insensitive to interest rate changes.

Housebuyers often neutralise the effect of higher rates on repayments by extending the repayment period, it says.

And the effect of higher rates on the purchase of goods on terms is not usually large.

However, higher short-term rates do have an effect on business decisions, especially "with widespread uncertainty in the country regarding both political and economic prospects".

Sharp rises in rates also have a detrimental effect on small businesses, which are playing an increasing role as providers of jobs.

"As a developing country with a rapidly growing population, South Africa cannot allow entrepreneurship to be curbed in this way."

Consumer spending can be better controlled by shortening the repayment period, which affects monthly repayments more drastically than a relatively sharp increase in rates.

It says that increasing the rate of interest from 16 to 18 percent on a R25 000 loan, repayable over 48 months, increases the monthly repayment by R25,75, or only 3,7 percent.

But keeping the rate of interest at 16 percent and shortening the repayment period to 36 months increases the monthly repayment by R170,50, or 24,1 percent.

However, Sanlam is not expecting short-term rates to remain high for too long.

It expects liquidity in the money market to ease from the second quarter of this year because of larger surpluses on the current account of the balance of payments, a limited outflow of foreign capital and a decline in demand for credit.

This should lead to the prime overdraft rate dropping to between 15 percent and 16 percent at the end of the year — against the current 18 percent.

Sanlam sees little change in long-term rates. Though the trend may be downwards, it believes the expected high rate of inflation will keep them to around 16 percent.

Overall, Sanlam expects much slower growth this year. The drop in the annualised growth rate from five percent in the final quarter of 1987 to 3,5 percent in the first quarter of 1988, to two percent in the second and 2,5 percent in the third confirms that the upward movement of the business cycle is nearing its turning point.

At this stage, it expects a growth rate of one to 1,5 percent this year.

Unidev unveils strategy

58

B/Day 24/1/89

TANIA LEVY

CAPE-BASED investment group Unidev has unveiled a strategy which will combine all its computer interests under one listed company, Computer Installation Group (CIG).

An announcement spelling out the proposals is published in Business Day today.

According to Unidev chairman Geoff Grylls an agreement has been reached in principle whereby CIG has acquired the entire issued share capital and shareholders' loan claims in Unidev Electronic Holdings (UEH) for about R29,5m.

UEH is Unidev's intermediate holding company of recently acquired Corporate Data Control and other interests in SK Computers, Hard Decisions, Suntech and its existing 20% stake in JSE-listed CRB.

Grylls said last night Unidev would inject these companies into CIG.

In exchange it would gain additional CIG shares, increasing its 37% interest to a controlling 70%.

Grylls said the complex transaction would be finalised within the next few weeks.

He declined to speculate on what the deal would make Unidev's total assets worth, because this hinged on warranties involved in previous deals.

However, the enlarged computer division would have an annual turnover in excess of R150m, he said.

● VERMAAS

● DU PLESSIS

Barend 'did not want to embarrass PW'

B/Day 24/11/89 (58

PRETORIA — Finance Minister Barend du Plessis asked a senior Reserve Bank official to see Albert Vermaas because Du Plessis "did not want the President embarrassed", the Harms Commission was told yesterday.

Hennie van Greunen, of the Bank, said P W Botha was to have met leaders from the independent black states on Monday, November 27, last year and Du Plessis had asked him to see Vermaas at Vermaas's home on Sunday, the day before Botha's meeting.

Van Greunen said he believed Du Plessis's discomfort stemmed from the fact that it appeared that Vermaas's Ciskei-registered companies would be "dragged into an open commission hearing" and that it might involve "a R150m scam".

Du Plessis had telephoned him, saying he "had Vermaas in his office". Then he asked Van Greunen to see Vermaas but "did not ask me to do anything".

Foreign Minister Pik Botha, who along with Defence Minister Magnus Malan had travelled in Vermaas's aircraft, had earlier referred Vermaas to Du Plessis.

Van Greunen said he had gone to Vermaas's home accompanied by Bank colleagues because he had decided it would be better to have someone with him.

Vermaas told them he had thought of selling the aircraft to cover a R150m shortfall in his companies, and he thought the bankers could "influence" and "expedite" the Bank's forex control decision.

Van Greunen said: "We said we do not try to influence exchange control decisions, not even for personal friends." — Sapa.

of the second period is more subtle and sparingly documented.

Notional bond futures contract mooted

B/Day 24/11/89

LESLEY LAMBERT

(58)

THE futures market has proposed a new five-year notional bond contract allowing investors to hedge interest rate risk in the medium-term market.

Delegates at a seminar organised by the SA Futures Industry Association were told yesterday that besides bridging the gap between the long bond future on Eskom's loan 168 (E168) and short-term BA futures, a five-year contract could help to boost liquidity in the underlying medium-term bond market.

The proposed contract, which is expected to be considered by the fledgling SA Futures Exchange, has a 14% coupon and is deliverable against any bond in the JSE Actuaries Index bond list.

The E168 futures contract has grown rapidly since it first traded in May last year and now claims about 70% of all futures trade. But, analysts argue it has deficiencies which could be overcome by a notional bond future. Unlike the E168 contract, a notional bond would not be based on a specific financial instrument which was a wasting asset.

A major problem with the contract, argues Frankel, Kruger, Vinderine futures analyst Gillian Raine, is that there are more arbitrage than hedging opportunities between the E168 cash and futures markets.

Because the E168 is the largest issue bond with the most liquid cash market, it is difficult to establish a comparative advantage for the futures market. "Unless the implied reposession rate between spot and futures is lower than the market cost of carry, the investor can find cheaper carries in the E168 spot market and trade is reduced to an arbitrage operation, rather than hedging," Raine said.

The cash markets for the other two long-dated bonds are less liquid, which means there is an advantage in using the E168 futures to hedge. But, as Raine pointed out, there may be basis risk when the future is settled in cash. On expiry, it may be impossible to trade the less liquid bond in the cash market on at a rate that gives the same differential to E168 as when the hedge was opened.

Receiver quizzed over lack of action

Vermaas tax on hold for 3 years

B/Day 24/1/89

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MANDY JEAN WOODS

THE Pretoria Receiver of Revenue's inspectorate division was still investigating Pretoria attorney Albert Vermaas's tax returns for possible irregularities after three years, the Harms Commission was told yesterday.

But, Pretoria Receiver of Revenue Andries Viljoen said to date nothing had been done about Vermaas's outstanding income tax returns for 1985, 1986 and 1987. When Viljoen questioned the investigating inspector as to why nothing had been done, he was told: "I do not know what to do with it." Viljoen was at a loss to explain why Vermaas had not been investigated.

● See Page 3
● Comment — Page 6

Viljoen requested the file after Vermaas approached him and asked for assistance filing the returns. On direct questioning from commisson member advocate Petrus Marais, Viljoen admitted he knew Vermaas personally and had twice visited his game farm, Sebaka, in the Middleburg district.

He said if he had never met Vermaas, the file would ordinarily not have come to him for his personal attention.

The reason given by Vermaas's accountants for filing late returns was that they were dealing with "sensitive items". Under cross-examination from Marais, he said he had never ascertained whether or not the items were indeed "sensitive" information.

Mr Justice Harms said an income tax return only listed "what you earn and what you spent".

Viljoen said the tax issues he discussed with Vermaas were general in nature, dealing with things such as the value of game, diamond claims and a helicopter purchase.

The tax implications of aircraft registered in the US were also discussed at one stage. Vermaas mentioned to him he used the planes for sanctions-busting benefiting the state.

Viljoen said when he received the file for the first time he noticed that a relative of Vermaas — who worked as an inspector for the Receiver of Revenue — had taken the file out once.

Mr Justice Harms said: "It seems the greatest luck a person can have is to have their income tax returns referred to the inspectorate."

To which Viljoen replied: "And especially when you have a relative working there", causing much hilarity among observers at the hearing.

Finance Department chief director, public finance, Arnold Peacey told the commission he had spent at least two weekends at Vermaas's Namibian game farm in the company of Defence

● To Page 2

Vermaas tax on hold for three years

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● From Page 1

Minister Magnus Malan.

□ When contacted last night, Vermaas's relative, Wessel Vermaas, said the first time he met Vermaas was when he was contacted by telephone out of the blue.

He said: "Vermaas told me we were relatives. I had never even met him before then. To today I don't really know how we are related."

Wessel Vermaas, a chartered accountant, served in the Receiver of Revenue's office for two years in place of military service. He worked for one year in 1986 in the inspectorate division.

He said: "When he called, he told me his file was with the inspectorate division and asked me to help him. He then made an appointment. I probably checked out the file then as a matter of routine to read it before we met.

"I met him and I told him then that the matter was out of my hands and he must speak to the relevant inspector. I especially did not want anything to do with it because we were related."

Wessel Vermaas said at their first meeting Vermaas told him about his game farm in the northern Transvaal and invited him to spend a weekend there. "But I never accepted."

Vermaas: Concern over Bank's internal inquiry

(58) 25/1/89

(58)

Star 28/1/89

CLARE HARPER and DEBORAH SMITH

OPPOSITION parties have demanded to know how officials in the South African Reserve Bank who were involved in "rubber stamping" foreign exchange and other deals for fraud-suspect Mr Albert Vermaas can now be part of an internal committee investigating forex "problems" within the bank.

The parties have severely criticised the setting up of the internal investigating committee and demanded an independent inquiry into the bank's handling of forex transactions.

PFP justice spokesman Mr David Dalling said yesterday that until there was an independent investigation into all matters involving the Department of Finance, public confidence in the Government, already at a low ebb, would ebb further.

"From what has emerged at the Harms Commission it is very clear that there is a great deal that requires investigation.

"No person, no matter how high up, who has had any connection with Mr Vermaas socially or otherwise, should be in any way be connected with the investigation," he said.

CP finance spokesman Mr Cas Uys said it was absolutely ridiculous to appoint people to sit in judgment on themselves. "It is in the Reserve Bank's own interests to support an independent inquiry." At the moment the public had the impression that "the whole country was corrupt".

Two members of the special internal committee are Deputy Governor Mr Jan Lombard and general manager of exchange control, Mr John Posmus.

During the course of the Harms Commission it emerged that the Reserve Bank, entrusted with protecting the country's foreign reserves, might have stepped in earlier to prevent Mr Vermaas from moving millions of rand abroad, but was "too busy" to check a R100 million outflow.

According to evidence before the commission:

● The Reserve Bank approved R30 million in foreign exchange for Mr Vermaas just eight months after it had ordered him to halt his deposit-collecting operation.

● The Reserve Bank did not make a connection between Mr Vermaas's illegal deposits, which it knew had topped R150 million, and his R100 million that left the [illegible]

ing R92 million back into SA in finrands, also approved by the Bank. The commission was severely critical of the apparent lack of control.

● Mr Posmus agreed, with hindsight, that Mr Vermaas's status should have been checked earlier since the bank was aware of his alleged illegal activities.

According to reports, a Reserve Bank official was twice invited to Mr Vermaas's game farm in the Transvaal, even though he did not hunt.

According to a report in a Sunday newspaper, in May last year, a highly publicised R1 million game auction was opened by Reserve Bank Governor Dr Gerhard de Kock at Mr Vermaas's farm Sebaka in the Eastern Tranvaal.

Millionaire Mr Albert Vermaas shot into the spotlight in November when the Harms Commission of Inquiry uncovered a R150 million financial deposit scheme involving a Ciskeian registered bank.

The attorney's financial dealings have been examined by the commission which is investigating cross border irregularities.

An investigation by commission officials and the police which began into Mr Vermaas's alleged illegal deposit taking in South Africa and payment of exceptionally high interest rates to hundreds of investigators was extended to suggestions that Mr Vermaas could also have been involved in several alleged illegal financial transactions approved by the Reserve Bank and Volkskas.

After evidence about the activities of Mr Vermaas, Eurobank, Eurotrust (Ciskei) and Verco Holdings emerged during the hearing, the Reserve Bank obtained a temporary interdict preventing them from operating a banking business in South Africa.

They were also prevented from receiving deposits from the public.

A Reserve Bank auditor testified it was unlikely, based on unaudited figures, that Mr Vermaas could repay outstanding deposits of R150 million.

Mr Vermaas is the chief executive officer of Verco Holdings, which had an unaudited net asset value of R129 million. The group invested R75 million in three aviation companies namely Chieftain Airlines, Chieftain Air and Viking Air.

The South African Police ordered two of the aircraft belonging to Chieftain Air to be grounded in Namibia as none of Verco Holdings assets are allowed to leave the country following a court order.

During the hearing it emerged Mr Vermaas had used investors' money to buy aircraft and spares for Chieftain Air at highly inflated prices.

Late last year Mr Vermaas was taken into police custody because of his alleged involvement in the deposit scheme, though he was later released on R10 000 bail. Because of the criminal charges, he has refused to testify before the commission.

His estate was placed under provisional sequestration by the Pretoria Supreme Court while Verco holdings was provisionally liquidated a few days later.

During December the Commission's concern shifted from the attorney's illegal deposit scheme to his involvement in lucrative financial rand transactions. Reserve Bank officials told of 15 commercial rand transactions worth R100 million which were approved by the Reserve Bank for Mr Vermaas in 18 months.

At the same time the Reserve Bank approved financial rand transactions totally R92 million without checking the authenticity of documents.

A Reserve Bank official told the commission that he suspected that Mr Vermaas could have been involved in several illegal financial rand transactions.

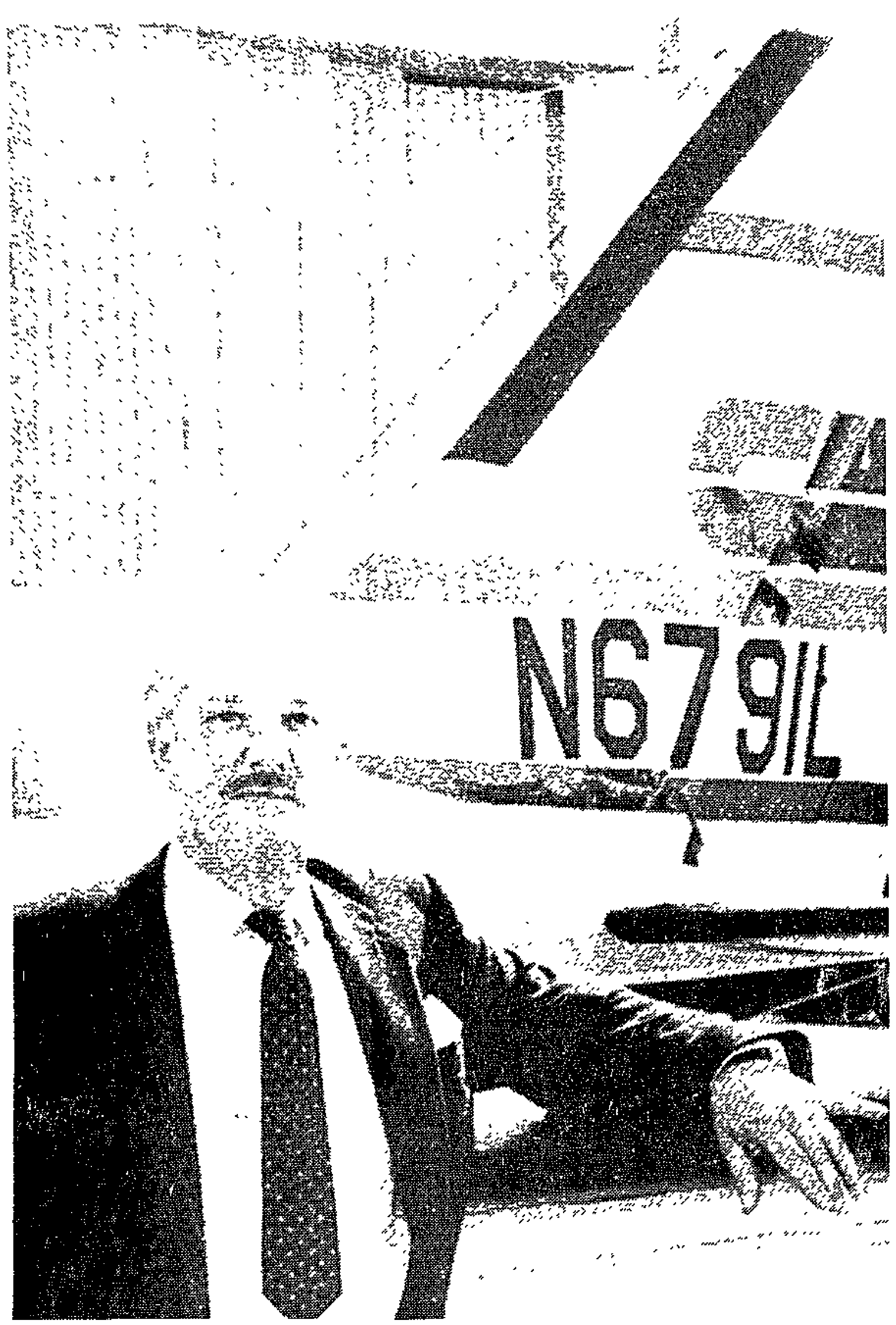
According to a Reserve Bank official, Mr Vermaas was suspected of allegedly posing as a non-resident investor in South Africa making "super profits" on properties in the Reef area.

The commission uncovered Mr Vermaas's association with several Cabinet Ministers including the Minister of Foreign Affairs, Mr Pik Botha, and the Minister of Finance Mr Barend du Plessis.

Mr Vermaas asked Mr du Plessis to intercede in Reserve Bank investigations into his financial activities at a meeting organised by Mr Botha.

Mr Vermaas' Chieftain Air was used for official trips by Foreign Affairs officials and the transport of State guests, including Dr Jonas Savimbi.

Mr Botha said, in a statement read to the Commission, he had used Mr Vermaas and his overseas contacts to combat economic boycotts.



NEW ROW: Fraud-suspect Mr Albert Vermaas, whose forex deals are soon to be at the centre of a Reserve Bank probe.

FINANCE

Sanlam warns on use of high interest rate increases

(58)

Bus Day 3/11/89

CHRIS CAIRNCROSS

CAPE TOWN — SA should not rely too heavily on interest rate increases as an instrument to prevent spending from getting out of hand, Sanlam chief economist Johan Louw said.

He said sharp rises in interest rates had an extremely detrimental effect — particularly on small businesses — and they had to play an ever-increasing rôle as providers of jobs.

Louw said in Sanlam's latest economic survey: "As a developing country with a diverse and rapidly growing population, SA cannot allow entrepreneurship to be curbed in this way.

"In addition, large fluctuations in interest rates and the uncertainty they cause hamper our export effort."

Experience had shown that consumer spending was relatively insensitive to interest rate changes.

And, Louw warned that with widespread uncertainty in the country regarding the political and economic future and prospects, businessmen were taking a short-term view.

Solid performer SA Eagle has much to commend it

58

Star 26/1/89

Sharespot
LYNNE PEACH

Investors in SA Eagle do not have much to complain about.

For more than a year the share price has performed a lot better than that of most other JSE companies.

The current share price of 1 750c is only 7,9 percent less than the 1987 pre-cash high of 1 900c.

A reputable stockbroker views the share as undervalued in view of the underlying soundness and solidity of the group.

He believes that the market does not, however, totally support its conservative reinsurance policy.

But adequate reinsurance protection, along with the takeover of AA Mutual in 1987 and a good investment portfolio, is said to be behind the excellent results that SA Eagle has been producing.

Farming community

Unfortunately, managing director Mr Peter Martin did not manage to return our many telephone messages so we are unable to include his comment.

SA Eagle conducts all classes of short-term insurance business in South Africa and in the neighbouring territories.

It is also firmly established as one of the leading underwriters to the farming and country communities.

The short-term insurance industry has been benefiting from a general reduction in all classes of crime insurance claims.

This is attributable to greater protection of assets by the public and increased efforts by the police.

Any decrease in premium rates will, however, be limited by local inflation and the high cost of imports.

Reinsurance rates are not expected to rise much this year.

Our source explains that increases will be restricted by the highly competitive international scenario.

He says that some local rate-cutting took place in the second half of last year.

He expects the trend to continue this year.

SA Eagle's good interim results are attributable to decreasing crime claims and the absence of major fires.

The cost of the floods in the Orange Free Stateand in the Northern Cape were not material to the group because of its low exposure in the affected areas.

Performance in the six months to June 1988 was also heightened by a 36 percent rise in net investment income, which followed the higher rate of return on interest-bearing investments.

The outcome was a 75 percent leap in earnings to 1 495c and a similar rise in the interim dividend, to 60c.

At the current price of 1 750c, the share is trading on a price:earnings (PE) ratio of 6,3, which is roughly in line with those of its competitors.

Dividend yield

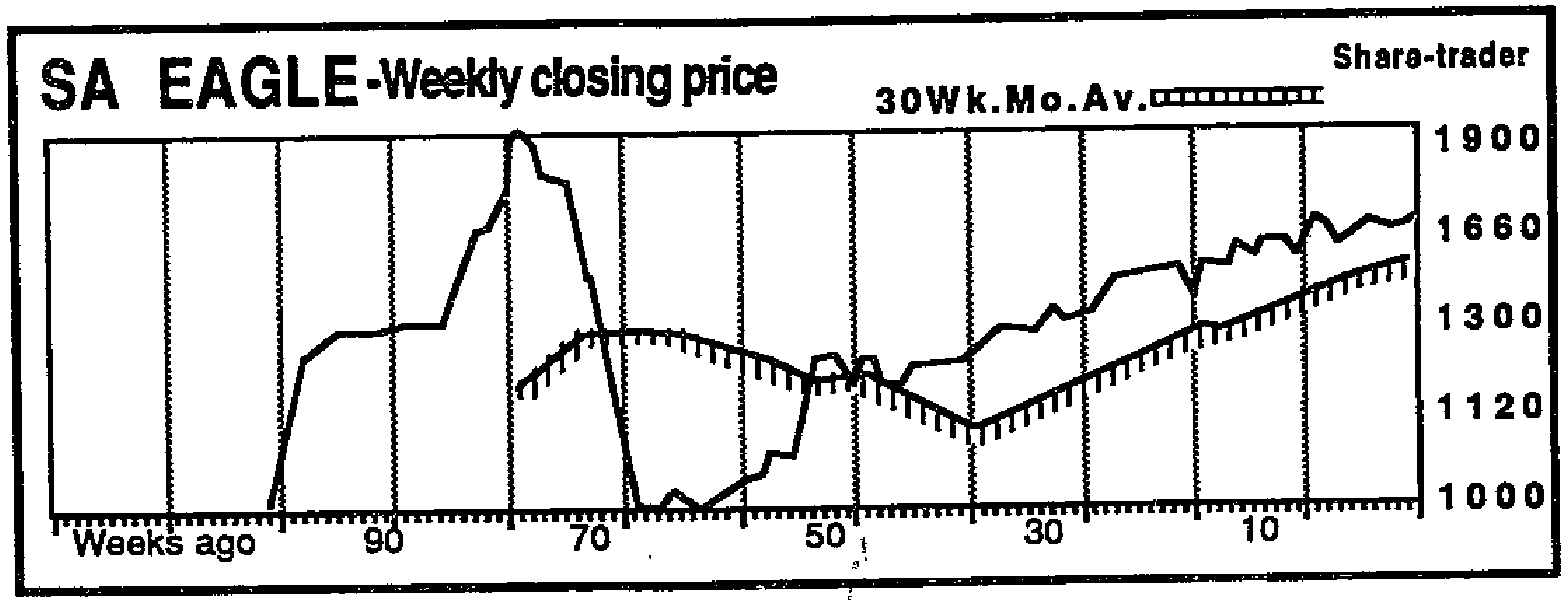
The current dividend yield is an attractive 8,6 percent.

Stockbrokers are expecting earnings for the year to December 1988 to exceed 300c, despite growth in the second half of the year projected to be slower than that in the first half.

On cover of 1,8, the dividend is forecast at 165c.

This places the share on a forward P/E ratio of less than 6 time.

The dividend yield is more than 9 percent.



The chart clearly indicates SA Eagle's strong performance for more than a year. Over the recent holiday period, however, the price moved sideways between 1 700 and 1 750c. The share also has a history of strong relative performance against the JSE insurance index. Barring any major unforeseen catastrophe, the share price should continue to move upwards.

Sanlam lifts bonus payments

(58)

Star 26/1/89

Finance Staff

Sanlam has maintained its existing bonus rates for policies in its stable investment series and has declared an additional claims bonus, despite unfavourable circumstances.

On policies with a right to reversionary bonuses Sanlam has announced increases in some of the bonus rates for the tenth successive year.

Bonus rates have been increased for policies where Sanlam is not liable for tax. The bonus rates for other policies remain unchanged.

The investment bonus rates of Sanlam's stable investment series are maintained at 17,5 percent for retirement annuities and 16 percent for ordinary assurance.

The claims bonus declared for the 1987 financial year is also maintained. They range from 7,5 percent to 15 percent for retirement annuities and from 9 percent to 18 percent for ordinary assurance.

Despite tight investment conditions, an additional claims bonus — from one to three percent for retirement annuities and one to two percent for ordinary policies — has been declared for financial 1988.

The actual percentage is determined by the year of inception of each policy.

JSE prices continue to rise

CM-Times 26/1/89

58

By BRUCE WILLAN

PRICES on the Johannesburg Stock Exchange (JSE) have been rising steadily since the beginning of this year — in line with what is happening in the international markets — and some blue chip share prices are above pre-crash levels and still going up.

Yesterday the overall index closed 19 points higher at 2188 after adding a massive 34 points the day before.

The institutions are back in the market. And rising prices in the Development Capital Market (DCM) sector are a sure sign that the man in the street is going back too.

Over-valued?

But there are warning signals and some analysts say they think the market already over-valued.

Although charts show continued upward movement, one analyst warned that any downward movement caused by profit taking could lead to a severe correction.

Industrial shares have dominated the market since the beginning of the year with the index increasing almost daily.

Yesterday the Industrial Index closed at 2138, up 21 points on the previous day's gain of 18 points.

This is just 127 points short of the pre-crash level of 2265.

The DCM sector which has suffered from a long period of dull trade is starting to come alive again with volumes beginning to pick up — 230 000 Don Gray shares and 465 000 Channel shares traded yesterday.

More than R4m worth of De Beers shares changed hands yesterday and R2,25m worth of Columbia shares.

But the all gold index closed four points lower at 1366.

While the outlook for gold is not good analysts do see some value in certain gold shares but are a little nervous of the market in general.

Personal Trust analyst, Glenn Moore says "The perception of the market has changed and it is generally accepted that interest rates may have peaked."

This he indicates may be a reason for the change in the equity market. "Cash is offering no real return considering there are fears inflation will rise to about 15% or 15,5% and earnings from shares will be better."

Signs of movement in the price of DCM shares are an indication that the man in the street has started to get back into the market although not to the same extent as before the crash.

The institutions which have been very liquid for some time have also returned to the market, particularly the unit trusts.

However, stockbroker Ian Michler of Ferguson Brothers says the market is overbought and that there should be a correction.

"Fundamentals are no better than they were before the crash of October 1987."

Sentiment also plays a major part in the activity of any share market and the JSE is no exception.

Markets elsewhere in the world have been going up fairly strongly particularly in the US and Japan.

But there are a few warning signals, however dim.

Over a 20 period based on historical dividends, major corrections have occurred when dividend yields are around 2% to 2,5%. At yesterday's close the dividend yield was around 3,4% and with the current perception is set to reach 3% soon.

In 1969 dividend yields were below 2% and in 1987 were 2,5%.

Dow Jones up

The Dow Jones is above the pre-crash level of 2246 and moving upwards while the Japanese Nekkei index is also on the up having gained 225 points on Monday.

Moore is wary about potential earnings by investors saying that while the economy is still humming, money supply is still high and imports could increase in the face of a weakening rand followed by increased capital expenditure.

This in turn, he says, could lead to increased dividend cover by companies to embark on expansion programmes.

He too believes there should be a correction and that the market is over-valued.

Anglo's JSE marl shar slide

Financial Editor

THE lower gold price means that Anglo American's enormous share of the market capitalization of the Johannesburg Stock Exchange (JSE) has fallen by 10,6% since last year, says Robin McGregor — author of the ninth edition of "Who Owns Whom".

Anglo American Group still has the lion's share with 49,5% last September although the fall in the gold price has reduced it from 56,1% in December 1987 and 60,1% earlier that year.

Sanlam had 10,8% in September according to the chart, SA Mutual 9,8% and the Rembrandt group 7,6% — up dramatically from 4,9% at the end of 1987.

Anglo's current position reflects "the immense value of the gold sector of Anglo's portfolio."

Pointing out how significantly fluctuations in the gold price can affect such a portfolio, he says:"The all gold index was 1992 in March 1987. It was 1774 in December 1987 and 1266 in September 1988 at which time the latest control figures were calculated."

In spite of disinvestment the chart shows that foreign controlled companies listed on the JSE have remained fairly constant in terms of market capitalization. McGregor says newly listed companies have moved from the unlisted sector to replace those disinvesting.

He finds the rise in the share held by companies controlled by their directors to 6,9% from 4,1% in 1987 "most encouraging even although a large portion is due to the facility the DCM has afforded the small non-listed company. . ."

But, he says, this might "further aggravate the concentration of control as it makes the smaller company more vulnerable to predators."

26/11/89

Vermaas: 'no chance to p

Argus

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The Argus Correspondent

PRETORIA. — Mr Albert Vermaas has claimed he has been "tried and found guilty" before having an opportunity to put his case properly.

In an exclusive interview yesterday, Mr Vermaas — a key figure in the probe into alleged cross-border irregularities — said the sequence of events since the Harms Commission began sitting in Pretoria had placed him in a bad light.

Although he had been given an opportunity to testify before the Commission, he had elected not to do so, "because of accepted legal principles".

Mr Vermaas was arrested on November 23 following allegations of fraud, contravention of the Banks Act and contempt of court.

This was the direct result of what he called "untested allegations."

Asked if three Cabinet Ministers, Finance Minister Mr Barend du Plessis, General Magnus Malan, Minister of Defence and Mr Pik Botha, Minister of Foreign Affairs, had been involved in any of his financial deals, Mr Vermaas said they had no involvement at all.

Asked about the comment by Mr du Plessis to a Reserve Bank official that "he did not want the State President embarrassed", Mr Vermaas said he did not understand the significance of the suggestion that the State President could in any way be embarrassed on account of any aspect relating to his personal affairs.

The commission's frame of reference was broadened after Mr Vermaas's arrest to include the allegations made against him and his alleged involvement with Ciskeian companies Eurotrust, Eurobank and Eurobond — which were allegedly involved in an illegal deposit-taking operation in South Africa.

Bail of R10 000

"My arrest was without the knowledge or participation of the Attorney-General of the Transvaal, Mr Don Brunette," Mr Vermaas said.

He said he had failed to understand the urgency of his arrest.

He was granted bail of R10 000 the same evening by a Pretoria magistrate, who heard the matter at his home in Verwoerdburg.

Since his arrest the State has been unable to formulate charges, Mr Vermaas said.

He was aware that the contempt of court allegations involved aircraft leaving the country allegedly in contravention of a temporary Reserve Bank interdict brought in the Pretoria Supreme Court on November 23 last year.

Mr Vermaas said he was concerned at the manner in which commission officials approached the matter.

During an interview Mr Vermaas had with officers of the commission, they produced a copy of the magazine Finansies en Tegniek, in which it was reported that the Harms Commission would be investigating Mr Vermaas.

"This came as a suprise to me," Mr Vermaas said, "especially in view of the fact that some of the subjects listed for investigation were mentioned."

The report appeared before the frame of reference of the commission had been broadened to include matters pertaining to him.

"This was a transgression of the commission's regulations, " Mr Vermaas said.

The attorney expressed his annoyance at the way in which evidence before the commission was reported.

Mr Vermaas said he also wanted to correct several allegations made against him at the Commission and wanted to set the record straight.

● Evidence before the commission was that he failed to submit tax returns for three years, while his tax file lay in the offices of the Receiver of Revenue's inspectorate division.

Mr Vermaas denied this, saying that because he conducted an operation of considerable size throughout South Africa with a staff of about 1 000, there were times he had filed late tax returns, because he had been given the necessary permission by Inland Revenue for an extension.

He said he had paid taxes in 1985, 1986 and 1987 during the extension time granted to him.

This was normal business practice in South Africa.

● He denied evidence that he had a cousin in the inspectorate division of Inland Revenue, who handled his tax file. Mr Vermaas said the man was not a relative, nor did he ever claim he was.

The first time he ever heard of his namesake was when the man telephoned him to discuss his tax.

● Evidence was that millions
country through Mr Vermaas f
aircraft spares. An expert on ai
Mr Vermaas had paid inflated
spares, refurbishing of aircraft
lots.

Mr Vermaas said he was
would have no difficulty in pro
and purchase price of aircraft

He denied over-invoicing for
purchased overseas. The Rese
at all times of the aircraft and
bishing, among other things, and
tions, according to Mr Vermaas.

● Evidence before the commi
Vermaas sold property to forei
flated prices.

Insurance chair for Wits

56

B\Day 26\1\89

KAY TURVEY

THE insurance industry realised a two-year project yesterday with the establishment of an insurance chair at Wits University.

Announcing the appointment of Prof Robert Vivian, Insurance Institute of SA deputy president Brian Benfield said the sector had long found it difficult to attract suitable professionals.

Over 30 life offices and short-term insurers have funded the establishment of the chair.

Insurance majors will now be incorporated into a Bachelor of Commerce degree at Wits and 25 students have already enrolled for the new courses which commenced this year.

Vivian, an electrical engineering and law graduate who gained his experience in insurance with Priceforbes Federale Volkskas (PFV), said the industry had recognised the need for a structured degree two years ago.

He said it was necessary to improve and develop skills given the increasing complexity of the market.

The Star
Finance

58

Star 27/1/89

Property funds do well

Both Umdoni and Tamboti property funds have announced improved earnings and dividends for 1988.

Umdoni benefited from improved letting conditions and declared a final quarterly dividend of 3,4 cents a unit bringing the total for the year to 13 cents (11,8 cents), an increase of 10 percent.

During 1988 Umdoni invested R4 million in acquisitions and developments. It currently has R3,3 million of uncomitted funds available for future investments.

Tamboti's final dividend was 12,25 cents, bringing the total for the year to 24 cents (22,83).

Tamboti's property is mainly in the Transvaal while Umdoni continues to remain mainly Natal based.— Sapa.

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Vermaas replies to allegations made before commission

'I have done nothing wrong'

Pretoria Correspondent

Mr Albert Vermaas, who has been the focal point of revelations involving cross-border irregularities, this week stressed that he had elected not to testify before the Harms Commission of Inquiry "because of accepted legal principles".

But, he said, evidence led at the inquiry had tried him and found him guilty before he had had an opportunity to put his case properly.

In an interview, Mr Vermaas said the sequence of events since the Harms Commission began sitting in Pretoria, had placed him "in bad light".

Asked if Mr Barend du Plessis, Minister of Finance, General Magnus Malan, Minister of Defence, and Mr Pik Botha, Minister of Foreign Affairs, were involved in any of his financial deals, Mr Vermaas said they had no involvement at all.

Mr Vermaas was arrested on November 23 1988 following allegations of fraud, contravention of the Banks Act and contempt of court.

The commission's frame of reference was broadened after Mr Vermaas's arrest to include the allegations made against him and his alleged involvement with Ciskeian companies Eurotrust, Eurobank and Eurobond — which were allegedly involved in an illegal deposit-taking operation in South Africa.

After his arrest he was granted bail of R10 000 the same evening by a Pretoria regional court magistrate, Mr B J van den Berg, who heard the matter at his home in Verwoerdburg late that night.

In the first extensive interview he has granted, Mr Vermaas said he was aware that the contempt of court allegations involved aircraft leaving the country allegedly in contravention of a temporary Reserve Bank interdict brought in the Pretoria Supreme Court on November 23 last year.

Mr Vermaas said he was concerned at the manner in which commission officials approached the matter.

Mr Vermaas said he also wanted to correct several allegations made against him at the commission and wanted to set the record straight.

It was testified before the Harms Commission that Mr Vermaas failed to submit tax returns for three years, while his tax file lay in the offices of the Receiver of Revenue's inspectorate division.

Mr Vermaas denied this, saying that because he conducted a large operation throughout South Africa with a staff of about 1 000, at times he had filed late tax returns because he had been given the necessary permission by Inland Revenue for an extension. He said he had paid taxes in 1985, 1986 and 1987 during the extension times granted to him.

Evidence before the Commission was that Mr Vermaas has a cousin in the inspectorate division of Inland Revenue, who handled his tax file.

Mr Vermaas said the man is not a relative.

Evidence was that millions of rands left the country through Mr Vermaas's hands in the purchase of aircraft spares. An expert on aircraft testified that Mr Vermaas had paid inflated prices for aircraft, spares, refurbishing of aircraft and training of pilots.

Mr Vermaas says the Reserve Bank had been aware of the aircraft and spares and refurbishing, among other things, and had approved the transactions.

Referring to evidence that he sold property to foreigners at inflated prices, Mr Vermaas said the finacial rand allowed foreigners to bargain-hunt in South Africa and he believed he had done nothing wrong.

A provisional trustee of the Vermaas estate and companies told the commission he had turned down a deal of R155 million for Chieftain Aviation because liquidators felt the deal would not be to the benefit of investors.

Millionaire Mr Albert Vermaas . . . the sequence of events since the Harms C
Pretoria has placed him "in bad light".

I swore an oath of secrecy, says Receiver

58

Star
27/1/89

By Deborah Smith,
Pretoria Bureau

Pretoria Receiver of Revenue Mr Andries Viljoen said yesterday he had sworn an oath of secrecy and could not reveal whether he had launched an investigation into millionaire Mr Albert Vermaas's tax affairs.

He said he could not discuss anyone's tax affairs in public and he had been allowed to speak only because he was giving evidence before the Harms Commission of Inquiry.

His evidence earlier this week revealed the inspectorate division of the Pretoria Receiver of Revenue had failed to act over a three-year period on Mr Vermaas's tax affairs which had been sent to it for investigation.

Mr Viljoen testified he was at a loss to explain why Mr Vermaas's outstanding income tax returns for 1985, 1986 and 1987 had not been investigated.

He said he had first requested the file after Mr Vermaas asked him for assistance in filing the returns.

Mr Vermaas's accountants said the returns were filed late because they dealt with sensitive matters.

Mr Vermaas said in an interview on Wednesday that he had filed his returns during an extension period granted by the Receiver and had paid his taxes during this time.

Mr Viljoen said that when he first received the file he noticed that a relative of Mr Vermaas who worked at the Receiver's office as an inspector had taken the file out once.

Mr Vermaas said the man was not a relative and he had never said he was.

Now Beeld lashes

Star
27/1/89

FMAIL 27/1/89.

BANKING ⑤⑧

Legislative loopholes

With entirely new banking legislation due in 1990-1991, Banks and Building Societies Registrar Chris de Swardt has had to paper over cracks in existing legislation. A draft *Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill 1989*, published last week, is designed to deal with critical issues not addressed by the 1965 and 1986 Acts governing these institutions.

"The scope of the Bill is limited," says De Swardt. "We are reluctant to make further ad hoc changes at this stage."

Defects are dealt with by six clauses. Clause 2 is a formality to rectify an omission in the Afrikaans text, clauses 5 and 6 eliminate expensive technicalities.

The other three clauses relate to central problems which have emerged. Impetus for amending legislation comes from the provisional liquidation last year of Ciskei-based Eurobank. The case highlighted the lack of supervisory co-ordination between SA and the TBVC countries. While the bank was registered in Ciskei for tax reasons, it operated chiefly in SA. Clause 1 of the draft Bill ensures future banking activities of TBVC-based banks can take place only through a local subsidiary registered in SA.

Clause 3 deals with the crucial issue of limitations on shareholding. It condones historically excessive shareholdings of Sanlam in Trust Bank and Old Mutual in Nedbank, confirming voting rights of existing holdings above prescribed limits *with* the consent of the minister.

On the other hand, it closes the door to future contraventions.

Now, holdings in a bank "by a person other than a registered bank or a registered bank controlling company" are subject to various limitations; included in the computation of individual holdings are shares registered in the names of associates.

Last year's amendment called for compulsory registration of holdings in the name of the beneficial shareholder and expanded the definition of "an associate."

One result was that Boland Bank feared it would be "threatened" by a large shareholding (previously not registered) and representation on its board of an "unfriendly investor" and its associates. This did not happen. But to prevent any such situation, two changes were incorporated in clause 3.

One places banks and bank controlling companies in the same position as any other shareholder — which means they may not acquire more than 10% in banks other than their own subsidiaries. The other restricts voting rights of anyone with excessive holdings to the prescribed maximum — until they can dispose of the excess.

Clause 4 gives banks the same right as building societies to conduct business through an agent and was introduced to smooth the merger of Nedbank and the Perm, with its 600 agents throughout SA.

⑤⑧ FMAIL 27/1/89.

Theoretically, it opens vast marketing opportunities. Major banks could enlist supermarkets, clothing chains, department stores and furniture companies as extensions of their banking halls. And small banks could massively increase their representation.

De Swardt, however, thinks this unlikely. "Banking requires a computer network to do meaningful business. It would cost a lot to set up a supporting infrastructure and possibly duplicate existing outlets." ■

Rabie opens corporate division

58

Star 27/1/87

Rabie Property Developers, part of Rabie Investment Holdings Limited, has established a corporate sales division, offering assistance to major employers looking to house their employees.

Dave Harris, national sales director of the Rabie group, says the service is designed to help ease the burden on employers seeking to implement employee housing packages.

"It is a fully comprehensive service covering all those aspects associated with home ownership on a grand scale.

"In addition to land location, design and project management, we also take care of all the legal and financial arrangements, paying particular attention to individual requirements.

Rabie last year sold over 4 000 homes totalling R240 million in the PWV, greater Durban and Cape Town areas, and is developing several major projects in Natal, the Transvaal and the Western Cape.

HOME LOANS 58

Limping along

FMAIL 27/1/89

Last year's upturn in home sales appears to have been one of the shortest in living memory. High mortgage rates and a general economic clamp down saw to that.

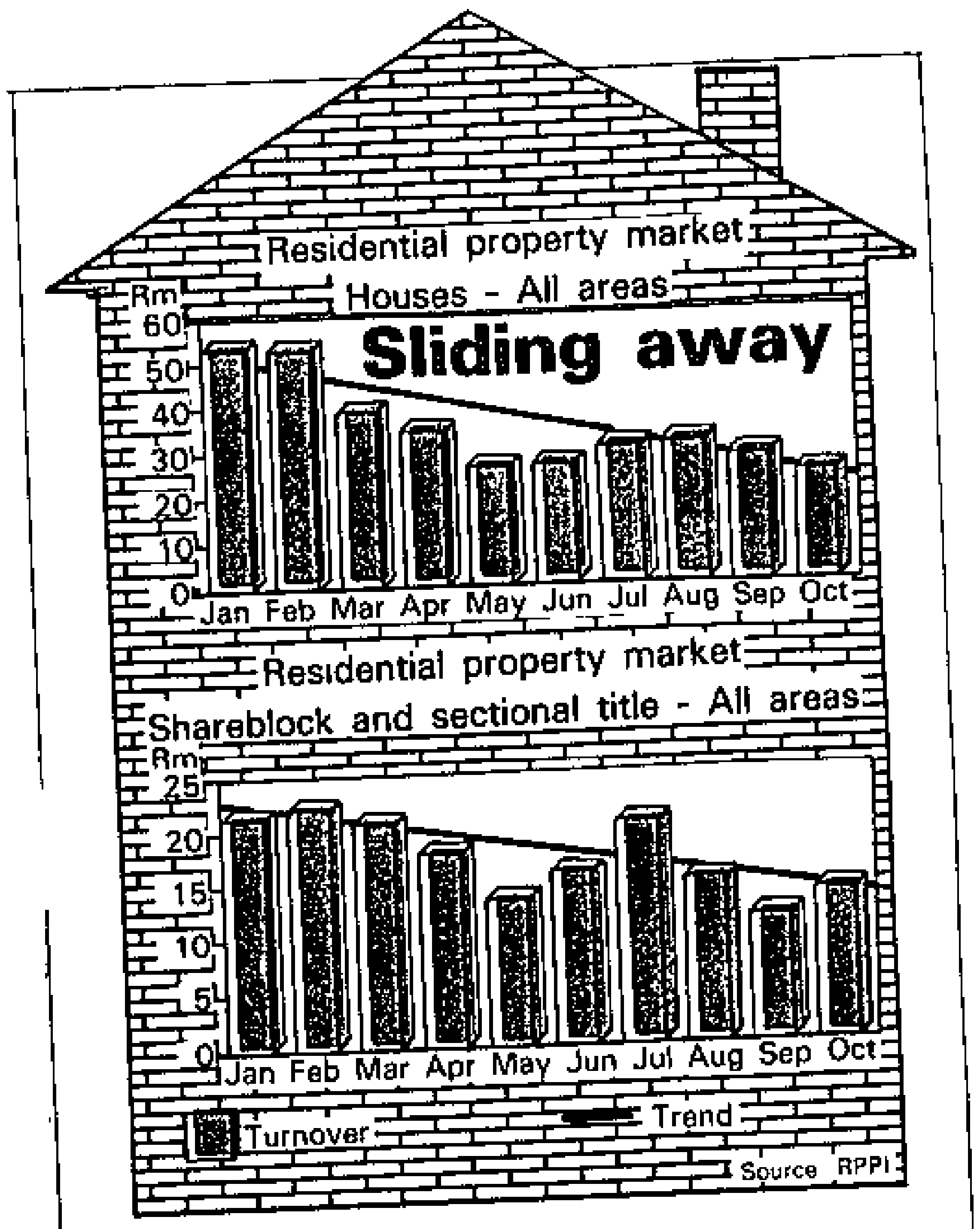
Nevertheless it looks as though there will continue to be a significant turnover in residential properties around the country with some banks and building societies forecasting a "brisk" demand for home loans in all but the highest income housing market.

The Durban market in many ways appears, generally, to be a reflection of the housing situation in the rest of the country.

Graham Gavin, vice-chairman of the Durban branch of the Institute for Estate Agents, says the bottom began falling out of the housing market in March (**see table**). It was triggered, he says, by the first modest increase in the bond rate above its 12,5% nadir — and the belief that worse was to follow.

The result was a massive decline in volumes and values with single residential sales recorded by institute members (representing about 75% of all sales in the city) slipping 77% from 436 in January 1988 to December's estimated total of around 100.

Monthly sales values halved from the R53,3m worth of houses sold in January to R26,9m in October. Sellers struggled to offload unwanted dwellings. The average lapse between listing and finding buyers doubled from 35 to 70 days.



Source RPPI

The good news, according to Gavin, is that the market has absorbed the shocks of bond rate increases and political uncertainty, and early indications are that January's seasonal boost will see unit sales in the single residential market rise to between 250 and 300. Last year's total of 2 956 houses sold in Durban will probably be repeated this year, meaning a year of consolidation rather than further decline or real growth.

These tough trading conditions are also reflected in the level of applications for bonds reported by the banks and building societies. Though most say demand for loans is once again growing.

Perm assistant GM marketing Peter von Broembsen says applications for home loans in the last quarter of 1988 were 14% lower than for the same period in 1987. But he is confident that despite a softening of the market through high interest rates, current lending levels will be maintained throughout 1989.

Trust Bank was even more severely hit with demand in the final three months of last year down 40% on 1987 levels. Like the other institutions Trust Bank is confident that, at worst, current levels of demand for mortgages will be maintained in the next 12 months.

Perhaps the biggest impact on the home loans market has been that of the banks which began their market share assault in late 1987, early 1988.

A measure of their success can be gained from Standard's MD financial services, Dennis Matfield. He says the number of applications for home loans has declined, particularly in the last three months of 1988. "While applications were 63% higher than demand in 1987, the value of actual loans granted in December totalled just R100m compared to R255m in July."

He doubts that the 1988 boom which saw the Standard processing about R200m worth of new bonds every month will be repeated this year. It is more likely to be maintained at a level of R100m to R120m.

"The decline will mostly be in the medium to upper price bracket." He sees the growth being in the supply of black houses. "Bond applications for new houses is mostly black, while white buying is taking place largely in the home resale arena." ■

New rating system for short-term insurers

BDay 27/11/89 KAY TURVEY

(58)

A NEW rating system to measure the security of short-term insurers has been developed to enhance the performance of the industry and assist policyholders in decision-making.

In line with international trends, Quest Consulting Group has developed a rating system to measure short-term insurers' ability to meet financial obligations.

Quest MD Carne Curgenven said yesterday the rating would assist standards in the industry as it would serve as a yardstick for management to measure their company's progress.

Six companies have already committed themselves to going for a rating, although it remains up to the company if they wish to publish the rating.

Curgenven said if such a system had been in place earlier, the demise of AA Mutual in 1986 could have been forecast.

The ratings will evaluate a company's reserves, solvency, management, earnings, assets and reinsurance. Ratings are a new principle in SA but are used in most other major centres.

‘Appropriate to disinvest’

Minet sells local stake to Syfrets

Bus Times 27/1/89

58

By ROBERT GENTLE

LONDON. — Minet Holdings plc, the British insurance company, yesterday confirmed it had reached an agreement to sell off its 51% stake in Minet Holdings SA for an undisclosed sum.

According to the terms of the agreement, the 51% stake will be acquired by Syfrets Trust, a wholly owned subsidiary of the Nedbank Group. Nedbank already had a major shareholding in Minet SA. The balance of the equity will be acquired by the employees of Minet Holdings SA.

The agreement also stipulates that the company will continue the business links its staff has developed over the years with Lloyd's and other London insurance brokers.

The disposal of Minet SA by its UK parent is a direct consequence of a £275m cross-Atlantic deal early last year in wnich the international insurance broker St Paul Inc, based in Minneapolis in the US, acquired the remaining 75% of Minet Holdings plc it did not already own,

The UK insurer was thus brought into the American stable, and found itself exposed to political pressure.

Minet Holdings plc chairman Ray Pettitt acknowledged there was "tremendous pressure" on US firms to disinvest from SA.

"Bearing this in mind, we fully understand the St Paul decision," he said.

A spokesman from St Paul Inc, speaking from Minneapolis, said: "We looked at all the factors affecting conditions in SA, and management concluded that the most appropriate course of action would be to disinvest."

No details on Minet Holdings SA were released.

However, Minet Holdings plc said its SA operation had been a successful and profitable business over the years.

Shell (SA) will continue to push for reform its new chairman, John Kilroe, said yesterday. Kilroe, who took up his new appointment last week, said: "It is essential to continue to do everything in our power to rid the country of apartheid and to ensure that all inhabitants of this country have their human dignity and human freedoms respected. Our only solution is a democratic nonracial system of government."

Primrose keeps up dividend

Financial Editor

IN spite of a lower gold price and rising costs Primrose Gold Mines achieved a net income of R1,2m for the six months to December — only slightly below the R1,5m reported for the full year to June.

This was partly due to a tax rebate of R292 000. But production was up, for the third quarter in a row. Net income for the quarter to December 3 was R889 000 before capital expenditure, compared with R384 000 in September.

Gold production rose to 121kg compared with 105 kg in the previous quarter and 92 kg before that.

The directors said that in view of capital expenditure planned for the next 12 months the interim dividend would be unchanged at 4c a share.

This, they said, made Primrose "the only small gold mining company which has managed to maintain its dividend throughout the traumatic events which have surrounded the small mining sector over the past two years."

Minet sells out to Syfrets

58

B/Day 27/1/89

ROBERT GENTLE
AND TANIA LEVY

BRITISH insurance broker Minet Holdings Plc has succumbed to pressure from its new US parent and will disinvest its controlling interest in Minet Holdings SA.

The UK insurer said yesterday it had agreed in principle to sell 35% of its controlling interest to Syfret's Trust Ltd for an undisclosed sum. The balance of its equity will be acquired by senior executives of Minet Holdings SA.

Syfrets will increase its interest to 75% control by acquiring the 40% equity in Minsa previously held by Nedbank.

Minet Holdings Plc has found itself under political pressure since it was brought into the stable of Minneapolis-based international insurance broker St Paul Inc.

In a £275m cross-Atlantic deal early last year, St Paul acquired the remaining 75% of Minet Holdings Plc it did not already own.

Syfrets MD Brian Robinson yesterday declined to disclose the amounts involved, saying the agreement had only been reached in principle.

He expected the acquisition to be finalised within the next 10 days.

Agreements with Minet Plc will ensure continued access to international markets and expertise and stipulate the company will continue the links its staff has developed with Lloyd's and other London insurance brokers.

Weekend Argus SPECIAL REPORT

W/Argus 28/1/89

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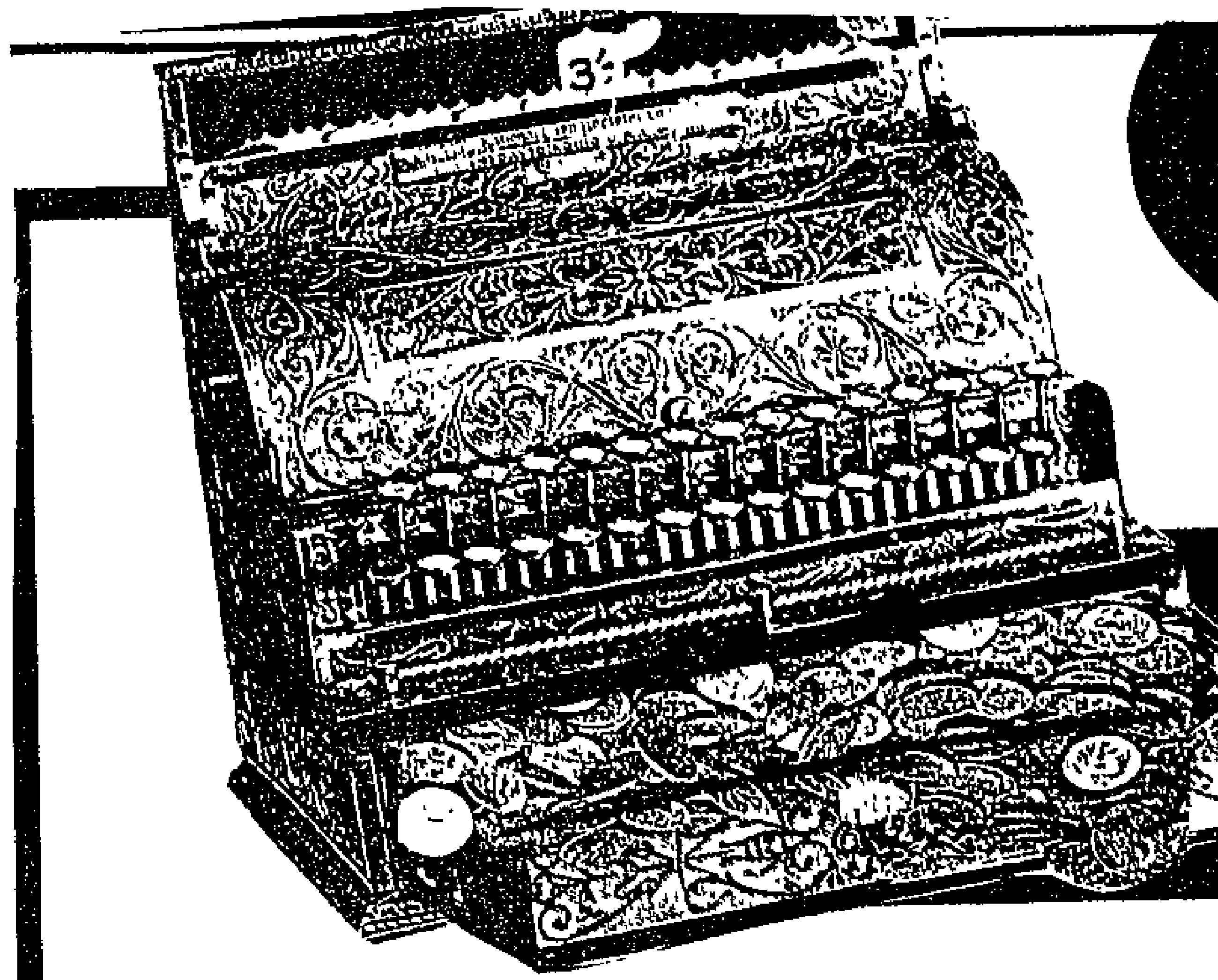

THE VANISHING RAND

South Africa has been rocked by a wave of scandals involving fraud, corruption, abuse of power and mismanagement in high places. In the wake of investigations by two important commissions — the Harms Commission and the James Commission — heads have rolled, politicians have resigned and the government is reported to be considering new legislation to deal more efficiently with corruption and irregularities. Political writer FRANS ESTERHUYSE looks at the problem and its implications

THE spectre of multi-million rand fraud scandals, corruption and mismanagement in high places threatens to become one of the biggest crises facing the government since President Botha took over the leadership over a decade ago.

Disclosures about foreign exchange contraventions on a huge scale, this week's resignation of Manpower Minister Mr Piet du Plessis and National Party MP for East London Mr Peet de Pontes and the impending resignation of the Nationalist MP for Hillbrow, Mr Leon de Beer, are but the latest of a series of events that have cast a shadow over the Nationalist administration.

Ironically, the crisis has come when time appears to be running out for President Botha to fulfil his promise of "clean administration" which he made when he first took over the reins.

A colossal task awaits either him — if his health allows it — or his successor, to clean up the financial and administrative mess revealed so far in a series of investigations by official commissions and the police.

SOME say the wave of corruption and other scandals hitting the country may only be the "tip of the iceberg".

This week's resignation by the two NP politicians and an announcement by Mr de Beer that he is to resign on February 3, have served only to compound the ruling party's problems.

Minister Du Plessis's resignation followed recent allegations — flatly denied by him — that he had misused his position to the benefit of the Du Plessis group of companies belonging to him and his son Johan. An investigation into various facets of the companies is being made by the Advocate-General, Mr Justice P J van der Walt.

In the case of Mr de Pontes, who resigned from Parliament this week and was expelled from the National Party, the Harms Commission recommended that the Cape Attorney-General investigate wide-ranging allegations of corruption with a view to instituting criminal proceedings.

Mr Justice Louis Harms found that a *prima facie* case existed — that Mr De Pontes, Mr Vita Palazzolo, a convicted drug smuggler, and other South African and Ciskeian citizens had probably been involved in corruption, fraud and perjury.

The judge, in his first report to President Botha, described events in the De Pontes-Palazzolo affair as "an unbelievable tale of international intrigue, associations between South Africans and the Ciskei government, alleged abuse of power, alleged abuse of influence and alleged 'common' crimes."

Mr De Beer has appealed after he was sentenced to imprisonment last year for electoral fraud and contraventions of the Electoral Act.

IN another development, the shock disclosure was made this week that foreign exchange contraventions totalling R554-million are being investigated by commercial branch detectives. The amount could increase when the findings, in cases now under investigation by a special Reserve Bank team, are handed to the police for action.

Reserve Bank deputy governor Mr Jan Lombard said the bank was investigating foreign exchange fraud cases "totalling hundreds of millions of rands." He would not say exactly how many cases but said they ran into "double-digit figures, but not more than 50."

A special internal investigation team was established in December under Mr Lombard's direction to investigate the incidence of fraud and other problems relating to the use of the financial rand.

The probe comes in the wake of disclosures by the Harms Commission that Pretoria attorney Mr Albert Vermaas allegedly fraudulently moved at least R100-million in foreign exchange last year.

The country was also shocked by disclosures to the Harms Commission about the Transkei corruption scandal involving a R2-million payoff by casino tycoon Mr Sol Kerzner and former Cape Town mayor Mr David Bloomberg to disgraced and ailing former Transkeian Prime Minister Chief George Matanzima.

MEANWHILE, Transkei's strongman military ruler, General Bantu Holomisa, has sounded a clear warning to South Africa to amend laws which allow South Africans to encourage corruption in neighbouring states.

In the Vermaas affair, the Harms Commission heard evidence that about R146-million, deposited by a number of organisations in institutions set up by the Pretoria attorney, was missing.

The deposits were from about 600 businesses, State corporations, trade unions and welfare organisations, including the Public Servants Association (PSA) and the National Union of Mineworkers (NUM).

Other investors included the Suid-Afrikaanse Vrouefederasie, Sentra-Oes, SOS Children's Village, Iscor and Noordelike Groep-opleiding.

They had been invited to put their cash into Ciskei-based companies Eurobank, Eurotrust and Verco, closely linked to Mr Vermaas, at interest rates ranging from 20 to 60 percent.

The investors' dream of finding a pot at the end of the rainbow has turned into a nightmare under the spotlight of the Harms Commission.

A strange aspect of the Vermaas affair was that, according to evidence, the SA Reserve Bank approved 10 commercial rand transactions by Mr Vermaas for more than R100-million in 18 months — and never once verified the authenticity of the invoices.

OTHER recent scandals involving people in both the public and private sectors include:

■ In December Mr Karel Daniel Oosthuizen, an accountant accused of defrauding the Iscor Medical Aid Fund of R4,5-million died in Pretoria Central Prison in what appeared to be suicide. He and his girlfriend were arrested while sipping champagne on the verandah of their room at the Sabie River Hotel.

■ Last October a senior government official of the Department of National Health and Population Development was suspended as police probed allegations that almost R200 000 had been siphoned from an emergency food fund for flood victims. Police were investigating 10 charges of fraud.

■ In September it was reported that a large-scale South African currency fraud involving the channelling of R67-million in illegal funds abroad was uncovered by the Reserve Bank's exchange control division.

The swindle was one of four forex frauds th were under investigation by the police commercial branch in Johannesburg at the time. In total, over R130-million was involved.

The disclosures followed closely on a similar R60-million foreign exchange scam involving former Trust Bank junior executive Mr Simon Samuels, who skipped the country last July. In that instance, R11-million left the country illegally.

Mr Samuels was alleged to have imported financial rands and repatriated them as commercial rands, worth 30 percent more.

■ In 1987 former Sanlam chief Dr Andreas Wassenaar rocked the establishment with disclosures about the multi-billion-rand debacle of the buy-back state pension fund scheme.

He warned in his book, *En Route to Fairyland*, that the fund was heading for a financial disaster that would cost taxpayers R30-billion over the next 20 years because of over-generous pension benefits to public servants.

Government spokesmen rejected the criticism, but Dr Wassenaar stuck to his guns, rejecting government assurances that the scheme was sound.

■ Foreign exchange losses totalling R3 200-million were suffered by the South African Transport Services (SATS) between 1982 and 1987, according to the findings of the government-appointed Cross Commission. The commission criticised Sats for inadequate control over its forex dealings.

The commission's findings resulted in a demand from the Progressive Federal Party last November for the immediate resignation of the three Sats commissioners responsible for monitoring forex transactions.

PFP transport spokesman Mr John Malcomess described the commission's report as "a well-deserved total indictment of Sats's top management and its commissioners".

"This is a clear example of what happens when politicians are put on the board of an organisation so integrated into business as Sats is," he sai All three Sats commissioners were political appointments, being former National Party MPs.

■ The giant electricity corporation Escom has been rocked by multi-million-rand fraud scandals.

In one case four cheques totalling nearly R22-million were stolen from the corporation's headquarters in Johannesburg. When the theft was discovered in 1987 police said it was not linked to an earlier Escom stocks fraud which could involve tens of millions of rands.

■ Medical-aid schemes are losing about R20-million a year through fraud and abuse of the claims system, according to Mr Jeff Slome, managing director of Medicaid, a member of the Price-Forbes Federale Volkskas Group.

■ A police team has been investigating an organisation called the Boere-Mafia following a giant fraud operation which may result in losses totalling about R40-million.

The "Mafia", alleged to involve well-dressed blacks and whites, uses stolen identification to open cheque accounts, according to a police spokesman.

Worthless cheques are alleged to have been deposited into the accounts and withdrawals were made in other centres before the cheques were cleared.

■ Meanwhile South African businesses are reported to be losing nearly R300-million annually to computer fraud. The crimes are allegedly committed by computer bandits who have established elaborate international links. According to one report, computer fraud has already replaced fire as the insurance industry's biggest risk.

■ Insurance companies also face a serious fraud problem. An insurance law expert, Mr Nicholas Mander, says fraud generated by employees of insurance companies is now bordering on organised crime and he predicts that the position is going to get worse.

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In Quest of avoiding another AA Mutual

FOCUS ON INSURER SAFETY

By Julie Walker

SOUTH Africa's short-term insurers can opt to be security rated by a method introduced by the Quest Consulting Group.

Quest was established in 1985 by Denzil Curgenven, who worked at the top of the short-term insurance industry in England and SA before setting up the consultancy. His son Carne outlines the rationale behind the decision to introduce security ratings.

"I believe that SA's short-term insurance industry is among the best in the world, and that it can become the best. The idea behind the ratings is to encourage the companies to improve their services."

Each company may commission Quest to assess its security rating, but the result will be kept confidential unless the client wishes to make it known. The ratings are on a scale of seven — from triple A to a C.

It could be argued that only those companies achieving a high rating would be keen to publicise the finding. As shown by the demise of AA Mutual Life in 1986 size does not necessarily mean security

[redacted]

The decision by Quest not to make public the ratings is to protect the small market in SA.

Carne Curgenven says: "There is nothing wrong at all with a triple B rating, which denotes adequate capacity to meet obligations. But we want companies to improve to the benefit of all."

He says it would not be good if small companies lost business on the false assumption by brokers that they could not meet their obligations.

"We do not want to see a concentration of power between a few larger groups, possibly the foreign-controlled ones. They could start charging what they liked then."

In addition, even large concerns need to have adequate reserves to meet an influx of business from companies which stop operating.

"Growth in net premium income (NPI) of more than 30% a year is regarded as taboo in Europe."

AA Mutual's NPI grew from R76-million in 1982 to more than R370-million by 1986, but the free reserves — or shareholders' funds — barely reached R40-million from a low base. A retrospective application of the security ratings criteria would have awarded the AA Mutual a B in 1985. A B denotes: stable, but undue fluctuations will adversely affect the stability of the company.

[redacted]

The 50% growth in NPI in its last year of operation was such a fluctuation.

Quest has established a working relationship with the Insurance Solvency International (ISI) in London. Quest has studied the methods used by ISI in the security rating of companies and has followed a similar line for SA companies.

Six criteria will be quantified to contribute to the rating. These are broadly management, earnings, assets and reinsurance, which carry a 15% weighting, and reserves and solvency, which are worth 20% each.

The quality of a company's service cannot be quantified, but Quest makes a thorough investigation of intangibles, such as satisfaction of staff with the computer system, to get a better feel for the company.

The rating essentially reflects a company's ability to meet its financial obligations over 12 months and the stability of its portfolio management.

A triple A company has the highest financial security and undoubted capacity to meet obligations. Management and the business portfolio are of a high calibre. A C means uncertainty about the insurer's ability to meet financial obligations.

[redacted]

However, the best-laid plans can come adrift. In America, 25 triple A companies went out of business in a single year.

Mr Curgenven, snr, does not believe SA's short-term insurers can afford to hold or reduce premiums this year — as has been suggested.

"With inflation on motor vehicles running as high as 40% a year it is difficult to see how an insurer heavily exposed to vehicle cover can keep rates down."

Another misconception among insurers is the importance of the solvency margin, which is defined as the capital and free reserves of a company expressed as a percentage of the net premium income.

This is currently 10%, but will probably be raised to 15%.

Mr Curgenven, snr, believes that a more important factor is the company's financial base — the sum of the solvency margin and the technical reserves expressed as a percentage of NPI.

This method is widely used in Europe. It is possible for a company which satisfies the minimum solvency margin still to go under — as happened with AA Mutual.

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S/Times 29/1/89

Time to review Soweto school boycott strategy

Mandla Tyala

on the dilemma facing black parents

AT ONE of several community meetings called last weekend to address the latest disruptions at Soweto schools, a parent rose and spoke.

His message was short: "Go back to school and respect your teachers. Nobody likes this education system. It is an inferior education, which makes slaves of us. This is a struggle for all of us, so let the struggle continue while you are back at school."

While education officials have readily ascribed troubles in the townships to agitators and, lately, to thuggery, this is one public statement which has gone close to pinpointing the underlying problem.

As a victim of Bantu education, I have witnessed a difference of opinion between parents and pupils turn into an ever-widening canyon.

While there is consensus that the fight for compulsory education under a unified education department should continue, there is fierce debate on how pressure should be brought to bear on the Government.

Inferior

The old school, those who are fortunate enough not to have experienced the effects of the Bantu Education Act of 1953, argue that pupil militancy, particularly evident in the last decade, is tantamount to cutting off one's nose to spite one's face.

They agree with the widely held view that black education, as was envisaged by Dr H F Verwoerd, is inferior and is designed to prepare Africans for a perpetual position of subservience.

The Institute for Race Relations said in 1986/87 the Government spent R477 on the education of a black child while it spent R2 508 on the education of a white one. In 1987/88, the Government budgeted nearly R2-billion more for white education than it did for black education.

While white education is talking about a pass rate in the region of 90%, 62 out of every 100 black pupils who wrote matric in Soweto last year did not make it.

Another indicator is that only 0,3% of last year's African matriculation exemption holders (including those in the homelands) obtained a pass in mathematics.

The old guard contends, however, that there is nothing to be gained from endless school boycotts. A generation of illiterate youngsters can hardly make an impact on the broader political struggle.

"Let the struggle continue while you are back at school," as the Soweto meeting was told at the weekend.

Foisted

But the new generation of comrades — emboldened by what they saw as positive advances after the violent protests of June 16 1976 — believe in continued confrontation.

To them, education today means an endless battle with a Government agency, the Department of Education and Training, that is there to enforce "apartheid education".

The younger set believe their parents looked the other way — the resigned "what can we do" — while Afrikaans as a medium of instruction was foisted on them by teachers who were hardly proficient in the language

The anger and everything else which happened in 1976 is well-documented. The young brigade, having forced the end of the use of Afrikaans as a medium, now feel their destiny is in their hands.

More pressure on the Government will result in more grievances being redressed, they believe. Consequently, hardly an academic year has passed without some incident, major or minor, over the last 12 years.

Pupil leaders argue that if there is nothing inferior about black education, as is contended by Government spokesmen, then why continue with separate education. Why keep white classrooms empty while black schools are teeming with pupils?

The question of numbers is a central issue in the current disturbances.

The department, sitting with nearly 3 000 failed matrics in Soweto alone, is refusing to readmit them to their old schools and is now directing them to adult education centres.

An official says numbers are swelling at the bottom while senior pupils have to repeat classes at the top.

Violent opposition to the new system of finishing schools abated this week as various parties pleaded for the readmission of some of the failed pupils, and schools which had been put out of operation started off slowly

After seeing umpteen class boycotts, I, as an affected observer, am now fully behind a review of the strategy

Boycotts in education, applied indiscriminately and without hindsight, are beginning to turn into a self-defeating exercise

Some diehards will readily sacrifice a whole generation's schooling if it means those coming behind them will have normal education.

But I believe there are some benefits to be derived from the present system Some of those who agitate against apartheid from foreign sanctuaries went through the Bantu education system. So did some of those who articulate black aspirations and deprivations to world audiences.

Churned

It is true the system has churned out multitudes of under-educated school-leavers, but it also cannot be denied that there is an army of young black professionals coming out of the same machinery who are making an impact in various disciplines

It galls me to write about apartheid education. There was no laboratory at my school when I was a matric pupil studying science Most educational aids which were taken for granted at white primary schools did not exist at my senior school

But, as painful experience has taught us, there is not much to be gained from staying away from classes for four months and then trying to catch up in the rest of the year.

Predators seen as threat to more entrepreneurial control

Star 30/11/89 **Finance Staff** 58

Entrepreneurial control of the JSE-listed companies rose from 4,1 percent of market capitalisation in 1983 to 6,9 percent in 1988.

Although this is encouraging, Mr Robin McGregor of *Who Owns Whom* suggests the situation could in due course reverse itself because the companies in question are vulnerable to predators.

Entrepreneurial control in South Africa, he says, lags far behind the rest of the world for a number of reasons.

Among these are:

- Excessive state and local authority regulations, which govern the entry of new businesses into the South African economy.
- The barriers to new entry created by monopolies and cartels.
- Practical training for aspirant businessmen is provided mainly by the public sector and the four major groups, which control almost 80 percent of the JSE.

Few employees in these groups have an inclination to venture into the relative insecurity of self-employment.

- The lack of venture capital available to the entrepreneur.

The ninth edition of *Who Owns Whom* has just been published.

It features nearly 1 300 pages of detailed, listed company information.

CONTROLLING BODY	% JSE CONTROL						
	MARCH					DEC	SEP
	1983	1984	1985	1986	1987	1987	1988
Anglo American Group	52,5	54,1	53,6	54,1	60,1	56,1	49,5*
Sanlam	9,4	10,7	12,2	11,3	10,7	9,7	10,8
S. A. Mutual	0,6	2,7	10,6	10,9	8,0	8,9	9,8
Rembrandt Group	2,1	2,8	3,8	4,4	4,3	4,9	7,6
Foreign Controlled	5,4	5,7	5,9	6,1	4,1	4,9	5,1
Controlled by Directors	4,1	5,1	3,0	3,5	3,7	5,9	6,9
Anglovaal	1,7	1,7	2,1	2,1	2,4	2,8	2,2
Liberty Group	1,1	2,1	2,0	2,3	2,0	1,6	2,6
State Controlled	3,2	2,3	2,8	3,2	1,9	1,7	1,6
Ventron Group	-	-	-	1,1	1,0	1,2	1,1
Total	80,1	87,2	96,0	98,8	98,2	97,7	97,2
Unallocated	19,9	12,8	4,0	1,2	1,8	2,3	2,8
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

JSE control based on market capitalisation

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No quick decline seen in interest rates

By Sven Forssman

Star 20/11/89

While interest rates could still rise, a much higher level appears to be ruled out by political considerations, First National Bank says in its latest economic review.

But, the review says, the ruling level of interest rates may remain in place for longer than expected.

"This is further reinforced by the likely level of real interest rates that is likely to prevail this year and that remains one of the key determinants of credit demand.

"Even if the official CPI inflation rate were only to moderately increase from its recent 12,5 percent level, inflationary expectations generally are at a much higher level and give little indication of coming down much.

"Against this background, a prime overdraft rate of 18 percent may remain too low to ensure an adequate slowing down of credit demand growth, and for this reason we may find that the existing level of interest rates may be maintained for much of this year."

On the export side, the review says there are a few structural benefits coming.

It says base metals are doing well in dollar terms due to the ongoing growth in the major industrial countries.

Obtaining good financial information: different sources for different courses

Star 20/1/89

(58)

By Ann Crotty

Speculation that one of TML's top executives is currently in the UK looking at the technology behind electronic financial information systems such as Extel suggests that yet another player may be entering this market in SA.

In the UK, the provision of on-line financial information has proved to be a profitable venture for the many suppliers to that market.

By contrast, the business community in SA has not appeared to be quite so receptive to the provision of this service.

On the local scene a number of players, including the JSE, Computer Sciences and the University of Pretoria, have over the years established just such a service, but all were met with an unenthusiastic response.

Stockbrokers Ivor Jones currently provide clients with a sophisticated on-line system incorporating analysis and forecasts.

The McGregora of *Who Owns Whom* fame provide an on-line information service. At present they have over 50 subscribers who pay R5 800 for the service.

One explanation for the lack of interest on the local front is the relatively small number of shares on the JSE that are actively traded, a factor which makes the service seem that much more expensive.

In addition, the SA share market is dominated by a small number of very large players who have their own massive research facilities.

At the other end of the scale, the smaller investor may find the cost of the service too heavy for his budget.

For the smaller investor, more appropriate sources of information include *Who Owns Whom* and *Facts Investors Guide*.

Facts Investors Guide competes directly with the *Stock Exchange Handbook* (SEH). The latter is given free to clients by stockbrokers, whereas the other costs R10,50.

To the casual reader there may appear to be little difference between the two, but the more frequent user will see that *FIG* provides a more comprehensive base of information, which allows the investor to check through all of a company's vital signs, including the number of shares traded (am I locking myself into an over-priced share?); a share price chart; the name of the major shareholder (can I trust him?); the nature of the company's business and a grading system

The *SEH* provides more information on a company's balance sheet and income statement *FIG* only states some of the key figures.

Perhaps the most significant difference is that *FIG* is issued four times a year, while *SEH* comes out twice.

In a fast-moving world of new listings, takeovers and mergers, figures change quickly and it is essential to have the most up-to-date information available.

Time is well spent going through *FIG*. In the book's early pages there are definitions of important formulae, which are always cropping up as buzz words in the investment community.

And, as with the *SEH*, there is a useful index to delight those who've wasted valuable time chasing around trying to discover what companies are actually behind such abbreviations as Agser, BSI, CFC, and Safmed.

Who Owns Whom has just released its ninth edition. The book, which costs R157, is updated once a year.

Apart from a break-down of shareholders, it provides useful financial information about each of the listed companies, which includes a very useful list of subsidiaries and associated companies.

Unfortunately, it is only updated once a year. But the book's primary attraction is its list of shareholders.

A crucial factor in the valuation of a company is its shareholders. Knowing who is behind a company can make it a more (or less) attractive investment. It can also provide pointers as to who may be involved in any deals that are on the go.

From the aggregrated list of shareholders on the JSE, the *WOW* team has established that, on a market capitalisation basis, the Anglo American group controlled 49,5 percent of the JSE at end-September 1988. Sanlam was a distant second with 10,8 percent.

WOW shows that directors have become a slightly more important controlling body. This reflects the growth of the DCM, which has allowed the smaller director-owned company to come to the market.

FINANCE

Complex exchange plan

B|Day 30/1/89

(58)

LESLEY LAMBERT

SA'S financial markets are negotiating plans for an integrated electronic exchange that promises to facilitate future growth, liquidity and efficiency of the markets, and to cut through the costly development stages other major international markets waded through to implement changes.

During the next few months the bond and futures markets are expected to decide whether to go ahead with the Universal Exchange's (Unex) proposal for the new development.

The proposal — a weighty 7,5kg document put together by Standard Merchant Bank staff — aims to develop an exchange that will phase in the various non-equity markets and provide a computer-driven trading system with a fast and efficient flow of market information and centralised settlement.

Reduce risk

In addition, it promises to be resilient enough to cope with a 500-fold increase in combined volumes and to enable the markets to plug into international trade networks if, in time, the opportunities arise.

There is little doubt, given the estimated volume growth in the bond and futures markets, that more sophisticated trading systems and more reliable clearing measures are needed to cope with the growth and to reduce risk.

To succeed, the project needs the backing of potential participants. There will have to be negotiation with competitors as well as market users who have already contributed to the cost of a physical exchange and resist the idea of a new electronic exchange.

Unex has invited the fledgling SA Futures Exchange (Safex), the Bond Market Association (BMA), Safcom and Sash (the two companies that will provide exchange facilities to the futures and bond markets respectively), the JSE and the Life Offices Association (LOA), to comment on the proposal and recommend any changes they feel may be necessary.

While most have approved the proposal in principle, the more political issues of profit-making and independent ownership have been major causes of concern, especially for Safcom, which will be merged with Unexcor, a public company to be established if the Unex project is approved in its current form.

In an attempt to dispel some of these fears, Unex has proposed that during the first five years of Unexcor's existence it will limit its membership to market participants and plough all profits back into the exchange, said project manager Burgert Oosthuizen. After five years, it will decide whether or not to open up its membership and pay dividends.

In the meantime, Unex has set up a joint task team with representatives from the major participants to revise the proposal according to recommended changes.

Inevitably, though, final decisions on the project have been delayed by a more modest counter-proposal by Safcom officials for a central clearing house to serve the needs of the separate financial markets.

Safex, the Rand Merchant Bank initiative that has been operating an over-the-counter futures market since early 1987 and that hopes to begin official trade in June this year, has had to go ahead with its own plans, in spite of Unex's proposed incorporation of the exchange. Growing volumes have forced it to hasten the development of a sophisticated trading structure, said Safcom MD Stuart Rees.

Unex interprets this as a necessary interim development to facilitate trade in futures until Unex is ready to incorporate the fast-growing derivative market into its system. Safcom, however, proposes that it be given a mandate by the other markets to use Unex's blueprint to extend the clearing facilities it is developing to the other markets once futures are up and running. It claims its system will be less complex and less costly than Unex

Whatever their final decision, most participants, including Unex and Safcom, agree the primary concern is to thrash out the solution for a common system that will serve their needs in the most efficient and effective way and to do it now, before the individual markets are forced to develop their own exchange facilities separately.

If they succeed, they will have leapfrogged the development stages that have incurred prohibitive long-term costs for major international markets, and achieved from the outset what many of these markets are battling to implement now.

Research

After years of fragmentation and separate development in the UK markets, the International Stock Exchange (ISE) in London is now rationalising the internal functions of its equity, gilts and options markets and trying to establish co-operative links with external markets that have similar trading or clearing requirements, like the successful London International Financial Futures Exchange (Liffe).

The ISE has spent a lot of time and money researching the best ways of integrating the markets to reduce long-term costs and build up a strong compensating force against international competitors

But, because markets like Liffe have developed as separate entities with separate management and systems, vested interests have placed a severe restraint on attempts at rationalisation.

Unex has based much of its proposal on the ISE's findings Ironically, it will probably be easier to implement them in SA than in London because interests have generally not yet been entrenched by investment in computer systems or strong independent principles

This is why it is so important that Safex and Unex, with the assistance of market participants, sort out their differences, even if it means a compromise.

Drooping gold saps bullishness

B|Day 30|11|87

IN THE MONEY MARKETS

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Harold Fridjhon

THE drooping gold price might sap some of the bullish sentiment which was seeping into the money market last week.

While rates at the very short end are unlikely to change as long as they are under-pinned by the Reserve Bank's carefully monitored support, investors who have been looking for six-month, nine-month and 12-month paper might raise their sights and demand higer returns for their outlays because of the damage that a low gold price could do to the economy.

Adjusting the rand to accommodate a lower dollar price for the metal would be an unfavourable devaluation, raising the cost of essential imports, giving an upward thrust to inflation ultimately impacting on interest rates.

Until Friday morning many people on the market were confident rates would remain comfortably on an even keel, some even predicting no change well into the third quarter.

Overhang

There were slender, but real, grounds for this belief. The December trade figures boded well for a growing surplus on the current account and a slowing down in credit demand is reported from some banks. And the central bank's accommodating stance has contributed to a changing sentiment verging on the bullish.

The overhang of a possible R4,5bn market shortage has not caused undue concern or strain. Indeed, the market is relaxed. It has sufficient surplus liquid assets for discounting at the Reserve Bank's re-discount window and enough prescribed assets for the over-night repurchase (repros) facility.

On Saturday morning the total market shortage had eased slightly from Thursday's R3,973bn to R3.522bn with the window debt reducing to R2,522bn and an unchanged R1bn being advanced on repros.

The easing of the window shortage is no indication of what the shortage might be by close of business tomorrow. Today and tomorrow are crunch days as the forex adjustments come into account and the notes issue will reach its peak. During the week notes in circulation increased by R616m to R6,99bn and will probably rise by a further R200m tomorrow.

The feature last week was the Reserve Bank's fine tuning. On Monday R600m was offered in repros, attracting tenders of only R855m at an average rate of 15,86%. On Tuesday the tender was for R900m with R953m bid at an average rate of 15.88%, Wednesday R900m was offered and R1,276bn bid with the rate rising to 15,90%, and on Thursday when R1bn was offered for over the weekend, bids totalled R1,576bn at a rate of 16,03%.

These figures reveal the tightening squeeze on the banks and their willingness to pay an increasing price for central bank assistance. And at 16,03% this help is coming cheaper than the 16,25%-16,5% being paid on Big Money overnight call. Because the banks have been given access to the repros the overnight call is unlikely to reach the December peak of 17,5%. The banks are apparently standing together to resist the leverage being exerted by the cash-heavy institutions. This is keeping call rates down — provided that they can be assured of Reserve Bank muscle.

The market is questioning whether its Big Brother in Pretoria will be there when they want him at the end of February and during March when tax payments drain cash from the market. Some bankers believe this outflow might not be as fierce as in the past because of the expected tidal wave of government spending during the next few months.

If indeed the Treasury does disgorge its hoard the strain on the banking sector could be lessened, if not entirely relieved. But surely authorities working with banks can devise a mechanism to control abnormal flows?

A banker suggests that Receivers of Revenue in the main tax-paying centres should open accounts at commercial banks in which they would deposit tax cheques and pay the proceeds to the Exchequer in a regulated flow as the money is needed. This would prevent the shock denudation of banks' deposits.

Dropped

On Friday the Treasury bill (TB) rate dropped sharply to 15,08% from 15,16% in a small tender of R20m, five times oversubscribed. The rate for 90-day liquid bankers acceptances (BAs) also eased, to 15,35% from 15,40%. This does not hint of an overall softening of the interest rates pattern. These rates have come down because banks and building societies are bidding for liquid assets, the banks because August's rolled-over Land Bank bills no longer rank as liquid assets.

One year certificate of deposit (CDs) are trading at 16,7% but there are no issuers. The bulding societies are offering six months CDs at 16,65% signalling that they believe that interest rates would ease by the fourth quarter. That is before the gold price dropped.

Harms report sent to PW

B|Day 31|1|89

58

CHRIS CAIRNCROSS

CAPE TOWN — The Harms Commission has completed and submitted its second report dealing with corruption to President P W Botha.

The 38-page report focuses on the circumstances surrounding the R2m paid to former Transkeian Prime Minister George Matanzima by Sun International (SI) chief Sol Kerner in exchange for exclusive gambling rights in the territory.

Publication of the report could trigger off a series of events in a saga which has been on the boil for more than two years.

Transkeian Attorney-General Christo Nel has indicated that he is now waiting only for a copy of the report to decide whether to bring charges against Kerzner and Cape Town attorney David Bloomberg.

If charges are preferred against the two, it could also set in motion extradition proceedings, should they refuse to return voluntarily to Transkei to contest the legal action against them.

A precedent in this regard was established last year when Matanzima, in hiding in SA, was forced to return to Transkei to face corruption charges.

Now also under threat are the gambling rights which SI still maintains belong exclusively to the group in Transkei

Transkei military council leader Gen Bantu Holomisa has made clear he intends contesting this exclusivity claim.

It is understood this matter has been held over pending the receipt of the Harms report.

Others apparently eagerly waiting for this issue to be resolved are several major developers, some based in Cape Town, who have applied for gambling rights in Transkei.

Reserve Bank pays for gold in dollars

58

Cape Times 3/1/89

By GRETA STEYN

JOHANNESBURG. — The Reserve Bank took a step towards freeing SA's foreign exchange markets yesterday by paying the mining houses in dollars for their gold instead of rands.

The mining houses, instead of the Reserve Bank, will from now on sell the dollar proceeds from gold sales into the foreign exchange market. The central bank has effectively reduced its influence over the market by no longer controlling the supply of dollars.

Reserve Bank Governor Gerhard de Kock yesterday described the move as a return to normality.

"In the crisis days of 1985 we went back to the old arrangement of the Reserve Bank feeding dollars into the market.

"But we have now resumed the development of efficient spot and forward foreign exchange markets outside the Reserve Bank."

He said the move was a step towards developing proper markets as it ensured a better balance between supply and demand.

Senior bankers said speculation among foreign exchange dealers that the market would be awash with dollars this week had been without foundation.

The move had had no effect on the rand/dollar exchange rate, because the central bank had been feeding the dollars into the market evenly.

De Kock said the Reserve Bank's planned withdrawal from the forward exchange market was a longer term objective.

"If we move too fast, we run the risk of sharply higher interest rates and extreme downward pressure on the exchange rate. Nevertheless, we have already held discussions with the banks on balancing their forward purchases with their forward sales."

The Bank's losses on forward cover had declined in recent months after severe losses in the second quarter of 1988, De Kock said.

● Reuter reports **SA gold output** was down slightly at 52 214kg (1 678 730 oz) in December 1988 from November's 52 510kg (1 688 220 oz), but was well up from December 1987's 49 956kg (1 606 118 oz), Chamber of Mines official figures show.

This brought total production for 1988 to 619 043kg (19 902 702 oz) versus 604 948kg (19 449 533 oz) in 1987.

Profitable Metpol set for stardom?

CAPE TIMES 31/1/89

58

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based Metropolitan Life (Metpol) — which lifted premium income by 31,1% to R342m in the year to September and investment income by 25,3% to R165m — is not yet a giant but it will become one, chairman Marinus Daling told shareholders at the annual meeting yesterday.

"I am confident that this company will be one of the stars of the industry over the next five or 10 years," he said, after pointing out that "the investment performance of Metropolitan Life has been one of the best in the industry."

Discussing the need for increased savings, Daling said it was the consumer's perception of the inflation rate, rather than the published figures, which encouraged buying instead of saving.

He was replying to questions and comments by the Chairman of the Shareholders Association of SA, Issy Goldberg, who said a panel of Western Cape housewives reporting regularly to his association on price rises had shown that the real rate of inflation was 25%.

Goldberg called on Metpol's actuaries to be "innovative" in devising a policy which would provide a guaranteed purchasing power when it matured.

Stressing the importance of fair treatment for the unsophisticated section of the population making up the company's main target market, he said any suggestion that such people were being exploited by an insurance company would undermine any advances in political reform.

He said it was essential that insurance documents should be simpler and free from jargon and that there should be safeguards to prevent uneducated people from being sold unsuitable policies by agents anxious to earn a profit.

Daling said it was impossible to guarantee the purchasing power of a mature policy without being able to control the rate of inflation.

But he agreed with Goldberg that the fact that insurance companies were forced to invest in prescribed assets, when the money could earn higher returns elsewhere, was in fact an extra form of taxation.

Mission's lease unpaid for 2 months

58

Star 3/11/89

MIDDELBURG — The historic Botshabelo mission complex and a church group have been caught up in the wash of the Harms Commission of Inquiry into cross-border irregularities.

Since the inquiry began, the lease has not been paid for the Botshabelo site by the Ariel Corporation, whose director is Pretoria advocate and former Eurobank chief executive Dr Eugene Berg.

Ciskei-registered Eurobank was allegedly involved in an illegal deposit-taking operation in South Africa.

The Ariel Corporation has been allowing a church group to use the site free of charge since the middle of last year.

Middelburg town secretary Mr Hennie du Plessis said Ariel was two months in arrears and owed R6 500.

Mr du Plessis said that Dr Berg last week said the payment would be made. Dr Berg has been leasing the site for Youth with a Mission, which does mission work in kwaNdebele.

First National boosts Chapman to top post

Cpt Times 31/1/89 58

THE appointment of Neal Chapman, chairman and CE of the Southern Life Association, as joint vice-chairman of the First National Bank is the latest step in a career that began with the bank — as a clerk in the Pretoria branch.

He became its youngest-ever GM at the age of 39, in the Western Cape, in 1973 before joining the Board of Executors as MD in 1976.

Chapman, who took over from Zac de Beer as chairman of Southern last August while retaining the office of CE, said yesterday that his new appointment would not add greatly to his work burden. He already spends half of every week in Johannesburg, and has been on the First National board since 1982.


Neal Chapman

"Southern and First National have a cross-holding," he pointed out.

He has resigned from the Western Cape board, of which he has been chairman since 1983. Attorney Louis van Zyl will succeed him as chairman of the board.

"Chapman will be missed on the Western Cape board," a spokesman said yesterday. "He has had a big influence on the bank in this area — his knowledge and advice have been invaluable."

Chapman also serves on the main board of the Anglo American Corporation. He is on the boards of the Palabora Mining Company and the Cape of Good Hope Savings Bank.

He is a trustee of the SA Foundation and of the University of Cape Town Foundation and is chairman of the development committee of the University of the Western Cape.

Is it worth taking a credit risk on our youth?

B/Day 31/1/89

58

CHARLOTTE MATHEWS

YOUNG people are being increasingly wooed by advertisers — but credit managers generally regard them as a poor risk.

The experience of a local bank and a retailer, however, suggests this 18-24 age group may, in fact, be a good credit risk.

A recent British study revealed that one in five young people with credit cards ended up with bad debts.

First National Bank's deputy GM: credit and electronic services Jonathan Wildman said FNB had offered credit cards to some university students and had experienced no major problems.

He said, however, FNB preferred to offer cards to "those with a proven willingness to pay".

Sales House credit director Alan Pokroy said they had recently tested offering final-year university students credit facilities with the aim of making them long-term customers.

"Surprisingly, the results suggest they are definitely a worthwhile risk," he said

But Kreditinform MD Ivor Jones said this group was regarded with caution because they had no track record on which to base a credit decision. "They have no employment record, no past purchases, no other stability factors — and they are also highly mobile."

FINANCE - GENERAL

1988

OCT - DEC

Resounding victory for Donald Gordon

Star 1/10/88

58

NEIL BEHRMANN

LONDON — Liberty Life's Donald Gordon won a resounding victory over Sun Life Assurance's board.

In a vote which even surprised Mr Gordon, 35 percent of dissident shareholders disapproved of Sun Life's proposed alliance with France's huge state owned insurance company UAP.

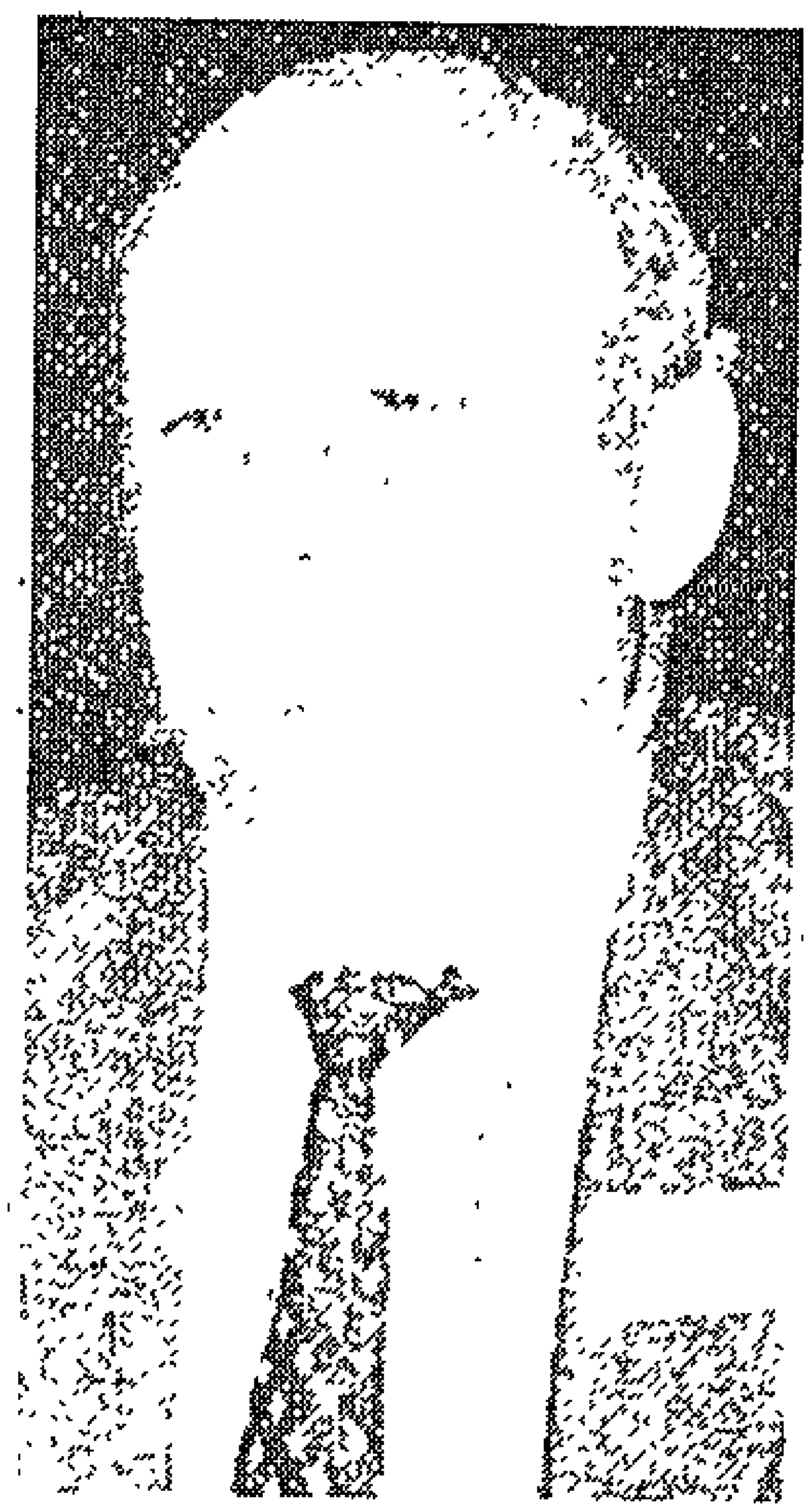
Sun Life's board headed by Mr Gordon's bitter opponent, Peter Grant received only 28 percent of the votes.

Clearly disappointed Mr Grant announced his humiliating defeat and soon afterwards, he was hoist by his own petard when UAP launched a dawn raid.

It surprised him by suddenly buying 7 percent of Sun Life's shares at 1225 pence, about 25 percent higher than Thursday's price.

Cap in hand, Mr Grant promised that he would hold discussions with Sun Life's key stakeholder, Donald Gordon.

Liberty Life owns 49 percent of a UK company TransAtlantic which in turn owns 26 percent of the shares in Sun Life.



DONALD GORDON — Overcame anti-South African prejudice.

Ostensibly the proposed deal of Mr Grant was to take Sun Life into Europe's huge market which will become more open after 1992.

Instead the deal was really aimed at blocking TransAtlantic, Sun Life's major shareholder from having any say in the company.

Mr Gordon said that the deal was structured to subvert shareholder democracy at Sun Life. UAP had agreed to to vote in favour of the Sun Life Board, so Mr Grant effectively would have had dictatorial powers.

Moreover independent City of London analysts agreed with Mr Gordon's view that the alliance made bad financial sense.

Firstly Sun Life would have paid far to much for a non-controlling stake in a nationalised French insurance company.

Secondly, the planned joint venture could have taken more than a decade to produce a return on Sun Life's investment in UAP.

The victory of Mr Gordon is all the more impressive considering that he had to overcome a virulent campaign by Mr Grant.

In statements to the Sunday press, Mr Grant avoided the financial disadvantages of the deal with UAP and kept saying that Mr Gordon's South African background would be disadvantageous to the company.

Now that he has been defeated the survival of Mr Grant and his board is in question.

With UAP holding 7 percent of Sun Life shares and a major Belgian insurance company Groupe AG owning 6,25 percent, Trans Atlantic holds the balance of power.

Mr Gordon will demand that TransAtlantic be allowed to appoint directors to Sun Life's board. No longer can the main shareholder of Sun Life be isolated from Sun Life plans and decisions.

Last year in a bitter battle, Mr Grant and his co-directors blocked TransAtlantic's attempt to appoint representatives to Sun Life's board.

Overcoming the anti-South African prejudice, Mr Gordon has clearly made an impression on the London financial community. He has been a director of the Guardian Royal Exchange, a massive insurance company for 16 years and leading institutions and analysts admit that he is far more knowledgeable about insurance than Mr Grant.

PERSONAL FINANCE

Go-ahead for Islamic Bank

But forget about any Khoranic tax advantages on your dividends

Star 1/10/88

58

DEREK TOMMEY

FOR the heavily-taxed it is an intriguing and happy thought that the new Islamic Bank, in accordance with Khoranic law, will not pay interest on deposits but only dividends out of profits.

Intriguing, because in the eyes of the Receiver of Revenue interest payments are fully taxable, but only two-thirds of dividend payments are.

But the bank's managing director Mr Ebrahim Kharsany (43) has dashed thoughts that depositors will get tax advantages by doing business with him.

Whatever name the bank gave to these payments, the Receiver of Revenue would still treat them as interest payments and tax them in full, he said.

This raised the question of what can a depositor expect when dividends are paid instead of interest?

In the five years since the bank's fore-runner, the Islamic Corporation, started taking money from the public it had been able to pay between 12 percent and 14 percent a year on this money, said Mr Kharsany.

This was not particularly good, given the high rate of inflation, he added, but it was adequate.

Mr Kharsany was a happy man this week. For after making 11 applications in six years for a banking licence, he was told by the Reserve Bank on Thursday week that he could now change the name of his Islamic Corporation to the Islamic Bank Limited.

He said it was the only Islamic bank in the world that was not financed by Middle East oil money. It was also the only Islamic bank in the Southern Hemisphere.

To mark its establishment, the bank is building a R5 million head office complex in Fordsburg

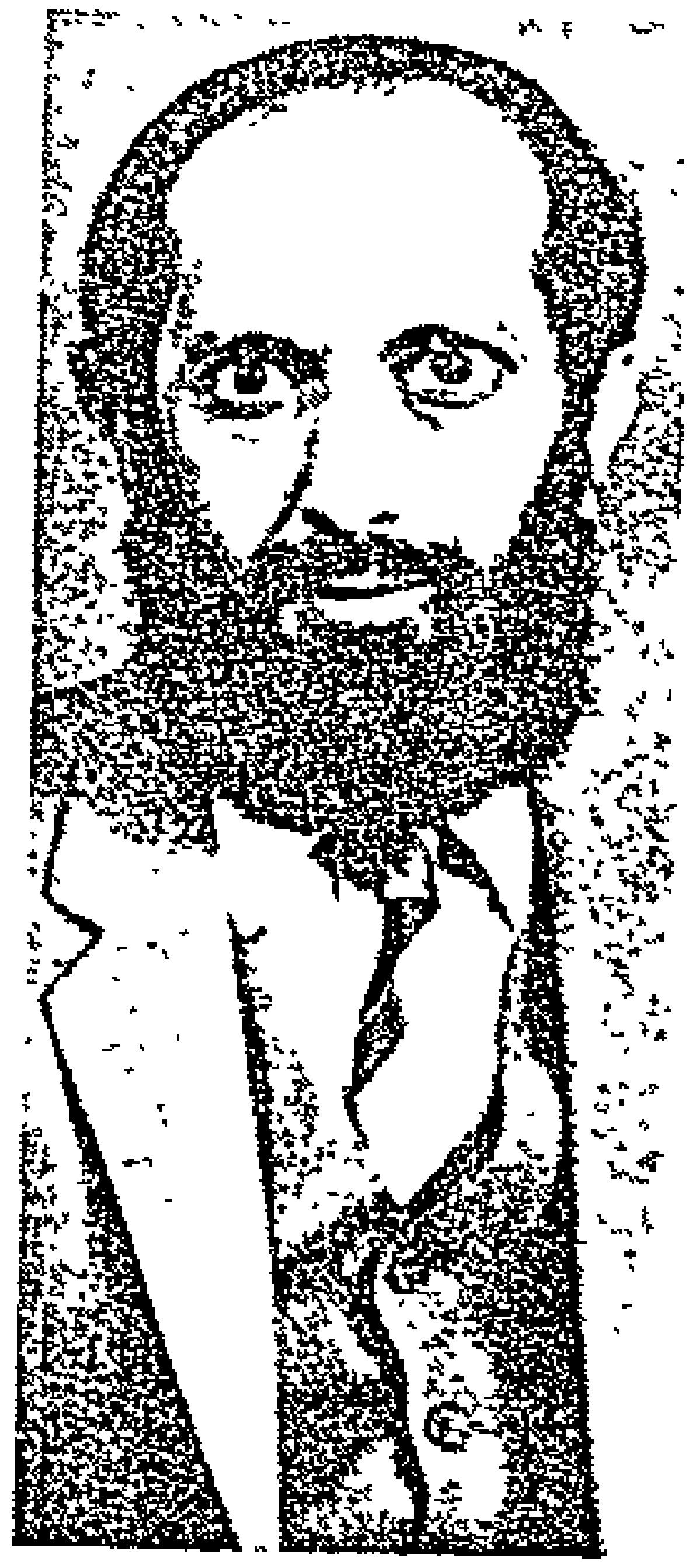
Mr Kharsany said that although it was an Islamic bank it would do business with anyone. But how does a bank which does not charge interest do business?

Mr Kharsany explained said there was:

- Murabaha, where the bank finances the movement of goods. It buys the goods from the supplier and sells them at a higher price to the purchaser.
- Mudaraba, where the bank is the sole investor in a business and from which it expects to receive dividends. It could also eventually profit by selling the business.
- Musharaka, where the bank is in partnership in a business and entitled to a share of profits. It could also profit by selling its share in the business to a to a third party.
- Ijara works the same was as hire-purchase, only the bank buys the item and the user pays for it over a period.

Mr Kharsany has worked in the financial sphere since he left Wits University with a BA and B.Com (and later an MBA).

He first worked in an insurance company, but later joined the Schlesinger Corporation where he gained banking experience. In 1983 he started the Islamic Corporation and in 1984 the Corporate Group property development company.



BANK MD: Mr Ebrahim Kharsany.

NPU/AAA Newspaper Advertising Award

August 1988

MONEY MATTERS Derek Tommey

Bond reduction or new policy?

READERS QUERIES

Why can't I keep the

ARGUS
3/10/88

58

SA owes extra R4-bn

The Argus Correspondent

JOHANNESBURG. — The government will have to find an extra R4-billion to repay foreign loans because of the huge depreciation of the rand.

The drop in the rand will also lead to higher prices for goods produced by state enterprises and may mean increased tax if these bodies are to meet their foreign liabilities

The government has foreign liabilities of about $8,2-billion (R20,5-billion at current exchange rates), a statement published at the weekend in terms of the Exchequer and Audit Act shows.

These are the foreign currency commitments in respect of the guarantees, indemnities or securities the government has provided and include both capital and interest payments.

A foreign exchange dealer says these guarantees are probably for finance raised overseas by public corporations and by organisations such as Sats and Sasol

The size of the liabilities would not be a problem in normal times But with the rand sliding in foreign exchange markets, the government probably finds this deeply worrying

22 pc depreciation

It means that the government, or the bodies covered by its guarantees, have to find an extra R1-billion or so to cover liabilities every time the rand drops by five percent against the dollar.

So far this year the rand has plunged from 51,5 cents to just below 40 cents — a depreciation of 22 percent — and it means the government's foreign liabilities expressed in rand terms have risen by about R4-billion.

The rand has remained comparatively steady recently, despite the drop in the gold price from $430 to around $394 — indicating that the Reserve Bank may have been propping up the rand in the foreign exchange market.

The bulk of the money covered by the government's liabilties has to be repaid within the next three years or so

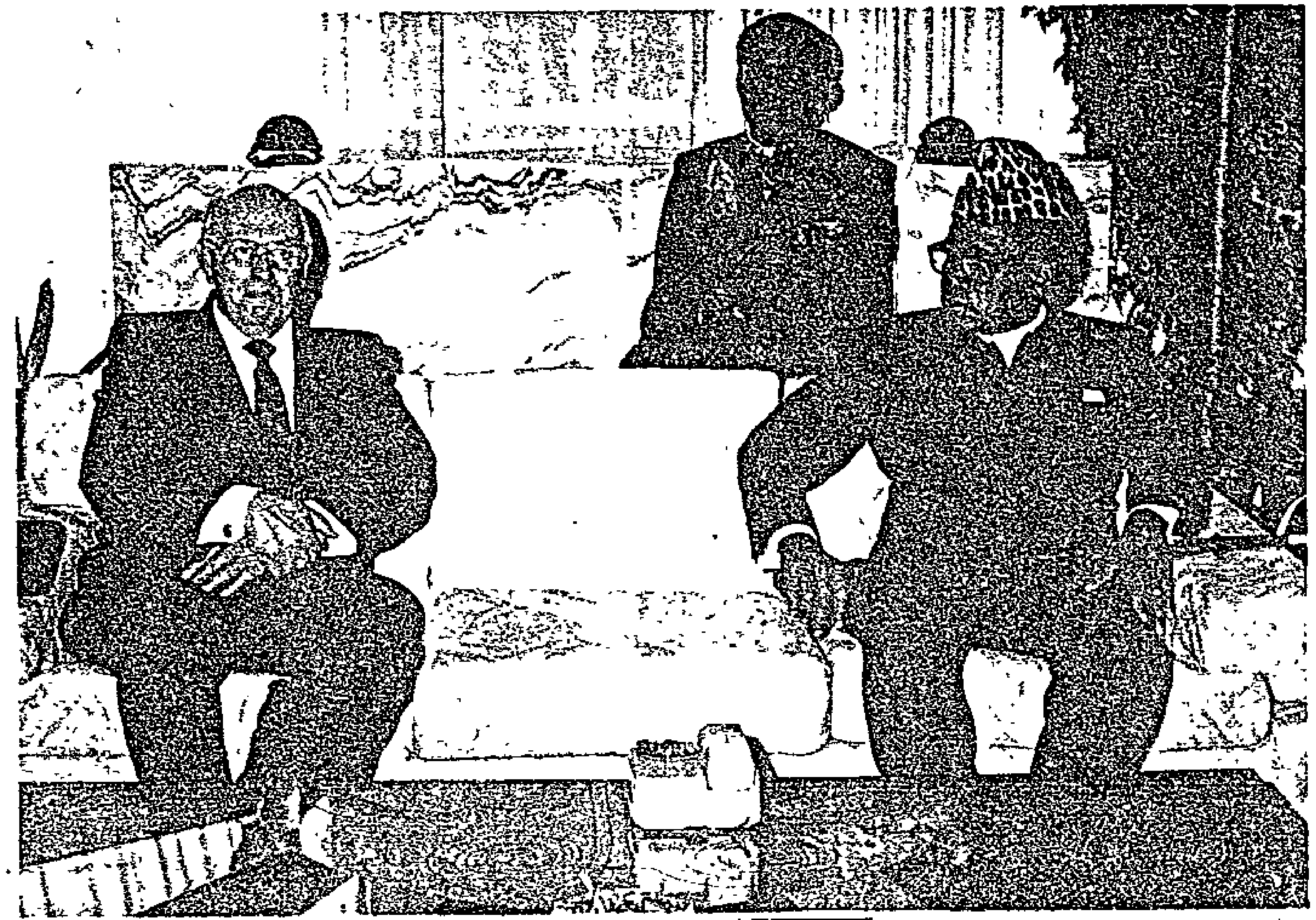
An analysis shows 48,5 percent has to be paid in dollars. The actual figure is $4,42-billion (R9,9-billion at current exchange rates)

Of this amount, 14 percent has to be paid by the end of this year, a total of 30,6 percent by the end of next year, 46,6 percent by the end of 1990 and 82,3 percent by the end of 1991.

There is a similar rapid rate of repayment for Deutschemark loans These account for about 22,6 percent of the government's liabilities and 72 percent of the 3,6-billion marks (R4,6-billion) has to be repaid by the end of 1991.

Repayments in Swiss francs will not be so large. The liabilities in this currency are 1,2-billion francs (R1,9-billion), equal to 9,4 percent of the total. However, 99,6 percent of the Swiss franc liabilities have to be repaid by the end of 1991.

French franc liabilities amount to 4,5-billion francs (R1,7-billion), but only 62 per-



JUNGLE LUXURY: President P W Botha and President Mobutu Sese Seko at the Zairean leader's jungle palace in Gbadolite, just north of the Equator President Mobutu lives in splendour His country, however, is reported to be the fifth poorest nation in the world. See page 3.

City blitz on drink-drivers — 58 arrested

By ANTHONY DOMAN
Municipal Reporter

HEAVIER fines for drinking and driving were on the way, Cape Town's traffic manager warned today after 58 motorists were arrested in a weekend "warmup" to the festive season crackdown.

The present maximum fine of R2 000 for driving with more than 0,08 percent alcohol in the bloodstream would probably be "extensively increased" when new traffic legislation became law next year, said Mr Wouter Smit.

At the weekend traffic officers set up roadblocks at Mowbray, in Liesbeek Parkway and in Klipfontein Road.

Of 221 motorists tested, 58 were arrested.

EVERY DAY CHRISTMAS

The festive season booze blitz is a thing of the past. As far as the traffic department is concerned every day is Christmas. They will test drivers all year round.

However, between now and January the drink-driving checks would increase, Mr Smit said.

"We have obtained some sophisticated equipment over the past two or three years," he added. "This has improved our level of enforcement.

"In fact, we have just bought some new equipment which will make taking fingerprints easier."

The traffic department had its own nursing sister to take blood for tests.

In addition, the centralised traffic registry being compiled — one for each province — would make it easier to spot habitual offenders.

According to the latest monthly report from the traffic department, 155 motorists were arrested for drinking and driving in August. The previous month 190 were arrested.

Fines for drinking and driving ranged from R500 to the R2 000 maximum, Mr Smit said.

Drivers' licences could be endorsed or suspended at the magistrate's discretion.

At present traffic law is enforced in terms of provincial ordinances, but these would be consolidated in a Traffic Act, Mr Smit said.

A draft Bill was before Parliament and the legislation was expected to be considered next year.

Plumstead girl, 16, abducted after disco

By STEPHEN WROTTESLEY
Crime Reporter

A 16-YEAR-OLD Plumstead schoolgirl was abducted on her way home from a city night spot and taken to Strandfontein where she was allegedly raped by four men.

A 30-year-old man has been

Consulate Three 'highlight plight of SA detainees'

ARGUS 3/10/88

The Argus Correspondent

JOHANNESBURG. — The "Consulate Three" have chosen to remain in the American consulate "to highlight the immorality of detention without trial".

In a letter to the editor of the Sowetan and published in the newspaper today, Mr Murphy Morobe, publicity secretary of the United Democratic Front, said the three fugitives had not accepted the government's release offer because on the evening after their escape the government had sent a message through the American consulate saying that the men should either leave the country by midnight or the police would move in "till hell

Bag-snatcher has run in with police

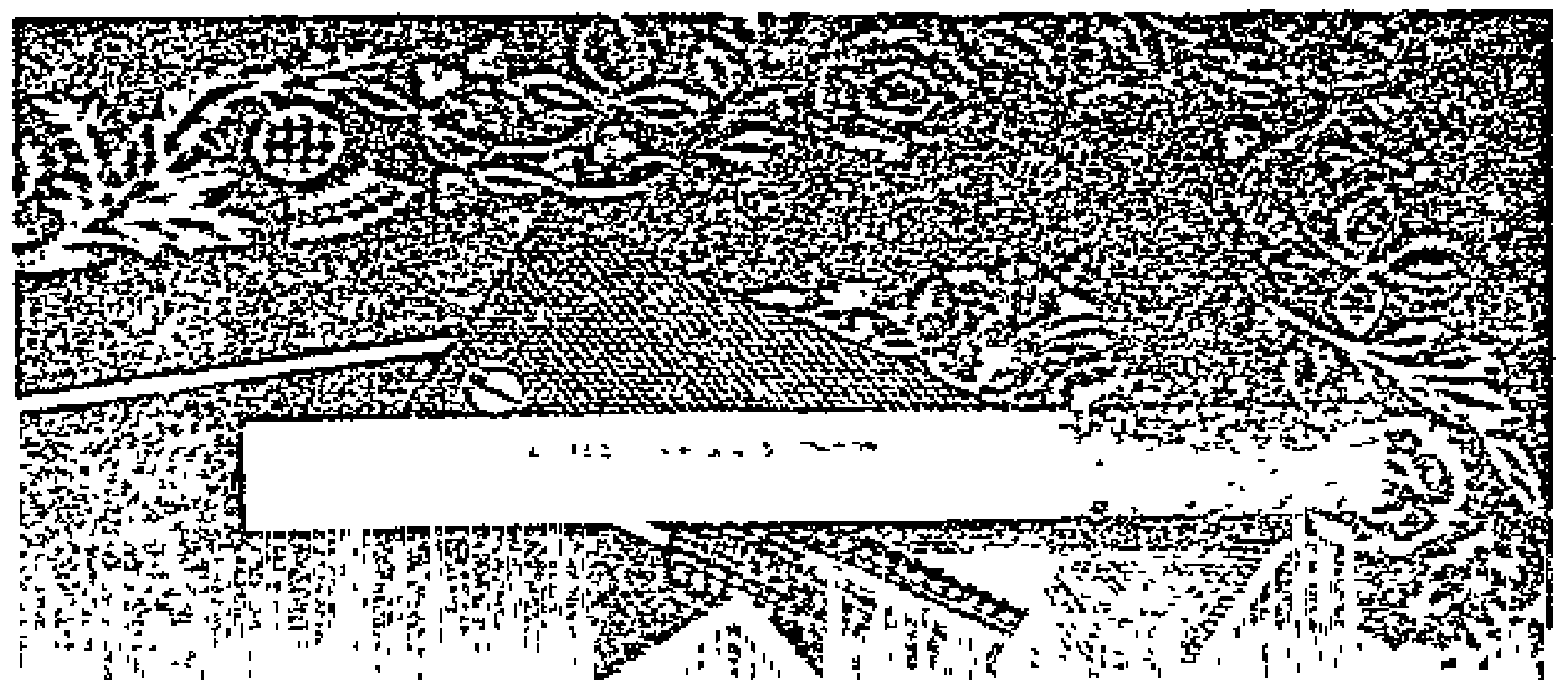
Crime Reporter

AN off-duty policeman recovered R2 500 after chasing a bag-snatcher for more than 3km in Athlone.

Police said that on Saturday about 10.45 am Detective Constable Anthony Inglish of the Manenberg detective branch was in Aden Avenue, Athlone, when he saw a man grab a bag from Mr Nelson Masapa, 38, an employee of Gheewala and Sons, an Athlone spice business.

The bag contained about R2 500 in cash.

Constable Inglish chased the



creased tax if these bodies are to meet their foreign liabilities.

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French franc liabilities amount to 4,5-billion francs (R1,7-billion), but only 62 percent has to be repaid by 1991.

The other major repayments are in Japanese yen, where the liability amounts to 73,5-billion yen (R1,3-billion). However, only 60,5 percent of this sum has to be repaid by the end of 1991.

Heavy burden

The South African delegation to the IMF conference in Berlin last week successfully renegotiated the repayment terms of $3-billion in loans to beyond 1991.

It is not yet known whether some of the government's liabilities are included in this figure, but hopefully they are.

The need to repay R15-billion of foreign loans in foreign currencies by the end of 1991 could impose a heavy burden on South Africa's foreign exchange reserves.

Plumstead girl, 16, abducted after disco

By STEPHEN WROTTESLEY
Crime Reporter

A 16-YEAR-OLD Plumstead schoolgirl was abducted on her way home from a city night spot and taken to Strandfontein where she was allegedly raped by four men.

A 30-year-old man has been arrested and will appear in court soon.

Detectives are hunting three other men allegedly involved.

DISCOTHEQUE

Lieutenant Denise Benson, a police liaison officer, said the girl was with friends at the Space Odyssey discotheque in Salt River early on Saturday morning.

They left about 5.30am to walk home.

They were walking towards Observatory about 100m from the discotheque when four men in a car pulled up next to them, seized the girl and forced her into the car.

Lieutenant Benson said police were told later that she was taken to dunes near Strandfontein Pavilion, where she was allegedly raped by all four.

The men then left, three in the car and one on foot.

GIVEN LIFT

Unit trusts return to happier days

58

Star 4/10/88

By Derek Tommey

The September quarter was a fairly cheerful one for many unit trust investors. Gains were well in the majority and if these can be maintained for the next three quarters, the movement would seem to be well on the way to recovering its record of growing by 26 percent a year.

Increases in unit trust prices were: Guardbank 7,7 percent, Lifegro 4,0 percent, Metfund 7,0 percent, Old Mutual 4,1 percent, Sage 8,5 percent, Sanlam 3,9 percent, Standard 4,7 percent, Syfrets Growth 4,4 percent, UAL 3,7 percent, Sanlam Index 6,1 percent, Guardbank Resources 3,2 percent, Sage Resources 3,8 percent, Sanlam Dividend 3,26 percent, Sanlam Industrial 1,4 percent, Old Mutual Mining 5,2 percent and UAL Selected 0,2 percent.

However, Standard Gold dropped by 5,1 percent, Sanlam Mining by 13,1 percent and UAL M&R by one percent.

A major development has been for unit trusts to make plans to manage investors' money in bad times as well as good.

They want to retain some of the money that normally flows out of units when the share market turns down or moves into a bear phase, as at present.

They plan to do this by offering investors the opportunity when the share market goes sour to be able to switch from equity unit trusts to income funds.

This should keep an investor's funds safe in a market downturn, provide a good income, and enable the money to be moved back quickly at low cost into an equity fund when the bull market resumes.

Standard and Guardbank already have equity and income funds and their investors can easily switch from one to the other.

Sanlam has five trusts, but no fully-fledged income fund. However, its investors can switch into Sanlam Dividend, which is a high-yield fund.

Syfrets has joined the ranks of these companies by launching its own income fund to keep its equity fund company. Investments can be transferred between the two at a nominal cost, says Syfrets' chief executive, Mr Brian Robinson.

Other management companies are believed to be planning similar income trusts.

Providing facilities for investors to switch from an income to an equity fund and the reverse makes a great deal of sense, both for the unit trust management company and for investors — especially if their timing is good.

One of the ways the unit trust management companies make their money is by managing their clients' money. The bigger the sum of money they have to manage, the greater their profits.

When the share market is climbing, money tends to pour into the unit trusts and their profits rise. When the market turns down, money starts to flow out and affects profits.

In the eight months to June, unit trusts lost R260 million from repurchases. However, as sales remained extremely strong despite last October's collapse, they still finished the period with a highly satisfactory net inflow of R256 million.

Nonetheless, the R260 million in repurchases represented a significant loss of potential profits.

If this money had gone into income funds, instead of going back to the banks and building societies, it is clear that management company profits would have been larger.

But investors have much to gain by switching some or all of their unit trust investments into an income fund when the market seems high.

An analysis of the movement of unit trust prices show that since last September units of Guardbank fell by 18 percent, Old Mutual's by 26 percent, Sage's by 20 percent, Sanlam's by 30 percent, Standard's by 16 percent, Syfrets Growth's by 25 percent, UAL's by 28 percent, Sanlam Index's by 25 percent, Guardbank Resources' by 25 percent, Sage Resources' by 33 percent, Sanlam Dividend's by 36 percent, Sanlam Industrial's by 24,5 percent, Standard Gold's by 41 prcent, Sanlam Mining's by 39 prcent, UAL M&R's by 36 percent and UAL Selected's by 30,6 percent.

But in the same period the unit price of Guardbank Income moved from 108,08 to 106,99 and that of Standard Income actually rose from 86,74 to 89,35.

In addition, investors would have received a dividend of 11,36 percent from Guardbank and 10,43 percent from Standard.

So those whose timing was right and who switched into an income fund last September have much to be cheerful about.

UBS matches rates

Star 5/10/88

(58)

Finance Staff

Following the recent 0,5 percentage point increases in interest rates on tax-free and partially tax-free savings instruments by the Treasury and the Post Office, the United Building Society yesterday announced similar increases.

The UBS said that rates payable on all tax-free and partly tax-free indefinite period investments would be increased at a similar rate. The rate on partly tax-free fixed period deposits, remains at 13 percent (16,55 percent effective at a 45 percent marginal tax rate).

From October 1, investors would now earn 11,75 percent on indefinite period and subscription deposits with tax concessions and 8,5 percent on tax-free indefinite period and subscription deposits.

Country doesn't need so many players in the financial sector

S8

Star 5/10/87

By Ann Crotty

It is questionable whether it is appropriate for a relatively small country with a stagnating economy to encourage an even greater number of competitors in its financial sector, according to Trust Bank chairman Dr Fred du Plessis.

In his annual review Dr du Plessis states that in the past few years the number of participants in the financial system has increased, competition has escalated tremendously and at the same time economic prosperity per capita has declined.

"Real growth in the economy has been insignificant for most of the past decade. Conventional business was hardly a source of growth for the banking sector — in fact, it is important to note that real fixed investment has been on the decline since 1982."

Dr du Plessis points out that despite this bleak economic scenario, the growth in the number of financial institutions is still being encouraged "presumably in the belief that a greater number of insitutions will lead to increased competition and effectiveness and thus lower costs for the public."

As Dr du Plessis sees it the tendency to encourage greater competition appears to be based on the premise that it will encourage overall prosperity but he stresses: "This is not necessarily the case, as becomes evident when a distinction is made between constructive and destructive competition."

"Constructive competition is a normal phenomenon within a system of healthy private enterprise." When it is constructive, competition benefits the client, the relevant financial institution and the business sector as a whole.

Constructive competition does not mean that some cooperation is not necessary among institutions, such was the case of Saswitch.

Constructive competition leads to higher productivity which involves the better utilisation of available resources.

By contrast Dr du Plessis notes: "Destructive competition — that is, excessive competition for the same limited assets, liabilities, expertise and other scarce resources — could place the banks' profit margins under strong pressure and seriously hamper essential capital formation.

"This could lead to a duplication of infrastructure, over-investment, under-exploitation of potential economies of scale, higher cost structures for banking institutions and, finally to a weakening of the banking system as a whole."

Dr du Plessis also notes that the limitation imposed on the shareholding of financial institutions, hampers financial stability as institutions benefit from the watchful eye of a financially strong shareholder.

Unit trusts move back into market for rand-hedge stocks

(58)

Star 5/10/88.

By Sven Lünsche

Rand hedge stocks featured prominently among the Metboard Mutual Fund's (Metfund) and Syrets Growth Fund's acquisitions for the quarter ended September 30.

Investec Management Company, which manages Metfund, states that the performance of the JSE over the third quarter was somewhat better than the previous quarter in spite of the weaker gold price.

It says the features of the market were once again those counters having rand hedge attributes providing protection against the falling rand. These shares, supported by the weaker financial rand, resulted in an improvement of 5,1 percent in the JSE overall index over the quarter.

Metfund's equity content of 50,5 percent at the beginning of the quarter was increased to 66,9 percent with purchases being concentrated on sound rand hedge counters in the mining and industrial sectors.

The repurchase price of 99,80c per unit at 30 September 1988 reflects an increase of seven percent for the last quarter. Taking into account capital and income appreciation, the overall growth for the six month period since 31 March 1988 amounted to 11,8 percent.

Syfrets also announced that its unit trust was building up the equity content of the fund's portfolio, with the equity holding rising from 77 to 88 percent.

"This was done in anticipation of a scramble for high quality investments once investor sentiment improves to the extent that institutions redirect their ever growing cash flows towards share investments," says manager Anthony Gibson.

Featured prominently among additions or new stakes in shares, were blue-chip rand-hedge counters De Beers, Liberty and Rembrandt.

During the past six months assets have grown from R67 million to R85 million, while the number of unit holders increased to 12 200. The fund's repurchase price, however, has fallen 26 percent in the year to end-October, compared with a 31 percent decline in the JSE overall index over the same period.

Looking ahead Mr Gibson believes that unit trust investments will outperform in the medium to long term, and remains a wise investment choice.

"Unitholders should take comfort from the fact that, on average, dividends from a selection of blue chip shares have grown by 19 percent during 1980 to 1988, while inflation has averaged 15 percent over the period," he observes. Syfrets last week also launched an income fund.

Unit trusts have good quarter

58 Star 6/10/88

By Derek Tommey

The three Guardbank unit trusts had a profitable September quarter. The repurchase price of the Guardbank growth fund rose from the ex-distribution price of 1000,68c on June 30 to 1106,08c on September 30 — an increase of 10,53 percent.

The repurchase price of Guardbank Resources Fund units rose 6,23 percent from 87,94c on June 30 to 93,42c on September 30 while that of Guardbank income fund units rose 3,0 prcent from 103,97c to 106,99c.

Guardbank‘s equity portfolio rose from R382,7 million to R411,8 million while its cash resources and liquid assets rose from R35,8 million to R58,2 million.

Sanlam Trust is paying a dividend of 22,4c a unit, an increase of 61 percent on a year ago, and Sanlam Dividend Trust is paying 9,1c a unit, an increase of 34 percent.

All the Sanlam trusts have stayed fairly liquid. Cash and liquid asset holdings as a percentage of the portfolio at September 30 were:Sanlam Trust 30 percent, Sanlam Index Trust 14 percent, Sanlam Industrial Trust 25 percent, Sanlam Mining Trust 33 percent, and Sanlam Dividend Trust 39 percent.

Mr Stafford Thomas, Sanlam's portfolio manager, said the high liquidity of the trusts and the advantages of their large holdings in the Rembrandt Group protected them from the weak performance of the market.

(58) B/day 6/10/88

SA life insurers agree on an AIDS exclusion clause

THEO RAWANA

FACED with the threat of depleted policyholder reserves as a result of the spread of AIDS, SA life insurers yesterday agreed to put an AIDS exclusion clause in new policies.

The clause, agreed on at a Life Officers' Association (LOA) meeting yesterday, means life cover would not apply if the insured died as a result of AIDS virus infection, a LOA statement said.

However, the insurers agreed that cover would be provided, regardless of the exclusion clause, if the virus was contracted through blood transfusion or by medical or emergency personnel in the course of their duties.

People who found the exclusion clause unacceptable would have to undergo a blood test to determine whether they had the Aids virus or not, before they could buy life insurance.

Where applicants opted for blood tests rather than the exclusion clause, the results of the tests would be treated confidentially by the life insurers.

These provisions would apply to all policies where a person was buying life cover of more than R200 000 in a period of 12 months, or disability cover to provide an income of more than R2 000 a month.

The agreement applied to new policies only and existing insurance contracts would not be affected, the statement said.

The requirements of the agreement were minimum requirements, leaving members of the LOA free to apply more stringent protective measures, should they deem it necessary.

"The threat is exacerbated by people effecting large policies because they suspect they may have the AIDS virus," the statement said.

SA debt to be the subject of talks

PW to meet bankers in Zurich

58

B/day 6/10/88

MIKE ROBERTSON

LONDON — President P W Botha is set to meet some Swiss bankers at the weekend to discuss SA's foreign debt position.

● BOTHA

Foreign Minister Pik Botha said last night he would accompany the President when he addressed a gathering in Zurich of Swiss business and banking leaders

He did not give any more details about the meeting.

Sapa-Reuter reports that officials in Bonn said Botha might also have informal talks with West German government officials, although nothing had yet been planned.

Botha will fly to Zurich after attending the funeral of Bavarian leader Franz-Josef Strauss.

He will also chair a meeting of SA ambassadors and heads of mission in Western Europe. This is an event held at regular intervals and is usually chaired by the Foreign Minister.

Botha may also address a symposium. Although government spokesmen have not confirmed this, it is believed it will be a meeting of the Swiss-South African Association.

Although Botha's office would not elaborate on the bankers, it was thought they would include Swiss Bank Corporation, Credit-Suisse and Union Bank of Switzerland representatives.

These events are all scheduled to take place at the weekend, but government sources indicated there was a possibility Botha could remain on in Zurich.

If this happened, it would most likely be that a wider meeting, which was put off because high-ranking Swiss were not able to attend, would then go ahead.

It has been reported that Botha planned to ratify certain undertakings given to bankers by Finance Minister Barend du Plessis in order to obtain more loans.

☐ Our Political Staff reports from George that Deputy Foreign Minister Kobus Meiring hinted yesterday that Botha would be making more trips into Africa as soon as the outward policy gained momentum.

He singled out Zimbabwe and Botswana as the only two neighbouring states with whom international relations had not improved in the recent flurry of diplomatic activity.

Meiring said hardly a week passed without him, Pik Botha or senior officials visiting some African state and the "reality" of SA was getting through.

2 Cape Times, Thursday, October 6, ~~1988~~ 58

PW to see Swiss over foreign debt

Own Correspondent

LONDON. — President P W Botha is set to meet some Swiss bankers at the weekend to discuss South Africa's foreign debt position.

However it was not clear last night whether a planned meeting, at which it has been reported that Mr Botha was to address a wider group of bankers to obtain further loans, will go ahead.

Mr Botha will fly to Zurich after attending the funeral of former Bavarian leader Dr Franz-Josef Strauss.

He will chair a meeting of South African ambassadors and heads of mission in Western Europe. This is an event held at regular intervals which is normally chaired by the Minister of Foreign Affairs, Mr Pik Botha.

The president will also address a symposium. Although government spokesmen have not confirmed this, it is believed it will be a meeting of the Swiss-South African Association. Mr Botha addressed the same group in 1984.

His office revealed he would also be meeting with some bankers. Although no further comment was forthcoming, these are likely to include representatives of Swiss Bank Corporation, Credit-Suisse and Union Bank of Switzerland — all of whom deal with South Africa.

These events are all scheduled to take place at the weekend, but government sources indicated last night that there was a possibility Mr Botha could remain on in Zurich.

If this happened it would most likely be that the wider meeting, which was put off because high-ranking Swiss were not able to attend, would then go ahead.

It has been reported that Mr Botha planned at the meeting to ratify certain undertakings given to bankers by the Minister of Finance, Mr Barend du Plessis, in order to obtain further loans.

7/10/88.

(58)

Old Mutual fund record

BDay

LIZ ROUSE

OLD MUTUAL fund managers adopted a cautious attitude towards the equity market in the September quarter and liquidity of its two funds was virtually unchanged from the June quarter.

Old Mutual Investors' Fund's liquidity was down only slightly to 21,1%, while Old Mutual Mining Fund's cash assets were about the same at 25,7%.

However, the Old Mutual Investors' Fund has declared a record distribution of 35,94c for the six months to September.

That brings total distribution for the calendar year to 61,98c, an increase of more than 33% over the previous year and the highest ever paid by the fund.

Investors' Fund's total asset grew by R78m to more than R1,1bn. The repurchase price increased by 6,8% while account holders now total 160 000.

Total liquid assets amounted to R235,5m at the end of September, comprising R1,9m RSA 15% 1988 stocks and R10,4m Sats Elfi 1990, with nearly R187,7m available for investment and R35,2m available for distribution.

Portfolio manager Rowland Chute said significant acquisitions were Lefkochrysos, Amic, Fed Volks, Sasol and AECI. The Lefko shares (over 1,5-million) were bought as a result of the Barplats/Lefko restructuring.

The fund also identified a value situation in the recent price weakness of Sasol and used the opportunity to increase the fund's exposure to this counter. Chute said the fund held an optimistic view of the medium-term value of this share, although shorter-term prospects were not exciting.

Cash

The fund's largest holding is in Rembrandt (Rem Beheer, Remgro and Tegkor make up 14,24% of its share portfolio). This heavyweight has provided a solid base and good value, especially over the last quarter, when the group's international restructuring was announced.

Metal Box shares were exchanged for cash in terms of the Nampak offer to minority shareholders.

The fund's top 10 holdings are Remgro, Anamint/De Beers, Anglos, Sasol, Dries, Gencor, JCI, AVI, Safren and Samancor.

Stuart Fish, assistant general manager (marketing) says investors have seen their investments comfortably outstrip inflation over the medium to long term. At quarter-end a monthly contribution of R100 invested with the Investor's Fund yielded 25% after 10 years, 23,9% after seven years amd 22,1% over five years, distributions having been reinvested.

Fish urged investors to take advantage of rand-cost averaging by spreading their money over a number of months, riding down-turns in the market by buying units at low cost.

Old Mutual Mining Fund experienced a quiet quarter and the repurchase price increased slightly. Total assets amounted to R116,9m with liquid assets at over R30m.

Fund managers continued to take a cautious and prudent stance towards the mining board and the need to maintain a fair level of liquidity to take advantage of potential opportunities, said portfolio manager Mario Celotti.

FM 7/10/88

MINORCO

Revealing document

Minorco's formal offer document for Consolidated Gold Fields (CGF) discloses financing arrangements that leave ample space to increase its bid above £13 (R19 cash and one Minorco for every two CGF). It has obtained a three-year £1,4bn revolving dual currency facility from Swiss Bank Corp, Bank of Nova Scotia, Chemical Bank of the US and Dresdner Bank of West Germany.

The rate will be 0,375 points over the London Interbank Offered Rate for six-month US dollars, now 8,69%. With US$890m cash, Minorco needs to raise just under £1bn to fund the £1,52bn non-share element of its bid. With an extra £400m or so it could pay an additional £2,50 per share — and London analysts have been saying that, without external intervention, a successful offer will have to be close to £16.

The document also indicates that the main focus of attack on the management of chairman Rudolph Agnew and his board will be the quality of earnings. Minorco says its offer values CGF at 18,5 times attributable 1987-1988 earnings.

On CGF's reported earnings per share of £1 the historic multiple is 13.

But, in a footnote, Minorco says it has adjusted the reported attributable earnings of £212,5m. "This includes an estimated £63,2m (from the sale of 10% of GFSA to Rembrandt and of a Chilean property) after tax non-recurring gains on asset sales ... Earnings, deducting such gains, were £149,3m."

Minorco points out it has *not* adjusted for other share dealings or profits on asset sales by Newmont. In the year to June 1987, it says: "Pre-tax share dealing profits and the group's attributable share of asset sales by Newmont (when it floated Newmont Gold) totalled £108,8m."

CGF's response was not available as the *FM* went to press. Agnew, however, has always insisted that dealing in investments is one of CGF's operations, so such profits cannot be judged as one-off.

Of equal interest, however, is evidence in the appendices of how Minorco was increasing its interest in CGF in October 1987. Before the October crash, Minorco was a heavy buyer of CGF convertible bonds (convertible into ordinaries at £10,80).

Between October 2-October 22, Minorco bought £50m of bonds for £66,8m — an average price of £133,7%. The last purchase of £10m after the slump was at £128%. Thus the effective conversion price of the underlying 4,63m CGF shares was £14,44.

On October 29, Minorco resumed buying CGF shares directly. Between then and April 22 it accumulated 2m at an average of £7,90. The holding was topped up when Minorco opted for nearly 709 000 CGF stock (at £8,50) in lieu of the interim dividend. Both these shares and the bonds are included in Minorco's 29,4% of CGF's fully diluted equity (after conversion of the £110m bond issue into 10,2m shares).

Southern deals

More titillating, however, were the share trades of Southern Life immediately before the bid was announced on September 21. Southern, along with other Anglo associates Charter and New Central Wits, is classified as acting "in concert" with Minorco and shown as holding 118 100 CGF shares.

This, however, is after some active trading in Johannesburg. Between mid-April and June 20 Southern sold 80 400 shares between R47,50-R58,25.

On September 16, when bid rumours were hotting up, Southern went heavily into the market. That Friday, it accumulated 115 000 CGF. Monday it returned for another 4 100, paying R73 for most of them. The average in-price was R69.

Two days later, Southern started taking profits, selling 30 000 at an average of R92,63 after the bid was announced. Further sales to September 29 took the total to 85 000, at a mean of R90,50, to give a quick dealing profit of R1,8m.

This is peanuts compared with the buyers, via Liechtenstein nominees, who are being hunted by CGF and others. They made an estimated £25m. Nonetheless, Southern's little coup, undoubtedly shared by others who believed the rumours, may have embarrassing aspects.

John Cavill

BANKING (S8)

Ripples in the ratios

With asset expansion firmly anchored to capital requirements, the banking sector can't afford to take on unprofitable business. On the other hand, the constantly increasing number of institutions offering banking services to a limited market means they equally can't afford not to. Loss leaders are an effective way to sell other more profitable products, and all major banks use them as part of sales strategy.

The trick, of course, is to ensure they pay off in the long run.

It is success in getting the mix right that will determine who survives. Without enough profits to fund reserves and keep intact the necessary ratio of capital to expanding assets, individual banks will be neutralised as a market force. This leaves only a small margin for error.

Capital adequacy requirements, which are linked to size and risk profile of assets, probably amount to an average 4,5%-5% of assets. Introduced in January last year, they are to be phased in over a six-year period — by the end of December banks will be expected to move from 75% of eventual requirements to 80%. Every year thereafter they will have to notch up another 5%.

Where has credit expansion of the past year left them? Intense competition has sent banks in hot pursuit of all sorts of business since the take-off in the economy late last year. According to their latest financial statements (either year-end or interim), assets of the five major banking groups increased 19,4% on the previous financial statements. In the same period, capital increased by only 11,7%.

This calculation is based on published figures, which may not correspond with capital in the context of prudential requirements.

Also distorting the picture are two other factors:

☐ Volkskas and Bankorp are not on full disclosure which means contingency reserves, though eligible as capital, are not shown in their financial statements; and

☐ The other three groups, though they have no secret reserves to call on, do keep general debt provisions — 50% of which qualify as banking capital.

However, figures on capital, as defined for prudential purposes under the Banks Act, are not available and the figures in the table are useful as a guideline.

The total decline in ratio of capital to assets which they reflect is due to the ratios of three groups: First National (FNB), Standard and Bankorp.

BALANCING THE ACT

Capital-asset ratio
Rbn

	ASSETS			CAPITAL			CAPITAL AS % OF ASSETS	
	Lastest	Previous	% increase	Lastest	Previous	% increases	Latest	Previous
SBIC	32,4	26,1	24,1	1,503	1,434	4,8	4,6	5,5
FNB	29,1	24,6	18,3	0,958[2]	0,900	6,4	3,3	3,7
Bankorp[1]	22,4	16,1	39,1	0,667	0,584	14,2	3,0	3,6
Nedbank[1]	15,4	14,3	7,7	0,800	0,727	10,0	4,8	4,7
Volkskas	15,1	13,1	15,3	0,733	0,526	39,4	4,9	4,0

1.Not on full disclosure amd therefore does notinclude hidden reserves.
2. Does not include R100m in debentures.

Bankorp (which increased assets by more than 39% in the year to June 30 while capital increased only 14,2%) does not believe in being overcapitalised, says chairman Fred du Plessis. Overcapitalisation could lead to lending to lower rated borrowers in an attempt to use the capital, he tells the *FM*.

The group, at final reporting in June, was well above the phasing-in requirements, he says. It will thus be able to comfortably meet the December requirements of 80%, says senior GM finance Piet Strydom.

Standard is even better placed. Despite asset growth of 24,1% in the six months to June, against capital growth of only 4,8% in the period, it is already meeting full capital requirements "without resorting to the phase-in concessions," says senior GM finance Andrew Fleming.


Fleming . . . no need for phase in

First National's ratio, in the six months to March, fell from 3,7% to 3,3%. The figure in the table does not include R100m debentures, part of which is eligible for prudential requirements. However, even with that portion, the capital-asset ratio has declined.

Says group financial manager John Lord: "The group is above the 75% requirement and will meet the 80% in December."

Volkskas, with asset growth of 15,3%, achieved capital growth of 39,4% in the year to March, due to an increase of R166m in issued capital, for an exchange of shares with United Building Society.

Nedbank, too, improved its ratio, because capital grew 10% (putting it in full compliance of 1992 requirements) while asset growth was little more than 7,5% in the six months to March. Says John Bunting, group financial controller: "We do not want to grow assets at all costs. We believe in increasing chiefly the type of asset which will service the balance sheet from a capital and liquid asset point of view, plus provide an incremental earnings stream from a bottom line point of view."

The importance of profits as a source of capital has increased in the past year because of the weakness of the equity market — which is unlikely to provide an alternative. The only parachute in case of need would be the issue of subordinated debentures as 20% of capital.

Chiefly, however, existing and new business will have to generate profits which allow adequate retentions. This means they must be healthy enough to support asset growth despite the ravages of inflation — as well as provide dividends that satisfy shareholders. ■

7/10/88 FM

(S8)

Bid to make loans more accessible

Star 7/10/88

58

A study has revealed that only 3,1 percent of building society housing loans went to blacks, and because of it the Urban Foundation is to establish a small loans company.

The foundation says that the loans information had been uncovered during a major feasibility study looking into the setting up of a new mechanism for granting small loans to low income earners.

The study has revealed a need for loans — repayable over up to five years — of between R500 and R5 000 for a variety of housing products including building materials, stands and deposits for conventional bond finance. It also revealed that building societies currently provide loan finance to only the top 15 percent of the black market.

The foundation says that it has also studied how a building society assesses loan eligibility and availability.

The recommendations, contained in a report of a research team on subsidies, has been submitted to the Department of Finance and to the Housing Advisory Council.

Personal finance

Pure endowments and unit trusts for regular savers

Star 8/10/88

58

OTTO JAEKEL
(General Manager, SANBES)

ANYBODY who plans to start a regular savings programme will probably consider a pure endowment policy and a unit trust as two obvious possibilities. Both provide the investor, particularly the layman, with a convenient, easy way of building up capital.

In the accompanying table, the yield on a representative unit trust is compared with that on a Sanlam pure endowment policy (including waiver of premiums at disablement) at various dates in the past. A regular monthly investment of R100 for 10 years is assumed.

In one of the 10-year periods, the stable pure endowment fared best. The market-related pure endowment yielded higher returns in two of the periods, while the unit trust achieved the highest returns in three of the 10-year periods.

The table shows clearly that the results can differ, depending on what period the comparison is based on. Although one cannot predict the relative future performance of unit trusts and pure endowments with any certainty, the investment principle of "higher risk — higher potential return" most certainly applies.

General unit trust portfolios comprise mainly shares and gilts listed on the JSE. The only prescribed investment for a unit trust is that the portfolio must at all times contain a minimum of 5 percent in liquid assets, ie call-deposits and short-term fixed-interest securi ties. An investment in a unit trust is fully market-related and subject to short-term fluctuations in the value of the underlying assets.

Although the risk is reduced considerably when one invests on a regular basis, the yield remains sensitive to market conditions on the actual date of realisation — it might be very rewarding or only satisfactory.

This potential volatility is borne out by the actual past experience of the unit trust referred to in the table. Over the 10 years up to 1 April 1988 this fund achieved a yield of 21,3% pa on regular monthly investments of equal amounts, assuming all income was reinvested. For the 10-year period ending only 6 months earlier, ie on October 1, 1987, the corresponding yield was 31,6% pa.

Pure endowment contracts on the other hand offer a range of alternatives with varying degrees of risk. Sanlam's Investment Series, for example, offers the investor a choice of two types of profit-sharing.

In the Stable Investment series, a large part of the bonuses which are declared annually vests, ie it is guaranteed and cannot be removed afterwards.

In the Market Value Investment series, on the other hand, the underlying investment performance is passed on direct to the policy-owner, as is the case with a unit trust. The investment portfolio, in which the policy shares, is more diversified and includes both quoted and unquoted shares, as well as property.

Furthermore, a minimum of 33% of the portfolio must contain prescribed fixed-interest investments. Although this is an advantage in that it ensures a less volatile return than that of a unit trust, these fixed-interest investments fail to outperform inflation in the long-term.

No guarantees are provided for unit trust investments but with pure endowments the policy-owner always enjoys the security of guaranteed minimum proceeds.

In the case of unit trusts, capital growth, reflected in increasing unit prices over time, is normally tax-free. Dividends however, are taxable in the hands of the individual.

The proceeds of a pure endowment are tax free, subject to the provisions of a standard policy. The investment income earned on the assets in the investment portfolio is, however, taxable in the hands of the life office.

A unit trust offers a high degree of liquidity, as units may be sold back to the management company at any time. A forced realisation in the short term however, could result in a loss.

A pure endowment policy acquires a surrender value after a relatively short period, usually one or two years, depending on the policy term.

Investments in unit trusts and in pure endowment policies should not be regarded as substitutes for each other. They differ fundamentally in terms of the associated risk. They are actually complementary, catering for different needs and different types of investors.

INVESTMENT PROCEEDS
(RAND)

Ten years up to	Pure endowment policy		Unit trust
	Stable	Market-related	
01-07-77	15 452	na	11 321
01-07-79	16 488	20 766	20 209
01-07-80	16 825	24 794	34 336
01-07-82	17 128	22 449	25 491
01-03-85	24 172	27 102	34 933
01-03-88	30 111	37 200	34 162

READERS QUERIES

LMM of Saxonwold writes: I have R10 000 which I want to invest in the Old Mutual Unit Trust. Should I invest it all at once or say, invest about R200 a month.

ANSWER: This question centres on one of the most important aspects of investment — timing. Too many people, when they decide to buy shares or units, go to the nearest stockbroker or agent and behave as if they were in a supermarket. They buy what is on offer without considering the price, when really they should behave as if they were in a green grocers and confine their buying to what is in season and cheap, and even do some bargaining.

Unfortunately, they have probably heard, say, that Anglo American, Barlows and Consgold are good quality shares. So without questioning the price they place theirorders. The fact that they might be paying too much does not cross their minds. They tend to regard the prices asked, or for that matter the units, as immutable and pay without question.

They are not yet aware that the secret of successful investing is not only to buy the right share but also to pay the right price — that is when it is cheap.

This is not too difficult but it requires patience and some research.

An investor should buy in a bear market, which the JSE has been going through for some time and which now appears to be ending, rather than at the height of a bull market as most usually do.

A constant watch must be kept for 'bargains' — shares which because of changes such as in their management, the markets for their products, their manufacturing and selling technique or any factors that could have a favourable impact on their profits.

Buy the blue chips by all means for stability and long-term growth but try to sweeten your portfolio with bargains.

We showed the letter to Mr Rowland Chute, portfolio manager for the Old Mutual Unit Trust. His advice was to invest say a quarter of the money in the trust and invest the balance in three months, six months and nine months deposits. As deposits matured invest it in unit trusts. Then whatever happens to share prices you should score. If share prices fall during the next 12 nine months you should be able to buy units at bargain prices. If shares rise, then you will should be well placed for some worthwhile profits at the year-end. — DEREK TOMMEY.

58

LOA rules out aid for home buyers

There is little hope of the South African insurance industry coming to the aid of prospective home-owners, particularly those needing low-cost homes.

The Life Officers' Association (LOA), an organisation of top life insurance groups, says however that there is sufficient private sector savings to finance "much more housing than is happening at present".

In a statement to The Star, the LOA says that "the need for more housing is most severely felt at the low end of the market. However, the public at that low end is unable to borrow at current market rates".

The insurance industry is said not to have "investment vehicles that can bridge the gap between rates at which savings will be made available for housing and the rate at which the potential market for low cost housing can borrow".

They say low cost housing also carries a higher economic risk, a higher political risk, and higher administration fees.

The industry statement adds that it is not an agent "for the redistribution of wealth or to undertake any other form of social or economic engineering — the only approporiate considerations for a life insurance company, when deciding whether to make a specific investment or not, is whether the investment offers a low enough economic risk to ensure the preservation of policyholders' savings against the risk of financial volatility and a high enough return to ensure the preservation of policyholders savings against inflation." Star 11/10/88

TOWN TUESDAY OCTOBER 11 1988

Give us money and time — PW

1164 S
11/10/88

PS

The Argus Foreign Service

ZURICH. — President Botha has made a strong appeal to European bankers to reject sanctions and to support the infusion of capital into South Africa as part of a type of Marshal Plan alternative.

In a speech to the Swiss-South African Association last night, he also reiterated his view that he would not like to see ANC leader Mr Nelson Mandela return to prison, saying that Mr Mandela was still co-operating with he authorities.

Earlier, about 200 protesters demonstrated against his presence in Switzerland, attracting headline news on both Swiss radio and television.

In his speech, Mr Botha appealed for South Africa to be given time to develop constitutionally in its unique way, pointing to the European Parliament as an example of government being possible without interference with, or the destruction of, the distinctive character of the co-operating communities.

He also gave the Swiss-South African Association assurances that Pretoria was managing the South African economy in a way which enabled it to meet its international commitments.

Poverty and hunger

South Africa had two strategies to increase growth performance and employment.

The first was the process of deregulating the economy by removing unnecessary rules and regulations and by promoting the free operation of market forces.

The second was a shift to national industrialisation, which meant concentrating on economic activity with little or no imported content.

It should be obvious by now, he said, that sanctions simply furthered the interests of left and right radicals in South Africa.

President Botha added: "Sanctions are aimed at the destruction of the free enterprise system which in turn would lead to increased unemployment, lower standards of living, poverty and hunger.

"European powers should recognise two factors, if they agree to sanctions. Firstly, they are furthering the objectives of powers hostile both to themselves and to democracy in South Africa. Secondly, they misjudge the people of South Africa if they believe that pressure will influence them to deviate from their course.

"The way to rapid economic and political development and renewal is to ensure that South Africa's economy flourishes.

"It will afford the government the necessary scope to improve social services for all communities. If South Africa is allowed to reach its natural potential, the whole region will benefit.

"With the necessary infusion of capital, a result similar to that achieved by the Marshall Plan in Europe could be realised. I ask you to pass this message on to political leaders."

On Mr Mandela, Mr Botha said there was a misconception about the ANC leader's position.

"The truth is the ANC does not want Mr Mandela out of prison because it suits them to project him as a martyr. The ANC also fears that the release of Mr Mandela might lead to pressure on them for peaceful negotiations," he said.

"If I had my choice, I would not put old people in jail. I would prefer them to be on the outside, but I also have to get some co-operation."

Night-life

As President Botha spoke to an audience composed almost entirely of businessmen, his wife, Mrs Elize Botha, accompanied by Mrs Helena Botha, wife of Foreign Minister Mr Pik Botha, and a party of South African diplomats, took off on their own to sample Swiss night-life.

The two women and their entourage headed off to one of Zurich's most famous nightspots, the Kindli restaurant.

They joined in heartily with the singing, swaying and clapping in time to the music and waving table napkins. The restaurant featured a large band which played jazz and traditional Swiss music.

At one stage in the evening the band played Sarie Marais, to roars of approval from the South Africans.

Mrs Elize Botha signalled her appreciation by pinning miniature South African flags on the band leader, the lead singer and a young child.

● The Mandela family attorney, Mr Ismail Ayob, said there was "nothing significant" in the rumours of the possible release of the ANC leader.

300 march as PW visits Zurich

58

Cape Times 11/10/88

ZURICH. — Flanked by riot police, about 300 people halted city traffic during a protest march against a visit by President P W Botha and Foreign Minister Mr Pik Botha.

The pair arrived for a private visit in Zurich on Friday after attending a memorial service for Bavarian Premier Franz Josef Strauss in Munich.

The demonstrators unfurled banners condemning apartheid and calling for a boycott of Swiss banks which do business with South Africa.

The march went off peacefully but police guarded the entrance to banks and the South African Airways office closed its shutters as a precaution.

The visit immediately raised speculation that President Botha would urge bankers to ease a three-year-old ban on foreign loans to South Africa.

Spokesmen for Switzerland's three main commercial banks, Credit Suisse, Swiss Bank Corporation and Union Bank of Switzerland, said they knew nothing of any meetings with the SA president.

A spokesman for the Union Bank of Switzerland, Mr Arthur Grueninger, said there was "no need for a talk".

Burdened by a R44 billion debt, South Africa has been pressing Western banks to lift the foreign credit freeze imposed in 1985.

It wants to negotiate a new debt accord with creditor banks when an existing rescheduling agreement ends in mid-1990.

● President Botha and Mr Pik Botha paid a one-hour "courtesy call" yesterday on Mr Edouard Brunner, Under-secretary of State of the Swiss Foreign Ministry. — Sapa-AP-Reuter

● **Mandela dominates President's tour — Page 3**

Mr P W Botha

Squeezed banks want prime hike

58

B (days)

12/10/88

GRETA STEYN

BANK's margins are under enormous pressure and bankers say they desperately want to raise their prime overdraft rates.

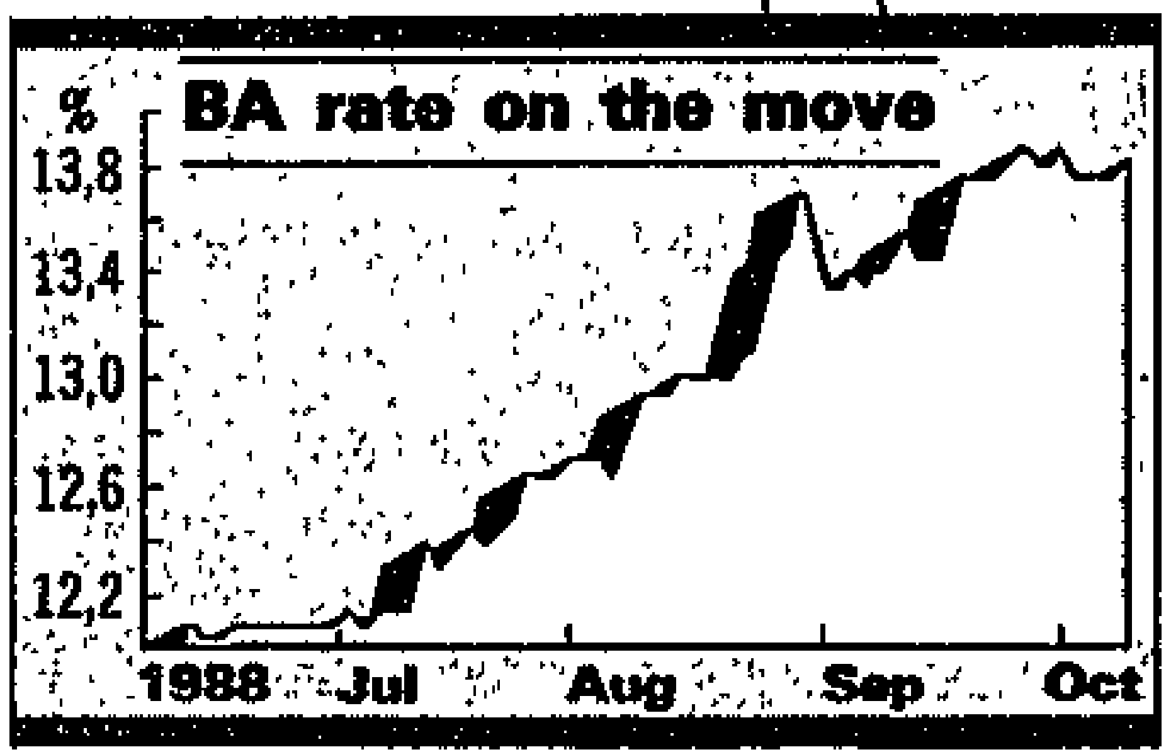
There has even been talk of them raising prime to 17% from 16% without prior consultation with the Reserve Bank, but this is unlikely as the Bank could make life difficult for them.

A senior banker said yesterday that banks "can't survive with these margins".

With the rate on "big money" deposited on wholesale call at the banks now at more than 15% and with prime at 16%, banks' margins have been slashed.

But bankers believe there will be no action from the Reserve Bank on the interest rate front before the October elections.

Some bankers are frustrated by the Bank ignoring strong signals from the money market that interest rates are too low. UBS economist Hans Falkena says, however, he sympathises with the Reserve Bank which cannot always act immediately in response to signals from the market. Nonetheless, he says, higher rates — as much as 3% more — are needed.



Graphic: FIONA KRISCH Source: REUTERS

Says Falkena: "The BA rate, at 13,8%, is higher than the Bank rate. This means the market has already discounted another increase in the Reserve Bank's rediscount rates. Obviously, rates should rise and the increase could even be more than one percentage point."

But Falkena does not believe an increase in the Bank rate is likely before the end of October.

The three-month liquid Bankers' Acceptance rate yesterday rose to 13,80% from Friday's 13,75% and has been on an uptrend since the Bank rate was raised to 12,5% at the end of July.

Economists say the market reflects the macro-economic situation which dictates that official interest rates

● To Page 2

Squeezed banks want prime rate hike

B (days)

58

12/10/88

● From Page 1

should be higher. However, the Reserve Bank, which acts on economic fundamentals not just market signals, believes the economy is already cooling signficantly.

Counters Falkena: "It is not sufficient to say the economy is cooling — it is not cooling enough. If our reserves are to be protected we need a more restrictive monetary and fiscal policy. We need an increase of at least 3% in interest rates."

Another strong signal from the money market was its reaction to yesterday's Reserve Bank effort to tap R700m in 1989 RSA stock by tender. A reluctant market applied for only R507m worth of stock, shying away because of the scarcity of funds.

Analysts say the Reserve Bank had obviously regarded the rates asked for in some applications as too high as only R330m of stock was eventually allotted at an average rate of 14,5%.

The lack of liquidity is also obvious from the market shortage, which was abnormally high at R2,86bn on Saturday.

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lficant contributions to profit during the current financial year.

He said the fertilizer division had contributed to profits for the first time during the year. Sasol took a significant stake in Sentrachem fertilizer division, when the division was sold.

Capital expenditure would remain high in view of a R500 million to be built in the Secunda area.

The Star
Finance

Huge increase in Taiwan's gold imports

Star 12/10/88

TAIPE — Taiwan imported 291,6 tons of gold worth almost $4,6 billion in the first nine months of 1988, a Finance Ministry official said.

Physical imports comprised 289,04 tons of gold bars worth $4,25 billion and 2,56 tons of coins valued at $345 million, the official said in an interview.

This compares with imports of 23,9 tons of gold bars and 1,54 tons of coins in the same 1987 period.

The official, who declined to be identified, attributed the rise to a surge in private sector gold imports after the removal of a five percent sales tax on gold trading on July 1.

Bullion dealers said private sector imports, mainly by jewellery shops and trading companies, have been rising since mid-September due to weaker prices.

"The private sector is expected to import more gold in the final quarter of 1988 because of rising demand in Taiwan," said Judy Yeh, assistant vice president of the China Trust Precious Metals.

The dealers said imports could reach about 325 tons for the whole of 1988. Last year, Taiwan imported 87,3 tons of gold bars and coins, according to official figures.

Yeh said a growing number of stock investors were switching to gold due to a sharp fall in share prices following the government's decision to reimpose a tax on capital gains from stock sales in January 1989.

Reduced demand for mohair

Gubb and Ings has reported a slight increase in attributable profit to R9,7 million, while earnings per share rose from 464,4c to 477,9c for the year to end-June.

While turnover ~~rose~~ from just R270 million to R313,9 million, interest paid rose by R4 million to R10 million. The directors also stated the high price of mohair reduced demand for the product.

A dividend of 50c has been declared for the year. The directors expect better profits during the current year. — Sapa.

Star 12/10/88

Inhold pitches cash offer at 330c

Star 12/10/88

Finance Staff 58

Investec Holdings (Inhold) shareholders, who do not accept the share restructering, which will lead to the listing of Investec Bank, are now being offered a cash alternative of 330c a share, instead of the originally estimated 300c.

The offer presents a premium of about 12 percent on the current share price of 295c.

Inhold, Investec Bank and Metboard, the group's asset management company, announced in August that Investec Bank would be listed, based on the allotment of ten million Investec Bank shares on the the basis of one Investec Bank share for every two Inhold shares.

Shareholders will have the right to allotment of the ten million shares at 60c each or take up the cash alternative.

Inhold will hold a minimum of 50 percent in Investec Bank, which in turn controls 100 percent of Metboard and 100 percent of newly formed Investec Management.

Banking sector still lags behind others

8 FW 12/10/88

58

Diagonal Street

ANN CROTTY

While many JSE sectors have recorded significant recoveries from the depths to which they plunged after last October's crash, the banking sector stands out as one of the few that have maintained a downward trend for most of the past 12 months.

The banking index is struggling to remain above the 900 mark, compared with the 1500 level it reached just before the crash. It is significant that the pre-crash level reflected a slight weakness from 1987's high of 1600 and indicates that market players were already a little disenchanted with prospects for the sector.

Even as investors (at this stage mainly the large institutions) are seen moving cautiously back into the equity market, there are few analysts who believe bank shares will benefit from the increased activity. It seems the best that can be hoped for is a slight improvement if it is felt the sharp drop in prices was overdone. At current levels it certainly seems that all the bad news has been discounted.

The major factors holding back share prospects (they are the same factors that brought the sector tumbling down) include the increased capital requirements facing banks; the surge in competition in the industry; the pressure on margins resulting from government-influenced control on interest rate movements.

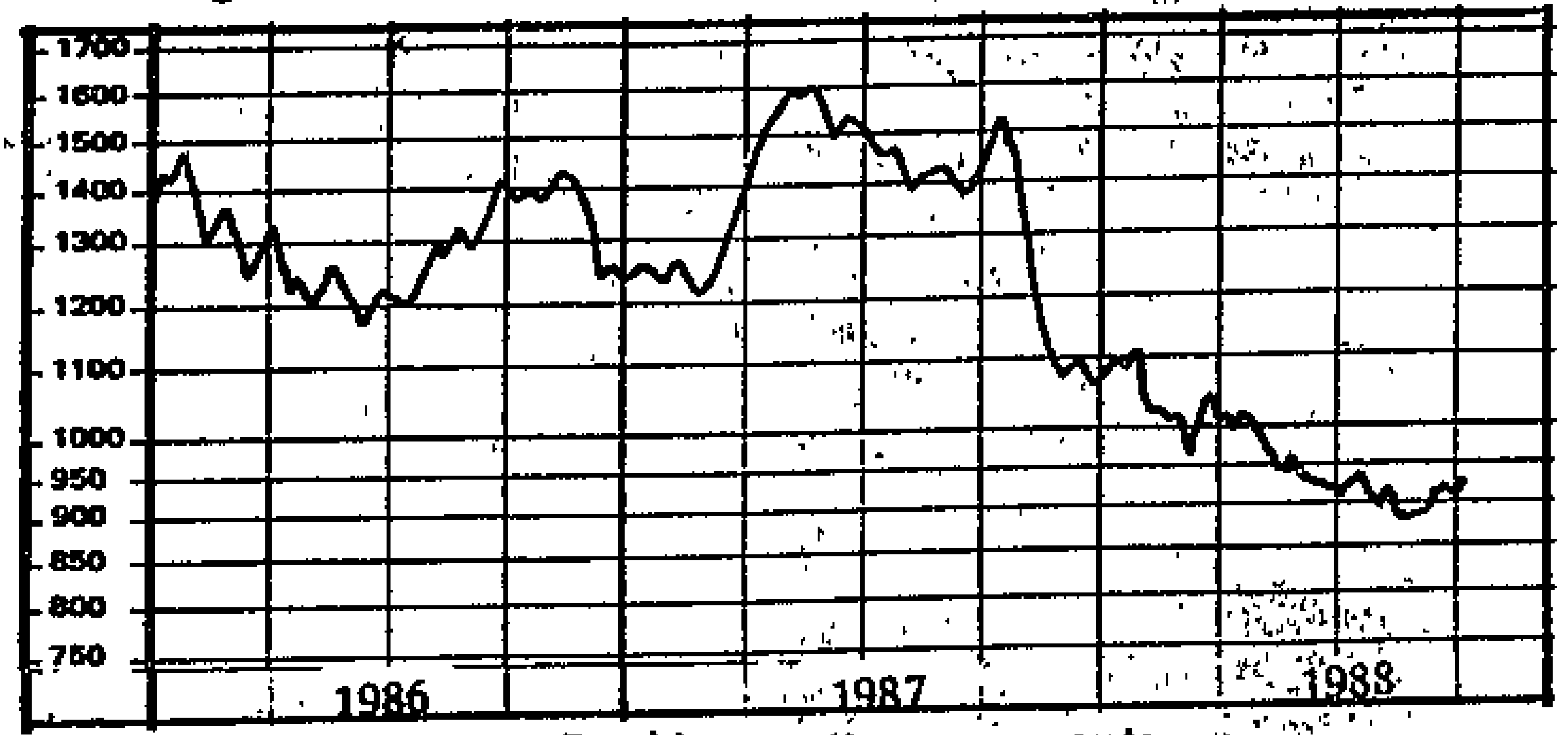
It is these factors that will combine to ensure that the earnings performances of banks look pedestrian in comparison with what is expected from the industrial and mining sectors.

The additional capital requirements mean that asset growth will have to be met by an injection of capital, either through a higher retention of earnings (and, therefore lower dividends, which will not please shareholders) or through rights issues, which seem unlikely, but will certainly not enhance investor interest.

More players in an already tight market means that margins are squeezed and that investors are faced with a wider choice of counters.

In the foreseeable future it seems unlikely that the banks will see much relief from the government-influenced pressure on its margins, which prevents the prime rate from moving up in line with money market rates.

So, at least for the next six months, there is little to attract investors to the sector.



Banking sector movements

Fugit's 'rights' revalued

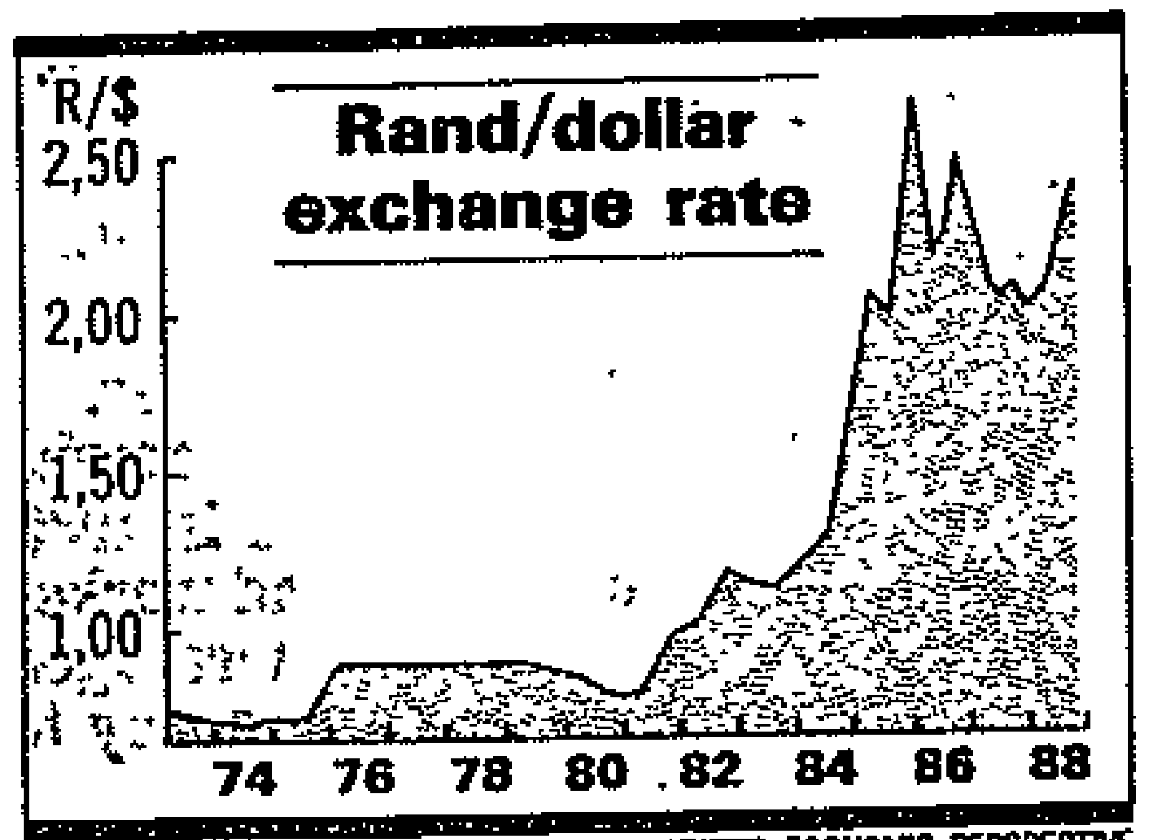
Star 12/10/88 **Finance Staff** (58)

Liberty Life yesterday announced that Fugit shares in terms of the right issue would now be valued at 815c per share, instead of the original 800c, as a result of the increase in the market value of Fugit's equity portfolio during September. The rise in the portfolio pushed up Fugit's net asset value to 815c, after deducting Fugit's final dividend of 18c per share. According a stock exchange agreement, the issue price cannot be less than net asset value.

The total value of the rights issue will subsequently increase by about R9 million to R484 million, according to a statement yesterday. Fugit, an investment trust group in which Liberty has an 85 percent stake, is to be used as the vehicle for acquiring Liberty's offshore interests, valued at over R1 billion.

(58) Bday 13/10/88

Exchange rate of R2,90 to the dollar appears inevitable — United



Graphic: FIONA KRISCH Source: UNITED ECONOMIC PERSPECTIVE

KAY TURVEY

AN exchange rate of about R2,90 to the dollar, or $0,34, by December 1989 is almost inevitable, the United says in its latest Economic Perspective.

This gloomy view could become a reality if SA maintains an inflation differential of about 10% with the US, and repays foreign debt of about $2bn a year, while all other things — including policy — remain constant.

The report says economic research has indicated the rand exchange rate is influenced by relative inflation, terms of trade and capital flows.

In contrast to the US, where inflation has fallen from 13,6% in 1980 to 3,5% in 1987, SA has continued to inflate at double-digit rates.

This inflation differential, coupled with the average strength of the dollar on international currency markets, explains most of the rand's depreciation since the early '70s.

Further, SA's terms of trade — or export volumes relative to import volumes — have been unable to benefit from the long economic upswing in the US because of hardening sanctions.

The report says the SA economy hardly recovered from its recession in the early 1980s but import volumes and import propensity have remained at relatively high levels.

The third factor influencing exchange rates is autonomous capital movements when the exchange rate is viewed as an asset price. Autonomous capital movements are based on the potential growth performance of an economy.

The report says given SA's trade and financial sanctions, unacceptably high inflation and the poor shape of the balance of payments, economic policy has to be more restrictive.

To avoid accelerating inflation — which would imply a rand/dollar exchange rate well above R3/$ by 1990 — and accumulate foreign reserves, economic policy has to be restrained even more in the immediate future.

MUTUAL & FEDERAL

Rising surpluses

Activities: *Short-term insurance.*
Control: *Old Mutual is the ultimate holding company.*
Chairman: *J G van der Horst; managing director: K T M Saggers.*
Capital structure: *46,5m ords of 50c. Market capitalisation: R312m.*
Share market: *Price: 670c. Yields: 3,4% on dividend; 20,7% on earnings; PE ratio, 4,8; cover, 6,2. 12-month high, 710c; low, 400c. Trading volume last quarter, 194 000 shares.*
Financial: *Year to June 30.*

	'85	'86	'87	'88
Debt:				
Total assets (Rm) . .	398	509	814	899
Net premiums (Rm) .	248	246	424	593
Underwriting ratio profit/(loss) (Rm) ..	22,9	(8,9)	13,6	45,4
Investment income (Rm)	24,7	30,1	39,2	58,3
Pre-tax profit (Rm) ..	2,9	21,1	52,8	102,6
Earnings (c)	16,9	40,0	77,0	138,4
Dividends (c)	10,5	13,1	17,0	22,5
Net worth (c)	383	589	1 026	943

Who suffered from last September's floods in Natal and February's floods in the OFS and Cape? Short-term insurers have been busy reporting higher underwriting surpluses across the board, and Mutual & Federal is no exception.

Chairman Jan van der Horst says the underwriting account was affected and that reinsurers had to fork out substantial contributions — but that implies a far more substantial increase in surpluses from other categories of insurance than indicated by the year's consolidated underwriting surplus. And, by extension, it suggests considerable scope for a sharp improvement in the surplus this year.

What remains to be seen, though, is how long it takes competing firms to decide lower surpluses are acceptable and that rate-cutting is an appropriate means of gaining market share. Rates have already started to fall with policyholders generally being told that improved claims experiences allow it. More likely is that insurers have absorbed the additional business available following AA Mutual's collapse and now they are looking for further growth.

The industry has had two years of particularly good fire experiences and motor insurance is again profitable as the incidence of thefts seems to be falling. But Van der Horst points out under-insurance remains prevalent and claim sizes are rising at a rate greater than inflation. That would seem to imply an increasing risk of fraudulent claims if under-insured policyholders try to recover the full value of any losses.

In any event, M&F has not gone overboard following a year of record earnings. Dividends are now covered a massive 6,1 times, presumably because retentions are needed to ensure continued compliance with new legislation arising from the Melamet Commission of Inquiry. It would seem additions to the investment portfolio are also needed as protection against declining yields as the economy responds to tightening credit controls and rising interest rates.

The 78,6% interest in cash shell Iclef has been sold, but the transaction will have little or no effect on M&F.

The share is not far below its 12-month high and should hold its position while investors are attracted to the newly-established security of the industry.

Jim Jones

14/10/88

58

MERGING INTERESTS

CHANGING financial legislation placed increasing constraints on the Perm, making it difficult to live up to its mission of a mutual building society — owned by the people for the people.

This led to an announcement in August, approved by shareholders last week, that the business commercial bank Nedbank and the Perm would be combined into NedPerm Bank.

This would boost the assets of the new Nedbank group to R23bn, making it SA's third largest banking conglomeration.

With the authorities tying up the Perm while freeing everyone else, the only way to throw off the shackles and discharge its mission of providing clients with the products and service they needed was to merge with Nedbank.

This nutshelled explanation comes from Perm MD Bob Tucker, who stuck to a mutual building society while all other major competitors took the route of going public on the JSE.

Severe constraints on the Perm's growth stemmed from the deregulation of building societies in 1986. This stifled efforts for diversification and new products and put the Perm in an akward position.

Having decided to review its decision to stick doggedly being a disadvantaged mutual building society, its merger with Nedbank was seen to provide the Perm with the best of both worlds, says Tucker.

"With the Nedbank group's resources and considerable financial muscle, we bring a well-developed consumer banking network, which gives the group a presence in the market where it was not previously represented."

Another benefit arising from this balancing of Nedbank's focused banking activities with the broadly based consumer network of the Perm is that each will be able to take advantage of technological systems already developed by the other, with a huge potential savings in development.

Both Nedbank and the Perm will function separately and retain their own outlets, identities.

"In practice and by choice our original mission remains unchanged. We'll continue concentrating our efforts on homeownership — offering financial assistance to all sectors of the market and catering for the savings needs of the people."

FNB learns to be 'Smart'

FIRST National Bank (FNB) has taken one of the early leads in the field of chip card technology with its implementation earlier this year of an in-house Smart Card pilot scheme.

The bank is using the project to determine user acceptance of the new technology and to assist in building the necessary expertise among its own computer staff, says FNB GM Norman Axten.

However, the system will not be released this year or next.

"We're using this exercise to determine whether users find the card convenient and easy to use and, at the same time, it is enabling our development staff to see the card operating in a live environment.

"It is important that we have a thorough understanding of the technology to enable us to examine ways it can be employed to provide an enhanced service to our customers," says Axten.

More than 350 Smart Cards are being used by staff with at least 3 000 card transactions being processed each month at the bank's Selby staff canteen.

FNB deputy GM card and electronic services Jon Wildman explains that when making a purchase the cardholder inserts the card — containing a unique "pin" number and details of the client's personal cash limit — into a card reader attached to a cash drawer on the counter.

After accepting the pin number the cashier enters the purchase on the till and the card automatically processes the transaction, debiting the amount from the user's balance.

So far the pilot has ben well received by users, but a full survey will be carried out to determine user acceptance once the pilot is completed at the end of the year.

Main attraction of Smart Card is it has a built-in memory and, being intelligent, can process information off-line.

"From the bank's viewpoint this is advantageous as it enables a client's creditworthiness to be checked at the point of sale, while he can be identified through his pin number."

Chip card technology is still in its infancy and the present costs do not make Smart Card financially viable, says Wildman. "We'd need to include several value-added features before it can become cost-effective."

There is also a need for international standards on chip cards. Although bodies such as Visa and the international standards organisation have made some progress towards this end it will probably be three years before standards are finalised

The bank was the first to pilot Eftpos (electronic funds transfer at point of sale) in SA when it launched a trial at the Checkers Eastgate branch and at four Shell service stations in and around Johannesburg in 1985.

Eftpos allows for a consumer's purchase to be debited directly to his First-Card or cheque account, obviating the need to fill out a voucher or cheque. The client's card is passed through a reader attached to the till which is on-line to the bank's central computer. Each customer is assigned a pin number to ensure security.

The pilots, which ran until the end of last year, proved most successful and the bank is presently developing Eftpos systems based on these results.

"The initial system is aimed at credit and fleet cards and should be is operation in early 1989 with trials later this year," says Axten.

COMPARATIVE BANKING

FNB launches its CareLine service

IN ORDER to stay ahead in a dynamic banking market First National Bank (FNB) recently launched several new products and services while enhancing some established ones.

Most recent development is the implementation of its Service CareLine, a hotline service used to solve customers problems and attend to client queries efficiently. And a hi-tech Smart Card (see story opposite) is being trial tested.

These developments conform with the bank's commitment to provide clients with the most innovative services at the most cost-effective rates, says FNB GM Norman Axten.

"The bank has an ongoing programme of product development to stay ahead in a competitive market. We are committed to catering for all our customers' banking requirements and to providing top quality service and value for money," he says.

Among the recent product improvements:

☐ Tandem, an innovative cheque account pricing option for married couples;

☐ The Quantum assured savings investment plan and,

☐ FNB's Seniors' Portfolio and Professionals' Portfolio — both offering attractive benefits to senior citizens and professionals respectively.

Axten notes Tandem represents a "first" in the banking industry whereby it allows married couples to receive considerable discounts on cheque account service fee rates.

"It is available to all current and prospective First-Cheque, Status and Premier account holders enabling their spouses to run a cheque account with discounts of up to 50% on the service fee rate being charged on their account.

"As an added benefit, spouses of cheque account holders making use of the Tandem option may qualify for a new FirstCard free of card fee charges for a year."

The Quantum plan is a new medium- to long-term investment product which provides the missing link between real growth and security.

It was developed by the combined muscle of FNB, First Bowring & Associates and Old Mutual — the company underwriting the product.

"Quantum has been carefully planned to satisfy the needs of long-term investors who want security and real growth. The product gives them the opportunity of achieving inflation-beating growth without having to opt for a high-risk investment," says Axten.

The new Seniors' Portfolio embraces a range of value-for-money products and services and provides senior citizens with a convenient one-stop banking facility.

Minimum requirements for applicants are they must be over 60 and have R10 000 or more invested with FNB in either a savings, deposit or cheque account.

The Seniors' Portfolio's free personal cheque account offers an additional 0,5% interest on published rates for fixed deposits of 12 months and longer. The package includes other concessions.

An integral part of the Seniors' Portfolio is the apointment of "relationship bankers" — a group of knowledgeable bank executives assigned to guide, advise and take a personal interest in senior citizens' financial affairs.

The Professionals' Portfolio, available to both newly-qualified and established professionals, consists of a range of products and services from which the professional selects a tailor-made package to suit his own business and personal financial needs.

"It offers generous facilities at favourable rates with minimum security requirements. It's also flexible in that it can be modified as the professional's needs change — designed to satisfy both present and future financial requirements."

Now under way is the bank's programme to enhance some of its 600 Bob machines by replacing the existing models with the more advanced NCR range of ATMs. The programme should be complete by the end of the year.

New ATMs offer several attractive benefits to FNB and Saswitch clients. They will incorporate the latest technology in teller machines and have been designed specifically to provide enhanced customer convenience.

The ATMs boast considerably faster response times, are outstandingly "user friendly" and are exceptionally reliable.

An electronic accounts payment service is being introduced on all of the Bob machines countrywide. This service provides clients with a convenient, secure and inexpensive means of paying regular household accounts like electricty bills, mortgage bonds, clothing accounts and so on.

It can also be used to transfer money from one Bob-operated cheque account to any other account held at FNB or another bank or building society countrywide.

The service is not only

☐ Continued on next page

TrustBank the fastest of 'Big 5'

TRUSTBANK, commercial arm of the Bankorp group and the only SA bank to have installed card readers at all its teller and enquiry counters, says it will upgrade its sophisticated hi-tech banking services continually to maintain market share.

The bank sees hi-tech leadership as an important contribution to its stated policy of getting its products and services known for their quality not quantity.

With the cornerstone of it's business style being relationship banking, it says this policy is paying dividends and can be guaged by the group currently showing the best growth rate in savings deposits in SA.

As flagship of the Bankorp group, which includes general bank Santambank, merchant bank Senbank and Bankfin — the group's financial services company, TrustBank lays claim to being the fastest growing bank among SA's "Big Five".

Ranked the third largest group in the financial services sector as measured by assets, the bank is backed by Bankorpdata's high level of electronic expertise which recently earned it top marks in a Butler Cox productivity survey comparing the efficiency of systems development among 160 top computer companies worldwide.

With its comprehensive investment in state-of-the-art electronic banking technology TrustBank senior GM Jerry van Vuuren notes, however, its basic cheque account service has not been dramatically altered in recent years.

Still, it's one of the few services of its kind which operates through a realtime computer system.

In addition, it is special because, he says, it's the only one to offer a minimum guarantee of R200 on all cheques, while Premier account holders have automatic cheque guarantees up to R2 000 plus the use of TrustBank's sophisticated Premier Card.

A more recent innovation has been the introduction of Credit Line — an automatic facility which operates on the issue of pre-guaranteed cheques of large denominations used mainly for the purchase of expensive durables.

Other innovative products include Campusteller for fulltime tertiary students and Ultimate Bond, a product which removes the aspirant homeowner's major obstacle of raising a deposit.

Boasting the best growth rate in savings deposits, Van Vuuren says the importance the bank attaches to national savings will be further underlined when it announces a brand new multi-faceted savings product soon.

"This card-based product will enable the client to access his account both on and off the bank's premises and will provide a most cost-effective means of conducting banking activities."

Current and future banking services for individuals are closely related to the use of card-based payment mechanisms.

"Last year TrustBank more than doubled its Visa credit card base while demand for ATM-linked cards have quadrupled in the last three years," says Van Vuuren.

Against this background the company is busy installing a further 150 ATMs by year-end at a cost of R10m. These terminals, which will bring its ATM base to 300, offer the most modern technology available, including full colour graphic screens.

Computerised credit management has helped to promote a win-win relationship between the bank and its clients, since the same financial modelling which assists in containing bank risk helps clients to help themselves.

The bank was the first financial institution to develop a remote cash management facility for corporate clients and believes it's necessary to continue development of decentralised processing facilities.

"Clients need not only to obtain realtime information from their bank's mainframe computers, but to process that information on their own personal computer-based systems. To meet this need TrustBank has introduced an innovative product, X-Link."

The name refers to a computerised link established with company "X" and can interface with TrustBank's mainframe computers for portfolio management.

However, the key to it all is in the interface's customised compatibility with the client's own financial management system. Interest in the system from major corporate clients is reportedly strong.

As one of the first to link its ATM network with Saswitch, TrustBank says it is nevertheless conducting development tests on alternative payment

COMPARATIVE BANKING

(58)

Cheaper services are being developed

CHEAPER banking services for standard products are taking place as more financial institutions turn their attention to commercial banking from other related fields.

This trend is affecting major products such as cheque accounts run by companies and individials plus credit cards and is being widely noted on the market.

Certainly, all banks and building societies can claim innovative products and advantages in certain services, but not that many can be accredited to each financial institution in the past year or so.

One company which must be making competition not only hot but a bit uncomfortable for some bigger banking organisations is the fledgling United Bank, a recent edition to the United Building Society (UBS) group. It has come up with an impressive array of new products supported by what it claims are lower charges.

BRAKE

In its bid to make banking more affordable, capture clients and increase its financial muscle, the United Bank is launching its own cheque accounts and credit cards.

These products, it predicts, will put the brake on rampant banking charges as they offer "drastically reduced operating costs compared with other financial institutions," claims United Bank MD Nallie Bosman.

Available from all UBS branches countrywide, they are supported by a real-time on-line computer network which, he says not only makes banking cheaper but more convenient than before.

Many people who would love to enjoy the convenience of a cheque account, but they simply cannot afford it, he says.

"At present they are making do with transmission and savings accounts which are less convenient but cheaper. Now they have a realistic alternative with United Bank's cheque account."

The achievement is partly attributable to what the bank regards as its superior computer facilities which enable it to maintain its competitive charges into the future.

our existing charges for at least the next 12 months," says Bosman. "And the United would work continually at keeping interest rates lower on overdrafts and higher on credit balances than at other banks.

The bank's service fee is structured around a base fee of 20c for every R100 of cheque value with the minimum set at 20c and maximum at R4. Most of its competitiors are twice the rate, or 40c minimum and R8 maximum.

"Some bank charges are as high as 60c per R100, with the minimum at 60c, and a maximum of R12," he adds.

OVERDRAFT

Credit balances, the United has set an interest rate in line with that paid on special savings accounts. This follows the concept of the higher the balance the higher the interest rate.

The bank claims its overdraft rates are also lower than most with interest rates up to 2% lower than paid at other banks. The minimum is set at the prime overdraft rate.

United's claims reduced costs on 12 other services, most notably being bank cheques R1 (highest competitor R25), bank guaranteed cheque R2 (R10), special clearance R7,50 (R15), UBS ATM withdrawal 25c (35c), other ATM withdrawal 75c (R7,50).

Services for which competitors charge fees ranging from R2 to R20, but which the United provides free, are for stop payments, overdraft administration, completion of security documents, cash deposits, auditors certificates, fund transfers from one account to another, photocopies of ledger statements and certificates of balance.

United's cheque account is linked to an electronic cheque card which will be available to customers as soon as they open an account enabling them to then make cash withdrawals from any of SA's 2 600 ATMs linked to the MultiNet/Saswitch network.

While awaiting their cheque books, which will retain the original account

where the account is later transferred to, customers will be able to use their card to get bank cheques at United branches or obtain them from its cheque issuing machines.

"Our computer network will enable all clients to make immediate withdrawals against cash and approved cheque deposits irrespective of where the deposits were made."

An electronic fund transfer facility will conduct bill payments, account transfers and debit orders there-

by further reducing costs, he says.

Turning to credit cards, these will be known as United's MasterCard and Gold Card. Both have unique multi-purpose instruments which include:

☐ On savings they offers up to 2% more interest on credit balances than most other card issuers;

☐ On purchases interest is charged only 25 days after the date of statement and offers up to 55 days free credit; it is accepted by 70 000 merchants and more than 5m internationally;

☐ As a credit card and subject to certain criteria, it offers the facility of up to 25% more than currently provided by most other credit cards.

Furthermore, repayments are structured to client's requirements with a minimum of R25 or 10% of the outstanding balance monthly and repayment periods between six and 36 months negotiable at rates of up to 2% lower than most other credit card users.

SENIOR INVESTORS

HAVING expanded its investment advisory service to 18 major centres, the Post Office expects to attract a growing number of mainly more senior investors for a wide range of options.

Besides investment advice, PO staff will ask for quotations and arrange meetings between clients and financial advisors of other institutions.

The PO advisory service will provide guidance on the whole spectrum of investments including participation bonds, building society plans, long-term assurance and also on equities.

Despite referrals to other financial institutions by the PO advisory service, it claims to provide investment opportunities which the banks find difficult to beat.

One which is attracting a steady stream of new customers is its popular savings bank certificates (SBCs), offering 8% tax free interest. It ranks high because it compares fairly well with the net yield offered by banking sector no-risk investment products which are fully taxable.

According to the POs effective interest tables, to match the SBCs 8% tax free interest on capital a married person earning between R35 000 and R40 000 with a marginal tax rate of 39% would have to earn 13,1% in any other taxable investment product to show the same yield.

A person earning more than R60 000 and a marginal tax rate of 43% would have to earn 14% to match SBCs.

Recent research shows 65% of investors in SBCs are over 55 years of age and of them two-thirds fall into the A and B income categories. Of the over 55s about 35% are pensioners and at least two-thirds of them are married.

In addition to marketing its own products, it is also the main agent for the Treasury's indefinite period bonds and national defence bonds.

Investment pillars

INVESTMENT in SA has become more serious and complex, says Metboard, and all the factors which may affect any type of investment must be looked at more carefully than before.

With the share market in a bear phase, inflation with nowhere to go but up, and experts having the view that things will get worse before they get better, Metboard says professional planning is essential before a good investment portfolio may be decided on.

Basing its investment product on three pillars — cash, equity and property, it believes any well-balanced portfolio should comprise all of these categories.

On the cash factor, it is important to have some of one's portfolio which is not exposed to the risk of capital depreciation, and a cash investment is a simple way of ensuring this.

The cash element will more than likely be a short-term (liquid) investment and a long-term one.

Such is its agency call operation which is a liquid investment that offers wholesale rates on retail deposits of amounts less than R100 000. The difference between wholesale and retail interest rates can be as much as 5%, depending on the retail amount.

Metboard's new Cashbond is a vehicle for longer-term cash investment, while allowing access to funds at 24 hours notice.

The company will arrange for Investec Bank to advance funds at the same rate a client earns interest on his participation bond. Because this investment is a long-term one the loan arrangement is to facilitate access to funds in times of need.

At the current interest rate of 15,5% quarterly in advance, it represents one of the highest interest rates available — higher than Granny Bonds. And because interest is paid in advance, it can be reinvested immediately to reap interest on interest.

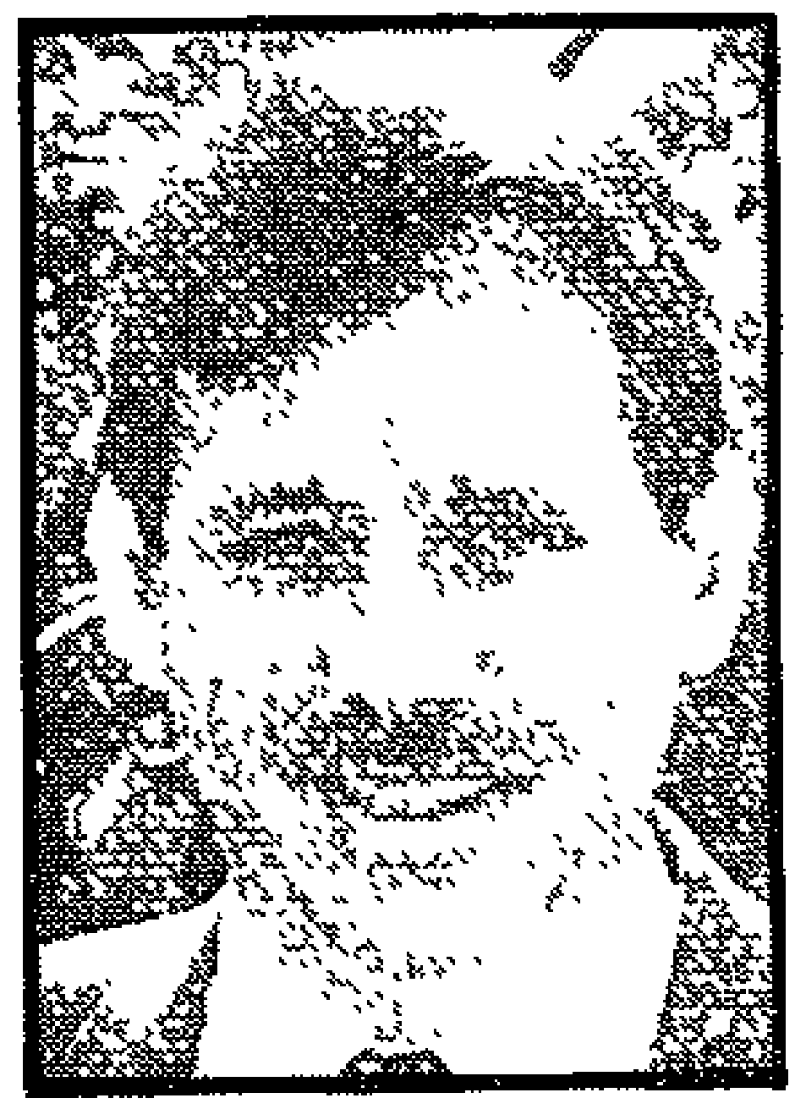
Talking equities, Metboard says shares are notoriously fickle, but viewed over an extended period they remain attractive.

Although unit trusts have fallen by 20% since the October crash, prices are nevertheless 60% greater than four years ago, thus generally exhibiting a long-term upward trend.

Metboard's investment advisers include specialists in government stock (gilts), but this area requires considerable capital outlay.

Because property investments require a vast capital outlay, one way round this is through investing in a property syndication. After commercial properties with potential for good growth have been identified, investors are invited to participate as part-owners of this property for R5 000 a unit.

All the benefits of being a land-owner accrue to the customer without the hassles of maintenance, rent lease negotiation and collection. The investor receives a rising income as rent escalations occur from year to year.



☐ STEPHEN KOSEFF

'Hi-touch' and hi-tech

PROBLEMS arising from hi-tech banking, especially since the automatic teller machine (ATM) system was partly aimed at thinning out banking hall business, include the tendency to distance customers from personal contact with banking staff.

Nedbank's Ivan May says his bank's tendency now is wherever possible to create products which will also lead banking back towards "hi-touch" without it being detrimental to important hi-tech developments.

Apart from hi-tech's role and influences on the market, the bank remains fully alert to developments outside of electronics — for it is concerned about the country being over-banked and what could happen to the financial industry as a whole.

And with banking becoming increasingly competitive he suggests SA has not seen the end of mergers.

Sanctions is another immediate threat to the financial sector as it progresses increasingly into hi-tech systems. Here certain innovative financial packages which have been under scrutiny with most local banks could fall out of bed if availability of service back-up is threatened now or later.

One such recent innovation on the cards is the introduction of the "smart-card" — a system where a credit card format includes a client's picture and microchip, making it a small portable computer.

In line with global trends, SA bankers expect smart cards to become a major feature and eventually replace the credit card a few years hence.

At present the card is relatively expensive, but developments in microchip technology never cease resulting in costs dropping substantially. Original costs for smart-cards hardware and software have fallen steadily from about R60 a client a year or so ago to R25 today.

Another phase in hi-tech banking progress wordwide is the development of artificial intelligence (AI).

It follows the customers information file (CIF) and the intelligent terminals.

Since major spending on capital investment by the banks commenced in the 1960s, when accounts were moved out of the branches on to big computers for branch procesing, telecommunications and computer technology came together in the form of the remote terminal.

Major savings of that first wave of automation have long been achieved. But the second-wave remote terminal system has caused many problems: It has not led to reductions in staff and it consumers enormous resources in network design, capital investment and operational costs. Worse still, remote terminals keep the clients out of the branch — where customers borrow money and make deposits and where financial services get sold.

The challenge is to harness technology to ensure those services are sold at a profit. So the new approach is based on three legs of branch automation — the CIF, the interactive terminal and AI.

The CIF with all its personal details on the client and his investments is the first leg.

Second leg is intelligent terminals, both staff and customer operated: "dumb" terminals at the counter enable real-time banking where cashiers can key into an up-to-the-minute balance on the account.

A new dimension is added if the cashier provided with an intelligent workstation. This third leg is the development of AI in retail banking.

With so many services in a more competitive marketplace worldwide, specialists in any area of retail banking are increasingly at a premium. So expert systems based on AI are a means of computerising a specialists knowledge.

Making a mark in niche banking

NICHE orientated banks, the independenent and entrepreneurial organisations which concentrate on narrowly defined markets, have been making their mark in SA banking circles.

Leading players in niche banking, which include Investec Bank, Syfrets, Rand Merchant Bank and Medical Leasing Services (MLS Bank) as well as other small banks where project finance is involved, tend to avoid head-on competition with the large money centred bank.

Investec Bank MD Stephen Koseff attributes his bank's gains to competing in areas where it stands to achieve dominance or be a major player.

"We see our future lying in servicing the corporate, institutional, professional and high net worth individual target markets in specialised, non-standard products and services," he says.

In remaining entrepreneurial — as opposed to "a beauracracy" — and in being able to adapt to rapidly changing environments he claims Investec is well placed to maintain its good performance in years ahead.

Operating from a sound capital base, emphasis will remain on providing clients with those services and products which Investec has the most experience and expertise, while generally avoiding exposure to areas of intense competition with the major banks.

As many players of the equity market note, people outside of business and financial circles don't know that much about the likes of Investec's and other niche banks.

After a process of reorganisation, which saw Investec merge with Metboard, the bank's major areas of activities are:

☐ Lending money to professional and middle to upper corporate markets;

☐ Financial market operations, including trading in the capital market, money market, Krugerrands, futures and options, the creation of banker's acceptances, interest rate swaps and related financial market activities;

☐ Corporate financial services including corporate finance, project finance, management buy-outs, disinvestment services and cross-border financial structures;

☐ Property activities, including property trading, syndications and property management, plus management to listed property vehicles such a Metprop and Growthpoint Properties;

☐ Asset management activities, including mortgage participation bonds, mutual fund management, mutual fund management and portfolio management of large client investments;

☐ Investment services and products, including mortgage participation investments, linked rate deposit, fixed rate deposit, cash management facilities and mutual fund investments.

Koseff says Investec's banking unit has gained noticeably in the face of growing competition.

"New business written has increased almost threefold with a consequent net increase in receivables of 100%. This would provide a good base of consistent earnings for the years

BETTER BORROWING

AN innovative facility which gives investors in participation mortgage bonds (partbonds) access to borrow up to the full capital value of their partbond investment has been arranged by Metboard with Investec.

The new facility offers the client the best of both worlds — an attractive rate of 15,5%, paid quarterly in advance, and full liquidity. And it is available only on new investments.

The funds borrowed under the rules of the new product will always be subject to exactly the same interest charge as Metboard pays on its partbond.

Kantor says this means the loan does not result in a cash outflow for the borrower. Interest charged on the loan is paid in full through income accruing on the partbond investment. There are no hidden administrative or other costs.

The facility, which can be used by anyone who has from R20 000 to R2m for investment in a partbond, removes the liquidity obstacle which has long detracted from partbonds as an investment.

The only restriction on the borrowing is investors who borrow against their investment must do so for

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And the trends created by these new scenarios will unavoidably extend and expand into the near future.

But as SA is a country with widely different economic needs, TrustBank senior GM Kobus Roetz says it seems inevitable banks will have to select strategies which focus on market segments where their skills and abilities are expected to produce results.

He says: "We do not believe it will be viable for a bank to attempt to offer the same level of service quality to clients across the entire spectrum of SA's economic needs."

The macro-economic environment will place continued demands on banks to provide corporate clients with innovative financial services to counter threats and utilise opportunities.

"Expertise must therefore be available in areas so diverse as export financing and sanctions avoidance. Among other things, TrustBank will also maintain and expand its offshore branch facilities."

The ongoing development of electronic payment mechanisms holds advantages which will be further exploited. This enables banks to decentralise the delivery of services to more convenient locations for clients.

The leading edge of technology also offers innovative variations of basic delivery systems which are creating worldwide interest.

Roetz says: "However, we believe more developments in this field should be guided by factors such as the security and confidentiality of electronically transmitted information, recovery cost required for large capital investments and the realities of the SA socio-economic environment."

Effective use of technology should diminish the administrative work load and improve the accuracy and speed of client services. If this is correctly implemented, banks can be one of the few sectors in SA to show real growth in productivity.

STUDYING STRATEGY

WITH the financial community in a state of flux, each component of banking is reassessing its future strategy.

Volkskas Merchant Bank (VMB) executive director Bill Pienaar says most financial bodies are not too sure of the future and are heavily involved in strategic planning.

"We are doing this in the belief that the successful merchant bank will be the one which can see out the changes over the next five years or so," he says.

With so many segments of merchant banking under review it is not possible to review all of them. But corporate loans, stock exchange listings, company reconstruction services and the effects of privatisation come easily to mind.

At least one other merchant bank is believed to have plans to phase out corporate loans from its services over the next five years, probably because such loans are not perceived as a profitable operation.

As Pienaar notes, however, this may appear to be the case now but in five years time it might be a good area to be should there be fewer players to deal with corporate loan developments.

Mergers and takeovers are rife and along with a less buoyant economic and stock market listings outlook scene lower fees from listings are expected to continue which should adversely affect brokers and merchant banks for some time.

Segments which appear to offer better long-term opportunites are financial instruments and the futures market in particular.

Pienaar expects the financial instruments market to boom over the next 10 years.

"While we deal successfully in options the bank has decided to concentrate on internal and external training before getting actively involved in the futures market," he says.

Corporation Merchant Bank (Corbank) executive chairman Laurie Korsten agrees with the listings outlook adding this dismal vogue for fewer new listings compared with last year is one which may change positively in later years.

"In the meantime Corbank is concentrating more on company reconstruction services arising from trends as mergers and disinvestment, while it also wishes to expand in the investment management field."

Still, the more traditional activities of merchant banking have taken a knock mainly due to increasing competition from other banking areas where loans and advances are concerned.

"But there is a gap for constructing such transactions and Corbank is concentrating on project-type finance related activities."

Another hope for the future is privatisation, says Korsten, notably when the pension schemes of organisations such as the SA Transport Services are transferred from government to the private sector.

Allied dismisses takeover rumours

CLAIMS in SA financial circles that medium-size banks are soft targets for takeovers and mergers, because survival in this sector is only assured among the biggest and smallest banks, is dismissed by Allied Group MD Kevin de Villiers.

His reaction follows weeks of widespread speculation that Allied was about to be swallowed by First National Bank and other rumours that Saambou was due to be taken over by Allied.

Such rumours, he says, were fired by opinions and general talk that SA is over-banked, saw big price movements in the shares of both JSE-listed Allied and Saambou, with less movement on First National's equity.

Allied's market share is growing and will continue with its main thrust of organic growth, including upgradings to service, marketing and training, rather than acquisition to retain or improve its position.

De Villiers attributes the rumours to players of the stock market where every permutation to make shares move is carried out — often by jobbers out to make quick returns. At the same time he dismisses "economies of scale arguments" on why banks should join forces to survive.

"Not only have we not been negotiating with First National or Saambou about merging our interests, but we haven't even been to lunch with any of them," he says. "We're intent to retaining our independence."

While stressing the Allied has not been hunting for a partner he says it does not mean should one happen to come along it would not be interested, be it an industrial company or a financial house.

Arguments that small banks won't be the target of mergers or takeovers, but woe betide the medium-sized banking organisation, are lacking in substance, he says.

"Local and reputable international research shows there is no correlation between size and return on assets. Success or failure may depend on how good a bank's staff interface with customers."

On the issue suggesting SA is over-banked, De Villiers points to the low return on capital over the past five years. A low return on assets does not necessarily mean over-banking but could mean weak marketing or poor management.


KEVIN DE VILLIERS

The argument goes a step further suggesting SA for its size should have about three and not 10 banking groups. But even with three the country could be over-banked with lots of inefficient people pottering around trying to sell banking business.

"The cure if over-banked might well be fewer bankers, not banks," he says. "And everybody should be a little bit sharper with fewer inefficient bankers.

The USSR has one bank, while the US about 14 000. Despite certain failures in the US it is widely regarded that US banks operate more efficiently than the one in Russia.

Network arguments heard for the past 15 years claiming banks with the most outlets had a great advantage are falling away as cards for ATMs dominate the market.

Boasting 500 branches and 7% of the market, compared with Standard's and First National's 1 000 each approximately, Allied fits the middle-sized bill to a tee. But it is not deterred by its smaller size and believes hi-tech has worked against economies of scale.

"The range of mainframes and personal computers have continually improved in quality and distribution so that the trend of computerisation today is more towards distributive processing," he says.

The Allied claims it is well structured having each of its five general managers assigned to a specialist operation, namely the consumer market, professional and corporate business, treasury operations, computers and administration.

In further support of his contentions De Villiers points the Allied Group out as having maintained its 17% share of the mortgages market while its two biggest players, without naming them, have seen their shares plunge from 26% to 22% and from 24% to 21%, respectively.

"Economies of scale did nothing for them," says De Villiers.

"And what makes argument for size more difficult to accept is that many exponents of conglomeration in business are among those arguing against government being too big."

FOCUS IS ON INDIVIDUALS

FUTURE focus of Santambank, the "general banking" arm of Bankorp, will be on personal banking services and to a large extent on middle-income salaried people.

A Santam spokesman says the bank's "value for money" services to individuals should continue to ensure it good growth.

"Lower marketing costs and our above-average productivity place us in an excellent position to remain very competitive."

Since 1986, Santambank has been the single largest general bank in terms of assets. Regulations have since changed and classified all types of banks, including merchant banks, in one category.

The bank accomplished its growth by focusing on the middle-income group, salaried person and the motor vehicle financing market through a well-developed distribution system in close co-operation with motor-dealers.

A sizeable piece of its market share comes from instalment sales agreement (HP) vehicle financing, which has doubled in the past four years, making Santambank a market giant.

It is interesting that Santambank, widely regarded as a bank for Afrikaners, claims half of its clients are English-speaking where HP, rental, leasing schemes and floor plan financing are concerned.

Today, it offers a full range of banking services that include cheque book accounts, credit cards, savings, personal loans, investment services, home bonds assurance and insurance.

Written by LYNN CARLISLE

Major changes on the horizon

WITH recent innovations, uncertainties and changes to the rules — which include deregulation of building societies in 1986 — SA banking looks set for further major adjustments in the years ahead.

Sources believe the financial services industry is still undergoing a process of rapid change, characterised by intense competition in most market segments and a tendency towards the formation of large financial agglomerations.

It is likely, they say, that there will be a blurring of distinctions between financial institutions and that there will be mounting competition for market share.

Aside from the influences of forecasted low economic growth in SA, such developments will lead to reduced margins, increased expenditure on marketing, escalating investment in information technology and competition for skilled personnel at all levels.

As banks offer more to attract a limited market, so more products and services will become loss leaders as an effective way to sell other, more profitable products.

But getting the mix right will determine who does well and whose bottom line suffers.

Banking's "big five" reportedly say that innovative products, quality service, hi-tech upgradings and the need for better personal contact with customers will determine who does best.

larger from mergers and takeovers — and becoming more dependent on technology — another pressure arises as more small banking organisations appear on the scene.

This year eight new licences have been issued — as many as were issued in the previous eight years by the Registrar of Banks and Building Societies.

The latest licences are for Pinnacle Bank, which will concentrate on merchant banking services to the mining, mineral and public sectors; Islamic Bank will provide full banking services in accordance with Islamic principles; and Islamic Development & Investment Bank will concentrate on merchant banking and finance.

Other licences this year are for Cape Investment Bank, FNB of Namibia, Rand Securities, Saambou Bank and Duros.

Smaller banks say that hi-tech is creating electronic distributive processing — ATMs linked to Saswitch and Multinet networks — which gives small banks and building societies greater flexibility.

Takeovers and mergers in banking are the order of

tutions which survive such bids and economic downturns will still need to explore other avenues for growth.

But the unrelenting war of technology and innovation has often made it more difficult for them to broaden product bases.

Still, further respite is foreseen as small banks predict that service will deteriorate with agglomeration.

Fidelity Bank, which perceives the number of players in the industry being considerably reduced by takovers and mergers, says this will create exciting opportunities for smaller players as service is an area where their more streamlined operations give them an edge.

Then cost-factor differences should have a bearing on the market.

A Bank of Athens spokesman claims bigger banks squeeze their smaller clients in order to make up for loss leaders given to influential and demanding customers. This will result in a gradual trickle away of smaller customers to smaller banks.

Banks such as the Bank of Athens also claim to have fewer losses because their stiffer credit requirements for loans produce a lower percentage of defaulters.

They also claim not only a more personal relationship with customers, but say their service charges are about 30% lower than those of big banks.

However, key-staff losses to the big boys leave the smaller institutions badly off

Competition between the various players aside, other pressures will test both banking and business in general.

Growth in GDP is not expected to exceed 3%, some put it much lower, while sanctions will continue and intensify. The contraction of economies worldwide following the October stock market crash is bound to affect SA's non-gold ex-

vestment and the large public-sector involvement in the economy is also likely to persist for some time, while increased consumption demand and SA's worsening balance of payments will continue to exert inflationary pressure.

At the end of the day, nobody will escape the combined adverse effects these will have.

BANKING TOP-ENDERS

IN the banking world, latest calculations show that Standard, United Group (UBS) and First National (FNB) collectively hold nearly half the savings account market in SA, in terms of value.

However, Ranking the "big five" on assets as at end-June, leader FNB has 29,4%, Standard 23,8%, Bankorp (Trust and Senbank etc.) 19,2%, Volkskas 13,9% and Nedbank 13,7%.

Total assets of the five have increased 34,3% in the year to June from R64,8bn to R87,1bn.

Giants of the savings account market, according to an FNB quarterly analysis, are Standard with 18,4% (R2,4bn), followed by UBS's 15,9% (R2,1bn), FNB's 15% (R2bn), the Perm's 13,3% (R1,8bn) and Bankorp's 8,5% (R1,1bn).

Nedbank posted the biggest percentage increase of 20,1% when its savings rose from R795m to R955m.

Comparative banking

A Business Day Survey

Service makes the difference

NEDBANK looks set to make an even bigger impression on SA banking as it enters its second century of business.

That observation arises after listening to marketing manager Ivan May who briefly outlined how he views the fast-changing SA banking scene in the forseeable future.

Nedbank's approach to modern banking — with its growing array of electronic innovations — has been to stay competitive without forsaking the basics in recent years.

Recognising there is not much difference in the products marketed by banks and building societies, Nedbank has concentrated on the quality of its service.

Innovations, while welcome, have shortcomings. "In home loans financing there's always the small print to be considered. That includes facing up to the day of reckoning when interest rates rise further and when it becomes difficult, perhaps even impossible, to keep pace with minimum repayment requirements."

Nedbank would rather turn down a home loan applicant if there was any doubt about affordability.

"Being particularly responsible in our policy when lending money we don't believe in easy credit and always look at the possible consequences further down the road."

Packaging is the name of the game in banking and the facility of electronic banking has made the mechanics of packaging easy.

But, says May, while electronics now provides the base for new products and is the lifeblood of the financial institutions, it depends how well any bank can put a package together for it to benefit client and bank.

Irrespective of what financial engineering is carried out, Nedbank claims it will continue to follow a sensible financial approach towards its clients, products and services.

"While we are highly competitive we would rather be more selective up front than make bad friends through having to repossess a homeloan, a cheque book or by taking legal action against a defaulting client."

"In other words," says May, "Nedbank's policy and service is aimed at ensuring that where every client's equity is concerned we are here to increase it, not dilute it."

HIGH ON RETURNS

RECENT mergers between banks and building societies could lead to the creation of corporate monsters. Should the trend continue the financial services industry may soon be top heavy with conglomerates, Natal Building Society (NBS) GM public affairs Brain Short says.

He says, "The market is already saturated with look-alike products which are basically variations on a theme — and this is leading to tremendous confusion among consumers."

Happy to stand alone as the David among the new era of Goliaths, the NBS believes the traditional lines between banks and building societies have become blurred with confusion and mistrust having occurred at street level.

Short says the likelihood of packages and products being variations on a theme will leave customers to base their investment banking decisions on criteria other than returns.

NBS is committed to its chosen path of independence and is able to withstand market pressures because it is able to operate from an increasingly profitable base.

"Last year, NBS profits were up by more than 15% and indications are that this year more significant increases can be expected."

Short says fee income has increased and this, coupled with a marked decrease in the management expense ratio, are positive signs for increased profitability in the new year.

Diversification into property investment, participation bonds and hire purchase financing should contribute a greater share of group profits in the future thus decreasing NBS group dependence on earnings from the building society.

Recently, NBS launched new products — these include two unit trust companies — NBS Hallmark and Norwich-NBS Mutual Funds. They follow the successful launch of Expand-plan, an endowment insurance based product jointly by NBS and Norwich Life this year.

Short says NBS' profitability and strengths allow it to be flexible and innovative in a competitive market.

Tough conditions take a toll of NDH

LINDA ENSOR

TOUGH conditions in the money markets hit the NDH Group hard — earnings a share in the year to end-September plummeted 31,3% to 8,8c (12,8c)

However, the dividend has been maintained at 8c. Net income after transfer from internal reserves was R3,3m (R4,9m) which the board said was "a disappointing result" and reflects the problems experienced in the discount house during the first half of the year.

National Discount House MD Graham Lund said the previous year had been the most difficult on record, with the sharp rise in interest rates resulting in significant losses on the house's portfolio.

BA rates had, for example, risen from 8,85% in October 1987 to 13,85% in September this year and were now running at about 14,25%. Longer-term rates had also risen.

"We were hoping for the economy to run but were faced with the stop-go economic policies of the authorities," Lund says.

It was too soon for the diversification into securities trading to pay off as the options and futures markets were still in their infancy. No real contribution came from this source.

Equity trading was plagued by the problems affecting the market generally and while foreign exchange broking picked up, volumes were limited by the hostile international political environment.

The 50% stake in the London and Dominion Trust was profitable, but the benefits of the 12,5% stake in the financial services company Mercantile Securities — a long-term project entered into with Unidev and New Bernica — had yet to flow through.

IN BRIEF

MERHOLD is to proceed with the renounceable rights offer to Merhold shareholders of 5 482 074 unsecured variable rate convertible debentures of 200c each and of 2 741 037 convertible redeemable C preference shares at 180c each.

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KLIPTON is to be transferred from the DCM to the industrial holding sector of the main board as from Monday.

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THE FSI rights offers, aimed at injecting R114m of new capital into the group before costs, open today and close on Friday 4 November.

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FURNITURE Fair's (FurnFair) pyramid company Furngro has applied to the JSE for a listing in the furniture and household goods sector.

A rights offer of 9 184 560 shares in Furngro will be made to FurnFair's minority shareholders.

Application has been made to the JSE for the listing of the nil paid letters as from November 24. The last day for minority shareholders to register will be October 28.

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TIME Holdings is to undertake a rights offer to finance the first instalment of the R3m purchase price owing to the vendors of Vista Homes and Vista Investment Holdings and to broaden its capital base.

Shareholders registered at close of business on October 28 will be entitled to participate in the offer.

Poor half-year from Score Food Holdings

LINDA ENSOR

Score Food Holdings Limited

THE performance of Score Food Holdings in the six months to August 27 is disappointing with earnings a share of 37,5c (37,4c) showing no real growth.

The dividend rises by 1c to 13c (12c) on a slightly lower dividend cover of 2,9 times (3,1).

Culprit of the poor showing, which blackens the exceptional profit record of the group, was Cape-based division Grand Supermarkets, which made a loss and dragged down highly sensitive margins from 2,74% to 2,29%.

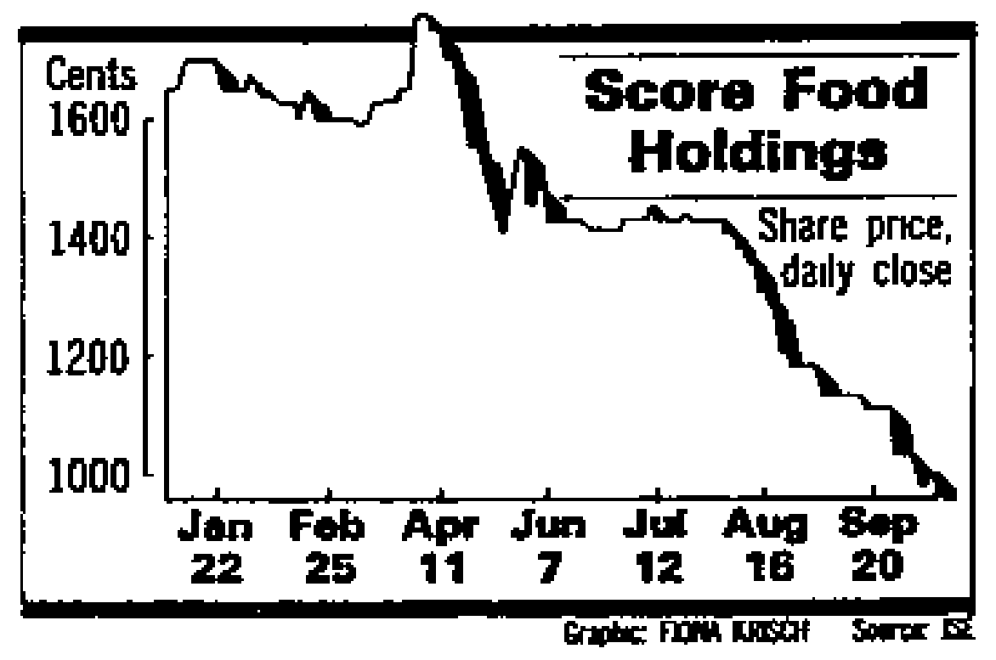
The problems at Grand Supermarkets arose from bad management, the write-down of stock in the softs and hards divisions and pressure on margins. The problems are regarded as "temporary", however, and action has been taken to remedy them.

Score Discount Food Stores and Trador Cash and Carry achieved budget.

Turnover rose 18,9% to R521,8m (R438,7m) which, on the lower margins, resulted in a 0,37% drop in operating income to R11,9m (12m). The sharp 63,6% rise in the interest bill to R1,3m (R793 000) due to new store openings, promotions and a large increase in stock, further dragged down profits.

The situation was salvaged to a degree by the lowering of the tax rate from 47,7% to 44,4% due to the availability of assessed tax losses due to the rationalisation, tax rebates on training and allowances for exports to Central Africa.

Attributable income of R5,5m was virtually unchanged.



Graphic: FIONA KIRSCH Source: ISE

Group MD Carlos dos Santos says remedial action "including the rationalisation and consolidation of all retail interests into one cohesive unit under a new management team is being implemented."

Grand and Score Discount Food Stores are to be brought closer together under one management structure, thereby cutting down on head-office costs. Chris Burgess, formerly of Trador, has been transferred to spearhead the turnaround.

Dos Santos is confident that the problems are under control — some benefits of the rationalisation have flowed through, he says, though it will take about five or six months before they are really felt. He expects the growth pattern to be restored by financial year-end.

Holding company Score-Clicks posted earnings of 7c and declared a dividend of 2c on a 3,5 times cover. The results include the nine weeks of Clicks to August 27.

Group pyramid company Hi-Score showed a 50% increase in earnings to 9c (6c) and declared a dividend of 7c (6c).

Repurchases damp unit sales

LIZ ROUSE

SALES of units by all unit trusts increased by 10% in the September quarter but, at the same time, repurchases rose by 38% compared with the previous quarter.

Commenting on the past quarter's figures, Roy McAlpine, chairman of the Association of Unit Trusts, says this means the net inflow continued the downtrend which started with the stock market crash last October.

On the other hand, the resilience of the unit trust sector against the background of the sharpest stock market crash in history is clearly illustrated by the fact that over each of the three quarters of 1988 there has been a net inflow of R256,1m.

McAlpine points out that the funds have consistently produced, over the medium and long term, higher returns than any other comparable investment medium available to the general public.

In the September quarter the sector sold new units worth R182,3m, bringing sales for the past 12 months to R886,1m. Over the past year the net inflow amounted to R347,3m of which a net R70m flowed in during the September quarter.

The combined market value of the 27 unit trusts rose almost 7% during the quarter to R3 974,7m (market value was R4 882,5m in the September 1987 quarter).

At September 30, market value of the assets managed by the 11 general equity trusts totalled R2 715,9m, of which 79%, or R1 226,8m, was held in equities. On average the funds held an unchanged 19% in liquid assets.

The six general equity funds which have been in existence for the past five years have shown an annual growth of 18,7% compared with an inflation rate of 15,1% over the same period.

The 10 speciality equity trusts held assets of R1 046,2m at the end of September, with 169 000 unitholders. Five of the specialist equity funds have been in existence for the past five years and have achieved an average annual growth of 15,9%.

The six high income funds with total assets of R212,6m now have about 7 500 unitholders. The funds remain highly liquid with only 50% of their portfolios in other assets and 40% in cash assets.

ICH views the future from solid foothold

ARI JACOBSON

INDUSTRIAL and Commercial Holdings (ICH) has created a strong financial base to withstand the impact of any downturn in the economy, says chairman Peter Loveday in the group's annual report.

The company plans to restructure and rationalise group activities after government's moratorium on transfer and stamp duties, says Loveday.

Issues and Investments, the holding company of principal income provider ICH, increased operating income for the June year-end by 55%.

Disappointing

Profits improved in both the motor division — which increased earnings by 33% to R6,5m (R4,9) — and the property division, which showed almost a three-fold accumulation to R3,8m (R1,5m).

A disappointing reversal of R1,5m in the equity performance of associate Sinclair Holdings had a ripple effect on the group's investment portfolio, which fell by 27% to R21m (R29m).

The net worth of ICH's shares fell by 9%,to R42,16 a share at the year-end from R46,34 the previous year. This compares with a current market value of R41,50 a share.

Management succeeded in strengthening the balance sheet during the year and borrowings remained at a minimal level, says Loveday.

This is clearly reflected in its gearing of 8%.

Loveday says provided there is no major upturn in the gold price, company growth will be moderate.

BUMPER PROSPECTS FOR CENTENARY YEAR

LIZ ROUSE

SAGE LIFE has achieved record results in the first half of its centenary year with net premium income rising 35% to a peak R104m in the six months to June.

The company's sustained expansion and investment growth are reflected in benefit payments to individual policy-holders. These totalled R37m in the six months to June at more than R1m a week. This is an increase of more than33% compared with the 1987 half-year.

The quality of Sage Life's business, which has always been reflected in a relatively low level of policy surrenders, was again highlighted by a 20% reduction in surrenders and early retirements compared with the first half of last year.

Annualised new premium income for the half year, including single premiums, increased by 65,6% to more than R58m. Individual recurring new premium income rose by 44,8%.

Bayer spreads its growing interests

BONN — Bayer AG says it has agreed to buy the Cooper Technicon diagnostics unit of US-based Cooper Companies for $500m.

The West German pharmaceuticals company said the acquisition would round out its diagnostics division, which would now have worldwide sales of about $1bn.

The move would make Bayer the second-largest manufacturer of diagnostics systems in the world after Abbott Laboratories of the US, the German company said.

Cooper Technicon had net profit of $15,5m on sales of $470m in the year ended October 1987.

Bayer said it would pay Cooper $212m for its Technicon unit and would repay $282m in long-term debt.

Bayer chairman Hermann Strenger announced the acquisition in Tokyo yesterday where he was finalising details of Bayer's planned stock listing on the Tokyo Stock Exchange.

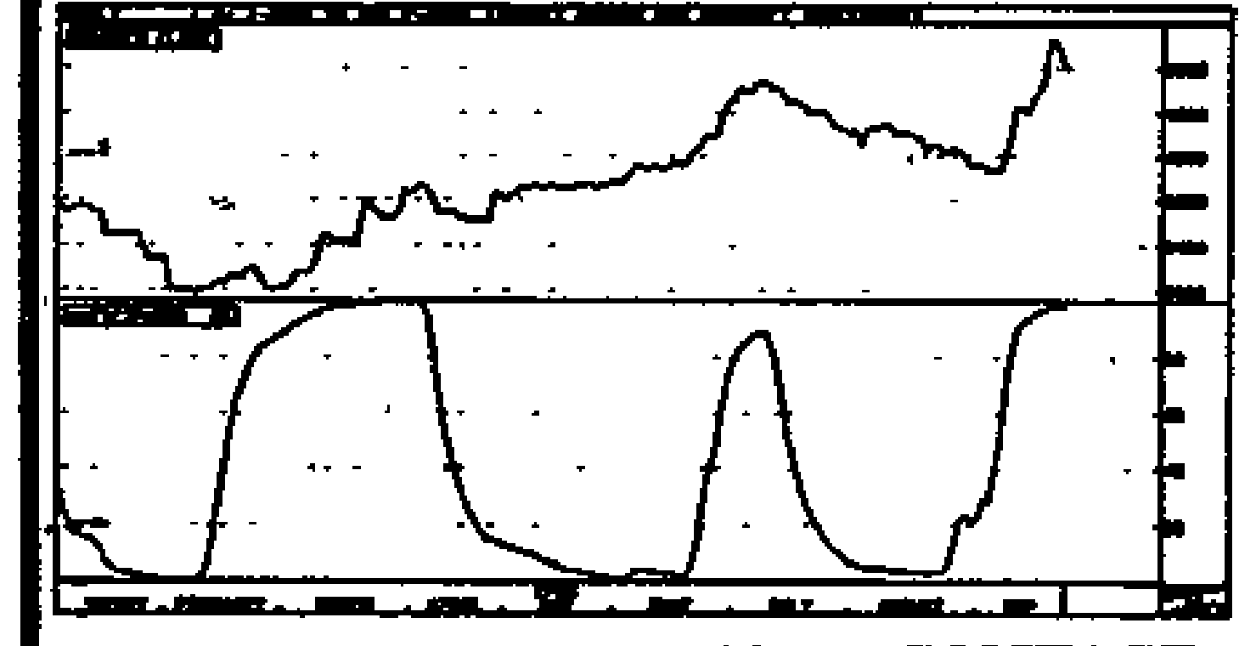
The company has issued 600 000 new shares for this purpose. The shares will be marketed by a banking consortium that has purchased the stocks at Wednesday's closing price of DM300,50 for a total of DM180m. The listing on the Tokyo exchange is scheduled to take effect later this month, after regulatory approval.

Bayer will be the first German industrial company to list its shares on the Tokyo stock exchange. — AP-DJ.

Pan Am calls off sale of routes

NEW YORK — Pan Am's Latin American routes are no longer up for sale now that its largest union has agreed to take concessions the company is seeking to arbitration, the airline said on Wednesday.

The company had said in August it would try to sell the routes to raise cash after the Transport Workers Union, representing 5 000 mechanics and ground crew at its Pan American World Airways unit, rejected a contract calling for wage cuts. — Sapa-Reuter.



ANNIVERSARY OF THE CRASH

Life after the crash

(58) FM 14/10/88

A year after the crash of '87, those who sold in panic on the first day (October 20, in SA) have little to complain about. But had they been able to see into the future they might have been amazed at the relative strength of the market.

Perhaps most surprising of all has been the strength in markets elsewhere (see *Leaders*). It had been widely suggested that Johannesburg would fare relatively better, as it would be insulated from a worldwide bear market by the financial rand (finrand), which was expected to take the brunt of foreign selling.

Far from this being the case, though, the Overall index fell 11,8% in a day, and a week later was 24% down. The slide continued until February, when it bottomed 45,9% below its 1987 peak.

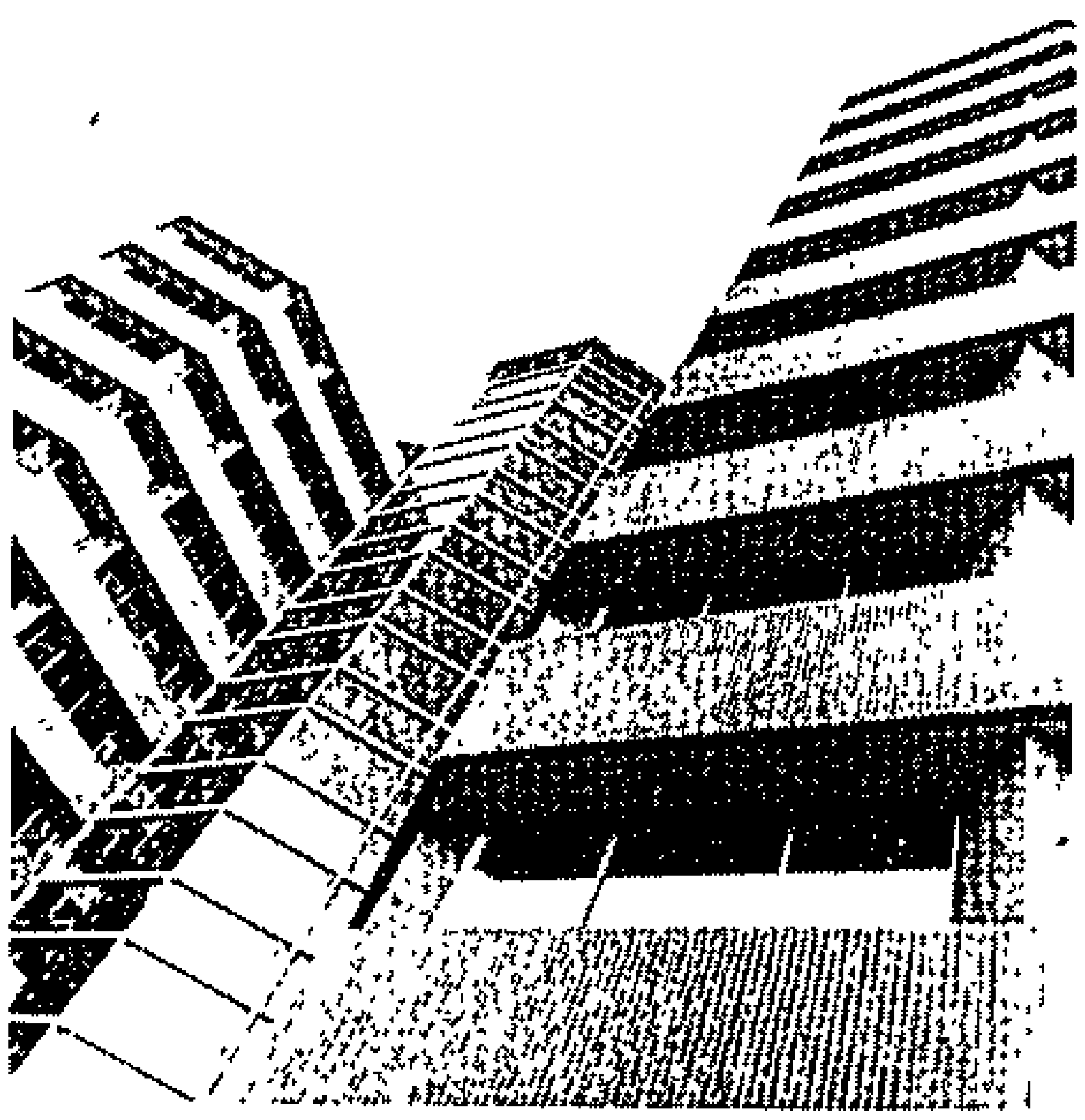
During that period, the finrand acted completely contrary to expectation, rising from US27,59c to 36,88c, and in March climbed even further to 37c. This confounded the market, especially as no reason could be found to account adequately for demand for finrands — until, that is, illegal dealings by some bank officials were revealed. The individuals concerned may have made money, but they cost untold numbers of investors untold millions by removing the buffering effect of the finrand.

The extent to which the finrand might have fallen and the thickness of the buffer is shown by the fact that, since this particular demand has been withdrawn, the finrand has dropped to 24,8c (R4,02 to the US$), a fall of 10% from the pre-crash level and 33% from its 1988 peak.

But that is spilt milk; the questions most investors ask are whether there will be further falls in overseas markets, whether these will have any impact on the JSE, and whether the worst is over for the local investor.

There seems to be considerably less pessimism than even six months ago about the impact of falls on foreign markets, and expectations about trends in these markets seem to have improved (see *Leaders*).

On the local front, an increasing number of institutional managers and stockbrokers have espoused the theories of David Fuller, who suggested almost a year ago that this would be the shortest bear market on record. They see the bottom as having been in February, only four months after the crash.



JSE . . . still bull market?

A number go further and suggest the fall was a correction in a bull market, pointing out that the primary bull trend (**see graph**) has not been broken. They tend to subscribe to the theory that a real bear market must last at least 18 months to two years.

Those advancing the exact opposite theory also suggest that a real bear market must be of considerably longer duration. They expect that the second leg will start soon, and that the current improvement is not the start of a bull market but merely a correction in a bear market before the second leg.

Even these less optimistic forecasters are generally raising the bottom to which they expect the indices to plunge before starting to climb. Some go so far as to point to a major bull market of the dimensions of that of 1987 starting again in about a year's time.

All agree that an important consideration is that pessimistic economic forecasts last year have proved wrong. Slower growth abroad must have an impact on SA next year, though. The recently-announced public sector increases should have a temporary stimulatory effect, but will probably be followed by a bill being presented to the taxpayer and higher interest rates.

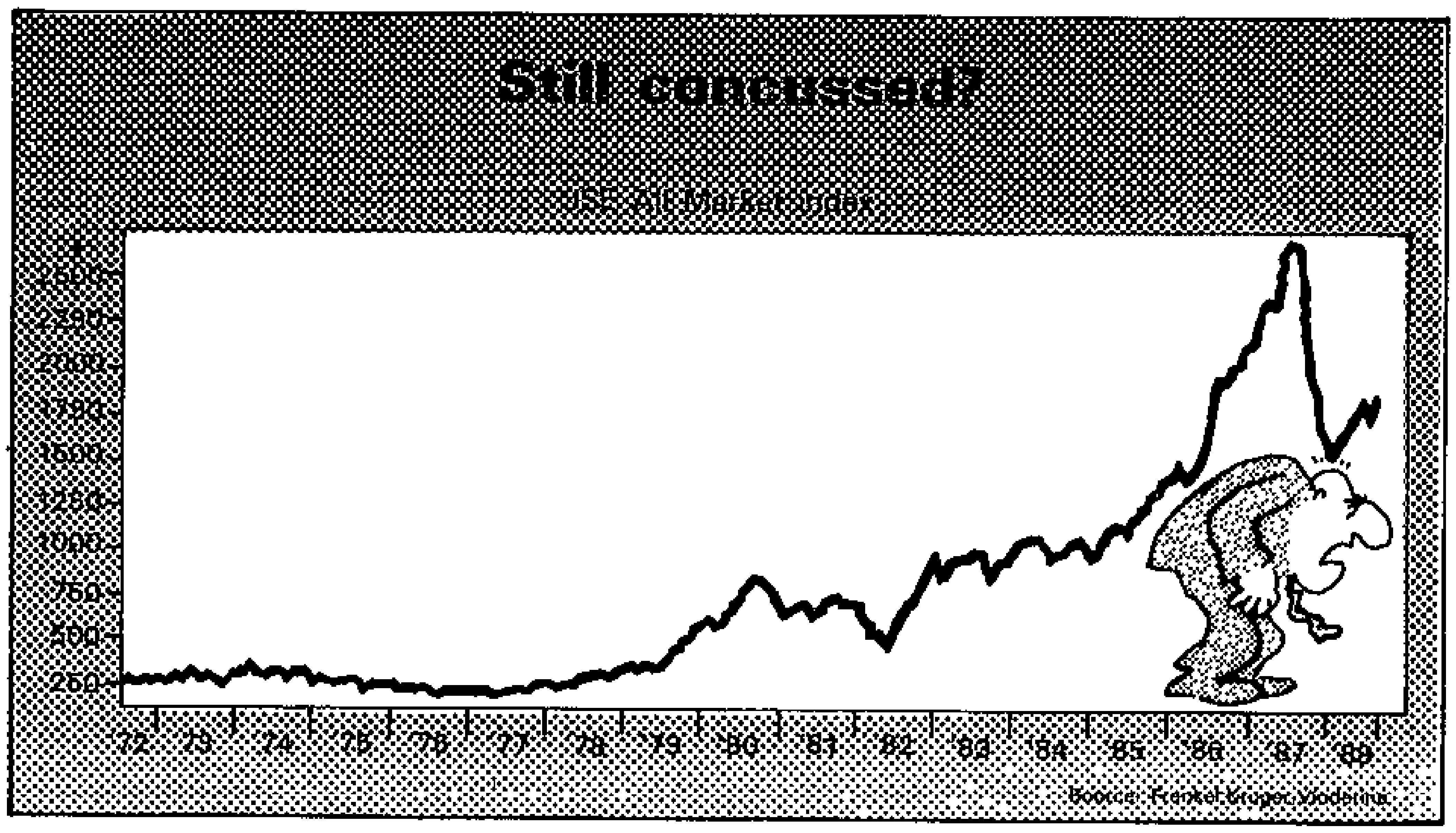
Currency will continue to play an important part in the near future. The climb in the index since February has been based largely on rand hedge stocks, and a flattening of the downward trend could mean less emphasis on these. One broker suggests that taking rand hedge shares out of the index shows that the rest of the industrial market actually fell in February-June, when the Industrial index improved 19,5%.

But there are definite signs that institutions are nibbling, and that sellers are few. Portfolio managers are looking for cheap stocks, even in sectors in disfavour. Stockbrokers suggest that blue chips could be well worth buying, a number not having broken their bull trend.

Two important fundamental factors may be crucial. The first is that companies have improved balance sheets and tightened operations; the second is the old consideration of institutional cash piles. Stockbroker Davis Borkum Hare suggests that these could amount to as much as R30bn; even if only half is available for investment in the private sector, funds of this size must again move the market when they enter in a big way.

With few other investments available, sooner or later this must happen. *Pat Kenney*

Still concussed?



Source: Frankel Kruger Vinderine

DELTA ELECTRICAL

Taking charge

The acquisition by Delta Electrical (DE) of 60,29% of its unlisted sister company, Delta EMD (EMD), is another major stride which should help perpetuate the excellent earnings record of the listed company.

Delta Plc, quoted in London, owns 100% of

CRASH OF '87 REVISITED

(8)

A correction after all?

■ Events last October seemed cataclysmic — but the actual outcome is surprising

A satellite's eye view of the big stock markets of the world would suggest that an air of prudent normality exists, some 12 months after Black Monday and Terrible Tuesday. A minor local storm swirls over Taiwan, where a frenetic 250% jump this year in the Taipei equity index has been followed by a 17,5% drop in a fortnight in response to government efforts to dampen the speculative boom.

But that is a light breeze compared with the Wall Street hurricane of October 19 1987, which, in six-and-a-half hours' trading, wiped 22,6% off the Dow Jones Industrial Average, leaving American investors collectively US$500bn poorer on paper. As cross-border investors looked for liquidity in any available market, it swept through the global village — Tokyo and London lost 15%, Sydney 25% — and more than doubled the US losses to over $1 trillion, equal to almost a third of American gross national product.

New York Stock Exchange chairman John Phelan won himself an entry in future dictionaries of quotations. "It wasn't a crash," he said, "it was a meltdown."

Some markets bounced, others carried on sliding to halve their values and, like Tokyo for example, bottomed out two to three months later. Overall, however, it left the *Financial Times*-Actuaries World Index (of 2 402 stocks in 23 markets in US dollar terms) close to 30% off the peak of the great bull surge which had started five years earlier.

At the end of last week, it looked like more of a healthy, if brutal correction. The *FT* world index at nearly 127 was a mere 8% down from pre-crash level. Excluding Japan, which turned a rally into a resumption of the bull market in the first seven months, the indicator is 20% lower.

Japan stands alone among the majors. Losses suffered in US bond markets on the rising yen have turned the massive weight of institutional cash flows inwards. Private-sector monetary assets in Japan are now worth $4 trillion and are still rising. So Japanese shares sell on ratings twice and three times those accorded Occidental stocks — which explains why foreigners hold only 3,5% of Tokyo equities and are nervous in spite of this year's performance.

Elsewhere the investment fundamentals are more reassuring. With the big economies of the West all registering healthy growth and those of the US and Britain actually requiring monetary cooling, investment ratings look positively mundane compared with the overheated multiples of 12 months ago.

Then the Standard & Poor average industrial p:e ratio was 23. Now it is 13. US long bond yields last October were close to 10% against equity dividend returns of 2,3%; the comparable current numbers are 8,8% and 3,2%. The UK pattern is similar: average industrial earnings multiples are down from 19 to 12 and the reverse

GROSS NATIONAL PRODUCT GROWTH

How the equity crash fooled the forecasters

	1987 (actual)	1988 (Dec 87)	1988 (June 88)	1988 (Oct 88)
		%		
US	3,4	2,5	2,8	3,8
Japan	4,2	3,5	4,3	5,5
Germany	1,7	1,5	2,3	3,0
France	2,2	1,3	2,0	3,0
UK	4,2	2,8	3,5	3,8
Italy	3,1	2,0	2,5	3,0
OECD	3,3	2,3	3,0	3,8

(Forecasts: December 1987 and June 1988, OECD Economic Outlook; October 1988, National Westminster Bank Economic and Financial Outlook)

(58)

yield gap has closed from seven points to just under five percentage points.

Barring a banking collapse in the US, few people now expect anything resembling a rerun of 1929 when, after the initial fall, the Dow Jones ended up 90% below its high. Indeed, the likelihood of another mass panic has receded.

The checks installed in trading of index options — through which investors could hedge portfolios and switch between indices and their constituent shares — appear to be working and the volume has fallen sharply. Last October's cataclysm was squarely due to the $20bn worth of contracts in the Standard & Poor 500 index. When it was sold down heavily on Friday October 15, it triggered sell signals in the computerised program trading systems of big institutions, who dumped parcels of shares to match the index. General Motors Pension Fund alone offloaded $1,3bn worth of stock on Black Monday and others joined in. Not even a market as liquid as New York could accommodate that.

The responses of central banks were also totally different to 1929: the US Federal Reserve pumped money into the system, reversing the rise in interest rates and the loosening up was matched in Britain, Germany, Japan and elsewhere.

Nor have the real economies reacted in the way that was feared. Writing in December 1987, the Organisation for Economic Co-operation and Development (OECD) said of prospects for the 24 industrialised Western nations: "The sharp worldwide fall in stock-market prices introduced a novel factor into assessment of economic prospects . . .

"The loss of financial wealth . . . is projected to weaken economic activity, notably through a rise in household saving. This effect could be especially large in the US. For the OECD as a whole, instead of growth of around 2,5% per year in 1988 and 1989 as had been projected on the eve of the turmoil, it could now average around 2%. Unemployment seems set, in general, to rise again, but projected inflation rates are lower."

In other words — a recession of sorts. That has not happened. Six months later the OECD was revising its growth projections upwards (**see table**) and even that was being overtaken as consumer spending strengthened in most of the major economies, US exports rose as the dollar fell and industrial investment responded to higher capacity utilisation.

In its June assessment of the outlook, the OECD reported: "The October stock market crisis has not had any lasting effects on business confidence . . (but) this relatively recent good news should not be seen as ground for complacency. While the near-term risk of recession has receded substantially, an inflation risk is beginning to reappear . . ." It urged no let-up on anti-inflationary strategy, the reduction of the US twin deficits in the budget, current account, and so on.

The key to the change, again, was the buoyancy induced by easy credit policies; and now that these are being reversed equities are fluctuating "normally." Markets go up because economic activity is higher than expected; retreat because of consequent worries about inflation; rally when interest rates rise to combat inflationary pressures; ease off because tighter credit squeezes profits growth and margins.

It is also clear that the wealth loss factor was overestimated by everyone. Conventional wisdom in the US held that the $1 trillion loss in personal (if paper) wealth over the two days would result in a reduction in spending of up to $60bn, or nearly 2% of GNP. And real consumption did decline in the fourth quarter of 1987 as spending was suspended.

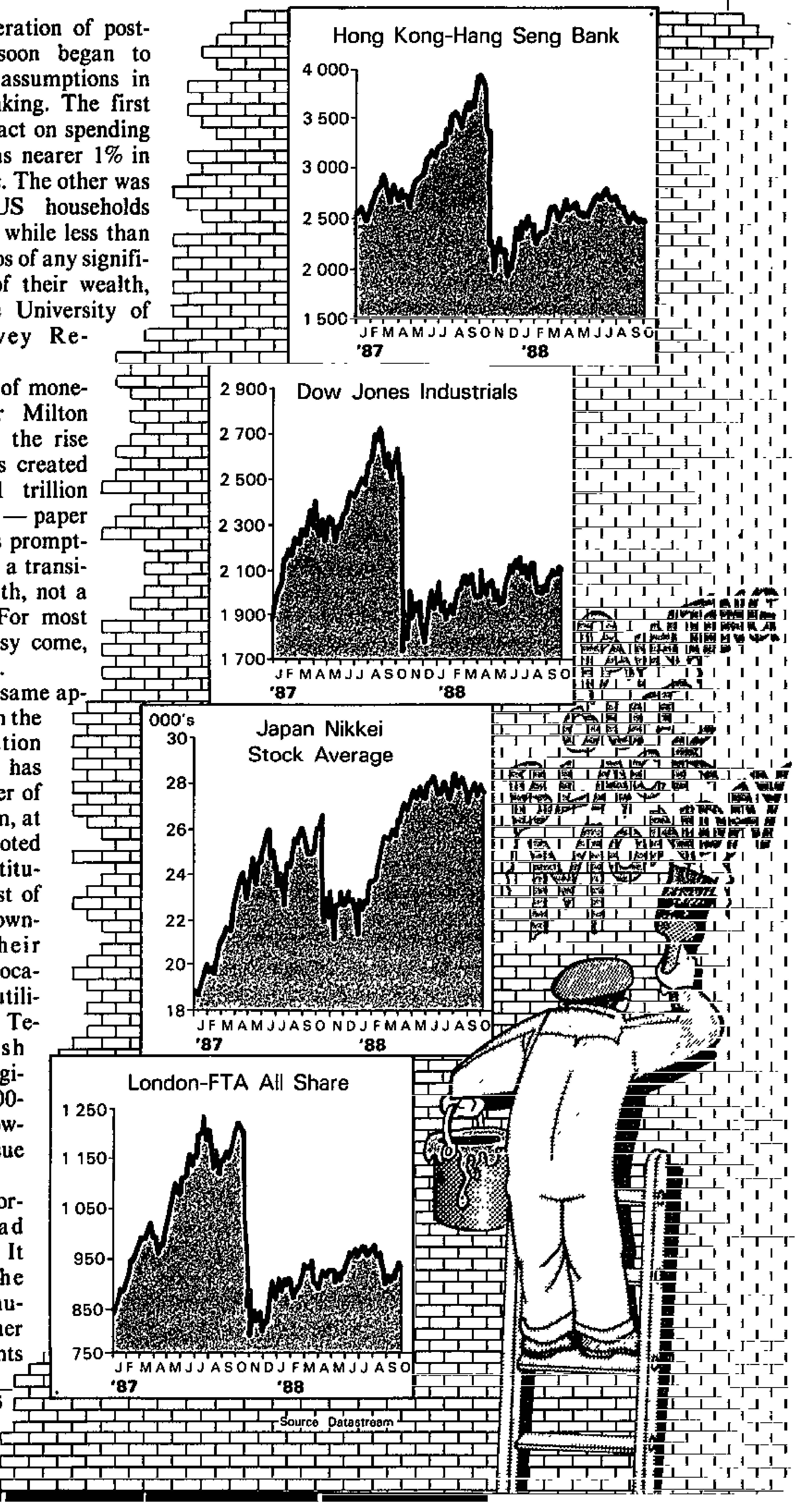
But the proliferation of post-crash research soon began to show up wrong assumptions in conventional thinking. The first was that the impact on spending of wealth loss was nearer 1% in the dollar than 6c. The other was that 80% of US households owned no shares, while less than 10% held portfolios of any significance in terms of their wealth, according to the University of Michigan Survey Research Centre.

As the apostle of monetarism, Professor Milton Friedman, noted, the rise in the Dow Jones created an additional $1 trillion prior to the crash — paper wealth which was promptly erased. "It was a transitory shift in wealth, not a permanent one. For most people, it was easy come, easy go," he said.

In the UK, the same applied. Even though the Thatcher revolution and privatisation has trebled the number of shareholders to 9m, at least 75% of quoted shares are in institutional hands. Most of the small equity owners received their shares in small allocations of the big utilities, from British Telecom to British Gas, and their original outlays of £200-£500 are still showing gains on issue prices.

All in all the correction has had beneficial effects. It concentrated the minds of the US authorities and other OECD governments on the need for reducing the imbalances and distortions in a co-operative way which would not lead to recession. Even if growth will be more modest next year, it will not be destructive.

Of the main equity markets, the most concern is over Japan which is showing signs of hesitancy after recovering from the lows to roar up 35% to August's record peak. Activity on the Tokyo market has been subdued while the nation awaits the death of Emperor Hirohito and while most analysts are confident it will not be allowed to collapse, they point out that any decline in the yen could lead to an outflow of investment currently staying at home. That, however, would bode well for other markets. ■



Source Datastream

New insurance policies aid topers at the steering wheel

Fury at 'green light for drunken drivers'

Star 15/10/88

(58)

MARK GLEESON

A MAJOR row is erupting over insurance policies which offer cover to drivers charged with being drunk.

The policies, costing as little as R60 a year and covering legal expenses for drunk driving prosecutions, have been labelled as a go-ahead for people to be reckless.

Road safety organisations and traffic officials have criticised the schemes. One called it the height of irresponsibility.

Mr Theo Olivier, acting director of the Johannesburg Traffic Department, said the schemes would serve only to make the laws against drunk driving "cheap".

"People are now going to be inclined to drink and drive and think they will get away with it when they are caught. It is defeating the whole purpose of the law."

He said there would be no let-up by his department in the war against drunk driving.

The Transvaal's top traffic officer, Mr Joachem Potgieter, said he was concerned about the moral aspect.

"At a time when we are trying to stop drunken driving, this would seem to me to be a little bit of an extreme. I don't think it's right at all."

Dr Louw Dreyer, director of the National Road Safety Council, also questioned the morality of the ruling. He said: "This will encourage drunken driv-

The

Fury over policies

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the policies were out of line with what was happening in the rest of the world.

"It just doesn't make sense. It seems we are going backwards in this country."

The Automobile Association said it was also concerned because the penalties for drunken driving were there to discourage the practice.

"To soothe that would have an adverse effect," a spokesman said.

Fierce competition in the insurance industry has seen Hollard Insurance and PriceForbes Federale Volkskas develop the specialised policies which would see lawyers being appointed to defend motorists.

If the policy-holder is arrested, all he has to do is make one phone call. Then a lawyer will be appointed and take over.

The policy covers all motor-related offences from drunk driving to negligence, but excluding speeding.

The rationale behind the policy, according to insurance brokers, is that some 87 percent of all accused in motor-related offences which reach court are found guilty — most of them because they do not have adequate legal representation.

One broker said: "We don't pay the fine if they are convicted.

"They will still have a criminal record."

Mrs Pretorius said the fine was a minor detail.

"It is the morality of the issue that counts."

Demand for higher rates expected . . .

Bankers to meet De Kock

Cape Times
17/10/88
58

From HAROLD FRIDJHON

JOHANNESBURG. — Demands for a higher Bank rate will figure strongly when top bankers meet Reserve Bank Governor Gerhard de Kock in Pretoria today.

They will claim that prevailing money market rates have already discounted a further one percentage point rise in Bank rate and that even raising the rate to 13,5% from the present 12,5% would be inadequate to stem the across-the-board demand for bank facilities.

But if the authorities are reluctant to raise the interest rate structure, the alternative must be a more accommodative attitude to the money market.

It is claimed that since July when the authorities decided to apply a restrictive policy to the market other factors had been responsible for the flow of funds dwindling sharply.

Government has been draining money from the private sector at an increasing rate because tax collections appear to have been far higher than expectations.

Minimum company tax, for example, estimated to yield around R500m has brought in at least R1bn. Some calculations put the figure at R1,5bn.

Even before all the tax cheques were cleared at the end of September, visible state balances in the Reserve Bank amounted to a record high of R3,89bn, compared with R3bn last year and R2,3bn in September 1986.

And revenue from the import surcharge is still flowing in to the Treasury.

On the other hand, the return flow in the form of government spending is insufficient to compensate for this abnormal drain.

Bankers say that instead of smoothing the abnormality by providing temporary assistance to the money market, by allowing the Corporation for Public Deposits and the Central Energy Fund to deposit money in the market, the Reserve Bank had been tightening the screws.

Except for a few repurchase agreements — facilities granted by the pledge of prescribed assets — the central bank has insisted on all advances to the banks being made through the discount window, some at penal rates of 17%-plus.

The average cost of short-term funds to the banks — no one is investing long — is at least 15% because the cash-heavy insitutions are calling the tune. And with their deposit books increasingly being shortened, the banks are being forced to increase their sterile balances at the Reserve Bank.

"Round-trippping" — borrowing at prime from one bank and lending it at rates above 16% to another bank — is another prevalent abuse which is distorting the market.

Banks wish to raise their prime rates but they are unable to do so with the result that their margins between the cost of borrowing and the returns on lending are being increasingly squeezed, drastically diminishing their profitability.

While the authorities assert that that banks' profits are no more their concern than the profitability of other enterprises, bankers say that their international rating depends on their profitability and their capacity to plough back profits to increase their capital structures.

It is expected that the banks will urge De Kock to convince government that a flexible Bank rate policy is needed.

A leading banker said that it was not the 25% prime which damaged the economy in 1984/85, sending many sound companies to the wall, but the period in which the punitive rates were in force.

He said that raising Bank rate now by two percentage points to 14,5%, taking prime to 18% for a short period, would be shock treatment which would cool down the economy more efficiently than the present philosophy of trying to apply a monetary policy reinforced by direct interference.

Borrowing abroad hampered by bank rules, public opinion

Star 17/10/88 (58)

By **Ann Crotty**

Public opinion and central bank regulations are the two major factors continuing to militate against borrowers raising funds overseas, says Eskom Treasury manager, Mr Francois Botha.

Mr Botha, who recently returned from Europe where he met leading bankers, says that since the debt standstill of 1985, visits to overseas bankers have tended to involve an exchange of information, rather than requests for funds. This is in sharp contrast to the early 1980s when Eskom accounted for about 50 percent of the demand in the world's power station equipment market and had no problem raising funds at favourable rates.

Mr Botha said most foreign bankers believed SA's problems were political, and not financial. As he saw it, there would be no significant improvement in its borrowing position until action was taken to convince the world it would broaden its democratic base and include other population groups in the political decision-making process.

But SA appeared to be facing a delicate problem because a number of foreign bankers had indicated a one-man, one-vote situation would not enhance SA's credit rating, but would put it on a similar level with other African nations.

Referring to adverse public opinion overseas, Mr Botha said that although the attitude of the media had been tempered recently, no foreign bank could afford to be seen doing business with SA.

In addition, the major central banks had issued guidelines to banks stating that they must hold provision for outstanding loans made to a country involved in a debt-rescheduling programme.

This meant that although SA had an excellent record in terms of servicing its debt, banks making loans to SA had to make costly provision.

Because of the delicate state of the foreign exchange reserves, there was increasing concern among foreign bankers about SA's ability to meet the R2 billion repayment due in 1990 that was outside the rescheduling programme.

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Demand for a rise in Bank rate

Bankers to put pressure on De Kock

HAROLD FRIDJHON

DEMANDS for a higher Bank rate will figure strongly when top bankers meet Reserve Bank governor Gerhard de Kock in Pretoria tomorrow.

They will claim that prevailing money market rates have already discounted a further one percentage point rise in Bank rate and that even raising the rate to 13,5% from the present 12,5% would be inadequate to stem the across-the-board demand for bank facilities.


● **DE KOCK**

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The average cost of short-term funds to the banks — no-one is investing long — is at least 15% because the cash-heavy institutions are calling the tune. And with their deposit books increasingly being shortened the banks are being forced to increase their sterile balances at the Reserve Bank.

● To Page 2

Banks to demand action on interest rate

58 B/Day 17/10/88

● From Page 1

"Round-trippping" — borrowing at prime from one bank and lending it at rates above 16% to another bank — is another prevalent abuse which is distorting the market.

Banks wish to raise their prime rates but they are unable to do so, with the result that their margins between the cost of borrowing and the returns on lending are being increasingly squeezed, drastically diminishing their profitability.

While the authorities assert that banks' profits are no more their concern than the profitability of other enterprises, bankers say their international rating depends on their profitability and their capacity to plough back profits to increase their capital structures.

It is expected that tomorrow the banks will urge De Kock to convince government that a flexible Bank rate policy is needed. A leading banker said yesterday it was not the 25% prime which damaged the economy in 1984/85, sending many sound companies to the wall, but the period during which the punitive rates were in force.

He said that raising Bank rate now by two percentage points to 14,5%, taking prime to 18% for a short period, would be shock treatment which would cool down the economy more efficiently than the present philosophy of trying to apply a monetary policy reinforced by direct interference.

● See Page 8

The Star
Finance

Jo'burg's vitality comes to the fore

Star 18/10/84 (58)

By Frank Jeans

As the suburban sprawl goes on, Johannesburg (with apologies to Jacques Brel) remains alive and well in the Witwatersrand!

The comment comes from United Building Society chief executive, Mr PJ Badenhorst, who has no doubt about the continuing viability in commerce and financial services of a vibrant city.

Speaking at the recent opening of 56 Von Wielligh, the new downtown office block in which his group's pension fund, along with the Dorbyl Pension Fund, has invested, Mr Badenhorst said:

"Bearing in mind that Johannesburg remains the hub of the PWV area and is the focal point of commerce, industry, mining and financial services, it stands to reason that the capacity of the central business district to cater for further developments must, sooner or later, reach a relative saturation point.

"This is particularly true, in the light of the ever-increasing need for more shopping facilities to cater for the public of the Witwatersrand."

While he believes it made good sense for many firms to relocate to office blocks in the wake of the trend to regional shopping complexes, what was mistakenly regarded in some quarters as an exodus from central Johannesburg was, in effect, "little more than an overflow into the suburbs, no doubt coupled with a degree of decentralisation".

"Prophets of doom were quite adamant that the Johannesburg CBD had fallen victim to urban decay to such a degree as to be regarded as near moribund by some critics," said Mr Badenhorst.

"It does not require much insight to realise that reality belies such pessimism. Indeed, recently completed projects and work in progress in central Johannesburg heavily underscore the folly of such sentiments."

The No 56 project, managed by Anglo American Property Services (Ampros), is already 50 percent full.

The block has a lettable area of 9 000 sq m over nine floors.

The top four and a half floors are available and Ampros leasing manager, Mr John Maynard, says naming rights will be considered for a tenant taking all of the remaining space

Rents are about R20 a sq m gross.

Anglo Amercian Properties (Amaprop) has a long-term head lease.

The development joins Amaprop's considerable commercial portfolio in the area, which includes the Carlton Centre, four floors of JCI House, His Majesty's Building, Nunnerleys Building and Samancor House.

Decision day on Bank Rate

58

Star 18/10/88

Finance Staff

Home owners, who have seen the mortgage rate rise from 12,5 percent at the beginning of the year, to the current 16 percent could well be facing a further increase.

The country's leading bankers are going to Pretoria today to press Reserve bank Governor, Dr Gerhard de Kock, for an increase in Bank Rate.

Most bankers are reticent on how much of an increase they are seeking but indications are that it could be more than one percent.

In the past any increase in the Bank Rate has been followed almost immediately by increases in mortgage and overdraft rates.

Senior executives of several major banking groups said yesterday that their banks' margins — the difference between interest rates on money lent and money borrowed — had been under "unacceptable" pressure for some six weeks.

The squeeze in these margins now "demanded" a Bank Rate increase of more than one percentage point, they said.

Such an increase would allow the banks to lift their overdraft rates to "bearable" levels.

The Bank Rate has stood at 12,5 percent since late July, when the Reserve Bank allowed a one percentage point increase.

Bank Rate is the rate which determines the cost of central bank lending to the commercial banks and discount houses.

The Prime Rate, which is the banks' minimum lending rate, has also been at 16 percent since July.

The Reserve Bank has lifted its base discount rates three times this year in a war against excessive domestic consumer spending.

The banks have accepted that the Reserve Bank is most unlikely to agree to an increase in rates before the municipal elections, but they are hoping the Governor will "be more flexible" in the meantime.

They feel that if the banks' net interest margins can be eased by improving the liquidity levels, this will relieve the immediate pressure for a Prime Rate hike.

It is stressed that the money market shortage has been excessive — above R2 billion — since early last month, as a result of still worrying demand for domestic credit.

First National Bank says the money market has already discounted an increase in the Bank Rate of one percentage point, as reflected in the fact that the key money market rate — the three-months bankers acceptance rate — has climbed from 13,80 percent to 13,90 percent.

58 Star 19/10/88

Bankers rebuffed in quest for higher rates

By Magnus Heystek, Finance Editor

Another package of economic measures to cool down the economy even more is being considered by the Government as evidence mounts that growth in the third quarter was significantly higher than expected.

Any decision will probably be made at the end of the month or in the first two weeks of November, economists and bankers predict.

This emerged from yesterday's meeting of 26 bankers and senior officials at the Reserve Bank in Pretoria when bankers called for an increase in Bank Rate to enable them to raise lending rates, including prime rate, HP rates and, ultimately, home mortgage rates.

Bankers have been calling for an increase in Bank Rate for some weeks, citing decreasing margins and reduced profitability as the main reasons.

Their request was turned down by the Reserve Bank, which made it clear that higher interest rates would be only one element in a package of restrictive measures to bring the economy into line with constraints imposed by the balance of payments.

The managing director of Trust Bank, Dr Chris van Wyk, said after the meeting: "We had wide-ranging discussions covering economic policy and performance as a whole.

Profit motive

"The Reserve Bank made it clear that it could not be moved purely by the profit motive of banks. It said its job was to keep the economy as a whole on the right track, not to throw out or sanction the narrow interests of particular sectors, however hard-pressed they might be.

"It had to be decided, for instance, whether increases in indirect taxes should or should not be accompanied by further increases in interest rates.

"It was generally agreed that there was still substantial buoyancy in the economy as a result of still high demand for consumer credit. However, the question arose: 'Should current measures to dampen this demand be given more time to work, or should tougher measures be introduced almost at once?' "

Another economist, who asked not to be named, agreed that further steps were necessary to cool down the economy which, on preliminary evidence, seemed to have recorded a spurt of growth in the third quarter after a fairly dismal second quarter.

Consumer demand for credit was still running high, as could be seen in the growth of M3 money supply and credit creation in general, he said.

Mr Kevin de Villiers, managing director of the Allied Group, expected interest rates to rise by one percent at the end of the month, with another increase of one percent probable some time before the end of the year.

That, to his mind, would be the top of the current interest rate cycle.

It was decided at yesterday's meeting that informal working groups would be formed involving top men at the Reserve Bank, the banking sector and building societies, the Department of Finance, the Department of Industries and other key organisations.

Economic policy

Bankers who attended the meeting told Sapa these groups would be briefed to report on all sectors of the economy and economic policy as rapidly as possible.

From their findings, it would be decided whether current economic policy was doing its job adequately, or whether policies should be changed or redirected, and how.

Discussions covered the balance of payments and trade, credit levels, imports and export policies, monetary and fiscal problems.

‘Long-term trend still downwards’

(58) SM By Sven Lünsche 19/10/88

A rally in share prices over the last few weeks has made investors more optimistic in their outlook for the stock market, but on the anniversary of October 19, “Black Monday”, many economists feel that the long-term trend is still downwards.

“Economic fundamentals in South Africa are deteriorating and are not conducive to share investments,” says Davis Borkum Hare’s economist Mr Mike Brown.

Today, a year ago, $500 billion was wiped off shares on New York’s Wall Street. Other stockmarkets followed suit, but on the JSE share prices rallied by about five percent.

But that resistance crumbled and by 4 pm on October 20, the JSE’s market capitalisation had dropped by R42 billion.

● The Reserve Bank has turned down bankers’ requests for an increase in the Bank Rate, but the reprieve is bound to be temporary.

It is understood Government is considering another package of restrictive economic measures in order to further cool the economy. This package is likely to be announced only after the municipal elections.

● See Pages 12 and 14.

De Kock slated for delay

CHRIS CAIRNCROSS

CAPE TOWN — The decision by Reserve Bank governor Gerhard de Kock and Treasury officials to delay announcement of a new package of economic restrictions until after the municipal elections came in for severe criticism yesterday.

PFP finance spokesman Harry Schwarz said: "The Reserve Bank has no right to be influenced by the elections."

Economists said they were startled by the extent to which the elections were influencing the management of the economy.

They acknowledged, however, it was unlikely the Reserve Bank would move independently to up the Bank rate without the concurrance of Finance Minister Barend du Plessis or the President.

Schwarz said he viewed the development in an serious light and he called on Du Plessis to tell the country now what measures were in store and not wait until after the October 26 election.

Economists agreed government was faced with the twin problems of meeting its funding needs, particularly the recent R4bn wage hike granted to civil servants, and of reconciling those needs with the fiscal measures needed to treat the ailing economy.

Sanlam chief economist Johan Louw said it was clear the early restrictive package had been insufficient to cool

● To Page 2

De Kock slated for delay on new curbs

BDay

● From Page 1

20\10\88

consumer spending, which still remained high and could be further fuelled by the public service wage increase.

Higher interest rates were a foregone conclusion, together with tighter hire purchase terms. More direct measures in the form of import controls were also on the cards.

Louw criticised the Treasury, saying it was creating confusion and uncertainty.

Government sources said in Pretoria yesterday's Cabinet meeting agenda dealt mainly with the economic problems facing SA and on the measures that would have to be introduced.

But no final decision was apparently taken. It is understood the issues are to be discussed more fully on Friday at a meeting scheduled to review elements of a five-year economic programme.

BA rate leaps to new high

58 B/day 20/10/88

HAROLD FRIDJHON

THE BA rate leapt 45 points yesterday to a high point of 14,40% last reached in October 1985 when the prime overdraft rate was 18,5%.

The 90-day liquid bankers acceptance, the finest commercial paper in the market, opened at 14,05%, after closing at 13,95% on Tuesday, and rapidly gathered momentum as investors revalued BAs in the light of an imminent Bank rate rise and assumed a further Bank rate increase within three months.

Dealers said the market's view was that the Reserve Bank's dragging its heels on the raising of Bank rate had resulted in last week's BA rate discounting the forthcoming Bank rate hike and that the present rate was already more than halfway to discounting the next upward move in Bank rate, expected towards the end of the year.

All short-term rates moved upwards yesterday with 90-day non-liquid BAs — those that do not qualify for re-discounting at the Reserve Bank but that are nonetheless prime paper — trading at 15,75%.

Yields in the bond market hardened by 5 to 6 points with the short-term Sats 12,54% 90/91 breaking through the critical 15% yield ceiling.

Holcom Futures predicted that the threat of inflation reaching 17% early next year would make the lending of money for 20 years at the present 16,23% level unattractive.

Insurance sector enjoys high rating

58

Star 20/10/88

Diagonal Street

SVEN FORSSMAN

Uncertainty about the future of the life assurance industry's tax rate has discouraged investment decisions in the insurance sector since the October crash.

The 75 percent increase in tax on insurance companies announced in the Budget is partly responsible for the 29 percent drop in the share prices of some life offices. New tax proposals for the industry are currently under investigation and are expected to be enacted sometime next year.

It is estimated the higher tax will raise the industry's tax burden from almost R240 million to about R450 million in a full year. Earnings per share are likely to decline by three to six percent.

But any future tax imposed on life assurers is not expected to have a material effect on shareholders' profits. Instead, policyholders will probably bear the brunt of higher taxes.

Analyst David Southey says the insurance sector enjoys one of the market's highest ratings, with an average P/E ratio of 15 and an earnings yield of 6,5.

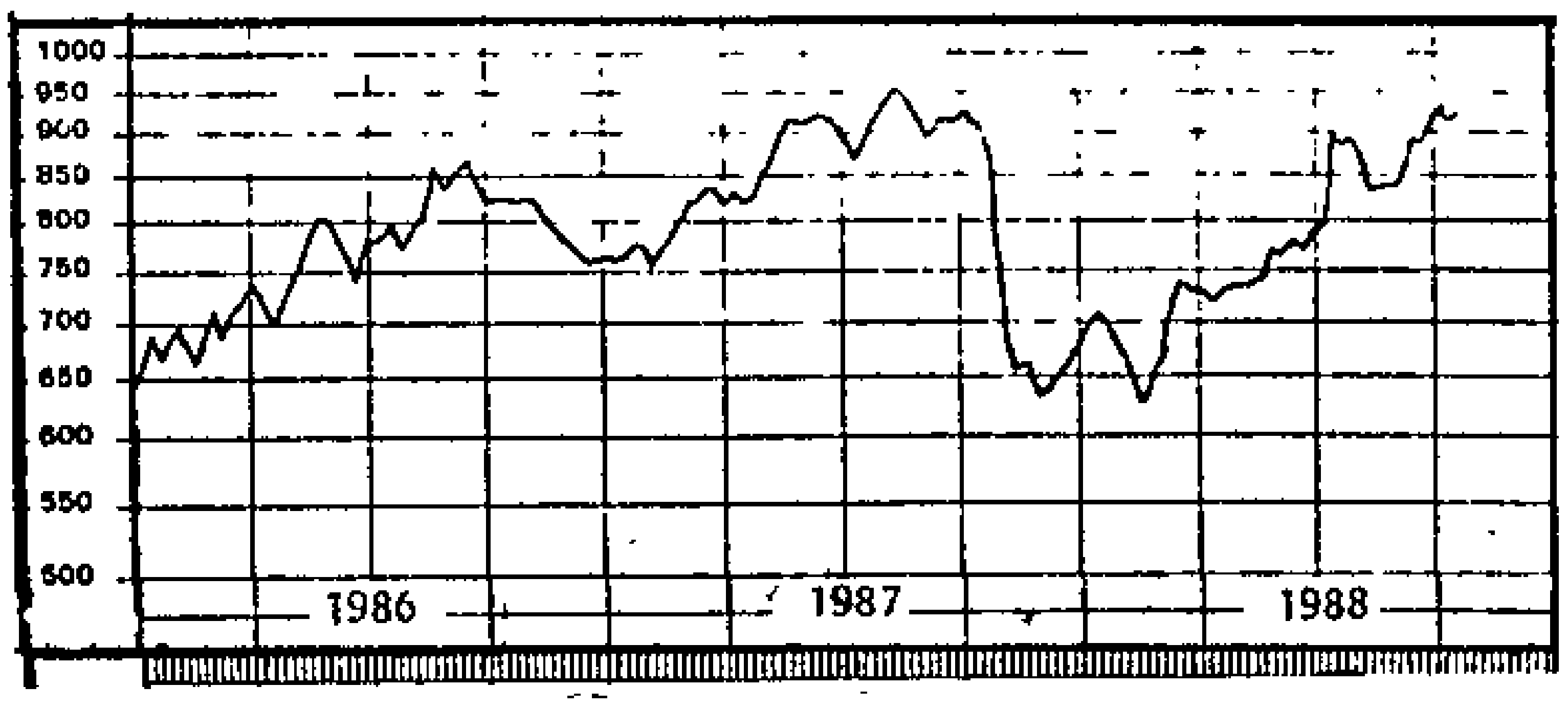
But, he says, it must be borne in mind that all life offices, with the exception of the Liberty Group, are well below the sector average. Liberty companies are trading on historic P/Es of 19 to 24. Liberty has risen strongly against the industrial and insurance indices this year.

In addition to being a recession-proof stock, it has attractive rand-hedge qualities.

Products offered by life assurers are excellent vehicles for saving and investment and the October crash is likely to have made them even more atttactive. Life assurers have been producing impressive profit figures, despite the increase in the effective tax rate and the October crash.

With slow economic growth and a further weakening of the rand expected in the near future, analysts recommend life assurance shares as being among the soundest recession-proof stocks on the board.

Fedsure at 275c (1988 high of 360c) and Southern at 720c (high of 880c) are regarded as particularly good buys.



(58)

Written by **ROBIN FRIEDLAND and MELANIE SERGEANT**

Employees: are they in the dark?

Pensions & retirement planning

A Business Day Survey

THERE is little doubt that corporate pension funds in the past have taken insufficient account of employees' needs and of changing social attitudes towards staying with one company. This criticism, however, must be read with generally successful investment performance by life-office managed pension funds.

This view is supported by Robert Putzel, director of FPS Corporate Services, the employee benefit planning company in the Sage Holdings Group. He notes the strong focus on the "performance" of insurance company-administered pension funds — which is highlighted in the media "several times a year".

Yet no insurance companies report what "excellent performance" means in additional benefits to members. "The reason for this is simple." In spite of dramatic improvements in pension fund administration in SA over the past 20 years, members' benefits themselves "have shown little significant improvement".

The reason that an employer establishes a pension fund is for the benefit of his or her employees, says Putzel. Yet, as is the case with most "final salary funds", little or no information is given to the employees about the benefits they can expect from the pension fund.

Membership is made compulsory and the employer's contribution often forms part of the gross remuneration package. Given these circumstances, why is an employee not entitled to the employer's contribution on early withdrawal — with a commensurate share of the fund's growth?

For all that, it is interesting to note the success of pension fund managers in maintaining the purchasing power of their assets.

Thus, David Flint, senior manager: investment marketing, Liberty Life, says that pension fund managers have succeeded in beating inflation in the long term, "so keeping contribution rates down and improving benefits".

In the eight years to December 1987, according to a Price Forbes survey, pension funds achieved on average real return of about 3,5% (even after the October JSE crash), with the funds' rate of return averaging 18,4% a year, against an avaerage inflation rate of 14,9%.

This result compares favourably with the average return on fixed interest investments during the same period of only 9,9% (Consulting Actuaries Survey) — lagging inflation by 5% and the pension fund average by 8,5%. (The eight-year period reviewed corresponds to the longest period for which such returns are available in the survey.)

This year, says Flint, Liberty Life adapted its investment philosophy and marketing strategy to provide funds with greater flexiblity in choosing specialised investment portfolios that best meet their individual needs.

Trustees can now choose a mix of equities and property that best suits their requirements. Both the equity and property portfolios are balanced for prescribed asset purposes. A growing number of assurers and merchant banks are now offering similar investment flexibility.

Property has traditionally been a vital element in Liberty Life's investments, and more funds now appear to be including a portion of property in their portfolios.

To illustrate the value of property in an investment portfolio over the past eight years, Liberty Life's pure property portfolio (leaving out the prescribed asset requirement) achieved an annual rate of return of 21,75% a year — 6,85% ahead of the inflation average.

"Property lends stability to returns and helps to even out the impact of any reversal in equities or a downturn in prescribed assets due to interest rates moving up."

Joe Gates, assistant GM (pensions and group schemes), AA Life, says that optimum return on assets is a very relevant aspect of pension fund management, especially for the employer who is often required to meet the "balance of costs" in funding benefits promised in terms of the rules.

But more important is the interest of members, as the level of investment return achieved by their fund could impact direct on their ultimate benefits for which they usually have been paying.

Many investment surveys by pensions brokers, employee benefit consultants, actuaries and others, assess performance of fund managers. In particular, the Consulting Actuaries Joint Investment Performance Survey measures individual funds against others.

Of the 128 participants during 1987, AA Life's own staff pension fund was adjudged the top performer in equities and fixed interest investments, and offers its trustees an objective yardstick against which to measure relative performance. "The failure of trustees to ensure some performance measure would definitely be defective."

In other surveys, AA Life's Managed Fund Portfolio, into which the majority of client funds invest, was adjudged the best performer over one to five years (the fund has been operating for five years).

Syfrets buys into Suregro

58

Star 21/10/88

Syfrets Trust has acquired a significant stake in Sure Group Holdings, one of the country's leading industrial vehicle and materials handling groups.

This is disclosed by Suregro's joint MD Keith Blair when commenting on the results of the group's recent R3 million rights offer which was 94,5 percent subscribed at close on October 14.

"Of the 4 829 160 prime-linked compulsory convertible debenture of 60 cents each on offer, one million were taken up by Syfrets Trust," Blair said.

"In addition, Southern Life has increased its stake in the group, bringing its combined share and debenture holdings to just over one million."

The executive directors have followed their rights to maintain their shareholding, after conversion of the debentures, at 62 per cent.

Suregro's financial director Alan Hiscock says that he is particularly pleased with the increased level of institutional support as it indicated new stature for the group among major investors.

Merhold, the financial and investment banking arm of the SA Bias group and a 10 per cent shareholder in Suregro, underwrote the offer. — Sapa.

The Star
Finance

Savings suffer as tax bite grows

58

Star 21/9.88

Finance Staff

DURBAN — While individuals have seen their contribution to the total of income tax collected almost double in less than 20 years — to upwards of 57 percent — their savings rates have declined to about one fifth the level of 1969-70.

Durban Metropolitan Chamber of Commerce says the R11,69 billion collected from the bulk of individual taxpayers in the 1987-88 tax year was about 57,4 percent of all income tax collected.

In 1969-70, the percentage was 29,4 percent.

To meet the expanding requirements of the State, earners sacrificed savings, and the savings rate as a proportion of personal disposable income fell from 10 percent 18 years ago to two percent in the first half of this year.

In other words, for every R1 000 of income after deductions, the average saving has shrunk from R100 in 1969-70 to R20 today.

A backdrop to this picture is inflation, which has reduced the buying power of money to the extent that today's R20 is the equivalent of little more than R2 or R3 in 1970 terms.

Transvaal taxpayrs contributed the lion's share, 58 percent (R6,8 billion), the Cape Province R2,76 billion (24 percent) and Natal R1,5 billion.

The balance of R618 million came from the Free State.

The chamber figures showed white taxpayers contributed 91,3 percent, coloureds 3,4 percent, Asians three percent and blacks 2,3 percent to the total.

The figures, however, do not take account of lower-income earners taxed on the final deduction system.

Inclusion of those would push up the black contribution.

AIDS AND INSURANCE

58

Search for guidelines

Not surprisingly the recent seminar on Aids, held by the Actuarial Society of SA, posed more questions than it answered. Delegates were awash with figures, statistics and projections that did much to emphasise the seriousness of the problem, but little to give life assurers satisfactory guidelines.

Aids is a wasting disease which, most experts agree, is fatal. It is caused by the human immunodeficiency virus (HIV) and is largely sexually transmitted, though people have been infected by blood transfusions and intravenous drug-taking. Some 50% of children born of infected mothers develop Aids.

It is not clear how the industry can best protect itself against the likely increase in mortality rates.

Statistics, which used to allow assurers to calculate life expectancy precisely, are of limited value here. Says actuary Douglas Keir, GM of Swiss-SA Re: "In the past, with mortality improving, if anything we have been on the right side of the statistics. Now Aids is causing mortality to deteriorate; the statistics are of no value."

Even Aids statistics, he says, are of little use. "They paint a picture not of the present, but of, say, five to 10 years ago, when the infections causing current cases were incurred. The HIV infection, with which we are concerned at the insurance underwriting stage, takes place approximately 10 years before the incidence of Aids cases."

André Chuffart, manager of the life department of Swiss Re in Zurich, told delegates that worldwide, at the end of August, there were 111 854 people with "full-blown" Aids — the terminal stage.

But this was the tip of the iceberg. "Up to another 500 000 suffer from Aids-related conditions, while up to a further 10m are infected but have still to develop symptoms."

In SA, the average incidence is about five per 1m, says Keir. "But it is 24 per 1m for whites alone — roughly the same as in the UK in March 1988 and the US in June 1984. Significantly, the US is now between 250-300 per 1m. The latest breakdown in SA, at September 9, shows incidence among whites is by far the highest, with 113 cases, against just 20 black and five for other groups. Most cases are males."

Of 159 cases diagnosed in SA so far, 94 have died.

Assurers have to plan for the future. Apart from premium rate increases, they can stipulate exclusions in policies, set medical testing levels and adopt various other measures to avoid anti-selection.

Several delegates, however, warned that life assurers should not assume that:

☐ The standard HIV test will always indicate infection;

☐ Sexual preference is a good guide to potential risk; or

☐ People from certain occupations or with a certain marital status are more at risk.

Increased mortality rates seem certain, so assurers will have to put additional reserves aside or adjust terminal bonuses. Higher premiums seem unavoidable. John Lockyer, formerly of Mercantile & General in the UK and a member of the Aids Working Party of the Institute of Actuaries, told delegates that term assurance rates of some UK companies have more than doubled. One, for example, increased one rate from £12,53 in January to £33,06 on September 1.

Another question raised was whether there should be more disclosure of the effect of Aids on bonus rates, variable premium charges and investment unit prices.

Meanwhile, the Life Offices' Association is well on the way to establishing a set of market guidelines. An "Aids agreement" will come into force on November 1.

In the absence of a negative HIV antibody test result, offices will be required to impose an Aids exclusion clause on all life policies of R200 000 or more, all disability income policies of R2 000 a month or more, and all business overhead/expense disability income policies of R8 000 a month or more. ■

FM 21/10/88

FINANCIAL MAIL OCTOBER 21 1988

TRUST BANK (58)

Little revealed

Activities: *Banking and financial services.*
Control: *Ultimate control is exercised by Sanlam through Bankorp.*
Chairman: *F J du Plessis; managing director: C J van Wyk.*
Capital structure: *132,9m ords of 50c each. Market capitalisation: R226m.*
Share market: *Price: 170c. Yields: 7,1% on dividend; 25,5% on earnings; PE ratio, 3,9; cover, 3,6. 12-month high, 300c; low, 130c. Trading volume last quarter, 730 000 shares.*
Financial: *Year to June 30.*

	'85	'86	'87	'88
Advances (Rbn)	5,57	5,87	5,93	8,58
Total assets (Rbn) ..	7,28	8,89	9,26	13,53
Taxed profit (Rm)	39,2	39,2	47,8	57,7
Attributable profit (Rm)	n/a	12,0	18,9	16,0
Earnings (c)	29,5	29,5	36,0	43,4
Dividends (c)	—	9	10,5	12
Net worth (c)	172	193	218	250

I always emerge from reading Trust Bank's annual report feeling as though I've been smothered in flannel, having gleaned little to help understand what the bank is really doing. Shareholders are told assets rose by 46% and advances by 45% — but the annual report says nothing about the way in which those increases were achieved.

Outside shareholders as a rule do not have access to BA9s, and have to rely on the annual report as their primary source of information. Chairman Fred du Plessis says emphasis was placed on more sophisticated management of the asset mix. He could usefully have told shareholders whether this involved substantially greater home loan business — he was more expansive when talking to analysts and journalists when the preliminary results were released. Even then he was insistent that the bank's R1,2bn home loans figure should be "off the record."

Trust was particularly aggressive in seeking market share last year and there is every reason to expect far slower growth this year. For a start, credit curbs and rising interest rates will restrict demand for consumer finance — last year the Bankorp group's hire purchase lending rose by about one third. Asset growth will also be restricted if the Reserve Bank decides that more action is needed to restrain money supply.

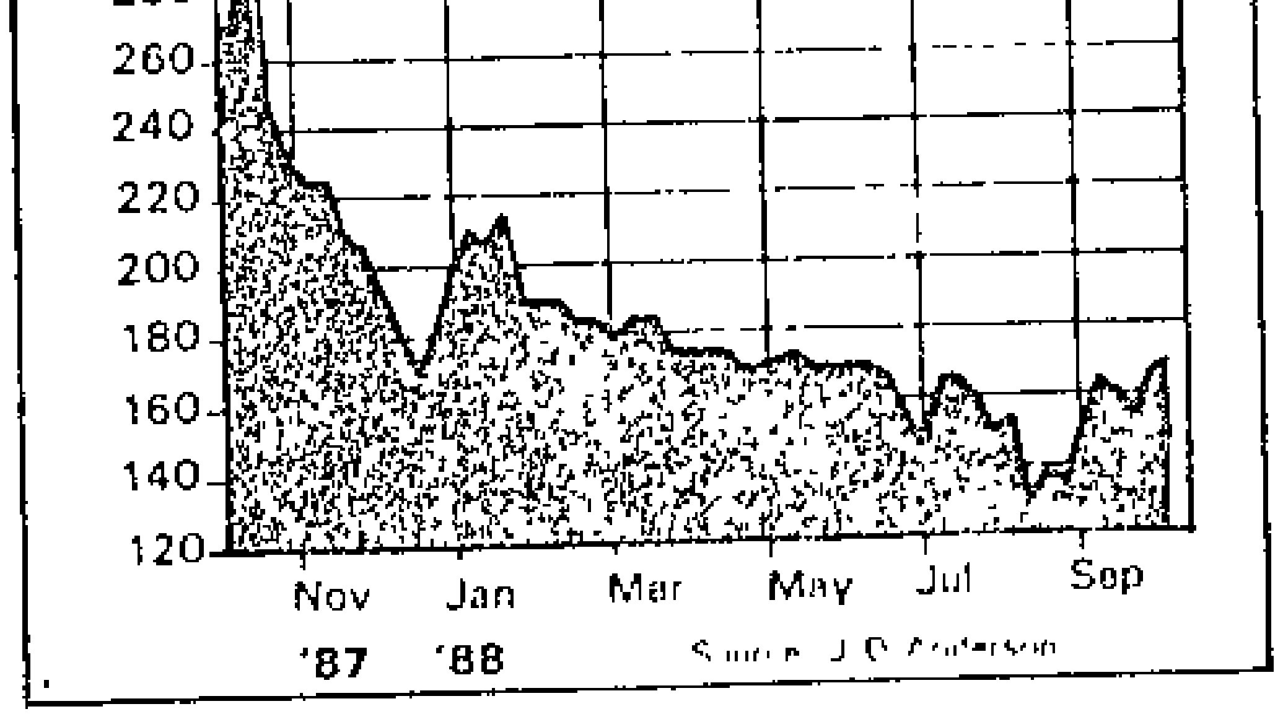
From Trust's viewpoint, a continuation of last year's growth would result in considerable balance sheet strain. A straw poll of stockbrokers' analysts reveals some scepticism about the precision of the past year's growth figures.

They ask, understandably, whether the disclosed profit increase has been achieved at the cost of lower transfers to inner reserves. The annual report throws no light on the matter and it would not be surprising if last year's asset growth had resulted in narrower real margins. But until Trust reaches the degree of confident maturity needed for full disclosure, we will never know.

Greater disclosed retentions were almost certainly needed to cope with Sanlam's apparent reluctance to permit Trust a rights issue. Further increases in dividend cover are a corollary of this and cover of four times seems possible and likely. Last year shareholders' funds rose by only 14,4%, well below the rate recorded by assets and liabilities.

Du Plessis says Trust had already satisfied the 1988 capital adequacy requirements stipulated in the Banks Act by end-June. That puts Trust in line with most of its competitors, no more, no less.

At its present 170c, the share seems fractionally under-priced relative to the sector. It is not likely to reach its giddy pre-crash levels soon, but there is room for some small further recovery from the post-crash low. The speed of the re-rating will be affected by perceptions about the balance sheet if dividend cover is increased. [illegible]



Source: J D Anderson

2/10/88 AM

Rights issue after few take up offer

(58)

NedPerm to raise R170m for merger

BDay 21/10/88

LINDA ENSOR

NEDBANK will have to raise R169,7m cash by way of a rights offer to fund its R180m merger with SA Perm after relatively few Perm shareholders elected to take up Nedbank Group shares in lieu of cash.

● TUCKER

Qualifying Perm shareholders elected to take up 1 590 100 Nedbank Group shares in lieu of cash.

Perm MD Bob Tucker said last night the choice "had absolutely nothing to do with lack of confidence in the merger" on the part of Perm shareholders — on the contrary, he said, shareholders had voted overwhelmingly in favour of the deal at the meeting on September 30.

What the figure did reflect was a dissatisfaction with the price.

"It is surprising that so many did elect to take up shares when they could get them for less on the market," Tucker said.

Nedbank shares are trading at 600c (a bid price of 595c) but in the recent past fell below this price.

Tucker said Nedbank had no expectations regarding the number of shares taken up by Perm shareholders and was "totally relaxed about the matter".

In terms of the offer, shareholders will be offered 18 new Nedbank Group shares at 600c each for every 100 ordinaries held. This will result in Nedbank Group making a cash payment of about R170,4m to Perm shareholders.

To effect the offer, about 28,3-million new shares will be issued.

Nedbank Group shareholders have until Friday, October 28, to register for the rights offer.

Nedbank Group financial results for the year to end-September 30 will be released on October 27.

Star 21/10/86

Nedbank rights offer

The Nedbank Group is to raise R169,7 million to fund the merger with the Perm by way of an offer of 18 new Nedbank shares at 600c each for every 100 ordinaries held. (55)

Merchant bank UAL said yesterday that 28,287 million new shares would be issued. Qualifying Perm shareholders had elected to take up 1,596 million Nedbank shares in lieu of cash.

In terms of the agreement, the balance of the total R180 million merger price would be settled in cash.— Sapa.

MONEY MATTERS

by Derek Tommey

Inflation robs small savers

S tar 22/10/88 (58

SOMETHING needs to be done to help the small saver. In today's conditions where we have high inflation and heavy taxation there is absolutely no incentive for anyone to save.

Let us look at the plight of the average building society investor.

At the moment building societies are paying 13.5 percent on 12 months' fixed deposits. So at the end of the year, an investor will receive R13,50 for every R100 placed on fixed deposit.

Assuming he is in the 45 percent tax bracket, his net return will be R7,42 for every R100 invested.

But with inflation running at 12 percent, he now needs R112 to buy what R100 bought him a year ago.

However, with his R100 in the building society and R7,42 interest he has only R107,42.

When theft is no crime

Therefore, despite investing his money for a year he actually has R4,58 or 4,1 percent less in buying power than a year ago.

He has been robbed — by inflation. But it is no use complaining to the police. They can't do anything about it.

It would have been far more sensible for him to have bought a good second-hand car or electronic appliance as these probably could have been sold at a substantial profit today.

What we need is a tax system that recognises inflation; that allows inflationary losses on savings to be written off against taxable income.

Admittedly, it would cost the Treasury a great deal of money, but not anywhere near so much as the inflation-linked pay rises for public servants, and surely the Government also has a moral duty to look after savers as well.

Such a scheme would have another benefit in galvanising the Government to start fighting inflation.

Revenge of the nerds

Or how the little man cut off Government's options

HORWOOD: Last fighter

Star 22/10/85 **DEREK TOMMEY** 580

THE small saver in South Africa has had a raw deal for years.

From the way he has been treated, it is understandable that many believe the Government regards him merely as a goose ripe for plucking.

Certainly, the Government has not done anything to stop the small saver being consistently robbed by a combination of inflation and an income tax system that ignores inflation's ravages.

And it has not expressed any concern about the fact that the small saver, despite his sacrifices, has usually ended up poorer instead of richer. In fact, you had to be a complete *nerd* to continue saving in these circumstances.

But the small saver is about to have his "revenge of the nerds" for this scurvy treatment.

As the meeting of bankers in Pretoria this week highlighted, South Africa is experiencing a serious shortage of savings, caused partly by the way the small saver has been treated.

South Africa today has not enough savings to finance all its needs.

It cannot provide housing for its growing population and at the same time the new investment needed to provide these people with jobs.

For the long-term good of the country it is imperative that what savings South Africa has should go to where it will be the most productive.

This means, as South Africa claims to be a free enterprise capitalist economy, that savings should go to the highest bidder and rates should find their own level.

The banks say higher rates are also needed to attract more savings, as well as ensure that what they lend goes to the most needy borrowers.

But there is great reluctance on the part of Government to allow rates to rise.

Since building societies became banks and banks became building societies there is no longer any major difference between the suppliers of mortgage money and loan funds.

A rise in lending rates for commerce and industry also leads to a rise in the mortgage rate.

This has placed Government in a most unhappy situation. If it lets interest rtes rise, it will incur the wrath of tens of thousands of house buyers.

If it doesn't, it will limit the funds available to commerce and industry, and run the risk of curbing the high investment now being made by import replacement and export industries.

The continued devaluation of the rand and the heavy curbs on imports have boosted much needed new investment in these fields.

This has led to an extremely strong demand for credit. In most cases this credit is for the purchase of productive assets and not for speculative purposes.

The small saver can draw some morbid satisfaction from Government's plight for part of it stems from its failure to tackle inflation or encourage saving.

The last time Government made a determined effort to slow down price increases was in the mid-1970s when Professor Owen Horwood was Finance Minister. But the resultant unrest in the townships led it to decide that peace is better than price stability.

In any event, it has a vested interest in inflation. The "progressive tax" system means that a small increase in inflation leads to a big rise in tax revenues in real terms.

So a period of continued inflation obviated the need for unpopular tax increases. Inflation also made it easier for it to service its domestic debts.

Of course, inflation does hurt some people. But the Government took care to ensure that its supporters were not badly harmed. Farmers received subsidies and cheap loans while state employees received inflation-linked pay rises and even inflation-linked pensions.

Private sector pensioners, unfortunately are not in this happy situation. Because his pension is usually a fixed amount, inflation has been halving its value every four to six years, without anyone seeming to care.

Agriculture, commerce and manufacturdid not protest too strongly about inflation for they too have an interest in its continuation.

Rising prices produce healthy stock profits, reduce the debt burdens and, because they increase the "cost of entry", help keep out competitors.

Even house buyers have welcomed inflation as it increased the value of their property and lowered the real value of repayments.

The small saver may be slow, but he is not stupid. He grew tired of seeing the real value of his investments dropping by up to 10 percent a year, and the flow of funds to the building societies started to decline.

Instead his money went elsewhere, into 'hard assets' such a Kruger rands and jewellery and especially to the life assurance companies and their 10-year tax-free endowment policies.

Although the 129 percent increase in building society assets between 1981 and 1987 from R13,8 billion to R31,7 billion in 1987 seems most impressive, this was less than the 131 percent rise in inflation over this period.

For real growth one should look to the increase in the assets of life assurers. These grew by 316 percent between 1981 and 1987 — from R15,0 billion to R62,5 billion.

Net assets of unit trusts grew 376 percent in this period, from R726 million to R3,5 billion.

But while the percentage increase is large, the cash increase pales almost into insignificance when set against the growth in life assurance assets.

The ramifications of the switch by savers from building societies to insurance companies started showing a few years ago.

The building societies could no longer supply cheap mortgage finance and, in raising the price of their loans, opened the way for the banks to operate in this field.

When the authorities saw what was happening they apparently decided that as building societies no longer had much of an independent role, the best way to sovle this problem would be to allow them to become banks, and most have done so.

So we arrive at the situation where the banks are the source of both mortgage money and credit to commerce and industry and it is virtually impossible to impose different rates of interest on these loans.

And at times such as the present, Government is increasingly finding itself in a corner.

Perhaps Government will realise that its plight would not have been so severe had it looked after the small saver — and also realise that it is essential that it starts looking after him now if this country is to have any chance of achieving the economic growth it so badly needs.

58 B/day 24/10/88

Nedbank chief economist predicts 18% prime rate

KAY TURVEY

PRIME rate is expected to be raised from 16% to 17% soon and even higher rates are expected early next year to suppress demand triggered by wage and salary increases.

Nedbank chief economist Edward Osborn told the SA Vehicle and Rental Leasing Association on Friday prime rates of 18% to 19% could be expected in the first quarter of 1989.

Osborn said he hoped rates would not reach as much as 20% — as was advocated in some quarters — because too much damage was done at that level.

"The difficulty about rates is that, given inflationary expectations and the impotence of the authorities to make any dent on these expectations, effective demand can be bludgeoned into changing only by large quantum leaps in interest rates."

However, this would affect all outstanding borrowings and a lot of damage could result.

Osborn said, however, the improved balance of payments during the course of 1988 would play a role of bringing market rates down.

He said it was to be expected the natural cut-off of inventories and existing and further anticipated measures should have a significant impact on imports, resulting in an easing in the balance of payments in the last quarter of this year and throughout 1989.

Accordingly, rates could be expected to fall gradually in 1989 to a forcast 15% prime by the end of next year, he said.

B/day 24/10/88 (58)

Sizes of all SA coins to be reduced

Own Correspondent

DURBAN — The size of all coins will be reduced to accommodate next year's introduction of the R2 coin — and possibly a R5 coin at a later stage.

This was confirmed at the weekend by a senior Reserve Bank spokesman, who said it had been decided in principle to reduce the size of all coins.

The review of the country's coinage follows a Cabinet decision to replace the R2 note with a coin, and to replace other coins with a new series with a different metal content.

The spokesman said the R2 coin would receive priority, and was expected to be minted early next year.

The coin was likely to be the largest in the series — although provision might be made for a R5 coin.

The proposal to have a large R2 coin is a departure from recent international coin experiments.

Britain recently replaced the £1 note with a coin about the size of a 10p coin.

SA officials are still deciding on alloy combinations to thwart the melting of R1 coins for their nickel content.

Star 24/10/88

Sun Life could take a stake in TransAtlantic

The Star Bureau

LONDON — Sun Life is expected to negotiate a stake in the British interests of Liberty Life of South Africa following the outbreak of peace last week between the two companies.

Donald Gordon, chairman of Liberty Life, which controls 29 percent of Sun Life's shares through its British associate, TransAtlantic, had been suggesting that he wanted to oust Peter Grant, its chairman, or impose himself as deputy chairman.

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His demands followed Liberty's successful proxy campaign against Grant's plans to invest in UAP, the French insurance corporation, via a share swap with UAP International, its non-domestic subsidiary.

But the two men appear to have reached a compromise in which two Gordon representatives, Lord Douro, a Member of the European Parliament, and Mr Michael Rapp, head of the Capital and Counties property group. a TransAtlantic offshoot, will join the board.

Their presence will be balanced by Mr Jean Gougenheim from UAP, and Mr John Barkshire, founder of Mercantile House. UAP now controls 18,2 percent of Sun Life.

Mr Gordon, a director of Guardian Royal Exchange, a competitor of Sun Life, is not joining the board.

When the new board meets it will look at taking a stake in TransAtlantic, a holding company for Liberty's British businesses, or directly in Capital and Counties, a property business with an excellent track record.

But Sun Life also remains keen to raise fresh capital for its expansion drive into Europe. It is determined to maintain its link with UAP and buy some form of stake in the company.

Leading foreign bankers visit SA

(58)

B/day

25/10/88

NEIL JACOBSOHN

A GROUP of about 20 senior international bankers has arrived in SA to attend the 150th anniversary celebrations of First National Bank (FNB) — and at the same time to assess political and economic developments in the country with an eye on future investment.

The bankers, many of whom are accompanied by their wives, represent a range of banks in countries including West Germany, Switzerland, the US, Australia, Britain and Hong Kong. This is the biggest and most senior delegation of international bankers to visit SA since the imposition of financial sanctions by most of the Western world.

No official talks or meetings with government or Reserve Bank officials are planned, but the bankers will be meeting a wide range of leading South Africans, including Treasury and central bank officials, and top businessmen, at a series of social functions.

The highlight of their visit will be the exclusive dinner celebrating First National's 150th anniversary in Johannesburg tonight. It will be attended by leading figures from the financial, business and public sectors.

Confirming the visit, FNB senior GM Jimmy McKenzie stressed yesterday it was a private visit arranged by the bank. However, there would be an opportunity for an "exchange of views" at a number of social meetings between the bankers and top South Africans.

He said the visit would give the bankers the opportunity to update themselves on SA affairs. "We would not wish to influence them, but the visit will allow them to see for themselves what is happening here."

He said those who had visited SA before would see firsthand what changes had taken place, while those visiting the country for the first time would leave with a better perspective of what was really happening here.

McKenzie said the full cost of the visit

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Leading foreign bankers arrive in SA

⇦ ● From Page 1

was sponsored by FNB. "In the course of our business we deal widely with banks internationally. Over the past several months, while the planning of our anniversary celebrations have been in progress, we sent invitations to our colleagues and friends abroad," he said.

The bankers, who arrived in SA at the weekend, spent yesterday in the Cape, where they toured the winelands and visited a leading wine farm. They are due to arrive in Johannesburg today.

Later in the week they will visit the Kruger National Park before most depart at the weekend.

The representative of a leading European bank said the visit represented a major opportunity for SA to attract fresh investment.

Pressure rises on short-term rates, says Old Mutual

STAR 26/10/88

Finance Staff

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Old Mutual believes short-term interest rates will be under upward pressure in the next few months. It cites the deterioration of the balance of payments (BoP) position as the single most important reason for renewed hardening.

"Gold and foreign exchange reserves have sunk to dangerously low levels," says chief economist Mr Dave Mohr in *Economic Monitor*.

"Continued pressure on the external accounts has drained our reserves substantially and eased the rand exchange rate. At the end of September the reserves were 41 percent below the cyclical peak achieved in July last year and equalled less than 1,5 months of imports."

The recent decline in the gold price has also clouded the outlook and Mr Mohr sees a further tightening in overall economic policy, implying another increase in short-term rates to dampen import and credit demand.

He is concerned, however, that the 15 percent salary rise for the public sector represents an easing of the overall fiscal policy stand unless it is entirely financed through a tax increase.

"Should fiscal policy eventually turn out to be more expansionary than intended, monetary policy will have to bear the burden of cooling off the economy, implying a significant rise in interest rates," Mr Mohr says. He adds, however, that a return to the record levels of 1984/85 is unlikely.

FNB produces mediocre results

58 B/day

27/10/88

GRETA STEYN

FIRST National Bank's (FNB) after-tax profits rose by a mediocre 10% to R177,5m in the year to September 1988, reflecting the battering banks took in the money market this year.

In the vice-grip of squeezed margins, FNB could not translate phenomenal asset growth into bottom-line profits. Total assets jumped by 36,6% to R28,1bn, confirming the bank's position as SA's largest.

Strong demand for credit saw FNB's advances surge by a huge 29% to R21bn. The major contributors to this growth were commercial bank Wesbank and First Industrial Bank.

Interest earned on advances struggled to stay ahead of cost of funding. Income from interest rose by 29% to R2,84bn, but interest expenditure surged by 40,5% to R1,89bn. The result was an increase of only 11,1% in the bank's net interest income.

Describing the past financial year as difficult, senior GM Jimmy McKenzie said: "Interest turn suffered from the severe squeeze imposed on the market for most of the year by the Reserve Bank. If this had been a free market, rates would have been higher. With a better interest turn, the impact on our profits would have been substantial."

He hoped that banks' margins would be restored in the near future by an increase in prime overdraft rates.

"The volumes are there. Once our margins are restored, we will coin it," McKenzie said, noting that the year to September had seen a record as far as asset growth was concerned. However, return on assets fell from 0,9% to 0,7%.

Bad debts were in very good shape, with the bank's provision charge down to only R124,5m in spite of the automatic increase in the general provision.

Earnings a share were 284,5c, an increase of 11,7% on the previous year. The dividend has been lifted 7,5c to 112,5c with cover increased to 2,3 times (1987: 2,2 times).

The effective tax change for the year was 42,1% compared with 46,5% in the previous year.

Group capital expenditure for the year totalled R385,2m, which included

● To Page 2 ⇨

Margin squeeze hurts FNB bottom line

⇦ ● From Page

58 B/day 27/10/88

increased expenditure on information systems equipment, together with expenditure on Bankcity properties.

In view of the efficiencies achievable, the Bankcity development will have a neutral effect on the profitability of the group in the short term. In the longer term the project will generate comprehensive operating and financial gains, FNB said.

FNB ups share earnings 11,7%

Cape Times 27/10/88

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Own Correspondent

JOHANNESBURG. — First National Bank's (FNB) after-tax profits rose by a mediocre 10% to R177,5m in the year to September 1988, reflecting the battering banks took in the money market this year.

In the vice-grip of squeezed margins, FNB could not translate phenomenal asset growth into bottom-line profits. Total assets jumped by 36,6% to R28,1bn, confirming the bank's position as SA's largest.

Strong demand for credit saw FNB's advances surge by a massive 29% to R21bn. The major contributors to this growth were the commercial bank, Wesbank and First Industrial Bank.

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Earnings per share (EPS) were 284,5c, an increase of 11,7% on the previous year. The dividend has been lifted 7,5c to 112,5c with cover increased to 2,3 times (2,2 times).

The effective tax change for the year was 42,1% (46,5%).

Group capex for the year totalled R385,2m which includes increased expenditure on information systems equipment, together with expenditure on Bankcity properties.

Record income for giant Sanlam

Cap. Times 27/10/88 58 [illegible]

By AUDREY D'ANGELO
Financial Editor

SANLAM, which for years has been striving to become the largest life office in SA, achieved a record premium income of R5 174m (R3 527m) in the year to September 30. Of this total, R5 172 was paid in SA currency.

Announcing these figures yesterday MD Pierre Steyn said that in the same period payments to policy-holders and other beneficiaries soared to nearly R2 000m — or R1m for each working hour, compared with R1,4m the previous year.

The number of new policies increased by 39%. Steyn said they were issued at a rate of one every 15 seconds. And, he said, Sanlam was making growing inroads into the English speaking market which now supplied 22% of all new business.

Income from pension and group business increased by 67% to more than R2 000m, giving Sanlam about 40% of the SA market.

Steyn said that death claims represented only 21% of all benefits paid by Sanlam during the year.

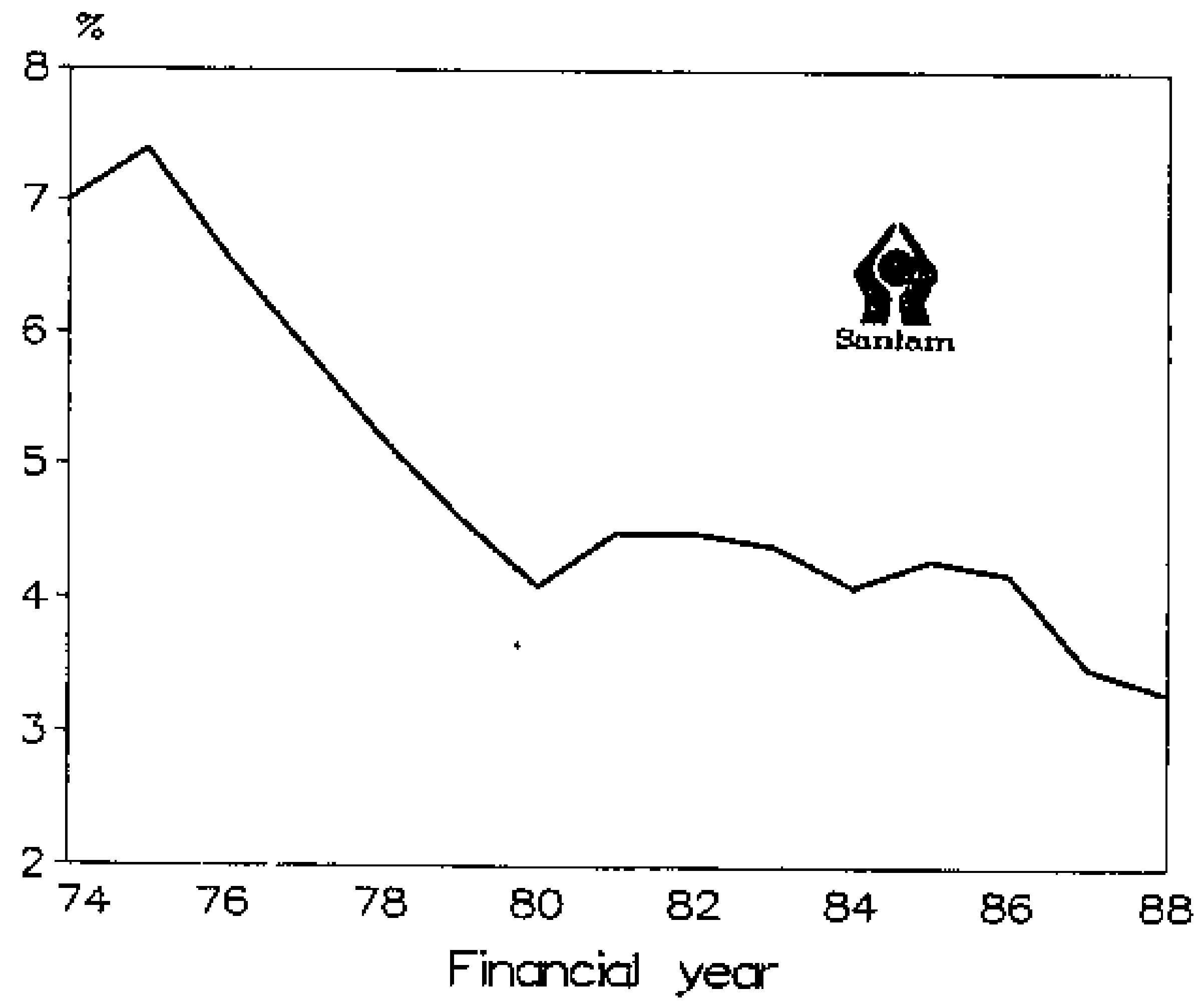
A total of R487m was paid out in death and disability payments. Maturity claims, pensions and annuities accounted for nearly R900m more. The balance of the R2 000m was paid out mainly on policy surrenders and withdrawal benefits to members of pension funds.

Investment income rose by 32% to R1 739m (R1 320m) and total income by 43% to R6 913m (R4 847m).

The book value of assets rose by 34% to R17 200m (R12 800m). Of this, R6 bn was invested in Government and semi-Government stock. More than R4 bn was invested in shares and almost R2 bn in property.

And although administrative expenses rose by 32% to R225m (R170m) Steyn pointed out that as a percentage of income they had fallen to 3,3% compared with 4,3% in 1985.

In the past two years Sanlam, originally supported mainly by the Afrikaans community, has made a determined effort to secure a larger share of the English speaking market.



This graph shows how Sanlam has steadily reduced the percentage of its income spent on administrative expenses. This year's 3,3% compares with 3,5% last year and an average of more than 6% for the industry as a whole.

A British senior marketing manager, Christopher Bean, heads the campaign and a spokesman said Sanlam employed "hundreds" of English-speaking representatives.

News that premium income had passed the R5 bn mark was announced to Sanlam's entire staff, countrywide, at 10 am yesterday through a computer link-up — evidence of the organization's impressive efficiency.

Steyn pointed out that since 1983 Sanlam, now 70 years old, had grown each year by as much as in its first 65 years of existence. He said this year's increase of R1 647m in premiums alone surpassed the total premium income of some large SA life offices.

Govt interest rate policy hits FNB

Star 27/10/88

(58)

By Ann Crotty

After the release of disappointing interim results, when earnings were up only 7 percent, many analysts revised expectations for First National Bank's (FNB) full-year earnings performance from 20 percent to 8 percent. The group has reported a 11,7 percent increase in earnings to 284,5c (254,6c) a share for the 12 months to September.

The figures are likely to have little impact on both FNB's share price and investor feeling about the banking sector.

Senior general manager, Mr Jimmy McKenzie, says the performance does not match management's expectations, which were based on the assumption that interest rates would be allowed to move in line with market forces. But government pressure to hold down interest rates exerted pressure on margins and prevented FNB from meeting budgeted profit figures.

The final dividend is up 10,7 percent to 77,5c (70c) a share, bringing the total payout to 112,5c. This increase is likely to come as a pleasant surprise to the market.

The interim dividend was unchanged at 35c and feeling was that FNB was moving towards a higher dividend cover in preparation for the implementation of higher capital reserve requirements. At the half-way stage, dividend cover was up to 2,8 (from 2,6 in March 1987). Year-end dividend cover is 2,3 times (2,2).

Mr McKenzie says the ideal cover is 2,5 to 3 times, but that this is not a specific target.

He says the group's capital position is comfortable.

The results show interest income up 29 percent to R2,8 billion (R2,2 billion), compared with a massive 40,5 percent increase in interest expenditure to R1,9 billion (R1,3 billion). This leaves net interest income showing an increase of 11,1 percent to R955,2 million (R860,1 million).

Doubtful debt provision is down 3,3 percent at R124,5 million (R128,7 million). Mr McKenzie says this is despite a substantial increase in the general provision for bad debt.

Other operating income is up 18,3 percent to R697,2 million. Other operating expenditure has risen 19,9 percent to R1,2 billion. After an 8 percent increase in the tax bill, taxed income shows a 10 percent advance to R177,5 million (R161,4 million).

The directors say that operating income from commissions, fees, foreign exchange revenue and other trading shows greater growth than income from lending activities." They add: "Interest turn suffered from the severe squeeze imposed on the market for most of the year by the Reserve Bank."

Mr McKenzie says all divisions did exceptionally well, managed to increase market share and enjoyed improved labour productivity.

The balance sheet shows assets up 36,6 percent to R28,1 billion (R20,6 billion), with advances accounting for R21,1 billion (R16,3 billion). There was a 122 percent surge in home loan advances from R,12 billion in financial 1987 to R3,1 billion. Mr McKenzie says the home loan business is profitable in terms of interest rate turn and, in addition, provides fee and commission income.

Sanlam tops R5-bn in premium income

(58)

Star 27/10/88

By Magnus Heystek
Finance Editor

The massive inflow of money into life insurance companies continues apace as can be ascertained by the latest set of financial results released by insurance giant Sanlam which shows total income (premium and investment income) of R6,913 billion for the twelve months to end-September this year.

This is a staggering increase of 43 percent, despite the stock market crash in October last year which "most definitely had an adverse impact on investment income", according to Sanlam MD Pierre Steyn. Investment income still managed to increase by 32 percent to R1,739 billion.

The combined premium income of SA's two dominant life insurance companies now exceed R10 billion and shows no signs of abating.

Premium income soared by 47 percent to R5,174 billion, enabling Sanlam to breach the R5-billion barrier ahead of arch-rival Old Mutual which, however, has a different year-end.

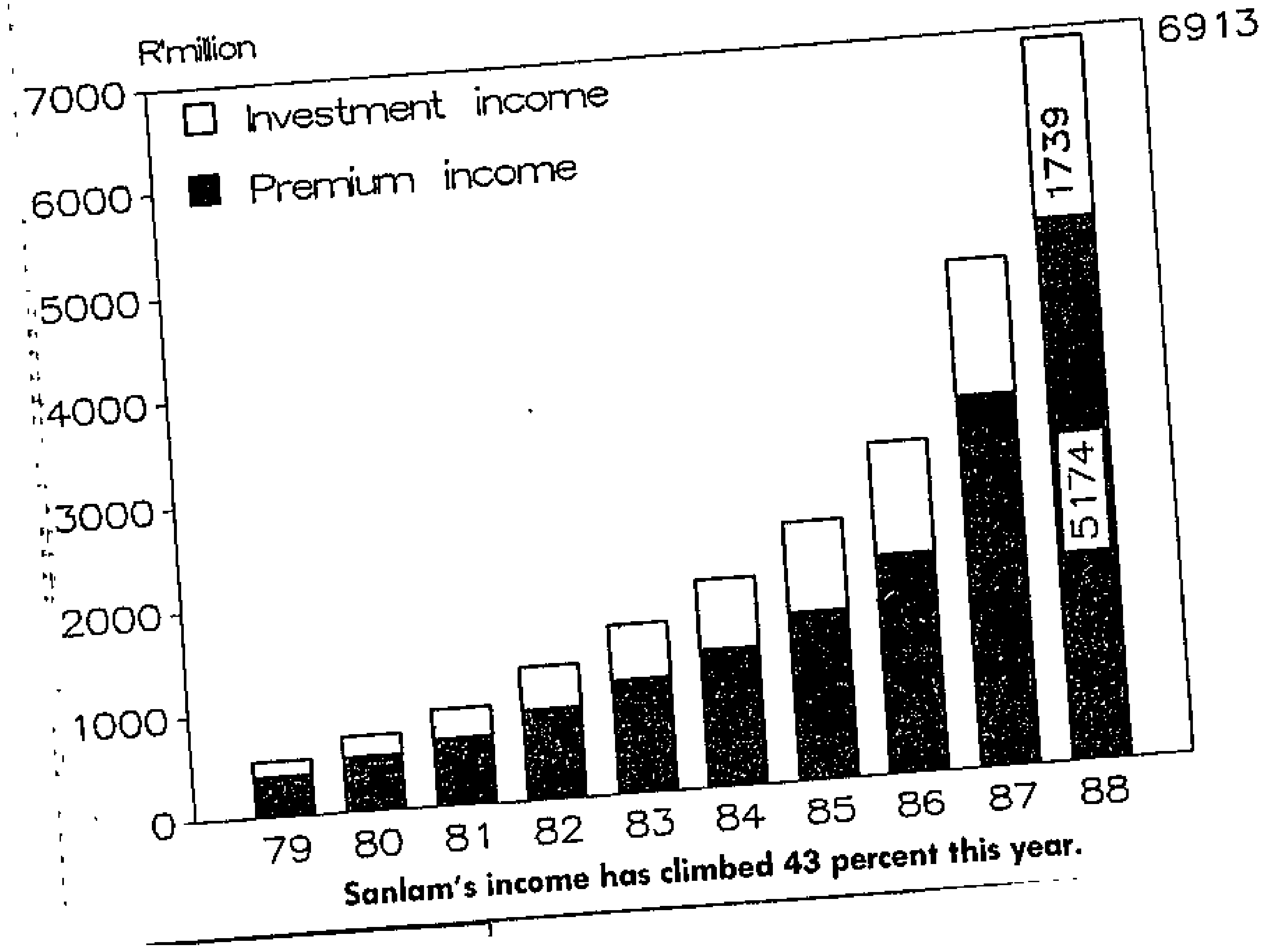
Benefits paid also showed a healthy advance with R1,937 billion paid out to policy holders and beneficiaries during the financial year, approximately R1 million per every working hour of the year.

And, says Mr Steyn, one does not necessarily have to die to benefit from life insurance — death claims represent only 21 percent of all benefits paid out by Sanlam. The company's death and disability payments amounted to R487 million while maturity claims, pensions and annuities amounted to almost R900 million.

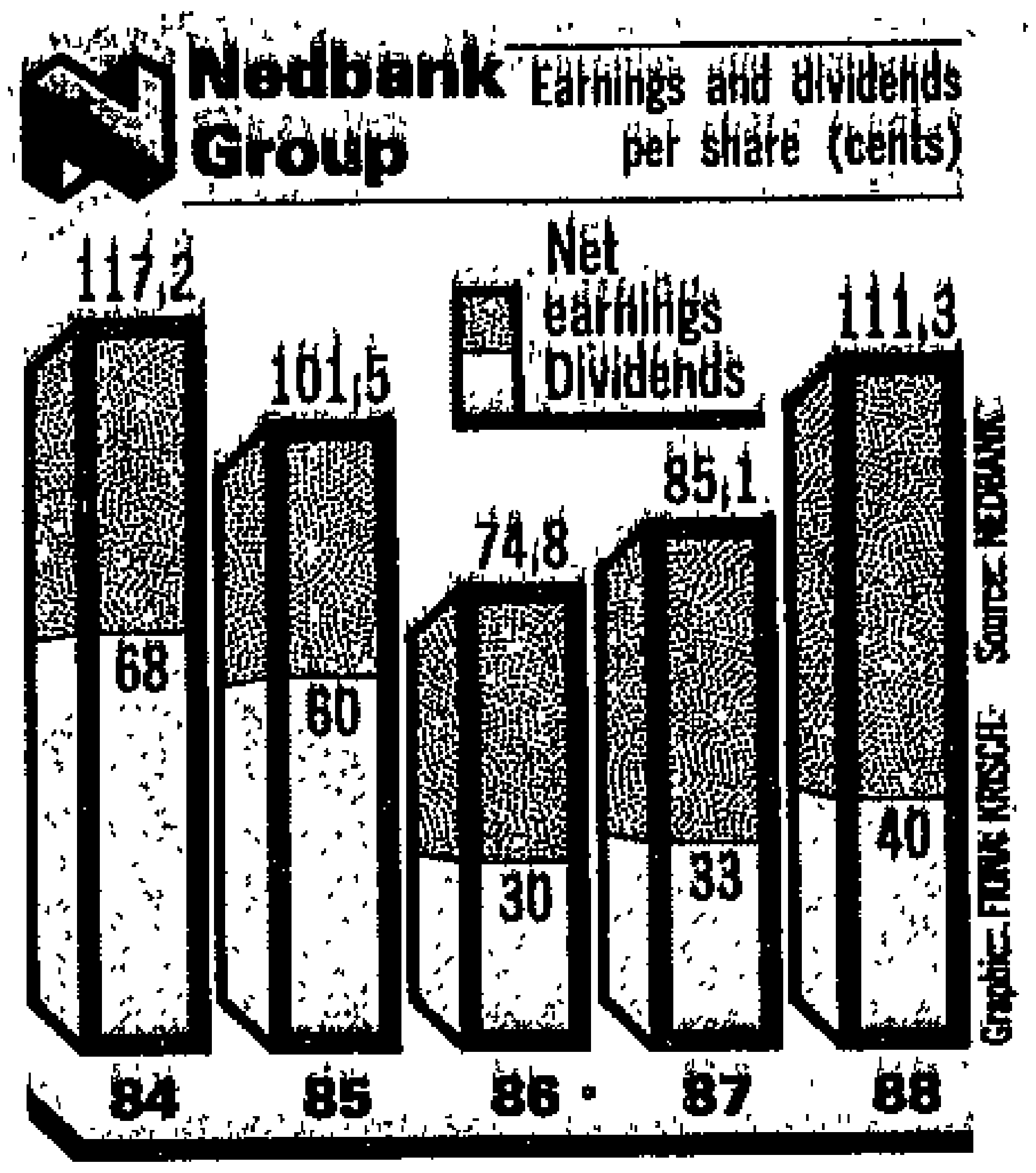
At year-end the book value of the total assets stood at more than R17 billion, an increase of 34 percent on the previous year. R6 billion has been invested in government and semi-government stock, R4 billion in equities while the property portfolio has a book value of almost R2 billion. Cash-investments total R1,2 billion while the rest is invested in unquoted shares and other investments.

Since 1983 Sanlam, in line with other major insurance companies, has been experiencing almost exponential growth, growing on average annually by as much as during its first 65 years. The increase of R1,647 billion alone during the 1988 year surpasses the total premium income of life companies Liberty Life and Southern Life, third and fourth largest life companies in SA.

Mr Steyn ascribes this impressive growth to the ability of insurance companies to offer life and investment products which have consistently outpaced the average inflation rate during the last twenty-odd years.



Sanlam's income has climbed 43 percent this year.



Graphic: FRANK KIRSCH Source: NEDBANK

Nedbank soars to new heights

(B) B/day 28/10/88

GRETA STEYN

NEDBANK Group's earnings soared 49% to R209,7m in the year to September, reflecting an improved bad debt situation and an accurate reading of money market conditions.

Earnings per share were 134,4c compared with 90,3c for the 1987 financial year.

The excellent results should inspire confidence in the group at a time when it has to raise R170m via a rights issue to fund its merger with the SA Perm.

Predicting another favourable year, chairman Owen Horwood said: "The main reason for our excellent results is the matching of our assets and liabilities. Our interest rate projections proved to be accurate. In addition, we also implemented a productivity programme to raise efficiency."

Also accounting for the profit growth was a reduction in bad debt provision from R58,7m in 1987 to R53,8m.

Star performer of the group was commercial bank Nedbank Ltd, whose results included those from Nefic, the group's former medium-term arm. Nedbank contributed R147,9m to the group's net income — an increase in earnings of 57,8% from the previous financial year.

The group's balance sheet shows asset growth of 18% to R16,83bn. Advances, however, grew by only 12%. Horwood

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Nedbank earnings soar to new heights

⇦ ● From Page 1

(B) B/day 27/10/88

said the slow growth in lending was the result of a deliberate decision.

An important feature of the group's results is the R36m transfer to a tax equalisation reserve compared with only R8m last year. Horwood said the transfer to the reserve was to smoothe the impact of taxation on future distributable profits when Nedbank Ltd started paying tax again. With the Perm merger, Nedbank was expected to be in a taxpaying position sooner.

The group declared a final dividend of 27c (1987: 22c) bringing the total for the year to 40c. Nedbank has increased dividend cover from 2,6 times to 2,8 times.

28/12/88 (58) FM

BUILDING SOCIETIES

Shifting portfolios

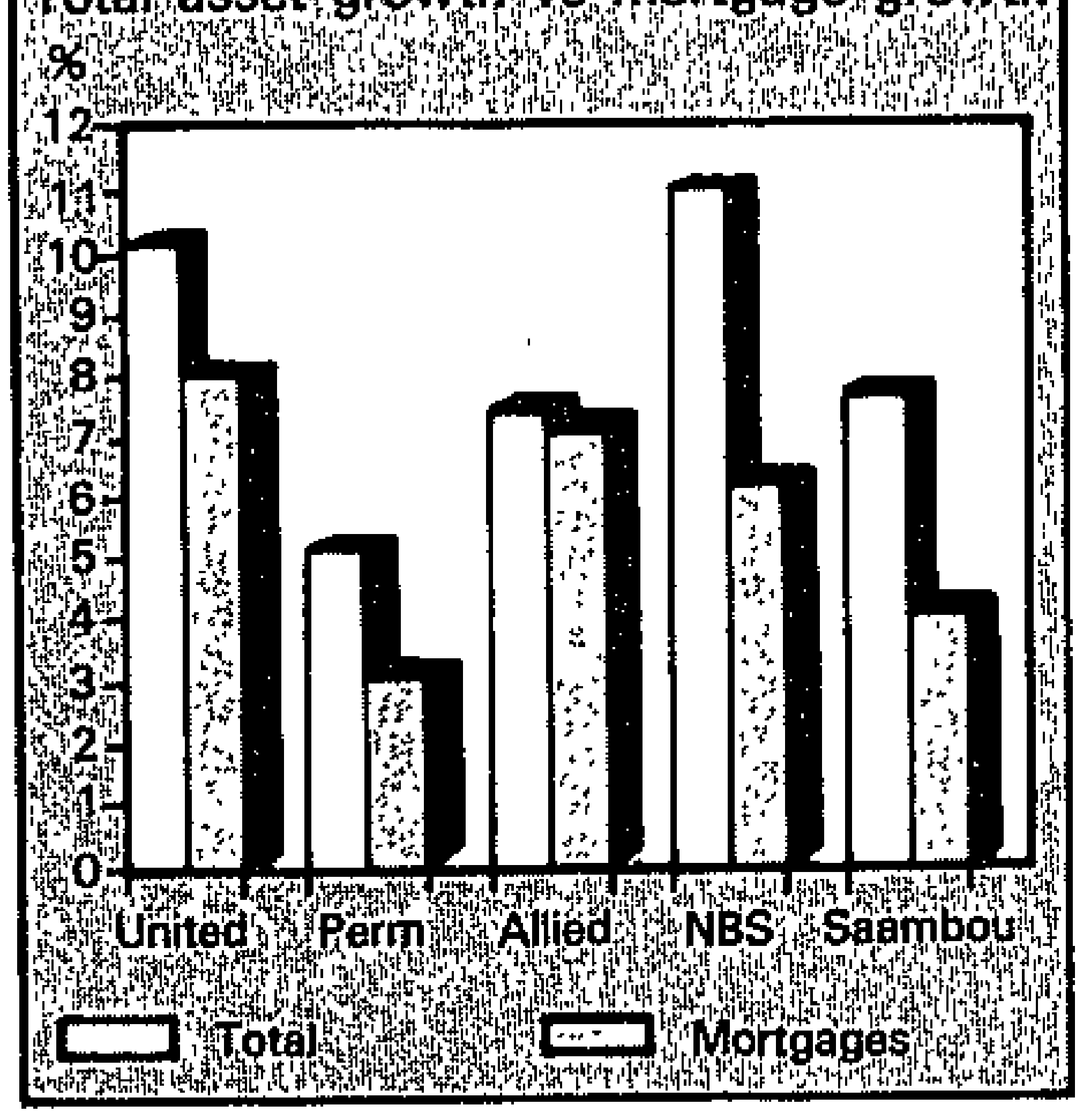
Building societies are showing greater growth in their statutory investment portfolios than in their traditional business of providing mortgage loans.

This can be seen from an analysis of figures relating to building society arms of the holding companies, submitted quarterly to the Registrar of Building Societies. Between December and June, mortgage loans increased 6,2% to R25,6bn — but total assets grew 8,2% to R32,5bn (**see table**).

Apart from Allied, whose mortgages grew 7,2% compared to total asset growth of 7,5%, major societies showed a differential of several percentage points between total asset and mortgage growth. The biggest, United, increased the former by 10,2% and the latter by only 8,1%. Comparative figures for the Perm were 5,2% and 3,2%; Natal Building Society (NBC) 11,1% and 6,4%; and Saambou 7,8% and 4,1%.

Growing out

Total asset growth vs mortgage growth



Apart from mortgage loans, total assets comprise: total investments, bills, general advances and other assets. Much of the growth in total assets is to be found in the first of these — total investments. Increases in these in the period were: UBS 77%, NBS 69%, Saambou 65%, Perm 15%, Allied 11%.

One component of total investments — cash, coins and deposits with banks and discount houses — grew steeply in some cases, notably NBS 143% and the Perm 58%. United's holding of this category rose by 27% and Allied's by 19%, while Saambou's fell by 33%. However, about R70m of Saambou's investment porfolio was switched to liquid bankers' acceptances of which, at December 31, it had no holdings. Without this switch, cash coins and deposits with discount houses would have increased by 51%.

These types of investments are held, in part, to meet statutory and internal prudential requirements. So one reason for the increases could be an increase in the ratio of liquid assets they are required to hold, as the dearth of longer-term money forces banks to shorten their books.

Also, society executives thought that the increase in the tempo of loans granted earlier in the year would require funds at a time when the money market was tight (August-September) — hence the build-up of surplus funds and marketable securities. ■

Rand falls sharply against pound

Cit Times 28/10/88

S8

A STEEP rise in the pound yesterday forced the rand down to one of its lowest levels against the British currency.

The rise in the pound follows an improvement in the British balance of trade figures announced yesterday.

The rand closed in Johannesburg yesterday at R4,36 to the pound compared with R4,32 on Wednesday.

The stronger pound will also push up the price of imports from Britain.

But it is good news for exporters including Cape fruit farmers for whom it means higher profits. The UK is traditionally one of the biggest markets for fruit and producers will make huge exchange rate profits if the pound stays at its present heights.

The rand closed one cent down against the US dollar too. Its closing price was R2,47 to the dollar yesterday compared with R2,46 on Wednesday. Against other currencies the rand closed at:

USA: 2,4635/50.
UK: 4,3680/730.
Germany: 0,7185/95.
Switzerland: 0,6060/70.
France: 2,4525/35.
Netherlands: 0,8110,25.
Japan: 50,95/51,05.

Group shows excellent results

Nedbank share earnings soar

Cape Times 28/10/88

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From GRETA STEYN

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The excellent results should inspire confidence in the group at a time when it has to raise R170m via a rights issue to fund its merger with the SA Perm.

Predicting another favourable year for the group's chairman Owen Horwood said: "The main reason for our excellent results is the matching of our assets and liabilities. Our interest rate projections proved to be accurate.

"In addition, we also implemented a productivity programme to raise efficiency."

Also accounting for the dramatic profit growth was a reduction in bad debt provision from R58,7m in 1987 to R53,8m this year.

Star performer of the group was commercial bank Nedbank Ltd, whose results included those from Nefic, the group's former medium-term arm.

Nedbank contributed R147,9m to the group's net income — an increase in earnings of 57,8% from the previous financial year.

The group's balance sheet shows asset growth of 18% to R16,83bn. Advances, however, grew by only 12%.

Horwood said the slow growth in lending was the result of a deliberate decision, and tied in with the group's reading of the money market.

An important feature of the group's results is the R36m transfer to a tax equalization reserve compared with only R8m last year.

Horwood said the transfer to the reserve was to smooth the impact of taxation on future distributable profits when Nedbank Ltd started paying tax again.

With the Perm merger, Nedbank was expected to be in a tax paying position within a much shorter period.

The group declared a final dividend of 27c (1987: 22c) bringing the total for the year to 40c. This means that Nedbank has increased dividend cover from 2,6 times to 2,8 times.

mentary majority.

final examinations.

CP 'to turn back the group areas clock'

Star 28/10/88

By Claire Robertson and Deborah Smith

The first challenge to Government policy from a Conservative Party-dominated Transvaal platteland was launched yesterday when leader of the CP Dr Andries Treurnicht indicated that the party would seek to turn back the group areas clock in towns it controlled.

More than two-thirds of the province's 84 "white" towns are in the hands of the CP after this week's municipal election.

The CP would try to close racially desegregated central business districts in those towns, Dr Treurnicht said at a press conference yesterday.

Minister of Constitutional Development and Planning Mr Chris Heunis responded immediately by pointing out that open trading areas were declared by central Government and not local authorities.

Town councils did not have the authority to close areas declared open by central Government, he said.

Black township development is also at risk following the CP victories. Dr Treurnicht said the election had given the CP a greater majority in the regional services councils (RSC).

The CP-controlled towns could exert influence in the RSCs especially regarding budgeting, said Dr Treurnicht.

More belt tightening as rate increase is forecast

Star 28/10/88

By Sven Lünsche

Home owners and consumers buying on hire purchase face higher monthly charges within weeks as financial authorities prepare to put up interest rates again.

The financial markets yesterday sent a clear signal to the authorities that interest rates will have to be increased as soon as possible — raising the spectre of higher lending and bond rates.

And the Reserve Bank is expected to oblige next week by raising the bank rate by up to 1,5 percentage points from its current level of 12,5 percent.

The key short-term liquid BA rate yesterday rose from 14,5 to 14,75 percent, its highest level in three years, an indication that dealers anticipate a higher level of general interest rates soon.

The commercial banks, which have emerged as major players in the housing loan market over the last two years, could implement possible increases immediately.

With the exception of the Standard Bank, whose bond rate is currently fixed at 15,75 percent, all banks and building societies at present charge 16 percent on bonds.

If bond rates are raised by 1,5 percentage points, home owners would see their interest payments go up from 12,5 percent at the beginning of the year to 17,5 percent, effectively increasing the monthly repayments on a R70 000 bond by over R300.

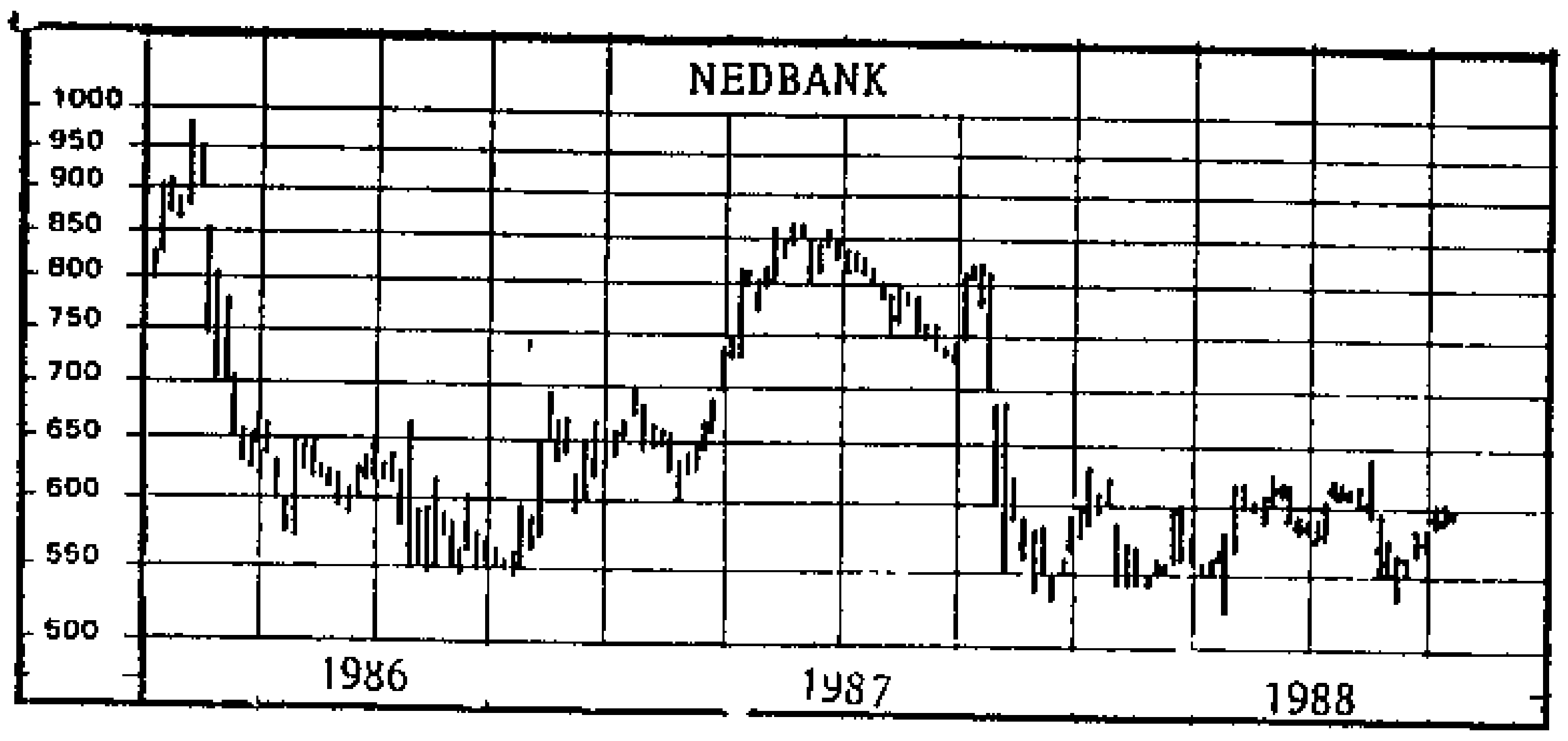
● Sapa reports that the Government is unlikely to put up GST before next year's budget.

Government sources said that those pushing speculation about an increase in GST following the local government elections were likely to be deeply disappointed.

Revitalised Nedbank in strong recovery mode

Star 25/10/88

(58)



Nedbank's share price has now stabilised.

By Ann Crotty

Good asset and liability management has enabled Nedbank to meet market expectations with a 49 percent increase in net income to R209,7 million (R140,8 million) reported for the 12 months to end-September.

After a massive R36 million transfer to the tax equalisation reserve, earnings per share showed a 31 percent advance to 111,3c (85,1c). The dividend was up 21 percent to 40c (33c) a share and dividend cover was increased to 2,8 times (2,6).

The provision for bad and doubtful debt was down 8,3 percent at R53,8 million (R58,7 million).

Tax obligation

Financial 1988's tax equalisation transfer compares with R8 million in financial 1987. The directors note that given the group's improvement and the merger with the Perm, Nedbank is expected to be in a tax paying position within a much shorter period than was previously anticipated.

As expected the increase in advances was relatively low at 11,5 percent, taking advances to R10,9 billion (R9,8 billion). Total assets were up 17,6 percent to R16,8 billion (R14,3 billion).

Official figures for the 12 months to end-June showed that, of the five major banks, Nedbank had experienced the slowest growth in advances and was losing market share.

As Simpson McKie analyst Heather Smit has pointed out:"Slow growth in real fixed investment and the bank's late entry into the home loan market are partly responsible for this relatively poor performance".

But she also notes that the quality of the group's assets have improved and the non-performing or poorly performing loans have virtually been eliminated.

The Nedbank performance is in sharp contrast to that reported by First National and highlights the fact that the former is in a recovery situation.

First National showed a pedestrian improvement in its income statement while its balance sheet reflected major increases.

Given that Nedbank is in recovery mode, management was presumably neither as willing nor as able to chase asset growth. The merger with the Perm helps to counter this situation and relieves pressure on Nedbank to chase market share at a later stage.

A break-down of the group's net income shows that the commercial bank (Nedbank) contributed 70,5 percent compared with 61,2 percent in financial 1987. Much of this increase reflects the inclusion, for the first time, of Nefic in the commercial bank's figures. In financial 1987, Nefic contributed 5,4 percent to group income.

UAL held second position with an 11,5 percent (15,8 percent). The lower contribution reflects the tougher trading conditions experienced by merchant banks since last year's market crash.

Syfrets accounted for 7 percent (10,2 percent); Finansbank 5,3 percent (6,5 percent); Nedfin 4,5 percent (12,1 percent).

The balance sheet shows that retained earnings, including the transfer to the tax equalisation reserve, have increased shareholders' funds to R875,7 million (R726,7 million).

The 30 million shares that are being issued at 600c, to fund the Perm acquisition, will help strengthen the group's capital position.

Speculation

There has been some speculation that the Perm merger may have led to some stress on this front, and that this (and the need to establish a strong permanent capital base ahead of the imposition of increased capital requirements) was the reason why the share route was taken. Some analysts had suggested that Old Mutual, which is underwritting the R180 million issue and is likely to be taking up a substantial block of it, could have provided the funds through the take up of redeemable preference shares.

Analysts do not expect the additional shares to dilute Nedperm's growth in earnings per share during financial 1989 as the additional shares should earn in excess of 120c.

A way to cut the taxman's take

58

160

Star 25/1/1958

FULCRUM Deposits, offered by First National Industrial Bank (FNIB), have attracted the attention of investors who see the advantage of competitve interest rates with the oppotunity to actively manage their tax liabilities.

"The flexibility of the Fulcrum Deposit makes it possible to maximise the investor's tax planning," said Alan Pawson senior manager of FNIB's funding department.

"The Fulcrum Deposit is available for periods of between 24 and 60 months, and is distinguished from the traditional fixed deposit by structured interest payments."

For example; the full interest on a three-year deposit may be paid in the first, second or third year.

Mr Pawson added: "The astute investor will use the inherent flexibility of Fulcrum to avoid incurring additional taxable income in the same year in which other investments mature.

"The Fulcrum Deposit is therefore an ideal investment for anyone due to retire in the near future.

"Investment income can be deferred to the tax year following the one in which lump-sum payments like gratuities, endowment policies and annuities are paid out.

"In the first few years in which we have offered the Fulcrum Deposit, it has received great support because of this unique flexibility."

Star 29/10/88

(58)

Billions pouring into insurance

THE insurance industry in South Africa is currently experiencing unprecedented boom times, with billions being entrusted to life offices annually.

This figure seems to be growing at an exponential rate, with giants like Sanlam and Old Mutual likely to have a combined income flow of more than R15 billion this year.

For example, in 1979 Sanlam had a total income of R547 million a year.

For the financial year to the end of September 1988, this figure rocketed to R6,9 billion — truly a mind-boggling leap.

A similar pattern applies ato the other life insurance giant, Old Mutual.

Public seeks shelter from inflation storm

MAGNUS HEYSTEK

During roughly the same time its total income rose from R723 million to R6,7 billion.

No one in any way decries the sterling efforts of these two giants, as well as the other major insurance companies. However, it must be pointed out that behind this success story lies a number of disturbing trends.

Many commentators, myself included, are of the opinion that the huge surge of the public's money is nothing more than a serious reflection on the perilous state the private investor finds himself in.

In addition, on a macro-economic level, many people are becoming worried about the possibility of economic distortions as a result of this massive increase in the assets of life insurance companies.

But that is the subject of another article.

It is interesting to note that the sudden spurt of asset growth recorded by the life insurance industry roughly coincides with the concomitant collapse of personal savings during the last seven years.

Average personal savings ratios in South Africa have dropped from 10,2 percent during 1970-1979 to 5,1 percent during 1980-1987.

By the end of 1987 the personal savings ratio (expressed as a percentage of personal disposable income) was a neglible 2,8 percent.

This worrying state of affairs is nothing more than the rational reaction of the average investor to the battering he has taken from high rates of inflation, to bracket creep and the steady erosion of his standard of living.

As Old Mutual points out in its study on the declining savings effort of the average South African household, real personal disposable income per capita has been declining by about 2 percent a year since 1981.

In layman's terms, this means that South Africa is progressively getting poorer.

In an effort to arrest this decline, savers and investors have turned to the large institutions in an effort to maintain the purchasing power of their capital.

So far, the insurance industry has managed to provide both shareholders and policyholders with real rates of return on most investment policies.

But the success story of the insurance companies also has its drawbacks.

Perhaps a little embarrassed by these huge flows, insurance companies are trying to emphasise the pay-outs of the life insurance industry, rather than the massive asset-building that is taking place.

But life companies cannot be blamed for the situation. The public is voting with its money.

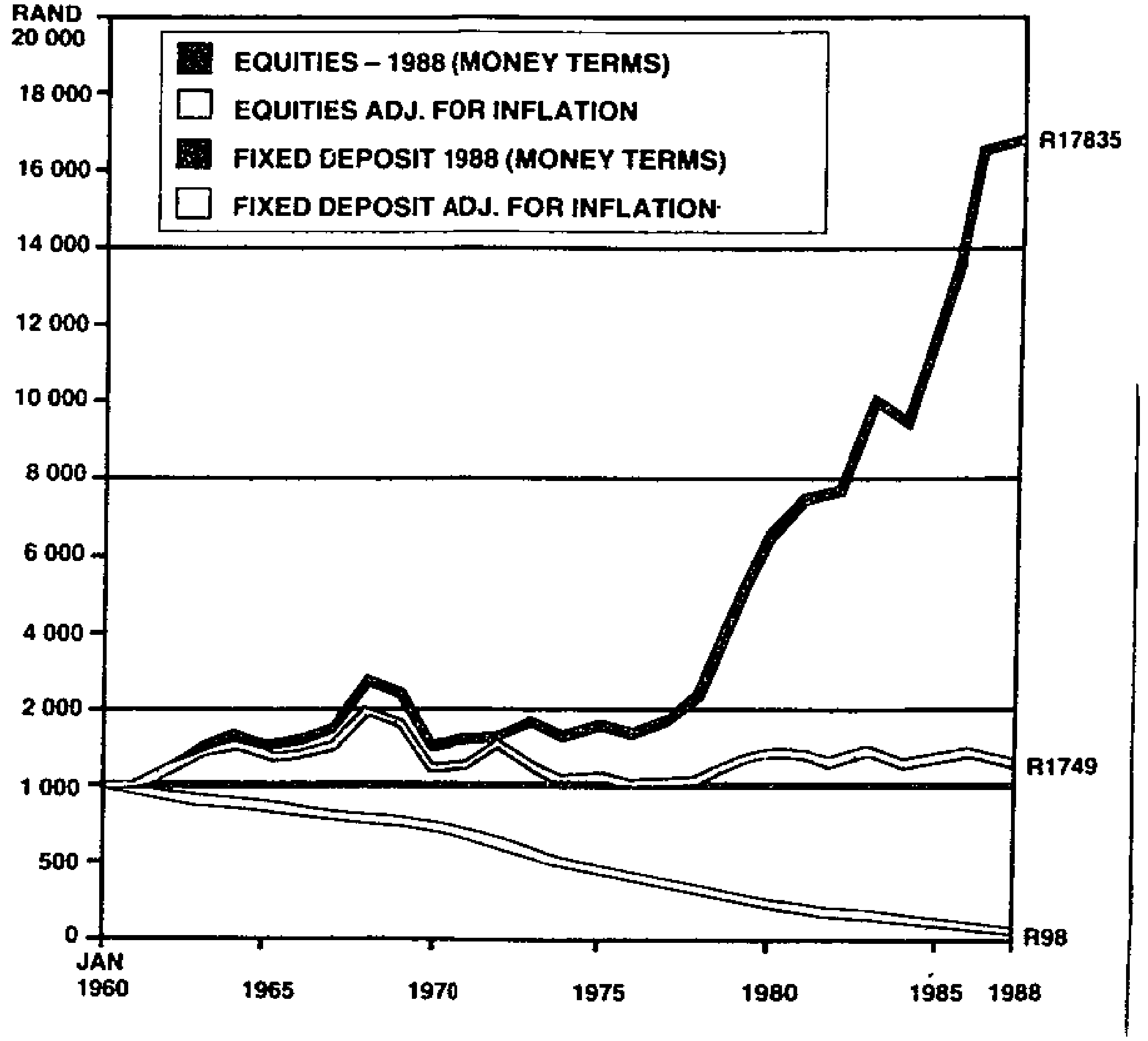
Traditional investments have made them poorer during the last 25 years (see graph). An investment of R1 000 in fixed deposits in 1960 would be worth only R98 today after taking inflation into account.

Equities, which form a major part of the investments of life insurance companies, on the other hand have proved to be a worthwhile investment.

R1 000 invested on the JSE in 1960 would be worth R17 835 in nominal terms and R1 749 in real terms.

This scenario is unlikely to change despite South Africa now experiencing real interest rates again.

PERFORMANCE COMPARISON (ADJUSTED FOR INFLATION) OF R1000 INVESTED ON JANUARY 1 1960 (CAPITAL ONLY): VALUE AT JANUARY 1 1988



Regular savers score

Star 29/10/88

HOW IS it possible to show a return of 25 percent on your money on unit trusts in a market that falls by 50 percent? According to Syfrets, the answer is rand cost averaging.

There are generally two ways of investing in a unit trust. The first option is a lump sum. The other is regular savings whereby the investor invests a set amount, usually monthly.

In this way the investor gradually accumulates a worthwhile holding while taking advantage of rand cost averaging. (58)

Rand cost averaging means the monthly unit-buyer accumulates more units when the unit price is low and fewer when the unit price is high, and so ends up with a lower cost per unit than the bulk buyer.

58 STims

30/10/88.

Borrowers beware — rates to rise

Business Times Reporters

PREPARE for a prime overdraft rate increase of one or two percentage points in the next week.

Bankers, economists, savers and money-market operators are unanimous that now the municipal elections are out of the way, rates must rise. Once prime overdraft moves, hire-purchase and mortgage rates are bound to follow.

Dearer money will hit businesses and borrowers across the economy, but will bring relief to savers who have earned less than inflation for years. House buyers who took 100% bonds when the mortgage rate was 12,5% could be forced to sell. Property prices are expected to weaken.

If higher interest rates do not bring consumers to heel, general sales tax could also be raised.

Finance Minister Barend du Plessis expressed satisfaction with the economic indicators on television on Friday. This caused money-market rates to soften, but they rose sharply after the Treasury bill rate unexpectedly rose 30 points.

Senior officials in the Reserve Bank and the Treasury say there is "a cast-iron case" for higher rates.

Tradition

Hours after the elections ended, interest rates in the money market tightened. The key three-month BA rate moved up to 14,6% — an unusual 1,1 percentage points higher than bank rate. Normally there is a margin of at least 2,5 points between the three-month BA rate and prime, suggesting a market-related prime rate of at least 17,1%.

"Conditions have been tight for most the month. They have seldom been tighter," says First National general manager Jimmy Mackenzie.

He says First National should be called "First Nationalised" because it is traditionally bound by the bank rate not to charge more for loans. But the cost of its deposits has risen sharply.

But a top Reserve Bank official says banks may raise prime unilaterally.

"The De Kock Commission actually urged banks to do that some time ago. It is only custom that links overdraft to the bank rate."

Mr Mackenzie says no bank would dare to break with custom. He hopes that an increase in prime will be granted in the next few days.

Decent

A senior Treasury official says higher interest rates must come, although he admits that a "decent interval" after the elections may be allowed to pass before an increase of one or two percentage points. If interest rates are allowed to rise too soon after the elections, the Government could be accused of cynicism.

One reason interest rates need to rise is that consumers are still borrowing heavily.

The official says private consumption expenditure grew in the past year in nominal terms by 25% and more. Banks and savers are being prejudiced by politically determined ceilings on interest rates.

Another widespread concern is that general sales tax will be raised by two percentage points.

"Whether or not GST goes up depends on State spending and revenue. The public service pay increase will cost R4-billion a year. Revenue has been higher than expected because of the phasing out of the debtors' allowance on GST, the increased fuel levy and the import surcharge, which although it was not designed as a fiscal measure, is bringing in a few hundred millions."

Salaries

The spokesman says the fiscus's problem in financing higher public service salaries will occur not this year but next. About 25% of the increase will be recovered by direct and indirect taxes in the current year. In addition, fiscal drag will increase the Exchequer's harvest next year.

He doubts that GST will be increased until it is absolutely necessary. That could be some time away.

Indicating how tight conditions are, a money-market dealer reports a rate of 16,25% on call funds of only R2-million — "I usually have R20-million to place, but the situation is critical. I can get virtually what I ask for even a small amount. It's unbelievable."

Nobody expects a rise in prime rate of less than 1,5 percentage points, and bankers say they need two points merely to tick over. One bank claims that often in the past few months it has had to seek funds in the money market at a higher rate than it could charge borrowers.

There was general relief this week that the Conservative Party did not do as well as expected in the elections.

Shortly after the results shares on the JSE firmed slightly. Hopes were high that the Government would be able to go ahead with its reform programme and enhance SA's image abroad.

JSE president Tony Norton told Business Times: "Fundamentally, the removal of any element of uncertainty is good for the market. But now that the politicking is over for a while, it is time for the authorities to turn their attention to basic problems."

Anglo American's Clem Sunter said: "The election confirmed our scenario's assertion that low economic growth would lead to a swing to the Right. But it was not as bad as it might have been."

Fear

Two things must happen to make the pendulum swing back, said Mr Sunter.

"First, there must be a greater communication of an alternative vision for this country because fear loves the unknown. Then there must be deregulation. If the economy is to get back to 4% to 5% growth, there will have to be deregulation."

The market interpreted the election result as "mildly favourable" and a rush for scrip by institutions and smaller investors resulted in a shortage of good-quality stock, said brokers.

Immediately after the results were known the JSE's industrial index gained 20 points and the all-gold index put on 11 points. But with interest rates tending higher and the gold price stagnant, the rise did not last and the indices were barely up by the end of the week.

Speculation on Bank rate rise fuelled

58 B/Day 31/10/88

GRETA STEYN

THE Treasury Bill (TB) rate climbed higher on Friday, fuelling speculation that the Reserve Bank will raise Bank rate within the next week.

The TB rate, which rose to 13,87% from 13,43% at Friday's tender, has already discounted a 1,5 percentage point increase in Bank rate.

Bank rate is the rate at which the Reserve Bank rediscounts TB's for discount houses when the money market is short of cash.

Analysts said it was incongruous for the TB rate to be so much higher than Bank rate.

At 12,5%, Bank rate was too low in relation to money market rates and an increase of more than one percentage point was justified.

The TB rate is largely manipulated by the Reserve Bank, which allowed the rate to rise in line with other money market rates on Friday — a possible signal from the Bank that it is preparing for action.

● See Page 16

Old Mutual increases market share

Star
31/10/88

(58

Old Mutual's market share of the South African life assurance industry's assets has grown to 35% according to the latest statistics released by the Life Offices' Association (LOA).

The LOA figures for the six months ended June 1988 show that Old Mutual's market share of industry assets has increased by 6,4 percentage points over the past three years.

Since June Old Mutual's asset base has grown a further 7,2% from R28,5 billion to top R30,5 billion at the end of September. These assets have increased twelve-fold over the past ten years.

"Our assets represent the interests of our millions of policyholders and members of pension funds and group schemes," managing director Mike Levett said.

Contributing to this strong growth has been the flow of monies into Old Mutual. During the twelve months ended September, the total inflow from premiums, investment income and new monies for management entrusted to Old Mutual by pension fund clients, exceeded R8 billion.

"Our members and clients are entrusting their savings to us at the rate of more than R4 million every working hour" Mr Levett added.

Old Mutual's returns on actual payouts for market linked policies have continued to exceed the rate of inflation over the longer term.

Bonds up again

Cape Times 1/4/88

58

Finance Staff

THE Allied and the NBS have announced increases in their home bond rates, surprising the market by acting before the expected rise in bank rate and banks' prime overdraft rates.

The Allied raised its traditional bond rate by 0,75% to 16,75%. The society also announced a deal for bond holders who might encounter difficulties in paying higher instalments.

Allied Group managing director Mr Kevin de Villiers said bond holders could ask to keep their instalments unchanged, which meant the repayment period would be extended The facility would be granted on request only.

The NBS lifted its bond rate to 17% from 16%. In the case of both societies, the increases become effective in December on existing bonds but take immediate effect on new bonds.

Market pressure

NBS spokesman Mr Brian Short said the society was also developing a package to lessen the plight of bond holders hard-hit by higher rates.

It is understood the United and Saambou will announce increases of at least one percentage point within the next few days. The banks are expected to raise home loan rates once the Reserve Bank has lifted Bank rate, allowing them to increase lending rates across the board.

The increase in bond rates is the inevitable result of pressure in the money market. Societies have had to pay more than the prevailing bond rate of 16% on 12-month Negotiable Certificates of Deposit (NCDs), an important source of building societies' funds. One-year NCDs were quoted at 16.4% yesterday

BRUCE WILLAN reports that the senior general manager of the Perm, Mr Jopie van Hanschooten, said yesterday that mortgages were very much a social issue but the Perm had no intention of increasing bond rates in spite of the upward pressure on interest rates.

He did, however, say that the Perm was carefully monitoring the situation and until clarity was obtained on the government's proposed economic package no decision would be taken.

The managing director of Saambou, Mr Chris Kuun, said no decision had been taken on the matter but it was being looked at He was not able to say when rates would be increased

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World title fight

THE OPPONENTS . . . Mrs Cathy Mitchell, wife of the world champion, gets husband Brian Mitchell (left) together with his opponent for tomorrow's fight, Jim McDonnell.

'Nice guy' Jim meets 'great champ' Brian

From IAN HOBBS

LONDON. — It was all good-natured deception when world champion Brian Mitchell faced his cockney challenger Jim McDonnell for the first time yesterday.

"Jim's a nice guy. A good chap He's not full of that cocky nonsense," said Mitchell who is a favourite to retain his WBA junior lightweight title tomorrow night.

Undefeated former European featherweight champion McDonnell, 28, wearing a heavy woollen track suit and hat to keep out the first biting wind of winter, lived fully up to his nickname "Gentleman Jim".

"Brian Mitchell's record speaks for itself. He's a great champion and I've the highest regard for him . . . and I've never been more ready."

● Reports on the world title fight will be carried in late editions of the Cape Times on Thursday morning.

● Brian in fine fettle — Back Page

Allied, NBS lead with bond rate rise

(58)

Star 1/11/88

By Sven Lünsche

The Allied Group and the Natal Building Society (NBS) yesterday jumped the gun by announcing that their bond rates would be raised by 0,75 and by one percentage point respectively from their current levels of 16 percent.

The new rates are effective immediately on new bonds and effective on December 1 for existing bonds.

The UBS and Saambou are also understood to announce one percentage point rises in their bond rates over the next few days.

Other financial institutions said yesterday they would hold off increases in interest and bond rates until the Reserve Bank had announced its expected package to curb domestic spending.

Some bankers felt the measures would have to be introduced quite soon if more damage was to be avoided.

"We will await the lead of the Reserve Bank and we expect this to happen within the next few days," said Trust Bank's senior general manager, Mr Kobus Roetz.

A Perm spokesman said the society would wait "until we know the Government's plans, but there is no denying upward pressure on costs".

Justifying the early rise in its bond rate, Allied MD Mr Kevin de Villiers said that given the current high level of the BA rate, the prime rate should already be two percentage points higher.

"The cost of funds is rising and by raising our bond rate we are responding to our own high cost of money," Mr de Villiers said.

Allied's rates on the one-to-five-year range of fixed-rate bonds have been increased by 0,25 percentage points and are now 17 to 18 percent.

Its bank bond has been raised by one percentage point to 15,75 percent. Rates on commercial bonds have been raised by 0,75 percentage points.

A spokesman for the NBS said that the society was developing a package to lessen the plight of bondholders in the wake of the higher rates.

Dealers in foreign currency markets yesterday said that further delays by the Reserve Bank in introducing curbs to contain consumer spending had placed further downward pressure on the rand.

The rand even fell against the dollar, which dropped to its lowest level in four months on overseas currency markets.

It closed at R2,4925, while sterling was quoted at a record low of R4,43.

The rand's rate against the Deutsche mark was Dm0,7138 and against the yen 50,32.

The rand is now only 12 percent above its all-time low in August 1985 of R2,50 against the dollar.

Dr Chris van Wyk, managing director at Trust Bank, told Sapa that a broad range of factors lay behind the rand's weakness.

"With high inflation in South Africa and our artifically low interest rates, it is obviously attractive for capital to be held in foreign currencies in countries where inflation rates are only a quarter of SA's and where real interest rates are thus far more attractive."

First National Bank group treasurer, Mr Mike Steenfeldt, said much tougher measures should have been taken against imports.

"Also, there is still far too great a discrepancy between real interest rates in, say, London, and those in South Africa.

"Again, the much-vaunted package of measures to deal with the situation has failed to materialise and Bank Rate is far too low," Mr Steenfeldt said.

On international markets, the dollar fell to its lowest in four months yesterday on worries about the US economy ahead of the November presidential election, but the currencywas lifted off its lows in New Yorkafter a well-timed and public intervention by the Federal Reserve, following heavy selling earlier in Japan.

The Fed's intervention, at the start of US trading when the dollar was at the 124,45 yen level, caught operators short and trading pushed the dollar to around 125,5 yen.

IGI lifts premium income to R255-m

Star 1/11/89

58

By Sven Forssman

Incorporated General Insurance (IGI) says in its report on results for the six months to September that it saved R1,9 million in tax by using the partial method of accounting for deferred tax instead of the liability method.

The total tax bill increased more than fivefold from R1,6 million to R9 million.

Gross premium income rose 22,6 percent from R208 million to R255 million.

The figure is made up of R225 million in short-term income and R30 million in long-term income.

The interim dividend has been increased by 40 percent to 14c.

Undiluted earnings per share dropped from 97,7c for the corresponding period last year to 87,4c.

Diluted EPS increased slightly from 83,2c to 85,7c.

The diluted EPS assumes that the 2,9 million compulsorily convertible preference shares had been converted to ordinary shares.

The dividend cover of 6,1 (1987: 8,3) is calculated on this assumption.

Chairman Mr Michael Lewis says IGI has resisted the temptation to enter into suicidal rate-cutting and relied on its service to maintain its markets.

GROWTH

Mr Lewis says the second half should show further growth.

He is confident the group's objective of increasing the total dividend by a rate in excess of inflation will be achieved.

He says full provision has been made for the increased reserves proposed in the draft amendments to the Insurance Act.

Allied, NBS to raise bond rate

B/day 1/11/88

(58)

GRETA STEYN

THE ALLIED and the NBS have both announced increases in bond rates with immediate effect on new bonds and from December 1 on existing bonds.

Yesterday's move took the market by surprise as both societies acted before the expected hike in Bank rate and banks' prime overdraft rates.

The Allied raised its traditional bond rate by 0,75 percentage points to 16,75% but the society also announced a deal for bond holders who might encounter difficulties in paying higher instalments.

Allied Group MD Kevin de Villiers said bond holders could request to keep their instalments unchanged, which meant the repayment period would be extended. The facility would be granted on request only.

The NBS lifted its bond rate to 17% from 16%. In the case of both societies, the increases become effective in December on existing bonds but take immediate effect on new bonds.

NBS spokesman Brian Short said the society was also developing a package to lessen the plight of bondholders hit by higher rates.

It is understood the United and Saambou will announce increases of at least one percentage point within a few days.

The banks are expected to raise home loan rates once the Reserve Bank has lifted Bank rate, allowing them to increase lending rates across the board.

Pressure

The increase in bond rates is the inevitable result of pressure in the money market.

Societies have had to pay more than the prevailing bond rate of 16% on 12-month Negotiable Certificates of Deposit (NCD's), an important source of building societies' funds. One-year NCD's were quoted at 16,4% yesterday.

Asked why the Allied had not waited for the Reserve Bank to initiate higher interest rates, De Villiers said the society had to give a month's notice of a rates hike to existing bond holders.

Total coal and coke sales were 23,7 million tons, an in-

in output at Springfield. Although tonnages s Eskom will decline mar

Finansbank, UAL earnings surge

(58)

STW **Finance Staff** 1/11/88

Nedbank's merchant banking subsidiaries UAL and Finansbank today announced record results for the year to end-September.

● UAL posted record profits, with taxed income of R24,2 million (R22,3 million). This gives a return on average shareholders' funds of 32,7 percent.

Shareholders' funds rose by 21,3 percent from R66,9 million to R81,1 million. Assets rose from R1,242 billion to R1,306 billion.

Chief executive Geoff Richardson says that although conditions for merchant banking in the past year were less favourable than in the 1987 financial year, UAL performed well.

● Finansbank's assets increased by 30,5 percent to R726,7 million, while taxed income was up by 23,1 percent to R11,2 million over the period and chief executive Hennie van der Merwe expects steady growth in the current financial year.

He added that Finansbank's profit growth had arisen primarily out of excellent results from its subsidiary, The Cape of Good Hope Bank, investment banking, project finance and coporate finance advice.

● Nedfin Bank, a major player asset financing, has chalked up a more than threefold increase in net income, reporting R9,5 million in net income compared with last year's R3 million.

Commenting on the results, Ron Rundle, Nedfin's managing director, said the increase in profitability arose out of an improvement in the volume and quality of new business written.

Added to this, because of its quality book the bank had experienced a lower level of insolvencies and bad debts than previous year.

"Our total assets at the end of the year amounted to R1,614 billion — an increase of R372 million over last year's figure," Mr Rundle noted.

Nedfin's sharper market focus had been brought about by new specialist departments — corporate finance, professional markets and transportation.

Syfrets lifts taxed profits to R15-m

Star 2/11/88

58

For the 12 months to end-September, Syfrets reports taxed profits of R15 million, 5 percent ahead of the R14,2 million achieved a year ago.

The advance was achieved despite the adverse impact of the stock market collapse on Syfrets' fees from portfolio management.

Discussing the results for the past year Syfrets chief executive Brian Robinson said they reflected "the stability of the company's performance, and ability to produce consistent profit growth despite the trying economic and financial environment."

The collapse of the share market and its relatively poor performance since, impacted adversely on income from investment management fees.

Higher levels of economic activity in the earlier part of the year however, led to substantial increases in lending to the commercial, industrial and residential markets resulting in a very good year for Syfrets lending services.

A record R503 million was granted in mortgage finance through Syfrets bank and Syfrets participation bond managers.

"Property development activities through our subsidiary, SA Property Investments increased to a point where it has now become a major contributor to Syfrets earnings."—Sapa.

Now UBS raises bond rate

(S8)

Star 2/11/84

By Sven Lünsche

The UBS yesterday joined the growing number of building societies, which are raising their bond rates ahead of an expected restraining package by the Treasury and the Reserve Bank.

But the authorities are holding out on the package, which could include higher interest rates and stricter credit finance requirements, despite fierce criticism by bankers.

Economists said the reluctance on the part of the Reserve Bank to increase interest rates was exerting downward pressure on the rand, which fell to a 40-month low of R2,50½ against the dollar yesterday.

And despite the sharp increase in money market rates in recent weeks, the Reserve Bank yesterday refrained from commenting on a possible increase in Bank Rate, currently at 12,5 percent.

A Reserve Bank spokesman referred to recent remarks by Finance Minister Mr Barend du Plessis, who said that no package to curb domestic expenditure would be introduced in the near future.

The UBS increase is one percentage point, so that with immediate effect new home loans will carry a rate of 17 percent. Existing home loans will rise to 17 percent from December 1.

The Eastern Province Building Society also raised its bond rate by one percentage point to 17 percent yesterday, while the Natal Building Society and the Allied Group raised their bond rates by one percent and by 0,75 percent respectively from the existing 16 percent level on Monday.

The Perm and Saambou are also expected to announce rate increases of one percent within the next few days.

● See Page 17.

Two building societies follow lead in raising bond rates

2/11/88 (58) B/day)

GRETA STEYN

THE UBS and Eastern Province Building Society have both raised bond rates by one percentage point to 17% with immediate effect on new loans.

The UBS will charge existing borrowers the higher rate from December and the EPBS in January.

Saambou, the SA Perm and banks are likely to raise rates to 17% soon, but the banks are still waiting for some action from the Reserve Bank on interest rates to allow them to raise their prime overdraft rates and home loan rates.

The NBS is already at 17% for new bonds, while the Allied is at 16,75%.

Rough estimates show that if all the banks' and societies' rates go to 17%, South Africans will be paying about R150m more in interest a month than they did at end December, when the UBS and the major banks were charging 12,5% interest.

UBS MD Mike de Blanche said the society would accommodate borrowers facing difficulties in meeting increased instalments after the rates rise. They will be able to keep instalments fixed by increasing the repayment period.

The Allied offers a similar scheme and the NBS is also working on a package to help borrowers.

Authorities called upon to act

58 B/day 2/11/88

Interest rates 'must rise to save rand'

GRETA STEYN

ECONOMISTS called for higher interest rates to save the rand and boost confidence as it neared record lows against most major currencies and hit a 10-month low of R2,5058 against the dollar yesterday.

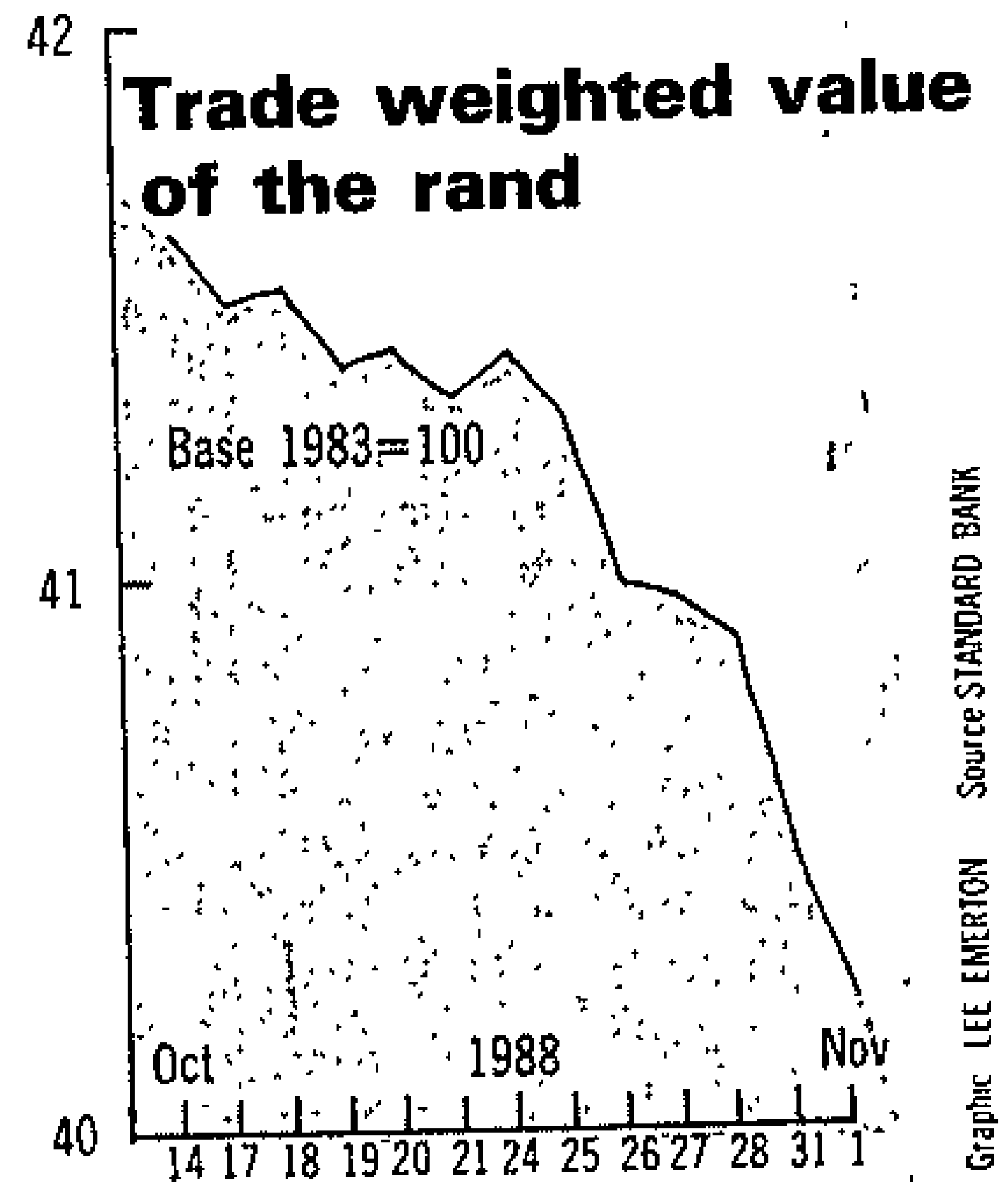
But the authorities gave no firm indication that higher interest rates were imminent. Asked whether he was opposed to raising rates, Finance Minister Barend du Plessis would only say the situation was being monitored closely. He said the consumer had to realise it was "out of season" to buy on credit.

Du Plessis said: "This economy cannot sustain a high expenditure pattern based on credit creation. It is in the interests of the consumer and the country to stop buying on credit."

With the money market at a virtual standstill — waiting for Bank rate to rise — the action is in the foreign exchange markets. The rand closed at R4,4240 against the British pound, marginally better than Monday's R4,43 close, but 25% down from the start of this year.

The currency has depreciated 29% against the dollar this year, 20% against the yen and 13% against the German mark. On a trade-weighted basis, the rand has given up 25% of its value since the start of the year.

Standard Bank economist Nico Czypionka said: "The rand is acting as a shock absorber for economic policies which are out of kilter. Failure to act on interest rates is knocking the currency."



Graphic LEE EMERTON Source STANDARD BANK

Leads and lags and the inherently strong British pound were important reasons for the rand's weakness. He said, however, the slide in the rand had built up a momentum of its own which was aggravated by bearish sentiment.

Czypionka called on the Reserve Bank and government to show determination that they wanted to "get things right" by moving at once on interest rates.

Economists said higher rates could stop the currency from going through

● To Page 2 ⇨

Interest rates 'must rise to save rand'

⇦ ● From Page 1

58 B/day 2/11/88

the floor by boosting confidence and eventually cooling the demand for imports.

Simpson McKie economist John Banos said the rand would only strengthen if the balance of payments strengthened, which meant the demand for imports had to be curbed and capital outflows controlled.

Old Mutual's David Mohr said an immediate effect of higher rates on the capital account would be that importers would be encouraged to use offshore trade finance rather than domestic credit.

He said the Reserve Bank could not squander reserves on defending the currency. With reserves close to dangerously low levels, the onus was on the monetary authorities to act.

☐ Rumours that jailed ANC leader Nelson Mandela, 70, had died aggravated bearish sentiment towards the rand yesterday, dealers said. A dealer said the talk had caused foreigners to "get out of the rand as quickly as they could".

☐ Sapa reports from Cape Town that a Tygerberg Hospital spokesman said Mandela was making good progress in the Constantiaberg clinic, where he was recovering from tuberculosis.

Medical superintendent Dr J G L Strauss said he visted Mandela yesterday "in order to dispel rumours about the state of his health".

national spending on consumer durables and the fact that six major Trans-

further by the financial year-end.— Sapa.

HCI interim earnings fall

STAR 2/11/88 (58)

Finance Staff

Hosken Consolidated Investments (HCI), which holds IGI and IGI Life as its two major investments, reported a R470 000 loss in its interim earnings to R6,23 million for the six months to end-September.

According to chairman, Mike Lewis, the loss arose largely from the sharp rise in the the tax bill, which increased from R1,64 million to R9,11 million. However, the interim dividend has been raised by 33 percent to 12c.

"All insurance interests reflected good profit growth in the six months, but R.McCarthy failed to meet objectives, and remedial action is being taken," Mr Lewis said.

Copper and platinum prices rally in US

STAR 2/11/88

CHICAGO — Copper and platinum futures rallied again Tuesday on strong demand from speculators and industrial users. For the second day in a row, spot November copper set a record of 148,50c a pound during trading while December and March posted new highs in New York.

Copper prices rallied on reports of shrinking supplies from the world's top producer, Peru, which has been hit by a miners' strike, and falling inventories in New York and London. The fourth quarter of the year is traditionally when copper users stock inventories.

Platinum futures closed at their highest level in two months in response to strong demand from Japanese traders. The January contract rose $12,60 to $563,20 an ounce after peaking at $567 on the New York Mercantile Exchange.

The precious metal rose as Japanese industrial buyers and jewellery makers took advantage of the strong yen and bought heavily, analysts said.

"Industrial users in Japan, the top importer, consider platinum to be inexpensive at current prices. They are stockpiling for use as well as speculation in the future," an analyst said. — Sapa-Reuter

Money shock

5-8

Cape Times 3/11/88

Bank rate shoots up 2%, prime to follow

Own Correspondent

JOHANNESBURG. — Banks' prime overdraft rates are set to rise from 16% to 18% today after the Governor of the Reserve Bank, Dr Gerhard de Kock, last night raised the bank rate from 12,5% to 14,5%.

The jump in the rate will affect all lending rates and is expected to send banks' home loan rates up by two percentage points to 18% in most cases. The major building societies have already raised mortgage rates, with most of them now charging 17% on new loans.

The move to raise official interest rates, announced after a lengthy cabinet meeting yesterday, follows weeks of calls for higher rates by private sector economists. Money market rates had already discounted a 1,5 percentage point increase in the Reserve Bank's rediscount rates.

Dr De Kock said in a statement that it had become imperative to tighten monetary policy against a background of large capital outflows, rising inflation, a weak currency and excessive increases in the money supply and total spending.

Capital outflows had amounted to about R2,1 billion in the third quarter, causing gold and foreign exchange reserves to drop to R4,6 billion in October this year from a peak of R7 billion in August last year.

The ultimate aims of the increase were to counter inflation as well as to alleviate the downward pressure on the exchange rate and the gold and foreign exchange reserves.

Inflation was on a rising trend with the consumer price index increasing by an annualized 13,9% in the third quarter of this year from the previous quarter.

The intermediate aims of higher rates were to contain total spending and excessive growth in the money supply.

Describing the rise in the broad money supply as "inordinate", Dr De Kock said this largely reflected an increase in credit extended by banks and building societies to the private sector.

During the course of the year, gross domestic expenditure (GDE) had reached excessive proportions. Real fixed-investment spending appeared to have risen at an annual rate of around 13% during the third quarter.

The government has approved in principle a proposal to increase interest rates on certain subsidies for farmers to off-set interest rate rises, a spokesman for the Agriculture Department said last night.

crack of dawn

Every time I look at a rand
get that shrinking feeling.

‘Imperative to tighten monetary policy’

B/day 3/11/88 (58)

Bank rate put up to 14,5%

● DE KOCK

GRETA STEYN

BANKS’ prime overdraft rates are set to rise by two percentage points from 16% to 18% today after Reserve Bank governor Gerhard de Kock last night raised Bank rate from 12,5% to 14,5%.

The jump in the rate will have a ratchet effect on all lending rates and is expected to send banks’ home-loan rates up by two percentage points to 18% in most cases.

The major building societies have already raised mortgage rates, with most of them now charging 17% on new loans.

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Capital outflows had amounted to about R2,1bn in the third quarter, causing gold and foreign exchange reserves to drop to R4,6bn in October this year from a peak of R7bn in August last year.

He said capital outflows included much more than anticipated debt repayment.

“A substantial part of it consisted of unfavourable leads and lags in foreign payments and receipts.

Outflow

“This included a shift of trade financing from foreign to domestic sources of funds.”

De Kock cited the discrepancy between SA’s real interest rates and international rates as a major reason for the large outflow of capital.

The ultimate aims of the increase were to counter inflation as well as alleviate the downward pressure on the exchange rate and the gold and foreign exchange reserves — “a necessary precondition for sound and sustainable real economic growth”.

Inflation was on a rising trend with the consumer price index rising by an annualised 13,9% in the third quarter of this year from the previous quarter.

“It is likely to rise further before a new downward movement can commence.”

The intermediate aims of higher rates were to contain total spending and excessive growth in the money supply.

Describing the rise in the broad money supply, M-3, as “inordinate”, De Kock said this largely reflected an increase in credit extended by banks and building societies to the private sector.

During the course of the year, gross domestic expenditure had reached excessive proportions.

In the third quarter of the year, real consumer spending rose at an annual rate of about 6%.

☐ MANDY JEAN WOODS reports that an Agriculture Department spokesman said government had approved in principle a proposal to increase interest rates on certain subsidies for farmers to offset interest rate rises.

Saambou pays 5,5c dividend

(58)

Star 3/11/88

Saambou Holdings declared an interim dividend of 5,5c per share for the first six months ending on 30 September 1988.

MD Christie Kuun said the results show that Saambou achieved after-tax profit of R8,6 million, in line with the projections contained in the pre-listed statement.

The pre-listed statement envisaged a total dividewnd of 11,5c per share. The dividend would be payable by means of an interim dividend of 4,5c and a final dividend of 7c. Mr Kuun said the board is however now of the opinion that in the light of Saambou's profit prospects a more balanced dividend policy should be followed.

For that reason it was decided that tha interim dividend should be increased to 5,5c and a final dividend of 6c.

Regarding the group's profit expectation for the next sixt months, Mr Kuun said that certain affiliates only commenced operations during the past six months and would only contribute meaningfully to the group's profits during the latter part of the financial year.

In addition a number of property developments in which substantial investments were made are approaching completion and should contribute to higher profits in the next few months.

Mr Kuun said the contribution of the group's affiliates to it's profitability is satisfactory and the Board believes that the profit objective envisaged should be achieved. — Sapa

Bond, HP rates a heavy burden for buyers

Star 3/11/88

58

Interest spiral shockwaves for SA

Mr Bob Tucker

Home owners face up to 40 percent increases in monthly bond repayments compared with early this year and consumers buying on hire purchase will be confronted with a heavy extra burden in their monthly budgeting, following the 2 percentage point rise in the bank rate today.

First National Bank today announced its bond rate on new and existing loans would rise by 2 percent to 18 percent with effect from November 24 Other banks are also set to increase their bond payments by 2 percent

By Sven Lünsche

Building societies have been caught in a dilemma because most of them, with the exception of Saambou, had already raised their bond rate by one percentage point to 17 percent. It means building societies are only likely to increase their rates by a further 1 percent in the next year

The measure, in conjunction with earlier packages, will see economic growth rates slow down considerably in months to come. Higher unemployment rates are regarded by economists as a necessary consequence of the curbs

They also could lead to higher individual and small company insolvencies as interest repayments on starting capital or personal borrowing will inevitably soar, often to unaffordable levels

Subsidies

Farmers in particular will be hard hit by the rise and it will cost them an additional R200 million in interest repayments on their estimated R14 billion debt

The Government has indicated that a proposal would be implemented to increase certain subsidies to farmers to off-set interest rate increases

Giving details of its interest rate package, First National Bank indicated it would increase its prime rate from 16 to 18 percent, a step which other banks are set to follow today and which will set the signal for higher general interest rates, including hire-purchase and bond rates

Standard Bank, for the time being, can only increase its rate from 15,75 to 16,75 percent, as it is bound by its promise not to exceed the average.

The Perm yesterday became the latest of the building societies to introduce the increase, which will become effective immediately for new borrowers and by December 1 for existing bonds Building societies have to give a month's notice of bond rate rises and the earliest an 18 percent bond rate can come into effect is on January 1 next year.

Association of Building Societies president Mr Bob Tucker said he hoped it would not be necessary to raise bond rates by more than another 1 percent following this week's earlier one-percent rise, political correspondant David Braun reports

It will be the fourth increase in a year, which started with a rate of 12,5 percent

Bond payments (over a 25-year period) on R40 000 will have risen from R436 to R606,73 On a R60 000 bond the monthly payments have increased from R654 to R910 Payments on R80 000 will increase from R872 to R1 212,04

Appeal

Mr Tucker called on the Government to help the man in the street

He said on TV this morning "Over the past six months the average person's bond has gone up by something approaching 50 percent "

He appealed to the Government to introduce some sort of buffer to protect people's homes from free market forces

Hire-purchase rates will also become more expensive

Savers can expect slight increases in their retail deposit rates Many banks have already announced slight rises in their savings rates and further increases of up to 1 percent are expected

Progressive Federal Party finance spokesman Mr Harry Schwarz said today that if farmers were entitled to assistance in times of high interest rates, then so were ordinary people who were struggling to make ends meet

Alleged election fraud probed

Pretoria police are investigating a charge of alleged electoral fraud in the Akasia municipal elections

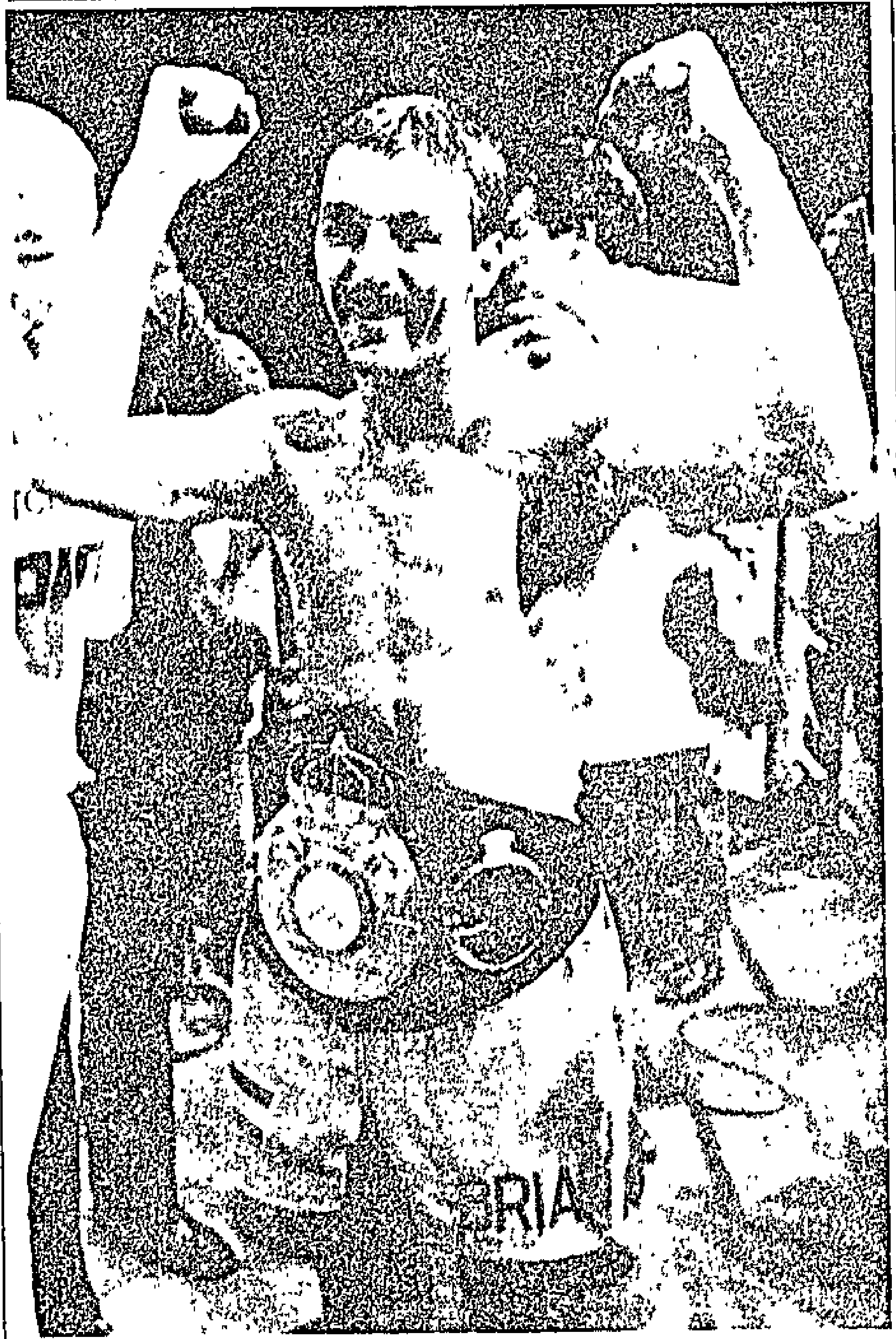
Spokesman Lieutenant Hennie Crowther said investigations were still at the initial stage. Alternative charges could also be investigated. — Crime Reporter

City robbery: no arrests yet

No arrests have been made in connection with a R859 000 robbery in Johannesburg this week, police said yesterday.

Five gunmen made off with cash, cheques and credit card vouchers after holding up two Fidelity Guards staff.

Still king of the ring



Brian Mitchell celebrates the sixth successful defence of his World Boxing Association title over Briton Jim McDonnell in London last night.

Boxing fans ignore protests

By Chris Whitfield,
The Star Bureau

LONDON – The "major mobilisation" threatened by the Anti Apartheid Movement (AAM) for Brian Mitchell's fight here last night turned out to be no more than about 200 highly vocal protesters

Spectators arriving at the Elephant and Castle Leisure Centre for the South African's fight with Cockney Jim McDonnell had to run a guantlet of the chanting demonstrators, some armed with megaphones and others waving placards

A line of policemen held back the protesters as they bayed at fight fans arriving at the hall in Southwark

"Don't support apartheid sport," they chanted

"Shame, shame, shame on you," was directed at individual spectators, and especially the scores of blacks who turned up to watch the fight

Among those singled out for particular contempt were the black boxers who arrived They included heavyweights Frank Bruno and Gary Mason, IBF flyweight champion Duke McKenzie and middleweight Nigel Benn

Banners protesting against the fight were strung up outside the venue and one unsuccesfully tried to convince fans that "The Fight is Cancelled '

The AAM had announced this week that there would be a major protest and it was predicted there would be more demonstrators than fans But the 1 100-seat hall was filled to capacity

● See Page 16 M

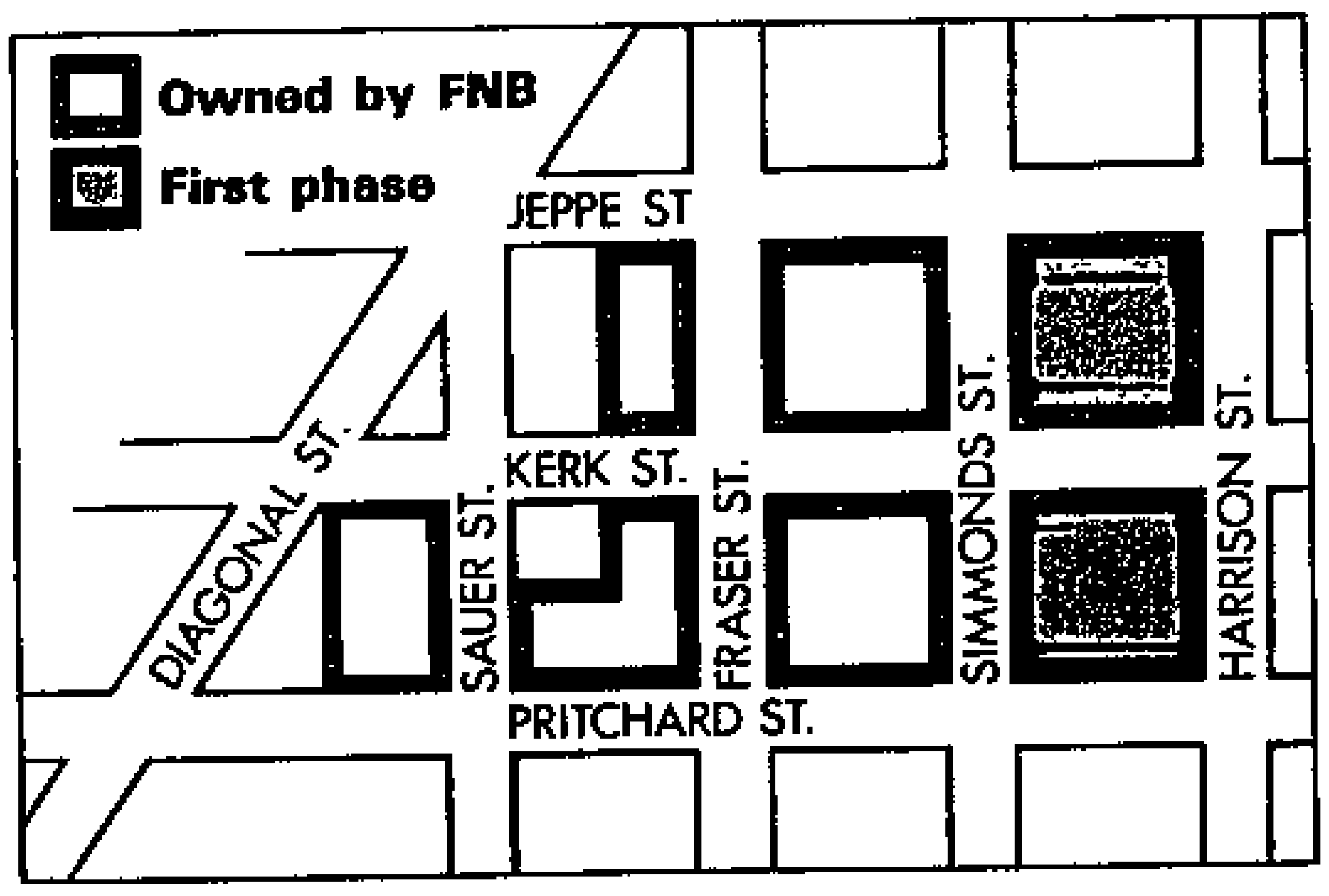
Two to share

(58)

BANK CITY

Treading softly

FN MAIL 4/11/88



As rising building costs and interest rates take their toll on the property market, even the ambitious plans for Bank City, the new headquarters of First National Bank in Johannesburg's western CBD, appear to have been scaled down.

Announced with some fanfare almost a year ago (*Property* December 4), the original first phase plan included three buildings providing 90 000 m² of office space and 12 500 m² of retail space at a cost of R250m.

Bank City ... starting slow, taking in grand spaces

The R100m first phase announced this week includes two linked buildings providing a total of less than 38 000 m² and a 4 000 m² retail component on the ground and mezzanine levels of the eight-storey buildings.

It is expected that each building will house around 1 200 staff of First National's non-banking divisions.

The buildings will be situated on two city blocks which form part of a major assembly concluded largely by Old Mutual on behalf of the bank (*Property* September 18 1987).

Demolition has begun of the existing buildings on the first of these blocks, bounded by Jeppe, Harrison, Kerk and Simmonds streets. Demolition on the second, immediately to the south, is expected to start in February.

The building on the northern block will be leased by the bank from the Old Mutual and will be the only component of Bank City not owned by First National.

Application has been made to the city council to pedestrianise Kerk Street, which runs between the two buildings. These are to be linked by a section spanning the street.

It is intended to establish a grand civic space in the resulting mall, which dovetails with the council's plans to create "precincts" or "superblocks" within the CBD (*Property* July 1).

A pedestrian mall along Kerk Street would also provide the link between the Eloff Street shopping area and Newtown.

The two new buildings, which are expected to be completed during 1991, were designed by an architectural team under the direction of urban consultant Revel Fox.

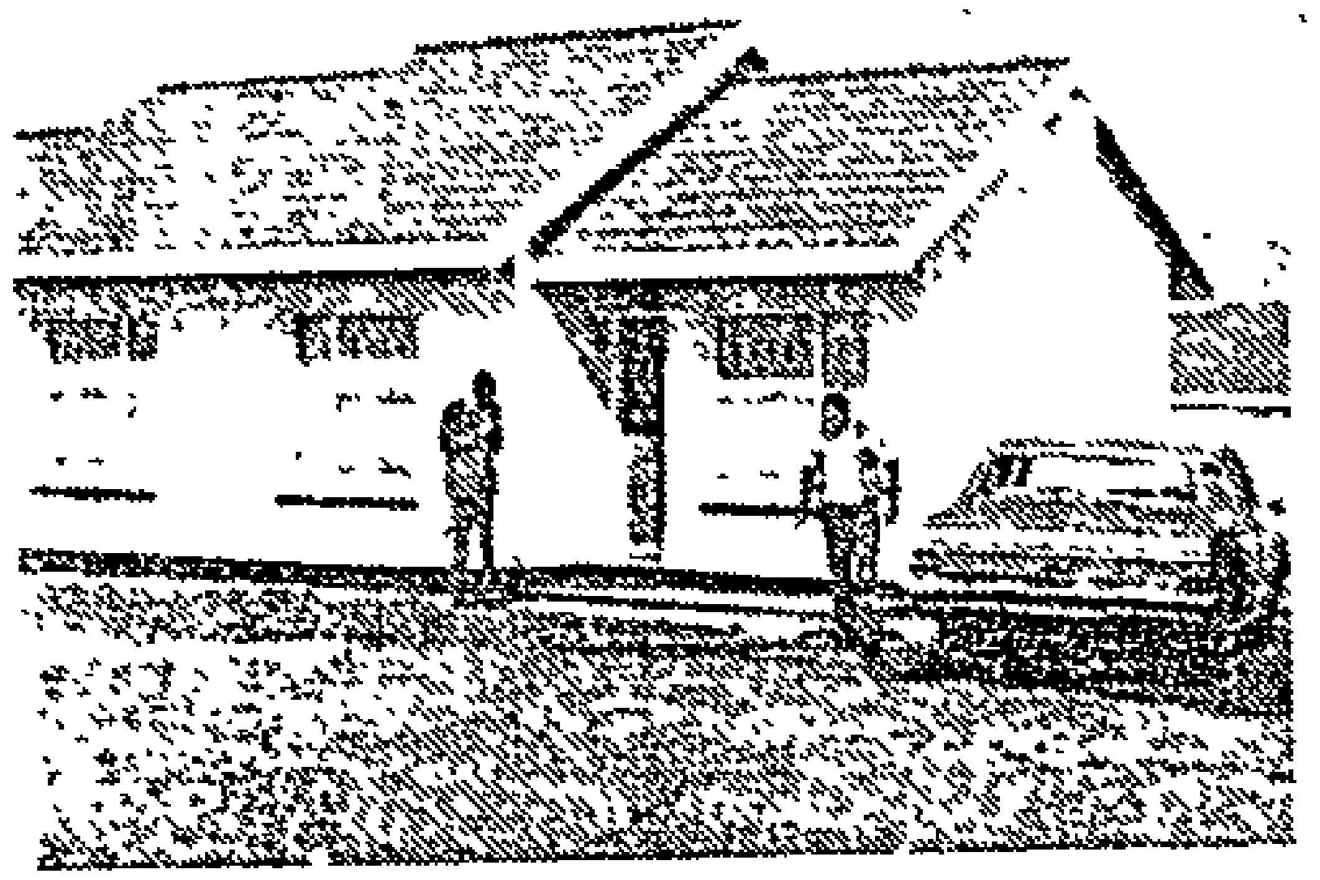
They will have neo-classical stone facades with "rusticated bases on arcaded colonnades" with large walls of windows and openings to atria and loggia.

It will, in short, be rather like First National's historic building on Market Street to the south of the Library Gardens.

The building contract has not yet been awarded. ■

FINANCIAL MAIL NOVEMBER 4 1988

FRIDAY, NOVEMBER 4, 1988 MORNING FINAL RSA 40c (36c + 4c GST) OUTSIDE 40c



New rates will hit home owners very hard

BIG SQUEEZE

Sowetan 4/11/88 (58)

THOUSANDS of home-buyers who will be hard pressed to meet the soaring monthly repayments that will follow yesterday's rise in interest rates are being urged to hold "crisis talks" with building societies to avoid repossession of their homes.

By *SOWETAN* REPORTER

After a long delay, the Government decided to allow a 2 percent rise in rates — one of the biggest jumps in years — which will force banks immediately to raise their home rates from 16 to 18 percent.

The Standard Bank was the first to announce a 2 percent rise in lending rates as from yesterday.

A 2 percent rise in rates means a home owner paying off a R60 000 bond over 20 years will have to fork out an extra R86 a month.

In a year, his repayments have jumped by about R245 a month from R680 — a rise of 40 percent which is far beyond salary increases.

● To page 2

P.T.O

Home owners are hit

• From page 1

Sowetan 4/11/88

Building societies, which raised their bond rates from 16 to 17 percent earlier this week, could have difficulty holding them at this level and may also raise them to 18 percent.

Bankers forecast the long-overdue increases before last week's election and believe this is not the end, and that rates could go up again next year.

Executives yesterday urged buyers who saw financial difficulties to "talk it over" and see if they could get relief.

Mr Bob Tucker, managing director of the Perm, said yesterday that building societies did not want to be landed with repossessions, and homebuyers should realise that if they were forced to sell, they might not be able to replace their homes later.

He said home owners could get relief by extending the period of the loan. A buyer with a R60 000 bond could save R190 a month by extending the repayment period from 20 years to 30 years. However, this would add about R82 000 to the ultimate price of the house.

"If you are in a crisis it is worthwhile. But buyers should try and cut back elsewhere, and pay the extra to avoid losing their homes."

The NBS says it will give homeowners help wherever possible.

Where a bond was already partly liquidated, the society said it would look at possible relief by a temporary suspension of repayments. The bond could also be extended to the original period, which would bring a drop in monthly repayments.

New purchases of cars, furniture and other goods on HP will also cost more. (58)

Price of a roof goes up and up

(58) [illegible] Star 4/11/88

By NORMAN CHANDLER

If you own a house, watch your cash. The whiplash rebound of the new bond rates is going to make you dig deep into your back pocket.

There will be only one talking point at parties, round the swimming pools, and at braais across the country this weekend: the high price of having a roof over one's head.

Gloom descended over much of South Africa during the week as hundreds of thousands of householders woke up to the news that mortgage rates were going up by 1 percent.

And then came predictions of another rise on New Year's Day, which could push the rate to 18 percent.

No one — black or white — can escape it. They have to face up to the fact that consumer spending, as one expert puts it, has gone haywire.

The increase in bond rates is because building societies and banks are facing cash flow problems, and are having to satisfy stringent minimum liquidity demands from the Reserve Bank.

Foreign debt

And with South Africa's cash reserves under massive pressure because of sanctions and the repayment of foreign debt, it was inevitable that the man-in-the-street has had to meet the demand by cutting back on his credit and digging deep into his back pocket.

The ripple effect in the housing business is that estate agents, small builders and other periphery operations will all suffer.

Estate agents will suffer because they are the frontline in the sales market; small builders because householders cannot get additional bonds to add on rooms; and periphery operations because they rely on the small builders who supply householders.

The difficulty in paying home bonds will have a devastating effect on householders.

Some could find themselves in the bankruptcy courts.

Mr Paul Edwards, managing director of Information Trust Corporation — the former Dun and Bradstreet credit information company — says there will be "a fair amount of pain".

He told The Star: "The consumer has been on a wild buying spree, a lot of which has been brought on by improved perceptions of the state of the country and a better remuneration package.

"He has increased his borrowing, as demonstrated by an alarmingly low percentage of savings to disposable income."

Consumers, says Mr Edwards, have not been heeding what he calls "strong messages from government".

And Mr Edwards is frightened out of his wits by the impact that Christmas bonuses will have — as they usually spur spending.

He says that when we wake up on New Year's Day "we will have to face the realities of the situation".

"It means there will be an adjustment of living standards. The increase in interest rates is most definitely going to have a severe impact.

"Housing prices have moved up sharply since the end of last year. Bond commitments will shoot up.

"We forecast an increase in bankruptcies."

Mr Edwards said the increase in the bond rate Bank Rate is a similar trend to that of August 1984.

"The scenario then was an overheated economy, a rapidly expanding money supply, and diminishing foreign reserves. The result was that the economy had to be cooled.

"The impact of drastic measures — such as a hike in prime rate to 25 percent, saw business failures rocket, and individuals found themselves in bankruptcy.

"Today's scenario is similar — but worse. The country has to face severe restrictions on financing as a result of the difficulty in raising foreign loans.

Mr Neville Berkowitz, of *The Property Economist*, forecasts that April, May and June will be critical months.

"Most people may at this time be able to afford to pay their bonds, but there is no getting away from the fact that repossessions are on the increase."

Mr Lourens Badenhorst, managing director of Nationwide Real Estate, believes there will be a 20 percent cut in house sales during the next few months.

The bond rate increase would particularly hit the R75 000 to R125 000 price range in which a householder, at present, can afford a R925 monthly repayment.

Mr Badenhorst added: "Despite the new increase to 17 percent, we still believe that house financing is the cheapest way to buy an investment and the best hedge against inflation. Housing is a commodity that is a necessity."

Clear the market

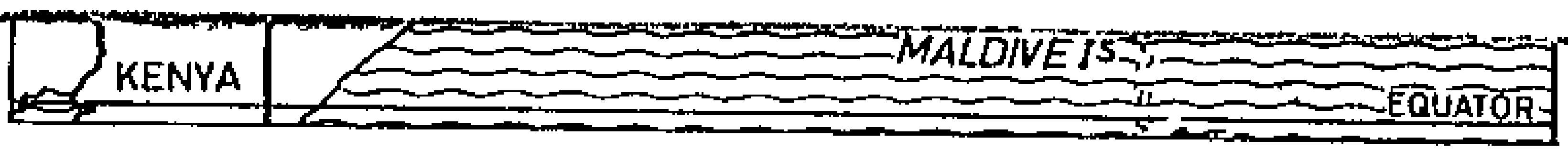
He forecasts that a number of smaller estate agencies will go out of business by a turndown in the market. "It will certainly clear out the rats and mice. Some came in when the market was buoyant and hoping for short-term riches. Those days have now gone."

Econometrix's Mr Tony Twine says a key factor in the number of houses which may be repossessed because of an inability to repay bonds would be affected by the preparedness of financial institutions to "roll over the interest burden".

"It all depends on whether or not institutional cash flows and liquid asset requirements are able to take the strain."

Mr Twine said that during the era of high interest rates in the mid-1980s, building societies had not extended bond repayment periods.

"They changed their attitude in recent years, and if it is maintained, then this could soften the blow for house-owners."



ment.

At least 25 people were killed and 22

Banks push up lending rate to 18%

Cape Times
4/11/88

58

SIX major banks yesterday hoisted their prime lending rates by two percentage points to 18% in the latest economic shock to hit already hard-hit consumers.

And while expert financial forecasts were that home loan interest rates could hit 19% within six months, top banking sources said this would not deter South Africans with their "champagne tastes" from continuing to buy on credit.

The rise in the prime rate — the interest banks charge their best customers — was announced amid accusations that the government had delayed the unpopular increase for purely political reasons, specifically the recent municipal elections.

The Reserve Bank triggered the increase on Wednesday by lifting its base discount rates to the money market to 14,5% from 12,5%.

The increase follows closely on the announcement by Allied and NBS on Tuesday of an increase in their home bond rates. Allied raised its bond rate by 0,75% to 16,75% while the NBS lifted its rate to 17% from 16%.

In addition, consumers are also braced for a rumoured increase in the General Sales Tax to 14% from the current 12%, expected before the end of the year.

The anticipated rise in sales tax is needed to fund a 15% salary rise for civil servants announced by the State President, Mr P W Botha.

The discount rate rise, the fifth this year, was announced after a long meeting of the South African cabinet on Wednesday and followed weeks of increasingly vocal calls for higher interest rates by economists and bankers.

"This step signals a further tightening of monetary policy . . . with the ultimate aims of countering inflation and removing the existing downward pressure on the exchange rate and gold and foreign exchange reserves," Reserve Bank Governor Dr Gerhard de Kock said in a statement.

The Reserve Bank's discount rates set the cost of central bank lending to the commercial banks and effectively determine the levels of all key domestic interest rates including mortgage, credit card and hire purchase rates.

The banking institutions which yesterday increased rates with immediate effect are: First National, Nedbank, Standard, Trust, Volkskas and Boland.

United Bank announced an increase of 1,5%, bringing its increase to 17,5% and effective from today. — Staff Reporter and Sapa-Reuter

● **Rise in mortgage rates 'likely' — Page 8**

PW denies plans to replace

B/day 9/11/88

Bankers not yet ready to rebel at rates convention

GRETA STEYN

LET THE market set the level of interest rates. That has been the bankers' cry during these past few weeks' confusion over monetary policy. There was often talk of banks raising their prime overdraft rates without the Reserve Bank's approval, to reflect market conditions.

But it stayed at talk; SA's bankers are not yet ready for revolution.

Now all the drama around interest rates has ended, the very idea of a bankers' rebellion is fading into the distance. Reserve Bank Governor Gerhard de Kock came to the rescue with a two percentage point increase in Bank rate. But there are questions to be answered and lessons to be learnt from the storm around monetary policy.

Are interest rates an administered price? Why could the banks not move in response to market pressures?

"Moral suasion," comes the reply from one senior banker. Convention dictates that the banks consult with the Reserve Bank.

The conventions are still in place, but there are voices of dissent.

One such voice belongs to Standard Bank economist Nico Czypionka, who is a champion for greater freedom for financial markets and central bank independence. He also thinks Treasury's bank account should be moved away from the Reserve Bank to the private sector, a step which would remove market distortions.

Czypionka believes there is a need for structural changes on the monetary policy front.

"It is untenable that banks require the tacit agreement of the Reserve Bank before increasing their prime overdraft rates."

Given the free market spirit of the De Kock report on monetary policy, there was no reason why banks should not be able to move when the market dictated.

"The prime overdraft rate should be a market-related interest rate and should fluctuate whenever market pressures demand it. If the Reserve Bank wishes to have some control over rates it should make use of open market operations or its rediscount rates to achieve its desired results. It should not use strong moral suasion to hold prime down."

He is adamant there is no valid reason why prime should not increase or fall when market conditions require it, like any other financial instrument. Czypionka's argument is that this would favour both the Reserve Bank and government.

Any movement in prime would always be attributed to banks, which would de-politicise the issue of interest rates. His view is that markets would be more efficient and the levels of interest rate peaks during economic upswings would be lower.


☐ CZYPIONKA

Excessive credit demand and liquidity pressures would be controlled quickly if banks increased prime overdraft to levels reflecting these pressures. Banks are closer to financial markets than the Reserve Bank and can respond immediately to pressures. And there was no reason why prime could not fall when liquidity pressures disappeared, and credit demand was in tandem with the supply of funds.

In other words, the market mechanism must set the price of money — the interest rate. This idea is in line with De Kock's free-market approach to monetary policy; theoretically rates are market-determined but movements are initiated by the Reserve Bank. That is the convention, an understanding between the banks and the Reserve Bank which was exploited by the politicians.

"For the whole of this year, the Bank has been under strong political pressure not to increase interest rates ahead of mounting market pressures and through its own initiative. Instead, it has reluctantly responded to pressures, but only after considerable lags," says Czypionka.

Against a background of political interference, the policy of targeting money supply growth became a "mockery of intent".

Finance Minister Barend du Plessis disputes the view that interest rates have become an administered price, saying rates are allowed to fluctuate in a free market economy.

But he adds: "The obvious result of large increases in interest rates is cost increases for large numbers of businessmen, farmers and home owners, many of whom just cannot afford it."

Czypionka says the convention that the Reserve Bank must move first should be abolished. If the banking sector increases rates, there will be no political cloud hanging over interest rates.

The Reserve Bank will be able to get on with economic management in a behind-the-scenes way; influencing interest rates and domestic demand by controlling the supply of credit.

Another important structural change Czypionka is advocating is that the exchequer moves its bank account away from the Reserve Bank to the private sector. This would avoid extreme interest rate fluctuations whenever seasonal payments to the exchequer occur.

To avoid Treasury having to choose one bank, Czypionka says it could open an account with each bank. Tax payers could then pay their taxes at the bank of their choice.

"Market forces will then decide which bank will attract the most cash, which can only be to the benefit of the individual and the efficiency of the banking system."

Technical factors would be eliminated and rates would reflect the supply and demand for credit.

The need for reform seems less urgent now that official rates are in line with market forces. But the drama surrounding interest rates was not without lessons.

Interest rise will sting farmers and homeowners

Tighten your belts again

(58)

Star 4/11/88

By Sven Lünsche

Homeowners face increases of up to 40 percent in bond repayments, and people buying on hire-purchase will be confronted with a heavy extra burden in their budgeting as a result of the 2 percentage point rise in the Bank Rate yesterday.

First National Bank announced that its bond rate on new and existing loans will rise by 2 percent to 18 percent from November 24.

Standard Bank, in line with its promise not to exceed the average building society rates, is to increase its bond rate from 15,75 percent to 17 percent from December 7.

Building societies in a spot

Other banks are likely to increase their rates by 2 percent.

Building societies are in a dilemma because most of them — except Saambou — have already raised their bond rate by 1 percentage point to 17 percent. It means they are likely to increase their rates by only 1 percent in the new year.

These rises will see economic growth rates slow down considerably in months to come.

Economists forecast higher unemployment as a consequence of the curbs.

They could also lead to more insolvencies of smaller companies as interest repayments on starting capital or personal borrowing soar.

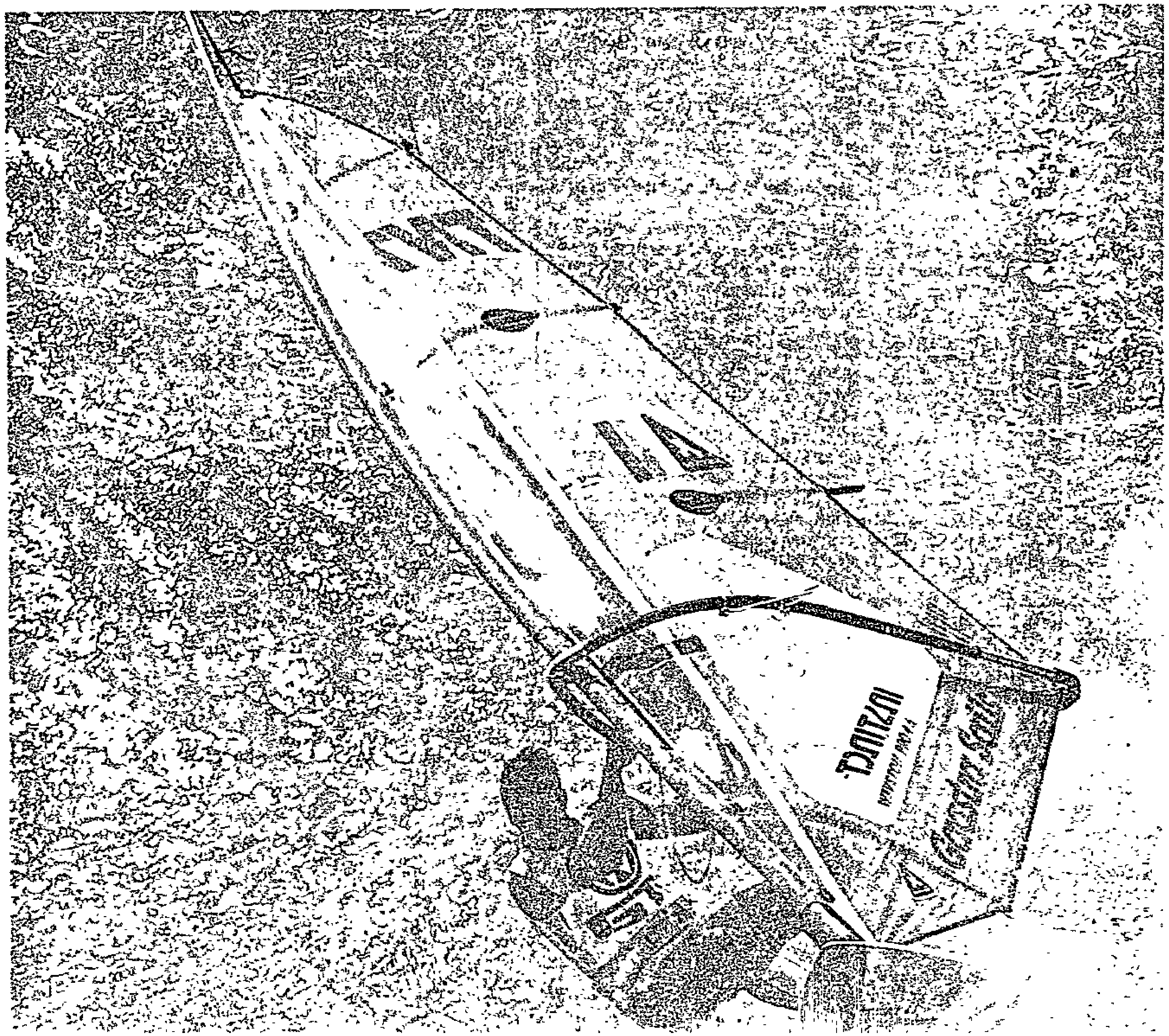
Mr Bob Tucker, president of the Association of Building Societies, said yesterday that building societies could also be landed with house repossessions.

Farmers will be hard hit, and it will cost them an additional R200 million in interest repayments on their estimated R14 000 million debt.

The president of the South African Agricultural Union (SAAU), Mr Kobus Jooste, said in Pretoria that the Bank Rate increase had come at a bad time for farmers.

"Agriculture is in a recovery phase at present, and the rise will drastically increase pressure on farmers."

The Government has indicated that a proposal will be im- [illegible]



Outlook bleak in housing market

Star 4/11/88

By Norman Chandler

The housing market is likely to experience a downward spiral which will res [illegible]

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"Agriculture is in a recovery phase at present, and the rise will drastically increase pressure on farmers."

The Government has indicated that a proposal will be implemented to increase certain subsidies to farmers to offset interest rate rises.

While the major commercial banks have all upped their prime interest rate by 2 percent to 18 percent, most banks, with the exception of FNB (18 percent), Standard and Allied Bank (17 percent), are still debating whether to implement the full 2 percent rise on the bond rate.

Overdraft squeeze

A bond rate increase of 2 percentage points is the fourth increase this year, which started with a rate of 12,5 percent.

Bond payments (over a 25-year period) on R40 000 will rise from R436 to R606.

On a R60 000 bond, payments will increase from R654 to R910.

On a R60 000 bond, payments will spring from R872 to R1 212.

Bank overdrafts will also cost more, with rates for best customers rising 2 percent to 18 percent.

The man in the street could pay 20 percent on an overdraft or loan, while borrowings on credit cards is expected to rise 2 percent to 25 percent.

New purchases of cars, furniture and other goods on HP will also cost more.

On the other side of the coin, however, savers can expect slight increases in their retail deposit rates.

Many banks have already announced slight rises in their savings rates, but further increases of up to 1 percent are on the cards.

● See Pages 11 and 15.

Outlook bleak in housing market

Star 4/11/88

(123)

By Norman Chandler

The housing market is likely to experience a downward spiral which will result in fewer properties being bought and sold, hundreds of repossessions, a fall in prices, and smaller estate agents in liquidation — all by the second quarter of next year.

That was yesterday's grim message from economists, credit information companies and estate agents following decisions by building societies to increase home loan repayment rates by one percent, to 17 percent, with effect from next month, and the likelihood of a further one percent rise in the new year.

It is the fourth building society increase since March 30 this year when the rate stood at 12,5 percent.

Yesterday First National Bank announced that home loans would go up by two percent from November 24 following a similar rise in the bank rate announced earlier.

Mr Paul Edwards, managing director of Information Trust Corporation, said yesterday that "there is no doubt this is going to cause a fair amount of pain, especially to those highly borrowed."

Indications of bad times ahead in the property market come from Reserve Bank statistics which showed that new loans granted by building societies dropped from a high of R908 million in March this year to R765 million in June and were now hovering at the R650 million mark — "a dramatic cutting back is on the go," says Mr Neville Berkowitz, of *The Property Economist*.

Homeowner in bond-age

DEREK TOMMEY (58)

ST 5/11/85

SUCCESSIVE increases in the mortgage bond rate since January have raised the monthly repayment on a R60 000 bond by 29 percent.

And if this week's bank rate leads, as generally expected, to a further 1 percent rise in the mortgage rate to 18 percent, the overall increase in repayments since January would have been 35,9 percent.

In January, when the rate of interest on a bond was 12,5 percent, the monthly repayment on a R60 000 20-year bond was R681,60. In December, when the rate rises to 17 percent, the monthly repayment on this bond will rise to R880,20.

If, should this week's 2 percent increase in bank rate result in the bond rate going to 18 percent, it will further increase the monthly repayment to R935,80.

Building societies normally insist that the monthly repayment of a mortgage bond must not exceed 25 percent of the borrower's income.

On this basis, a borrower in January had to earn R2 726 a month to qualify for a R60 000 bond. From December he will have to earn R3 520 to qualify for the same bond. And if the rate rises to 18 percent his earnings must rise to R3 703 a month.

At an 18 percent rate, the maximum bond a man earning R2 726 a month could get would be R44 150 — a drop of 26 percent on what he could have borrowed in January.

It means the maximum amount a man with a R20 000 deposit and an income of R2 726 can afford to pay for a house is now around R64 000, which is about 20 percent less than the R80 000 he could pay in January.

The big question facing the property market now is to what extent house prices will drop.

It seems likely that lower-price houses may be harder hit than those in the upper market.

Home-owners still come out ahead

Star 5/11/88

(58)

Money Matters

Magnus Heystek

AFTER vacillating for weeks, the Reserve Bank finally allowed bank rate to rise from 12,5 to 14,5 percent, paving the way for all-round increases in the prime rate, hire purchase rates, mortgage rates and other lending transaction rates.

While many people, especially those with large bonds and overdrafts, will bemoan the monetary authorities' decision, it was the correct one, though more than two months late.

Last week's municipal elections definitely prevented the bank rate from being increased weeks ago. For weeks, the money market had sent out signals that bank rate was too low and interest rates had to be increased.

Events this week clearly illustrated the consequences of an imbalanced interest rate policy. The rand exchange rate came under considerable pressure, dropping to record lows as holders of rands dumped them on the market.

Interest rates had to rise to protect the currency, to prevent a further outflow of capital and to dampen excessive consumption expenditure. In fact, most economist welcome the decision to increase interest rates as this will prolong an economic upswing which had threatening to boil over into excessive demand.

But home-owners will be calculating what effect the rise in mortgage repayments will have on their disposable incomes.

Bond rates are now back to levels prevailing nearly three years ago. Meanwhile, most people have had substantial pay rises, at least in nominal terms.

The mortgage rate cycle peaked in December 1985 when rates varied between 18 percent and 23 percent. Mortgage rates reached the lower turning point about January 1987 when rates fell to 12,5 percent in some instances, with the average rate at that time about 13,5 percent.

Let's take as an example someone with a bond of R50 000, payable over 20 years. In January 1986 this person was paying R772 a month, excluding bond insurance and other costs. By the time interest rates bottomed out, the monthtly payments were down to R584 a month — a difference of R188.

Assuming this person was earnining a gross income of R3 000 a month at the beginning of 1986, the monthly payment of R772 would have constituted 26 percent of his salary.

Average pay increases of 15 percent would mean our fictional homeowner would today be earning about R4 600 a month.

His monthly repayments now constitute 16 percent of his gross monthtly income, indicating that on average most people are still better off with today's 18 percent bond rate as opposed to 18 percent at the beginning of 1986.

Mortgage rates would have to rise to at least 27 percent (monthly premiums of R1 150) to have the same relative effect on the average individual's income. At this stage, this seems unlikely.

These calculations do not imply that the latest increase in rates will have no effect of personal disposable income, but the situation differs greatly from that of 1986.

(58)

S Times 6/11/88

Spree goes on: Rates to go higher

Business Times Reporter

HOUSEHOLD budgets will be strained by this week's increase in interest rates. But consumer spending is so rampant that some economists fear even tougher measures.

Banks are reported to be pondering last month's lending figures with disbelief. First National Bank's loans to the public rose by 37% in the year to September. In September they are believed to have risen again.

The slowdown in credit demand hoped for after August's austerity measures was far from apparent. Some bankers believe it will take more than this week's two percentage point interest-rate increase to stop the credit binge.

Three bank economists fear that the authorities have been complacent and there could be a repeat of 1984 when the prime overdraft rate rose to 25%, devastating the economy.

Official

The Reserve Bank is unconcerned. The official view is that the current account of the balance of payments improved to an annualised third-quarter surplus of R4,5-billion. A capital outflow reduced the reserves, but the Reserve Bank contends this was due to leads and lags caused by currency fears.

The Reserve Bank hopes that because real interest rates are now 3% positive and the gold price has improved, the balance of payments will correct.

Standard Bank group economist Nico Czypionka says: "The two percentage point increase might suffice — provided Government spending is restrained. I am worried that fiscal policy will neutralise monetary policy."

Nedbank group economist Ted Osborne says if the interest-rate increases are inadequate, measures such as HP restrictions and higher import surcharges will have to be considered. A replay of 1984, he says, must not happen.

As the table shows, many borrowers will be hard hit by higher mortgage rates. Maximum interest rate chargeable on HP is expected to be raised from 27% to 29%.

BOND	16%	17%	Extra	18%	Extra
R25 000	R347	R367	R20	R386	R39
R50 000	R695	R734	R39	R772	R77
R75 000	R1 043	R1 100	R57	R1 158	R115
R100 000	R1 391	R1 467	R76	R1 543	R152
R125 000	R1 737	R1 834	R95	R1 929	R190
R150 000	R2 087	R2 200	R113	R2 316	R228
R175 000	R2 435	R2 567	R132	R2 701	R266
R200 000	R2 783	R2 934	R151	R3 087	R304

Higher petrol prices and continuing inflation in every area of the economy are expected to put household budgets under severe strain.


TED OSBORNE

Mr Czypionka believes pressure on cash flows slows spending by consumers and sends a reminder of the need for restraint to retailers. But many consumers seem to be piling on debt regardless.

The signs of strain on consumer budgets are there — cheques are bouncing at a rate of nearly R10-million a month, about double the figure reported in the middle of this year. Sequestrations of personal estates have picked up in recent months, according to Government statistics.

Yearend salary increases are likely to exceed the 12,4% inflation rate, but that is before tax. After tax, incomes of most employed people will decline. Many appear to be borrowing to sustain the good life.

Some estate agents and property economists expect mortgage rates to go as high as 20% in the first half of 1989, causing a slowdown in property sales and lower prices.

Piet Hamman, chief executive of one of the Reef's biggest estate agencies, De Huizemark, says potential buyers will be underbidding for houses.

"The party is over," he says. "The residential property market will soften."

Subsidies

Aida Geffen, chairman of Aida Real Estate, says: "We will sell fewer units, but I do not think prices will come down much."

Property economist Neville Berkowitz, who warned in March this year about a rate increase to 19% in December, says it could come in January or February.

Those who bought houses and flats when money cost 12,5% have been hit hard. Banks and building societies begged them to borrow. Because so much money was chasing housing stock, prices soared.

Now that mortgage rates have risen by 44%, those who were seduced into buying expensive houses and flats with 100% bonds, are battling to meet their mortgage commitments. The value of their properties has started to slide. Some may simply hand the keys back to the banks and building societies and walk away from their homes. Many borrowers had to increase bond repayments by several hundred rands a month to stay within the 25-year repayment period — at 16%. Some will have to abandon holiday plans to pay for further increases.

Assocom statistician Ed Verburgh, who predicted a R10-billion Christmas shopping spree after a survey in October, is now not sure that it will happen.

"The survey was done after the first Government measures in August. The bond rate increase could dampen purchasing. On the other hand, the survey disclosed that many people are throwing caution to the wind.

Dion chief executive Hymie Sibul, who has reintroduced a discount credit system in his stores, believes the spree will come. He is looking at a 25% real growth in festive season sales in spiteof a possible Usury Act maximum rate of 31%.

"We will maintain our spread of rates between five and seven points below the limit," he says.

Govt increase in subsidies weakens economic curbs

Star 7/11/88

58

Finance Staff

Economists have condemned the Government for taking some of the sting out of last week's two percent interest rate hike by announcing subsidies for farmers, small businesses and first-time homeowners.

"Consumer spending is still soaring and the authorities should put on all the brakes possible in order to avoid a repeat of the 1984/85 interest-rate boom," a senior economist at a stockbroking firm said at the weekend.

He said that some of bank loans to the public had risen by over 30 percent in the year to October and against the background of the usual Christmas sales boom, soaring consumer expenditure was expected to continue.

"We desperately need to protect the balance of payments and a further increase in interest rates over the next two months is unavoidable," the economist said.

On Friday night the Government announced a 2.5 percent increase in interest-rate subsidies for first-time homebuyers.

The Minister of Finance, Mr Barend du Plessis, the Minister of Agriculture, Mr Greyling Wentzel, and the Minister of Manpower and Public Works, Mr Pietie du Plessis, revealed plans to help farmers, the small-business sector and first-time homebuyers in view of the increase in Bank Rate.

In respect of the interest-rate subsidy scheme for first-time homebuyers, subsidies payable on the interest portion of the monthly payment will be adjusted on a regular basis, in accordance with changes in building society interest rates.

The most recent adjustment was implemented on November 1.

The interest rate on which the subsidy of 33.33 percent is payable, was increased from 13,5 percent to 16 percent.

Where farmers are concerned, the Cabinet has decided those who have been hard hit by circumstances beyond their control should be protected as far as possible from the unavoidable increase in interest rates.

Agriculture had already moved into a recovery phase and it was not in the national interest to retard its recovery abilities over the longer term for the sake of a monetary regulation, which hopefully would be of short duration, the Ministers said.

As far as the small business sector was concerned, details of steps to be taken with regard to the effect of the increased interest rates would be released later, they said.

The current bond rate increase has questioned the financial viability of offering fixed-rate loans because they increase the cost of funding for financial institutions at times when interest rates rise.

But, claims Mr Kevin de Villiers, MD of Allied Group, the incoming money on these schemes suffice to cover costs.

The Allied's fixed rate is 17 to 18 percent over a five-year period and because of the volatility of the normal mortgage rate, which has seen upward adjustments in recent months, the fixed bond might well attract a lot more interest.

Nevertheless, Allied's present fixed rate might well be on the low side in today's market conditions and a slight rise could be on the way soon.

Mr de Villiers says: "We will have to see how things go and we could be looking at a 0.5 percent rise.

Allied has done about R300 million worth of fixed rate business and Mr de Villiers is surprised that it hasn't done more.

"The funding of the fixed-rate bond has gone well and I think we can expect higher demand for it," he says.

58

Tight margins hold back rise in Volkskas dividend

Star 7/4/88.

By Sven Forssman

Volkskas Group has decided to maintain its interim dividend at 22c per share because further pressure on interest margins and keen competition in the granting of credit in the banking sector are expected in the current half of the year.

The dividend cover of 4,2 is the same as in the corresponding period last year.

Earnings per share, based on the weighted average number of shares for the six months to September, increased only 1,2 percent from 91,9c to 93c per share.

Managing director Danie Cronje says this is satisfactory, bearing in mind the increased share capital, the benefit of which could not yet be fully utilised.

The weighted average number of shares increased from 31,9 million in the corresponding period last year to 42,5 million.

Net income before extraordinary items increased by 31,7 percent from R30 million to R39,5 million.

Unappropriated income rose from R24 million to R31 million.

Mr Cronje says the profit was achieved during a period of keen competition in the financial-services sector, which increased the pressure on the profit margins of the banks.

The disappointing results are in line with former chairman Mr Albert Marais' forecasts in the previous annual report.

He said the anticyclic approach of the Government's short-term economic policy measures would have a dampening effect on real business activities in the year ahead.

Such a scenario, he said, predicted a fairly slow-growing market for the banking sector.

The consolidated balance sheet shows that the group's cash and short-term funds rose 60 percent from R377 million to R605 million.

Total shareholders' interest crept up 6,5 percent from R682 million to R726 million.

Volkskas still buoyant

(59) B/day 7/11/88.

ARI JACOBSON

VOLKSKAS maintained its buoyancy in the cut-throat banking sector by notching up a 31,7% increase in attributable earnings for the interim period to end-September.

Attributable profit before extraordinary items grew to R39,5m (R30m). Earnings a share edged 1,2% to 93c (91,9c) on an expanded capital base. An interim dividend of 22c a share has been declared and will be payable in January.

The directors say these earnings are "satisfactory bearing in mind the increased issued share capital, the benefit of which could not yet be fully utilised".

The group says the profit was achieved during a period of keen competition in the financial-services sector which placed pressure on profit margins of banks.

Volkskas expects further pressure on interest margins and competition in the granting of credit in the latter half of the year which could place considerable pressure on the profitability of the banking sector.

Capital growth and reserves reflected in the bank's overall liquidity position strenghened over the interim period.

Attendant growth in deposit and current accounts was boosted with a 27,7% injection of comparative interim funds. This pushed the total to R12,1bn (R9,4bn), while cash and short-term funds were virtually double at R604,6m (R376,5m).

Demand for credit saw advances and other accounts reinforce this growth trend with a 32% surge to R9,8bn (R7,4bn).

Fixed assets and investments rose 4,4% to R2,5bn (R2,4bn). Unappropriated income increased 30% to R31,1m (R23,9m).

Volkskas expects a modest increase in earnings for the financial year.

Volkskas notches up a 31,7% rise in earnings

Cpt Times 7/11/88

58 2009

Own Correspondent

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Volkskas expected further pressure on interest margins and competition in the granting of credit in the latter half of the year which could place considerable pressure on the profitability of the banking sector.

Volkskas GM finance Frans Du Toit said this was so because the imbalance in interest rates was impacted on deposit rates first and merely brought into kilter with the rise in lending rates.

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Du Toit attributed the group's success to "a buoyant market, the securing of market share and the striving for service excellence."

Fixed assets and investments rose 4,4% to R2,5bn (R2,4bn).

"We expect to maintain this momentum throughout the financial year," said Du Toit.

A waiting game for low Lifegro

(58) B/day 8/11/88.

KAY TURVEY

LIFEGRO shares were suspended at a low of 190c yesterday, ahead of tomorrow's announcement of the substantial rights issue and rationalisation of the Rembrandt group's life-assurance interests.

It was understood the restructuring would involve Lifegro, the Pretoria-based Momentum Life and UBS Insurance Company.

The attention followed shifts in Lifegro's top management in May and Rembrandt's reported dissatisfaction with Lifegro's involvement in the Fenton investment scheme — whereby Lifegro guaranteed investors a 4% return in the first year and tax avoidance in the Ciskei.

The possibility of rationalisation has been considered since May, when Volkskas Merchant Bank issued a cautionary announcement to that effect.

Lifegro shares fell from 215c towards the end of last month to a low of 190c. Controversy surrounding the listing in March 1986 saw the share price fall from 400c to 300c six months later.

For the half-year to end-June, Lifegro's total income declined by nearly 20% to R561,8m from R694,8m and dividends remained stagnant.

Unlisted Lifehold has a 50,4% stake in Lifegro. Shareholders in Lifehold are Volkskas group, Momentum Life and Rembgro. Volkskas and Remgro each have a 30% interest in Momentum.

Lifegro in possible tie-up with Momentum

(58)

Star 8/11/88

Finance Staff

Lifegro was suspended from the JSE yesterday pending a possible tie-up with stablemate Momentum Life. Both companies are controlled by Volkskas.

Lifegro said the main reason for the suspension was "rationalisation within the group" that had taken place over the past few months. One of the effects of the operation is to bring certain companies within the group much closer together. A further announcement is expected within the next three days. This will outline the changed face of the group.

Lifegro's managing director, Mr R B Gouws, was recently moved into his post from within the Volkskas Group. He was previously closely associated with Momentum, which is also in the Volkskas stable. Industry speculation has been strong that the two would be married into a single organisation.

Market talk also centered on the possibility of the United Building Society, which is 30 percent-owned by the Volkskas Group and has a 10 percent holding in Volkskas, gaining control of Lifegro.

The share price of UBS has risen significantly in recent weeks, rising from a post-Crash low of 260c in April to yesterday's closing price of 390c a share. Volumes have been high in recent weeks, with market talk indicating a build-up by Rembrandt.

Major transactions boost Corbank earnings by 15%

(58) Star 8/11/88

By Magnus Heystek

Corbank has declared a 25 percent increase in net income to R1,875 million in the six months to end-September 1988.

This is equivalent to earnings of 13,6c a share (1987: 10,9c) while the interim dividend has been increased from 4,5c to 5,25c.

The net asset value of the shares, however, declined from 274,2c to 255,7c a share, with shareholders' funds dropping from R37,8 million to R36,871 million.

In their joint comment chairman Bob Aldworth and MD Laurie Korsten highlight the narrowing of interest margins since the last quarter of 1987 due to the rising interest rate pattern and an increased level of competition amongst financial institutions.

Corbank, formerly known as Hill Samuel, has been involved with a number of major transactions recently, notably the SA Perm merger with Nedbank, the FSI reconstruction and rights issue which will be completed later this month and a number of disinvestment and management buyout transactions.

However, income from investment was reduced as a result of the depressed share and capital markets over the reporting period.

"Demand for credit is expected to moderate over the remainder of the financial year. However, the group is well-positioned to maintain an improvement in earnings over this period," they say.

Stals: There could be changes next year

Are prescribed assets about to be scrapped?

58

B/day 9/11/88

KAY TURVEY

THE long-awaited scrapping of prescribed assets, whereby life assurers and pension funds are compelled to hold minimum portions of their funds in government and semi-government stock, looks set to take place next year.

Intense speculation on the capital market is that an announcement of the abolition of prescribed assets is imminent in the 1989 Budget speech.

Life Offices Association executive director Dick Geary-Cooke has been asked by Registrar of Financial Institutions Theo van Wyk to assist in drawing up prudential investment guidelines for institutions.

● VAN WYK

Assurers believe this implies the authorities have agreed in principle to the withdrawal of prescribed assets as recommended by the Jacobs Report into the bond market.

Finance director-general Chris Stals said yesterday speculation was premature although "it is possible there will be changes next year".

He said Jacobs's proposals were being examined, but no final decision had been taken.

Jacobs reported prescribed regulations inhibited trading of an active bond market and recommended direct abolition as opposed to phasing out the requirements.

The report suggested broad guidelines to safeguard the solvency of life offices and pension funds.

Sanlam senior investments GM Ronnie Masson said the time was opportune for such a move as the trend had been for life offices to hold more in cash and in the short-end of the market in anticipation of rising interest rates.

Further, if big ticket privatisation was to go ahead, the requirements of the capital market would diminish.

SA Mutual investment GM Johannes van der Horst agreed conditions were ripe for the abolition of prescribed assets. Fiscal funding had been satisfactory this year and, as interest rates were low, institutions were not heavily exposed to the capital market.

It was estimated that institutions were holding about R32,6bn in cash at the end of September whereas, according to the latest Reserve Bank Bulletin, capital funding for the first quarter amounted to R7,2bn.

S8

Star 9/11/88

Property boosted by financial rand

Finance Staff

Since the debt standstill in September 1985 and the re-introduction of the finrand, R1,246 billion had been invested in property through finrand transactions, the Minister of The Budget and Works in the House of Assembly, Mr Kent Durr, said yesterday.

He said at a function in Johannesburg to mark the presentation of the Luxalon Designer of the Year award, the re-introduction of the finrand had had a stabilising influence on property prices.

"In fact, in some sectors it has provided a discernible boost.

"Since September 2 1985, the date on which the debt standstill and the re-introduction of the finrand became effective, R1,246 billion has been invested in property through finrand transactions."

Of this total, R250 million went into residential property, R770,5 million into commercial property and R226 million into the agricultural sector.

About R25 million had gone directly into black housing schemes.

From January to the end of September this year, the total finrand investment in property amounted to R454 million.

Investment in residential property totalled R93,5 million, on commercial property R302 million and on agricultural sector property R58,34 million.

Boom time for savers

13% → 14% → 15% → 16% → 17%

Business Staff

A SAVINGS drive gained momentum today with more financial institutions raising the rates they pay to investors.

Commercial banks and most building societies have boosted deposit rates since the Reserve Bank increased the bank rate by 2 percent a week ago and sparked an all-round increase for lenders as well as borrowers.

Still more increases could be on the way by the year-end or early next year, according to economists.

They believe that the crisis level of the country's gold and foreign exchange reserves will force the authorities to push borrowing rates even higher in attempts to cool the spending spree on borrowed money.

Savings dwindled

Savings have dwindled for years as interest paid was below the country's inflation rate and investors saw their capital eroded.

However, rates offered are now "real" — that is, above the government inflation estimate of 12,4 percent — with savers being offered as much as 17,5 percent.

The Post Office, which holds billions in savings deposits, increased its rates earlier this month but rates could be adjusted upwards again, according to a spokesman for the Treasury.

The NBS said today it would raise fixed deposit, notice deposit and top saving rates.

Savings rates have gone up by 2 percent to a maximum effective rate of 14,65 percent on "golden" deposit rates of more than R100 000, to an effective 13,52 percent for an amount between R10 000 and R24 999 and an effective 14,37 percent for sums of between R25 000 and R100 000.

Fixed deposit rates for 12 to 17 months have moved up one percent to 14,5 percent, with senior citizens getting an additional 0,5 percent bonus. Deposit rates for 18 to 24 months have moved 0,5 percent to 14,5 percent.

Notice deposit rates for 32 days have been increased 1,25 percent to 14 percent; for 60 days by 1,5 percent to 14,25 percent; for 88 days by 1,35 percent at 14,25 percent.

An NBS spokesman said today there had been concern for some time that South Africans generally depended too much on credit.

Reluctance

It had been decided to increase fixed deposit rates for the shorter periods because clients were reluctant to tie up their money for too long.

"There is also a strong feeling that interest rates will move higher," he said.

"However, with the current increase in interest rates it is hoped this will start the swing back to savings — a far more healthy position for both the individual and the country."

● Interest paid on Post Office savings was increased at the beginning of October to a tax-free 8,5 percent, as was interest paid on indefinite period Treasury bonds.

Indefinite period national defence bonds were increased to a taxable 14 percent, while senior citizen deposits remained at a taxable 15 percent.

ARGUS
10/11/88
58

Serious problems predicted

BD Bday)

10/11/88

Bank warns over another debt standstill

GRETA STEYN

SERIOUS problems would result if SA announced another foreign debt standstill to tackle its 1990/91 debt problem, the Bank of Lisbon has warned in its latest Economic Focus.

The bank said enlarging the standstill net would be "fraught with difficulties" and was not an option when it came to the $2bn in bearer bonds that had to be repaid in the two years.

These bonds were listed on various foreign capital markets and were mostly held by individual foreign investors. Most had been issued by local parastatal bodies, the bank said.

"To include them would mean that some of the holders of the bonds would probably take legal action in overseas courts against SA, and seek to attach foreign assets held by SA such as aircraft and cargo."

It could even lead to accusations that "widows and orphans" holding the bonds, issued by local parastatal bodies, were being penalised. If export credits, also currently outside the net, were part of a new standstill, new political strains would emerge and SA's access to trade credit would be severed.

However, repayment obligations during 1990 and 1991 need not point to a new debt crisis — provided there was a speedy return to large surpluses on the current account to rebuild the foreign exchange reserves.

Imports could be cut down by drawing on the oil stockpile while exports could benefit from the growth expected in major industrial countries.

However, this would probably not be achieved without a strict monetary policy. In the absence of commodity prices coming to the rescue, restrictive policies would be necessary, implying lower targets for money supply growth.

It was imperative to protect the capital account by keeping domestic interest rates in line with foreign rates, so that greater use could be made of limited sources of foreign capital.

KAY TURVEY reports that United Bank said in its latest economic monitor that the dwindling reserves had raised fears that SA would be unable to meet its debt obligations in full. In terms of the second interim debt arrangement, SA needs to pay $2bn both inside and outside the net in 1990.

United said the expected lower gold price and high service payments would contribute to a smaller surplus on the current account, estimated at about R1,8bn by the end of this year and R3,7bn in 1989.

United anticipated total capital outflows would amount to R3,8bn during the next 15 months.

These developments, coupled with negative foreign perceptions, implied a further drop in the rand to about R2,54 by the end of this year and R2,60 in 1989.

(58) FMAIL 11/11/88

BANKORP

Helping margins

Activities: *Bank holding company.*
Control: *Sanlam has control.*
Chairman: *F J du Plessis.*
Capital structure: *89,9m ords; 2,96m variable red cum prefs; 1,29m variable conv prefs. Market capitalisation: R382m.*
Share market: *Price: 425c. Yields: 8,0% on dividend; 25,5% on earnings; PE ratio, 3,9; cover, 3,2. 12-month high, 570c; low, 400c. Trading volume last quarter, 508 000 shares.*
Financial: *Year to June 30.*

	'85	'86	'87	*'88
Debt:				
Total assets (Rbn) ...	13,6	14,4	16,1	22,4
Taxed profit (Rm)	25,7	58,8	84,9	99,0
Attrib. profit (Rm) ...	53,1	56,0	86,7	95,5
Earnings (c)	109,0	104,9	93,2	108,6
Dividends (c)	29	30	31	34
Net worth (c)	619	499	569	646

Chairman Fred du Plessis wrote his chairman's review several weeks before the municipal elections and the subsequent 2% hike in the Bank rate and commercial banks' prime overdraft lending rates. That could explain his comparatively cautious prognosis that this year's profits will at least equal last year's.

Would his forecast have been more positive if he had known for certain the extent of the interest rate increases? The rises will allow all of the country's banks to restore their competitively eroded banking margins. And though the Bankorp group steadfastly refuses to disclose its unadjusted performance, its subsidiaries should report better earnings after tax and transfers to or from inner reserves.

Trust Bank, the 78,7%-owned subsidiary, reported a far faster growth in lending than any of its competitors and increased its market share. Last year Trust's advances rose by 45% to R8,58bn helped in part by increased mortgage lending, but principally because of greater consumer loans. Du Plessis sees this increased asset base as leading to greater profitability this year. Trust's competitors, maybe with the taste of sour grapes in their mouths, question the quality of the advances book and wonder if the strains of higher interest rates will lead the bank to greater bad debt provisions.

Wholly-owned Senbank and Santambank have both reported lower returns on assets, though those returns were earned on substantially increased asset bases. And both banks are circumspect in their immediate profit forecasts.

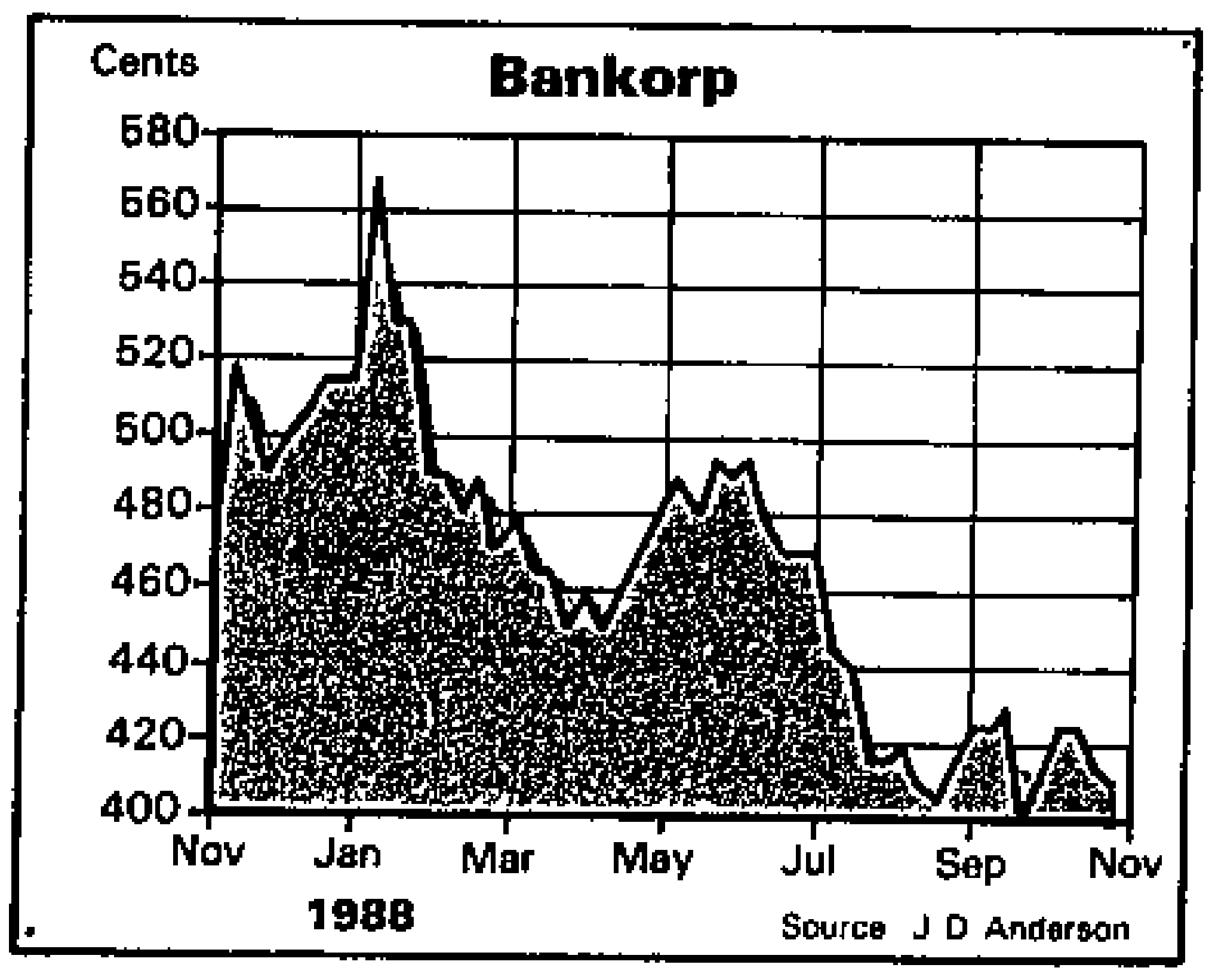
Santambank is faced with considerably lower demand for consumer finance with the tighter credit curbs and higher interest rates. Last year its disclosed profit rose 21,5% to R30,5m against the previous year's 27,9% increase. The difference between the two years was that last year assets grew by 35,6% against only 24,5% in the previous year. The squeeze on margins is obvious. As for this year, a modest disclosed profit increase is forecast.

Bankorp's Du Plessis . . . cautious prognosis

Senbank was clobbered by the sharp drop in the amount raised by new share issues and is not happy with the corporate sector's continuing reluctance to spend on capital goods. It now sees privatisation as providing its principal profit opportunity, but Du Plessis does not single out the merchant bank in his operations forecast.

Bankorp's share price has ticked up in response to last week's interest rate hikes, but the market is not going overboard if the share's 25,5% earnings yield is any indication. Dividend cover is about the highest in the sector, and one can expect an increase in cover this year as the group's banks raise their equity capital bases to comply with the new asset cover requirements of the Banks Act.

Higher interest rates are a two-edged sword. They will help banking margins but they will lift investors' yield requirements. The net effect is likely to be share price stasis though several brokers have recommended the share on yield considerations. *Jim Jones*



Source J D Anderson

MORTGAGES

58 FMAIL 11/11/88.

Credit where it's due

Banks and building societies have been criticised of late for the contribution their aggressive marketing has made to growth in spending since the last quarter of 1987. Consumers who respond to their blandishments and Cabinet ministers who find artificially low interest rates politically expedient tend to forget their own role in the process when the economic cycle turns against borrowers.

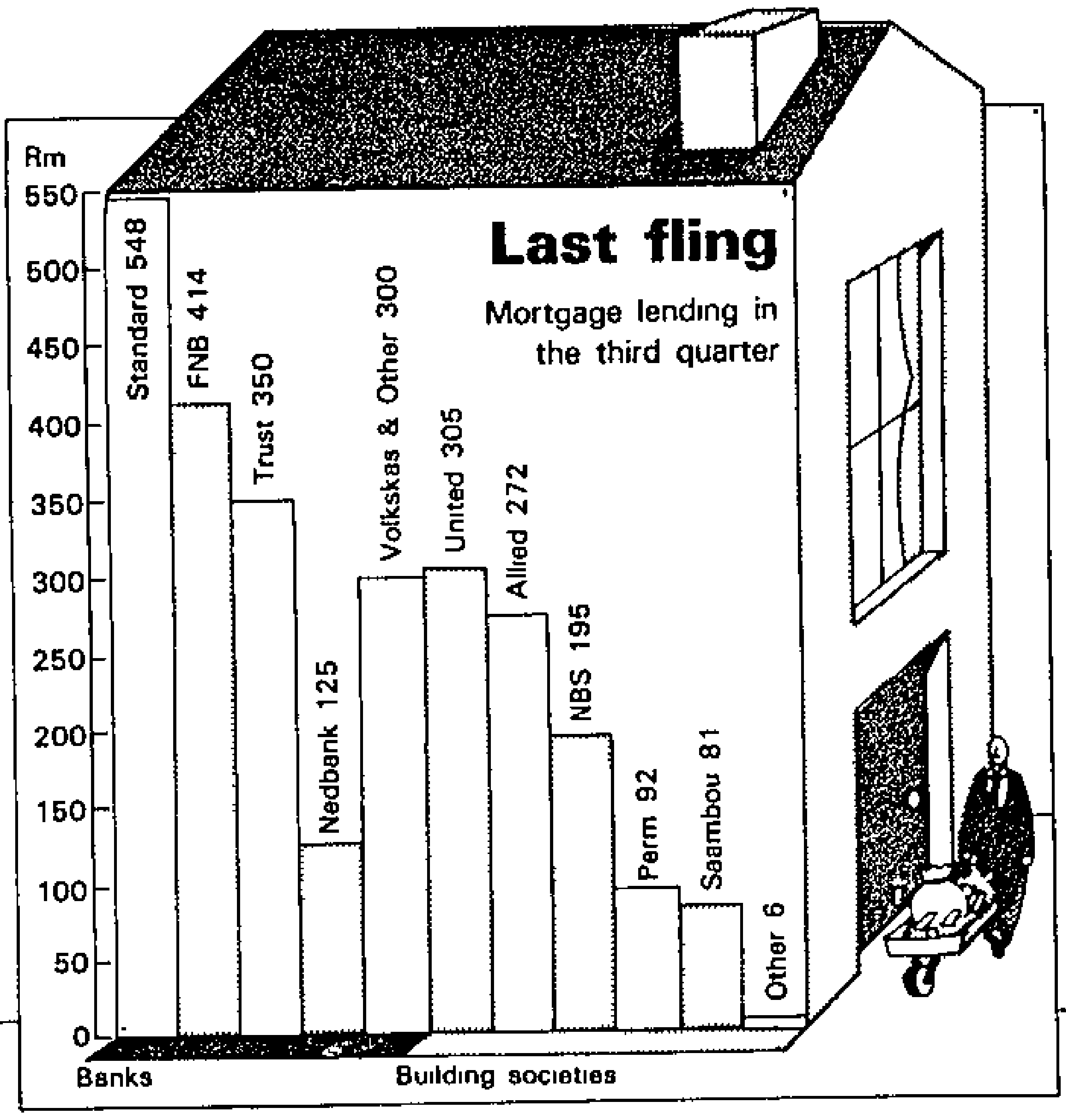
Even the market-orientated Reserve Bank Governor Gerhard de Kock has "reproached them for their part in (the) overspending process." In his annual address in August, he acknowledged, however, "it would be wrong to hold them principally responsible for either the excessive increase in the money supply or the rise in interest rates.

"Of course bank credit expanded too much," he said, "but it did so in response to the strong upswing in economic activity and the accompanying rise in the demand for loanable funds of all kinds. And it was the Reserve Bank that supplied the cash reserves necessary to underpin the increase in credit. In the final analysis, the Bank must therefore accept the responsibility for the excessive rise in the money supply."

The Bank, of course, was simply responding to pressure from elsewhere. Real responsibility lies with the key decision-makers.

With blame correctly apportioned, however, it is clear the entry of banks into the mortgage market played an important part in burgeoning credit creation.

Says Nedbank chief economist Edward Osborn: "While building societies chiefly onlend clients' deposits, banks create money through extending credit." So while building society loans finance demand, bank loans go further and inflate the money supply.



Last fling

Mortgage lending in the third quarter

Spending financed by both types of lending, however, stimulates propensity to consume, creating a spiral of demand in, for instance, consumer durables. This has a multiplier effect, rippling through the economy and contributing to annualised growth in gross domestic expenditure of nearly 10% in the year to June, outstripping growth of only 2,7% in GDP in the same period.

Several rate increases this year and other measures to curtail demand had had minimal success by the end of September, as consumer spending continued to grow. Announcing a two percentage point increase in Bank rate to 14,5% last week, De Kock said preliminary estimates suggest this increased "at an annual rate approaching 6%."

Though not reflected statistically in consumer expenditure, property purchases had spinoffs in terms of demand for furnishings, white goods and the like. So the fact that in the third quarter, when the financial authorities hoped demand would have been waning, about R2,7bn in mortgage loans was granted by banks and building societies, is of some significance for future consumer demand.

The figure is well up on sums of R2,4bn and R2bn in the previous two quarters.

Throughout the year, fierce competition had most institutions marketing aggressively. Banks came out well ahead of the societies in each quarter, providing loans more than 1,5 times the value of those granted by building societies. (Contributing to this was that, with newer books than the building societies, banks have fewer cancellations to offset lending.)

Main players in the third quarter were First National (total book: R3bn), which registered loans to the value of R414m; Standard (R2,4bn) lent R548m; Trust Bank (R1,2bn) R350m; and Nedbank (R425m) R125m. Nearly R300m was lent by four other banks — Volkskas, Santam, Boland, Cape of Good Hope — and financial services group Syfrets (a Nedbank associate).

Of building societies, United (R9,7bn) granted loans of R305m and Allied (R5,9bn) R272m. Highest percentage growth, however, came from Natal Building Society (NBS), which extended its loan portfolio R195m to R2,9bn by the end of September.

Low in the lending stakes were the Perm and Saambou. The former increased its book only R92m to R6,6bn and the latter R81m to R1,9bn. Both, however, have recently improved, and loans granted will push up growth significantly when they come on to the books in the next two months.

Most institutions report slacker growth in October — a trend which will be reinforced by the latest increases in mortgage rates. In the past two weeks, Allied announced an increase from 16% to 16,75%; United, the Perm and NBS from 16% to 17%; First National and Trust from 16% to 18%; and Standard from 15,75% to 17% (in line with its undertaking not to charge more than the average charged by the building societies until December 31).

The impact of increases of in some cases as much as six percentage points this year is expected to take a lot of momentum out of the property market (see P73). And the changed relationships between rates charged by societies and banks may restore chunks of lost market to the former. ■

RESERVES

Warning flag

Reserves have fallen sharply this year and each monthly report is met with cries of concern. "Gold and forex reserves close to crisis level," one headline said.

But what, exactly, is the crisis? It doesn't mean SA will run out of dollars and yen.

"Forex reserves are like peanut butter. If we run out, we buy more," says Dan Leach of the Wits Department of Business Economics. The word *reserves* causes the confusion. Reserves can be finite, like a coalfield. Others can be replenished, like groceries.

The Reserve Bank's forex reserves can be replenished: to get more dollars it can buy them in the forex market with rands, or withhold dollars from gold sales.

Concern about having "sufficient reserves to meet debt repayment" — including next month's inside the net — is unfounded. The Bank can buy any extra forex needed. The issue is whether debtors have the *wealth* to repay foreign debt, not forex.

The crisis is that the price of forex keeps getting higher. So collapsing reserves are a symptom of a broader crisis: a debased rand and economic mismanagement.

The Bank has propped up a weak currency

SA is warned of tough times

Own Correspondent

CAC- 7/475 11/11/88

JOHANNESBURG. — A top economist has predicted that the bank rate will rise to 17% or even 18% next year and the governor of the Reserve Bank has warned of "serious consequences" for the economy if correct policies were not followed.

Dr Hans Falkena, chief economist for the United Building Society, told the Financial Mail conference on investment that without an increase in taxation, the budget next year was bound to be too stimulatory, implying that the bank rate would have to go to the 17%-to-18% level by mid-1989.

The governor of the Reserve Bank, Dr Gerhard de Kock, told the conferernce that warning signals had emerged that government spending might rise faster in the second half of the fiscal year than in the first.

Top businessmen and economists attending the conference interpreted his speech as a clear message to government that action was needed on the fiscal policy front to avert an economic crisis. **(Full report — Page 10.)**

Inflation fears

If the correct policies were not followed in the next six months, SA would face "serious consequences", Dr De Kock said. It was not enough only to announce the correct policies, they had to be implemented too.

Dr Falkena said important changes to monetary policy were needed to achieve the aim of sustained positive real rates of interest.

He said a negative real interest rate policy would sooner or later prove to be highly inflationary, especially because South Africa's major trading partners had high real rates of interest.

"High inflation in turn implies a weak rand and thus massive forward cover losses for the account of the Treasury which will boost the money supply explosively," Dr Falkena said.

In itself a more restrictive monetary policy stance — higher interest rates — would help restore the current, unacceptably low level of personal savings while it would also enforce a more efficient use of capital, which in turn would reduce the propensity to import.

Dr Falkena said GST should be raised to accompany an increase in the bank rate when the gold and foreign exchange reserves were under pressure.

He made a strong plea for major changes to monetary and fiscal policy and said the government should try to use GST — or later, VAT — more actively as a policy instrument to curb domestic demand by reducing the buying power of the private sector.

● More conference reports — Pages 9 & 10

Steady growth at Investec

Star 11/11/88

(58)

Finance Staff

Investec has reported a 20 percent growth in net income to R6 million (R5 million) after tax and transfer to internal reserves for the 6 months to 30 September.

These are the first set of results to be published since the appointments in August of Mr Bas Kardol as executive chairman and Mr Stephen Koseff as MD.

Earnings per share also grew 20 percent to 30 cents (25 cents).

Pro-forma groups results are stated because the results of the Investec Bank group are directly comparable to those of its holding company, Investec Holdings Limited ("Inhold") since Investec Bank acquired Metboard. An interim dividend of 12 cents a share has been declared, 33,3 percent up on last year's.

Shareholders' funds rose 10,7 percent to R62,482 million (R56,429 million) and total assets grew by 11,7 percent to R762,526 million from R682,728 million.

Underlining the overall pattern of growth achieved, funds under administration now stand at R1,682 billion — 14,1 percent up on the R1,578 billion last year.

The board comments that the margins which were squeezed by the extremely high cost of funds in relation to prime have been compensated for by improved efficiencies resulting from cost reductions and tight credit controls.

In addition, the broad spread of group operations counterbalances and cushions the effect of adverse conditions in certain sectors.

It is expected that Investec Bank will make its JSE debut as Invstec on November 28.

Investec Holdings will continue to be listed on the JSE as Inhold. The main purpose of restructuring the group in this way, says Mr Kardol, is to increase flexibility and enable Inhold to diversify into other non-bank related fields.

Bond rates move up again

Star 4/11/88

Finance Staff

(58)

The first of the expected increases in bond rates was announced yesterday, when the Natal Building Society and the Allied Group raised their bond rates by one percent and by 0,75 percent respectively from the existing 16 percent level.

The new rates will come into effect immediately for new applications, while existing bonds will be effected on December 1.

The United Building Society and Saambou are also expected to announce increases in their rates by one percent within the next few days.

Spokesmen for the banks said while fundamentals justified an increase of at least two percent in the prime rate, they were holding back on higher bond rates for the time being.

Despite the sharp increase in money market rates in recent weeks, the Reserve Bank yesterday refrained from commenting on a possible increase in Bank Rate, currently at 12,5 percent.

Economists said yesterday the reluctance on the part of the Reserve Bank to increase interest rates was exerting downward pressure on the rand.

It fell yesterday to record lows against most major currencies, highlighting SA's economic woes in the aftermath of last week's municipal elections.

With relatively weak gold prices depressing export earnings, it fell to an all-time low of R4,39 to the pound sterling and plummeted against the Deutschemark and the yen.

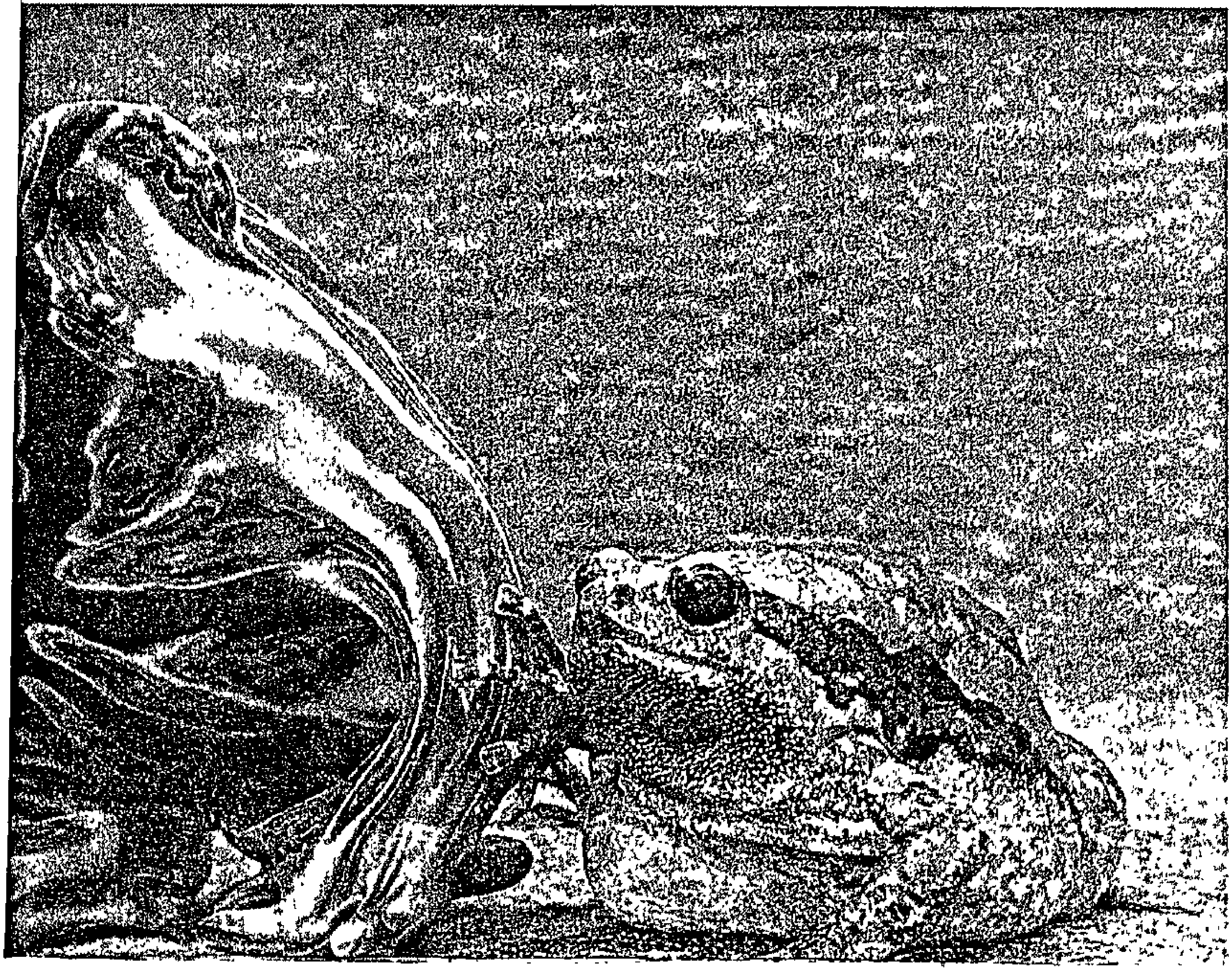
● The Consumer Council has responded to the latest increase in bond rates with a warning to consumers to carefully investigate their needs before buying luxuries.

Mr Jan Cronje, director, said increased bond repayments and normal increases in inflation could put consumers in "such a critical situation that they may not be in a position to meet their usual financial obligations".

He appealed to consumers not to go on unneccesary and irresponsible shopping sprees in the light of increased interest rates and said consumers should rather pay cash if they do decide to buy. Credit instalments could be raised and this would make financial situations even tougher.

● See Page 14.

ed by croak and dagger dummy



BUSINESSMAN OF THE WEEK

W/C ARGUS

12/11/88

58

Wearing 3 hats in the world of finance

By DICK USHER
Business Staff

NEAL Chapman's office in Southern Life's headquarters looks out to Devil's Peak and the green sweep of Newlands forest.

It's one of the attractions which, in 1976 when Barclays Bank wanted him to leave Cape Town and go to London with the prospect of then taking the trail to Johannesburg, impelled him to leave the bank rather than leave the Cape.

Shortly after that he joined the board of Southern Life as a non-executive director, taking up a fulltime position in 1982.

He holds dual responsibilities as Southern Life's chief executive and chairman, a position he assumed when Dr Zach de Beer resigned all business appointments on his return to political life.

Last month Mr Chapman reached even higher when he was appointed to the board of Anglo American.

It wasn't from any conviction that finance was where he wanted to go that he joined a financial institution when he left school: "I joined a bank because I needed a job. That was where I started and stayed and it has never failed to interest, challenge and absorb," he said.

As an entrepreneur his sights are set on producing top quality, not only of product but, like many other businesspeople in South Africa today, of quality of life for all people — a dual trust and responsibiity.

"Finance constantly leads you into contact with people across the full spectrum of society and being in finance involves the motivation of teamwork among people if you want to deliver a quality product and service, and that is at least as interesting as finance itself," said Mr Chapman.

"In finance you are the trustee and custodian of other people's money which is something that has to be taken with deadly seriousness.

"Your clients need more than just good custodianship, they need to know that the products which represent the link between you and them are of quality in terms of performance and deserve a high quality of service in terms of their money.

"All of the thrust in the Southern seems to reflect that and all the action plans and strategies we develop have as their starting point the customer's need, not market share or size.

"We define the customer as all those we serve, including shareholders who have also entrusted money to us."

To this trust Mr Chapman brings a personal belief that when you live in a turbulent country such as South Africa and employ people from every walk of life, ethnic group and political affiliation whether in or out of the parliamentary system, it is important that the company itself should care about their circumstances and seek to be an island of sanity and security to its people.

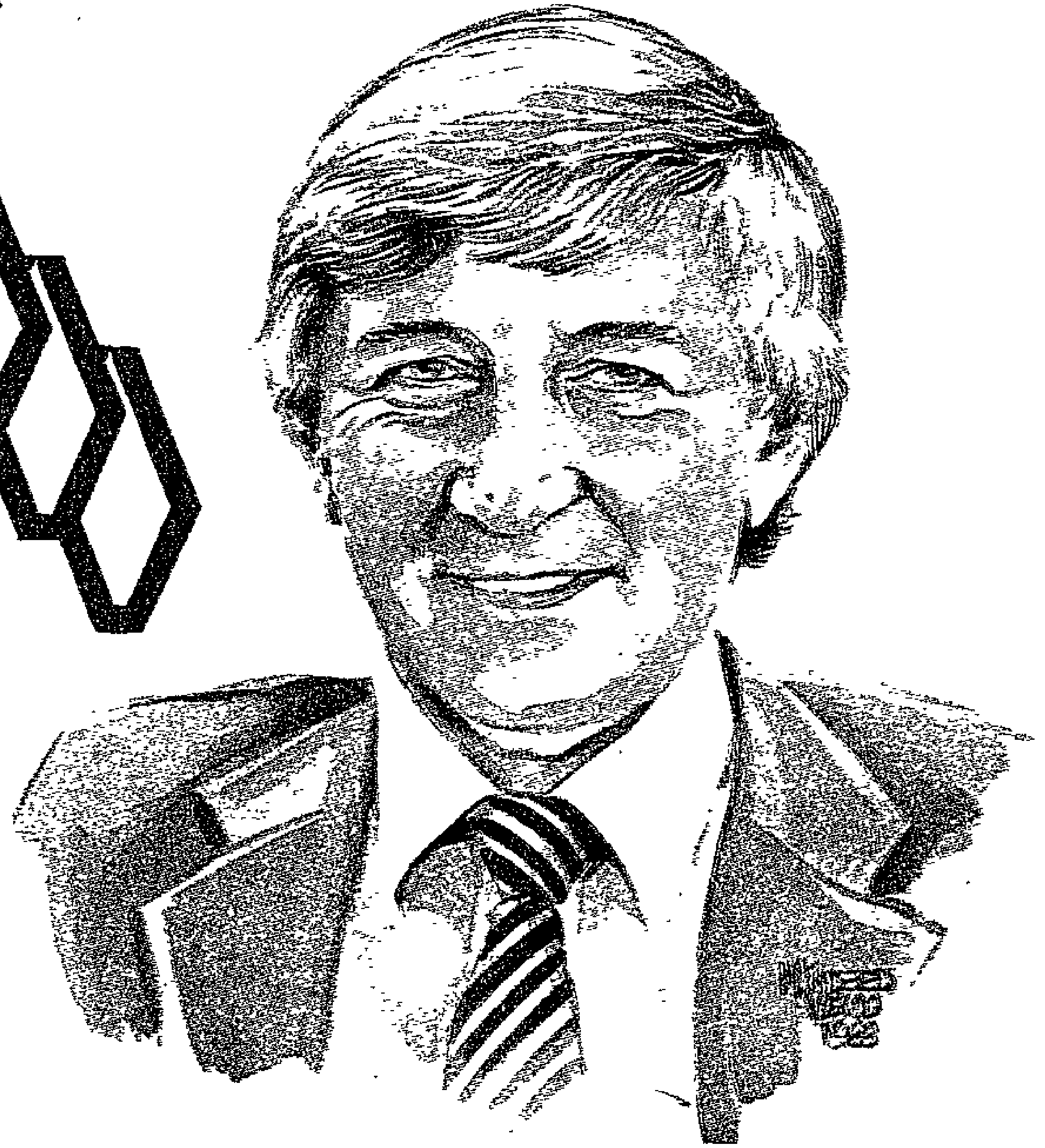
"That is taken very seriously at the Southern," he said.

"The company is very clear on its values and that those values should represent a way of doing business and a way of living by principles."

This belief extends beyond the company to the wider community where Mr Chapman believes it is vitally important to do all that can be done to address the concerns and problems of that community, both in the creation of wealth and the creation of opportunity — the concern for quality of life.

It's a concern that the business world has not always

See Page 3



Neal Chapman . . . the customer comes first.

Majority 'favour' gambling

58

Star 12/4/88

292

CLARE HARPER

MOST South Africans want casinos in their own country and would welcome the return of Bonus Bonds, according to a recent Omnichek poll.

The poll, by Research Surveys, revealed that most urban whites — 64 percent — said the Government should introduce casinos in South Africa.

A greater majority — 66 percent — said they would welcome the return of Bonus Bonds and 82 percent would welcome the introduction of a lottery to pay for hospital, education and social services.

This emerged from a survey conducted face-to-face with 800 white women and 514 white men in all the major urban centres.

Compared with an identical poll of 500 men in 1986, the level of acceptance of casinos and a lottery has increased.

A survey of 800 urban black women showed that their level of support matched that of whites, except in the case of Bonus Bonds.

"We can safely assume that the polls reflect an almost universal support for casinos, the return of Bonus Bonds and the introduction of a lottery for social services to relieve the burden on the taxpayer," Omnichek director Mr Binky Kellas said.

So work out a proper plan before looking for a loan

DEREK TOMMEY

MANY people dream of starting a business. But usually a shortage of ready cash is a stumbling block.

This often leads to a spur-of-the-moment application to a bank manager for a loan of some nebulous amount for a business of uncertain potential.

It is not surprising that often these people are politely but firmly shown the door.

Asking a bank manager for a loan without making any preparations is the last thing a would-be entrepreneur should do. There are so many other things he should do first.

Most important of these is a business plan, says Mr Roy Polkinghorne, head of Standard Bank's Small Business Division.

"We need to know whether the prospective business will be viable and whether the would-be businessman has entrepreneurial abilities," he says.

"The business plan may require considerable research, but will show that the would-be entrepreneur has full knowledge of what he wants to take on and has a good idea of the risks.

"Such a plan will indicate likely working and capital costs, market potential, likely profits and cash flow.

"Producing such a business plan can require a lot of effort, but it gives the potential businessman some idea of what he is up against and what capital he needs. It also gives his bank manager some idea of his abilities.

"Above all it can indicate whether the project is viable, and this is the first thing the potential lender needs to know," says Mr Polkinghorne.

"The next thing is to determine whether the would-be entrepreneur is suited for business and that he has the potential to run one."

The bank offers assistance and advice to small businessmen, Mr Polkinghorne adds.

It provides courses in business practices and management.

Overall, in deciding whether to lend money to a new business, the bank wants to know that it can make profits which the business can be converted into cash and so repay its debts.

Collateral

Only then does the bank decide whether and what size loan to grant and what collateral or securities are needed.

The Small Business Development Corporation, established to help the small man, also requires applicants for loans to have potentially viable businesses with profit potential, says spokesman, Mr Naas Meyer.

"Many people take the view that we are a welfare organisation, but we also have to make profits if we are to survive," he points out.

The SBDC also looks at the applicant's entrepreneurial skills.

Other requirements are that the business must be independent, that it is in the rand monetary area and that total assets are less than R1,5 million.

A further requirement is that loans can be advanced only to businesses that are unlikely to obtain funds from established financial institutions.

Essential goods

This suggests the SBDC's loan criteria might be a little different from the banks.

When granting loans, the SBDC also takes into account the job creating ability of the proposed business and whether it will produce strategic or essential goods and services.

The SBDC also requires the entrepreneur to have a stake in his business, but this can vary according to the risk involved.

But anyone considering opening a business, before doing anything else, should consult the SBDC's business advisers, says Mr Meyer.


SMALL BUSINESSES: They sometimes offer giant challenges, and should not be taken on without planning.

Bop Bonds are now looking interesting

Star 12/11/85 58

MAGNUS HEYSTEK

FOR investors with a bit of a gambling streak, the new series of Bop Bonds, released in a new format this week, might just be the answer.

Bop Bonds now carry interest of 5 percent, while the first prize in the quarterly draw has been increased to R100 000. Previously, no interest was paybale on Bop Bonds.

In addition, there is a monthly draw for 200 prizes worth R100 000, with a R20 000 first prize and second prize of R10 000.

Bop Bonds can be bought at Bophuthatswana post offices and at all Sun International hotels. South African legislation prevents Bop Bonds being sold in South Africa, but their marketing is allowed.

The new bonds are fully redeemable after three months and are sold in denominations of R10, R20, R50 and R100, with each R10 unit qualifying for a draw number.

Each number goes into every draw and thus the holder has 2 400 chances of winning every year. All draws will be computerised, using a random-number generator developed by the Council for Industrial and Scientific Research in Pretoria.

Investors warned on possible correction in equity prices

Star 14/11/88

(58)

By Ann Crotty

The equity market (represented by the financial and industrial sectors) has recovered almost 50 percent of last year's total fall. But, says Liberty Life's Mr Roy McAlpine, given the severe pressure on the economy, the magnitude of this increase cannot be sustained and a correction in the weeks ahead will probably be welcome.

Speaking at the Financial Mail Investment Conference at the weekend, he said the downside risk was limited, chiefly because institutional liquidity was high and many fund mangers had been caught with a higher level of liquidity than they would like.

Other factors supporting the equity market were: lack of alternative investment, tight exchange control and the illiquidity of the SA equity market.

Referring to institutional cash flow, Mr McAlpine estimated that for 1988 the total investable cash flows of the life assurance and pension fund movements to be R25 billion, "rising to about R30 billion in 1989, of which 60 percent is available for discretionary investment".

But he added: "No amount of institutional liquidity will underpin a stock market that wants to go down."

He made one thing clear: in the coming year, investor support for equities would be on a much more selective basis than that which prevailed before the October 1987 crash.

Mr McAlpine was quite specific about the value that would be expected from equities. Because risk-free, five-year government stock offered an annual return of 16,75 percent, equities (which carry some risk) would have to provide a minimum return of 19 to 20 percent a year. Over a five-year period, this meant a dividend yield of 3 to 5 percent, combined with a doubling in the share price (implying a 15 percent share price and dividend appreciation each year).

He said it was not so easy to attain 15 percent compound growth in dividends over a five-year period.

"I believe that only a minority of the leading quoted companies will succeed in achieving this objective and I do not expect the financial and industrial index to double over the next five years. Put another way, if the investor has the alternative of investing in the financial and industrial index at its current level or in five-year government stock at a rate of 16,75 percent, with income being re-invested in each case, I believe that the five-year government stock will turn out to be the better investment — certainly on a risk-adjusted basis."

So, although the postive factors marginally outweigh the negatives, it will only result in a slight improvement in the financial and industrial index over the next 12 months.

CAP TIMES 15/11/88 58

Anglo employee share plan 'trivial'

Own Correspondent

JOHANNESBURG. — The Anglo American employee share ownership plan (ESOP) introduced last year, the largest in SA history, was a "trivial" endeavour, US-based ESOP specialist Norman Kurland said yesterday.

Kurland arrived in SA at the weekend on a two-week mission to popularise ESOPs, which, he believed, were the only basis for transcending the racial, economic, political and class barriers which exist in SA.

He said the Anglo planners had ignored the most important requirements: "Don't do it in a tokenistic way, and don't alienate the trade unions, which enjoy the loyalty of their people."

Kurland said yesterday he planned to concentrate on talking to labour and community leaders. They could play a statesmanlike role in bringing genuine economic empowerment to their followers, and such schemes were most likely to succeed if initiated by them.

Genuine employee share ownership, through leveraged buyouts, offered a third alternative to traditional capitalism and socialism, neither of which had sufficient moral framework.

He believed his ideas contained the basis for overcoming the scepticism and hostility displayed thus far towards ESOPs by union leadership, and was convinced sufficient foreign capital for such ventures would become available if union leadership asked for it.

He said for an ESOP to be meaningful required employee ownership of at least 20% to 40% of equity.

He cited a US employee-owned firm, Allied Plywood, where monthly and annual bonusses, based on profits, have amounted to up to four times employees' annual wages.

In such cases, said Kurland, workers had become disciplined by self-interest in terms of productivity and wages, because they received immediate benefits from increased profits.

Barlows posts 39% increase in profits

Cape Times 15/11/88

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By BRUCE WILLAN

INDUSTRIAL giant Barlow Rand has continued its growth in real terms and posted a further 39% increase in attributable profits to R742,1m (R496,5m) for the year-end September 30.

Earnings per share leaped by 37% on an increased number of shares in issue to 408,2c, compared with 297,3c, while the final dividend, of 91c, brings the total to 130c for the year.

This is a 30% increase on last year's 100c.

Group turnover sailed past the R21bn mark to reach R21 178,8m (R16,53bn) — a 28% improvement on the 23% increase recorded at the half year.

Operating profits reached 54% in the second half of the year compared with the 30% recorded in the first half, while margins rose significantly from 8,6% last year to 9,6% this year.

Investment income increased by 30%, bringing pre-tax profits to a 44% higher R1 940,7m for the year.

Interest paid climbed 25% due to higher rates and borrowings, but debt remained at a low level of 31% of equity compared with 27% last year, and is adequately covered 6,7 times.

This performance in growth by the group more than matches the confidence expressed in the interim report that "earnings growth should be sustained for the full year".

The group said virtually all sectors contributed to the improved results, with mining recovering strongly in the second half.

The industrial operations, particularly the wholly-owned companies, had an exceptionally good year, posting an aggregate 64% (73%) increase in taxed profits.

This sector benefited especially from major investment in the recent past, in both new ventures and the updating and replacement of existing projects, as well as from the ongoing drive for productivity.

Good form displayed by Federale

LINDA ENSOR

THE streamlined and better managed Federale Volksbeleggings group has kept pace with the good performances of industrial groups which have reported results recently.

Earnings a share increased by a substantial 30% in the six months to end-September.

The share's rating, which plummeted in September at the time of the rights issue, has recovered recently rising to over 355c earlier this month before falling back to 340c.

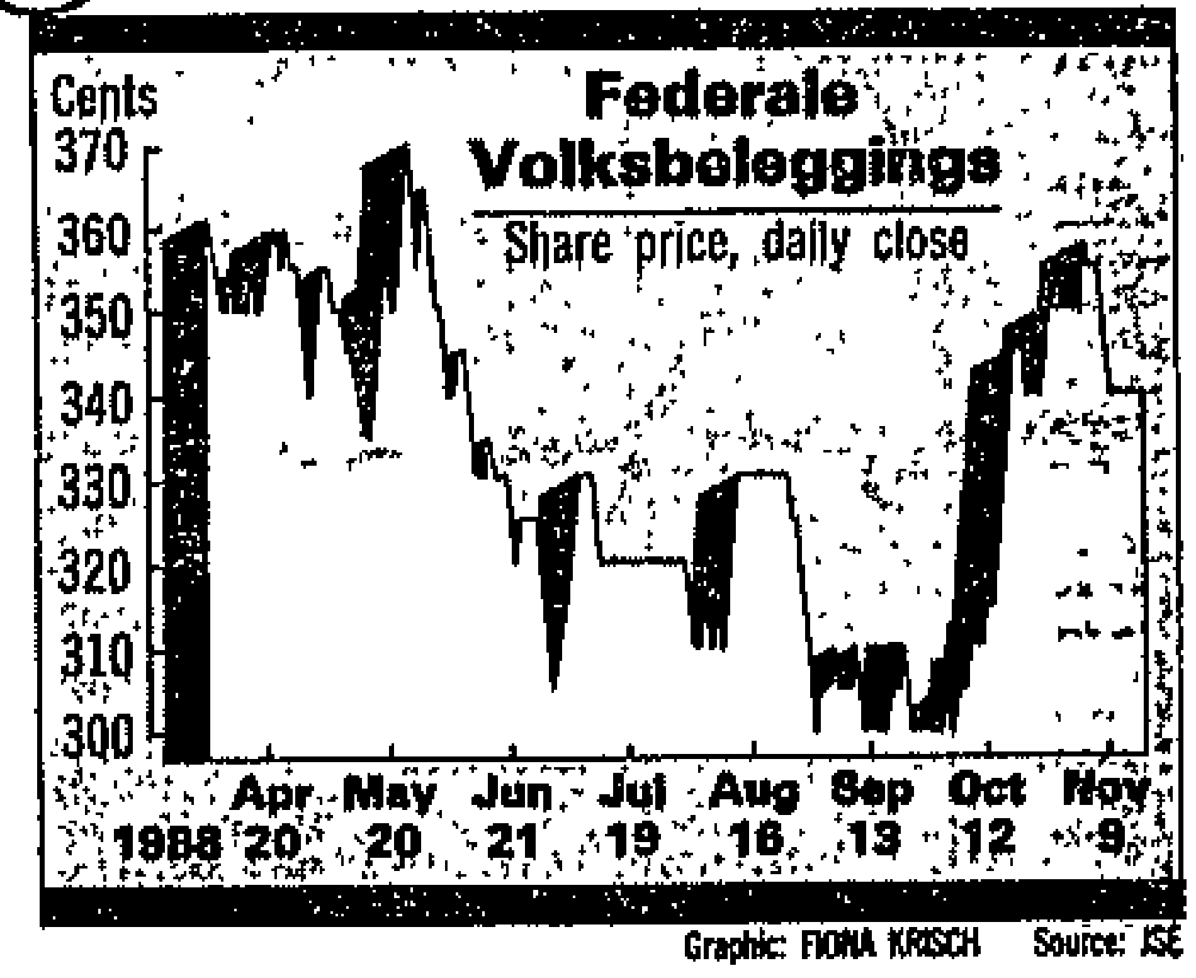
However, this is still below net asset value which has dropped to 384c from 497c as a result of the rights issue of about 33,9-million shares at 300c each which raised R100m.

The share is trading on a price earnings ratio of 4,8 times and a dividend yield of 5,6%, compared with the respective averages for the industrial holdings sector of 9,6 and 3%.

Strong margin growth (the operating margin rose from 7,9% to 8,3%), a reduction in the interest bill and a 25% higher income from associated companies contributed to the achievement.

Turnover grew by 19,6% to R1,6bn

(58) B/day ● To Page 2 ⇨ 16/11/88.



Graphic: FIONA KRISCH Source: JSE

Federale Volksbeleggings shows good form

(R1,4bn) and operating profit by 26% to R134,4m (R106,5m).

(58) B/day ⇦ ● From Page 1 16/11/88

MD Johan Moolman said the first quarter was a difficult trading period with a reduced number of workdays and industrial action.

Of the attributable profit of R45,1m (R34,6m), food contributed R12,9m — a rise of 43,3% over the previous R9m.

The contribution of pharmaceuticals rose 5,4% to R11,8m (R11,2m) on account of the listing of SA Druggists and the decrease in Fedvolks's stake from 80% to 68%. Services contributed R10,2m, 23% higher than last year's R8,3m.

Domestic consumer goods added R8,8m (R7,1m) to the results — an increase of 24% — while motor components and agricultural equipment notched a 40% improvement in their contribution to R7,3m (R5,2m).

Fedmech made no contribution to profits due to the hike in its interest bill, though its operating profit doubled.

Moolman says earnings were underpinned by the strong market shares held by the group's branded products.

An interim dividend of 8c (6,5c) was paid before the rights issue, which had the effect of reducing interest-bearing debt from 66% at year-end to 44%. Moolman expects a further improvement to about 34% by the March year-end.

(58) Fmm 18/11/88

FEDERALE VOLKSBELEGGINGS

More real growth

The stock market has been taking a somewhat more favourable view of the long-neglected Federale Volksbeleggings (Fedvolks) in recent weeks. The share price moved above 350c after dipping to a low of 295c — offering a p:e of only 4,2 times — ahead of the interim results.

The figures proved impressive enough, with earnings per share for the six months to end-September ahead by 30% and the dividend increased by 23%. MD Johan Moolman contends that holidays and industrial action made the first quarter a "very difficult period" for the group, and against that background, he is comfortable with the results.

Perhaps partly because of these problems, the advance in turnover was, by present standards, an almost sedate 20%, though margins improved from 7,9% to 8,3% with the result that operating profit was up by 26%. It was thanks to the 11% fall in the interest bill from R26,7m to R23,8m that pre-tax profit was ahead by 38% at R119,1m.

Moolman notes that with the prime rate at 18% — which had not been anticipated — he is particularly pleased to have available the funds raised in the R100m rights issue a few months ago. Mainly as a result, interest-bearing debt to equity at year-end was 0,45 against 0,62 last September.

Outstanding divisions were the motor components and agricultural equipment divisions and 67%-held **Fedfood**. The former, moving off a low base after posting a R3,1m attributable loss in the 1986 year, boosted its interim contribution by 40% to R7,3m (R5,2m); in the 1988 financial year it made attributable income of R4,4m. Though the division has seen improved volumes, the long-term trend in tractor sales remains weak.

Fedfood, however, has seen several years of good growth; in the 1988 year its attributable income rose by 31% to R35,5m, and its interim contribution to FedVolks was up by 43% to R12,9m (R9m). The food group saw its operating margin rise from 6,8% to 7,7%, but MD Jan du Toit warns of a possible slowdown in real growth in the second half. At 16c, Fedfood's interim dividend was up 23%.

The contribution from Fedvolks' pharmaceuticals division was only 5% higher at R11,8m, but the figures from **SA Druggists** are not considered comparable because of the listing from October 1 last year when Fedvolks' interest dropped from 80% to 68%. The services contribution rose 23% to R10,2m and domestic consumer goods by 24% to R8,8m. This week, furniture and sporting goods group, **Morkels**, reported taxed profit up 51% at R4,3m.

Fedvolks's Moolman . . . comfortable with results

Moolman underlines what he regards as the high quality of the group's earnings, and notes that it is consistently achieving a spread of income across the divisions. Last year, 62% of earnings were earned in the second half. Signs are that there will again be a rapid run-up to the end of December — but the big question relates to calender 1989, when restrictions on consumer spending and higher rates are expected to bite. Divisions such as Tek and Morkels are unlikely to evade the squeeze.

As expected, higher profits were not enough to stave off a decline in net worth per share, which tumbled from 497c on September 30 1987 — and 420c on March 31 — to 384c at year-end. This was due both to the rights issue and lower market values of investments. At 340c, the price on Tuesday stood 11,5% below net worth.

While borrowings have declined since receipt of the rights issue funds, these funds are expected to be largely absorbed on capex projects during next year. However, the projects are planned for relatively short payback periods. If all goes as planned, they should be contributing materially by 1990. For the current year, though, the forecast is for continued real growth in earnings.

Andrew McNulty

More emphasis on savings advocated

58

[illegible]

By Derek Tommey

Consumers are currently facing another rise in their bond repayments. On yesterday's announcement of a two percentage point rise in the Bank rate, home-owners could face substantially higher bond rates in months to come, but economists feel that they should also be offered higher interest on their savings.

Economists argue that one of the major problems, aggravated by the lack of foreign capital, is a shortage of savings, which will not even be alleviated if deposit rates rise substantially over the next few weeks, as expected.

If real rates of interest led to an increase in savings, it would help reduce interest rates on borrowings and help the economy to expand.

In line with this thinking, Allied Group MD, Mr Kevin de Villiers, has proposed a new deal for the small saver.

"I am confident that real rates are coming and that the small saver will at last get an inflation-beating return on his deposits with financial institutions."

Mr de Villiers said yesterday the Allied would shortly launch a savings scheme linked to the prime rate to give the small saver a much better deal.

Small savers would be paid a rate between prime less 2,5 percent and prime less three percent, depending on the time period of the deposit.

The prime rate is set to be raised today by the banks from 16 percent to 18 percent. Building societies are paying 13,25 to 13,5 percent on deposits of less than R100 000.

Mr de Villiers felt the authorities were becoming convinced of the need for real interest rates, both to curb inflation and to improve the balance of payments.

Real interest would also not harm viable businesses. With inflation at 13 to 14 percent, it means they would be facing a real rate of interest of four to eight percent, which they could afford.

Building societies and banks have more than R30 billion invested in mortgages and every one percent rise in interest rates adds an extra R300 million a year to repayments.

Mortgage rates will have risen from between 12,5 percent and 13,5 percent in January this year to 16,75 percent to 17 percent by December — a rise of 3,5 to four percent. This will increase mortgage repayments by R1 billion to R1,2 billion — roughly R100 million a month.

Massive increase in bank lending

58

Star 18/11/88

By Ann Crotty

Latest official figures from the banking community lend some support to the decision, taken earlier this month, to raise the bank rate 2 percentage points.

The BA 9 figures (which are the commercial banks' returns to the Reserve Bank) for the September quarter show that during the three months to end-September the banks' leasing and HP business soared by a massive R1,3 billion or eight percent. The year-on-year increase is an even more dramatic 30 percent, equivalent to over R4 billion.

Nedfin Bank has carried out an analysis of the figures which shows that instalment sale agreements increased from R10,5 billion in June to R11,4 billion in September.

This is an absolute increase of R863 million equivalent to 8,2 percent. Over the 12 months to end-September the figure shows a R2,3 billion or 25,3 percent increase.

The increase in lease agreements was marginally easier. These rose from R5,7 billion to R6,1 billion or 7 percent. But the increase over the 12 months was a much greater 39 percent equivalent to R1,7 billion.

SAVINGS

Nedfin's analysis also shows that total savings with the banks grew a mere 4,4 percent or R333,8 million during the September quarter.

The annual increase of 13,7 percent is in line with the inflation rate which suggests that there was no real addition to the country's savings.

As Nedfin's MD Ron Rundle points out: "These statistics underline the reasons for the authorities' current concern about the credit explosion."

Mr Rundle says that there are some signs that the demand for credit is tapering off: "We estimate that the average instalment sale and lease payout of around R700 million which the banks make every month, could decline in the first quarter of 1989."

"It is becoming evident that unless the public and private sectors curtail their spending, we will see further rises in interest rates and possibly more curbs on credit imposed by the authorities. Inevitably these moves will lead to a further increase in the inflation rate."

Bond rise fears as squeeze hits

B/day 18/11/88

(58)

GRETA STEYN

BUILDING society mortgage rates are under renewed pressure as bearish sentiment intensified in the money market yesterday to send key rates higher.

The squeeze on societies' margins is obvious from the high rates on one-year negotiable certificates of deposit (NCDs) — an important source of building society funding. They were trading between 16,80% and 17% yesterday with bond rates at an average of 17%. .

Banks' margins are in relatively good shape because of greater liquidity in the market.

Economists said inflow into the market could be due to higher government spending, and open market operations by the Reserve Bank, and did not reflect any dramatic fall in credit demand.

Bearish sentiment continues unabated in the money market with dealers assuming the Bank rate will rise again.

The 90-day liquid Bankers' Acceptance (BA) rate, marching relentlessly, has almost fully discounted another percentage point increase in Bank rate. The BA rate has gained 1,5 percentage points in four weeks and closed at a three-year high of 15,55% yesterday. The last time it was at these levels the banks' prime overdraft rate was 19,5%.

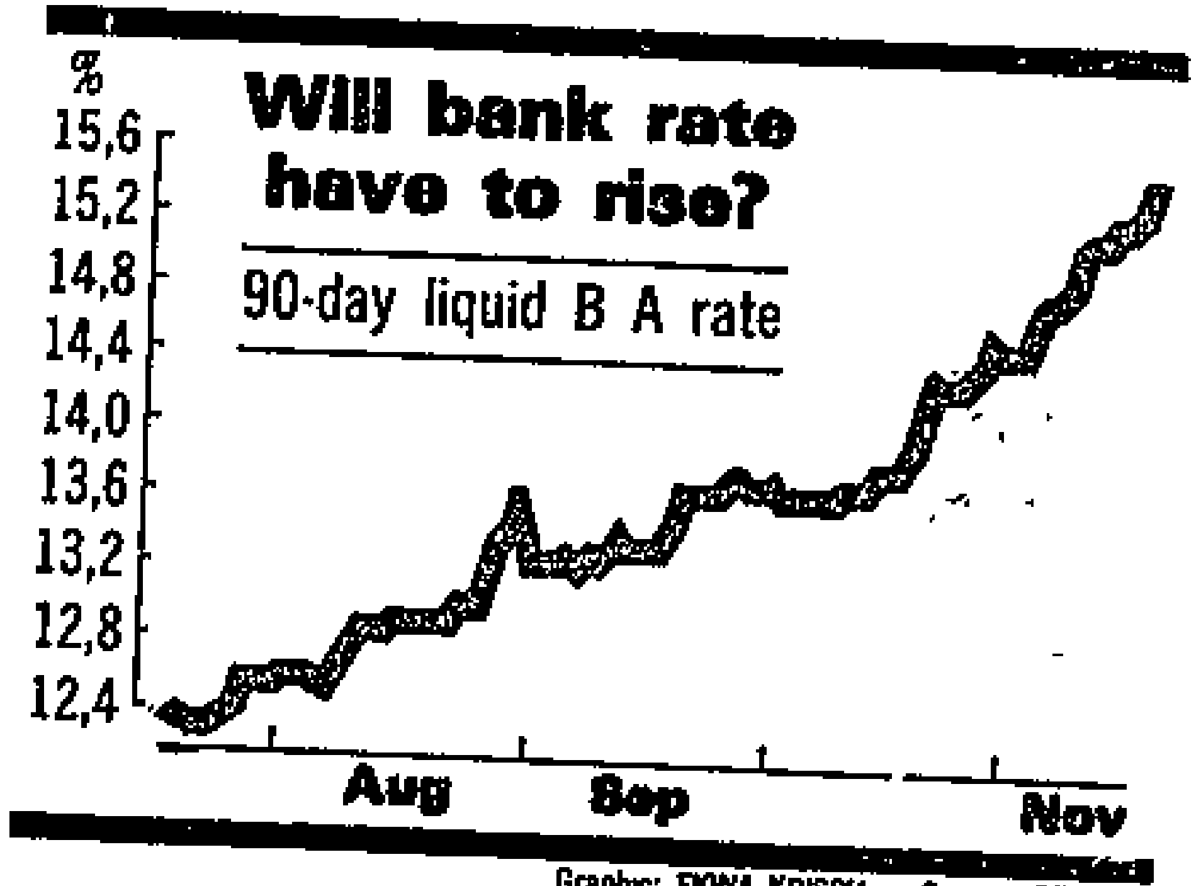
Dealers said discount houses were taking defensive action on BAs. They were raising the rate to avoid locking into lower rates now and being caught with unprofitable instruments when rates rose.

They noted the rate on blue-chip paper from the top banks, however, was lower at about 15,40%.

Adding to bearish sentiment was Finance Minister Barend du Plessis's statement that, "if government really wanted to curtail credit spending interest rate should have gone up 3% to 4%".

There is talk about another increase in Bank rate in January.

☐ GERALD REILLY reports the rate of consumer spending could precipitate another interest rate hike soon. That is the view of Volkskas economist Adam Jacobs, commenting on Central Statistical Service (CSS) latest retail sales figures.



Graphic: FIONA KRISCH Source: REUTERS

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● See Page 3.

Star 18/11/88

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Societies' bond rates likely to rise

By Sven Lünsche

Building society bond rates are likely to increase by a further percentage point to 18 percent in the new year.

This follows on the latest rise in interest rates for money market instruments, which are the most important sources of funding for financial institutions.

Building societies have already announced a one percentage point rise in their bond rates to 17 percent from December 1, but against the background of an 18 percent bond rate by major banks, could announce a further increase by January 1.

Economists say money market interest rates, like the Bankers' Acceptance rate, had already discounted a further percentage point increase in the prime rate, in additon to the recent 2 percent rise to 18 percent.

This indicates that banks' profit margins are being squeezed and it is likely that major banks and building societies will make representations to the Reserve Bank soon to ask for a further rise in general interest rates, which could lead to even higher bond rates in the first few months of 1989.

The BA rate yesterday soared to 15,55 percent, its highest level in three years and up 1,5 percentage points over the past four weeks.

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(58)

Building societies seeking common strategy with banks

Star 19\11\88

FRANK JEANS

With the banks now major players in the home loans business, the building societies are to make an unprecedented approach to them to join in a "Club for all" in which the foundation of a housing strategy can be laid.

This was announced by Mr Bob Tucker, president of the Association of Building Societies and managing director of the Perm at a Press briefing in Johannesburg yesterday.

The objective of the societies is to bring the banks into a co-ordinating body to achieve a national housing strategy and while the latter has a considerable slice of the mortgage cake, the hope is that they might well react favourably.

The banks have a 15,6 percent stake in the bond market but are comparatively newcomers to the business while the societies have a lot of "lending expertise which has been there for 100 years".

"Now that we have got over the emotional hurdle, we must realise that we are not the only ones in the mortgage market today," said Mr Tucker.

"At the same time, home lending is a complex process which has to take into account no fewer than nine different Government bodies and a minefield of legislation.

"It is for this reason that we have decided to attempt to broaden the base of the entire operation and include other lending institutions and banks in working out a strategy in the best interests of all.

"Home lending is no longer the preserve of the building societies."


Mr Bob Tucker

Mr Tucker emphasised that while the building society movement was in "very fine fettle", the proposed "club" would be representative of all the major players and that the "playing field would have to be levelled off in terms of the life offices and banks".

In his review of the Association of Building Societies, Mr Tucker, who has been re-elected president, says the societies increased their mortgage balances by R3,8 billion and the banks by R2,6 billion.

He reiterated that one of the main concerns in today's market was the fact that borrowers were over-exposing themselves to high financial commitment and he hit out at those who were "pushing credit", which is at the mercy of rising interest rates.

Referring to the constant housing backlog, particularly for the black community, he said: "Mechanisms will have to be found to make available some of the enormous capital resources of the life assurance industry for housing finance.

"The building societies are able and willing to carry the normal commercial risk of granting loans to black people. However, they cannot carry the risk of political disturbance which might impact either on the security or the repayment of the loan.

"The societies have no control over that risk and it must, therefore, be borne by the Government.

"The societies cannot, and will not, involve themselves unless they receive an economic return on their investment."

And on the question of the housing subsidy, he said many people would not be able to afford the cost of finance unless they were subsidised and that it was therefore imperative if the private sector was to play its full potential role in addressing the housing backlog, that the genuinely needy homeowner was appropriately subsidised.

Star 19/11/88

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Bank brings out a professional pack

STANDARD Bank has developed a new package, "Financial Services for Professionals".

It is amied at both well-established practitioners and the newly qualified graduates.

Services are based on Standard's existing PrestigePlan and AchieverPlan, but provide automatic access to equity purchasing, commercial bond, asset rental, assurance, call account and other commercial services.

The equity purchasing scheme provides finance for setting up a practice, buying into a firm, or for increasing a stake in a practice. The amount and rate of the loan depend on the nature of the practice.

Commercial bonds are granted for the acquisition of business premises, provided they are suitable zoned. The advance is up to two thirds of the property's value, with a minimum valuation of R120 000.

With both the commercial bond and equity purchase advances, capital reduction takes place only after five years. But with equity advances, the professional can structure the capital reduction period to suits his needs.

Another feature of the package is Stannic Finrent, providing flexi-term rental finance for vehicles, office furniture and equipment.

Other facilities include a call account, term loans and the Bank Electronic System Terminal, Standard's electronic delivery system, providing banking services and financial information in the professional's office.

The package also offers PrestigePlan and AchieverPlan features such as 100 percent home loans; exclusive guaranteed cheque facilities, credit cards, Diners Club and garage cards, leasing and instalment sale facilities, portfolio management and estate planning.

Standard Bank Assurance Brokers pitch in with life assurance for professionals.

Business Report

Cape Times 21/1/88

Tollgate moves into major league

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From ARI JACOBSON

JOHANNESBURG. — Tollgate Holdings has moved into the league of major industrial holding companies with its R64m acquisition of the Arwa Group and its significant investment in Gants.

Tollgate, ending weeks of speculation, has confirmed it will pay an effective R33m for its 25% stake in Gants, to be bought from Lougant Holdings.

Payment comprises a cash settlement of R20m and the issue of 4m Tollgate shares.

The Arwa side of the deal, which gives Tollgate a 58,5% shareholding and control, will be settled by the issue of just over 9m Tollgate shares — worth about R31m at its current market prices.

The 58,5% shareholding is currently held by the Claasen Trust, headed up by Tollgate chairman Johan Claasen.

Payment to minorities will be in the ratio of 80 Tollgate shares for every 100 Arwa held.

The increase in scrip will push Tollgate's issued shares from 24,8m to just over 37,8m.

Had the acquisition been effective for the year to December, Tollgate's net worth would have been diluted to 286c a share from 402c.

However, earnings would have risen 24,3% to 39,4c a share — assuming the R20m to Gants was funded by an 11,5% preference share.

Earnings for 1989 are expected to exceed 50c a share on its increased share capital.

Claasen says Tollgate is now soundly based with a clear direction in consumer-orientated industries.

"Group turnover will be nearing the R1bn-mark by the end of 1989 and intends becoming a major force in those industries recently entered," he adds. Although transport and property will still provide the largest chunk of future contributions to earnings at 30%, textiles (25%), food (18%), engineering (15%) and leisure and tourism (12%) provide a well-rounded industrial portfolio.

In line with this, the company is planning to transfer from transport to industrial's on the JSE.

The R33m stake in Gant's, leaves the Gant family as the controlling shareholder, while Tollgate will play a significant role in its restructuring and future direction, says Tollgate MD Hennie Diedericks.

"We always considered a substantial investment in the food-processing business a priority and attached great value to the Gant's brand name," said Diedericks.

Referring to the acquisition of Arwa, Diedericks says that like the food processing industry, the high cost of entry and the increasing reliance on locally manufactured textiles ensures a profitable and stable market in the years ahead.

"In the belief that the rand is unlikely to strengthen in the medium term, benefits will accrue to both these companies because of their export potential and the high cost of imports."

Surpluses of about R26m on fixed properties — mostly from the United Passenger Transport acquisition, will aid-sponsor the acquisitions.

Tight-lipped Trust Bank

Star 21/11/88

(58)

Bottom Line

MICHAEL MENOF

Trust Bank chairman Dr Fred du Plessis is concerned about a stagnating South Arican economy, but don't shed a tear for Trust Bank, which recorded its best year ever.

Dr du Plessis fears the economy is loaded down with too many financial institutions — presumably he wants some, including Trust Bank, to survive.

He believes this could create considerable tension within the financial sector and undermine the ability of institutions to strengthen shareholders' funds, which could destroy confidence in the financial system. He argues that the essential distinction between constructive and destructive competition must be recognised in legislation and in the formulation of government policy.

Trust Bank's results are sparkling and the only criticism is the lack of disclosure, which is at the bare minimum. Full advantage has been taken of certain exemptions allowed to banking institutions by the 1973 Companies Act.

Bad debts have decreased, while debt collections have been successful. In line with long-term strategy, hotel interests were offloaded in the year — a wise decision since air fares, calculated in dollars, are set to rise between 30 and 50 percent, based on recent US predictions that the dollar would decline 20 to 30 percent against the yen and Deutschemark. Tourism will then suffer further.

Trust Bank was easily able to cope with new capital rquirements in terms of the Bank Act — the 80 percent capital adequacy required by end-December 1988 was achieved at end-June 1988.

Unlike rivals First National, Standard and Nedbank, which disclose important income statement items such as interest received, interest paid, bad debts written off and provided for, Trust Bank featured a mere one-line item: "Net income after tax and transfer to contingency reserves attributable to shareholders was R57,72 million (1987: R47,82 million)."

Earnings per share were 43,4c (1987: 36c) and the dividend was raised to 12c (1987: 10,5c).

The amount transferred to the contingency reserve and movements thereon, income from associated companies, information regarding investments, debentures, fixed assets and turnover were left out.

Hotel interests were radically cut after the Capetonian Hotel and premises were sold in the previous year. The Heerengracht was closed down and the Ritz Plaza and premises disposed of.

In early 1988 the Protea Gardens Hotel, Johannesburg, negotiated a new management contract and now shows a modest profit.

Profits or losses on these disposals were omitted. In note 8 to the financial statements, major changes in investments took place.

Listed investments were acquired for R1,98 million (1987: nil) — no names are discloed. More significantly, unlisted investments increased to R169,95 million (1987: R75,46 million) — again no details.

The results of subsidiaries acquired or disposed of were also buried.

MD Dr Chris van Wyk can be proud of Trust Bank's achievement as it now has banking relationships with 71 percent of the *Financial Mail's* Top 100 companies and primary banking relationships with 37 percent.

The group services 30 percent of the companies on the JSE's main board (excluding mining) and has a primary banking relationship with 17 percent.

There is little doubt that with Trust Bank featuring as Sanlam's financial arm it has the muscle to market from a sound base. Poor service would certainly not have produced such phenomenal growth — total assets of R3,78 billion in 1983, now R13,53 billion, advances of R2,64 billion in 1983, now R8,58 billion a mere six years later.

However, net income of R37,33 million in 1983 grew to only R57,72 million in 1988, indicating stagnation.

Employees, numbering 7 600 in 1983, have fallen to 7 448. Shareholders' interest has grown to R331,64 million (1987: R289,87 million). By end-June 1988 the net asset value increased to 249,6c a share (1987: 218,1c).

Strangely, the JSE price during the year to June 1988 fluctuated between R1,65 and R2,20 and is now R1,70.

But why is the market under-rating Trust Bank, considering that dividends have been paid for the last four years. Could poor disclosure be a handicap?

Sanlam sees a ray of light at end of tunnel

Finance Staff

58

Sanlam says growth will dip next year and that the financial situation will remain tight until about the middle of the year.

But it says in its latest economic survey that there is a brighter side.

Chief economist, Mr Johan Louw, says most of the leading industrial countries should experience a lower growth rate in 1989. A growth recession, not a serious recession, is in prospect.

As far as South Africa is concerned, the emphasis of the Government's economic policy will probably continue to fall on restricting total domestic spending — particularly private consumer spending — and protecting the balance of payments up to at least the middle of 1989. The Budget could be mildly restrictive.

The salary adjustments in the public sector could create a tight financial position for the Government. "In fact, we think that there is a good chance indirect taxes will have to be increased. It will require very strong discipline in respect of government expenditure to limit the deficit before borrowing to five percent of gross domestic product — and even this is substantially higher than the Government's target of three percent."

The Government will no doubt ensure that the rand is not over-valued in order to strengthen the current account of the balance of payments. At the same time, the Government would obviously not like the external value of the rand to depreciate too much, since that would make the fight against inflation even more difficult, Sanlam says.

The expected poorish performance of the dollar should facilitate the pursuit of this goal.

Mr Louw feels the economy has already entered the first stage of a downturn and that activity in 1989 will slow down even further.

"For 1989, we foresee an average real economic growth rate of one to 1,5 percent".

The slowdown could last until well into 1990. This does not augur well for employment and the unemployment problem.

While several factors could exert considerable upward pressure on the inflation rate in 1989 — the sharp depreciation of the rand, more costly house bonds, higher finance costs and higher fuel prices — Mr Louw says the influence of most of these factors should wane in the second half of 1989. This could lead to a gradual decrease in inflation.

The average increase in the consumer price index for the year is nevertheless estimated to be more than 15 per cent.

"It is alarming that despite a phase of perceptibly slower growth, South Africa continues to be saddled with unacceptably high inflation.

"The general financial situation should remain tight until the second quarter of 1989, but we expect conditions then to ease."

Mr Louw feels commercial and industrial companies will experience less favourable business conditions and lower profit increases in 1989. The expected fall in interest rates in the second half of 1989 could have a positive effect on company profits, he says.

21/11/88

Flow to assurers labelled unfair

B/Day

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GRETA STEYN

BUILDING societies are concerned about the massive flow of personal savings to the life assurers, saying it is unfair to societies and banks.

That is the word from SA Perm MD Bob Tucker, who has just been re-elected president of the Association of Building Societies.

He said at the weekend the housing crisis had made it imperative to correct the distortion in the flow of funds.

"We have two concerns with regard to the life assurers. Firstly, the playing fields should be levelled to correct the imbalance of funds between the life assurers and other financial intermediaries. Secondly, mechanisms must be found to mobilise the funds at the life assurers' disposal for housing."

Distortions could be corrected by changing the life offices' tax system — or accepting that interest rates would have to be higher in real terms to attract savings.

Tucker also said the association, with its primary concern housing, would invite the banks to become members.

☐ ZILLA EFRAT reports spokesmen for the major banks said they could not comment on Tucker's proposal until they had studied the details.

Missing millions

C/T Times 22/11/88

58

Evidence in Ciskei probe

Own Correspondent

PRETORIA. — Several prominent organisations — including the SA Vrouefederasie, the National Union of Mineworkers, Iscor and the Public Servants' Association — may have lost millions of rands invested in the Ciskei-registered Euro Bank and/or Euro Trust, the Harms Commission heard here yesterday.

The organisations are among at least 600 investors who have sunk an estimated R150m into the bank.

In evidence before the commission yesterday it was heard that the SA Vrouefederasie (SAVF) had been urged to invest in Euro Bank by a Dr Fritz Hölseher.

He told them Pretoria attorney Mr Albert Vermaas has been doing this for 20 years. He said that after an investigation the Euro Bank had been approved by the SA Reserve Bank, the commission heard.

The SAVF subsequently invested more than R500 000.

Reserve Bank registrar of banks and building societies Dr Chris de Swardt denied there had been an investigation or that the Reserve Bank had approved Euro Bank.

A Reserve Bank official told the commission that it had on two occasions ordered Euro Bank to cease trading as it was believed the bank was contravening the Bank Act. This had not been complied with.

The official said he suspected the bank was run as a "Kubus-type" operation.

The commission is investigating possible illegalities or irregularities relating to the activities of Euro Bank, Euro Trust, First Ciskei Bank, Euro Bank Investments and Euro Bond.

Last Monday police raided the offices of Mr Vermaas, a major shareholder of Euro Trust, and seized from his Sanlam Plaza offices documents relating to the day-to-day operations of Euro Trust and Euro Bank.

Mr Vermaas has the controlling interest in Euro Trust and he funds Euro Bank. According to Euro Bank documents seized and read before the commission, all deposits received by the bank were transferred immediately to Euro Trust.

The publication of an article on November 4 in Finansies and Tegniek in which judge's wife Mrs Dorothy Spoelstra claimed to be getting up to 40% interest — payable monthly in advance — on monies invested in Euro

To page 2

Strand courie
shot dead

A 24-YEAR-OLD Strand courier shot dead yesterday afternoon wl his car was forced off the road R66 000 stolen.

A Boland police liaison offi Captain Gys Boonzaaier, said Gladman Damayi, of the Lwan Hostal, Strand, was on his way fı the Strand to deposit the money.

Mr Damayi's green Toyota Cor was forced off the road by two me a blue Ford Cortina near the new turn-off between Strand and Som set West.

The men approached Mr Dam and shot him in his side while he still in the car. Mr Damayi jum out of the car and ran about 1 before he collapsed and died.

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From page 1

Bank for a year, spurred the commission to action.

In a statement, Mrs Spoelstra said she had heard from friends that Mr Vermaas was "very good" at investing money.

She subsequently became an agent for Euro Bank, earning 4% commission for introducing new investors.

Dr De Swardt said activites of the Euro Bank came to his attention for the first time in August last year.

He had asked Mr Vermaas to stop collecting investments in SA for Euro Bank because it was in contravention of the Bank Act — the bank was not registered in SA.

Mr Vermaas promised at least twice to stop collecting money for investment, but continued to do so, Dr De Swardt said.

Late last year Mr Vermaas promised that all outstanding deposits would be settled by January 1988.

But last Wednesday, two days after police had seized his books, Mr Vermaas collected a Euro Bank investment said to be in excess of R200 000, Dr De Swardt said.

SA Reserve Bank financial manager Mr Jan van Greuning said in a statement that a quick audit of the books showed there was R146 million outstanding in deposits, exluding interest payable monthly at about 40% Mr Vermaas's records, however, show his net assets to be R123m.

"The assets of these companies appear to be the main counterpart of the liabilities to the public," he said.

Mr Van Greuning stressed that the figures would need to be verified by a complete audit.

A preliminary look at documents seized show the National Union of Mineworkers had invested at least R2 million, as had Iscor and the Noordelike Group.

The SOS Children's Villages had invested at least R9,2 million and Sentra-Oes more than R6 million.

The Public Servants' Association had invested R5 million, due with interest on November 30.

But Dr De Swardt said that in his opinion it would not be possible for Euro Bank to repay the investment.

The commission heard that the directors of Euro Bank were Pretoria advocate Mr Eugene Berg, Lord Anthony St John, a former UCT student, Pretoria advocate Dr H Woudstra, Professor Andries Oelofse, a Unisa law professor, Mr W G Haese, Ciskeian cabinet minister Mr R S T Mabona and S S Guzana.

CAPE TIMES 22/11/88

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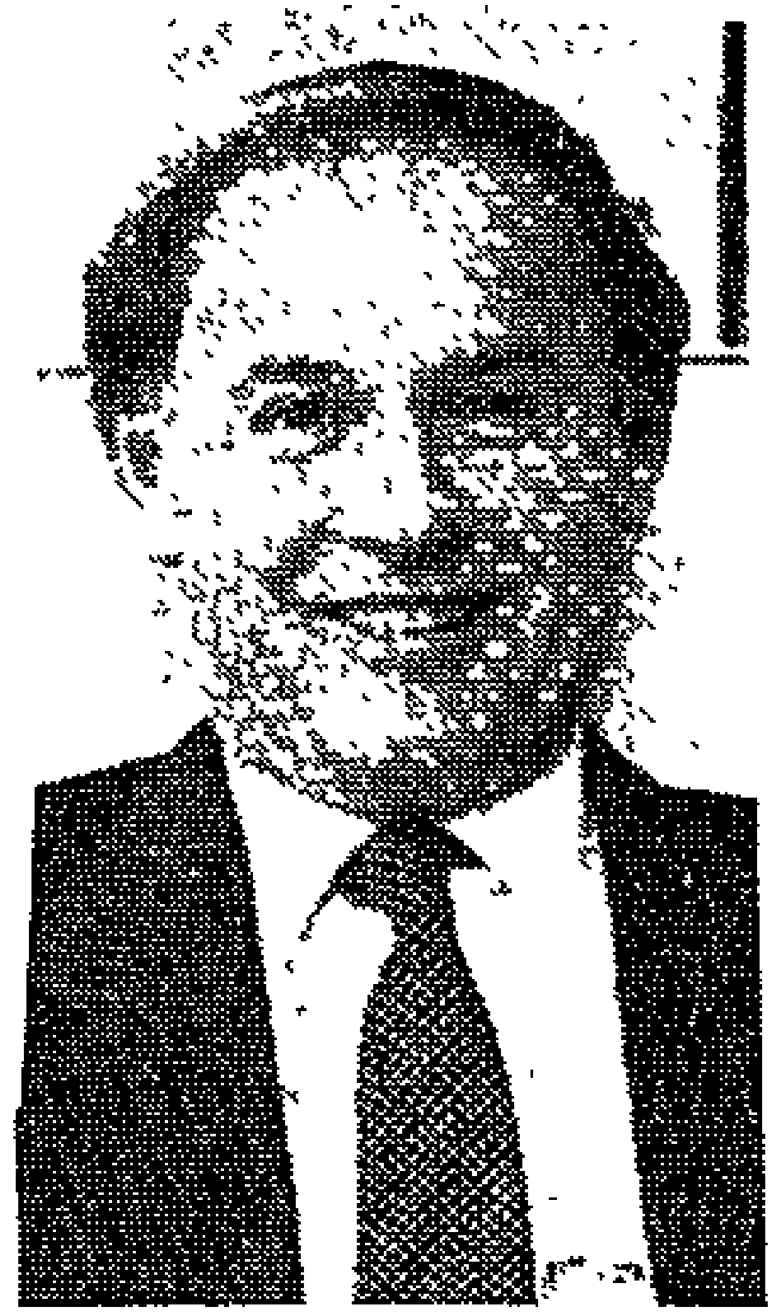
Companies take over R1bn foreign debt



D A "Buddy" Hawton, deputy client executive of Safmarine and Rennies Holdings, has joined the board of Standard Bank of SA.

From GRETA STEYN

JOHANNESBURG. — SA companies used more than $1bn in foreign finance this year by taking over debt caught in the standstill net from the Public Investment Commissioners (PIC).

As a result, SA's gross reserves declined sharply as importers switched to standstill funds rather than use foreign credit lines.

This was disclosed by Reserve Bank Governor Gerhard de Kock in an interview yesterday.

The development, which explained the surprisingly large capital outflows in the third quarter of this year, had not been immediately apparent.

De Kock said: "In principle, it is preferable for the private sector to hold the foreign debt rather than the PIC. But unfortunately, extensive use of this form of foreign finance put severe downward pressure on the reserves."

As overseas interest rates started climbing in June, SA companies with overseas credit lines preferred to repay foreign trade credit rather than roll over the debt.

Instead of using fresh foreign credit at relatively high rates, the companies chose to use the standstill funds held by the PIC.

The interest on debt inside the net was determined at the time of the standstill agreement. It worked out cheaper to use this form of finance rather than fresh foreign credit, which had the cost of forward cover added to a relatively high interest charge.

"We lost foreign exchange when SA companies settled overseas credits. Obviously, when they took over debt inside the net there was no question of new currency flowing in.

"While this is a healthy development, the only snag is that it leaves the Reserve Bank short of foreign exchange," De Kock said.

"The story behind the R2,4bn outflow in the third quarter of this year lies to a large extent in the interest rate differential between SA and the major industrial countries. It is good news in the sense that it means the loss of capital was not capital flight — it is only temporary."

After the debt standstill, any company wanting to settle foreign debt had to pay the foreign currency to the PIC, which took over the foreign liability and paid the interest. Those funds have always been available to private sector borrowers but were not in demand when the economy was still sluggish.

Eurobank: Civil servant body R2,4-m in the red

Argus 23/11/88 58

The Argus Correspondent

PRETORIA. — The Public Servants Association (PSA), which represents 65 000 public servants, is R2,4-million in the red after taking an overdraught from Trust Bank for a short-term investment scheme in the Ciskeian-registered Eurobank.

The chief manager of finances at the PSA, Mr Johannes Potgieter, yesterday told the Harms Commission, which is investigating the bank, that the PSA had invested R5-million in Eurobank on September 29, 1988. The first payment of R1-million was made two weeks after the founding of the bank in June 1988.

The investment was for 60 days, and would have expired on November 30, 1988.

The PSA is one of 600 investors who deposited an estimated R150-million with the bank. The investments were accepted in possible contravention of the Banks Act.

The Harms Commission is inquiring into possible illegalities or irregularities relating to Eurobank Ltd, Eurotrust (Ciskei) (Pty) Ltd, First Ciskei Bank Ltd, Eurobank Investment (Pty) Ltd, and Eurobond (Pty) Ltd.

A Pretoria attorney and businessman, Mr W A Vermaas, has been named as the man in the centre of the financial deposit affair.

Mr Potgieter told the Commission that between R2-million and R3-million was received from members annually. R2-million of this money was part of the investment.

Also in evidence yesterday, Brigadier J Hulme of the SAP's Commercial Branch said he went to Mr Vermaas's offices in Sanlam Plaza, Pretoria, on November 12.

Mr Vermaas told him that he invested money from people in the highest circles and reassured the policeman that he had no agents or paid no commissions to anyone.

Mr Vermaas told Brigadier Hulme that should police continue to inquire and interview people who brought investments, he (Mr Vermaas) would have to reconsider his position with regard to matters of a senstive nature like "sanctions-busting".

Brigadier Hulme said he had contacted the senior deputy general manager of Sentra-Oes, Dr van Rooyen, in Ficksburg, earlier this week. Dr van Rooyen said that in February and March this year a Mr Boet Coetzee and Mr Fanie Fourie spoke to him at his office about the investments.

He was informed that Reef Acceptance was controlled by Mr Vermaas and that Mr Vermaas was acting as a mediator to bypass sanctions.

Dr Van Rooyen was also told that Mr Vermaas had contacts overseas, including in the arms industry; and that Eurotrust had been formed to handle the funds of Reef Acceptances.

R4-million was invested by Sentra-Oes and later another R4-million.

PSA in the red after investing in Eurobank

Cape Times 23/11/88 (58

PRETORIA. — The Public Servants' Association, which represents 65 000 public servants, is R2,4 million in the red after taking an overdraft from Trust Bank for a short-term investment scheme in the Ciskeian-registered Eurobank, currently under investigation by the Harms Commission here.

The chief manager of finances at the PSA, Mr Johannes Potgieter, told the Commission yesterday that the PSA had invested R5 million in Eurobank on September 29, 1988 — the first payment of R1 million was made two weeks after the founding of the bank in June 1988.

The investment was for 60 days and would have expired on November 30, 1988.

Until last week the directors of the PSA were not aware of the investment, Mr Potgieter told the Commission.

The PSA is one of 600 investors who deposited an estimated R150 million with the bank. The investments were accepted in possible contravention of the Banks Act. The Harms Commission is inquiring into possible illegalities or irregularities relating to Eurobank Ltd, Eurotrust (Ciskei) (Pty) Ltd, First Ciskei Bank Ltd, Eurobank Investment (Pty) Ltd and Eurobond (Pty) Ltd.

A Pretoria attorney and businessman, Mr W A Vermaas, has been named as the man in the centre of the financial deposit scam — the biggest yet in SA history.

Mr Potgieter told the Commission that between R2 million and R3 million was received from members annually. R2 million of this money was part of the investment. Mr Potgieter says he was approached by a Eurobank agent, Mr Fanie Fourie, on June 29 this year.

He said he was satisfied with the guarantee that Eurobank was a registered bank and at the same time had a guarantee from Mr Vermaas. Mr Potgieter said he was also impressed with the favourable interest rates, which stood at between 40 and 60%. — Sapa

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Record Results for Santam Insurance

Financial Staff

A sharp fall in the number of claims, and improved investment income, helped Cape Town-based Santam Insurance to achieve record profits for the year to September 30.

After-tax profit rose by 33% to R38,8m (R29,1m), equal to earnings of 55,4c (41,5c) a share.

The total dividend for the year rose to 18c (15c) a share, covered 3,1 times by earnings.

Pre-tax investment income rose to R38,1m (R26,9m) and the underwriting profit before tax to R23,3m (R20,3m).

This was achieved on a modest rise in gross premium income to R661,8m (R642,6m) and net premium income to R599,7m (R577,1m).

The directors explain that the low rise was due partly to a freeze on premiums and partly to a decision not to carry on with some personal group scheme business worth about R60m in premium income.

"It was considered prudent to relinquish this unprofitable business when agreement on acceptable premium levels could not be reached."

MD C J "Oosie" Oosthuizen said the improved underwriting result was due to a sharp decline in the number of claims resulting from crime during the year.

"In the motor portfolio, which includes losses from theft as well as accident repairs, claims fell by 20% to 98 500 from 123 000 the previous year.

"As far as stolen motor vehicles including motor cycles are concerned, claims in respect of theft fell by 35% to 3 389.

"This is still disconcertingly high but at least there is evidence that the crime rate has declined.

"The same applies to burglary claims. In the case of Santam Insurance these are down by one-third to 26 000 from 39 000."

Santam was not involved in any major fire claims and the incidence of natural disasters was low.

Shareholders stay

Sharp fall in claims boosts Santam Insurance profits

Star 23/11/88

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Finance Staff

A sharp fall in the incidence of claims and improved investment income resulted in record profits for Santam Insurance which has increased its total dividend distribution to 18c (15c) a share for the full financial year.

The preliminary profit announcement shows that the after-tax profit for the year to end-September 1988 increased by 33 percent to R38,8 million, up from R29,1 million in the previous financial year. This is equal to earnings of 55,4c a share (41,5c a share). The dividend of 18c is covered 3,1 times.

Pre-tax investment income rose to R38,1 million (R26,9 million) while the underwriting profit before tax increased to R23,3 million from R20,3 million in the previous year.

Commenting,managing directorr Mr Oosie Oosthuizen says there was a sharp decline in the crime rate during the year.

"In the motor portfolio, thefts as well as accidents, claims fell from 123 000 to 98 500, a decline of about 20 percent. As far as stolen motor vehicles are concerned claims in respect of theft fell by 35 percent to 3 389. This is still disconcertingly high, but at least there is evidence that the crime rate is declining.

"The same applies to burglary claims — in the case of Santam Insurance these are down by one-third from 39 000 to 26 000," he said.

The company was not involved in any major fire claims and the incidence of natural disasters was low.

Gross premium income rose modestly to R668,1 million (R642,6 million) and net premium income to R599,7 million (R577,1 million).

This was due firstly to the freeze on premiums and secondly to the loss of certain personal group scheme business worth about R60 million in premium income.

It was considered prudent to relinquish this unprofitable business when agreement on acceptable premium levels could not be reached.

Insurance funds increased to R311,5 million from R221,5 million a year ago and Mr Oosthuizen said the company already complied with all the reserve requirements as proposed in the report of the Melamet Commission of Inquiry.

Southern's new unit trusts ahead of target

Star 23/11/88

58

By Sven Forssman

Southern Life's new Equity and Mining unit trust funds have performed beyond expectations since their inception two months to go — with one month of the first quarter still to go, R10,1 million worth of units have already been purchased.

Mr Carel de Ridder, chief executive of Southern Unit Trust Management Company (Sutco), said yesterday that the group had budgeted on a maximum of R10 million worth of units being purchased in the first quarter.

"We are 80 percent invested in both funds and the emphasis — as is the case with most funds — is on rand hedge stocks. We have attached special importance to platinum shares and companies deriving their income from overseas like Richemont."

Mr de Ridder said he expected the market to firm slightly over the next two months and saw good value in mining financials.

R150m fraud probe told . . .

Bank took money after books seized

B/day 23/11/88

MANDY JEAN WOODS

THE Harms Commission, investigating possible bank fraud in the Ciskei-registered Eurobank, Eurotrust and Eurobond companies, heard yesterday Pretoria attorney Albert Vermaas had accepted investments even after his companies' books had been seized.

An agent testified she had made a deposit last Friday, and on Monday had introduced Vermaas to a client who wanted to invest R5m in Eurobank.

THE Reserve Bank's Chris de Swardt said last night Albert Vermaas's investment schemes, not his accounts, had been frozen, BRONWYN ADAMS reports.

Hennie van Greuning, who is leading the Reserve Bank inspection, said this meant the companies could continue with normal business operations but all non-routine activities had been stopped in order to protect investors.

The Reserve Bank brought an urgent interdict in the Pretoria Supreme Court on Monday night to prevent Vermaas, Eurobank, Eurotrust or Verco from accepting investments from the public.

Reserve Bank inspector Hennie van Greuning said unaudited figures showed the net asset value of Verco, the holding company for Vermaas's 28 companies (including Eurobank and Eurotrust), was R129,9m on September 30 this year.

Of this, R109m was invested in a recently established company, Chieftain Airlines, almost totally owned by Vermaas. The bulk of Chieftain's assets were represented by aircraft.

● VERMAAS

Van Greuning said Vermaas could not have serviced interest on deposits of R150m without more deposits or roll-overs, and he must certainly have known this.

As of last Friday, there was R150,1m in outstanding deposits. If none of these investments were rolled over this week, then capital amounts due — excluding interest — would be R30,6m this week and R70,7m by mid-April.

He stressed this did not include investments made during the past two weeks.

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Civil servants 'R2,4m in red' after Ciskei investment

PRETORIA — The Public Servants' Association (PSA) is R2,4m in the red after taking an overdraft from Trust Bank for a short-term investment in the Ciskei-registered Eurobank, now under investigation by the Harms Commission.

PSA chief manager of finances Johannes Potgieter told the commission yesterday the PSA (which represents 65 000 civil servants) had invested R5m in Eurobank on September 29 — the first payment of R1m was made two weeks after the founding of the bank in June.

The investment was for 60 days and would have expired on November 30.

Until last week, PSA directors were unaware of the investment, he said.

The PSA is one of 600 investors who deposited about R150m with the bank.

Well-known Pretoria attorney and businessman W A Vermaas has been named as the man at the centre of the alleged financial deposit scam.

Potgieter said he was approached by Eurobank agent Fanie Fourie on June 29 this year.

"We were interested in short-term investments and he proposed an investment in Eurobank. I managed to establish that the bank was under the protection of the government of Ciskei, a factor which was reassuring when placing the investment," he said.

Potgieter said he was also impressed with the favourable interest rates, which stood at between 40% and 60%.

☐ EDYTH BULBRING reports two organisations named as major investors — Iscor and Sentraboer — said yesterday they had suffered no losses.

Vermaas, who is alleged to have channelled money from Eurotrust through his own account to the Verco Group of companies he controlled, was said by a family member to be unavailable to speak to the Press last night. — Sapa.

'Eurobank took money after books seized'

B/day 23/11/88

● From Page 1

Van Greuning said the R129,9m asset value for Verco may change after a proper audit of the books because of wide discrepancies in values put on the companies by Vermaas and the Reserve Bank.

"For example, Vermaas estimated one mining company at R30m. We estimated its value at R21 000. We estimated another company to be worth R4,6m but a 1985 appraiser certificate we found among the documents puts land owned by the company at R8,8m," Van Greuning said.

The only accounting records kept for Eurotrust were six diaries that listed names of investors and the dates and amounts due, he said.

It appeared most of the funds went through Vermaas's loan account and into the Verco group — about R77,8m went through his personal loan account from March to September this year. The cumulative loan accounts in the Verco companies totalled R128,7m.

Most investors apparently rolled over their investments, he said. The main sources of the funding for Eurotrust and Eurobank were the investment schemes.

The Star
Finance

Southern shrugs off higher insurance tax

Star 24/11/88 S8

By Sven Forssman

The 75 percent increase in life assurance companies' tax rates has not had the dramatic effect on Southern Life's results for the six months to September 30 that the market was expecting.

In fact, its earnings of 22,5c a share were slightly ahead of market expectations.

Analysts had estimated earnings in the region of 20c a share.

Total income rose 12 percent — R103 million to R963 million — which consisted of premium income of R641 million and investment revenue of R322 million.

Recurring new business production for the six months increased by 27 percent.

A dividend of 15,6c (13c) has been declared.

Chairman and chief executive Mr Neal Chapman says Southern continued its practice of setting the interim dividend and earnings at 50 percent of the preceding year's total.

But, because of the 75 percent increase in the tax rate, the taxed surplus has been reduced by an appropriate provision.

Mr Chapman concedes, however, that the increased tax rate has not had a dramatic effect on results.

"The tax rate hike was a hefty one and we had to make some provision, but we are pleased with the results," he says.

Mr Chapman says that in the absence of unforeseen factors arising over the remainder of the financial year, the taxed surplus and dividends per share should show satisfactory increases over those of the previous year.

"However a further provision in respect of the tax increase will affect the rate of growth of taxed surplus and the rate of growth in dividends is expected to be affected accordingly."

Substantial increase

Southern's total assets have grown 12 percent (R937 million) since the March year-end to R8,8 billion.

This is a substantial increase, considering Southern's total assets showed growth of only 1,3 percent between the year-end in 1987 and the year-end in 1988 (from R7,7 billion to R7,8 billion).

Mr Chapman says Southern Life's investment portfolio has made a strong comeback since the October crash last year and the subsequent fall in market prices in January and February this year.

"This is indicated by the fact that since the March year-end the company has built up unrealised investment surpluses of more than R400 million arising from the valuation of assets at market value."

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Cape Times, Thursday, November 24, 1988 3

'R4,8m withdrawal': Bank official 'fired'

PRETORIA. — The activities of yet another Pretoria legal officer, Dr Eugene Berg, and his involvement with Eurobank Ltd, have come under the spotlight at the Harms Commission sitting here.

Dr Berg, an advocate, was removed as managing director and chairman of the board of directors of Eurobank Ltd in Ciskei yesterday after it was found that he withdrew R4,8 million from the Standard Bank in Bisho without the permission of the Registrar of Banks in Ciskei.

The money had been deposited in Standard Bank on instruction of the registrar — a condition which preceded the issuing of the banking licence for Eurobank.

The money had been invested with Eurotrust, according to a balance sheet of Eurobank.

This was disclosed to Mr Justice Harms in a statement by the manager of Eurobank Ltd, Mr John Smuts, who is expected to testify before the commission this week.

The evidence submitted yesterday added a new twist to the inquiry into Eurobank, Eurobond, Eurotrust and the activities of a Pretoria attorney Mr Albertus Vermaas and the Verco-group of companies.

In a statement read to the commission, Mr Smuts denied any knowledge of the bank's operations in South Africa.

Eurobank scandal shocks peer

By SYBRAND MOSTERT

A PROMINENT former Capetonian and British Peer of the Realm — named by the Harms Commission as a director of the controversial Eurobank — says he is "devastated" by the disclosure of alleged irregularities uncovered by the commission.

"I only heard of the commission's findings on the weekend, and in response I have resigned," Lord Anthony St John said from his London stockbroking office yesterday.

"I have been placed in an invidious position," he said.

The Harms Commission was launched by President P W Botha to investigate inter-state financial irregularities, and its terms were later broadened to specifically investigate the activities of Eurobank and several subsidiary firms.

The commission has found that millions have apparently gone missing from the Ciskei-based bank in what officials suspect was a "kubus-type" operation.

Anthony Tudor Lord St John of Bletso, who lived in Kalk Bay before leaving for London two years ago, was named as a director of Eurobank with five others on Monday.

his next stroke. Report, back page Picture: ALA

Bid to fly out planes foiled, Harms told

CNC- Times 24/11/88

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Own Correspondent

JOHANNESBURG. — Police averted attempts to fly secretly three Chieftain Air aircraft — estimated to be worth R5m — out of the country in contravention of a Pretoria Supreme Court interdict granted on Monday night, the Harms Commission heard yesterday.

The temprorary interdict brought by the Reserve Bank prohibited assets of Ciskeian-registered Eurobank and Eurotrust (both under investigation by the Harms Commission), Verco and Pretoria attorney Mr Albert Vermaas from leaving SA.

Chieftain Aviations Holdings is a wholly owned subsidiary of Verco which in turn is wholly owned by Mr Vermaas, whose companies are currently being investigated for fraud by the commission.

Harms Commission member Brigadier Nollie Hulmes read the commission a statement of a witness — who by order of commissioner Mr Justice Louis Harms may not be identified — taken late on Tuesday night.

The witness described a series of events which, she said, amounted to attempts to remove the aircraft from SA.

The three aircraft — a Lockheed Jetstar and two King aircraft — constitute the main assets of Chieftain Air. The fledgling airline also has three Cess-

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nas, a Beech Baron and a Caribou freight [illegible]

A Reserve Bank official testified yesterday that of the R129,9 million assets claimed by Vermaas for his companies, R109 million was invested in Chieftain Air and that if the aircraft were purchased overseas, investors' funds are overseas.

Travel clearance for two of the aircraft was requested and granted for travel to Harare. However, they both flew to Namibia — one to Windhoek and one to Grootfontein — whose airspace is a restricted military area — where they were subsequently detained by Namibian police.

Brig Hulme said information received indicated that the two aircraft were en route to Geneva, Switzerland. A third aircraft was prevented from leaving its Lanseria Airport base.

Police are keeping a check on five other aircraft controlled by Chieftain. One of the aircraft is at Jan Smuts Airport, while the remaining four are at Lanseria.

The commission also issued a subpoena for an American from Tulsa, Oklahoma, Mr Chuck Ritterberry, whom the secret witness described as being a partner in Mr Vermaas's off-shore company called Deutsche Aviation Incorporated, to testify before the commission.

Mr Ritterberry was allegedly scheduled to leave last night but a check by police of Jan Smuts Airport and his luxury Johannesburg hotel was fruitless. Police are now looking for him.

(58) B\day 24/11/88.

Police prevented alleged 'flit flight'

A Reserve Bank official testified yesterday that of the R129,9m assets claimed by Vermaas for his companies, R109m was invested in Chieftain Air and if the aircraft were purchased overseas investors monies would also be overseas.

The temporary interdict brought by the Reserve Bank prohibited assets of Ciskeian-registered Eurobank and Eurotrust (both under investigation by the commission), Verco and Pretoria attorney Albert Vermaas from leaving SA. Chieftain Aviation Holdings is a wholly owned subsidiary of Verco which is wholly owned by Vermaas, whose companies are being investigated for fraud by the commission.

Commission member Brigadier Nol-

MANDY JEAN WOODS

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Giant insurance merger

S8 B/day 24/11/88

KAY TURVEY

LIFEGRO is to become a wholly owned subsidiary of sister company Momentum Life, which is to be listed on the JSE early next year.

The move, announced by the Lifegro board yesterday, is part of the planned rationalisation of Rembrandt's insurance interests and follows months of investigation and market speculation.

UBS Insurance will not be included in the rationalisation at this stage.

Lifegro will be de-listed and its insurance business transferred to Momentum Life, which will acquire the entire issued share capital of Lifegro in exchange for new ordinary shares in Momentum.

The acquisition is to be implemented by a scheme of arrangement and values Momentum shares — to be split on a 10 for one basis beforehand — at R21 each and Lifegro shares at 200c. Lifegro was suspended at a low of 190c earlier this month. Taking the split into account, 95 new Momentum shares will be issued for every 100 Lifegro shares held.

Research concluded that changes in the competitive environment had made it necessary for Lifegro to reposition itself strategically. In particular, the infrastructure for acquiring and administering individual life business had affected Lifegro's profitability, says a Volkskas Merchant Bank announcement

● To Page 2

Lifegro and Momentum to join forces

24/11/88 S8 B/day

● From Page 1

published today.

Lifegro's board concluded restructuring of Lifegro on its own was not viable and "its activities should be rationalised with those of a well-run assurer".

The need to strengthen Lifegro's competitiveness was first highlighted in May when action was taken to address its management and operating problems, starting with the appointment of Blignaut Gouws, then MD of Momentum, as MD of Lifegro.

Gouws, commenting on the merger, said the enhanced company would make considerable cost savings and synergistic benefits would be vast.

He said the change was endorsed by the Rembrandt and Volkskas groups.

Remgro and Volkskas, which each held a 30% interest in Momentum, on Monday acquired in equal shares the balance of Momentum's shares.

Investments 'make strong comeback'

CMt Times 24/11/88 58

Southern lifts income and div

By AUDREY D'ANGELO
Financial Editor

SOUTHERN LIFE lifted its total income by R103m to R963m in the six months to September 30, and the interim dividend is 20% higher at 15,6c a share.

Disclosed earnings on the increased issued share capital have risen by 15,4% to 22,5c per share.

Premium income was R641m and investment income R322m. Recurring new business has grown by 27% in the six months and total assets have increased by R937m since the end of the financial year in March, to R8 750m.

Announcing this yesterday, CE Neal Chapman said the Southern's investments had "made a strong comeback" after the Johannesburg Stock Exchange crash in October last year and the subsequent fall in the market.

"This is indicated by the fact that since year-end the company has built up unrealized investment surpluses of more than R440m arising from the valuation of assets at market value."

He forecast that, "in the absence of unforeseen factors, and taking into account the impact of the 75% tax increase which will affect both the final taxed surplus and dividends, the current year taxed surplus and dividends per share are expected to show satisfactory increases."

Executive director (investments) Jan Calitz said the downward movement of the share market in July and August had been followed by a strong upward move in September and October. A consolidation phase might be experienced in the short term before the market resumed an upward trend.

Although it was drifting and could go lower "we see a firmer undertone."

Calitz said the Southern was adopting "a cautious stance" over property investment. Demand was strong now but could move into a downward phase in 1989.

"We are happy with the property exposure we have got but we are not increasing it."

Calitz said the two unit trusts launched by Southern last month had attracted more than R10m worth of investments.

"We already have some 4 000 unitholders, many of whom have also opted for monthly investment plans."

Chairman removed from Eurobank [illegible]

The Argus Correspondent

PRETORIA. — The activities of a [illegible] Pretoria legal officer, Dr Eugene [illegible] involvement with Eurobank have [illegible] the spotlight in the Harms Commission [illegible]ry here.

Dr Berg, an advocate, was yesterday [illegible] as managing director and chairman [illegible] of directors of Eurobank in Ciskei [illegible] found that he withdrew R4,8-million fr[illegible] dard Bank in Bisho without the per[illegible] registrar of banks in Ciskei

The money had been deposited [illegible] Bank on instruction of the registrar.

The money had been invested with [illegible], according to a balance sheet of Eurob[illegible]

New evidence

This was revealed to Mr Justice [illegible] a statement by the manager of Eurobank, [illegible] Smuts, who is expected to testify before the commission this week.

The new evidence submitted yesterday [illegible] noon adds a twist to the inquiry into [illegible] Eurobond, Eurotrust and the activities of [illegible] toria attorney, Mr Albertus Vermaas, [illegible] Verco group of companies.

In a statement read to the commission [illegible] Smuts, the only employee of Eurobank, [illegible] knowledge of the bank's operations in [illegible]

He also denied knowledge of [illegible] ments from or through Mr Vermaas, [illegible] any other agent, incuding Eurotrust [illegible] ates.

Mr Smuts said Eurobank had no [illegible] Eurobond or Eurotrust.

He further stated that he was the [illegible] retary of the bank and that no meetings [illegible] tors had been held since the founding of [illegible]

He also denied knowledge of Mr Vermaas [illegible] denied ever having met him and further [illegible] that Mr Vermaas had never been connected [illegible] Eurobank.

According to evidence of Pretoria [illegible] one of the directors of Eurobank, Mr [illegible]stra, he resigned from the board of directors [illegible] month after his colleagues at the Pretoria [illegible] warned him against Eurobank.

Mr Woudstra said that during June [illegible] approached by Dr Berg, a colleague, [illegible]ing a director of the bank.

The possibility was suggested that [illegible] bank was established part of the profits [illegible] towards the support of numerous Chri[illegible] community projects in Ciskei.

"On only this principle did I make myself available as a director. I did not receive any [illegible] ship compensation, nor did I perform any [illegible]rial functions," Mr Woudstra said.

No meetings

He said the other directors of the bank [illegible] known to him and he had never met them [illegible], including Mr Vermaas.

In the three months that he was [illegible] Woudstra said, there had been no directors' [illegible]ings.

A Pretoria divorce attorney, Mr [illegible] said he invested R1 879 434,50 with Mr [illegible] Eurobank or Eurotrust.

He had become interested in the scheme because of the "rather attractive" interest [illegible] of between 35 and 40 percent.

(58)

Star 24/11/88

Momentum Life to become major force in financial services

Magnus Heystek, Finance Editor

Momentum Life is set to become a dominant player on the financial services scene.

Yesterday's announcement that low-profile Momentum Life had acquired JSE-listed Lifegro (formerly Legal & General Volkskas), rather than merging with it, as most analysts suspected, can be considered a first step in the creation of a much larger financial services conglomeration in the scattered Rembrandt/Volkskas/UBS fold.

After an offer to shareholders, Lifegro will be delisted to be be replaced by a listed Momentum Life.

Lifegro will become a wholly owned subsidiary of Momentum and its life business transferred to Momentum.

The announcement came after months of in-depth investigation by management of Lifegro and by independent firms of actuaries.

The conclusion was that despite Lifegro's excellent track record as an institutional investor, changes in the competitive environment made it necessary for Lifegro to re-position itself.

Last May it was announced by the Rembrandt/Volkskas/UBS triumvirate that investigations had begun into the possible rationalisation of some of the financial services companies within its fold.

Management changes at Lifegro halfway through the year saw Mr Tony Laubscher replaced as MD by Mr Blignault Gouws, who moved across from Momentum Life, a sister company of Lifegro, but with a much lower profile.

Share capital

As a precursor to Momentum acquiring the entire share capital of Lifegro, the Volkskas and Rembrandt groups jointly acquired the remaining 38,5 percent of the equity, representing 900 000 shares, in Momentum Life not yet owned, from the West German insurance giant Allianz.

For this stake Volkskas/Rembrandt paid R21 per share for 750 000 shares, while the remaining 150 000 shares cost R19,50 each.

For the purpose of the proposed take-over, Momentum's share price has been set at R21, while Lifegro is valued at R2 — 20c higher than its pre-suspension price of 180c.

Momentum's shares will be split on a 10-for-1 basis and then followed by Lifegro shareholders being offered 95 new Momentum shares for every 100 shares held in Lifegro.

After the listing, Volskas/Rembrandt will own 63 percent of Momentum, with the public and other institutional shareholders owning the rest.

Momentum is forecasting a dividend of not less than 12,5c for the financial year to June 30 1990.

Dr Danie Cronje of Volkskas will remain as chairman, while Mr Gouws will become deputy executive chairman. Mr Neil Krige, who recently moved over from Rembrandt to head Momentum (after many years at Sanlam), remains as managing director.

The rest of the board is Dr Pieter Morkel, Mr Peter du Toit, Mr Joe Stegmann, Mr Bart Grove, Mr HO de Villiers, Mr MJ Roux, Mr Danie du Preez and Mr J van Wingerden.

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HOUSING SUBSIDIES

Sliding into sense

In the face of an increasing number of sectoral appeals for housing assistance, or some form of tax rebate on existing home loans, government is apparently rethinking its housing subsidies.

The SA Housing Advisory Council, which advises the ministers of housing, is investigating the question of assisted housing as a priority issue.

The *FM* understands that, as early as January, it could recommend a sliding scale system of housing subsidy based on means tests. At the lower end, those earning between R100 and R400 a month would probably pay 2% of the interest payable on a mortgage bond, with the balance made up out of State funds.

Like the first-time buyers' subsidy now available, individual subsidies would probably be phased out over seven years.

Such a scheme has the advantage that it would put housing funds at the disposal of those who most need them, without distorting the economy through the need to keep interest rates artificially low.

It also has the advantage that it could be administered across the board, possibly by a single housing ministry, without the political vested interests of the various housing authorities coming into play.

CSIR Building Technology economist Tobie de Vos says: "An inevitable consequence of most forms of housing subsidy is to increase the demand for housing by improving the ability of people to afford, not only a first home, but also larger and better homes."

This, he says, leads in turn to increases not only in the number but also in the size and standard of housing units. Consequently, prices and rentals rise, leading to demands for higher subsidies.

Eventually the effectiveness of the original subsidies, intended to lower the housing costs of the needy, is eroded.

This trend has been seen very clearly in recent weeks. As the bond rate rose, so did the number of appeals for special consideration under current subsidy schemes.

The Public Servants' Association wants the budget allocation for interest subsidies payable on public servants' home loans raised. It also wants the R50 000 ceiling on such loans raised to a more "realistic" level and a uniform interest rate subsidy to apply at all income levels. At present, lower income earners are subsidised down to 3% and others down to 4,5%.

The Teachers' Federal Council has requested the exemption of its members' existing loans from increases in interest rates, claiming that any positive effect of salary increases for teachers would be "seriously impaired" by higher interest charges

At the same time, government has raised the base interest rate on which the first-time buyers' subsidy is paid from 13,5% to 16% — and says this will be adjusted upwards as interest rates continue to rise.

The subsidy has, since August 1, amounted to 33,3% of the interest payable on a bond of R65 000 or less, covering the purchase of both the stand and a new house.

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Government has already encountered criticism of this adjustment, which effectively diminishes the curbs it hoped to place on the economy by allowing interest rates to rise in the first place.

Besides, as De Vos says: "General subsidies, such as those paid to State employees, often enable households to afford homes of a higher standard than they would otherwise occupy." He argues that general subsidies should be reduced and gradually replaced by specific subsidies which relate more directly to the ability to pay. "Specific subsidies are particularly relevant to low-cost housing finance."

Earlier this year (*Propoerty* May 27), government attempted to make it clear that it wanted expectations of increased housing standards contained. Building costs, including wage increases and material price increases, are under scrutiny in a specific effort to keep private sector developers and builders in the low-cost housing market.

It has also become apparent that the upper level of the black housing market, in the R40 000 to R60 000 range, is fast becoming saturated.

The need is to find not only economic means of delivery in the low-cost, mass housing sector, but to find effective ways to encourage the purchase of low-cost houses.

While banks and building societies are being pressed to finance homes built to Mantag rather than National Building Regulations norms, there are few potential homeowners in this market who can afford even R20 000. And in many cases, such buyers are still regarded as bad risks.

Probably the best effect of a sliding subsidy scheme, therefore, would be that the bulk of the interest on a low-income house would be guaranteed by the State — which would mean more development finance for builders, and more chance of selling their finished product. ■

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Officers cited in Eurobank

By CHRIS STEYN

Cape Times 25/11/88

TOP South African legal officers are among the directors and investors of Eurobank, which is at the centre of the Harms commission of inquiry into alleged cross-border irregularities.

An estimated R150 million was invested in the Ciskei-registered bank by prominent organisations, including Iscor, Sentraoes, the National Union of Mineworkers (NUM) and the Public Servants' Association (PSA).

The legal officers named before the commission as directors of Eurobank were:

- **Dr Eugene Berg:** A Pretoria advocate, who was removed as managing director and chairman of the board of directors this week after it was found that he had withdrawn R4,8 million from the Standard Bank in Bisho without the permission of the Registrar of Banks in Ciskei.
- **Mr H R Woudstra:** A Pretoria advocate, who said he resigned from the board of directors earlier this month after his colleagues at the Pretoria Bar warned him against Eurobank. After a three-month stint on the board, he claimed that he had never before met the other directors.
- **Lord Anthony St John:** A British aristocrat and South African attorney who lived in Kalk Bay before leaving for London two years ago. He told the Cape Times he has resigned as a director in response to the "devastating" disclosures of alleged irregularities uncovered by the commission.
- **Professor Andries Oelofse** of the Unisa Law Department.

The other directors named were Mr W G Haese, Ciskeian cabinet minister Mr R S T Mabona and Mr S G Guzana.

- The only employee of Eurobank was Mr John Smuts, the manager, who has denied any knowledge of the bank's operations in South Africa.

The commission is also investigating possible irregularities relating to the activities of Eurotrust (Ciskei) (Pty) Ltd, First Ciskei Bank Ltd, Eurobank Investment (Pty) Ltd and Eurobond (Pty) Ltd. According to evidence before the commission, all deposits received by the bank were transferred immediately to Eurotrust.

- The controlling interest in the trust was held by another prominent legal officer, Mr Wessel Albertus Vermaas.

Major investors in Eurobank also came from a legal background. They were:

- **Mr Louis Shapiro:** A Pretoria divorce attorney, who said he invested R1 879 484,50 with the bank.

PRETORIA. — Local attorney Mr Wessel Albertus Vermaas appeared in the Regional Court here yesterday on charges of fraud, contravening the Bank Act and contempt of court, alternatively attempted theft.

He was not asked to plead and the magistrate, Mr W J van den Bergh, adjourned the hearing till February 20.

In the light of the pending court case, Mr Vermaas may not be testifying before the Harms Commission any more.

Mr Vermaas was granted R10 000 bail. He had to surrender his passport, he may not enter any international departure venue and he has to report to police each Sunday.

Police have thwarted attempts to have three Chieftain aircraft, worth R5 million, and belonging to a company owned by Mr Vermaas, flown out of the country in contravention of a Supreme Court order. — Sapa

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Eurobank: PSA calls meeting

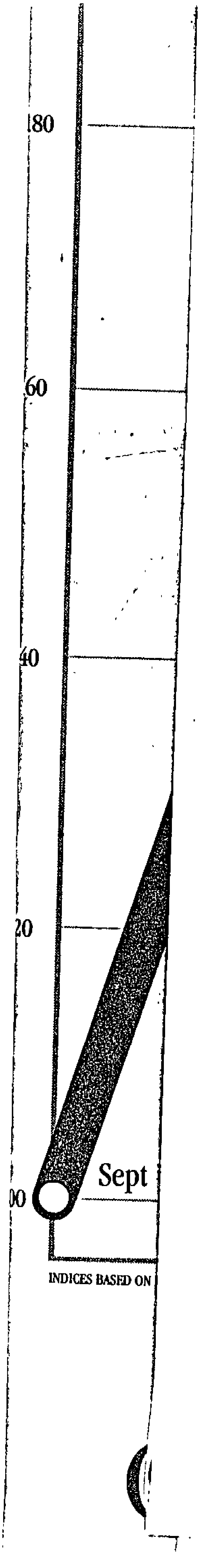
PRETORIA. — The Public Servants' Association has appointed a firm of attorneys to manage its interests in matters concerning its investment in Eurobank, its board of directors said yesterday.

Eurobank is being investigated for possible irregularities by the Harms Commission sitting here. It was reported earlier this week that the PSA had millions of rand invested with Eurobank.

Members would be informed of the situation concerning money invested in Eurobank at an extraordinary meeting of the executive committee scheduled for Monday, a statement from the board said.

"In view of the domestic nature of the matter the board had decided not to inform members through the press."

The PSA statement said the association would continue with all its activities including the completion of a retirement resort at Nylstroom. — Sapa



Ciskei court hears surprise plea by Eurobank

ARGUS 25/11/88

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EAST LONDON. — The application for liquidation of a Ciskei registered company, Euro Trust, took a surprise turn in the Supreme Court, Bisho when the Ciskei-registered bank Eurobank applied for leave to intervene as a creditor.

Soon afterwards an application for liquidation of Eurobank was also filed yesterday.

The hearing of all three applications was postponed until Tuesday, November 29.

The activities of Euro Trust and Eurobank are being investigated by the Harms Commission into cross-border irregularities.

An order freezing the assets of Euro Trust was granted on Wednesday, while the urgent application for an order liquidating Euro Trust was to be heard today.

The application for liquidation of Euro Trust was brought on behalf of Mr Abraham van der Walt and Mr Christoffel Hugo, both of Pretoria, who have claims for R61 000 and R70 000 respectively against Euro Trust.

UNLAWFUL WITHDRAWAL

Before the application could be heard Mr Gary van der Merwe said in an affidavit that he was a shareholder and director.

In his affidavit Mr van der Merwe said that a sum of R4,8-million had been "unlawfully withdrawn" from an account with the Standard Bank in Bisho and invested with Euro Trust.

Euro Trust was now a debtor of Eurobank not only for the R4,8-million but for interest on this amount since June 1988.

Soon after this, an application was filed on behalf of Mr Francois Strauss and a supporting creditor, Potgietersrus Tabak Ko-op, for the liquidation and freezing of assets of Eurobank.

Mr Strauss apparently invested R26 000 with Eurobank, while the Tabak Ko-op invested R7,5-million.

The application for Mr van der Walt and Mr Hugo and that for Mr Strauss were both brought by Mr Rene van Rooyen.

"DEEP DISPLEASURE"

Mr Justice Claassen postponed the matter until Tuesday saying the two applications for liquidation should be heard together and, since the second had been filed so late, the respondents should be given sufficient time to respond.

Mr Justice Claassen told Mr van Rooyen to convey to his attorneys his "deep displeasure" at the way the attorneys had handled the case.

He said the registrar of the court had been informed on Tuesday that the first applicants' legal representatives were on their way to Bisho and that a court should be prepared. The court waited but the representatives did not arrive and no further communication was received from them.

The judge added that the papers filed were "disgraceful".

On Wednesday the Harms Commission heard that the chairman and managing director of Eurobank, Dr Eugene Berg, had been removed from his position because of the unauthorised withdrawal of R4,8-million from Standard Bank. — Sapa.

Birth of a major new financial services group

(58)

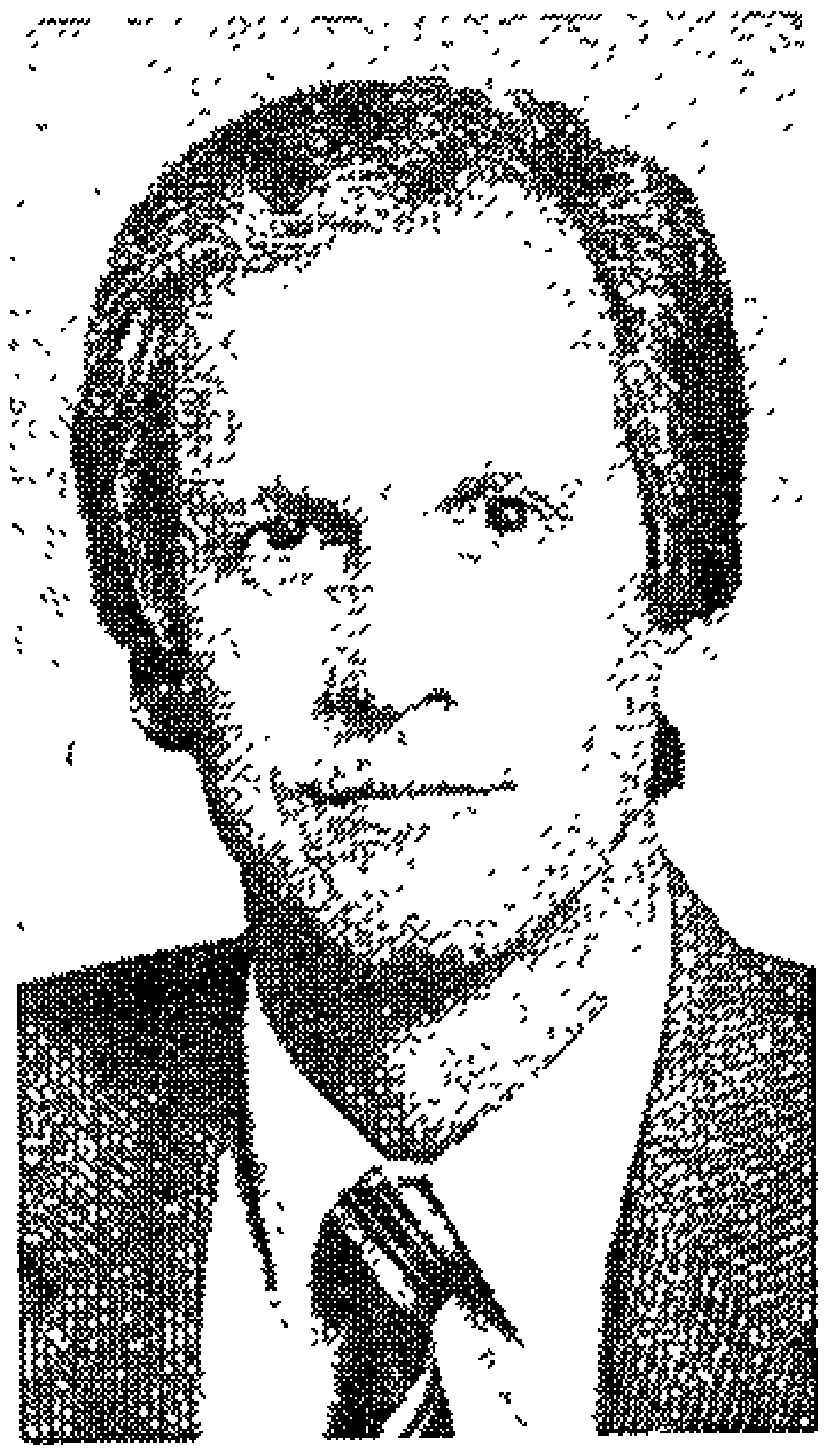
Star 26/11/88

MAGNUS HEYSTEK
FINANCE EDITOR

This week's rather surprising take-over of JSE-listed insurance giant Lifegro by little-known Momentum Life sees the first steps in the construction of a substantial financial services grouping in the Rembrandt/Volkskas/UBS fold.

Analysts are convinced that this is just a forerunner to several other strategic moves and rationalisations that will eventually see the creation of a major financial services group to rival the other three top life insurance companies, Sanlam, Old Mutual and Liberty Life.

After buying-out the West German shareholders from Momentum Life, a stake that cost Volkskas/Rembrandt R20 million, they now jointly own 63 percent of the enlarged Momentum Life, with the rest held by the public.



Blignault Gouws

The assets of Momentum Life jump in one step from R180,3 million at end-June to more than R4,5 billion, making it the fifth largest insurance company in South Africa.

Significantly United Building Society chairman Mr Herc Hefer has been appointed executive chairman of Momentum Life, thus firmly establishing a formal link with the UBS.

The UBS holding company, of course, has a stake of 30 percent in Volkskas Group Limited, which itself owns 10 percent of UBS.

The UBS Insurance Company at present has assets of R186,6 million, roughly similar in size to that of Momentum prior to this week's move.

The Rembrandt/Volkskas/UBS-triumviratehas a number of rationalisation possibilities and UBS Life could be one of them.

Mr Blignault Gouws (45), a former MD of Momentum Life in its old format and now new deputy executive chairman of Momentum, agreed during an interview yesterday that this week's move could be considered part of a long term strategytowards a much larger financial services grouping.

But this would only happen, he added, once the current moves have been "digested", which would take some time.

Sitting on the sidelines are the considerable interests of the Rembrandt Group in Sage Life, together with the UBS and its 30 percent stake in Commercial Union, which has both a long-term and short-term insurance interest.

Also to be considered is Rembrandts large stake in Liberty Life, together with the close relationship enjoyed between Rembrandt chairman Dr Anton Rupert and Liberty Life-founder Donny Gordon.

Reputation

Momentum Life has built up the reputation of a superbly-managed company with tight administrative controls and an excellent service record. Lacking, however, has been its investment performance, which has tended to trail that of most other life insurance companies, and in particular Lifegro.

It is notable that Peter du Toit, investment head of Lifegro, has been appointed excutive director of Momentum Life, a move which obviously underscores his high standing as an investment analyst. Lifegro, despite being embroiled in a number of controversial schemes over the past few years, however, has earned itself a reputation as one of the top-performers when it comes to investment performances.

A period of staff and system rationalisation is facing the new Momentum, including a number of lay-offs and the possible move of several departments of Lifegro from its present luxurious offices in Sandton to somewhere in Verwoerdburg.

UBS Hold increases earnings

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Star 26/11/88

FINANCE STAFF

UBS HOLDINGS has increased earnings per share by 20 percent to 25,8c and raised the interim dividend to a 2,3 times covered 11c for the six months to end-September.

Announcing the results UBS chairman Herc Hefer said the performance was gratifying against the background of the intense competition in the financial services market and the consequent pressure on margins.

While income on advances rose by 18,7 percent to R688,2 million, income from investments rose by 51,4 percent to R93,4 million, and other operating income by 64,4 percent to R55,4 million.

Total deposits increased by 18,5 percent to R10,8 billion, while advances rose by 17,2 percent to R10,1 billion. Reserves increased by 17,2 percent to R553,8 million.

Group assets increased by 17,8 percent to R12,3 billion and net asset value per share rose to 500c.

Commenting on prospects for the second half of the year, Mr Hefer said the group anticipated an increase in earnings despite tight liquidity and intense competition.

Financial services groups, with a few exceptions like Nedbank and Trust Bank, have generally recorded lower profit increases than companies in the industrial sector.

And most banks and building societies have been arguing that the reluctance by the Reserve Bank to push up interest rates to realistic levels has been the major reason behind this, as it has increased pressures on margins.

Casevac: A first in insurance

Star 26/11/88

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STANDARD General Insurance has introduced South Africa's first casualty evacuation cover, filling a major gap for accident victims, where medical aid cover is not available.

The new policy covers, for the first time, emergency medical assistance on-the-spot and the cost of transportation to the nearest medical facility. Subsequent transfer to other facilities is also covered.

The potentially astronomical costs of such services, where, for example, a helicopter costs R900 an hour, are not covered by medical aids — contrary to general belief.

South African travellers outside South Africa, and visitors from abroad to South Africa do have such cover through organisations such as Europe Assistance.

"However, cover within southern Africa, for local travellers is a first and is bound to fill a strong need," says Stangen's Mr Mike Cooper.

"Traditionally, life assurance companies have catered for the dying too soon or living too long. It is only recently that the accent has fallen on sickness and disability cover, and South Africa has been a world leader with the so-called dread disease policy.

"Recently Standard General launched the Hospital Extended Lifeline Plan (HELP), providing a daily hospital cash benefit during hospitalisation as a result of accident or illness. But Casevac-type cover has been totally lacking — until now".

The Stangen Casevac policy is being launched with full infrastructure backing. "We have built up a strong data base for Casevac that covers the entire spectrum of emergency services and related services in every corner of the country," says Mr Cooper.

"There is no limitation to the cost of the services. The decision is al ways made on medical grounds and is independent of any commercial consideration," he points out. The cover operates while the insured persons are in the RSA, Bophuthatswana, Ciskei, Lesotho, South West Africa/Namibia, Transkei and Venda.

Moreover, the cover is for all members of the insured's family up to age 18 — unless financially dependant on the parents, and attending any form of higher or tertiary education

Typically, says Mr Cooper, all possible assistance is provided in obtaining emergency medical services. Although acceptance remains the responsibility of the Insured Person, and is for the insured's own cost, he emphasises.

Reserve Bank forward cover losses put at about R5bn

58 [illegible]

GRETA STEYN

MASSIVE losses on forward exchange cover provided by the Reserve Bank, estimated at R5bn, will not be reversed until the rand starts appreciating.

These losses, described by Bank Governor Gerhard de Kock as an "involuntary increase in central bank credit creation", boosted money supply growth this year. De Kock said the losses added to banks' cash reserves and had moderated the pressure on interest rates.

Foreign exchange analysts said importers' strong demand for forward cover caused the Bank to incur extraordinarily large losses, inflating the money supply. The Standard Bank's Rocco Rossouw explained the banks' cash reserves grew when forward cover contracts were rolled over after the rand had depreciated. Customers were credited with rands because the exchange rate had moved in their favour.

That credit is ultimately provided by the Reserve Bank, which gives forward cover to the banking sector for the account of the Treasury. However, Treasury might not redeem its debt to the Bank. Finance Minister Barend du Plessis indicated in his Budget speech that the debt might remain indefinitely as an asset on the Reserve Bank's books.

The exact amount owed by Treasury was not evident from the Bank's monthly statement. The amount was included under the "other assets" column, which rose to R8bn. The more detailed balance sheet in the Reserve Bank's annual report showed the amount owed by Treasury on 31 March, 1988 was R2,6bn. Government sources indicated that R5bn was a fair estimate.

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The innocent victims

Lord who was duped

By JEREMY BROOKS: London

"OUTRAGED" peer Lord Anthony St John of Bletso — brought up and schooled in Cape Town — learnt this week he had been unwittingly drawn into a South African bank scandal involving R146-million.

Only six months after agreeing to become a director of the Ciskei-based Eurobank group, the horrified Bishops-educated stockbroker was told the company was being investigated for alleged "irregularities".

At the same time, a storm broke in South Africa over huge amounts of money deposited with Eurobank, headed by managing director W A Vermaas, a Pretoria attorney. The money cannot now be traced.

Lord St John, 31, heard the news in a phone call from a friend to the House of Lords, where he was called out of the chamber amid the opening of Parliament.

Within hours he had faxed his letter of resignation to the company's secretary in Bisho, Ciskei

In another phone call to the secretary of the Harms Commission in Pretoria, he said he would be immediately available at his broking firm and his Battersea home should he be needed.

Payment

Later, the University of Cape Town law graduate said he had received no payment for his directorship, nor had he attended any board meetings.

Lord St John became the youngest peer to take his seat in the Lords 11 years ago.

Since then he has earned widespread respect in the House for his incisive grasp of the problems facing SA, the country his parents moved to when he was three months old.

As a "cross-bencher" — following no party political line — his speeches have earned praise from Tory, Labour and SDP peers alike.

The youthful 21st Baron of Bletsoe stands out among his more elderly colleagues in the Palace of Westminster.

A keen windsurfer — he is often seen on the Kalk Bay beaches on his biannual holidays in SA — he formed the backbone of his team for this week's annual swimming gala between the Lords and MPs.

By day, Lord St John can be found behind the desk at his office, seated behind four computer screens and dealing with a string of clients including some Japanese, whose language he speaks. By night, he is invariably in the House of Lords keeping abreast of current issues.

He said he was approached 18 months ago by advocate Dr Eugene Berg, of Pretoria, with a plan to buy a "shell" company — the First Ciskei Bank.

Dr Berg became chairman and Mr Vermaas, who put up 90 percent of the capital and whom Lord St John has met only once, was managing director.

He said: "The idea was to develop it and cultivate ties with Europe, attracting overseas capital bearing in mind the fact that it would not be based in SA but Ciskei — which has built up an image as a tax haven.

"Usually, in spite of many offers during the past 11 years, I am wary of accepting non-executive posts. I am aware that my name could be used to give an air of respectability. I do not use the title in SA.

"To allow it to be used in that fashion would, in my view, be nothing but prostitution of the title."

Concrete

However, on this occasion, he saw the offer as an opportunity to do something concrete for SA and to maintain a "tenuous link" with the country.

Other members of the board, which included former Ciskei Finance Minister S Guzana and Unisa professor A N Oelofse, were top names in Ciskeian and SA circles.

Legislative control of banks in SA, through the Companies and Banking Acts, was also strict and Lord St John did not view the position as a risky involvement.

He was offered no salary, but was told his financial and legal background would make him invaluable once the bank expanded overseas. He would be able to oversee its London operation.

Lord St John said: "As time went on I had many queries — such as the appointment of my alternate — and wrote to Ciskei asking for answers. Dr Berg replied that he would explain everything as soon as he arrived in London shortly.

"Since then I haven't heard a word. I thought everything was going well. When you're so far away from the action there's little one is able to do.

"Then there was that phone call on Tuesday — it came as a terrible shock. Since then I haven't been able to think of anything else.

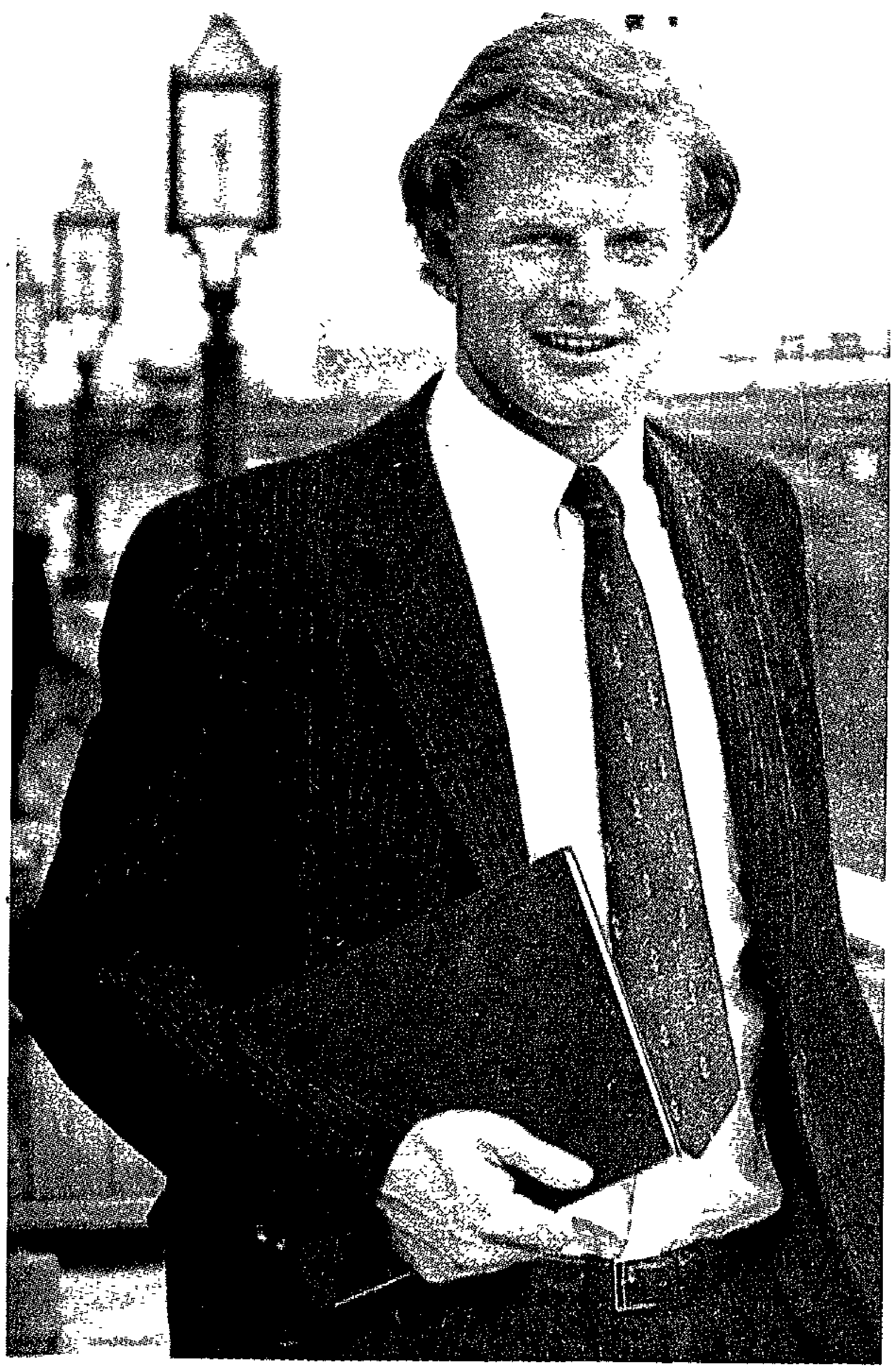
"My only solace is that I received no remuneration. I was told shares in the company would be allocated once it got off the ground, but heard nothing.

Blow

"This whole thing has come as an absolutely devastating blow. I am outraged at the damage it could do to my name and reputation."

Lord St John said he had been advised by friends not to speak to the media but to consult his lawyers and hire a media agent.

He said: "I don't want to do that. If I am going to handle this thing I must confront it openly — head-on — and that's what I plan to do. I need answers — such as why I was kept in the dark — and I will get them, even if it means working around the clock for the next two weeks."



ABSOLUTELY DEVASTATED ... Lord Anthony St John

R2m in orphans' money missing in bank dealing

By MANDY JEAN WOODS and RUSTY VAN DRUTEN

AN ORPHANAGE group has been badly hit by the Eurobank scandal — and a new children's home will suffer.

The Austrian-based SOS Children's Villages, which plans to build its third orphanage in South Africa next year, invested R2-million of its donations in Eurobank and may never see the money again.

The funds were invested by the honorary Austrian consul in Johannesburg, Dr Willy Kulhanek, without the SOS board's knowledge. The tragedy of the orphans was revealed this week as the Harms Commission continued its fraud investigation into Eurobank, Eurotrust and Verco Holdings.

SOS is active in 100 countries and has been in existence for more than 50 years. Its South African division has been responsible for the construction and running of two villages housing 260 children and another village is planned for Port Elizabeth in the new year.

The charity's national director, Mr Pine Pienaar, told the commission that whenever donations were received from overseas — usually in financial rands — the money was invested until it was needed.

In the case of the R2-million, a technical problem on the Port Elizabeth project temporarily halted construction, so a short-term profitable investment scheme was sought.

Interest

Mr Pienaar said the Port Elizabeth project would suffer if the R2-million invested with Mr Albert Vermaas was lost.

"We will not be able to build the community centre or the kindergarten if this money is not recouped somehow."

He told the commission he first heard of Mr Vermaas's investment scheme in October last year.

"Dr Kulhanek said he had made contact with Mr Vermaas, who was offering 35 percent interest on investments. I queried it, but he assured me the money was perfectly safe."

On October 19, Dr Kulhanek, chairman of the fund, instructed Mr Pienaar to invest R250 000 for 90 days at 30 percent interest with Mr Vermaas, the commission heard.

He also instructed that R550 000 be invested on December 4 on the same terms and R250 00 on January 1 this year.

"I can only assume that Dr Kulhanek had sound information of how the bank was able to offer a 30 percent return on our investment," said Mr Pienaar.

The investment with Mr Vermaas was terminated, however, when board member Mr John Powers read of the investment in the organisation's annual report.

Cheque

"He insisted the investment be withdrawn because Mr Vermaas was not a recognised investment institution. This was done and all the money was recovered," Mr Pienaar told the commission.

"But in early August, Dr Kulhanek told me Mr Vermaas had formed a bank — Eurobank — and on August 2 he instructed me to send a R600 000 cheque for investment to the bank.

"On August 24 I sent another cheque for R1-million and on September 15, R300 000.

"All these investments were on the same basis as previously, with a two- to three-month return date."

Mr Pienaar said the SOS Children's Villages board of directors did not know about these investments.

But in Harare yesterday, where he is on a tour of SOS villages, Dr Kulhanek said that whatever investments were made with Mr Vermaas were done with the full approval of the board.

"It is possible some board members did not know about the investment with Eurobank, but that was because not all the directors were in town on the day of the meeting when the investments were approved."

The commissioner, Mr Justice Louis Harms, asked Mr Pienaar if he was aware that among the documents seized by the commission from Mr Vermaas's office were two which appeared to identify Dr Kulhanek as an agent for Eurobank and that he received commissions totalling almost R7 000 for placing the investments with the bank.

Mr Pienaar said he was not aware of this.

One document, titled "Eurobank Ltd Agents Listing" gave agent 004 as the "Austrian Consul" and another titled "Eurotrust (Ciskei) Pty Ltd" showed that three sums of R2 333,33 were paid to the "Austrian Consul" on August 31, September 20 and October 31 this year in respect of a R700 000 investment for SOS Children's Villages.

"There is no justification for the almost R7 000 investment commission received by Dr Kulhanek not being channeled to our organisation.

Paid

However, Dr Kulhanek said the commissions earned from the investment were paid straight to the organisation.

"I am most definitely not an agent for Eurobank," he said. "I suppose they used my name in the books because I authorised the transaction."

Mr Pienaar said: "Dr Kulhanek has been a leading light in the affairs of this organisation and there must be a perfectly acceptable explanation for what has happened."

Pine Pienaar ... technical hitch gave SOS Children's Villages the reason for investing

WILLY KULHANEK
"Not an agent"

58 ~~[illegible]~~ S Times 27/11/88

Sunday Times
FEATURES
LIFE ASSURANCE

An integral link in the wealth creation course

Long-term savings give security in the case of death, disability or old age

LIFE insurance provides financial security in case of the death, disablement or retirement of a breadwinner.

The basic principle of life insurance is to make good the loss suffered by an individual or his dependants. By underwriting pension schemes and supplying investment services, the life insurance industry helps employers to provide employees and their dependants with financial benefits on retirement, premature death or disablement.

Life insurance companies pool individuials' savings in investment funds, where the money is made available to companies wishing to borrow and invest.

In this process the industry extends the benefit of the experience of the best investment advisers to many policy-holders and gives them access to types of investment normally unavailable to the small investor. At the same time, the industry finances much of the country's economic growth.

Anthea Dulgan

It is generally agreed that the industry in South Africa is high among world leaders, both in the standard of products available and the sophistication of service.

Mr Mike Levett, chairman of the Life Offices Association and managing director of Old Mutual, outlined the role of the industry.

"It is a major vehicle for the accrual of savings. Life insurers form an integral link in the creation of wealth by mobilising private savings for investment and expanding economic activity.

"Such savings serve as financial security to millions of South Africans in case of death, disability, disablement or old age."

Last year the industry paid out benefits of R5,3-billion, which is about half of direct tax paid by individuals in the 1987 fiscal year.

Unattractive

At the same time LOA members held assets of R65,8-billion — over 20 percent up on the previous year. These assets are reserves held on behalf of policyholders, They are the hard-earned savings of the man-in-the-street.

"At a time when the country most needs savings, inflation and taxation is making saving unattrac-

after-tax savings are reduced, the money might just as well be spent. The present inflationary environment and tax system encourages spending rather than saving.

Losing

"We believe fiscal measures need to be implemented to make saving attractive. The public is shrewd and sensible in responding to natural economic forces. The man in the street realises he is losing rather than gaining by saving his money.

"Compared to the normal short-term saving media, such as banks and building societies, the life companies' savings plans are relatively attractive. However, some people are trying to find ways of using the life companies as a short-term investment medium."

Referring to the increased taxation of the life companies, Mr Levett said: "We do not know what the taxation base is going to be in the future. We know it is now 75 percent up on last year, but we would like to know what it will be next year. It changed four years ago and again last year; so it could well change next year.

"In essence the Minister of Finance wants more money from the insurers now and the position is to be reviewed for the years to come. Dr Stals has been asked to confer with his advisers and the industry to arrive at an appropriate basis of taxation.

Interim

"The 75 percent increase is by no means final but rather an interim measure."

There is a misguided belief by many that the life companies do not pay enough tax.

How to tax life insurance has been an unsolved issue for years throughout the world.

By the nature of these companies, there is no simple answer, but in the mind of Treasury officials any rate is always too low.

Insurance companies are regarded as rich and successful and, therefore, an ideal source of revenue for the country.

In the United Kingdom another commission of inquiry is looking into this matter at the moment. And the taxation of insurance companies in Australia and New Zealand has changed this year after more commissions of inquiry.

The problems facing the South African industry are not unique, and the subject of taxation of insurance companies will continue to be reviewed.

Mike Levett . . . "Tax system encourages spending"

Answer

Mr Levett says that theoretically, the answer is simple: Taxation of the final benefits to the policyholder at his own marginal rate of tax is the most equable solution. However, under this recommendation the fiscus would have to wait many years for its money when the money is needed immediately.

The life companies are long-term savings mediums and, therefore, they would like a long-term tax commitment on which they can base their forecasts and guarantees. These cannot be made in an uncertain tax environment.

Old Mutual training is saving time and money

MANY traditional insurance company training programmes have been extended to include brokers, because of the complexity of the products and range of investment opportunities offered.

Even training techniques have been given a fillip at Old Mutual — not only to streamline training, but also to ensure that all who sell the products are fully conversant with all aspects.

The team under Peter Hamp-Adams, who is in charge of training at the Old Mutual, has developed Computer Based Interactive Video for the training of staff throughout the country.

This provides a multimedia approach to training. Most of the major distribution points throughout the country have been equipped with this training facility and all will have it in the near future. It has the advantage of maintaining a countrywide standard of training which is delivered and monitored by the computer.

"If a candidate takes 12 hours to complete the course when the average is four hours, there is no longer a problem of being left behind. The candidate is able to learn at his own pace.

"While this current computer-based training is proving a boon for representatives and office staff, it has potential for training at all levels.

Boon

"A library of lessons and skills can be built up and updated when necessary. Workshops run by skilled trainers will continue to need to develop interpersonal and managerial skills," said Mr Hamp-Adams.

"Over the long-term, the savings of such a training system will be realised.

"Instead of representatives being transported to a central training area, accommodated at a hotel and being given instruction during the day, they can now receive the same training at a fraction of the cost in their home town where they will be working and can also do refresher training when needed."

If a representative leaves the Old Mutual, the manager for the area must take responsibility for his clients.

Code

An "orphan client" is never neglected because satisfaction of all clients is paramount.

Old Mutual has a high number of Institute of Life & Pension Advisers fellows among its field staff who adhere to the ILPA code of ethics.

Life industry groans under the yoke of taxation

BRIAN BENFIELD

THE life assurance industry has been burdened with much legislation which many consider neither necessary nor warranted.

Tax legislation is no exception. Being discussed at present is scrapping the Part One asset — the government or semi-government investment required of life companies.

Its futility as "extra security" has long since been established.

AA Life managing director Dr Brian Benfield says the life industry and its beneficiaries have lost at least R30-billion since 1943 because of the required investment in Part One assets.

"If this requirement is done away with, investment in such

to cease, but the cost of borrowing by those concerned will probably rise."

Discussions between the industry and the authorities are taking place to work out an alternative.

Dr Benfield says: "This requirement did not achieve its original objective of greater security of investment for policyholders — rather, it produced lower returns for them.

"It also became an indirect method of State taxation, obtaining 'captured' money at a lower rate than the market would normally have provided.

"In addition, it has become an expensive administrative burden for both the industry and the

"For all these reasons, the requirement is likely to be abolished."

The standing committee on taxation has met and discussed direct taxation of life offices. Life offices believe they are overtaxed, but it seems the authorities have yet to be convinced.

At present, South African savings are at a low ebb. There is little incentive to save because of the rate of inflation and low after-tax real rates of interest.

Also, the higher level of taxation recently imposed on life assurance policies does not help saving through this medium. Net income after tax on investments with banks and building societies is well

option for consumers is to spend now and acquire real goods before prices increase further.

"I believe serious attention has to be given to the creation of far greater incentives for South Africans to save so that we can generate much more local capital, especially since so many avenues of imported capital are now closed to South Africa.

"To create employment for about 100 000 whites and 1-million blacks entering the workplace annually, capital is essential. We must now rely greatly on local resources; hence greater national saving is vital."

Referring to the recent 75 percent tax increase levied on life

really only one theoretically correct basis for the taxation of life companies. Tax calculations should be based on investment income minus expenditure."

This was recommended by the Margo Commission, but there is disagreement on exactly what constitutes investment income and expenditure.

"Whatever the outcome, the present 35 percent taxation on life offices' investment income with no other relief for expenditure is clearly a great deal higher than the average individual rate of tax," Dr Benfield says.

"This is adversely affecting policyholders' savings, effectively creating yet another disincentive to

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DOUBLE
FEATURE

SEE: MAKING THE
MOST OF YOUR
MONEY.

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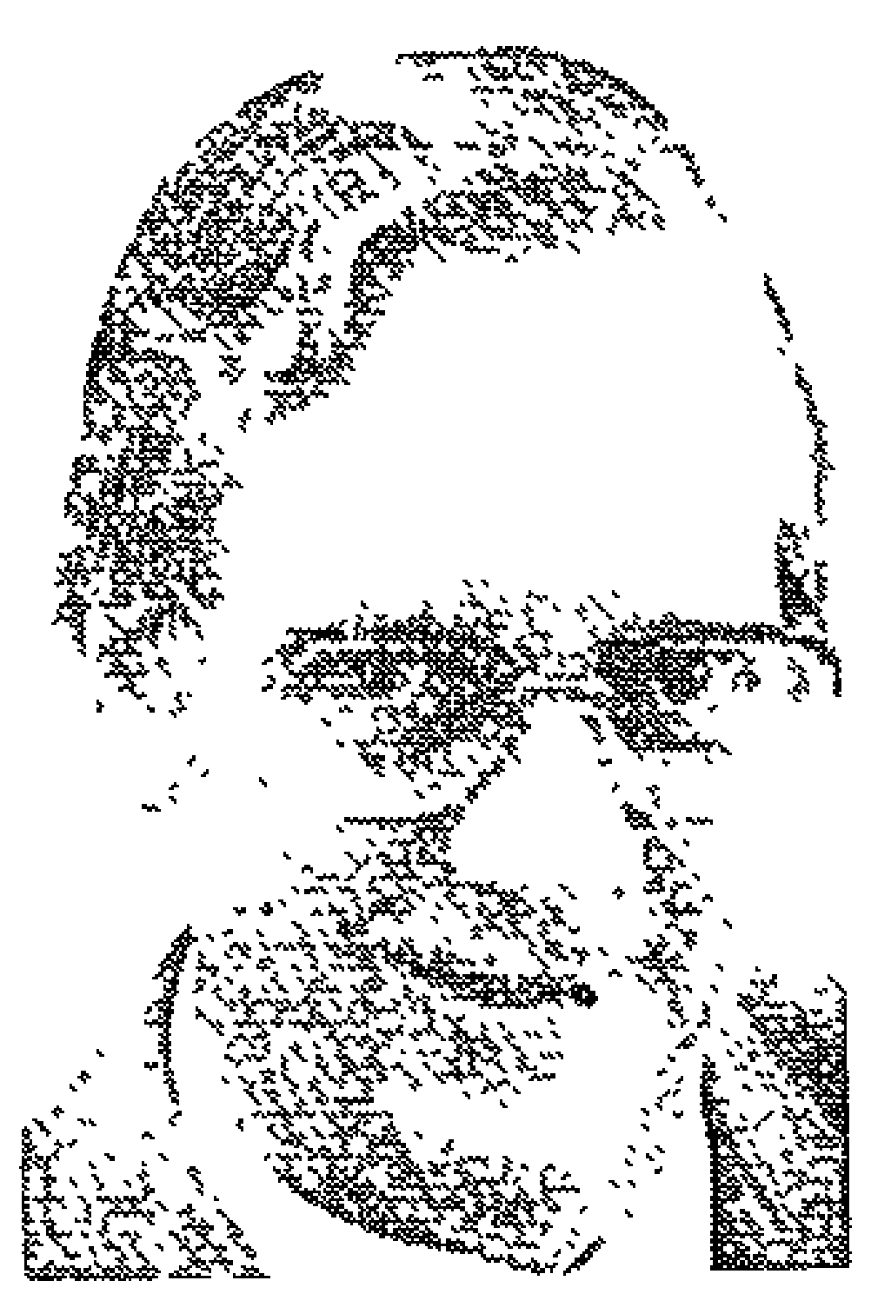

PIERRE STEYN
Dispels "fat cat" image

He confirms that the increased tax imposed on life companies will definitely harm policy-holders and investors by reducing their bonuses and returns.

He is optimistic, however, that life companies will persuade the authorities that the current rate of tax is too high.

agents gains

1 000 trainees, only 100 will still be selling with the company five years later and of those, 10 will be earning more than the majority of chief executives of many public companies — more than R250 000 a year.

The secret, according to Mr Byers, is selection Sales staff must be hungry, natural achievers with a winning instinct. They must be strong and able to cope with rejection. Out of five calls, only one will be successful.

Every day they endure failures which are ego-damaging. Life insurance agents are very special people. They are highly rewarded because the cost of their personal success is high with many failures.

It has been said that there is no such thing as a failed salesman, it is the failure of the training that causes such a high percentage of drop-outs in the insurance industry.

Southern Life believes it can teach anybody to sell the products, but whether they would be happy doing so is another matter.

An agent determines what he is worth by his achievement and is paid accordingly. If he works hard and is successful at selling policies — considered necessary for the well-being of [illegible]

Norwich appeals to upper income earners

NORWICH UNION became Norwich Life at the end of last year to accommodate the cross shareholding of the Natal Building Society, which wanted to broaden its earning base and diversify.

This suited Norwich, not only because it wished to de-mutualise, but also because the Norwich Union in Britain thought it might be expedient to distance itself from the South African company.

The majority of Norwich Life's current business comes from brokers, but it does have a full-time agency force which tends to be metropolitan-based.

John Beak, acting managing director of Norwich Life, explains: "For us to move into the country areas would be an enormous step, first to introduce the name Norwich, and secondly to combat the existing brand loyalties of the country people. Taking on the Old Mutuals and Sanlams of this world would prove too expensive."

The Norwich market tends to appeal to the upper income bracket within the white and higher income coloured and Indian communities. However, Mr Beak reckons purchasing a life policy is an emotional rather than a rational decision.

Emotional

He does not believe there is a significant difference in investment performance or that the purchaser is aware of it. If a man's father and grandfather had policies with one company, the chances are strong that he would buy from the same company. The decision or choice is subjective and emotional.

Up to now, Norwich Life business has been largely protection rather than investment orientated.

The profile of the services required by the black community in general is not sufficiently defined, and Norwich is waiting until such needs become clear.

Norwich has a small number of black clients, mostly from the professional class.

The question of AIDS is a source of concern when considering the black market. Mr Beak said AIDS was the wild card. He has been informed that it is widespread among blacks, but this must be regarded as speculation, since there is no proof.

Norwich anticipates a two-tier system to cater for the AIDS problem, with one set of policies with an AIDS exclusion and one without.

IMAGINE LIFE WITHOUT BANKS — NO CREDIT, CHEQUES OR SECURITY

A CASH-ONLY world is difficult to imagine, but so is a cash-free one.

Without commercial banks we would receive all our salary in cash, have to pay our bills in cash, pay our debit and stop orders in cash, and use cash to buy groceries and petrol, pay school fees and insurance policies and any other transaction which cheques and electronic banking make so easy today.

On the other hand, without cash we would have to issue a cheque or electronic charge-card for a box of matches or a tip at the garage.

Clearly, we are a long way from a cash-free world, but many people literally still keep their money under the mattress. They are either afraid of having to pay tax, or object to paying bank charges.

Neither of these is a valid reason. While the tax man will certainly want a slice of the interest earned on funds held at the bank, he does not want the capital. A thief would be sure to take the lot.

And while bank charges are unpopular with those who claim that, since the bank has got the use of their money it should not charge them for the privilege, there are reasons why charges are part and parcel of banking.

The maximum charge on a top-flight account is about R35 a month. To the executive earning R75 000 a year or more this is not significant, although he demands his money's worth in the level of service.

But the person earning R350 a month neither desires nor demands the level of service which will cost him a tenth of his gross income.

Banks have tailored their product ranges to cater for every pocket. The thriftiest client with little need for third-party payments can bank virtually for free.

Another popular fear by those who decline to use a credit card is that they will overspend. But consider the alternative to making a purchase in a shop for cash.

Shoppers withdraw the estimated amount of cash from their bank accounts then get to the supermarket till only to discover that the bill is larger than the cash they have.

And shopping for clothing is another story. The cash is withdrawn and the pressure is on to find the right garment.

The desperate may settle for something they did not really want rather than delay, because they know that the cash will be frittered away on other things, leaving them with neither clothes nor money.

The Sunday Times investigates the product and cost structures of SA's biggest banking institutions.

Setting Standards in the field of electronic banking

THE Standard Bank of South Africa is the acknowledged leader in electronic banking, and has developed a method by which clients can do almost all their banking by telephone.

"It extends the automatic teller network so that every client can have his own terminal," says Clive Brebnor, senior manager, personal market services.

One of the most-useful services is the electronic payment of household bills, either by phone or via an AutoPlus terminal or an AutoBel home terminal.

At a branch of the bank a client fills in the details of his periodic accounts to be paid. Each account is assigned a code number, and he may have up to 99. The details are loaded into Standard's computers.

Your telephone can be part of the automatic teller network

The client may then bank from home. If he has a new, touch-tone, DTMF, telephone he does not need the special Toni attachment which provides a key pad.

Imagine that Code 01 is the municipality, which requires payment of R100. The code is inserted, and the amount to be paid punched into Toni. Standard's computer network transfers the funds directly to the account of the municipality.

There are no cheques, postage or counterfoils to worry about. For those who regard time and less hassle more important than the cost of banking, Toni is available to account holders at R38.

Travel

Toni also allows users to check balances and redistribute funds between their other bank accounts, order a cheque book, and also provides financial information such as the gold price and key foreign exchange rates.

Mr Brebnor says he has personally paid nine accounts from Toni in only seven minutes!

Standard offers a range of products for the various [illegible] tige Plan account. The fee on this account is either a flat R35 a month or items can be charged individually.

Cheques are guaranteed up to R1 000 and holders are automatically entitled to a Gold Mastercard which has a credit limit of at least R10 000, more at the discretion of the bank.

A Diners' Card is made available for travel and entertainment. The credit ceiling is virtually unlimited, although the whole balance is payable each month. A Garage Card for vehicle expenses is also provided.

A special rate of interest is paid on credit balances, and an unsecured overdraft facility of R25 000 is offered.

One of the most popular facilities has been the 100 percent home loan on bonds of lower than R100 000. On housing bonds of larger than R100 000 the interest rate is 0,5 percent below the ruling rate, valid until June next year.

Standard also offers Access Bond, which allows people to repay a lump sum on their housing bond, but to draw it out again through AutoBank should the need arise.

Prestige Plan also avails holders of a preferential rate on Standard Bank's mutual funds. Travellers' cheques and safe custody services are thrown in for free.

Next down is the young VIP earning from R[illegible] a [illegible] tic revolving credit facility of five times the gross monthly salary, and a 100 percent home loan up to R100 000 is granted.

CLIVE BREBNOR ... pays nine accounts from home in only seven minutes

Popular

"It means young couples can buy a home that much sooner. Often professionally qualified people have spent several years in education and two more in military service.

"It does not give them the opportunity to save for a deposit on a house although they are likely to become high net worth individuals within a few years," says Mr [illegible] factors are taken into consideration such as security and efficiency. The nominal fee is about R2 a month, plus service fees on issued cheques."

There is no service fee on accounts which maintain a credit balance above R750 at all times and where the account holder has opted for "free banking".

TransPlus is described as a chequeless cheque account, aimed at those who do not need cheques, but occasionally make third party payments.

"It is no-frills banking," [illegible] savings account which Standard claims has the highest market share of all similar savings accounts. It pays the top rate of interest but it also doubles as a current account.

It is very popular among black earners and those who do not need a cheque or TransPlus account.

All these accounts can be linked to each other on Standard's AutoBank network.

For the younger banker there is StudentPlan, which offers funds of up to R4 000 a year for study purposes at 8,5 percent, repayable over the same period after qualifying.

Then come AutoClub 1, 2 and 3, aimed at the 7-12 age [illegible]

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Sunday Times

FEATURES

MAKING THE MOST OF YOUR MONEY

◆ ◆ ◆

Beware the pitfalls of rising bond rates when purchasing a home

A HOME is probably the largest investment most people make in a lifetime; so caution is essential.

Interest rates have moved up this year, and no lending institution can afford to lag behind the pack by not charging borrowers market-related interest rates.

This means that with the rise in rates, home loan packages that until recently looked so attractive have now placed further pressure on homeowners' monthly cash flows.

Nedbank's general manager, Mr Johan Westraat, believes that as a relative newcomer to the home loans market, Nedbank has been fortunate to learn from the experience of others.

The bank has introduced a comprehensive yet flexible home loan package indicating the need for prospective homeowners to shop around in the very competitive financial services market.

Homework

"One factor homebuyers should not overlook when dazzled by 100% home loans and low interest rates is that there are hidden costs involved in buying a home," says Mr Westraat.

"These include transfer duty, registration and insurance cover. Another important factor often overlooked during periods of low interest rates is that bond rates do rise. Repayments which are manageable at today's level can become a monthly nightmare, if rates increase by only a few percent."

He suggests that homebuyers do their financial homework carefully, and avoid over-extending themselves. He adds that Nedbank's staff are conscious of the pitfalls awaiting homebuyers, and guide bond applicants responsibly.

Nedbank clients who wish to transfer their home loans to Nedbank can have half the legal bond cancellation and legal registration costs paid by the bank when switching their home loan from another institution to Nedbank.

Even non-Nedbank clients are welcome to discuss the availability of these benefits. The administration fee is only R150, as opposed to the usual R350.

"Buying a home is a form of wealth creation, but it must be based on the effect it will have on a family's cash flow," he says.

Perm offers saving clubs free accounts

THE SA Perm offers one account which is completely free of charges.

Called the Club Account, it is targeted primarily at black savings groups using the stokvel method. Traditionally, black savers [illegible] accrued no interest at all.

Club Account is a flexible group savings plan which works on a book system. Each savings club is given a book to keep track of all its savings transactions. The [illegible]

Agents who survive five years in the industry seldom leave to pursue another career. Such a career provides immense satisfaction for the successful

…ing upwards of R5 000 a year can qualify for a Pres-

…the discretion of the branch manager.

…Plan. Cheques are guaranteed to R500 and an automa-

The normal cheque account is still the most popular of Standard's products.

Many people believe a cheque account is expensive, but it is not when all the

…rate of interest than on cheque accounts, and can include stop and debit order payments.

PlusPlan is essentially a

…respec…

These give normal banking benefits, as well as discounts and offers to the youth market, and a free copy of the new youth newspaper Early

…the pool periodically.

The money was usually entrusted to the senior member of the group, who stored it as cash. The savings

There is no minimum balance imposed on the savings club. When the group decides to withdraw or share out the money the account need not be closed.

When a new savings period is started, the group members can start where they left off without the hassle of opening a new account.

Club Account does not require a fixed amount to be saved at a fixed interval. Deposits can be of any size and made at any time.

Group members decide among themselves who and how many members will have the power to make withdrawals. Only one savings book is issued to the club, although each member of the group gets his own Club Account card.

Growth

This entitles him to cash discounts at certain stores, mail order offers and other benefits.

The entire service is offered free of charge. It was launched in July this year and deposits grew by 350 percent in August alone.

The Perm is mainly a savings institution, although its recent merger with Nedbank will open the way to introducing other banking facilities, such as cheque accounts.

The Perm also offers a Homebuyer's plan for first-time buyers. There is no minimum balance and the maximum is R20 000. The savings are to be spent only on a house, and the saver qualifies for tax concessions. Interest is tax free and the rate is 0,5 percent higher than the fixed deposit rate.

But if the money is used for another purpose, the concessions fall away.

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he risk, are the ewards

- Fidelis incorporates two features, a fully vesting bonus plus high, increasing guarantees for total security;
- The SmoothBonus concept links performance to the growth of a managed portfolio. The peaks and valleys in investment returns are smoothed to combine good returns with safety and security;
- The Managed Fund contains a balanced spread of shares, mutual fund units, properties, property trust units and fixed interest investments;
- MultiTrust is a Sage invention linking policy performance to a selected range of leading unit trusts or mutual funds to gain the benefits from the right unit trust at the right time.
- In the SageLink portfolio, funds are invested in Sage Fund and Sage Resources Fund units.

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abused'

policy will remain under the new name Liberty Profits.

"Inevitably, the merger trend will continue, resulting in even fewer insurance companies," says Mr Wharton-Hood.

"About 10 or 12 company [illegible]es have disappeared in as [illegible]y years, and I have no [illegible] this will continue as the [illegible]er companies come under [illegible]re.

[illegible] is, some are battling to [illegible] economies of scale to [illegible]petitive with the big [illegible]es. Further mergers [illegible]oidable."

Sanlam does not interfere with Met

WHILE Sankorp is the controlling shareholder of Metropolitan Life, there is no Sanlam involvement in either the strategies or the management of Metropolitan.

Metropolitan operates in a different sector of the life market from Sanlam's, although there is some overlap.

But it is evident that Sanlam and other life insurance companies are becoming more and more interested in the Metropolitan sector, forcing the company to remain competitive in products and services.

However, managing director Willem Pretorius and his deputy, Marius Smith, are ready to take up the challenge.

"The Metropolitan priority market is that of salary and wage earners and small businesses, including the informal sector," says Mr Smith.

"Product requirements also vary for people in the Transkei, Bophuthatswana, KwaZulu, the urban black market and the Cape Town black and coloured communities.

"The needs in these markets include funeral insurance where, for cultural reasons, a lot more is often spent on funerals than in other communities."

Home Service (Funeral) insurance amounts to about 15 percent of the new business written by Metropolitan, and a fair proportion of this is written at the lower economic end of the market as cash business.

Nowadays, most of the new business sold to salary and wage earners is ordinary life business (Dynamic Life), with premiums paid through employer stop-orders.

Allied sets its sights on executive market

GERARD CLOETE . . . says his business is about constructive, responsible credit

THE fledgling Allied Bank seeks to carve a niche in the professional and executive markets.

Divisional general manager Gerard Cloete observes that while many banks offer a high calibre of corporate banking services, little attention is given to the individuals who comprise those bodies in personal capacities.

"We believe that if we give good service to a company its management will look to us for their own needs," says Mr Cloete.

The Allied scores a few firsts: It was the first building society to list on the JSE and was the first building society to establish a bank. The bank comprises two areas broadly defined as corporate and bonds.

Mr Cloete says his division will concentrate on professionals, such as doctors, dentists, vets, lawyers, accountants and engineers, and on the fringe professions.

It has also earmarked people of high net worth, such as company directors and senior management.

Three branches of the new division operate now, with two more planned. "We are sticking to areas where there is a large concentration of our target market," says Mr Cloete.

Advice

Regional managers head teams in Durban, Cape Town, Pretoria and Rosebank, in Johannesburg.

Allied has endeavoured to maintain a high calibre of experienced staff at the offices who have a working knowledge of certain disciplines.

"When a doctor comes in to discuss the purchase of an ECG machine, our staff will not be dumbfounded.

"They will be able to offer advice on the financing of such equipment and on the potential returns it could yield."

Skills

Risk management is the key phrase. Details are discussed, such as medical aid tariffs, funding arrangements and potential use of the equipment. The question to be answered is: "Is it really worth it?"

Property purchases to house businesses are also financed through the Allied.

"Our staff are specialists, and we are able to cut out the red tape associated with financing."

Tomorrow's professionals are provided for. Allied is gaining ground among students and professional

Specialist staff for specialised clients

men in military service.

"We offer guidance in practice-planning. Varsity training equips people, academically, but they often lack business skills. We can advise them about opening or buying a practice, the benefits and drawbacks of owning the premises, and safeguards about entering practice partnerships."

Mr Cloete says his business is about constructive, responsible credit.

"We do not want to over-encumber the client. The market has to be aware of being swamped by schemes where the level of debt is of a dangerous nature."

Allied Bank does not yet offer a cheque account, but is working on it.

United charges half other banks' rates for the same service

COST effectiveness is the name of the game at United Bank.

"Our assets are about half the size of SA's major banks, but we need only a quarter of the number of staff employed by them," says general manager Neels Scholtz.

Simple arithmetic demonstrates that the United is able to make ends meet while charging half the going rate at other banks for the same service.

"We have been able to maintain low fees even though many critics doubted us and accused us of offering cheaper banking as part of our launch," says Mr Scholtz.

Inform

"A client's fee structure is agreed on and guaranteed for a full year. A review will only be done with the consent of the client after discussion. There are no hidden extras.

"The United is not out to capitalise on the ignorance of account users. We will inform clients how they can make the most of our facilities and keep costs down."

A big plus in the United's favour is that all interest rate changes are made exactly in line with the prime rate. Many people believe that when interest rates rise, a bank makes higher profits, but it is not so simple.

The cost of funds to the bank is raised before it can recoup the extra cost by charging clients a higher rate.

When interest rates fall, other banks make up those losses by charging higher rates for a period of time after prime has dropped. The borrower, therefore, pays through the nose.

The United's interest rate policy is linked directly to movements in prime. This makes it much more attractive to the borrower.

United is a relative newcomer to banking and believes that big is not necessarily beautiful. It believes it has been able to avoid many of the pitfalls encountered by other banks, especially in the electronic field.

United Bank introduced a cheque account in July this year, and in light of the highly competitive nature of banking, it has been pleased by both the number and the calibre of clients it has attracted.

A large hassle factor is often enough to deter a person from changing bank, or even branch. A new account number is issued, and new cheque books, stop orders and debit orders seem to go astray and electronic links close down.

Clients will retain the same account number throughout, even if they change their branch, says Mr Scholtz, and every branch will offer the same service as the home branch.

Another common gripe from cheque-account holders which the United has addressed is the public's belief that not enough interest is paid by other banks on credit balances.

Cheques

The United calculates on a daily balance, and the interest rate climbs the higher the current balance.

Charges on United cheques are 20c per R100 value up to a maximum of R4. The United intends to introduce cheque-issuing machines early next year, which will carry a flat R1 fee for every cheque.

Mr Scholtz defends the charge on cheques.

"When a cheque is deposited, interest accrues from that day even though the cheque may take one or more days to clear. The charge helps to cover that cost."

United encourages the use of its All In One credit card. When a cheque account is granted, the customer normally has to wait a few days for the account to be activated, but an All In One card is issued immediately, and enables the account to be operative straight away.

The card also serves as a shopping card, a debit card and a savings card. Mr Scholtz says many people have their salaries paid directly into the card account, on which a high rate of interest is paid irrespective of the balance, calculated daily and capitalised monthly.

This represents an easy and effective way of keeping down bank costs. A credit card transaction incurs a 10c cost payable to the Government, but can offer up to 55 days' free credit.

Trust Bank lives up to its name in approach to clients

THE Trust Bank has such confidence in the quality of its clients that every cheque carries a bank guarantee of R200. The size of the guarantee is increased to a maximum of R2 000 as clients advance in life.

Senior manager Buddy Swartz believes that, although Trust Bank's charges are in line with other major banks, it offers more for the same price.

Service

"We were the first bank to use real-time computerisation, our banking hours add up to an extra day a week, and clients can draw on funds as soon as they have been deposited."

He adds that it is Trust Bank policy to offer every banking service under the same roof. A client wishing to arrange credit for a motor car, for example, need not wander in search of Trust Bank's wheels branch and establish a business relationship with unfamiliar staff. He is able to conduct such business with his own branch manager.

"Our open-door approach by bank managers to clients has worked wonders for customer relationships," says Mr Swartz. The personal touch policy was launched in 1983, and is monitored both internally and externally at all levels.

Two weeks ago, the bank launched an innovative product called SuperTrust, a card-activated account.

Monthly statements are issued, but statements can be drawn at any time on any automatic teller or service point in the country.

High interest rates are payable on the first rand upwards on a daily reckoning, but clients are given a 10-page cheque book for third-party payments.

Free

The charge on these cheques is R1, when issued. If a cheque is never written, no charge is due. Debit orders also incur a R1 cost.

But cash withdrawals are free from Trust Bank's own ATMs, and clients may even go into overdraft, by arrangement.

"We grant small facilities and short-term bridging finance," says Mr Swartz.

He believes many people do not need to issue many cheques, but require simple cash withdrawals. SuperTrust offers low-cost banking while paying a high rate of interest. Moreover, people who do not write cheques bank free.

"It combines the facilities and benefits of savings, transmission and cheques in a single account," says Mr Swartz.

Appeal

He believes a small percentage of Trust Bank's cheque account clients will switch to a SuperTrust card account, and it will appeal to new clients.

But clients may prefer to run both accounts, having their salary paid as usual into the cheque account, then transferring the funds not required immediately to Super Trust.

A portfolio for the professionals

THE launch in August of the Professional Portfolio by First National Bank is designed to help qualifying clients who aspire to high income.

It is flexible, enabling the client to select the package that most suits his business and personal financial needs.

It is available both to newly-qualified and established professionals, offers generous facilities, with only minimal security requirements. Designed for maximum return, the product can be tailored so that a client never outgrows it.

A cheque account is the mainstay of the portfolio, with guaranteed cheques on Status and Premier accounts. Overdrafts are offered, as are hire-purchase and leasing facilities. Two First Cards may be issued, one for business needs and the other for personal spending.

Loan finance to buy in to an existing professional practice may be granted, and repayments can be deferred for up to six months and can be negotiated over 10 years.

Loans

First Industrial Bank, Wesbank or First National itself will finance equipment either purchased or leased.

The portfolio offers discretional 100 percent home loans, and all bond and transfer costs may be "taken care of" — presumably capitalised.

Clients receive a free short-term insurance service through First Bowring, as well as investment and tax advice through Persam. Wholesale deposit rates are offered on call deposits.

Cash gives buyer clout

VOLKSKAS BANK believes that, if its clients are creditworthy, they are also cashworthy.

Buying with cash has advantages in that it allows the buyer to get a better price, and deal from a position of strength. Volkskas will provide finance up front, with prior arrangement.

The buyer approaches the dealer, they agree on a cash price. The dealer then supplies a pro-forma invoice reflecting the price. The buyer presents it to Volkskas and is issued with a cheque.

The advantages are that cash purchases command a discount, there is less chance of a client over-extending himself financially, and he does not have to grovel to the dealer in the hope of raising credit finance — he has already secured it with his banker.

TAKEOVERS

ARGUS 28/11/88

New rival for Top 3 life offices emerging

5'8

From MAGNUS HEYSTEK

JOHANNESBURG. — The rather surprising take-over of JSE-listed insurance giant Lifegro by little-known Momentum Life last week saw the first steps in the construction of a substantial financial services grouping in the Rembrandt/Volkskas/UBS fold.

Analysts are convinced that this is just a forerunner to several other strategic moves and rationalisations that will eventually see the creation of a major financial services group to rival the other three top life insurance companies, Sanlam, Old Mutual and Liberty Life.

After buying-out the West German shareholders from Momentum Life, a stake that cost Volkskas/Rembrandt R20-million, they now jointly own 63 percent of the enlarged Momentum Life, with the rest held by the public.

FIFTH LARGEST

The assets of Momentum Life jump in one step from R180,3-million at end-June to more than R4,5-billion, making it the fifth largest insurance company in South Africa.

Significantly United Building Society chairman Mr Herc Hefer has been appointed executive chairman of Momentum Life, thus firmly establishing a formal link with the UBS.

The UBS holding company, of course, has a stake of 30 percent in Volkskas Group Limited, which itself owns 10 percent of UBS.

The UBS Insurance Company at present has assets of R186,6-million, roughly similar in size to that of Momentum prior to this week's move.

The Rembrandt/Volkskas/UBS-triumvirate has a number of rationalisation possibilities and UBS Life could be one of them.

MUCH LARGER

Mr Blignault Gouws, 45, a former MD of Momentum Life in its old format and now new deputy executive chairman of Momentum, agreed during an interview that last week's move could be considered part of a long term strategy towards a much larger financial services grouping.

But this would only happen, he added, once the current moves have been "digested", which would take some time.

Sitting on the sidelines are the considerable interests of the Rembrandt Group in Sage Life, together with the UBS and its 30 percent stake in Commercial Union, which has both a long-term and short-term insurance interest.

Also to be considered is Rembrandt's large stake in Liberty Life, together with the close relationship enjoyed between Rembrandt chairman Dr Anton Rupert and Liberty Life-founder Donny Gordon.

Momentum Life has built up the reputation of a superbly-managed company with tight administrative controls and an excellent service record.

Lacking, however, has been its investment performance, which has tended to trail that of most other life insurance companies, and in particular Lifegro.

It is notable that Peter du Toit, investment head of Lifegro, has been appointed executive director of Momentum Life, a move which obviously underscores his high standing as an investment analyst.

EMBROILED

Lifegro, in spite of being embroiled in a number of controversial schemes over the past few years, however, has earned itself a reputation as one of the top-performers when it comes to investment performances.

A period of staff and system rationalisation is facing the new Momentum, including a number of lay-offs and the possible move of several departments of Lifegro from its present luxurious offices in Sandton to somewhere in Verwoerdburg.

UBS attributable income up 21%

58

B/day

28/11/88

LINDA ENSOR

THE UNITED Building Society (UBS), hit by the intense competition in the financial services sector, managed to increase its net attributable income by 21% to R61,8m (R51,1m) in the six months to end-September.

A decline in the tax rate from 49,6% to 42,9% gave a strong boost to the bottom-line, converting the 12,7% rise in pre-tax income — from R81m to R91,3m — into a 27,6% rise in after-tax income (R40,8m to R52,1m).

The percentage of interest on deposits to interest on advances rose to 82,4% (77,2%) while operating expenditure shot up by 21,7%. This served to reduce the 23,9% growth in gross income (R675,4m to R837m) to a much lower rise in pre-tax income.

Earnings rose 20% to 25,8c (21,5c) a share and the dividend — on a higher dividend cover of 2,3 (2,1) times — by 10% to 11c (10c).

Chairman Herc Hefer and CE Piet Badenhorst regard the results as "satisfactory" when viewed against the conditions in the sector which placed margins under "considerable pressure".

"Although we do not foresee any relaxation in the competitive situation, it is anticipated that the group will increase earnings during the second half of the year."

Shareholders' funds have increased by 7,6% to R1,2bn (R1,1bn).

Income on advances rose by 18,7% to R688,2m (R580m), income from investments by 51,4% to R93,4m (R61,7m), and other operating income by 64,4% to R55,4m (R33,7m).

The share of associated companies' retained profits (mainly Volkskas) before extraordinary items fell 8,7% to R9,4m (10,3m).

Total deposits increased by 18,5% to R10,8bn (R9,1bn), while advances rose by 17,2% to R10,1bn (R8,6bn). Reserves increased by 17,2% to R553,8m (R472,5m).

Group assets increased by 17,8% to R12,3bn (R10,4bn) and net asset value a share rose to 500c (466c).

Cape Times, Tuesday, November 29, 1988 3

Harms inquiry suspends hearings

Own Correspondent

THE Harms Commission, which was due to have resumed hearing evidence yesterday into allegations of corruption and other cross-border irregularities, has postponed its public hearings.

The reason for the postponement is so that efforts can be made by counsel for Southern Sun's Mr Sol Kerzner and Cape Town's former mayor Mr David Bloomberg to limit argument on evidence over which there is, or may be, dispute between them.

Until such time as some compromise is arrived at by these legal representatives behind closed doors, it is understood the Harms Commission will be directing its efforts to more urgent issues which came to light from its Pretoria investigations into Eurobank — now the subject of an application for liquidation.

It is also understood the chairman of the commission, Mr Justice Louis Harms, will be completing an interim report shortly on the issues concerning the Ciskei and Italian Vito Palazzolo, jailed in Switzerland for his involvement in laundering money for an international drug ring.

Also the subject of this element of the investigations is the role played by Mr Peet de Pontes in assisting Palazzolo to enter South Africa illegally.

● Govt plans action on corruption — Page 7

Govt drops plan to cut foreign cash

Cape Times 29/11/88

58 3

Political Staff

A BILL designed to cut foreign funding of anti-apartheid organisations has been dropped in favour of another bill aimed at the disclosure, rather than halting, of foreign money.

The new Disclosure of Foreign Funding Bill, which has been published in Parliament, will require all organisations and people, which have been officially notified, to reveal all sources of external funding and to have their books audited.

It replaces the Promotion of Orderly Internal Politics Bill.

A Registrar of Reporting Organisations and Persons will be appointed to administer the new measure and he will submit an annual report to the Minister of Justice, who will then table the report in Parliament.

Penalties of fines up to R40 000 or 10 years jail or both have been imposed for people who refuse to comply with the provisions of the proposed law or who use foreign funding other than for its declared purpose.

One of the major changes in the new bill is that provisions in the old measure which enabled the government, through an arbitrary decision of the minister to declare organisations restricted, to stop organisations or individuals from receiving foreign funding have been scrapped.

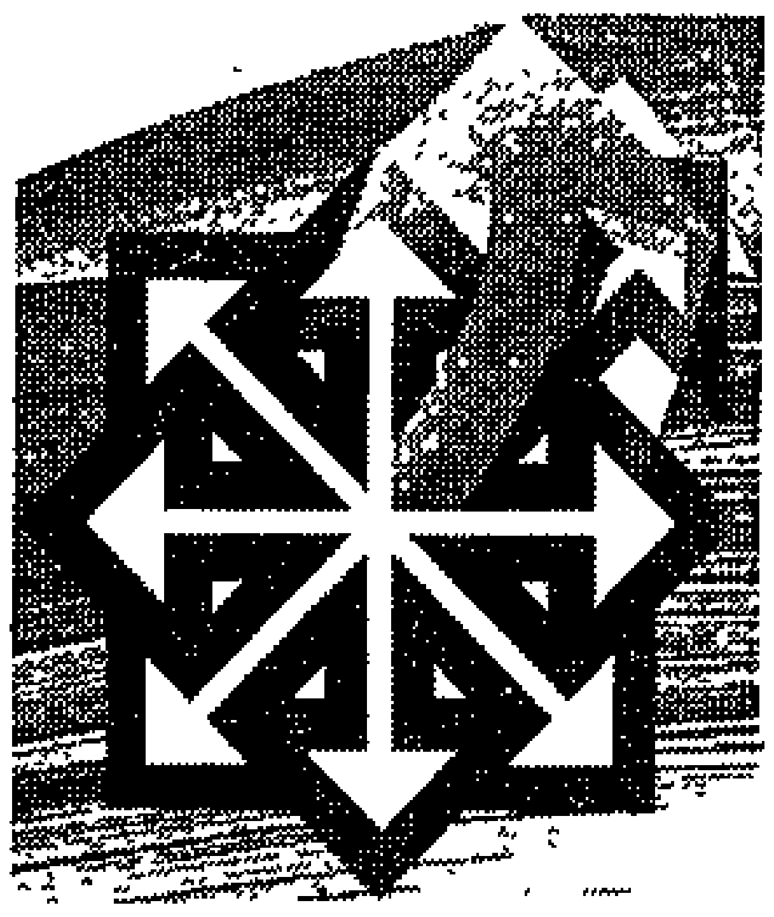
In the original bill, an organisation or individual could be restricted merely if the minister was satisfied they were engaged or participating "in the furthering, propagating, pursuing or opposing of any political aim or object".

Top industrial shares beat inflation rate

Cit Tms 29/11/88

58

By BRUCE WILLAN



MORE than 60% of top JSE-listed industrial shares are able to counter the effects of inflation over a long-term investment period.

This emerged at the NPI Economic Conference held in conjunction with the Department of Manpower yesterday.

A paper presented by H J Alant and F J Mostert of the Department of Business Economics, University of Stellenbosch, revealed that almost 30% of companies used in a study covering a 17-year period, showed an annual growth rate of share prices and dividends which exceeded the consumer price index by more than 5,3%. Average CPI for the period was determined at 12,2%.

The study defined as an emperical analysis of industrial shares from 1970 to 1986 was done on the top 100 industrial companies based on assets according to the Financial Mail in 1986, taking the changing purchasing power of money into account as reflected by the CPI. The study concentrated exclusively on ordinary shares.

Adjustments were made to both dividends and share prices to account for any share splits, consolidations, takeovers, mergers, rights issues, capitalization issues and dividends.

No adjustments were made for seasonal cycles as the price of the shares were taken on March 15 every year or the closest date to this day in the event of no trade in a share taking place on March 15.

Dividends were treated in very much the same way but because dividends are generally declared on different dates it was necessary to centralize the dividends on the same day as the share prices were taken.

To do this, the mean of the 31-day notice interest rate for each calendar year was used.

Of the 67 companies used in the analysis of the annual growth rates of share prices 38,8% (26 companies) showed a growth rate lower than that of CPI while 61,2% (41 companies) realised a growth rate higher than that of CPI, 38,8% (26 companies) showed a growth rate greater than or equal to 15%.

When dividends were taken into account, using a taxation rate of 50% and a 31-day notice deposit interest rate, it was found that out of the 75 companies used for the analysis, 62,6% (47 companies) recorded a growth rate equal to or greater than CPI.

Interestingly 29,3% (22 companies) achieved a growth rate of 5,3% higher than CPI.

The study concludes that approximately 75% of the companies concerned had annual growth rates which were not below the 10% limit, is an indication of the ability of the companies to counter the effects of inflation and that if a long-term investor purchases a portfolio of shares (based on equal rand values) of each company concerned should have a good chance to counter-inflation as expressed by CPI.

Cape Times 29/11/88

58

Govt plans speedy action on corruption

JOHANNESBURG. — The Justice Department is planning a "mechanism" in the advocate-general's office that will facilitate speedy action in investigating corruption and possible irregularities, the Minister of Justice, Mr Kobie Coetsee, said.

"The swift action of the Harms Commission had confirmed that such a mechanism is possible," he said.

Mr Coetsee made the remarks when approached for comment after the adjournment of the Harms Commission in Pretoria on Friday.

The commission is investigating the Ciskei-registered Eurobank and Eurotrust and possible cross-border irregularities.

Mr Coetsee declined to elaborate on the plan, but indicated it would be introduced soon.

There has been concern recently at the loss of foreign exchange in fraudulent deals. Witwatersrand attorney-general Mr Klaus von Lieres said that fraud cases (mainly foreign exchange control offences) involving more than R200 million had been reported to his office in a two-month period this year.

A nationwide study of corruption and fraud, ordered by the Justice Department in September, is under way.

Said Mr Coetsee: "I am concerned at the increase in the number of corruption and bribery cases in the past year."

At the opening of the National Party's Free State congress in Bloemfontein in September, he said corruption charges laid before the Witwatersrand advocate-general ran to R130m so far this year, compared with R20m in 1986.

Professor John Dugard, the director of the Centre for Applied Legal Studies, said there was an urgent need to deal swiftly with the increasing number of fraud and corruption cases being reported. "The Harms Commission has shown that abundantly."

Their actions have certainly been swift and are an example to be followed," he said.

Any attempts to expand the powers of the advocate-general's office must be welcomed, he said.

Professor Sas Strauss, a legal expert from Unisa, commended the Harms Commission for its swift reporting to the authorities. "I applaud any extension of the powers of the advocate-general's office. It is necessary," he said.

The past-president of the Law Society, Mr Ed Southey, said proper staffing of the attorney-general's office and of relevant criminal investigation departments were more important than introducing new legislation.

"The Harms Commission has certainly acted quite promptly and that is good."

The chairman of the General Council of the Bar of South Africa, Mr Ralph Zulman, declined comment on the proposed "mechanism" until details had been released, but added that speedy investigation of corruption and fraud cases is very necessary.

Pension funds performance 'disturbing'

[illegible] 29/11/88

58

Own Correspondent

JOHANNESBURG. — Pension funds battling against high inflation and a bear market failed to achieve positive returns for the year to September.

The real rate of return achieved by pension funds in SA over the last 12 months was a negative 22%, statistics released by Ginsberg Life & Pension Advisors, an independent firm of pension fund consultants reveal.

The average pension fund performance for the period beginning just a fortnight before 1987's market crash, was a nominal, negative 11% when inflation averaged 12,4%.

However, in the two years to September 30, 22 pension funds covering the entire industry including life offices, merchant banks, trust companies and independent managers show a real rate of return at negative 1,1% a year.

The margin over the inflation rate, measured since January 1980, is 3% a year.

Ginsberg director James Downie described the figures for the past year as disturbing, although he pointed out they did not affect the solvency of the funds as managers always took a more longer-term view.

Downie said January 1980 had been chosen as the survey's starting point as SA had experienced several bull and bear markets since then and it was necessary to appraise funds over at least one full cycle.

Barplats deal approved

JOHANNESBURG. — Barplats shareholders have approved the takeover of Lefkochrysos platinum venture.

At a meeting here yesterday shareholders representing 85% of the shares, gave the go-ahead to the deal which gives Barplats 72,6% of Lefko.

The offer of 450c a share to minorities was also approved as well as the arrangement to reverse Barplats platinum mining subsidiary, Rhodium Reefs, into Lefko.

Lefko shareholders will consider the scheme on December 5. — Sapa

Allied's earnings fall despite lending boom

(58)

Star 30/11/88

By Sven Lünsche

Allied's earnings per share declined by 18 percent to 8,6c in the six months to end-September, despite a surge in lending which saw total advances increase by 21 percent to R6,4 billion.

Total deposits rose by a similar amount to R7,2 billion, but Allied's interest payments on these deposits rose by about 39,6 percent to R391,5 million, whereas interests received increased by only 29,5 percent to R507,4 million.

The resultant fall in margins is blamed by Allied directors "on the rising cost of funds and intense competition in the mortgage bond market."

Directors add, however, that the Allied Building Society maintained its market share, while through Allied Bank, which made a positive contribution to group profits, "significant volumes of consumer instalment credit and corporate finance business were written."

Allied maintained its interim dividend of 5c per share.

Nedbank offer a success

Star 30/11/88

58

Finance Staff

Nedbank's rights offer to raise R170 million in the wake of the link-up with the SA Perm has been over-subscribed.

The offer of 18 new Nedbank group shares at 600c each for every 100 shares held closed last Friday. Merchant bank UAL said yesterday subscriptions were received for 97,6 percent of the 28,288 million shares on offer.

UAL general manager, Mr Graham Dempster, said Nedbank shareholders had applied for 1,534 million additional shares, which means that the offer was 103 percent subscribed. Directors will determine the basis for allocation later this week.

Some 70 000 shareholders of the Perm will receive their special bonus cheques tomorrow. Holders of Perm shares are being paid a bonus of about 11,70 percent on their investments. Payment is in cash, except where qualifying shareholders elected to take up part of it in Nedbank shares at 600c.

Allied earnings nosedive by 18%

58

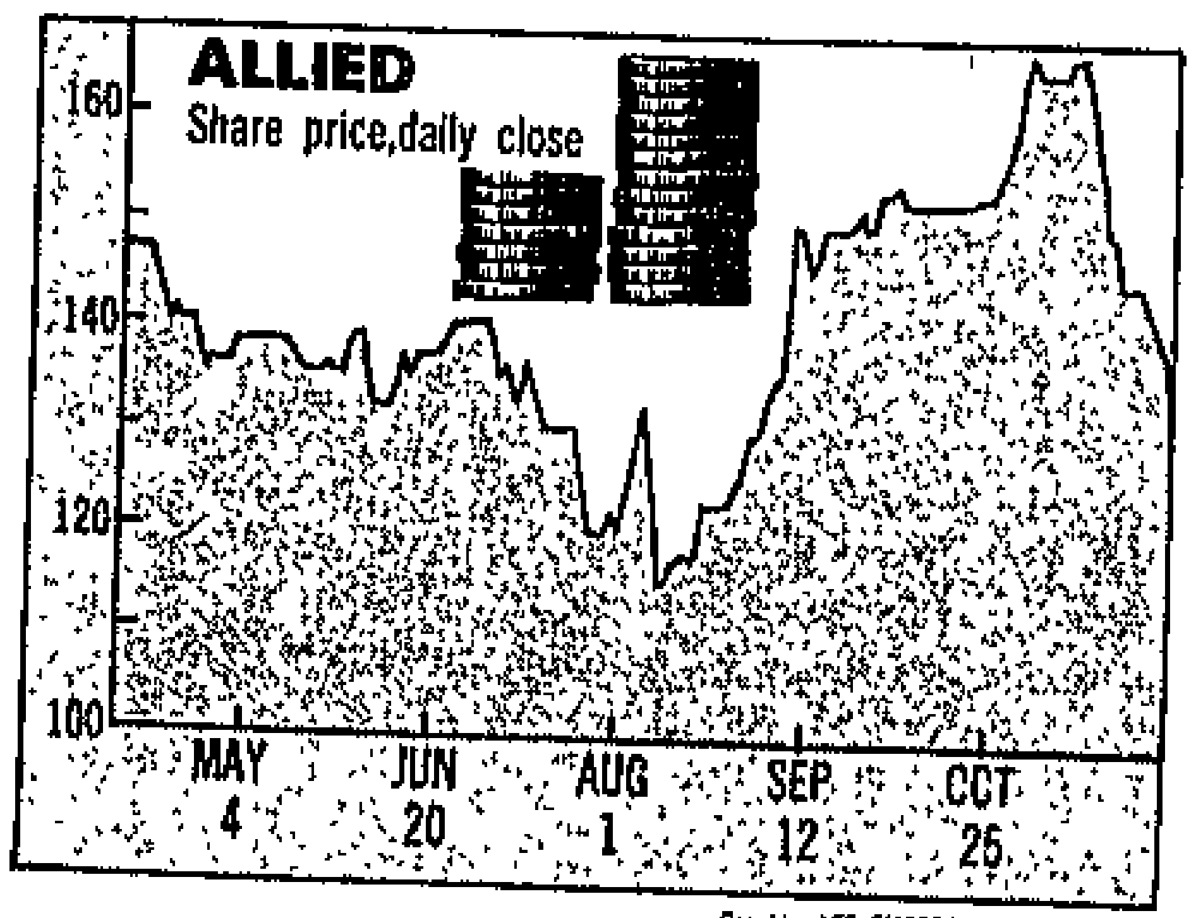
B/day

GRETA STEYN 30/11/88

THE Allied's earnings nosedived by 18% to 8,5c a share from 10,5c in the six months ended September 1988, causing its share price to drop by 5c to close at 132c on the JSE yesterday.

The share has lost 20% of its value over the past three weeks.

Battered by a squeeze on margins and intense competition in the banking sector, the Allied failed to boost earnings in spite of a surge in lending. Total advances rose by 21% to R6,4bn with the building society retaining market share and the Allied Bank adding consumer and corporate credit. The Allied Bank started making a positive contribution to group profits.



Graphic: LEE EMERTON Source:JSE

Deposits rose by a similar amount to R7,2bn. However, interest paid rose faster than interest earned (40% compared to 30%) — reflecting the squeeze on margins.

Operating expenses provided no relief, rising by 25%, with the only respite the lower tax payment which dropped to R8,8m from R17,6m in the previous interim period. Taxed income dropped 18% to R25,3m from R30,9m.

The directors ascribed the group's performance to pressure on margins from "the rising cost of funding and intense competition in the home loans market". The directors also mentioned that technology had been enhanced, for example, to strengthen the group's Treasury operation.

The interim dividend remained unchanged at 5c a share while net asset value per share rose to 177c from 167c.

Allied MD Kevin de Villiers was not available for comment.

Allied and NBS raise bond rates

(58)

Star 1/12/88

By Sven Lünsche

The Allied Building Society and the Natal Building Society yesterday announced a one-percent rise in their bond rates to 18 percent.

The increase brings the two in line with most banks, but other building societies indicated yesterday that they would not increase their bond rate at present.

Last month building societies increased bond rates to 17 percent, effective from today, but they were caught off guard by a later announcement that the bank rate would be raised by two percent and not by one percent as anticipated.

Building societies have to give a month's notice of an increase in the rate on existing bonds.

Spokesmen for the United Building Society and Saambou said they were not considering an increase at the moment, although the situation could come under review early next year.

The Perm said that it might announce an adjustment on December 15.

Home-owners with a bond of R50 000 at the Allied and NBS will have to pay R772 a month from January.

An Allied spokesman said a further rise in mortgage rates was not impossible.

Sanlam acts on agents 'of Vermaas'

B/day 1/12/88

MANDY JEAN WOODS

SANLAM is investigating the actions of two of its agents for their involvement with Pretoria attorney Albert Vermaas's investment schemes, which are the subject of a fraud investigation by the Harms Commission.

The two Sanlam agents — both of whom testified before the commission last week — contravened a company order not to involve clients in "get-rich-quick" schemes.

One of the agents told the commission she had placed investments worth at least R40m with Vermaas and received between 2% and 5% commission.

She said that because she had so much business, she had decided to form a company — Eurobond — to manage the investments.

The second agent told the commission that in the two years he had been associated with Vermaas he had invested between R2m and R3m each month.

Sanlam senior GM George Rudman said that, on February 10 last year, Sanlam circulated a letter to all agents instructing them not to become involved in "get-rich-quick" schemes and to refrain from taking part in such schemes.

The letter was written with the Vermaas investment scheme, among others, in mind, he said.

Sanlam chairman Fred du Plessis said yesterday it was company policy never to get people involved in dubious businesses and, if that occurred, to immediately sever ties with such operations.

IES MEDIA PUBLICATION

1/12/88 **GRETA STEYN** 58 / Bday

Allied and NBS raise bond rates

THE Allied yesterday announced an increase in its bond rate to 18% in response to the higher cost of funding.

It said the hike may not be the last.

And Sapa reported last night that the NBS had also raised its rate to 18%.

First National Bank recently increased its rate to 18%.

The Allied's higher bond rate has immediate effect on new bonds and will affect existing borrowers from January. Fixed rates on new bonds were also raised across the board and the Allied Bank Bond, offered to its best customers, was raised to 17,5%.

Other institutions could follow with increases in the new year as money market pressures continue.

Margins are squeezed with the rate on one-year Negotiable Certificates of Deposit (NCD's) at over 17%.

☐ The Allied has embarked on a strategy to gain market share among upmarket customers by aggressive increases in commission paid to estate agents.

The higher payments lift the Allied's commission by as much as three times that paid by other societies on high value bonds.

hits at CP — Page

Sat. Times 1/12/88

Bond rates rise again

58

Finance Reporter

TWO building societies yesterday announced another rise in their mortgage bond rate.

Allied and NBS will charge new borrowers 18% — up from 17% — with effect from today.

Existing bond-holders will have a month's grace before the rise takes effect.

Other building societies are certain to raise their rates before long. The Standard Bank and First National Bank say they haven't decided on an increase, but are "monitoring the situation".

FMAIL 2/12/88

HOME LOANS 58

All square

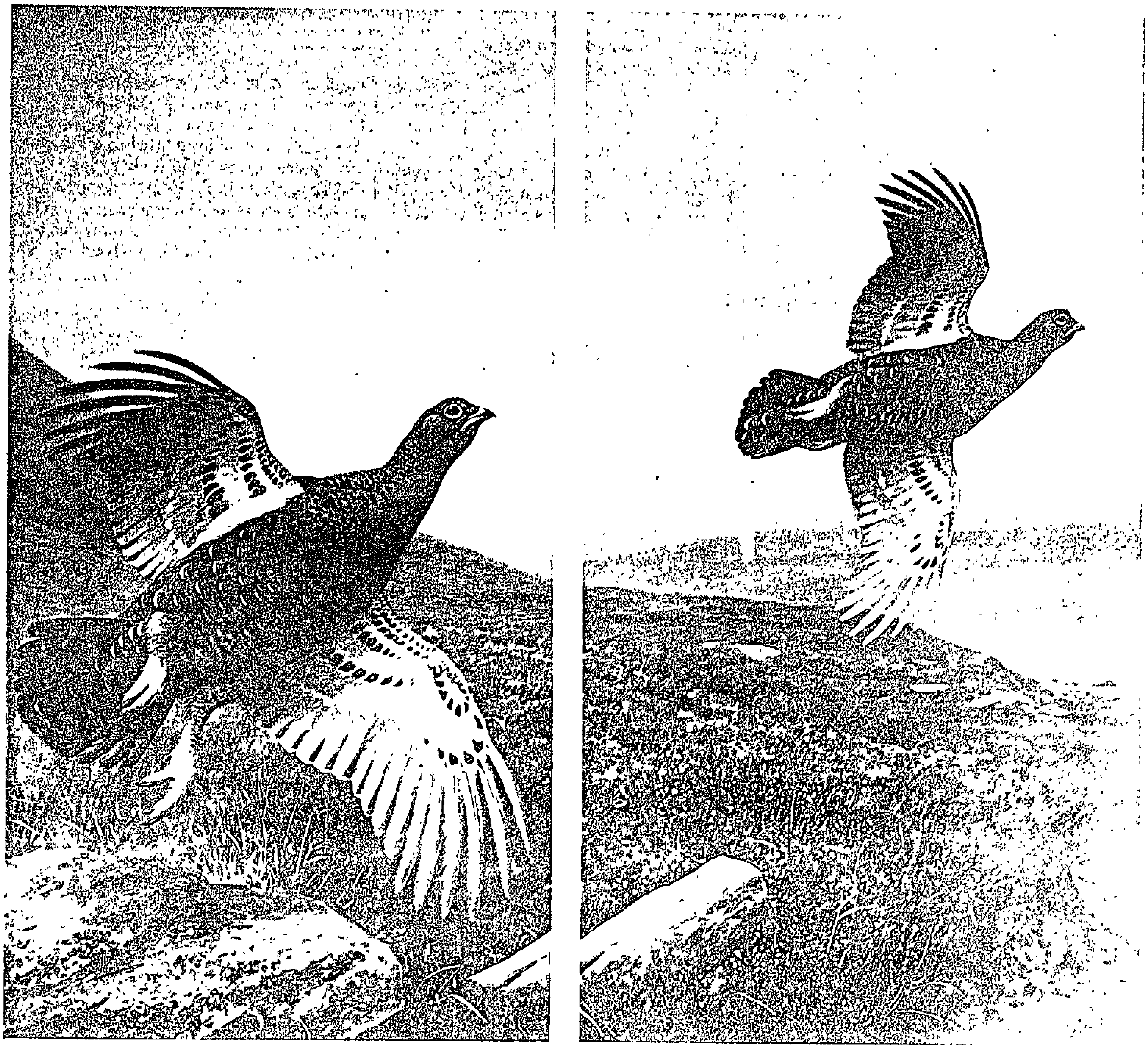
Now building societies no longer have to fight their way up a sharp yield curve to find funds, they can compete on equal terms with banks. The outflow of liquidity during 1988 has raised the cost of short-term money, increasing cost of banks' (largely short-term) funding, eliminating the disadvantage of the longer-term building society books.

So for the first time since banks made their assault on the home loan market at the end of 1986, societies can offer bonds at competitive rates.

Two years ago, with liquidity high in the money markets, banks saw the opportunity to break into the home loan market with mortgages funded by cheap short-term money. They were driven by the fall-off in corporate business, as cash-flush companies short-circuited the banking system to deal directly with each other (disintermediation).

With both motive and means to cut into retail business of building societies, Standard Bank made a determined marketing thrust, undercutting building society mortgage rates of 15% by 2,5 percentage points. First National (which had made an aborted attack on the market some years earlier) followed, while several societies attempted to close the gap by dropping to 14%.

Trust Bank, Volkskas and Nedbank then entered the market. Between them, the five major banks were a serious challenge to the



(58) 2/12/88 FMML

societies. They were soon taking a larger slice of new business — in each of the first three quarters of 1988 banks granted mortgage loans more than 1,5 times the value of building society loans.

October and November, however, may have seen some shift in lending patterns. Already Saambou has experienced a fall-off in redemptions, says GM Hennie Prinsloo, which he attributes to a drop in cancellations as fewer loans are switched to banks.

Whatever may have happened in the past quarter, December could prove a turning point, as recently announced rate increases come into force. By then, at least two banks will be charging 18%, while rates of all but one society will be no higher than 17%.

The gap may be fortuitous rather than intended, as societies' rate increases were announced before the recent two percentage point increases in Bank and prime rates (to 14,5% and 18%). Banks, on the other hand, made announcements on mortgage rates after the larger than anticipated move in the two key lending rates. So societies may yet announce further increases, bringing them into line with the banks.

However, if the yield curve, already virtually flat, turns negative, they will have the advantage of cheaper money stashed away in their longer-term books and may well be able to undercut the banks.

All the institutions, of course, will be facing problems inherent in this phase of the economic cycle. As cheap loans become expensive, some householders will fall into ar-

(58) FMML 2/12/88

rears and properties in possession will mount.

With the ceiling on loans lifted in 1986, from 80% of purchase price to 90%, lenders' exposure is greater and, as a result, losses potentially higher should the coming recession prove as serious and intractable as that of 1984-1986. To keep these to manageable proportions, institutions are prepared, where possible, to extend the term of the loan.

This of course costs the client interest.

"We always make this absolutely clear," says Natal Building Society's Trevor Olivier. "A R100 000 loan at 17% will cost R440 100 over 25 years and R513 260 over 30 years."

An alternative would be to reduce capital owing but most people either can't do this or prefer to keep a measure of liquidity.

It will be a trying time for borrowers and lenders alike. And, whatever the relative advantage of funding structures, all institutions will be competing for a shrinking market as cost of loans slow down property sales. ■

LEARNING: AN EARLIER KICK-OFF!

By NKOPANE MAKOBANE

THE Department of Education and Training has decided to make provision for the pre-school training of five-year-olds in order to give them a sound foundation for their basic education.

Mr Richard Chernis, the DET's public relations officer in Pretoria,' said this decision had been taken because not all children receive preparatory education at home or at pre-primary institutions before the age of six

This year, the DET introduced a "bridging period" at a number of schools to determine if many young beginners are ready to enter school

Last week, Mr Sam de Beer, the deputy Minister of Education and Training, announced that the under-six bridging period introduced should be functioning at all schools, including farm schools by 1992

Mr Chernis said the one-year pre-school training (bridging period) can be accommodated at a public school. He said it will most probably become part and parcel of the public schools' curriculum later on

"The possibility of accommodating the bridging period classes in the final year of pre-primary schools exists. The education of 3 and 4-year-olds is still seen as being the responsibility of the community.

"Attendance during the bridging period will not be compulsory for the five-year-olds, but it will be compulsory for the six-year-olds who may not yet be school ready."

According to Mr Chernis, the DET has appointed a task force to investigate all factors relevant to the bridging period of education in order to plan effectively on this educational programme

The terms of reference of the task force will include, the curriculum, finance, the training of teachers, the provision of facilities, subsidies and parent involvement The select group comprises of both black and white officials and a strong contingent drawn from the private sector, universities, city health departments, colleges and the Human Science Research Council

The task force will also consider the possible extension of the bridging period of education to the pre-school training which the 3 and 4-year-olds should receive. It will mesh the "bridging year" concept with the basic education programme

"The magnitude of the task is indicated by the fact that there are about 250 000 five-year-olds, including children on farms, in the area resorting under the jurisdiction of the DET

"The successful introduction of the bridging period is the best way of ensuring that these children will be ready for school when they commence their school careers. The task force faces a formidable challenge as far as the successful incorporation of the bridging concept is concerned.

"Careful, innovative, far-sighted planning of this group and the implementation of its ideas will, we trust, eventually lead to much more effective schooling at all levels The DET accepts the challenge this exciting new development has brought about," he said

Mr RICHARD Chernis
. . . DET's PRO.

THE MECHANICS OF AN INTEREST RATE JUMP

(58) WMAIL 2-8/12/88

SOUTH AFRICANS have heard all week that they should brace for another round of interest rate increases in the new year. But how do the dynamics of the money market make this inevitable?

Pressures building up in the money market indicate that this month's jump of two percentage points in banks' prime overdraft rates might be followed by another rise in the new year. And it seems only a matter of time before building societies raise bond rates again.

Certain bankers are already calling for another increase in prime overdraft rates after the three-month liquid bankers' acceptance (BA) rate hit another three-year high of 16 percent on Monday this week.

A BA is a bill of exchange, somewhat similar in concept to a post-dated cheque, issued by banks to companies needing finance. A liquid BA is created to finance transactions directly linked to the movement of goods. Once issued, BAs are traded freely in the secondary market.

Because the rates on BAs vary daily, they are watched closely for an indication of what will happen to less flexible interest rates — the rates paid by consumers and companies on bank overdrafts, personal loans and hire-purchase transactions.

Another important money market rate, indicating building societies' cost of funding, is the one-year rate on negotiable certificates of deposit (NCD). With these rates currently at 17 percent and more, building societies' margins are squeezed and they are likely to raise bond rates from the current levels of about 17 percent.

What triggers interest rate movements in the money market, movements which eventually filter through to everyone? An interest rate is the price of money. For instance if you keep money in your pocket, the interest foregone because you did not put it in the bank is the price paid for the money.

The greater the demand for money — or credit — given a certain level of supply, the higher will be the price of money, or the interest rate.

As the demand for credit from both consumers and companies soared this year, interest rates had to rise. The only way to avoid that would have been for the Reserve Bank to print more money, debasing the currency and adding to inflationary pressure.

As it is, the Reserve Bank provided too much credit, prolonging the spending boom. It put off raising interest rates and by its own admission pumped too much money into the system.

As a result, bank credit extended was 30 percent higher than last year, growth in the money supply was running well above target at about 26 percent and South Africans were spending more than they produced.

Domestic spending is expected to rise by about seven percent in real terms this year, while the gross domestic product will grow by only three percent in real terms. The economy was overheating and South Africa's economic policy makers had to raise rates to stop the party.

For too long, South Africa's interest rates were too low in relation to overseas rates. As a result, South African companies settled overseas trade debts and switched to domestic credit — the reason behind the short-term capital outflows. Only higher interest rates could stop the capital drain.

From a macro-economic point of view, the higher interest rates serve the dual purpose of cooling the spending boom and stemming further capital outflows. From a market point of view, interest rates had to rise to reflect the price of money — where demand equals supply. If demand continues to be strong, there may be yet another increase in store for consumers.

But in time, consumers' and companies' demand for credit will diminish.

As Reserve Bank Governor Gerhard de Kock put it: "The short-term economic stabilisation problem confronting South Africa at present is no mystery disease. It is a fairly common ailment that is relatively easy to diagnose — namely, excessive money creation and spending."

Once the disease is cured, rates could fall. In the meantime, the dice is loaded in favour of the savers and not the borrowers.

Jean MacDonald

Cpt Times 2/12/88 58

R73 000 heist: Bank workers take lie test

DURBAN. — About 10 employees of a First National Bank branch here took lie-detector tests as part of an investigation to find out who had stolen R73 000 from automatic teller machines.

Three employees at the BOB service centre at Greyville failed the tests and have been transferred out of Durban to other branches.

The R73 000 was taken over two weekends in September from BOB machines in the centre of town and at the University of Natal, Durban campus.

Mr Jimmy McKenzie, senior general manager, public affairs, of First National Bank, said: "There is no question: The money was taken out of the backs of the machines in very suspicious circumstances."

Both the bank and the SAP investigated the theft.

Mr McKenzie said most of the staff involved agreed to undergo lie-detector tests "because we had an idea who was responsible". One person refused to on principle.

Mr McKenzie said: "Three people did not come out of it well, but the whole thing was not conclusive. These three have been moved to other jobs outside the centre.

"It is very difficult, and the proceedure was extremely carefully monitored."

As the investigation was not conclusive, nobody had yet been arrested, but Mr McKenzie said he anticipated catching the thieves.

One of the employees at the service centre said 10 people there undertook lie-detector tests. "You did not have to, but if you did not, you would have been questioned and implicated."

The employee said the transferred people started their new jobs yesterday. Their colleagues felt it was very unfair to single them out when no arrests had been made.

They had appealed to the bank employees' union, but it was unable to help, he said.

"Two people would have had to be involved to take money this way," the employee said. — Sapa

(58) Fmail 2/12/88

LIFEGRO

Momentum's embrace of life

The reconstruction of Lifegro has inspired a number of market rumours. Part of the reason is that the announcement is not seen as particularly enlightening; another is that some of the impact of the reconstruction is implied rather than stated.

The main change is that Lifegro will be injected into Momentum Life. Lifegro will be delisted and simultaneously Momentum will be listed, Lifegro holders being offered 95 Momentum shares for every 100 Lifegro, based on a Lifegro price (calculated by the consulting actuaries) of R2 a share.

The major shareholders will be Volkskas and Remgro, with 63,4% together. Executive directors of the combined company will be Blignaut Gouws (executive deputy chairman), Neil Krige (MD) and Peter du Toit (executive director).

The scope of the rationalisation is wide. There will obviously be ruthless staff cuts, which will assist the "considerable savings in costs" mentioned in the announcement. Gouws says a scheme is being worked on which will lead to a considerably leaner organisation, but that, as Momentum is a much smaller group, a number of people will be transferred from the Lifegro life fund to Momentum's. Other benefits are synergistic, resulting from the pooling of management skills and application of technology.

Du Toit's investment section is the only one praised in the announcement: he is retaining his full team and staying in the prestige Sandton head office, together with the pensions section.

The pensions division will continue to write business, but not the life section. Though it has been suggested this is because no one wants to buy a Lifegro policy any more, Gouws says the focus has changed and new life business is being written by Momentum, adding that the way to sort out problems resulting from extremely rapid growth is to cut growth substantially.

In fact, it is being stopped entirely in Lifegro itself, except for pension fund business. So new business strain, one of Lifegro's main problems in 1986-1987, will work itself out. The life fund will then be a major cash generator, especially as Momentum's costs are about half Lifegro's, which can thus be expected to fall sharply.

Du Toit sees this as a reason why policyholders will benefit from the reorganisation: "They will harvest the existing funds, which will mean benefits in terms of bonuses as the funds will become extremely profitable in the next five years." Gouws points out that they will enjoy the same investment policy, but with considerably reduced costs.

His attitude is entirely different from the previous management's, though he suggests only that they were planning too far ahead, as when building the Sandton offices, and that the environment has changed. The economic outlook is difficult and the tax situation has changed considerably.

"Now a life assurer has to be much more cost-efficient," he says. "It will be companies which invest well and have the lowest costs that ultimately make it in the current climate. We are putting the best and strategic parts of two organisations together."

Krige, an actuary, was at Sanlam, in marketing and investments, before joining Rembrandt to look after its life assurance interests. A new actuary, Julian Thistleton, with Lifegro for some time, replaces Henry Worthington, who retired in September.

The alternative to the reorganisation which Gouws and Du Toit paint is not pretty. Gouws says an injection of between R150m-R200m would have been needed if Lifegro had continued to grow at its recent pace (at the current price of 160c, market capitalisation is R83m). Du Toit estimates that it would have taken 10 years to sort out the problems, whereas both he and Gouws suggest that it will now take about 18 months.

No dividend is to be paid this six months; it has been left open whether any will be paid in January-June. Gouws explains that it would be imprudent to promise a dividend then when none will be paid now. But the board is confident that by the year to June 1990 not less than 12,5c per Momentum share will be paid, equal to 11,9c per Lifegro.

Lifegro's Gouws ... more cost efficient

Gouws is adamant that there are no further skeletons: all but about six of the Fenton policies have been repaid and all losses have been written off.

The question is at what price the share will be cheap. It fell to 150c, well below the actuarial estimate of 200c, before rallying to 160c. This would seem cheap enough, but some analysts point to the relative prices of other life assurers and suggest that Lifegro will only be a buy around 140c. *Pat Kenney*

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Old Mutual gains market share

Innovative product must promote industrial harmony

Old Mutual has developed an innovative negotiating framework in the employee benefits area called BridgeBuilder.

Employee benefits business is very important to Old Mutual and currently comprises mainly traditional pension funds.

There has been a strong call for employee benefit arrangements that are considered to be more suited to the times and to the worker, and for more participation by and consultation with employees in the design of benefit structures and the management of funds.

In response, Old Mutual has developed an innovative framework called BridgeBuilder, which enables participation of employee groups and unions in the decision-making and control of all aspects of benefit funds to which they belong. The process involves the identification of the needs of groups of employees, defining the benefits best suited to these needs and the determination of appropriate vehicles.

Old Mutual's chairman, Dr J G van der Horst, said he was proud of the pioneering role that Old Mutual was playing in resolving employee benefit problems. "I believe this must be a positive factor in promoting industrial harmony in South Africa."

Dr J G van der Horst, chairman of Old Mutual

"Tax increase has negative effect on benefits"

"The increase of 75% in life assurers' tax rates has had a negative effect on the level of benefits paid to policyholders," Dr J G van der Horst said at Old Mutual's annual general meeting.

"During the year the South African tax rates applicable to taxed life assurance business were increased by 75%. This added R58 million to our tax bill which increased to R138 million.

"This naturally had a negative effect on the bonus rates that could be declared in respect of South African taxed business. Moreover, for as long as the increased tax rate applies, it must have an impact on the level of benefits that can be paid to policyholders in the future."

Dr Van der Horst warned strongly against comparing the tax paid by life assurers with the operating result shown in the balance sheet.

"This is fallacious in two respects. About 70% of our assets relate to pension fund and annuity business. This is not taxed in the assurer's hands, but attracts full tax in the recipients' hands when benefits are paid. The tax we pay therefore relates to only 30% of our business.

"Secondly, premiums are the largest constituent of income received, and the predominant portion of premiums must be set aside to provide for payment of future benefits. The excess of income over expenditure is an inappropriate measure of taxable income."

"Old Mutual produces outstanding achievements year after year and the 1988 financial year was no exception, with our total assets exceeding R28 490 million - an increase of R2 430 million despite the fall in the share market during the financial year," said Dr J G van der Horst, chairman of Old Mutual, at the 143rd annual general meeting in Cape Town.

According to the latest figures of the Life Offices' Association, Old Mutual's market share of the South African life assurance industry's assets has grown to 35%.

"To the total assets of over R28 490 million should be added more than R2 800 million of funds under management on behalf of unit trusts and pension fund clients, not included in Old Mutual's balance sheet.

"Outstanding growth was recorded in all areas, with many new milestones being reached, confirming Old Mutual's position as the undisputed leader of the South African life assurance industry," he said.

Dr Van der Horst ascribed the continued growth to strong client orientation, a progressive and innovative spirit, outstanding investment performance over a sustained period of time and great financial strength.

He added that one of the measures of Old Mutual's success was the benefits it paid to policyholders - the ultimate reason for its existence.

"During the past year, R1 820 million was paid to policyholders, fully a third more than in 1987, and when inflation is taken into account, double what it was five years ago.

"This means that on average over R7 million is paid out every working day.

"A particular feature is that annuity payments have become the single biggest type of benefit payment, amounting to R487 million. Death and disability payments totalled R387 million and maturity benefits R323 million."

Growth in premium income received provides an indication of the support enjoyed by Old Mutual from the insuring public. **During the year premium income increased to R4 937 million, which is more than four times the amount received in 1983. Even after allowing for inflation, this represents real growth of more than 100% over the five years.**

During the year recurring premiums, which are the foundation of Old Mutual's business, grew by over 38% to R2 995 million, representing over 60% of premium income.

Total income from premiums and investments grew to a remarkable R6 741 million, which is some R27 million per working day.

New business is the lifeblood of Old Mutual. **During the year, 566 000 new policies were issued to individuals.** This represents over 2 200 per working day, the highest ever reported in the local life assurance industry.

FlexiProgram, Old Mutual's universal life product introduced four years ago, was responsible for by far the greatest proportion. "It is pleasing to note that despite its size, Old Mutual's share of the market has been rising steadily over the years. For example, the share of individual recurring premiums has risen by an average of 0,5% per annum over the past five years."

Our accounts show an operating result of R4 081 million, which is the amount by which income has exceeded outgo during the year. This amount has been transferred to the reserve funds that need to be held to provide for the payment of future benefits.

OLD MUTUAL

High accident rate a national issue which demands priority

During the past financial year, Old Mutual and its short-term associate, Mutual & Federal, paid out approximately R187 million in respect of motor accidents. During 1987, some 10 000 people died on South African roads and 107 000 were injured. These statistics represent one death for every 448 vehicles.

"I believe this situation demands the highest priority as a national issue and should be tackled with vigour and determination," said Dr J G van der Horst at Old Mutual's annual general meeting.

"A large amount of the wealth of our country is being dissipated on our roads. The cost arising from road accidents is appallingly large in terms of rands and cents, foreign currency, productive capacity lost and in terms of human suffering.

"Unquestionably this is a complex problem and one should beware of arriving at superficial conclusions. Even so, I would like to make a number of observations regarding contributory factors. It is useful to draw comparisons with circumstances in other countries, especially in those where the fatality rates can be shown to be dramatically lower than in South Africa."

In the USA, the top speed limit has recently been increased, but only to 65 mph (104 km/h) and this is applicable only on interstate highways. All vehicles are subject to an annual roadworthy exam-

West Germany has no speed limit for ordinary motor cars on the motorways, but there are strict limits and other conditions for buses and trucks.

Traffic law enforcement is very strictly applied and there is a strong culture of observing basic safety rules.

In South Africa, the speed limits are high, and the high correlation between speed, accidents and fatalities is undoubted. Drivers are licensed for life. Vehicles are normally subject to roadworthy testing only on change of ownership.

Dr Van der Horst believes there is a poor public attitude towards traffic law observance and law enforcement officers

"When one considers this environment, is it surprising that our accident rate is so appalling? The ratio of road deaths per vehicle is 60 times higher than in the USA, and over 9 times higher than in the UK. The deaths per million kilometres travelled are 4 times higher than in West Germany.

"I hesitate to advocate a specific solution. One possibility is to re-examine

CONTRACTUAL SAVINGS WILL PLAY

an napproprate measure of taxable income."

487 million. Death and

CONTRACTUAL SAVINGS WILL PLAY PIVOTAL ROLE IN FUTURE ECONOMY

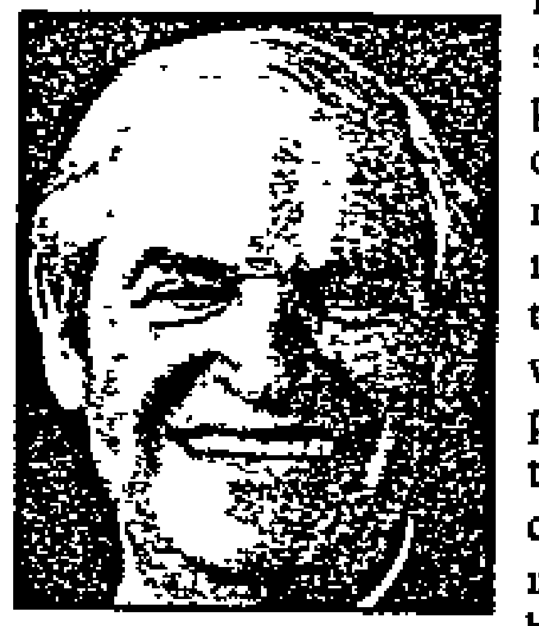
"The life assurance and pension fund industry plays a vital part in mobilising valuable personal savings and with the advent of foreign capital sanctions, the contractual savings industry will clearly play a pivotal role in deciding our economic future," remarked Dr John Maree, chairman of Eskom.

Dr Maree seconded the motion for the adoption of the report and financial statements at Old Mutual's 143rd annual general meeting.

"Were it not for the outstanding performance of contractual savings, one shudders to think what the personal savings ratio would have looked like."

Dr Maree expressed his concern that the economy was not strong enough to create the between 350 000 and 380 000 employment opportunities needed every year to ensure that the unemployment rate did not escalate to even more socially unacceptable levels in future.

"In the last six years the growth in employment outside the agricultural sector averaged a disturbingly low 0,2% p.a. or roughly 10 000 new employment opportunities every year. There are various reasons for the poorest economic growth phase in our post-war history, but one basic truth cannot be overlooked



Dr John Maree

Fixed investment spending, the engine of growth in any economy, suffered a dramatic collapse over the last six years - declining as a percentage of GDP from 28,3% in 1981 to 19,2% in the second quarter of 1988.

"When an economy is not investing in new factories, buildings, machinery and other forms of capital stock, new employment opportunities will not be forthcoming.

"Investment, however, needs to be financed.

"Not only has the option of foreign funding been greatly reduced, but as a country we are committed to repay some outstanding foreign loans every year.

"It is therefore clear that South Africa's economic future is largely going to be shaped by the performance of our investment spending, which in turn will be wholly dependent on the amount of domestic savings we will be able to generate.

"As the chairman pointed out, the most worrying aspect of our national savings effort is the individual's performance. Expressed as a percentage of total savings in the economy, personal savings now only represents 7%.

"Personal savings potentially represent a very stable pool of savings available for the financing of investment activity.

"A strong and sustainable expansion in our real capital stock in future years will be highly dependent on the creation of not only a larger supply of savings, but also a far more stable supply."

Dr Maree remarked that there were clearly two distinct levels of enterprise in the South African economy - that of the small-scale entrepreneur, whether in the formal or the informal sector, and that of the larger corporation with its diffused ownership.

"For a healthy economy both these levels need to be healthy

"Considerable attention is being given to stimulating the informal sector of the economy as it is an important creator of jobs.

"While it is important that we achieve a better balanced economy, this does not detract from the continuing importance of the formal sector in providing the basis of future growth.

"The large corporation can assume risks and has capabilities and a scope of enterprise which is beyond the reach of small businesses individually or even collectively.

"To undertake large projects requires large amounts of capital," Dr Maree said.

"Life assurers, which mobilise the savings of many thousands of policyholders, make a very important contribution in that this accumulated financial might can be combined with the managerial and technological resources of the larger corporation to get productive initiatives on the move.

"I believe that we should give greater credit than we do to institutions like Old Mutual for the role that they play in the economic development process and in the stimulation of activity.

"It is with these thoughts of the vital contribution that Old Mutual, as the principal life assurer of South Africa, makes to the progress, development and general wealth of our country that I have pleasure in seconding the chairman's proposal for the acceptance of the report and financial statements," he said.

J W S Jooste

L J Holtzhausen

C C Newell

J B van der Westhuizen

F J Olivier

Dynamic team strengthened

During the past year various changes have taken place within Old Mutual's general management.

In June this year, Mr Mike van Greunen, general manager (individual life), proceeded on pre-retirement leave after 30 years' service. He made a very valuable contribution to the progress of the Society and was wished well in his retirement.

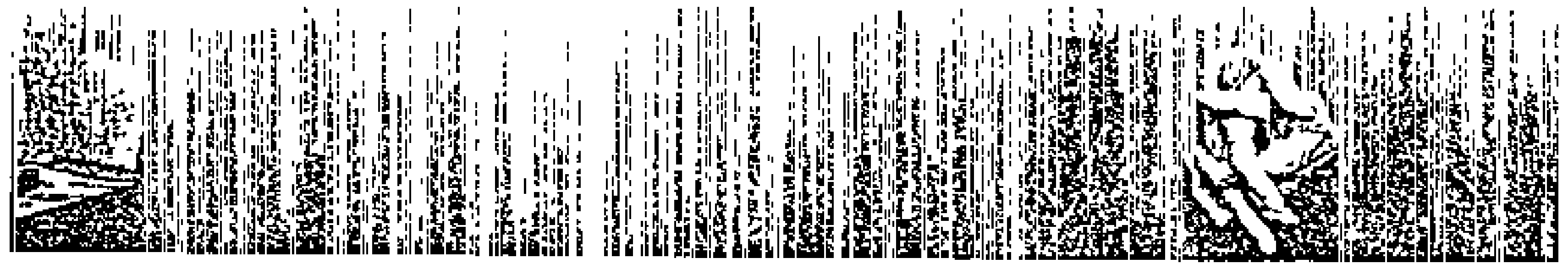
Mr Van Greunen was succeeded by Mr Bobbie Jooste, formerly assistant general manager (agency sales).

Mr Louis Holtzhausen and Mr Chris Newell were both promoted to assistant general manager (employee benefits).

Mr Bastiaan van der Westhuizen was promoted to assistant general manager (sales development) and Mr Fritz Olivier to assistant general manager (agency sales).

Dr J G van der Horst concluded his chairman's address by thanking the deputy chairman, his fellow directors on the board and the chairmen and directors of the regional boards for their support and contribution towards the Society's progress.

"I would also like to give a special word of thanks to the managing director, general management, managers and staff throughout the organisation for the way in which they have handled the Society's affairs."



Old Mutual's managing director, Mr Mike Levett (centre), discusses the annual financial statements in the annual report to policyholders with two of the directors. They are Mr Len Abrahamse (left), who has been deputy chairman of Old Mutual's board since 1985, and Mr Jan Pijper, a former general manager who joined the board in 1976 after retiring.

More personal savings needed to build economy - Dr V.d. Horst

Old Mutual's chairman, Dr J G van der Horst, has strongly disagreed with the recommendation by the Margo Commission that sought to impose heavy taxation on one of the few savings media that has successfully mobilised savings and created capital.

"The recommendations of the commission that a much more severe tax basis should be applied to life assurers is surprising Following these recommendations we have suffered a totally arbitrary increase of 75% in tax payable in the 1988 Budget.

"All savings are important, but long-term capital formation such as that generated by life assurance, is especially important.

"It is channelled into long-term investments, so necessary for development of infrastructure and job creation

"Moreover, it is not capable of being withdrawn at short notice, when demand for goods and services increases

"At a time when South Africa's savings performance has deteriorated markedly and the personal savings ratio has fallen to a historic low of 2,1%, I find it disappointing that life assurance, one of the most successful instruments to enlarge the pool of savings, has to carry a heavier tax burden."

Dr Van der Horst pointed out that whereas net domestic savings on average comprised 13,7% of GDP in the growth years of the sixties, and remained at that level in the following decade, it fell sharply from a high of 21,7% in 1980 to 6,3% last year.

"A disturbing feature of this deteriorating trend is the position of the individual.

"Up to 1980 individual South Africans saved some 10% of disposable income.

"Since then this personal savings ratio has fallen to reach 2,1% by the first half of 1988."

Dr Van der Horst believes this change in savings behaviour can be attributed to four broad trends.

First, the demands of Government on the income of the individual have increased greatly since 1980.

The need for increasing tax revenue has arisen from the rapid growth in public sector spending - rising by 20,8% per annum on average and in turn leading to a sharp rise in the tax burden of the individual.

Apart from the rise in GST from 4% in 1980 to 12% in 1987, the claim of direct taxes on the individual's gross income rose from 6.6% to 11,5% over the same period, ultimately reducing savings ability.

Second, inflation escalated further in the eighties, partly fuelled by the increasing level of public sector spending.

In the previous decade inflation averaged around 9,9% per annum and over the last eight years this average has risen to 14,8% per annum, with a peak level of over 20% per annum reached early in 1986.

These higher rates of inflation placed further pressure on the financial position of the individual, leaving him with less scope to save.

Moreover, the consistently high inflation rates experienced since the early seventies created a strong expectation that prices would continue to rise by more than 10% per annum, and this promoted spending rather than saving.

Third, the growth performance of the economy has deteriorated sharply during this decade.

Even taking into account the boom years of 1980 and 1981, real GDP growth averaged less than 2% per annum over the current decade compared with 4,3% in the sixties and seventies.

The income growth of the individual showed a similar deterioration over these periods with the disposable income per capita of South Africans falling by 15% over the last seven years. Against this background the individual, not surprisingly, cut back on his savings in an attempt to maintain a standard of living that was coming under great pressure.

Fourth, apart from these developments that reduced the ability of the individual to save, there was in fact very little incentive to save. In an environment of high inflation, interest rates did not keep pace.

Consequently, savers did not receive a positive real return on interest-bearing investments.

"In an economy facing the prospect of exporting capital on a net basis for at least the next few years and rising domestic demands for capital spending, a turnaround in these disturbing savings trends is imperative," believes Dr Van der Horst.

"A policy aimed at an improvement in personal savings will have to take account of the factors mentioned earlier.

"Current Government spending will have to be curbed, the inflation problem will have to be addressed and the level of interest rates should at all times provide a positive real return," Dr Van der Horst said.

"A package that includes these elements will also improve the growth potential of the economy and thus enlarge the potential pool of savings we so desperately need for prosperity.

"It is against this background that the recommendations of the Margo Commission that a much more severe tax basis should be applied to life assurers is surprising.

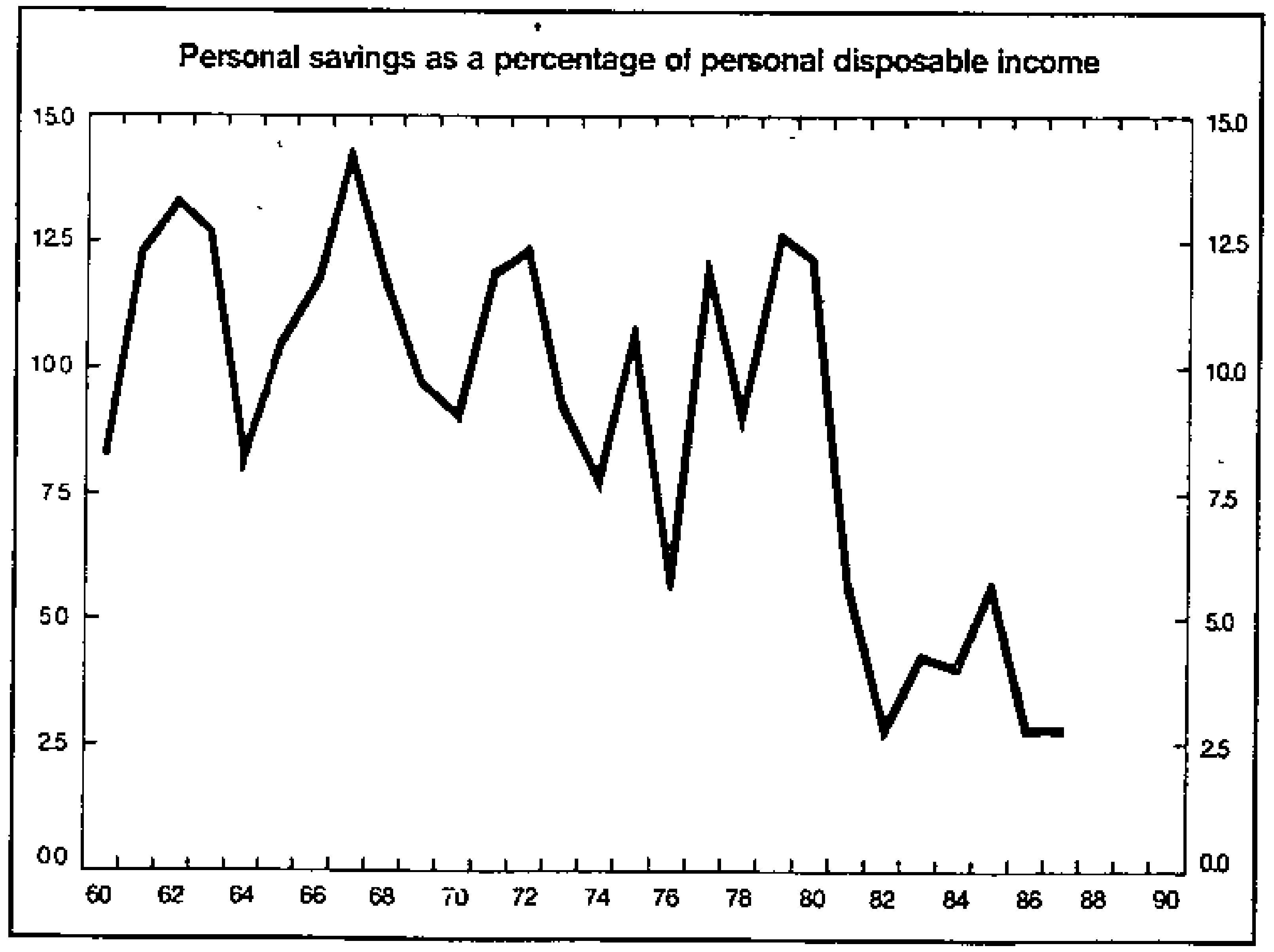
"I have great difficulty with a policy that seeks to impose such heavy taxation on one of the few savings media that has successfully mobilised savings and created capital.

"The importance of long-term capital formation such as that generated by life assurance, is especially important.

It is channelled into long-term investments so essential for development of infrastructure and job creation.

"Moreover, it is not capable of being withdrawn at short notice, when demand for goods and services increase.

"It is in this light that I would like to see individuals encouraged to invest with life assurers and not discouraged by means of heavier taxation," Dr Van der Horst concluded.



interstate highways. A

vehicles are subject to an annual roadworthy examination, and in most states drivers are subject to retesting every four years.

In the UK, the speed limit is only 70 mph (112 km/h) on motorways and less on other roads. All vehicles over 3 years old must be tested annually for roadworthiness.

[illegible]

specific solution. One possibility is to re-examine the speed limits applicable, and the seriousness with which they and other traffic laws are observed.

"The second is to introduce stricter systems regarding the licensing of drivers and the licensing and roadworthy testing of vehicles."

STN 3/12/84 (58) (20)

Widows need investment skill

THE saying goes you can't replace the husband or father but you can replace the breadwinner.

This implies that the husband, by providing sufficient life insurance and pension provision, can ensure the family unit maintains its standard of living on his death.

However, in these inflationary times there is a tremendous responsibility on the widow to invest wisely.

Let's assume the husband at the time of death earned R3 000 a month. If he were still alive and his salary increased by 12 percent a year he would have earned R16 420 a month in 15 years' time.

Care has to be exercised so investments bring in comparable remuneration.

There are two basic types of investment: income-bearing and growth investments.

An income-bearing investment is used to supplement the widow's pension and gives a monthly income. A growth investment grows faster than inflation after taking tax into consideration.

With income investments, the value of the capital is eaten away by inflation. At 12 percent inflation, R100 000 today will be worth R18 269 in 15 years' time.

Even if the interest is reinvested, this type of investment does not keep pace with inflation. You might invest at 14 percent interest and capitalise your interest at 14 percent. But at a 35 percent tax rate, your net interest after tax will be 9,1 percent.

Your R100 000, so invested, would be worth R65 128 in 15 years.

So only what is necessary should be invested in this type of investment.

A growth investment in a South African context entails a certain amount of risk. The widow needing money in one or two years' time, and putting capital into a growth investment is speculating.

A growth investment needs time, perhaps a minimum of five years.

The secret is balance: sufficient income to live on, against time for real growth on growth investments, and the conversion from one to the other when necessary.

Reassurance on Bank Rate

THE Reserve Bank has decided to keep its Bank Rate unchanged at 14,5 percent for the time being — and maintains it sees no need for any further increase in the prime overdraft rates of commercial banks above the present 18 percent.

In addition, Reserve Bank Governor Dr Gerhard de Kock said the Reserve Bank had indicated to the banks it will counter the anticipated seasonal tightening of money market conditions in December by means of repurchase agreements and other forms of open market operation.

"In this way it will act to prevent purely seasonal forces from unduly raising the cost of call money and other funds to banks.

ROY COKAYNE

"In no way however, does this imply any easing of the underlying basic monetary policy. It remains the objective of monetary policy to reduce the rates of increase in the money supply and total spending to counter inflation and strengthen the balance of payments," Dr de Kock said.

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3/12/88

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Fuel levy

He said the decision to keep the Bank Rate unchanged followed the joint statement issued on Thursday by the Minister of Economic Affairs and the Minister of Finance on the Government's accounts for the current fiscal year and the 10c a litre additional levy on domestic fuel sales.

He said what was of particular importance from the point of view of monetary policy was the firm indication that the actual deficit before borrowing for the 1988/89 fiscal year will be about R10,6 billion.

Dr de Kock said this figure exceeded the original Budget estimate by only R700 000 million and was considerably smaller than many of the estimates that had done the round in financial circles in recent months.

"On the basis of this new information the monetary authorities see little difficulty in financing the deficit before borrowing in a sound manner and without putting undue pressure on interest rates," he said.

Bank chief acts

Interest rates won't go up 'for time being'

Cape Times 3/12/88 ⑤⑧

By AUDREY D'ANGELO
Financial Editor

INTEREST rates will not rise any further "for the time being", the governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

Yesterday he acted to dispel fears that the prime lending rate to favoured customers might rise even more, pushing up mortgage bond and other interest rates Dr De Kock announced that the Reserve Bank had decided to keep its bank rate unchanged at 14,5%

"The bank also sees no need for any further increase in the prime overdraft rates of commercial banks above the present level of 18% "

The statement, following Thursday's shock announcement of a 10c/l rise in the petrol price, makes it clear that the authorities think the demand for credit has been dampened down enough

Economists said yesterday that the rise in the petrol price would help the government to raise more money without increasing direct taxation

Deficit 'about R10b'

Dr De Kock said indications were that the government's deficit before borrowing for the 1988/89 tax year would be "considerably smaller than many of the estimates that have in recent months done the rounds in financial circles"

He said the deficit would be about R10,6 billion "This figure exceeds the original budget estimate by only R0,7 billion.

Although total spending, output and general economic activity were still high, "the cyclical upswing in the economy appears to have levelled out",

The increase in the money supply seemed to be slowing down and demand for bank and building society credit was moderating.

The annualised surplus on the balance of payments current account had increased from just under R1 billion in the second quarter of 1988 to R4,5 billion in the third quarter.

The net outflow of capital from South Africa, not related to reserves, which was R2,1 billion in the second quarter of 1988 and R2,4 billion in the fourth quarter, had diminished

Gold and foreign exchange reserves had increased from R4,6 billion at the end of October to R4,9 billion at the end of November.

The commercial rand had risen by 9,8% against the dollar between November 1 and December 1.

Dr De Kock said there was no intention of stimulating the economy again at present. Monetary policy was still to slow down the growth of the money supply and total spending "in order to counter inflation and strengthen the balance of payments"

Peace deal: Delay over who will sign

Cape Times 3/12/88 ⑤ 221

From ORMANDE POLLOK

BRAZZAVILLE. — South African attempts to involve President P W Botha in the signing of the final Angola-Namibia peace agreement are understood to be one of the issues holding up current talks.

Earlier indications were that deadlock had been reached about a South African demand that it had to be "satisfied" with procedures to monitor the Cuban troop withdrawal.

However, according to some sources this was not the only reason They said the Cubans and Angolans did not want to involve heads of state and wanted the final agreement signed as early as mid-December, not mid-January as proposed by South Africa.

It is understood the South African government believes the agreement to be so important that it should be signed by heads of state and may even have offered to host the signing in South Africa.

Foreign Minister Mr Pik Botha met US Under-Secretary of State for African Affairs Dr Chester Crocker yesterday afternoon and there was speculation that Soviet Deputy Foreign Minister Mr Anatoly Adamishin would be asked to deal with the Cubans.

Wind blows while the sun shines

Staff Reporter

THE good news is that the sun is expected to shine this weekend, but the bad news is that the south-easter will be blowing.

This was the prediction yesterday of the weather bureau at D F Malan Airport.

A free concert today and a children's Christmas carnival tomorrow, both originally planned for the Grand Parade, have both been moved to the central station because of the wind.

Today's expected maximum and minimum temperatures are 15 and 25 deg C.

Hijackers in $2m surrender

LOD, Israel — Five armed hijackers carrying $2 million (about R4,5 million) surrendered peacefully yesterday soon after their commandeered Soviet plane landed in Israel, ending an ordeal that began with a robbery and the abduction of 30 Soviet children.

Eight crew members on board the Ilyushin-76 were released unharmed to Israeli soldiers when the episode ended less than an hour after the plane landed at Ben Gurion Airport at 5.47pm (3.47 GMT). The hijackers — a woman and four men — handed over a shotgun, four pistols and the $2 million when they surrendered.

The drama began on Thursday in the Soviet Union when four armed men were involved in a robbery. Later, at a remote airport in the northern Caucuses, the four men commandeered a busload of 30 children, their teacher and driver in the city of Ordzhonikidze, demanding that they receive a large amount of money and a plane to fly them to Israel, South Africa or Pakistan, Soviet officials said. — UPI

December 7.

resigned as director at the end of September this year.

standing.

Cape Times 3/12/88 (58)

No defections from the CP

Own Correspondent

JOHANNESBURG. — All 12 CP councillors in the Boksburg town council — including chief whip Mr T J Ferreira — yesterday enthusiastically and unequivocally declared their allegiance and support to the policies and measures taken by the CP in Boksburg.

A special fund is to be set up by nominated CP MP Mr Clive Derby-Lewis for those CP councillors who are intimidated or who run into financial difficulties as a result of threatened boycotts or other actions against their businesses.

Earlier it had been claimed that two councillors would defect to the National Party, but the CP's majority in the council remains.

Cape Times 3/12/88 (58)

NBS 'loses out' on Reef deal

JOHANNESBURG. — The NBS has lost out on a stake in a R10-million townhouse development in the southern suburbs here because it ended its agency agreement with Boksburg's CP mayor, Mr Beyers de Klerk, the party's Johannesburg chairman, Mr Fred Rundle, said yesterday.

The NBS this week said it could not reconcile the CP-controlled Boksburg town council's decision to implement petty apartheid with its stance as an equal-opportunity employer.

Ms Eileen Kovacs, a spokesman for co-marketers of the Mayfield project, said yesterday: "Because of uncertainty surrounding the business methods of the NBS the developers found it difficult to place their trust and money with the society while there is uncertainty that bonds may be withdrawn overnight because one or two people may belong to the CP."

SUNDAY TIMES, Business Times, December 4, 1988 3

by JULIE WALKER

Sasfin gets over a bad start

S8 100 S/Times 4/12/88

SASFIN is to move to the banks & financial services sector of the JSE tomorrow after more than a year on the Development Capital Market

The trade and equipment finance group chose the worst possible time to make its debut — "Our prospectus hit the desks of fund managers the day after the crash began," says managing director Roland Sassoon.

Sasfin issued 3-million shares at 60c each to raise working capital, and was listed on November 11 last year. It has traded at a discount for much of its short JSE life, but the price rallied from a low of 40c in October this year to 60c last month, and is currently 55c.

SMOKESCREEN

"We provide finance for every asset and facet of business," says Mr Sassoon. The four major areas of interest are confirming, factoring, instalment finance and export shipping.

Being one of only four listed companies which do confirming, Sasfin operates out of a London subsidiary which is registered in another country. Mr Sassoon says: "The smokescreen to hide SA connections is necessary in today's environment where the threat is always present."

SA importers need to furnish letters of credit or another guarantee to their foreign suppliers before the orders will be accepted. Sasfin's London subsidiary opens letters of credit. Payment is usually made 120 days after the goods have been shipped.

A bank's letter of credit would mean that the importer's credit facility is earmarked for the full cost on the day the order is placed, thus limiting his operating capacity.

Sasfin raises the finance from banks, and Mr Sassoon says the higher profile achieved as a public company has helped it to borrow at lower rates of interest than before. He hopes the trend will continue with Sasfin's graduation to the main board.

Sasfin also provides service in forward exchange cover, marine insurance, documentation and booking of shipping space. It offers a similar guarantee service for domestic transactions.

Factoring is about buying debt at a discount. It is a cash-flow service, freeing the assets that debtors represent. Instead of waiting for up to 180 days to receive settlement for an account, a company will discount those debtors.

It will receive up to 80% immediately, and the balance when the accounts are settled. Sasfin earns income from a percentage discounting fee.

"We offer completely confidential invoice discounting, which is a unique form of factoring," says Mr Sassoon.

Mr Sassoon believes that the rand has depreciated far enough to allow SA's manufactured goods to be competitive in the export market.

"We discount export orders before delivery. If a manufacturer gets a R1-million export order he may need finance to augment working capital in order to make the goods.

MARGIN

"We supply it, and will pay him for the whole order before it is even shipped. We can also grant credit to the foreign importer. Obviously there is a margin in it for us — it is our business."

Instalment finance can be done either through leasing, credit or operating rental. "The benefit to the client is that he pays on a deferred basis for his equipment. We tailor a tax- and cost-effective agreement to suit his needs."

Mr Sassoon says his staff to customer ratio is far higher than a bank's, and that Sasfin is able to offer a more personal service which smaller clients often believe they do not get from banks. The group employs 55.

Industry norms on gearing are enough to blow the minds of conventional accountants, but the industry definition is total debts including contingent liabilities less cash divided by shareholders' interests including preference shares.

Sasfin's is a modest 1,6, the industry norm is 8 and Mr Sassoon estimates the gearing of the average bank to be 20.

"We are undergeared because we are still growing, and because we had use of the cash from the rights issue. As our business grows, so will our gearing."

"Finance is all swings and roundabouts. When interest rates rise, instalment finance business declines, but growth in offshore financing-related business is stimulated."

APPEAL

The Reserve Bank took steps this week to encourage the use of foreign trade credits by cutting the cost of forward exchange rate cover.

About 50% of Sasfin's income is earned in sterling, giving the shares rand-hedge appeal. On an historic PE ratio of only 4,5, times shares at the current 50c have little downside, particularly in the light of poor tradeability.

Best year ever for life insura

(58)

By ROBYN CHALMERS S/Times

AIDS, big tax increases and the Melamet Commission's report on pensions were some of the issues confronting life insurance companies in 1988, *writes ROBYN CHALMERS.*

And the short-term insurers saw the beginnings of a price war. A consolation for the life companies was that it was the best business year ever — an improvement on a record 1987, in which total premium income rose 56% to R13,6-billion and investment income 16% to R4,9-billion, making total income R18,5-billion in 1987.

The industry's assets grew by at least 20% on the 1987 figure of R65,8-billion.

Old Mutual alone claimed assets of R30,5-billion at end September.

Finance Minister Barend du Plessis caused outrage among the assurers when he announced sweeping new tax measures in January.

The increase meant that a life assurer's taxable income — previously calculated at 40% of investment income and receipts from affiliated companies — rose to 70% of investment income.

Fedlife managing director Arnold Basserabie says the Standing Committee on Taxation has been meeting life assurance members to deal with the complex question of the correct way to deal with tax.

"At the moment the committee is considering evidence and formulating views. There has been a strong feeling that the investment income attributable to pension fund business should continue not to be taxed because benefits are ultimately subject to taxation and because of the need to encourage savings and provision for retirement.

"There has been a lot of talk about comparing the life assurance tax base with other financial institutions. If we accept that life business is essentially medium to long term investment and banks for example look at shorter term scenarios, can we compare them?"

AIDS is causing widespread concern throughout the world's life assurers, and SA is only now starting to take steps such as exclusion clauses.

In this country there have been more cases in the past 12 months than in the previous six years since the first two cases were diagnosed. By the end of October, 150 South Africans and 24 non-South Africans had been tested HIV positive.

But this is only the tip of the iceberg, and experts believe there are thousands of AIDS sufferers who have the disease but have not yet been diagnosed.

The problems facing assurers are enormous, and the Life Offices Association recently agreed that AIDS-related claims would be excluded from new life policies where the sum assured exceeded R200 000 unless applicants could produce negative HIV tests.

The industry has long been complaining about prescribed or Part 1 assets. There has been increasing speculation recently that they will be scrapped, and although spokesmen for the Financial Institutions Office say it is premature, they concede that there may be changes next year.

Recent speculation about the scrapping of Part 1 assets has been fired by the Registrar of Insurance, Theo van Wyk, who asked LOA executive director Dirk Geary-Cooke to assist in drawing up prudential investment guidelines for institutions.

The short-term industry has not escaped from developments causing widespread upheavals. The findings of the Melamet Commission of Inquiry are possibly the most important of these.

SA Insurance Association chief executive Rodney Schneeberger says: "Possibly the recommendation which has the greatest impact is the not-unexpected increase in solvency margins from 10% to 15% which will be bracketed with the introduction of a catastrophe reserve.

"The reserve will be built up from pre-tax profits at the rate of 2% per annum over the next five years. In addition, the FIO has stated that it will look at any companies with solvency margins under 25%.

RODNEY SCHNEEBERGER

"What this all means is that from a practical point of view, once the implementation date has been decided on, five years down the road when catastrophe reserves will have been built up to 10%, the solvency margin will stand at 35%."

Mr Schneeberger listed other important developments of the year as being:

"Insurance market computerised networking; the proposed introduction of VAT; investigations by the SAIA special perils committee into catastrophes and what can be done; taxation of short term companies; and extension of Sasria's cover to include the TBVC countries.

"Control of applications for SA business being placed overseas in the fringe market coupled with the important subject of the unnecessary export of premiums; a computerised system to help in combating fraud claims and the revised statutory returns for all insurance companies to report on."

The institution of an industry ombudsman was also an important development which was recommended by the Melamet Commission. The proposal was made in an attempt to afford extra protection to the public, and is being considered at present.

The subject of credit control — Section 20 *bis* of the 1943 Insurance Act — was dealt with this year. SAIA and broking representative Saiba put their heads together and drafted a piece of legislation which has been accepted by the FIO.

Short term insurers believe that through this legislation the whole subject of credit between interims and insurance companies will now be resolved.

The beginnings of a rate war began towards the middle of the year, to the horror of insurers and to the delight of policyholders.

There can be no doubt that the short-term industry has returned to profitability after a number of somewhat lean years, and insurance companies are reporting excellent results.

/11)

First AIDS death claims paid

S/Times 4/12/88

By CHARMAIN NAIDOO

SOUTH AFRICAN insurance companies are paying out AIDS claims for the first time.

Six death claims, and two because the policy owners became unfit to work, have been paid by insurance giant, Sanlam.

Liberty Life says it has paid out on two death claims and one disability policy.

But, insurers say, all amounts paid out were for existing "old policies". They have refused to say how much per policy has been paid out.

This is in keeping with the joint decision taken by most life assurers not to insure people who test HIV positive.

This week, Mr Johann Söhnge, senior general manager of Sanlam, expressed his growing concern.

"The disease is taking off. This year, we saw quite a marked increase in the number of policy pay-outs for AIDS deaths.

"While it is difficult to predict something like this, I believe we can expect a further increase in AIDS-related deaths in years to come."

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Steps

Mr Söhnge added that five of the six assured people who died were white and one black.

"Three of them were highly-trained professional people. The reason I have decided to reveal this is to dispel the possible belief that well educated professional people will not be affected by the disease," Mr Söhnge said.

He added that Sanlam and other life offices have taken steps to protect their policy-owners against excessive AIDS claims arising from new business.

"It is an accomplished fact that the incidence of this deadly disease, for which no cure exists, has increased strongly worldwide. South Africa will not be able to avoid an increase.

"Thousands of people are still going to die of AIDS in South Africa, but the severity of the increase in deaths is going to depend on the habits and lifestyle of people."

Sanlam, Mr Söhnge said, paid out nearly R400-million — considerably more than R1-million per day — during the latest financial year on the death of people assured by the company.

Last year's figure was R304-million.

"This is a considerable amount, but because Sanlam is the leading South African life office both as regards the amount of assurance risks covered and total annual premiums, it is comfortably within our actuarial expectations.

"Furthermore, the amount of R393-million constitutes only a fraction of our total claim payments for the financial year, amounting to R1 937-million," says Mr Söhnge.

Violence

The average amount paid out on death claims rose from R28 000 to R30 000 per person during the year.

Mr Söhnge says that diseases of the heart and blood circulation system were responsible for one third of the amount paid out, as was the case in Sanlam's previous financial year.

Cancer was the cause of some 14 percent of the death and disability payments.

Violent deaths gave rise to nearly the same large payments as diseases of the heart and blood circulation system. Road deaths alone were the cause of 19 percent of death claim payments.

The number of suicide cases decreased in respect of both individual and group assurance, compared with the previous year.

Payments on account of flying accidents, on the other hand, showed a sharp increase from R1-million in 1987, to R7.5-million in 1988.

Cusaf, Sage make pension fund running

58

S Times 4/12/88

Business Times Reporter

MANAGED pension funds continue to show positive rates of return when measured against the consumer price index.

The Business Times survey of the funds at September 30 shows an average return of 21,4% over three years, 18,6% over five years and 19,7% over seven.

Commercial Union (Cusaf) and Sage Life continue to jockey for top position over most of the periods, Sage Life coming to the fore in the longer term.

Over three years the actuaries report that Cusaf took the top spot in the third quarter with an average annual compound yield of 25%. Sage Life was second, returning 23,87% and Lifegro was third place with 22,74%.

Over four years the order remained the same, Cusaf on a return of 24,84% putting up the best performance. Sage was second with 24,49% and Lifegro third with 23,17%.

Over five years Cusaf regained top spot snatched by Sage in the previous quarter. Cusaf's return was 20,98%, Sage Life returned 20,16% and Metlife was third with 19,12%.

Over six years the order changes and Sage Life moves to the top with a return of 22,26%. Cusaf is second with a return of 21,34% and Lifegro is third with a yield of 20,18%.

Sage Life also leads over seven years with a return of 20,59%. Metlife is second with 20,40% and Cusaf third with 20,16%.

The Star
Finance

Columbia profits by consolidation

(58) StV-5/1.21.88.

As reflected in the announcement of its interim results, Columbia Consultants is on target to meet its annual forecast of R15 million earnings attributable to ordinary shareholders.

This translates into 50 cents earnings per share (EPS) at the current market price of R1,50 representing a P/E of 3,6.

At the interim stage the group has reflected EPS of 23,5 cents but with a traditionally better second half expected, management anticipate a 25 percent earnings growth for the year.

Columbia, the structure of which reflects entrenched holdings across a broad spectrum of interests, received valuable contribution to earnings from its associate companies — Crusader, Pride, Milstan, Supalek and Trimtex (all listed) and unlisted Columbia Corporate Finance (Colfin).

These investments accounted for 38 percent of attributable earnings and reflected earnings growth of 66 percent.

Subsidiary companies, Concorde, Toco and Technihire, together with unlisted Acrem and Punch Line Columbia Training (PLC), were responsible for the group's operating earnings which increased by 25 percent.

A change in the debt structure to an increased dependency on interest bearing debt, resulted in interest charges rising quite sharply. "Although there was an improvement in total debt leverage" comments CE Gordon Polovin.

BANK BORROWINGS

"Our investment banking programme necessitated a need for bank borrowings."

With interest cover in excess of ten times and liquidity rating better than standard, Columbia's financial structuring is, however, extremely sound.

Tangible net asset value per share, taking balance sheet values only into account, should reach R1,65 by year end, after providing for dividends. On the basis of valuing the groups listed investments at market value, the NAV would be closer to R2,20.

As predicted at year end the focus on consolidation has meant investment banking has been placed on the back-burner for the medium term. The group's activities, and those of its associates and subsidiaries, now reflect an ability to manage from within

Nedbank rights over-subscribed

58

Star 5/12/88

With the Nedbank Group rights offer to raise R170 million being 103,3 percent subscribed the company has had to determine the basis for allocating applications for additional shares. For the 28 287 784 Nedbank Group shares on offer applications were received for 29 216 899 shares of which 1 540 007 were applications for additional shares.

According to UAL Merchant Bank in accordance with the rights offer the 610 892 ordinary shares available for alloction have been allotted in the first instance in rounding up applicants' holdings to the next 100 shares.

Thereafter the number of shares to be allotted will be approximately 8,7 per cent of the sum of the number of shares held, the number of shares taken up in terms of the offer and the number of additional shares applied for (net of any allocation made in terms of the preferential rounding to the next 100 ordinary shares).— Sapa.

Raise cover, says broker

Star 6/12/88

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By Kaizer Nyatsumba

Householders should give serious consideration to increasing their insurance cover on personal possessions in the light of the recent increase in import surcharges, a Johannesburg insurance broker said today.

The spokesman for the South African Insurance Brokers' Association (Saiba), who asked not to be named, said the increase in import surcharges, ranging from 10 percent to 60 percent,had left thousands of householders under-insured.

Every insured householder was affected by the surcharge, he said, and it was important that householders adjusted their insurance policies to take care of the increased replacement costs.

AK645 6/12/88

All or nothing — or it's war, CP tells NBS

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The Argus Correspondent

JOHANNESBURG. — The Conservative Party has challenged the Natal Building Society to curtail its operations wherever facilities are not open to all races and has threatened to view a failure to accept the challenge as a declaration of economic war against the party.

In a statement yesterday, CP spokesman on economic affairs and technology Mr Clive Derby-Lewis said the NBS had seven days to convince the party and South Africa of its consistency, and called on it to act against "all or none".

Mr Derby-Lewis said negotiations by both Mr Tom Langley, on behalf of the Transvaal executive of the CP, and himself, in an endeavour to stop the NBS's "discriminatory action" against the CP Mayor of Boksburg, Mr Beyers de Klerk, had proved unsuccessful.

"The NBS are not prepared to see any reason in the matter and as a result the Conservative Party now challenges the NBS to curtail its operations in every city and town in South Africa where facilities are not open to all races.

"Should they not take this action, we will consider this as a declaration of economic war against the Conservative Party and its members, purely on the grounds of political preference."

The CP saw the NBS move as an attempt to hijack the democratic process in South Africa.

The NBS, he said, was creating a dangerous precedent in South Africa and were using methods "initiated by the country's enemies" to force whites to submit to the political philosophies of a handful of directors of one of the smaller building societies.

"What sort of people are prepared to cut off a man's livelihood because he does not toe their Big Business line? Is this what they call democracy?

"Should they fail to remedy what is to us a totally unacceptable situation, the CP will have no option but to notify all CP members, CP-controlled businesses and CP-controlled local authorities throughout the country of the fact that the NBS does not want to do business with Conservative Party people or bodies.

"We appeal to all fair-minded people to join us in our efforts to ensure fair play in the South African business sector. After all, anyone could be a future victim of this perfidious type of behaviour should it be allowed to continue."

No comment could be obtained from the NBS.

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SOWETAN, Tuesday, December 6, 1988

Sowetan 6/12/88

Support for NBS move

MANY South Africans have contacted the Natal Building Society in the past few days with messages of support for its withdrawing an agency from Mr Beyers de Klerk, the Conservative Party mayor at the heart of the Boksburg petty apartheid row.

Mr Brian Short, the NBS general manager of public affairs said yesterday: "We have had many calls from people supporting our stand. In fact they are going to bring their business to us. There are many South Africans out there who favour our position."

The NBS took away Mr de Klerk's agency rights after his council reintroduced petty apartheid recently with the re-erection of "whites only" signs at various places in the town.

Oil companies may also act against CP councillors who have garages in Boksburg.

The CP has said that it would urge all CP controlled-towns and members to withdraw their funds from the NBS.

Mr Short stressed that the NBS did not want to get dragged into the political arena and wanted the matter "put to rest now."

He said that the NBS would not be meeting with CP leaders "as there is nothing to discuss."

He went on: "The NBS does not have anything against the citizens of Boksburg or any other town. We want to serve all South Africans without fear or favour."

Mr Short did not see that the CP could dictate to the NBS where it did business or force it from any town.

● The president of the Friends of the Springbok Association, Mr Stuart Weaving, says it is shocking that right-wing town councillors are trying to reverse the progress made towards integration over the past ten years.

Mr Weaving spoke about the Conservative Party's Boksburg controversy at a meeting of the association at Heathrow outside London. — Sapa.

105/10/58 Cape Times 6/12/88

Eurobank ex-boss arrested

Own Correspondent

JOHANNESBURG. — Former Eurobank chairman and Pretoria advocate Mr Eugene Berg was arrested yesterday morning on charges of fraud relating directly to Eurobank and its activities, a police spokesman said yesterday.

Mr Berg, 42, appeared in the Magistrate's Court yesterday morning and was released on R10 000 bail. The case was postponed to February 20 next year.

He was prohibited by the magistrate from visiting any points of departure in SA — like airports or harbours — and was required to turn in his passport. He was also instructed not to apply for any other travel documents.

The police spokesman said the court appearance and bail were arranged with Mr Berg on Saturday.

Other court action relating to Eurobank, Eurotrust and Pretoria attorney Mr Albert Vermaas is expected to be brought before the Supreme Court today.

In the first case, the Reserve Bank will ask the court for a one-day postponement of its urgent interdict brought on November 21 which prevented Mr Vermaas, Eurobank, Eurotrust or Verco from accepting investments from the public.

A Reserve Bank spokesman said the one day postponement was necessary to finish gathering information.

In another case, at least two creditors — one of which is allegedly owed R7,5m — intend to bring an urgent application to sequestrate Mr Vermaas's estate.

CP issues challenge to the NBS

Star 6/12/88

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By Lloyd Coutts

The Conservative Party has challenged the Natal Building Society to curtail its operations wherever facilities are not open to all races.

It says that failure to accept the challenge will be viewed as a declaration of economic war against the party.

In a statement yesterday, the CP spokesman on economic affairs, Mr Clive Derby-Lewis, said the NBS had seven days to convince the party and South Africa of its consistency.

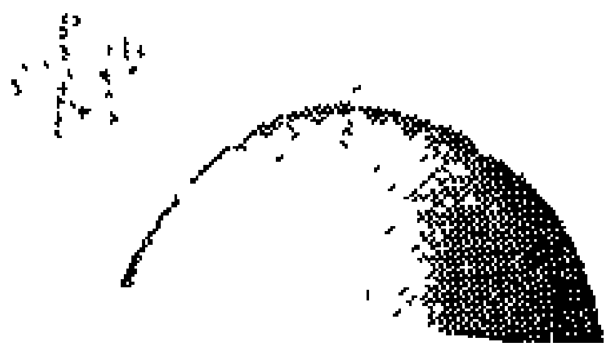
The CP called on the NBS to act against "all or none".

Mr Derby-Lewis said negotiations by both Mr Tom Langley, on behalf of the Transvaal executive of the CP, and himself, in an endeavour to stop the NBS's "discriminatory action" against CP mayor of Boksburg Mr Beyers de Klerk, had proved unsuccesful.

The CP saw the NBS move as an attempt to hijack the democratic process in South Africa. "What sort of people are prepared to cut off a man's livelihood because he does not toe their big-business line? Is this what they call democracy?"

Trevor Yeoman has been appointed director of administrative services at Caltex Oil (SA).

Rian Kotze has been appointed retail marketing director of Caltex Oil (SA).



'Rates near cyclical peak'

7/12/88

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Financial Staff

INTEREST rates are probably near a cyclical peak provided the government exercises a measure of fiscal restraint, says Anthony Gibson, senior investment manager at Syfrets.

He says in the company's investment newsletter, Money Matters, that any further rise depends on whether economic activity and consumer demand for credit will cool in response to the prevailing level of interest rates.

"Although in the last economic cycle it required a sustained 25% prime overdraft rate to achieve this, early signals are that consumer credit demand is receding at present."

He thinks that, in the light of the tightrope the country is walking between currency constraints and the need to grow, it is likely interest rates will peak within the next three to six months, with a gradual downward cycle commencing by the third quarter of 1989.

Money Matters also examines the relationship between the level of SA's economic growth and the imposition of financial sanctions.

Syfrets notes that the Governor of the Reserve Bank Gerard de Kock recently told an investment conference that capital outflows since the beginning of 1985 had been an enormous R22bn.

Due to debt repayments, the country's gold reserves have been reduced by 56% since the beginning of 1985. And SA's gold reserves of 3,26m ounces are lower now than for at least the past 30 years.

"The total balance of payments problems facing SA are very serious indeed and, given the capital outflows, the country's reserves are under more threat now than in 1983/84 when the prime overdraft rate increased to 25%," says Syfrets.

What this means for SA is that the country's healthy growth trend cannot be sustained.

The excess growth of the past 18 months has placed a serious strain on SA's depleted foreign exchange reserves.

"Being a developing country, rapid growth in SA tends to be characterized by a sharp rise in imports of both plant and machinery, as well as consumer goods.

"In previous economic cycles (prior to the debt moratorium of 1985) this acute pressure on our reserves did not exist as capital inflows more than offset the current account outflows," according to

Surcharge on imports affects insurance cover

Star 7/12/88

Householders should give serious consideration to increasing their insurance cover on personal possessions in the light of the recent increase in import surcharges, a Johannesburg insurance broker said yesterday.

The spokesman for the South African Insurance Brokers' Association (Saiba), who asked not to be named, said the increase in import surcharges, ranging from 10 percent to 60 percent, had left thousands of householders under-insured.

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Householders would have to increase their insurance to cover fully the replacement cost of their personal property, even if the possessions were bought before the surcharge increases took effect, he said.

R100m Vermaas deals not checked

58

BDay 7/12/88

Reserve Bank grilled on forex

● VERMAAS

MANDY JEAN WOODS

PRETORIA — The Reserve Bank approved 10 commercial rand transactions valued at more than R100m for Pretoria attorney Albert Vermaas in 18 months — and never once verified the authenticity of the invoices, the Harms Commission heard yesterday.

In the same period it approved financial rand transactions totalling R92m without checking the authenticity of the documents.

Two Bank officials — Wilfred Lautenberg, head of the finrand section, and Thomas Coetzee, divisional head of the companies section — were hard-pressed to give Mr Justice Louis Harms suitable replies to his questions on why the invoices were never checked.

Harms said according to evidence so far there was scope for irreparable abuse of the system for approving forex transactions.

Both officials, under heavy questioning from the judge and commission chief investigative officer Advocate Frank Kahn said they relied on and trusted the applicant and his bankers, in this case Vermaas and Volkskas, to give them authentic invoices. They said it was not the Bank's policy to verify documents.

Helicopters

The commission heard that Vermaas successfully applied to take out $193 000 for the purchase of a helicopter plus sundry expenses. The documentation was supplied by Protea Trust and Finance, of which Vermaas is chairman.

National Airways MD Graeme Conlyn later testified that the helicopters were worth at most between $50 000-$60 000.

In another example highlighted at the hearing, Vermaas successfully applied for $1,8m to buy two King Air aircraft valued at $900 000 each.

Conlyn later testified that the aircraft were procured for $450 000 each.

Kahn noted that over-invoicing was one of the "evils of foreign currency smuggling" and questioned the Bank's acceptance of invoices at face value.

The judge said that, contrary to all his expectations, the Bank did not even annex conditions to its approval to ensure the goods actually came into SA.

The Bank also approved an application by Vermaas for $10,9m for the purchase of spares and ancillary equipment in March this year. The judge pointed out that just six months previously, when the planes were purchased, almost half the R14m price was for spares.

Coetzee said he assumed, based on trust and invoices supplied, that the spares had arrived in SA. Chieftain Airlines MD Luciano Indrio, however, testified that the only spares Chieftain had in SA was one reconditioned engine.

Cape Times, Thursday, D

8/12/88

58 [illegible] [illegible]

Vermaas accountants 'in the dark'

PRETORIA. — Accountants for Mr Albert Vermaas were kept in the dark about his activities both locally and abroad and struggled to balance books, the Harms Commission heard yesterday.

Mr P R Pretorius, former financial mananger for Protea Trust and Finance, which manages the finances of Verco Holdings, controlled by Mr Vermaas, said he was often shocked and disturbed by massive sums of money spent by Mr Vermaas in careless deals.

Mr Pretorius testified he had resigned after six months.

His resignation letter to Mr Vermaas stated: "It appears that you expect me to pass certain dubious entries in the books of some companies. Due to the fraudulent nature of such entries I am not prepared to continue in your employment."

He said he found problems with the management of Chieftan Air. At no stage had viable studies been made for purchase of goods overseas, such as aircraft and spares.

Mr Pretorius said at one stage money had been approved by the Reserve Bank and sent out of the country when he discovered he was short of invoices to the value of R1 million.

He said he then telephoned a Mr Chuck Rittenbury in America, who sent him invoices for the purchase of aircraft and spares.

The invoices were vague and gave a bad description of items purchased, Mr Pretorius said.

The accountant testified of "unbelievable" amounts of money spent by Mr Vermaas which had not been thoroughly considered.

This included $10 million (about R23 million) for eight cargo aircraft and a further $10 million for parts.

Mr Pretorius also described deals of properties bought by overseas investors for inflated prices.

At the end of December 1987 Mr Pretorius said he realised after several dubious property transactions involving foreign companies that money was leaving the country in commercial rands and somehow being re-invested into SA through other channels.

The commission heard that Mr Vermaas had a monthly cash flow of R2 million to R3 million through his personal cheque book. — Sapa

(54)

8-14 Dec 88

UDF crucial to solving crisis — Gerwel

(54)

South 8-14/12/88

THE United Democratic Front is crucial to the resolution of South Africa's political crisis, says UWC's rector Jakes Gerwel.

In evidence in mitigation of sentence of the accused in the Delmas Trial in the Supreme Court, Pretoria, this week, he said the strong following the UDF developed for its nonracial policy was a "social miracle".

"I think that I can best explain my opinion by referring first to my own political experience and development. I was at university in the early 1960s. That was a time of total repression and domination of blacks by whites.

"It was a time of political paralysis. It was demoralising and embittering for blacks and there was little if any sense of a nation ever being able to come to together. It was a situation that had within it the seeds of deep conflict."

He said the doctrine of black consciousness.took root at universities and colleges.

"Many of us were drawn into the movement. That happened to me in 1972. I had just started teaching at that time and was attracted to the new movement," he said.

"This was very much a youth phenomenon and at the centre of it was SASO, the national students' organisation which developed on the campuses of black universities."

The fact that the resistance was led by youth had important repercussions within the black community.

"Large sectors of the adult and parent population sat back in awe at this development and did not know how to cope with it. The youth saw the adults as having done nothing to change their situation and as being responsible for the predicament in which the youth found themselves at that time.

"After the crushing of the black consciousness movement, the adult community began to show concern about this unnatural situation, in which the youth had assumed the role of leaders of the liberation struggle. Gradually, new structures began to emerge in which adults took a prominent position.

"They believed that it was possible to mould a very divided society into one united nonracial nation and in 1983 when the UDF was established it became the most important carrier of this idea."

He had always viewed the UDF as a body operating lawfully within the country and which had embodied in organisational and practical terms the ideals of a non-racial society. It had publicly committed itself to non-violence on many occasions.

Gerwel said: "I have seen such statements. I have always believed them to reflect the basic orientation of this organisation."

His political position was one where he was publicly connected with the UDF.

He continued: "In my view, one of the most important functions of the UDF has been to defend and operate within legal space in order to advance the struggle against apartheid and the impetus towards a negotiated settlement of the basic problems of this country.

"I have always understood the UDF to be an organisation committed to functioning within the law and to using non-violent methods to promote its ideals of a non-racial society.

"I have attended a number of UDF meetings and have spoken on UDF platforms. I have mixed with leaders of the UDF and nothing in my own experience has ever lead me to see the UDF as a violent or unlawful organisation."

With the emergence of the UDF and the growth of its influence there was an increasing awareness that adults could not leave the struggle to the youth.

He said: "There were attempts to form networks to bring direction and discipline to the youth. This was not easy. The youth-led resistance had come to see itself as the leader of the struggle and did not take kindly to being given instructions or to being subjected to discipline.

Gerwel

"On my own campus I found it necessary to consult frequently with student leaders (who in turn were not always able to control their followers) and to bring in leaders from the United Democratic Front to assist me in handling the students.

"I found the UDF leaders to be helpful and willing to give me advice. I would call upon them about a dozen times during the course of the year. With their assistance I was able to head off many of the troubles which were threatening on the campus and without their assistance things would have been much worse than they were."

Gerwel said since the launch of the front, UWC had been a strong UDF campus.

"I consider 'people's education' to be the most exciting educational innovation in this country. Students firmly view education as being a primary part of the apartheid order.

"Initially the rejection of this was manifested by protest and withdrawal (through the medium of boycotts) and then came the first attempts at alternative programmes. This has in recent years developed into the more mature phase of 'people's education' which I view as a more responsible and constructive phase.

"As distinct from the boycott phase, the people's education movement has involved adult participation to a large extent and which has given it a solid and constructive base."

He said he related the concept of "people's power" to that of "people's education" in the sense that "people's power" was notionally the opposite of apartheid.

"People's power simply means that the people as a whole shall govern themselves. It is therefore appropriate that there should be an education policy consonant with it," Gerwel continued.

"This is broadly what 'people's education' is about, namely that the ideological underpinnings should be that of the ideals of a unitary democratic structure and not of one based on fragmentary politics and separation.

"I have never considered 'people's power' to mean that violence forms any part of the articulated base of student activism on my campus and negotiation has always played a central role in relation to this."

Gerwel said the decision of the ANC to incorporate a platform of armed struggle had to be viewed within the particular historical situation.

"I would not be prepared to condemn the armed struggle. Historically, it would be irresponsible for the ANC to unilaterally terminate its involvement in the armed struggle, unless there was a clear commitment to negotiations.

"In my view, the ANC in fact has very little 'culture of violence'. I regard it primarily as a political body with a military wing."

He said he regarded the ANC as the "dominant presence in this enviroment".

He publicly promoted the idea of the unbanning of the ANC.

"I regard this as essential for it to play its role as negotiating partner and believe strongly that this would be possible," he said, adding that the tricameral parliament increased rather than diminished the potential for conflict. He, along with many others, rejected it.

"At the time I feared that the exclusion of blacks from the political process and the implications of such exclusion at a time of reform would lead to violence. It came as no satisfaction to me when that prediction proved to be correct," he said.

"In my view the divisions and polarisation within the nation will be sharpened and exacerbated by the taking of action against the UDF and its leaders.

"I fear that harsh action against the leaders of the UDF will lead to bitterness on the campus, to further polarisation, and to disruptions. The removal of leadership figures such as Pope Molefe and Terror Lekota and the crushing of the UDF will leave a void which will be filled with the seeds of anger and bitterness and in time lead to greater violence and polarisation within our society."

Schwarz urges banks to probe finrand deals

Star 8/12/88

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By Norman Chandler

The South African Reserve Bank was today urged to take strong action to force commercial banks to improve their investigative role in the checking of future commercial rand transactions.

The call came from the PFP's chief spokesman on finance, Mr Harry Schwarz, following evidence led before the Harms Commission yesterday in which it was revealed that approval had been given for transactions totalling more than R100 million in foreign exchange.

In evidence yesterday, two Reserve Bank officials told the commission it was not Bank policy to verify documents. They relied upon, and trusted, the applicant applying for foreign exchange as well as the applicant's bankers.

Mr Justice Harms said that according to evidence led so far, there was scope for irreparable abuse of the system being used for approving forex transactions.

GREATER DUTY

The Harms Commission has been hearing evidence regarding alleged irregularities in financial dealings by a number of Ciskeian companies of which a Pretoria attorney, Mr Albert Vermaas, is chairman.

Mr Schwarz said the Reserve Bank had to make it clear to commercial banks that they had "a far greater duty to verify the documents than did the Reserve Bank, which has too few staff in order to handle this.

"The banks must be made to do a better job, and their investigative applications should be enlarged. The Reserve Bank should be able to rely on the banks."

He added that he was surprised that the Government had not used the 1933 Currency Act to monitor and control the situation.

"This Act has wide powers in regard to the regulation of the monetary system and in matters which effect the economic position of South Africa," he said.

● See Page 2.

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3/10/88

Delmas trialists: evidence led in mitigation

It is logical to unban ANC, says banker

SUSAN RUSSELL

THE ANC had a silent constituency although it was banned, and it was realistic and logical to unban it so it could take part in the creation of a new SA, African Bank chairman Sam Motsuenyane told the Pretoria Supreme Court yesterday.

Motsuenyane was called by the defence to give evidence in mitigation on behalf of the 11 Delmas trialists.

Referring to the three UDF leaders convicted of treason, Motsuenyane said he had great admiration for the spirit of fortitude with which they had led their organisation.

He said: "I have no doubt these young men have a role to play in the SA of the future. My perception (of the UDF) is it fulfils a needful role in our community.

"I did not know the leaders intimately but I had heard of them and know they enjoy tremendous support among black people."

Motsuenyane appealed to the judge to be lenient in sentencing the 11.

● MOTSUENYANE

"I believe the severity of the sentence would certainly impact on the attitude of people, particularly black people in SA, and could erode the goodwill which this country requires at this time."

Motsuenyane told the court he was a member of the ANC until its banning in 1960 because it was the only black organisation fighting for black political rights in SA at the time.

The ANC had felt forced to change direction and emphasise the importance of an armed struggle in the early 1960s, after years of peaceful protest, after seeing no visible signs of change from government.

Motsuenyane said although he did not personally subscribe to violence, he thought it was merely an ANC attempt to evoke a quick response by the authorities to go to the negotiating table.

Asked by defence counsel A Chaskalson, SC, why these men were regarded as heroes, Motsuenyane said they had sacrificed professions which would have brought them prosperity and spent their lives in jail for the freedom of those in the black community who held the same views.

New product for Old Mutual

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By Sven Forssman

Old Mutual Unit Trusts yesterday launched a new product, Anchor Trust, which combines a lump sum investment in an immediate annuity with a unit trust.

Mr Stuart Fish, Old Mutual's assistant general manager marketing, said the new product would enable investors to invest lump sums on the JSE at a substantially reduced risk.

He said the timing risk, that is particularly critical when the market is in a bear phase, is reduced by transferring the lump sum gradually into unit trsut, thereby giving the investor the benefits of rand cost averaging.

"It is the ideal vehicle for investors with a lower risk profile than the average unit trust or stock market investor."

With Anchor Trust, a lump sum is invested in an Old Mutual immediate annuity which adds a guaranteed amount of interest to the lump sum.

Over five years the investment and interest is transferred monthly into either the Investors' Fund or Mining Fund, depending on the investor's choice.

Old Mutual's unit-trusts have, like most other unit trusts, comfortably outstripped unflation over the longer term.

An investor who started investing R100 a month at the end of October, 1979, earned 25,5 percent on his investment 10 years later, receiving R46 389.

Inflation averaged 14,5 percent over this period.

Over a five-year period an identical investment earned 23,5 percent.

Reserve Bank quits forward market

Cape Times 9/12/88

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Financial Editor

THE Reserve Bank will gradually withdraw from the forward market in foreign exchange. But as a temporary measure it will give importers and exporters preferential rates of forward cover, to discourage them from borrowing on the domestic market.

Announcing this yesterday, Reserve Bank Governor Gerhard de Kock admitted that the Reserve Bank had incurred severe losses on the forward cover book during the first 10 months of this year and had been forced into creating cash reserves for the banking system — contributing to the excessive growth of the money supply.

De Kock said that the Reserve Bank had been in the process of "an orderly withdrawal from the forward market" when this had to be discontinued in August 1985 "due to circumstances surrounding the proclamation of the foreign debt standstill at that time.

"Since then," he continued, "the bank has provided substantial forward cover to the foreign exchange market by means of swaps based on the current spot rate for a maximum period of 12 months."

The outstanding forward sales balance of the Reserve Bank has increased substantially, De Kock went on "partly due to debtors covering their foreign currency liabilities under the debt standstill and partly due to the large rise in payment commitments for imports since the middle of 1987.

'Severe losses'

"As a result of the rise in the value of the US dollar against the rand during the first 10 months of 1988, the Reserve Bank incurred severe but unavoidable losses on the forward cover book during that period.

"These losses were for the account of the Treasury and ultimately of the SA taxpayer.

"They also forced the Reserve Bank into the involuntary creation of cash reserves for the banking system and thereby contributed to the excessive increase in the money supply during this period."

De Kock said the Reserve Bank would resume paying the gold mines in US dollars for their production delivered to the bank. This would enable the mines to place these dollars into the domestic market within the time limits prescribed in the exchange control rulings, which at present was seven days.

"The mines will also be allowed to sell the dollar yield of their known future gold production forward within specified limits."

De Kock said the Reserve Bank's withdrawal from the forward market would have to be gradual to avoid disruptive changes in interest and exchange rates. And the bank would retain the right to intervene in the forward market at its discretion for normal central banking purposes.

For the time being it would continue to provide forward cover by way of swap transactions to authorized foreign exchange dealers to cover their overbought or oversold positions in respect of recognized commitments or claims of clients.

But a gradually reducing limit would be placed on these facilities.

De Kock said that to counter the tendency for importers and exporters "to switch from expensive foreign to cheaper domestic sources of finance" the Reserve Bank would provide cover at preferential rates through banks for credit lines.

This would be available only against documentary proof of the use of foreign credit lines and the maturity rate of such cover must match that of the underlying foreign finance.

NEW LOWS

	PRICE	PREV
WORLES ..	20	23
FINTECH	1850	1875
VIDLAB .	40	50
BLOCHS .	19	20

AL and CAPE 80c (71c + 9c tax)   (58) B/day 9/12/88   A TIMES MEDIA PUBLICATION   Eloff Str. Mall · Rosebank Mall · Sandton City

Volkskas Bank official admits breaking forex rules to help Vermaas

MANDY JEAN WOODS

PRETORIA — A Volkskas Bank official admitted yesterday he broke foreign exchange rules to help a wealthy client.

Pretoria branch assistant manager Mr Reynolds, also head of its forex department, told the Harms Commission he ignored Reserve Bank regulations when dealing with prime customer Albert Vermaas.

Reserve Bank GM: exchange control John Postmus testified earlier that banks were responsible for verifying invoices.

Reynolds admitted letting Vermaas submit invoices after money had been sent overseas, allowing him to repay commercial rand debts by instalments and not verifying invoice submitted with forex applications.x

"I was irresponsible," he said.

Volskas assistant GM: forex applications P B Rhyn could not say why he recommended Vermaas's forex applications without checking them nor ensuring all relevant invoices were attached.

He told the commission that, as an agent of the Reserve Bank, his job was to verify forex applications and monitor the outflow of money.

He then said it was the Reserve Bank's job, not Volkskas Bank's, to verify invoices.

He also could not explain why he recommended applications by Vermaas as late as November 18 after being visited by commission members on November 14 regarding Vermaas's activities.

He also admittted he knew as early as June that Vermaas was suspiciously regarded by the Reserve Bank.

The commision heard that, in the case of forex used to buy aircraft for Chieftain Air, Reynolds agreed to let Vermaas repay in instalments. Invoices, which should have been attached to the original application, were submitted to the bank only after the debt was paid.

Reynolds said in Vermaas's application for $10m, to buy spare parts for Chieftain Air, he never checked the spares arrived in SA nor if they were stored at the company's US-based holding company Deutsche Aviation.

In another instance R5m in finrands earmarked for building on Lanseria property, sold to an overseas company called Kingsway Investments, was given to Vermaas in his personal capacity. No checks were made to see if the money

● To Page 2 ⇨

Volkskas official admits breaking rules

(9) B/day 9/12/88

⇦ ● From Page 1

was used for that purpose.

Reynolds told chief investigative officer advocate Frank Kahn and commissioner Mr Justice Louis Harms, when asked why he broke the rules: "I don't know. I can't answer that."

He said Vermaas was known to the bank's senior manager, a Mr Marais, and was highly regarded by the bank. These factors influenced his decisions.

"I thought he was OK," he said.

He denied getting financial kickbacks for special treatment but admitted giving special treatment to Vermaas without telling his superiors.

Reynolds said his job was to ensure invoices accompanying forex applications were legitimate.

He added: "I didn't know it was our job to check details on the invoices."

Volkskas chief manager: credit P J van der Westhuizen told the commission about credit extended Vermaas and securities he put up as collateral. Mr Justice Harms embargoed the information.

Bank acts to help bolster reserves

(58) B/day

KAY TURVEY 9/12/88

PREFERENTIAL forward exchange cover for importers and exporters will be provided by the Reserve Bank to help bolster gold and foreign exchange reserves by smoothing out the distorting effects of the "leads and lags".

Leads arise when importers pay in advance for their importation, while exporters lag — delay — remitting their receipts from the sale of merchandise.

If successful, the move could relieve pressure on the foreign exchange value of the rand by lubricating cash flows, said Standard Bank deputy GM (international division) Rocco Rossouw.

An important step in this direction was the Reserve Bank's decision to revert to paying gold producers in dollars

● To Page 2 ⇨

Reserve Bank moves to bolster reserves

⇦ ● From Page 1

instead of rands, increasing the supply of dollars to the foreign exchange market.

Mines would also be allowed to sell their dollar yield of their known future gold production within specified limits.

Forward cover would be provided through banks at preferential rates for credit lines for importers, provided documentary evidence matched the maturity date of the cover, said Reserve Bank Governor Gerhard de Kock yesterday.

Similarly, exporters would be encouraged to use pre-export finance through the forward market, also at preferential rate and with the furnishing of the relevant documents.

De Kock also announced the use of longer-term finance for imports of capital goods would be considered with immediate effect.

SA businesses have long been criticised for not making use of all lines of foreign trade credit, which could be remedied by this move towards longer-term forward cover.

Cover would be denominated in any freely transferable international currency in addition to the dollar and would match the maturity date of the underlying finance transactions.

To facilitate the conversion of funds caught in the debt standstill to longer-term loans, the Bank would will also entertain requests from SA borrowers for long-term forward cover to coincide with the maturity profile of such loans.

Vermaas received 'special treatment'

Volkskas did not record forex deals

(58)

Pretoria Correspondent

A Volkskas manager in the forex division transferred R5 million directly to Pretoria millionaire, Mr Albert Vermaas, and another R8 million to the attorney's business partner overseas, without documenting the transaction.

The assistant manager of the foreign division of the bank, Mr Charles Reynolds, yesterday admitted to the Harms Commission, which is investigating the activities of Mr Vermaas, Verco Holdings, Eurobank and Eurotrust, that he transferred millions of rands to Mr Vermaas in foreign exchange without documentation or invoices.

The R5 million approved by Mr Reynolds was part of a R27 million property deal near Lanseria by Kingsway Investments, for building development.

Mr Reynolds — who earlier testified that he gave special treatment to Mr Vermaas — said he paid R8 million of the R27 million directly to a "non-resident" business partner of Vermaas', a Mr Ross, without funds going through any of the attorney's companies in Verco Holdings.

The remaining funds were paid to Mr Vermaas.

Yesterday there appeared to be some dispute over whose duty it was to check the merits and value of goods of a forex application.

According to Mr P H van Rhyn, assistant manager in the forex department at Volkskas, he was unaware it was the duty of the bank to make recommendations to the Reserve Bank with regard to forex transactions.

The Harms Commission has heard that R100 million was approved by the Reserve Bank for Mr Vermaas for the purchase of aircraft and spares, while assets of only R20 million were brought into South Africa.

According to Reserve Bank officials, it is the duty of the banker to check values of goods purchased and make sure they are brought into the country.

Mr Van Rhyn testified that on November 14 1988, officials of the commission, including two senior police officers, visited him at Volkskas head office to inquire about Mr Vermaas' dealings with the bank.

Mr Van Rhyn said this was the first he knew about investigations into Mr Vermaas' affairs.

The Commission repeatedly asked the Volkskas manager why, four days after officials had informed him of Mr Vermaas' activities, Volkskas approved a forex transaction involving millions of rands for the attorney.

Mr Van Rhyn was unable to answer.

The managing director in charge of credit control at Volkskas, Mr P J van der Westhuizen, testified that Mr Vermaas' was rated as a "good client" by the bank.

The commission resumes on Monday.

Star 10/12/88 (58)

Provisional freeze on Vermaas

SATURDAY STAR CORRESPONDENT

The estate of millionaire Pretoria attorney Mr Wessel Albertus Vermaas, who allegedly owes creditors R150 million, has been placed under provisional sequestration by the Pretoria Supreme Court.

"A further chapter in the Vermaas saga," as Mr Justice Curlewis said, unfolded yesterday when Eurotrust (Ciskei) Proprietary Ltd, a firm apparently controlled by Mr Vermaas, was provisionally liquidated after an urgent application was brought by Sentra-Oes (Co-operative) Ltd, a Ficksburg company.

Curators for the estates of Mr Vermaas and Eurotrust will be appointed, according to the order.

But an application for the liquidation of Eurotrust will go ahead in the Bisho Supreme Court in Ciskei on Monday.

Counsel for Sentra-Oes, Mr Botha, argued that Eurotrust should be liquidated because it operated in South Africa and fell under the judge's jurisdiction.

In a new development, Mr P le Roux van Wyk, counsel for Mr Vermaas, submitted in court that a transaction with an American purchaser had just been agreed upon for the sale of Chieftan Aviation — a Lanseria-based company owned by Mr Vermaas — at a price in excess of R150 million.

Mr van Wyk said the parties had initially settled on a higher figure but since the Harms Commission investigation into Mr Vermaas's activities began, the price had dropped to R184 million. Mr van Wyk said this was a "sensitive issue". He could not elaborate on the matter, he said.

However, the transaction would probably not take place if Mr Vermaas was placed under provisional sequestration, Mr van Wyk said.

In papers before court, Sentra-Oes claimed that Eurotrust owed them R5 million, which was to be paid three days ago after a Eurotrust cheque counter-signed by Mr Vermaas had been issued to them.

Mr van Wyk said the amount owed to Sentra-Oes and money owed to other investors had not been repaid as a result of the temporary interdict brought by the Reserve Bank several weeks ago.

Mr Botha said the Reserve Bank, in terms of Section 9 of the Banks Act, had two days ago apparently issued an order requesting Mr Vermaas, Eurotrust, Eurobank and Verco Holdings to repay to depositors all monies invested.

The Reserve Bank interdict forbids Mr Vermaas, Eurotrust, Eurobank and Verco Holdings to make any capital pay-backs or interest payments to investors.

An order was also issued disallowing Mr Vermaas or the three companies to run a banking business in South Africa or to receive any further deposits or investments.

Mr van Wyk said if the Reserve Bank had the public's interest at heart it would have asked for the appointment of a curator over the estate of Mr Vermaas — which it is allowed to do by law — when the interdict was brought.

Mr Botha said the Reserve Bank order "achieved an imperfect end".

The interdict might even hamper applicants wishing to sequestrate Mr Vermaas, according to Mr Botha. "Creditors are being frustrated of their rights," he said.

In summing up, Mr Justice Curlewis said a prima facie case had been proven — according to the Reserve Bank — that Mr Vermaas's liabilities exceeded his assets.

He adjourned the matter until December 20 when Mr Vermaas will reply to the allegations made by Sentra-Oes.

This was the third urgent application in two weeks brought before the Pretoria Supreme Court to have Mr Vermaas's estate sequestrated. The first application, brought by Dr Johannes Grobler, a Thabazimbi farmer, was dismissed, while the second application, also brought by Dr Grobler, was postponed until December 20.

Two capital ways of regular saving

(58)

Star 10/12/88

OTTO JAEKEL, general manager of SANBES, contributes the first of two articles comparing unit trusts and endowment policies.

Ten years up to	Pure endowment policy		Unit trust
	Stable	Market-related	
01-07-77	15 462	na	11 321
01-07-79	16 488	20 766	20 209
01-07-80	16 825	24 794	34 336
01-07-82	17 128	22 449	25 491
01-02-85	24 172	27 102	34 933
01-03-88	30 111	37 200	34 162

ANYONE considering a regular savings programme will probably look at a pure endowment policy and a unit trust.

Both provide a convenient way of building up capital.

My basic conclusion is that these options are not mutually exclusive. Rather, they complement one another.

But first I wish to compare the two through:

- Prospective yield.
- Risk.
- Guarantees provided.
- Flexibility.
- Liquidity.

On the question of YIELD, the tabulation compares a representative unit trust with a Sanlam pure endowment policy (including waiver of premiums at disablement) at various dates.

A regular monthly investment of R100 for 10 years is assumed.

In one 10-year period, the stable pure endowment fared best.

The market-related pure endowment yielded higher returns in two periods, while the unit trust achieved the highest returns in three of the 10-year periods.

One cannot predict relative future performances with any certainty, but the investment principle of "higher risk — higher potential return" certainly applies.

When assessing RISK, it is necessary to analyse the underlying portfolios which determine the respective performances.

General unit trust portfolios are compiled mainly of JSE shares and gilts.

The only prescribed investment for a unit trust is that the portfolio must contain a minimum of 5 percent in liquid assets (call deposits and short-term fixed-interest securities).

An investment in a unit trust is subject to fluctuations in the value of the underlying assets.

Though risk is reduced considerably when one invests on a regular basis, yield remains sensitive to market conditions on date of realisation.

This is borne out in the table.

Over the 10 years to 1 April 1988 the fund achieved a yield of 21,3 percent a year on regular monthly investments of equal amounts, assuming all income was reinvested.

For the 10-year period ending only six months earlier, the yield was 31,6 percent.

Pure endownment contracts offer a range of alternatives, with varying degrees of risk.

Sanlam's Investment Series offers two types of profit-sharing.

In the Stable Investment Series, a large part of the bonuses which are declared annually vests (they are guaranteed and cannot be removed afterwards).

In the Market Value Investment Series, the underlying investment performance is passed on to the policy-owner, as is the case with a unit trust.

The investment portfolio in which the policy shares is more diversified and includes both quoted and unquoted shares, as well as property.

Furthermore, a minimum of 33 percent of the portfolio must contain prescribed fixed-interst investments. Though this ensures a less volatile return than that of a unit trust, these fixed-interest investments fail to out-perform inflation in the long-term.

No GUARANTEES are provided for unit trust investments. Units have, however, proved their ability to out-perform inflation despite stock market crashes.

With pure endowments, the policy-owner always enjoys the security of guaranteed minimum proceeds

He is fully protected against the risk of losing any of his money, should investment conditions turn against him.

A pure endowment policy has the added advantage that it may be combined with various life assurance options.

This feature means the risk of the investor not being able to complete his savings programme is greatly reduced.

● Next week this in-depth comparison concludes, with a look at liquidity, flexibility and the tax position.

READERS QUERIES

This investment has gone flat . . .

CJN of Bellevue writes: I would like to maximise the return on my investment in a two-bedroomed sectional title flat I own in Natal.

It cost me R28 000 in 1983 and would probably sell today for about R48 000. The bond was paid off in 1985 after I had paid R7 800 in interest and transfer costs.

I pay a monthly levy of

shoulders with all SA's top business names.

Nedfin poised for more growth

Star 10/12/88

FINANCE STAFF

HAVING more then trebled its taxed profits in the year to September, Nedfin is poised for further growth.

Writing in the annual review, chairman Gerry Muller says in the past year Nedfin introduced a number of innovative financial packages for the corporate market in response to demand for the financing of capital goods, such as plant and machinery, construction and medical equipment.

MD Ron Rundle says the amount of new credit approved in the year rose by 44 percent.

Nedfin's aggressive moves to capitalise on these and other fast-growing markets can be seen from its results.

Its total assets at September amounted to R1 614 million, an increase of R372 million over the previous year. Asset quality showed a marked improvement. The bank experienced a lower level of bad debt than in 1987.

Taxed profit climbed to R9,5 million from the R3 million in the 1987 financial year.

The directors say: "The professional market division has introduced a new range of products aimed at the professional sector — in particular the medical, dental, legal and accounting professions. We have increased significantly the number of finance consultants who are fully dedicated to this market."

A transport and fleet division has been established to give Nedfin a significant market share in the fleet financing market.

"We are particularly excited about the opportunities which SA's rapidly growing transport sector provides by way of vehicle and fleet financing

"Nedfin is now able to offer its clients a complete range of services, from full maintenance leasing (for trucks or cars) to fleet management systems for corporate fleet owners, as well as transport consultancy services and a variety of financial options, such as lease, instalment sale or rental," they say.

Bleeding pockets for house-owners

S/Times 11/12/84 (58)

Business Times Reporter

PEOPLE tempted by low interest rates to buy property are bleeding.

Monthly mortgage repayments on an R80 000 loan have increased by more than 22% — or R200 — since the beginning of this year.

This is the effect of the rise in mortgage rates — from 12,5% last January to 16% by the end of October — says the United Building Society's quarterly housing review.

Prospects

Repayments on a similiar loan will have risen by another R60 a month by the end of the year because most financial institutions have given notice that mortgage rates will be increased to at least 17%, says the review.

It forecasts that interest rates will remain under pressure while economic conditions require a restrictive monetary policy stance in the next few months

"If deposit rates risae sharply in this environment, a further rise in mortgage rates in the near future cannot be ruled out."

Prospects are not bright for house-price increases to outstrip inflation next year.

The cooling of the economy and higher mortgage repayments will have a dampening effect on the property market.

"As the inflation rate is likely to average 15%-16% over the next year it is unlikely that the percentage increase in house prices will ouytstrip the rate of inflation."

At the same time building costs will continue to rise because of higher labour costs and price increases for materials. This will strengthen the move to building smaller houses.

House prices increased by an average 13% year-on-year in the third quarter of this year.

The average price of a medium-sized house is now about R89 000, says the United. Small houses cost about R70 000, but the average price of larger ones moved from R120 000 to R124 000 in the third quarter.

Differential

The price differential between new and existing houses widened in the three months.

The review says it would cost about R116 000 to build a new medium-size house while a similar existing house would sell at R86 000 — a 35% differential compared with 22% at mid-year.

S/Times 11/12/88

58

Testing time for SA

Business Times Reporter

THE ingenuity of South African businessmen will be severely tested in the year ahead.

That is the forecast of Syfrets chief executive and deputy chairman Brian Robinson.

"Without access to foreign capital, apparently uncontrollable inflation, a declining currency and the lack of any clear economic and political definitions from Government, South Africa faces enormous challenges," he says in the report for the year to September 30.

Planning is made more difficult by factors beyond SA's control. They include the Dellums Bill in the US and party political developments at home.

However, the higher levels of economic activity from the end of 1987 enabled the financial services group to increase lending in the commercial, industrial and residential market last year.

A record R503-million was granted in mortgage finance.

The collapse of the share market hit income from investment management fees, but the group improved income after tax by 5% to R15-million.

This is in line with taxed profits which have risen threefold from R5,1-million in 1981. Assets increased by 40% to R759-million in the past year.

Syfrets Managed Assets attracted new institutional funds for management and Syfrets Growth Fund enjoyed strong investor support, says Mr Robinson.

"This support for our unit trust scheme gave us a clear manadate to go ahead with the launch of the Syfrets Income Fund unit trust."

R8,7bn explosion in advances

58

BDay

13/12/88

Home-loan war: banks take spoils

KAY TURVEY

THE explosion in bank credit to individuals underscores banks' supremacy in the home-loan war.

The latest Reserve Bank Quarterly Bulletin showed banks' continuing penetration of the home-loan market contributed to the staggering R8,7bn or 64,7% rise in advances by banking institutions to individuals from September 1987 to September 1988.

Banks gained the lion's share in the housing market as their aggregate mortgage loan portfolios expanded by R4,6bn, whereas building societies' mortgage advances rose by a comparatively modest R3,5bn during this period.

Standard Bank's Dennis Matfield confirmed they had experienced tremendous growth in home loans and their book had grown by 180% from R1bn in December last year to R2,8m now.

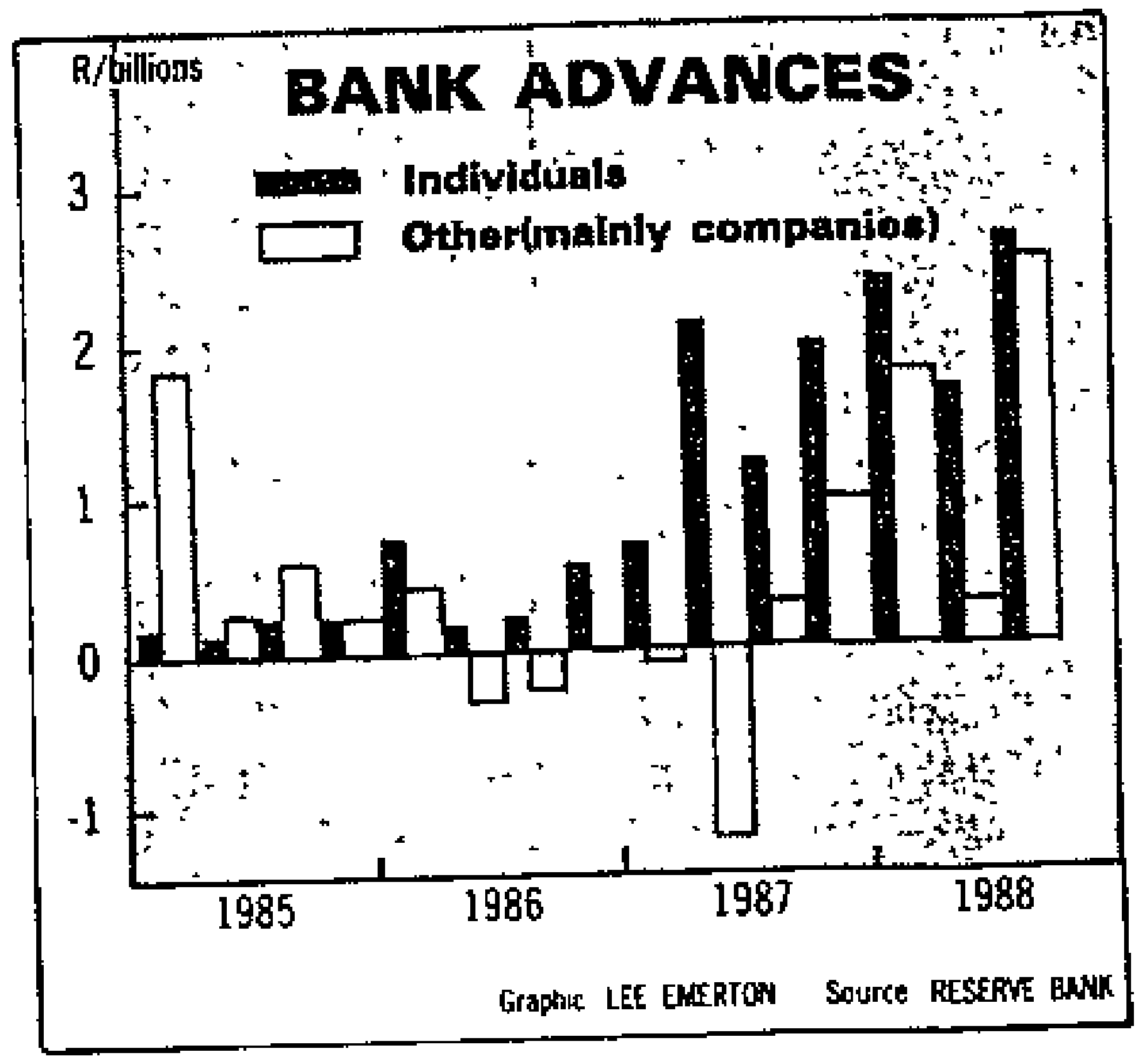
This growth had tapered off substantially after mortgage rate increases.

Matfield said in the nine months to September, the mortgage book for all banks had escalated from R5,7bn to R10,2bn with personal loans accounting for most of the rise.

First National GM Jimmy Mackenzie said their home-loan book had risen by R1,7bn to R3,4bn in the past 12 months, with R600m loans awaiting registration.

Total claims of monetary institutions on the private sector, seasonally adjusted, rose by R9,6bn in the third quarter.

Hire-purchase credit and leasing finance extended by banking institutions, reflecting pre-emptive buying of consumer durables and higher levels of private sector fixed investment activity, rose by R308m in July, R472m in August and R499m in September.



Graphic LEE EMERTON Source RESERVE BANK

The bulletin also noted that fixed investment, driven by a boom in residential buildings, climbed for the fifth consecutive quarter.

Real gross domestic fixed investment rose 13% in the third quarter. The level of total fixed investment for the three quarters of 1988 was nearly 8% higher than in the 1987 comparative period.

An analysis of real gross fixed investment by types of assets showed that, after the slump in residential building from 1985 to 1987, real expenditure on

● To Page 2 ⇨

Banks take the spoils in home-loan war

58

BDay

13/12/88

⇦ ● From Page 1

private residential buildings was about 14,5% higher in the first three quarters of this year than in 1987.

Residential needs were boosted by:

☐ A build-up in housing needs from 1985 to 1987 and remaining demand;

☐ Relatively low mortgage interest rates in the initial stages of the recovery in building activity from mid-1986;

☐ Heightened public sector interest in the development of black townships; and

☐ Active marketing and the popularity of the new so-called duet units and retirement schemes.

Building activity should be curbed by recent increases in mortgage rates and interest rates generally.

Further, the rise in real fixed investment in the third quarter was due to above-average rates of increase by the mining industry, manufacturing, transport and finance.

However, higher levels of real gross fixed investment did not arrest the decline in the physical production capacity of the manufacturing industry.

CP lays charges against manager

Cape Times 14/12/88 58

JOHANNESBURG — CP councillor Mr Koos van der Merwe has laid a charge against the manager of Wesbank in Boksburg after the distribution in the bank yesterday of a petition against the council.

Police confiscated the petition.

Mr Van der Merwe said the petition, initiated by the Boksburg Alliance protest movement, was an unlawful attempt at making Boksburg ungovernable and attempting to overthrow a legally elected local authority

Mr T J Ferreira, another CP councillor, is planning to lay charges against Mr "Butch" Jantjes, chairman of the (coloured) Reiger Park management committee, whom he alleges has contravened the emergency regulations regarding the call for boycotts.

Results to be given

Sowetan 14/12/86

52

THE Department of Education and Training's matriculation results are to be published on January 6, the DET said in a statement yesterday.

According to the DET, newspapers serving specific circulation areas are to concentrate on the results from those areas.

All DET examination centres will have a complete list of results for all candidates nationwide and therefore anyone away from home could obtain results from these offices.

In answer to inquiries from the *Sowetan* during September this year, the DET said it is to consider publishing the matric examination results in the Press this year, provided they ran smoothly.

Mr Richard Chernis, the DET's public relations officer in Pretoria, said then that should the exams not be interferred with, they would be released to the media.

The matric results were last published in the Press in 1985.

Finance Minister was asked to help Vermaas

58

Star 14/12/88

Pretoria Correspondent

Lawyer Mr Albert Vermaas of Pretoria asked Minister of Finance Mr Barend du Plessis last month to intervene in Reserve Bank investigations into his financial activities.

The Harms Commission was told in Pretoria yesterday that the interview between the two was organised by Minister of Foreign Affairs Mr Pik Botha at Mr Vermaas's request.

A statement by Mr Botha, which was read to the commission, said he had used Mr Vermaas and his overseas contacts to combat economic boycotts against South Africa.

Mr Vermaas's aircraft from Chieftain Air — he owns the company — were used for official trips by Department of Foreign Affairs officials and to carry State guests. On three occasions, Chieftain Air planes were used to transport delegates to Brazzaville for talks on Namibia — at a cost of R287 800.

The commission was told that Mr Vermaas visited Mr du Plessis at his home on November 20 after an interview had been arranged through Mr Botha.

A statement by Mr du Plessis said: "At one stage I told him that his case was of such a technical nature that I could do nothing for him, and that he should speak to the Reserve Bank.

"He informed me further that he had been in contact with the Reserve Bank, in particular a Dr van Greunen. I offered to make an appointment for further discussion of his activities with Dr van Greunen, whom I contacted. He was prepared to listen to Mr Vermaas, as well as to include Dr de Swardt, the Registrar of Banks."

When Mr Botha told Mr Vermaas that the two Reserve Bank officials could see him, the lawyer said he wanted his auditor to be present.

To date, said Mr du Plessis, he has had no report on what occurred at the Reserve Bank meeting.

In the statement read to the commission, Mr Botha

● To Page 2 ☛

Star 14/12/88 (58)

Minister was asked to help Vermaas

● From Page 1

said he had asked Mr Vermaas to be an agent for the Department of Foreign Affairs, and help avoid and combat economic sanctions on South Africa.

Mr Botha said the department had several times used aircraft from Chieftain Air for official use.

Mr Botha said he was one of many officials from the department — and official State guests — who frequented Mr Vermaas's game farms.

Mr Botha added that the identities of some of the State guests had to be secret.

Mr Botha said that Mr Vermaas — at the centre of the investigation involving Eurobank, Eurotrust, Eurobond and Verco Holdings — did not ask for payment for the visits.

"I remember that on a few occasions I discussed the subject of avoiding and combating international economic boycotts against South Africa with Mr Vermaas. He was prepared to play a role in this regard.

"I can remember he informed me on an occasion that he had ties overseas which could act as contacts, and that he exported goods to countries which officially declared that they would boycott South Africa "

Mr Botha said he made representations for one of Mr Vermaas's companies for the dense industrial settlement in the Klerksoord area of Akasia, because foreign capital would be available for the development He said it was the function of his department to inspire foreign investors in South Africa.

Mr Botha, who still lives in Akasia, was formerly MP for Wonderboom He said he strove for industrial development in the area.

He said he and his wife, and Mr Vermaas and his wife, were friends and had known each other for at least 12 years.

He said that after the first report about Mr Vermaas appeared in newspapers, the lawyer approached him to organise a personal interview with the Minister of Finance.

"I told him that I alone could organise this, but first wanted an undertaking that he would not act unlawfully." This undertaking was given.

A statement was also received from army officer General C J van Tonder. He said that Chieftain Air aircraft were used by Dr Jonas Savimbi, leader of Unita.

Earlier the commission heard that Mr Vermaas claimed to have close ties with prominent people in the Government.

This evidence was led by Mr Jerry Grieveson, a shareholder and manager at Protea Trust and Finances, a company established to attend to the various property companies under the control of Mr Vermaas.

"Vermaas always maintained that he was close to the Government, in particular the Minister of Foreign Affairs and the Minister of Defence, General Magnus Malan.

"This was borne out by the fact that we were told on many occasions of meetings and social events involving himself and Government dignitaries.

"Vermaas also appeared to be well connected with certain high-ranking officers in the SADF and police.

"We were told that Sebaka Game Ranch was used to entertain certain foreign dignitaries, so as to avoid this becoming public knowledge..

"Vermaas was always a strong supporter of the Government and always prepared to assist where possible."

Mr Grieveson told the commission that the formation of Eurobank, a Ciskei-registered bank, was an attempt by Mr Vermaas to legitimise his deposit-taking operation

Mr Grieveson said he was invited to join Eurobank's board of directors, but resigned a month later, after becoming aware that funds invested in the bank

W.C.B. **SURVEY 1985** A.W.A.

AGE = 10-15 ☐

OUDERDOM = 16-24 ☐

MALE/ MANLIK ☐

FEMALE / VROULIK ☐

LANGUAGE = ENGLISH ☐

TAAL = AFRIKAANS ☐

would be invested by a single client — Mr Vermaas.

He said Mr Vermaas undertook to stop the deposit-taking operation, and in October 1987 told him that he held investments of about R15 million.

But Mr Vermaas also told Mr Grieveson that he would cease these operations, and discussed the establishment of a borrowing facility from a financial institution.

An application was forwarded to Volkskas for an overdraft facility of about R8 million.

Later Mr Vermaas said he wished to cease his operations, but needed to operate his activities through a new company for three months — Reef Acceptances.

In March Mr Vermaas told Mr Grieveson he was interested in acquiring a banking operation in South Africa. He mentioned that he was considering, with Dr Eugene Berg, the acquisition of a bank in Ciskei.

In August, Dr Berg advised Mr Grieveson that the total amount outstanding to investors was R106 million from Eurobank and Reef Acceptances.

Mr Vermaas had at that stage given the Reserve Bank the undertaking that he would terminate his investment activities

The commission will sit again on January 17.

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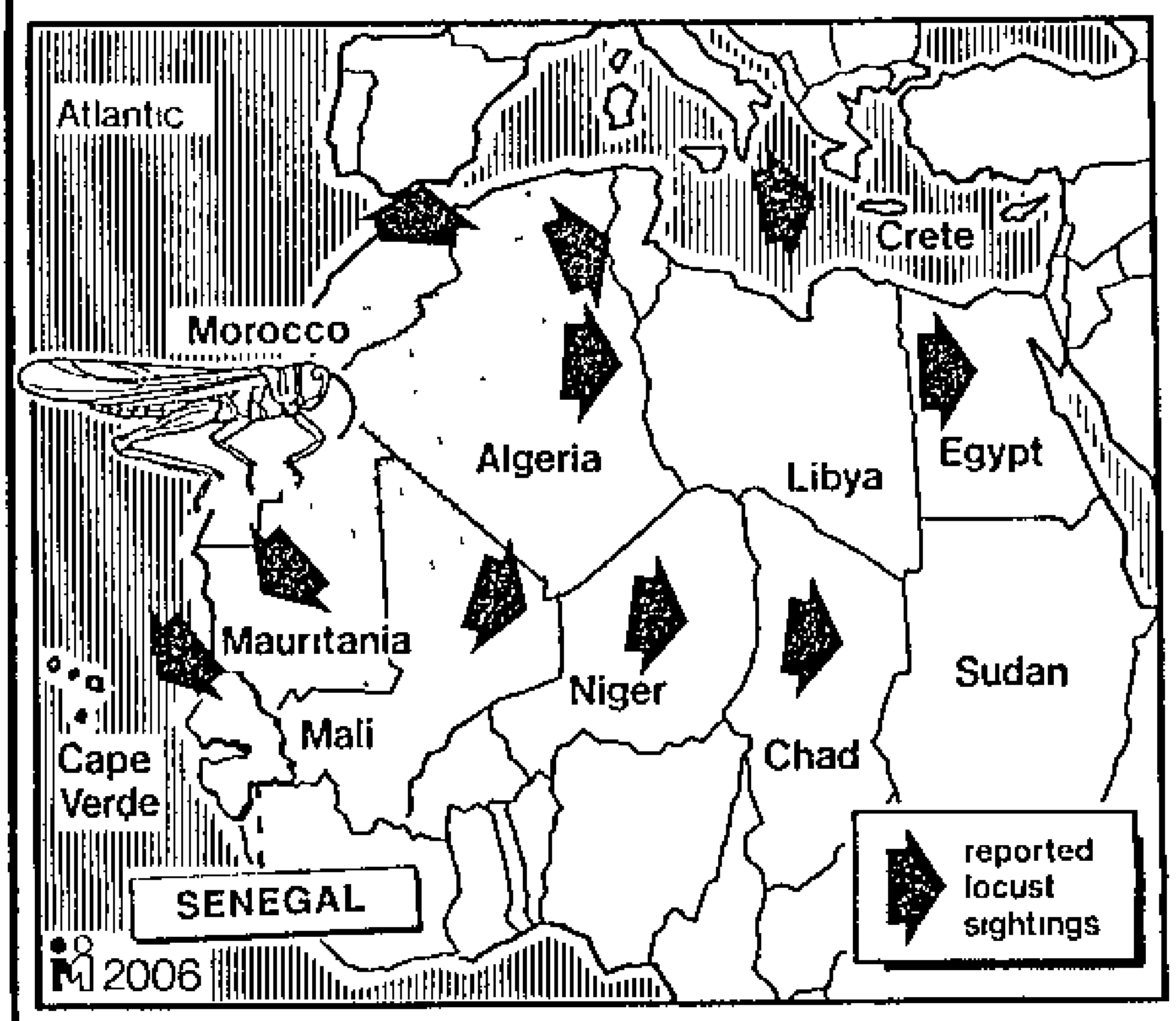
(56) 15-22/12/88

THE WORLD



Paths of destruction ... a sub-continent under siege
MAP: GEMINI NEWS

The last frontier in the war of the pests

Another African war. So far, the winners are small creatures with six legs. But, the humans are making a last-ditch stand in the West African country of Senegal. TAMI HULTMAN *reports*

TWO small yellow planes swooped low over the fields, trailing diaphanous plumes across the valley before pulling up, circling and diving again. Beneath the gently settling gauze of the pesticides, goats grazed and women washed clothes in the riverbed.

Around them, clouds of locusts munched on the foliage produced by recent rains or flew about with apparent aimlessness, their crusty bodies tapping against the windshield of a bus going down the road.

Senegal is on the frontline of a fierce battle against ravaging swarms of locusts that have blanketed a swath of north-west Africa and now extends as far east as the Arabian Gulf At least 12 African countries are affected so far Officials regard Senegal as a crucial buffer; if the crop-eating pests are not stopped here they could menace other nations to the south and west.

As many as five million acres are infested in Senegal alone, compared with about 100 000 acres that see some locust activity in more normal years. The government estimates that 10 percent of this year's crops have been lost already. But in the most heavily affected areas, the losses of individual farmers range as high as 100 percent.

Experts say the locust infestation is the worst to hit West Africa in 30 years. Coming just as the arid Sahel region — a zone between the Sahara Desert to the north and the fertile lands to the south — is emerging from years of drought, the swarms are a blow to this year's hopes for a bumper harvest.

Although international environmental recommendations rule out the use of the highly toxic pesticide, dieldin, in most circumstances, officials here are beginning to question whether the less potent chemicals such as malathion can do the job,

The United Nations development programme has launched a research project into biological controls, but development of an alternative to today's harzardous chemicals will take time. Meanwhile, the locusts are spreading

"We are in the course of a real new plague," said Dr Rafik Skaf, West African regional co-ordinator for the UN Food and Agricultural Organisation, "and it may endure for several more years"

The command centre for the battle against the locusts is Dakar, Senegal's capital, at the headquarters of what is called Oclalav — French initials for the Co-operative Organisation for Locust and Bird Control The organisation was established in 1965 with the goal of preventing locust plagues before they happen by monitoring conditions favourable to locust development and attacking potential swarms before they mature.

Oclalav's director general, Dr Abdallahi Ould Soueid Ahmed, is clearly frustrated at the outbreaks this year. "Unfortunately," he said, "we somewhat reduced the pace of the control, because the resources were missing both at the international and the sub-regional level."

The organisation owns only one plane and less than 100 vehicles to cover its 10-country area, and funds for training and hiring scouts to track locust development across the region have been in short supply. So when the right combination of temperature, humidity and wind direction favoured locust development, Oclalav was ill-prepared to meet the threat.

The biggest problem, though has been the many regional conflicts in northern Africa, which have hampered both monitoring and control efforts. In the Horn of Africa to the east — an area encompassing Ethiopia, Somalia and Sudan — fighting has prevented surveillance teams from moving in and out of the infested regions in recent years. In central north Africa, the war between Chad and Libya was a simiar barrier to effective action And in the north-west, the battle between Morocco and the Polisario independence movement over the future of Western Sahara continues to block control efforts.

"The issue of control is important," said Soueid Ahmed, in a pointed complaint about the failure of Senegal's neighbours to halve the locusts' southwards advance. "It's not just a matter of controlling locusts at home. You have to make sure that the swarms don't leave your country." — Africa News

NBS attack: man held

(58)

15/12/88 B/day

DANIEL SIMON

POLICE yesterday arrested a former Pretoria city councillor following a shotgun attack on an NBS branch in Pretoria North early yesterday morning. A second suspect is being sought.

A police spokesman said that at about 2am yesterday morning two men in a red bakkie pulled up in front of the NBS branch on Gerrit Maritz Avenue. Two shotgun rounds were fired at the facade, damaging a door and two windows.

The arrested man was also described as a former policeman and member of the HNP and the AWB. He stood in the October election as an independent candidate, but was defeated.

The spokesman said police were investigating a possible link with a similar attack on the offices of NP MP for Innesdal, Albert Nothnagel, in June.

The NBS recently cancelled its agency agreement with Boksburg mayor Beyers de Klerk following the CP council's reintroduction of petty apartheid.

● Picture — Page 3

Volkskas acts to prevent forex scandals

B/Day

58 15/12/88

MERVYN HARRIS

VOLKSKAS is taking steps, after evidence before the Harms Commission, to prevent transgressions of foreign exchange regulations.

Evidence showed a bank official had ignored certain Reserve Bank regulations in the case of foreign exchange applications by Pretoria businessman Albert Vermaas.

Volkskas senior GM Mornay Vivier said yesterday: "We view the matter with the utmost concern and are tightening procedures to prevent such incidents recurring."

The bank has sent an urgent alert to officials, following earlier circulars warning them against such transactions and the harm foreign exchange scandals could cause Volkskas.

Vivier emphasised, however, that cases such as the one involving Vermaas were exceptional.

"Officials who are allowed to do foreign exchange transactions at our bank are trained and knowledgeable people. They know they are not allowed to do this type of transaction.

"The official who allowed certain payments by Vermaas without sufficient documentation was doing his best under special circumstances. He was dealing with a highly respected businessman who moved in influential circles and had important connections at the highest level of government and business."

ARGUS 15/12/88

(58)

280

Swiss R80-m heralds thaw in freeze on loans to SA

From DEREK TOMMEY
The Argus Correspondent

JOHANNESBURG. — A group of Swiss financial institutions has lent the South African government 55 million Swiss francs, equal to about R80-million — a surprise development that could mark a major turning-point in the government's frosty financial relations with foreign countries.

Details of the loan were reported in the Zurich daily Tages Anzeiger.

It is believed to be South Africa's first official foreign loan since the the United States' Chase Manhattan Bank triggered a crisis in September 1985 by demanding the immediate repayment of its South African loans.

Since then South Africa's foreign creditors appear to have been more concerned with getting their money out of South Africa than investing here. However, some banks have been prepared to allow existing loans to continue.

The renewed willingness of Swiss financial institutions to invest is an indication that bankers in Europe are beginning to see South Africa in a more favourable light.

But although willing to risk investing at least short-term funds here, the Swiss are no doubt concerned about the possibility of political pressures being imposed on them.

Consequently, apart from the Zurich report, the loan has been given little publicity overseas.

Higher interest rates may yet be necessary — Standard

Star 15/12/88.

58

By Sven Lünsche

Further rises in interest rates may yet be necessary to achieve a significant slowing down of domestic consumption and investment spending, says Standard Bank in its latest *Economic Review*.

The bank argues that this will become necessary if accelerating government expenditure during the second half of fiscal 1988-89 acts to counter greater monetary tightness, as is widely forecast.

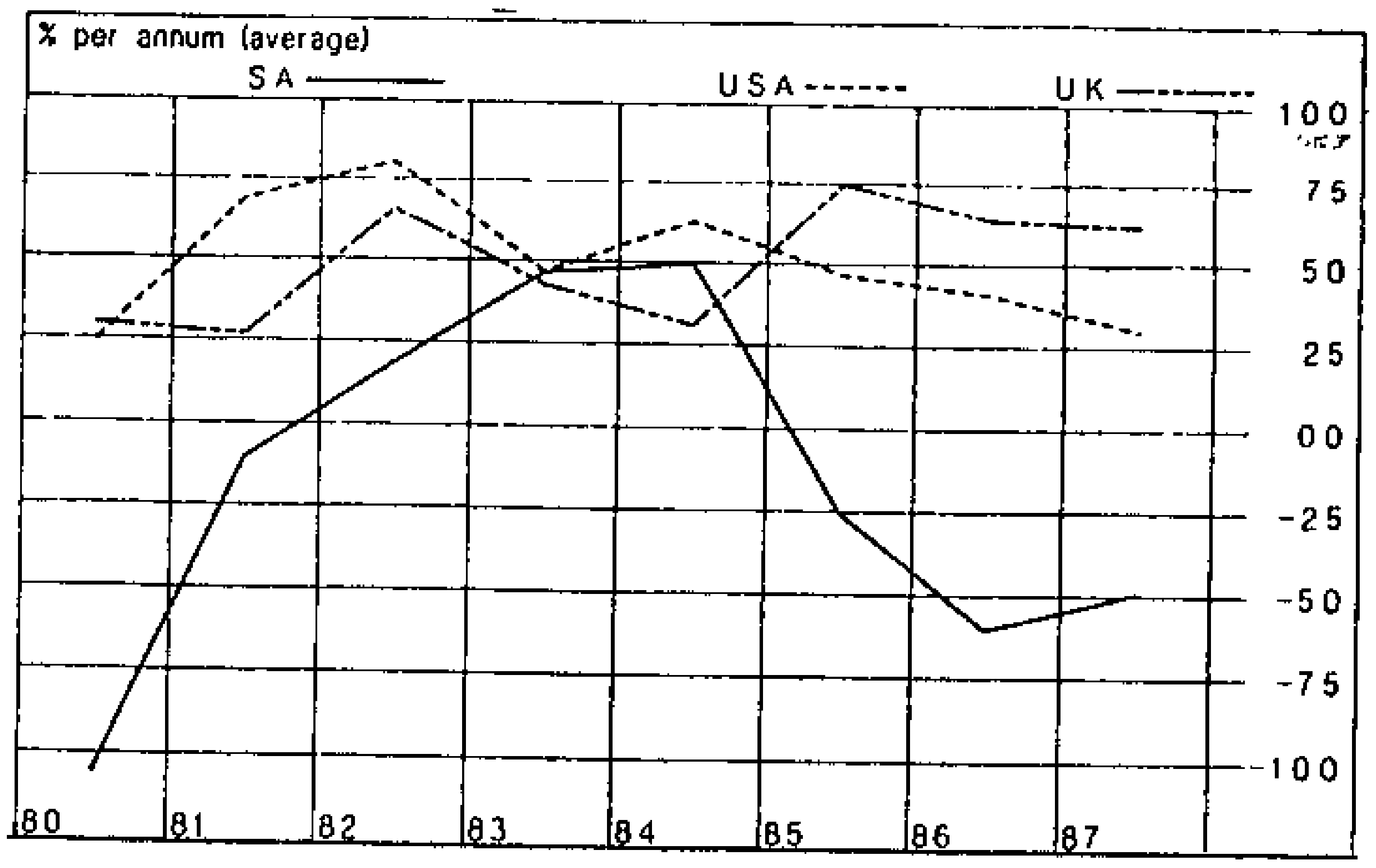
"Most economic observers now concede that government expenditure is accelerating sharply and expenditure for the current fiscal year is likely to exceed budgeted estimates by around R2,5 billion, with potentially destabilising consequences.

Damage limitation

"The fiscal authorities now appear to have settled for a policy of damage limitation. This involves efforts to prevent the deficit before borrowing from growing commensurately with the rise in government expenditure, by raising additional revenue through measures such as the recent substantial rise in the tax on petrol.

"As far as effects on the economy are concerned such a policy of restraining the rise in the budget deficit is no substitute for proper fiscal discipline that involves tight control over government expenditure.

"Interest rates will therefore need to be at a sufficiently high level to curb demand, and they will have to be kept at high levels for some time," the bank adds, calling for the authorities to maintain real levels of interest rates. "Real interest rates have been artificially low during most of the 1980's, especially when compared to rates in the UK and the US."



Wide swings in interest rates compared with those of the UK and US.

This has had various negative consequences:

- Low interest returns result in a tendency to channel a significant portion of savings into unproductive inflation-hedge type assets and away from productive investment.
- Low interest rates have encouraged excessive mechanisation and capital intensive methods of production. This is harmful not only in that it has tended to inhibit employment creation, but also because it placed additional pressure on the current account of the balance of payments.

"Another problem peculiar to South Africa is the substantial interest rate volatility during the past two decades," the bank says (see graph).

"This has probably distorted productive investment as much as the presence of negative real level of interest rates ... as most company decisions are based on nominal interest rates, and major changes in nominal interest rates can cause considerable disruptions to cash flow.

"A great deal of interest rate volatility implies also that other policy variables, such as government spending and the budget deficit are acting to destabilise the economy."

The bank recommends that government policy should not be based on interest rate policy alone. "Rather, interest rate policy needs to form part of a coherent strategy in which fiscal policy complements interest rate policy in achieving overall macro-economic objectives of growth and price stability.

"A policy mix which would result in positive real interest return on savings after tax would certainly create important benefits in the form of a more efficient allocation of resources and enhanced certainty," the bank concludes.

Eurobond facing liquidation

Own Correspondent

EAST LONDON — Another company of Mr Albert Vermaas, the Pretoria attorney whose affairs are being investigated by the Harms Commission, was placed under provisional liquidation by the Supreme Court in Bisho, Ciskei on Wednesday.

The court placed Eurobond (Ciskei) in the hands of a provisional curator and the affairs of the company under the supervision of the Master of the Supreme Court.

The application was brought by Mr Walter Edelstein, Mr Andre Hessels, Mr Lewis Klopper and Mr Basil Nel.

Their attorney, Mr Matthew Laurens, said the applicants were liquidators of the company Eurotrust.

They said in an affidavit before the court that Eurobond was indebted to Eurotrust to the extent of R3 494 697,80.

This money was lent on advance to Eurobond, of which Mr Vermaas was the sole director.

The applicants said that after being appointed liquidators of Eurotrust they had attempted to ascertain the status of the company and of Mr Vermaas.

They said various deposits had been made in South Africa with Eurobond.

This money, paid by the public to Eurobond, had been paid to Mr Vermaas or Eurotrust and again invested in a third company, Verco Holdings.

The applicants referred to an affidavit by Mr Jan van Greuning, financial manager of the South African Reserve Bank. This affidavit said Mr Vermaas, Eurotrust and Verco Holdings were completely insolvent.

DECEMBER • 16 • 1988
Financial Mail

58

RESERVE BANK

Blame where it's due

The Reserve Bank is by no means beyond criticism. But there is a danger that wrong policy decisions could be made if it be blamed for that which is beyond its competence or ability.

It is right, for instance, to blame the Bank for allowing money supply to surge in a manner that most Western central banks would consider singularly irresponsible. This has created demand beyond the ability of the economy to supply and that, in turn, is encouraging inflationary pressures.

The Bank has the technical ability to modify money supply growth. But the consequences of its doing so, especially in the face of a profligate fiscal policy, will be unpleasant.

No amount of casuistry can justify the monetary excess it has countenanced. The plain fact is that the independence of the Bank was compromised by government for political reasons. Maybe the Bank should just have been more bloody-minded and confrontational. After all, President P W Botha could not remove Governor Gerhard de Kock without provoking another foreign payments crisis.

But that is not De Kock's way. Like most educated and civilised men, he believes in the ultimate triumph of reason. And many times he has been proven right. Patience has turned out to be a great strength. Trouble is that the President is of the opposite disposition. And the more he is driven into a corner, the less he appears able to countenance candour.

Hopefully, the resolve of the governor is stiffening. He did, after all, put up Bank rate by 2%, which is a substantial rise in one go. He has also been brave enough to resume withdrawing the Bank from the foreign exchange forward market.

It is undoubtedly the right thing to do, but when the next decline comes in the rand's value — as it most assuredly will do — the consequences are going to be hard to justify to the economically illiterate.

What is unjustified, however, is to blame the Bank for administering exchange control in such a way that capital is able to flee. According to this line of reasoning, if the Bank scrutinised every transaction, the reserves would be higher and the capital account would no longer be a drain on the balance of payments.

Nothing could be further from the truth. In a modern economy, if documentation supporting every current payment abroad were scrutinised first by the Bank before giving its sanction, trade would come almost to a standstill, markets would be lost and the trade balance would deteriorate faster.

More capital has fled SA during periods of tight exchange control than during any other time. The mere fact that controls exist indicates government itself concedes that investors have lost confidence in this economy and in its own fiscal and monetary policies.

Exchange controls — like price controls — have never worked in any modern economy, especially not one in which imports and exports are such a high proportion of economic activity.

Economic controls create shortages, they do not avoid the consequences of over-indulgence or political ineptitude. They only delay the inevitable and make the process of adjustment to it more painful.

Simply put, the Bank cannot be a monetary Checkpoint Charlie able to decide rationally whose rands should pass and whose should stay.

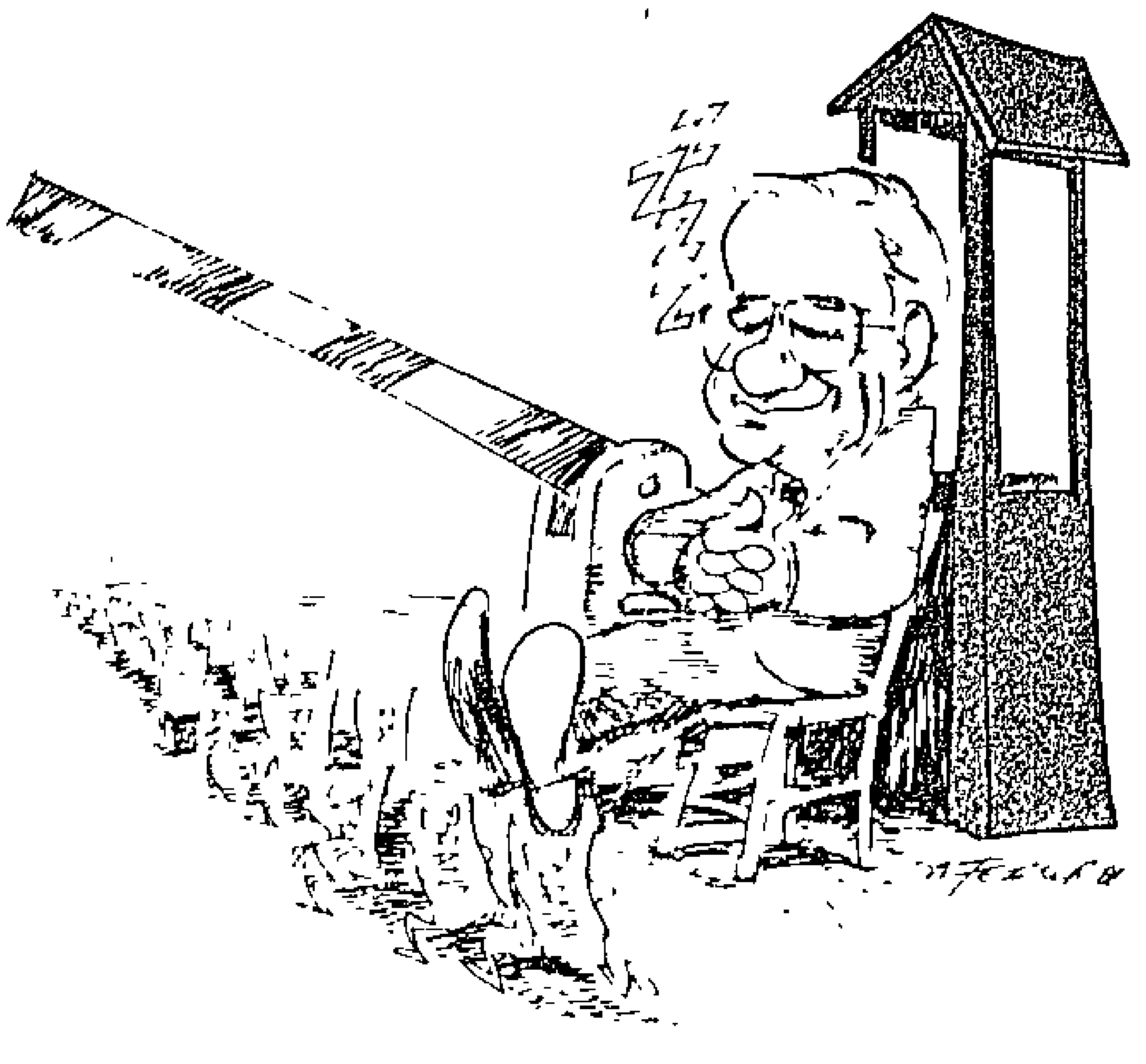
First, a modern payments system makes that impossible.

Second, exchange controls interfere with the optimum allocation of scarce resources.

Third, they expose the Bank to all sorts of special pleaders, among whom there are bound to be opportunists.

The best the Bank can do in the circumstances is assume that most applicants are honest, but seek to investigate where there are aberrations. That is how banking works throughout the West.

The same applies to sharp banking practice. The Bank cannot be blamed for losses that occur as a result of dishonesty or poor commercial judgment by institutions involved in the banking system — unless, of course, banks are to be nationalised. The Central Bank is there to see that trading banks adhere to the capital and reserve requirements. The assessment of risk is a function of a competitive banking system.



Where the Reserve Bank is at fault is that it does not publicly stand up to government and declare its theoretical independence to be a reality. By not doing so it gives spurious credence to those who believe that tighter exchange controls are the answer to all our economic ills and a way of replenishing official reserves.

It also enhances the argument of those Austrian school economists who believe that Central Banks should be privatised and the creation of money left to the discipline of the marketplace rather than to spendthrift politicians. ▨

Rand 45 pc below its buying power

W/6 ARGUS 17/12/88 58

From DEREK TOMMEY

JOHANNESBURG. — If the rand were valued in world markets on the basis of its domestic buying power, it would be worth 79 US cents, says the Union Bank of Switzerland.

It is currently quoted at 43 US cents, its exchange rate is 45 percent below its buying power parity.

The bank's valuation is based on the 20 000 items of information produced in a survey conducted earlier this year of prices and earnings in major cities worldwide.

With traditional Swiss thoroughness, it employed two unrelated organisations in each city to conduct the survey in parallel.

Deductions

The questionnaire contained 141 questions on prices and 96 on salaries, salary deductions and hours worked in 12 professions.

The survey shows that South Africa is not the only country with an undervalued currency.

The majority of the world's major currencies are at least slightly undervalued.

This is understandable because most countries, as a matter of policy, aim for a slightly undervalued currency to improve competitiveness of exports and to give their economies some protection against imports.

But the survey shows that few countries have a currency as undervalued as South Africa's.

When it comes to categorising degrees of undervaluation, South Africa ranks with the worst — Argentina, India, Brazil and Mexico City.

However, while the poor rating of currencies of the other countries in the group is the result of poor economic prospects (most are major debtors), the low rand is mainly the result of political factors.

Therefore there is always the prospect of a significant improvement in the exchange rate, should the political situation improve.

Surplus

As the fairly substantial surplus on the current account of the balance of payments in the September quarter shows, on economic grounds the rand deserves a much higher rating.

However, the continuing heavy capital outflows (more than R5-billion in the first nine months) keep on hitting the rand's exchange rate on the head.

There are many benefits to be derived from a severely undervalued rand.

It stimulates exports and helps create import replacement industries and encourages tourism. It is a major job creator.

But living standards have to be depressed to maintain a currency's undervaluation, which is not a popular option.

Living standards in South Africa have already fallen significantly in recent years. Further declines could cause unpleasant repercussions.

As the Scandinavian countries have discovered, it is far better to have a rising exchange rate. It means imports and domestic goods become cheaper and living standards rise. Savings increase and capital starts to accummulate, thereby providing a platform for further economic growth.

However, not everyone welcomes such a development. One usually gets a major outcry from exporters whenever the exchange rate rises.

Usual claim

Their usual claim is that it is pricing them out of their foreign markets.

But looking at the experience of Japan and Germany, which today have the world's two strongest currencies, this is not inevitable.

Summing up, it seems that South Africans have a strong inducement to find a political solution that will take the heat off the rand.

A strengthening of the rand from its current 45 percent depreciation to even 20 percent would result in a marked improvement in living standards, which seems well worth working for.

Star 17/12/88 (58)

You pays your money and makes your choice

OTTO JAEKEL, general manager of SANBES, completes his two-part comparison of unit trusts and endowment policies

LAST week's article looked at yield, risk and guarantees.

I conclude with a look at considerations of flexibility and liquidity.

But first another important aspect — the tax position.

In the case of unit trusts, capital growth, reflected in increasing unit prices over time, is normally tax-free.

This in effect means that when the investor decides to realise his investment, the proceeds payable are tax-free.

Should the investor frequently switch between different unit trusts or in and out of unit trusts, however, there is the danger the Receiver might regard him as a trader, in which case his profits become taxable.

Unit trusts usually declare income every six months. Part of the income originates from dividends received on the shares in the portfolio. Part derives from interest on fixed-interest investments.

The two portions are taxable in the hands of the individual in the same way as any other dividend or interest received. A third of dividend income is tax-free while all interest income in excess of R1 000 a year is fully taxable.

Trust managers usually advise unit holders to reinvest income in order to capitalise their investment — the unit holder must then provide separately for tax liability.

Sanlam has, however, catered for investors in a high tax bracket by developing their Index Trust portfolio into one which concentrates on capital growth rather than a high income yield.

The income consists mainly of dividends rather than interest.

Pure endowment proceeds are tax-free, subject to the provisions of a standard policy. The investment income earned on the assets in the investment portfolio is, however, taxable in the hands of the life office.

A unit trust investment is completely flexible.

Units can be bought over any period and proceeds may be realised at any time. The amount of the regular investments may be varied at will and may even be discontinued for a period.

FLEXIBILITY

A pure endowment policy, however, has to meet certain legislative requirements to ensure that proceeds are tax-free.

The policy term must be at least 10 years and premiums must be paid for at least 10 years.

The amount of the premium may be varied only within prescribed limits (for example, in the first 10 years, the premiums in any 12-month period may not exceed twice those in any other 12 months).

Policy restrictions demand a certain discipline from the policy-owner. This helps ensure that the original investment program is not upset.

LIQUIDITY

A unit trust offers a high degree of liquidity. Units may be sold back to the management company at any time.

Remember, however, that because of the volatility of the stock market, a forced realisation could result in a loss.

A pure endowment policy acquires a surrender value after a relativley short period, usually one or two years, depending on the policy term.

It is, however, advisable to borrow against the security of the policy instead, so as not to jeopardise the objective for which the policy was originally effected.

CONCLUSION

Investments in unit trusts and pure endowment policies should not be regarded as substitutes for each other. They differ fundamentally in terms of associated risk.

They are complementary, catering for different needs and different types of investors.

Swiss loan to SA? Govt won't confirm

Cape Tms
19/12/88

SP

JOHANNESBURG. — The government has refused to confirm that Switzerland has loaned South Africa R88 million, but informed sources say the loan has gone ahead.

The loan, said to be from a group of Swiss banks, is believed to be the country's first foreign loan since 1985.

However finance officials declined to comment on the report, saying "these rumours have been flying around in Switzerland for some time. But the less said, the better".

Bankers involved said Swiss Volksbank was the paying agent for some 10 banks.

No official comment was immediately available from Volksbank. The identity of the other banks was unclear.

Burdened by a $22 billion debt, South Africa has been shunned by most Western banks since 1985 when they implemented a foreign credit freeze on the country, because of mounting political violence.

Bankers said the latest deal was the first known Swiss capital market transaction for a South African borrower since a 50-million franc private placement arranged for South African Transport Services in 1985.

Asked about the timing, bankers said the banks involved may have been encouraged to go ahead with the deal when President P W Botha visited Zurich in October.

During his week-long visit, Mr Botha met bankers and businessmen to urge them to relax their lending freeze.

Switzerland has never imposed a lending embargo on South Africa. Instead, the Swiss National Bank has imposed a total annual limit on Swiss lending to South Africa, which is currently set at 300 million francs a year.

A spokesman for the National Bank said approval was required for the new private placement under recently introduced new regulations governing credit transactions.

"The 300 million franc limit has not been reached by a wide margin for a long time. This is one reason why this transaction could be made without any problem," he said.

Bankers here said that with a coupon of 7% on the new deal, South Africa was paying a large premium over the 4,25% which a sovereign borrower would usually have to pay for a three year placement. — Own Correspondent and Reuter

Outlook for 1989

BANKING

STN 20/12/88 (58)

The popular Diagonal Street column is being replaced over the next few weeks by a series of articles dealing with the economic outlook for 1989. Contributors are all specialists in their fields and this first article by well known Johannesburg financial analyst DAVID SOUTHEY looks at banking in 1989.

The sweet sensation of romance is once again in the air. If not yet ready to resume a full blown love affair with banks, investors are at least beginning to take their first tentative steps in courtship. Tentative because not all banks are smelling of roses yet.

Reflecting the generally dismal perceptions of the industry, the banking index this year plunged to a 30-year low against the industrial index. Conversely, banks' relative earnings yields against industrials have hovered ominously close to a record 1,6 times during the past couple of years.

But every dog has its day — relatively speaking — and 1989 could be it for banks. As every speculator knows, markets never go up or down indefinitely.

To be sure, it hasn't been a bad year for share investors. Although the overall market is still a good 17 percent off its record high before last October's crash, it is 30 percent up on its level at the close of 1987. (Stockbrokers haven't made any money, though, because prices have moved up on very thin volumes).

And the JSE has fared a lot better than some of its overseas counterparts, with New York only up 11 percent and the UK barely 3 percent.

Rather than compare the overall banking index with the industrial index, one should look at the recent performance of particular bank counters.

Around mid-year a few analysts (swimming against a vicious current) pointed out that, although there wasn't much to make the pulse race or the spine to quiver in the banking industry in 1988, the relative cheapness of the shares presented sound buying opportunities.

Millions of ordinary, honest folk will read the table below and kick themselves that they didn't follow the stars. But there certainly are some laggards which we discuss here.

STANDARD BANK has long been a sitting duck. It's still a long way off its 1987 peak of 2 750 cents. After making lots of negative noises in the first half of the year it reported a respectable 17 percent growth in earnings per share at the half way stage — and the directors promised that it would do no worse in the second half of the year. Next year should be a little better and the share looks good for another R3 or R4 price appreciation earlyish next year.

FIRST NATIONAL has had more than its fair share of bad luck and troubles. Despite a poor year, with earnings a share only 12 percent up, the share price has edged up. Investors must bear in mind that its always easier to grow off a relatively low base than off a high one and 1989 promises to be a much better year for the bank.

But the perception among some nervous investors is that the bank is still spending money "like there's no tomorrow", mainly on computer technology and new head offices.

For it to recover lost ground against Standard, investors would need a clear message from the directors that spending is "under control". Don't expect the share to move much until after the March interim. There are also some doubts about capital adequacy over the next 18 months or so. Clarity on this score should help.

NEDBANK has had a marvellous year with earnings per share racing ahead by nearly 50 percent. Although earnings growth looks like being slowed in 1989 under the merger with the Permanent Building Society (the group will also pay more tax), the enlarged, relationalised group holds plenty of promise for the future.

If there weren't so many disgruntled investors around who still remember the halcyon days of Nedbank shares priced at R17, the price could well have been over R10 today. The share's biggest move is likely in late 1989/early 1990.

BANKORP's shares have had a dismal run this year and the price is now 19 percent off its June level. Earnings growth for the year to June at 16,5 percent was below expectations, but in no way disappointing enough to warrant such a slide in the share price.

Investors' chief concern is that the group may run out of capital in the next couple of years. A good six months to end-December should start pushing the share ahead of the announcement of results at end-January.

Under its spritely, aggressive management team, TRUST BANK clearly turned the corner some time ago in terms of profit performance. It had a good year to June '88 with earnings up 20 percent and is likely to better that in the six months to end-December.

The under performance of the share is therefore inexplicable and it must now rank as the best spec in the sector. Investors should take aim now because when the duck takes off it might just fly a little higher and faster than their range. I wouldn't be surprised to see the share at 270 cents or more by mid-89.

VOLKSKAS is still a bit of a mystery, but it seems to be on the road to health and strength. It held the dividend at 22 cents for the six months to September and reported EPS of 93 cents (92 cents) on a significantly larger shareholder base following its tie-up with UBS.

The share price has improved 22 percent since June but more marked appreciation is not expected until after its March year-end in 1989. Fuller disclosure would remove some of the lingering doubts about its level of farm (bad) debts.

	Price in June (c)	Christmas Price (c)	% Happy/ Sad
First National	1375	1500	9,1
Standard	1400	1900	35,7
Bankorp	470	380	−19,1
Nedbank	585	700	19,7
Volkskas	980	1200	22,4
Trust	165	165	—

Investors should look to mining financials

Star 20/12/88

58

Finance Staff

DURBAN — Investors should aim for a balanced portfolio with a concentration on the better quality mining financials, says Russell Marriott and Boyd Trust in its investment review of the last quarter.

Forecasting a "clearly defined downturn" by mid-1989, RMB advises investors to maintain a target balance of 20 percent liquidity, 30 to 40 percent in property and property trust sectors and 40 to 50 percent in other equities, with rand-hedge concentration.

A regular "rand-cost" averaging investment programme, investing cash over a period of time, is also strongly recommended — to iron out the timing problems due to volatility as a result of the market responding to swings in the gold price.

The current part-recovery in the JSE's All-Share Index is unlikely to be sustained, says the review.

But the stock market at present offers "reasonably good value".In view of the relatively high and rising inflation rate, it advises investors to maintain a good stock of quality shares with 20 to 30 percent liquidity in order to take advantage of market set-backs.

South African gold shares should be avoided for the time being.

Ruling out immediate prolonged recession RMB expects the economy to slow down rapidly in the next few months, heading for a sharp downturn by the middle of next year.

The prime overdraft rate is likely to be up to 19 percent by the first quarter of 1989.

"Thereafter, we would expect short-term interest rates to start falling.

"But long-term interest rates will rise further with the upward pressure of inflation."

Turning to the property market the review notes that the underlying earnings of the better quality property trusts are stronger than they have been for five years, with negligible vacancy factors and rising rentals.

International economic growth is likely to be slow in 1989; however, serious recession in the short-term may be avoided says the review.

Gold's recent rally above $420 does not predict a new bull market in dollar terms according to RMB, which forecasts a trading range of $400 to $430 anounce for some months.

Building society silent on reply to the CP

(58)

Star 20/12/88 **By Anna Louw**

The Natal Building Society has responded to a deadline issued by Conservative Party MP Mr Clive Derby-Lewis that it restore its agency in Boksburg to CP mayor Mr Beyers de Klerk.

The NBS general manager in Durban, Mr Brian Short, said yesterday that because Mr de Klerk has laid a charge of criminal intimidation against the NBS, he had been advised by lawyers not to comment in detail on the issue.

"The NBS has responded to the deadline, but I can say nothing further at this stage."

The NBS withdrew its agency from Mr de Klerk after the CP-dominated council in Boksburg re-introduced petty apartheid.

The council has drawn flak from commerce, industry, and local consumers.

School to stop 'leeches'

Star 20/12/88

Education Reporter

Bryanston High School is to deny pupils access to certain school facilities if their parents do not pay school fees of R690 a year and a one-off donation of about R1 000 for a media centre.

A letter concerning the move was sent to parents recently by the Sandton school's management committee.

In it, the committee says 60 percent of the parents who regularly pay their contributions to the school's trust fund are tired of supporting the 40 percent who do not.

The committee is to create a Bryanston Trust Fund Club to acknowledge the parents who do contribute. Their children will automatically be members and will wear a badge to advertise this fact.

Certain school privileges and facilities will be accessible only to club members. In this way, children of non-contributing parents will be prevented from "leeching" on to the privileges for which they have not paid.

The letter says parents who genuinely cannot afford to pay the fees can make confidential representations to the headmaster or management committee to have their contributions waived, either totally on in part.

The committee says the funds are necessary because government funding is hopelessly inadequate for the educational experience offered by Bryanston, "a privileged school with a fine heritage of facilities".

Bank warns company to repay R1,2-m loan

Star 20/12/88

58

East Rand Bureau

Some directors of the Tembisa Industrial Park Company have been warned by the Standard Bank that judgment may be taken against them and their properties sold for failure to repay a loan from the bank.

Tembisa Industrial Park was built at a cost of R1,2 million, which was a loan from the Standard Bank.

A letter from the bank to the directors of the Tembisa Industrial Share Block (Pty) Ltd, said the Standard had indicated on a number of occasions the seriousness of the company's financial position and the need for the directors to rectify it.

A director of the Tembisa Industrial Park, Mr P Maatlho, said several members of his company had financial problems because their businesses were not viable

He said that the cost of the units occupied by members had also gone up by 30 percent

The bank said in its letter to the company that the loan could be repaid only if the members co-operated and paid up according to the rules.

If they did not pay their levies, the bank "will have to get its money back".

The letter said: "We can do this by taking judgment and having the property sold in execution or, by applying for liquidation of the company and getting the liquidator to sell the property. Either way, the new owner will evict the existing occupants."

The bank added that in fairness to shareholders who were paying, it would give the company until March 31 to put its house in order

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Bank tells of teething problems

(58) B/Day 20/11/88

FNB acts against ATM snarl-ups with a 'helpline'

COMPUTER snarl-ups are playing havoc at First National Bank (FNB), with irate customers complaining about mistakes appearing on their bank accounts.

The bank has set up a "helpline" from 7am to 8pm to allow for instant customer queries, while it changes over to a new computer system.

The helpline telephone numbers are displayed on FNB's ATMs nationwide and a team of technicians are on standby to handle mechanical difficulties.

FNB senior GM Jimmy McKenzie admitted the bank was experiencing "teething problems" with its upgraded electronic banking network.


● McKENZIE

"But we are pleased generally with the performance of the new system, which has achieved excellent results.

"The response time of our ATMs has been increased and we are impressed by the quality of service BOB is providing."

He said FNB technicians had "performed miracles in the complex exercise" of integrating two systems.

It was expected that all 700 ATMs would be linked by mid-1989.

BRENT MELVILLE

FNB general banking division GM Kosie Meiring said the problems were sparked by the bank's changeover to IBM-based software, which proved incompatible with the mainframe.

The transition, using US-developed software, involved switching from the "unlive" ISL system to the "live" IBM system.

The bank would spend R60m on revamping its BOB machines, as part of a R300m changeover to the IBM-based Hogan computer system.

Also, BOB machines were in the process of being integrated with the bank's mainframe computer.

However, some of the bank's employees had their doubts. One said: "It has to work, because we spent so much money on it."

Another employee said that Hogan, which was originally developed for the US electronic banking market, was "wholly inappropriate" for a bank with as many customers as FNB had.

The bank's 250 BOB machines upgraded so far had been affected by a "bug".

According to Meiring, it had the affect of immediately off-lining the system should a withdrawal of more than R100 be requested.

Wimpie de Klerk 'not

Protea Assurance refurbishing

Ovcon awarded R13m contract

Cape Times 20/12/88

By **AUDREY D'ANGELO**
Financial Editor

OVCON (Cape) Building has been awarded the R13m contract to refurbish and extend the Protea Assurance headquarters fronting on to Greenmarket Square, Longmarket Street and St George's Mall.

Work on building the extension on the site of the newly demolished Lincoln House and former Natal Building Society (NBS) headquarters, will start early next month and should be completed in 15,5 months.

The second phase, which will be given a contract time of 8,5 months, will be the refurbishment of the interior of the new, enlarged Protea House.

This will include the building of a central atrium over six storeys in place of the present lifts and services core.

The entire new complex will be "A" grade office accommodation — now in short supply in the central business district (CBD).

Services will be provided through access flooring with word processiong facilities and air conditioning reticulated to each floor.

Ovcon (Cape) Building MD Roy Peckett said that contract times were tight but "that is true of from 70% to 80% of the contracts Ovcon handles these days."

Fast-track work did not present problems provided the professional team knew exactly what they wanted and the flow of information kept ahead of work schedule.

At this stage he saw no undue difficulties in keeping to the challenging programme.

As already announced, the entrance to the new complex will be on Greenmarket Square.

The new facades, on both St George's Mall and Greenmarket Square, have been designed by project architects Louis Karol to complement those of the existing Protea building.

The enlarged complex will provide more than 7 000 square metres of office space and about 700 square metres of ground floor shopping area. There will be staff parking in the basement.

Protea Assurance MD Tony Crank (seated, left) and Ovcon Holdings joint MD Jimmy Thomas sign the R13m contract. Standing, from left, are quantity surveyor Frank Caietta, Johnny Schwartz of Louis Karol architects and Protea financial executive Peter Michley.

IGI's rating is a mystery

Sharespot

58 LYNNE PEACH

IGI, 53,8 percent-held by HCI, is the lowest rated share in the insurance sector. At 415c, its P/E is a rockbottom 1,8. Most competitors are trading on a P/E of more than five. Star 21\12\88

IGI's dividend yield of 8,2 is significantly higher than the average of four percent. The reason for the poor market sentiment is a mystery that not even MD and chairman Michael Lewis is able to shed light on.

He cannot suggest any reason why the share should be left out in the cold, especially as the group has been performing well and is expected to have a good year to March 1989. Mr Lewis says results should be well ahead for the full year, compared with last year.

IGI is involved in underwriting all classes of local short-term insurance and specialised business in the international market. Local life and funeral business is underwritten by subsidiaries (including IGI Life in which the group has a 53 percent stake). Other subsidiaries provide computer facilities, own property, conduct the business of printers and lithographers, and act as short-term underwriting managers.

Mr Lewis says IGI is almost totally dependent on the SA market and does very little international business. Short-term insurance is the major contributor to group attributable income. Although motor business is the biggest class in this category, the portfolio is fairly well-balanced.

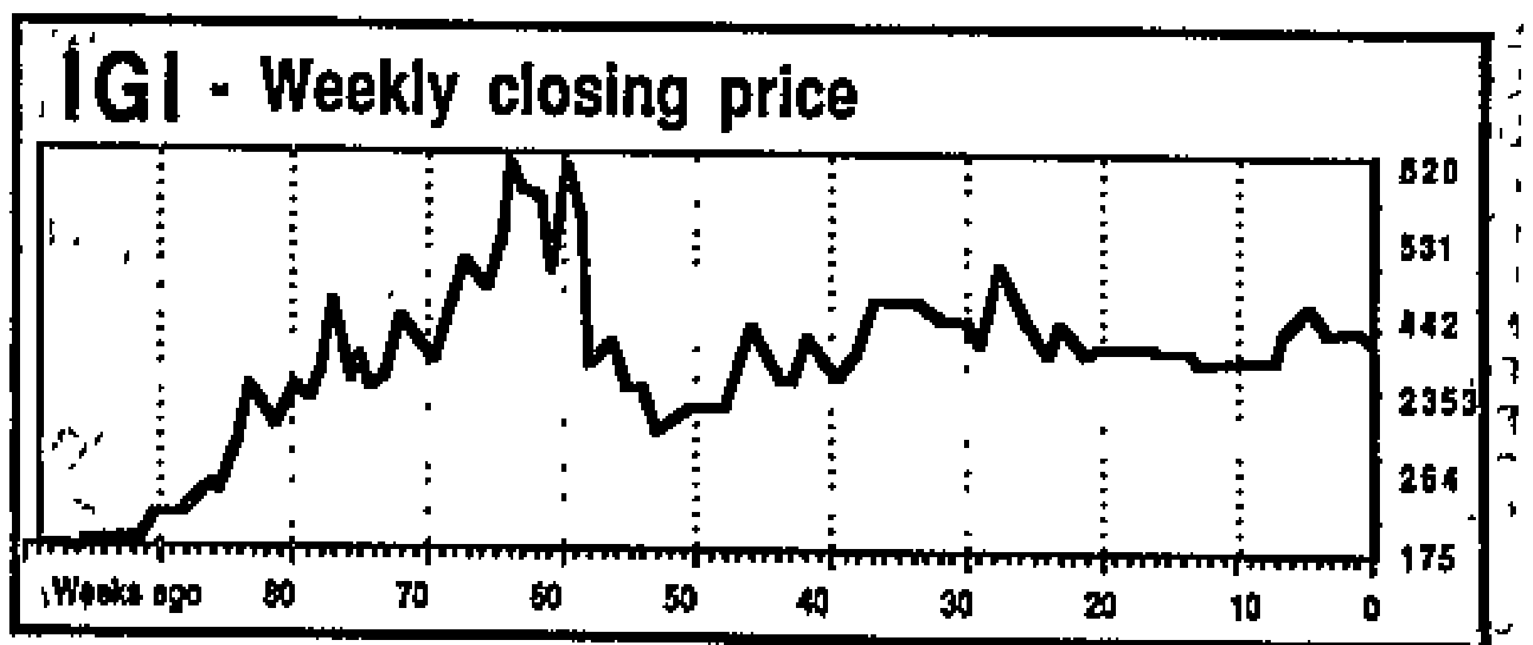
The short-term insurance industry has been benefiting from an improvement in the loss ratios of burglary and other crime-related insurance.

In addition, there has been an improvement in the recovery rate of stolen vehicles, which runs into millions of rands.

At the same time, South Africans have become more aware of the need to protect assets. However, these benefits are largely offset by import surcharges, says Mr Lewis. Nonetheless, IGI expects to hold the current level of premiums in the foreseeable future.

Mr Lewis does, however, expect a cyclical softening of markets. While the local market has always been competitive, the situation could deteriorate. He says that with growing capacity in overseas markets, international companies tend to move into our market, primarily through re-insurance. With a falling rand, these firms can offer competitive rates.

In the six months to September 1988, IGI's gross premium income rose by nearly 22 percent to R224 million. However, a leap in the tax bill reduced growth to three percent. Interim earnings were 85,7c, while the dividend grew from 10c to 14c after cover was reduced from 7,1 to 6,1 times.



For more than a year the price has undulated sideways around 415c. At the same time, the insurance index has moved upwards. The technical outlook for IGI will only be more promising once the share moves convincingly above 460c without dropping back. This will probably happen when the market starts anticipating the next set of results, due next June. They are expected to show a good performance.

SAICA to advise on short term insurance

Star 22/12/88

58

Following the issue of the Melamet Commission Report on the AA Mutual debacle, the South African Institute of Chartered Accountants has formed an interest group consisting of chartered accountants with experience in short-term insurance.

In a statement this week, the interest group says that its initial task was to analyse the Melamet report with the objective of devloping a strategy to help prevent similar disasters from occurring in the future.

According to the Melamet Commission, some of the factors which contributed to the demise of the AA Mutual were:

- Inadequate accounting.
- Inadequate provision for claims.
- Bad management and lack of control.

"With the knowledge and experience at its disposal, the interest group is in a strong position to take the lead in providing advice and preparing guidelines on how improvements can be made in these areas," the statement says.

It also says that the formation of the group has been welcomed by the Registrar of Financial Institutions.

"Already the interest group, under the chairmanship of Roy Tiffin, has met representatives of the Registrar's office on several occasions. In particular discussions have focused on changes that need to be made to the Insurance Act."

The group is also in the process of preparing an accounting guideline for the short-term insurance industry, similar to the guildeline on long-term insurance issued by the institute in 1986.

"The guideline will address issues such as accounting for premium income, expenses, re-insurance and providing for claims. The guideline will also call for improved disclosuire by short-term insurers in their annual reports.

Looking to the longer term, the Institute would like to encourage short-term insurers to set up audit committees.

"An audit committee comprised of non-executive directors with experience of the short-term industry would go a long way towards solving the types of control problems identified in the Melamet Commission report." — Sapa.

Outlook '89

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ASSURANCE

Star 22/12/88

By David Southey, analyst with a major stock-broking firm.

There were a couple of ripples in the assurance sector this year. The most recent was the announcement that troubled Lifegro is to be replaced on the boards by the much smaller Momentum Life Assurance Company.

The assets of the two companies will be merged and jointly listed under the name Momentum Group — probably around end-March 1989.

The first dividend the group will pay is "at least" 12,5 cents at the new financial year-end in June 1990. Lifegro's price at 165 cents is 25 percent off its August level of 220 cents and suggests investors are treating the whole deal with considerable caution.

There's not much to get excited about in 1989, but the powerful axis of business interests surrounding Lifegro/Momentum suggests that there is likely to be life after Lifegro.

Rights issue

Earlier in the year, the Liberty Group successfully pulled off a R475 million rights issue while diluting its direct interest in its offshore holding arm, Conduit (through which it holds TransAtlantic), from 100 percent to 55 percent.

Local investment trust, FUGIT, was reconstituted as the offshore holding arm of TransAtlantic.

Liberty Life shares shot up to R160 on announcement of the deal before settling back to R140.

Fugit, renamed First International Trust (FIT), has continued to attract widespread investor interest.

Liberty Group shareholders will be anxiously monitoring the progress of Capital & Counties — the listed UK construction company (64 percent owned by TransAtlantic) which is in the process of spending some £700 million putting up giant Sandton City-type shopping complexes in England.

Assurers are by nature unflappable creatures (except when it comes to discussions on their taxation), which implies very low volatility in earnings and dividend growth from one year to the next.

Most will be aiming to disclose around 20 percent EPS and dividend growth in 1989. The average could be a little lower this year because of extra tax provisions under the 70 percent increase in taxes announced in the Budget.

In fact, uncertainty over tax is the single biggest factor overhanging the industry at the moment. The matter could be resolved in next year's Budget, but don't expect assurers' tax rates to be any lower than they were in 1988. The good news is that they aren't likely to be any higher than they were this year.

Liberty Group has proved a remarkably successful performer for shareholders over an extended period and is likely to continue rewarding investors for many years to come.

Despite the dilution of Liberty Life's rand-hedge qualities, it is likely to retain its top-notch rating in the sector.

But look to Southern Life, Metpol and Fedsure to close the gap a little in 1989. All three look ready for a sprint — assuming the tax angle is clarified, even if it isn't entirely to their satisfaction.

Sage is more diversified than the above three but should also experience a gradual improvement in rating. Investors will probably wait for a sound interim next June (rather than a solid December year-end performance) before chasing up the share price.

United raises its bond rate

58

The country's largest building society, the United, has raised its bond rate from 17 percent to 18 percent.

The increase is immediate in respect of new borrowers and from February 1 for existing homeowners.

Star 23/12/88

The United now comes into line with other major societies whose rate rises to 18 percent from January 1.

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Turbulent class of '85 comes of age

In place of turmoil and ad hoc reaction, the students of the Western Cape are displaying a new political discipline.

GAYE DAVIS reports

STRINGENT new regulations governing pupils in schools run by the Department of Education and Training (DET) have been identified as a major potential flashpoint for next year.

According to the DET, the regulations are geared to "ensure uninterrupted education". Educationists argue that they may have just the opposite effect.

The new rules cite a range of "offences" for which pupils can be expelled or suspended.

They also empower the Minister of Education and Training to close a school if he thinks its continued existence is no longer justified, because pupils have been expelled or suspended.

Pupils can be expelled or suspended if they:

- Make unsatisfactory scholastic progress because they have taken part in "activities not approved by the principal".
- Take part in boycotts, sit-ins or riotous action.
- Commit acts of insubordination.
- Intentionally leave their books at home.
- Are absent for more than 10 consecutive days, or for 20 or more days in a school year, without valid reason.
- Refuse to obey legitimate instructions.
- Incite other pupils to contravene regulations.
- Intentionally give false information to any teacher.
- Possess or use habit-forming drugs without a doctor's prescription:

The DET has described the regulations as representing "one more step towards parity in education in this country", saying they serve to bring the DET in line with other education bodies.

It also maintains that pupils will be allowed to put their case "at every step" of the disciplinary process, and that this right is also extended to parents.

Among those who have criticised the new regulations is the Education Forum, a Western-Cape based organisation concerned with DET schools.

A representative of the forum, Sue Philcox, said the rules were open to abuse.

"Not content with using the SADF and the SAP, the DET is giving vast powers to principals, who often have little support from the communities they should be serving."

Through its refusal to work with democratically elected parent, teacher and student associations, the DET had shown it was not prepared to work with communities, and had chosen instead a course which was confrontational, Philcox added.

"The regulations which have been gazetted appear to throw down the gauntlet to students and parents alike. These are not disciplinary measures, they are measures for control."

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SA apathy untouched by world's green fever

While economic deregulation remains its guiding philosophy, the government is unlikely to check the rape of the environment, argues EDDIE KOCH

WHILE South Africans watched the politics of the world's most powerful nations turn green, their own subcontinent was this year being subjected to a spate of environmental abuses.

Pollution was a major issue during the American presidential campaign. In Mikhail Gorbachev's Soviet Union *perestroika* was accompanied by another unfamiliar concept — *ekologia.*

Even British Prime Minister Margaret Thatcher compromised her free-market principles and agreed to restrict the manufacture and use of chlorofluorocarbons in aerosol sprays when confronted by evidence of irreparable damage to the ozone layer.

But while the rest of the industrial world was looking at its environment with a great deal of concern, the South African government and extra-parliamentary organisations were unmoved by allegations that massive doses of acid rain, mercury and Agent Orange chemicals were polluting the country's environment.

The air above Natal was this year saturated with Agent Orange-type herbicides, says the environmental group, Chemwatch.

Rain samples gathered in the Tala Valley near Pietermaritzburg showed levels of 24-D that were one million times the dose needed to damage vegetable crops. At the same time traces of another defoliant, 245-T, was found in the effluent of the large Natal chemical company, Farmag.

Agent Orange, the defoliant used by the United States Air Force during the Vietnam War to destroy vast tracts of jungle, is a mixture of 24-D and 245-T. The chemicals have since been linked to a range of birth deformities, cancers and skin diseases.

The government's response to demands from a vocal group of vegetable farmers in Natal for the herbicides to be banned was to say that supplies of 245-T were being depleted and that there was anyway "no valid evidence to show that 245-T herbicides harm humans in any way".

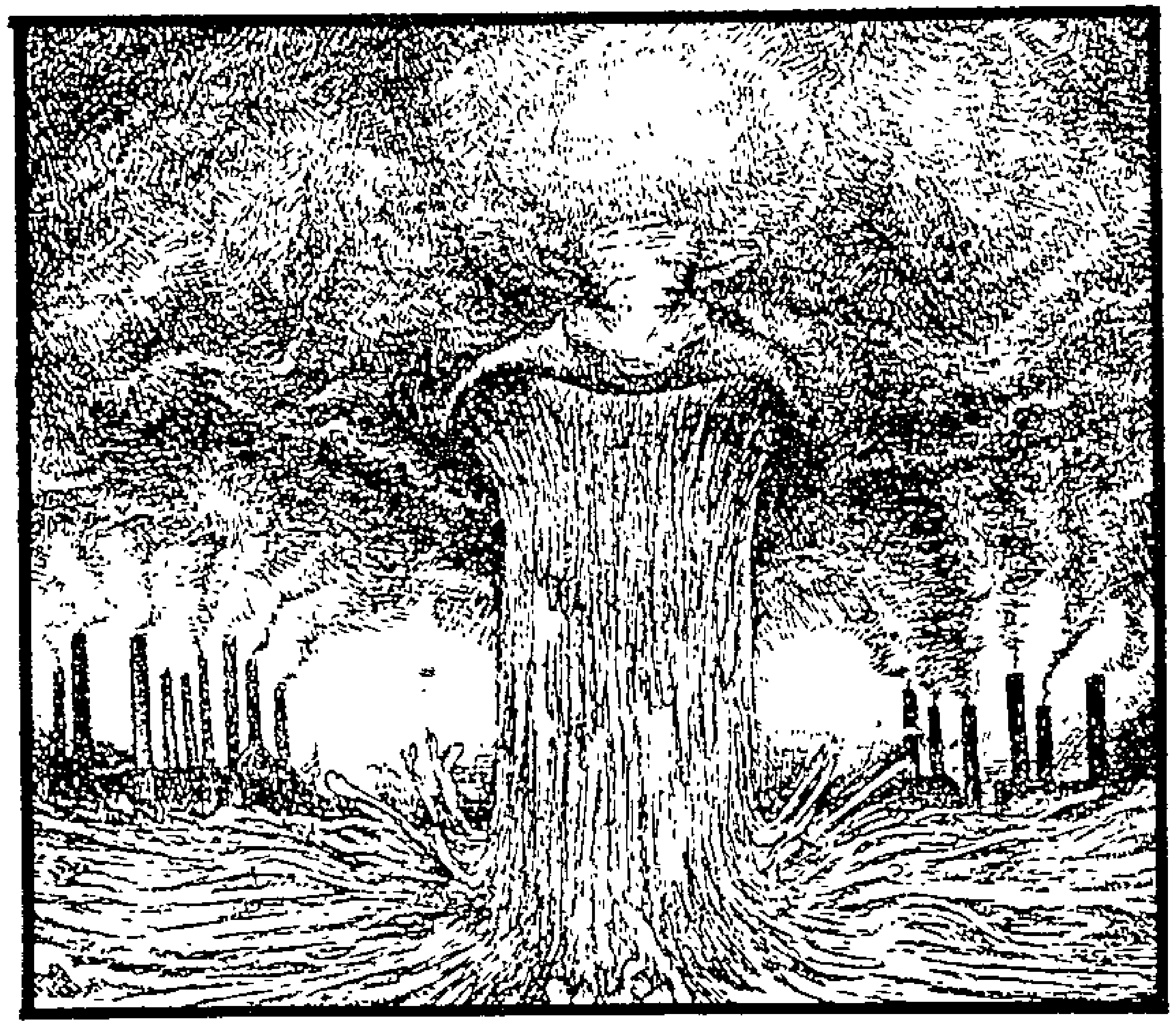
Frustrated by similar refusals to restrict 24-D, the farmers launched a supreme court application for all products containing both chemicals to be banned. This case, which pits the farmers against some of the world's most powerful chemical companies, could become one of the most complex pieces of civil litigation in South Africa's legal history.

Pietermaritzburg was rocked by another scandal involving the recycling of lethal mercury waste after the Natal firm, Thor Chemicals, was accused by Greenpeace of being part of a secretive and world-wide trade in toxic wastes.

Thor MD Stephen van der Vyver denied the allegation but confirmed his company was recycling mercury-laced waste from the US.

The company's ability to operate in this manner was shrouded in mystery. Only one firm in South Africa, Waste-Tech, has a licence to dispose of such waste and any similar operation outside of its plant is illegal.

Nor did the Transvaal escape the contamination. In July the Council for Scientific and Industrial Research released a report which said coal-burning power stations in the Eastern Transvaal were pumping levels of sulphur-dioxide, the gas responsible for acid rain, that were equal to the worst conditions in the world.



Factories belch and acid rain is spewed on the land

Contamination was compounded by the low oxygen levels and limited air turbulence over the Witwatersrand and Highveld.

Again there was little evidence of official willingness to tackle the problem. The government's chief pollution control officer acknowledged there was little that would be done in the near future.

Water-based techniques to control sulphur emissions in other parts of the world cannot be used because of a lack of water supplies in the Eastern Transvaal, he said. Even if supplies were pumped in, the purification technology would cost R500-million for each power station — an amount the government was unable and unwilling to pay.

The government's limp attempts to control pollution of this nature meant that many South Africans in 1988 were living and breathing in some of the most polluted air in the world.

An ecological scandal of another kind erupted when a US state attorney in November said a 10-month operation by undercover agents in America had confirmed reports that SADF members in Namibia and Angola "have been actively engaged in the killing and smuggling of wildlife species — including rhinos and elephants for personal gain and profit".

The state attorney for Connecticut made these allegations after three American citizens were arrested in November and charged — together with three South African nationals — for smuggling rhino horns, other endangered wildlife trophies and AK-47 rifles into the US.

A formal request has been made for the extradition of Major Marius Meiring, his wife Pat and Sergeant Major Waldemar Schutte to stand trial in the US. SADF representatives have refused to comment on the allegations on the grounds that an internal board of inquiry is in progress.

The charges come in the wake of claims that Unita rebels have paid for military aid from South Africa by killing thousands of elephants and transporting their tusks to South Africa, from where they are distributed internationally by an illicit ivory ring.

The claims, made in evidence to the US congress by conservationist Craig van Note, have been denied by the SADF and Unita leader Jonas Savimbi. Last month the SADF announced that an internal board of inquiry had investigated Van Note's claims and found no evidence to justify action against its members for alleged involvement in ivory smuggling.

Energies of anti-apartheid groups are concentrated on the short-term issues of racial and class oppression and these organisations have shown little concern for environmental issues. A few groups such as Chemwatch and the Society Against Nuclear Energy are able to monitor abuses but they lack the power and influence to do much about them.

A government that has never been committed to social welfare measures and is now firmly following the path of economic deregulation is unlikely to shift from its apparent apathy.

DET MAKES ITS MARK

Results out today or next week

Sowetan 23/11/88

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By ALI MPHAKI

MATRIC results for about 170 000 black full-time candidates who sat for their examinations during October/November this year, may be released today or early next week, a spokesman for the Department of Education and Training said in Pretoria yesterday.

The results are for candidates throughout the country with the exception of the Transkei.

By late yesterday, Mr Richard Chernis, spokesman for the DET, said his department was "very close" to finalising the results.

He said the marking of scripts and the processing of the marks went well, and it was in the interest of all parties involved to release the results as soon as they were available.

The spokesman said he could not give out the breakdown of the results, until compiling had been finalised.

Last year, 137 600 full-time candidates wrote the DET's matriculation examinations. Of this figure, 77 454 candidates (56,3 percent) passed.

Of those who wrote, 28,6 percent attained university passes. Altogether 55 candidates achieved two or more distinctions, while nine

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Star
22/12/88

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Outlook '89

BUILDING SOCIETIES

By David Southey, analyst with a major stockbroking firm

Most of the building societies haven't had a bad year, as the table below shows.

Neither NBS nor UBS disappointed, despite a tough competitive environment, reporting the expected 20% earnings growth at the halfway stage.

Both are likely to repeat this solid performance in the second six months, although a slowdown in the housing market will erode volume growth in 1989. But margins are likely to be a lot better.

The share prices of both should see steady appreciation, in line with the banking sector next year.

Allied proved the big disappointment of 1988, reporting a decline in earnings per share (EPS) to 8,6c (10,5c), although it managed to hold the dividend at five cents. A marginally better second half is expected, but the group looks set for a year or so of consolidation.

Its rating relative to NBS and UBS is likely to lag farther behind. It came in for some strong speculative buying in 1988, particularly when the share price plunged close to the R1 level.

Saambou is too new on the boards to form firm opinions. There was a lot of speculative interest in the society a couple of months back when rumour had it that Sanlam and Volkskas (each with 10% of the equity) were lining up for a takeover.

It yields over 10% on dividend and therefore looks ripe for some appreciation. But investors will want to see EPS growth in line with UBS and NBS before pushing it further.

Warning: The country is still oversupplied with financial services and the competition between banks and societies (and assurers in certain areas) is unlikely to diminish in the near term. A slower economy will mean lower lending volumes, although an easier rate environment should help margins in most (but not all) cases.

Wholesaling institutions tend to score better in a declining rate environment than commercial banking operations. But the distinctions are becoming ever vaguer.

	Recent Price (c)	Low 1988	% Happy/ Sad
Allied	140	105	33
NBS	340	225	51
UBS	385	260	48
Saambou	104	90	15,6

…Gere workers help clear up the damage at Midmar Dam, near Durban.
•See page 2.

ment's state of emergency.

Sowetan 28/12/88 (52)

Matrics don't make A team

By NKOPANE MAKOBANE

NONE of the 4 508 candidates who wrote the Department of Education and Training matriculation examinations in Soweto obtained an A aggregate, a DET spokesman said yesterday.

According to the DET matric results released over the Christmas weekend, five candidates obtained an A aggregate nationwide (excluding the Transkei) and 111 received a B aggregate.

Last year nine candidates passed with an A aggregate, 81 with a B aggregate.

Mr Peet Struwig, the DET acting director (Johannesburg region), said yesterday however that Soweto produced one B aggregate at Pace Community College in Jabulani. The school is headed by Mr T W Kambule, a respected educationist, who took charge this year.

Mr Struwig also said although they were still working on the break-

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(52) Sowetan 28/12/88

Matric results

● From Page 1

down of the results in his region — one pupil from Bhukulani Secondary School in Zondi, Gordon Sikhakhane, obtained two As in English (higher grade) and business economics. He said there were other candidates who passed with an A or B aggregate in other subjects.

The results released by the DET indicate that of the 170 966 full-time candidates who wrote the exams, 85 657 (57,4 percent) passed (56,9 percent passed last year), while 28,7 percent (about 23 576) of these candidates obtained matriculation exemptions.

The results of some of these have been kept back because they are incomplete or because of investigations into allegations of irregularities. A DET spokesman has said the allegations referred to individual cases of cheating.

Mr Struwig said although this year's Soweto matric results showed a six percent improvement from last year's, they should have been better. Soweto schools obtained a 37,8 percent pass as compared with 32 percent in 1987.

"The results indicate that only 38 percent of the pupils were devoted and concentrated in their studies and were now reaping the fruits of their endeavours. I hope 1989 will be a good year if everyone joins hands and becomes involved in the education of our children," he said.

NOT UP TO THE MARK

Sowetan 27/12/88 ~~[illegible]~~ 52

36 killed in festive carnage

By MOKGADI PELA

AT least 36 people have died since the beginning of the Christmas weekend bringing the death toll of merry-makers to 140.

According to the latest figures more than 300 sustained injuries resulting from the accidents in the four provinces.

Mr Clive Patterson, the provincial traffic chief of Colesberg, Northern Cape, said seven people, including a baby and a pedestrian, were killed in separate incidents near his area.

He added that traffic on the N1 past Colesberg had decreased but appealed to motorists to rest when they felt tired. Tiredness, he said, appeared to be a major factor in the accidents.

Two men were killed in separate accidents in the Western Transvaal.

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HOW fortunate for 15-year-old Catherine Sithole from Zone 4, Meadowlands to give birth to a baby girl on Christmas Day. The baby, named Mida weighed 2,7kg and was born at 1.15am. Baragwanath's maternity ward was a hive of activity when a total of 14 babies were born.

By ALI MPHAKI

MATRIC results of black pupils of the Department of Education and Training — released last Friday — have shown no marked improvement from last year's disastrous ones.

Of the 170 966 full-time candidates who sat for examinations throughout the country excluding the Transkei, 85 657 (57,4 percent) passed (56,9 percent passed last year), while 28,7 percent (about 23 576) of these candidates obtained matriculation exemption.

This shows nearly a one percent improvement on last year's overall results.

Results of the 33 200 of the candidates who wrote at DET schools are as follows: 18 155 (54,7 percent) passed and of these 27,3 percent

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Matric results

Sowetan 23/12/88 ~~[illegible]~~ 52

● From page 1

pupils passed with an A symbol and 81 with a B aggregate.

Meanwhile, the white Transvaal Education Department matric results released yesterday showed the highest pass rate in at least eight years and an increase in the number of distinctions awarded.

Insurance claims pour in

28/12/88

58

KAY TURVEY B/Day

INSURANCE claims resulting from the Christmas weekend storms in Natal are already pouring in, with more expected.

Mutual & Federal GM Theo Vels said claims had been lodged in their Durban branch and early estimates were these would be in excess of R500 000.

Claims were mostly domestic for houses and their contents and account for half of Mutual & Federal's business country-wide. Vels did not expect the storms to cost insurers the R400m they did after the 1987 Natal floods.

Federated General (FedGen) GM John Towsey said they were expecting claims of about R750 000, although it was still too early to assess the full extent of the damage. FedGen is mainly involved in construction insurance and most sites are closed until mid-January.

SA Eagle GM Jim McIntosh said between 40 and 50 claims were reported yesterday, although a spate were expected next week after the Christmas-/New Year break ended.

It is premature to assess whether the storms will dent short-term insurers' profits in the coming year as market rates have softened dramatically. The Registrar of Financial Institutions, Theo van Wyk, recently warned against a rate war and emphasised the need to underwrite risks scientifically.

PriceForbes Federale Volkskas broker Don Gallimore said it was impossible to tell yet, if the storms would see a change in the market.

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Nedbank appears to have turned the corner

(58) Star 28/12/88

Sharespot
LYNNE PEACH

Nedbank has recovered remarkably well from the series of crises it had to face in 1985/1986, which included problems with its foreign exchange operations.

In 1985, Nedbank Limited (the major contributor to group results) was thought to be deriving about 30 percent of its net profit from foreign operations.

Although it has been said that Nedbank no longer has any contributions from abroad, MD Chris Liebenberg denies this.

He says that foreign business has fallen substantially, but that this is due to general economic factors such as the SA debt standstill.

Only the New York office has been closed, and the London and Hong Kong offices are still around and, according to Mr Liebenberg, are trading profitably.

He confirms that foreign business is being increased, whenever opportunity allows.

The Nedbank group is made up of six divisions — Nedbank Limited (including Nefic), Finansbank (including Cape of Good Hope Bank), Nedfin Bank, Syfrets Trust (including Syfrets Bank), UAL Merchant Bank, and other investments.

Nedbank Limited accounts for a major 70,5 percent of group attributable income. This operation has been producing excellent results, which Mr Liebenberg attributes to good liability management, benefits from the reduction in non-performing assets and to a growing share of its niche and target markets.

The group's results for the year to September 1988 showed a 49 percent rise in earnings, from 90c to 134c. This was after a 25 percent rise in operating income, a lower provision made for bad debts and a reduction in the tax rate from 24 to 16 percent. The dividend was 40c, compared with 33c for the previous year.

The good results can largely be ascribed to Nedbank Limited, with its 58 percent hike in net income.

Continuing above-average growth is expected from the bank despite general expectations that the business cycle will be less buoyant next year.

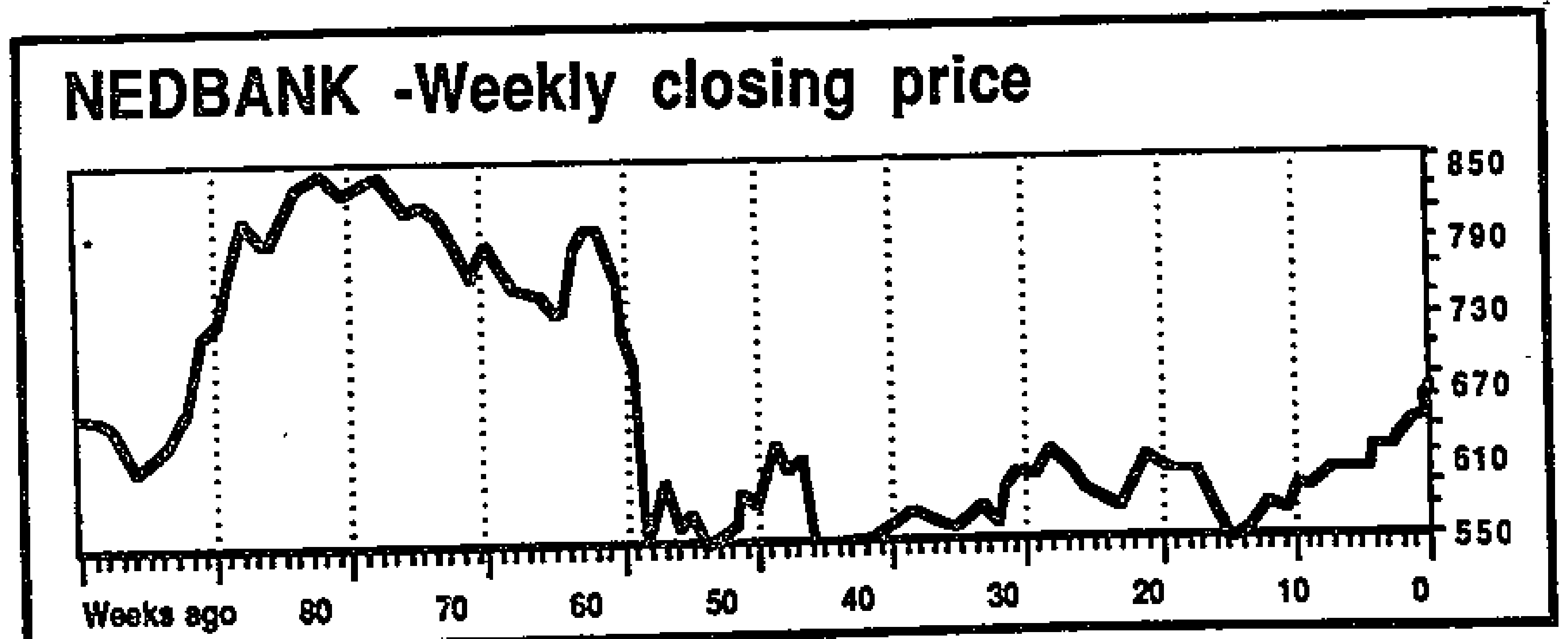
Mr Liebenberg says Nedbank is not as vulnerable to declines in consumer spending on durables as some of its competitors. This is because Nedbank is not as heavily involved in the consumer side (HP finance).

Nedbank Limited is expected to be in a tax-paying position much sooner than originally expected, possibly in about three years' time. The impact will, however, be smoothed, according to Mr Liebenberg, by further increases in the tax equalisation reserve.

This situation has come about because of the improvement in group results and the merger with SA Perm.

Although the merger deal required the issue of 30 million new Nedbank shares, Mr Liebenberg is confident that SA Perm will contribute enough to ensure that there is no dilution in earnings.

Significant benefits are expected to flow from the merger. For example, the products offered by each operation will be expanded and notable rationalisation benefits are set to materialise.


NEDBANK -Weekly closing price

The market was clearly pleased with the SA Perm merger which pushed the share price up from 550c to its current level. Although some profit-taking could cause the price to dip, the longer-term trend is likely to remain favourable. To its credit, Nedbank has also generally performed well against the JSE banking index.

New homes venture by United in Nelspruit

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Star 28/12/88

By Frank Jeans

The development company of the United Building Society, which closed the year on a positive note in new projects, has broadened its horizons as far as Nelspruit in the Eastern Transvaal.

The West Acres suburb of the town, with its superb viewsites, is the target area for a new homes venture by UDC and marketed by the Nelspruit office of estate agency, Aida Real Estate.

Mr Jonathan Fair, marketing manager of the UDC, says: "The project comprising 57 stands will be on sloping land providing buyers with excellent views of the countryside east of Nelspruit.

"The well-wooded area is surrounded by existing, high-quality housing."

The United, so as to conform to standards already in the surrounding development, has stipulated that homes in the new West Acres extension must have a minimum area of 110 sq m, excluding outbuildings.

"This requirement will not only protect existing homeowners, but also the investment of all buyers of the 57 new stands," says Mr Fair.

The sites are all about 1 000 sq m, with prices ranging from a highly competitive R26 000 to R35 000.

All services such as tarred roads and street lighting are installed and landscaping has been preserved.

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Old Mutual top of the league table

Star 30/12/88

Finance Staff

Old Mutual has come out tops in Richard Wharton-Hood & Associates' 1988 Annual Investment Peformance.

It achieved the best single premium portfolio in pension and life business in the the 14 years to December 1987.

Liberty Life had the next-best performance on taxed business with a level annual yield of 16,6 percent. Sanlam was third with a yield of 16,1 percent.

In the 14 years from January 1974 (the earliest date by which a significant number of portfolios had been opened), Old Mutual achieved a level annual yield of 16,7 percent a year for taxed or life business and 16,6 percent for untaxed or pension business.

On the untaxed side, Sanlam posted a return of 16,5 percent for the period and Liberty Life 16,1 percent.

All pension fund performances were well ahead of inflation. The survey shows that in order to have kept pace with inflation, a lump sum investment would had to have averaged 13,7 percent a year.

Two life portfolios, AA Life's Springbok and Standard General's Spiral, failed to beat inflation.

Sanlam pension portfolio came out tops when measured over all the periods (3 years, 5, 10, 14).

Sanlam's untaxed single premium portfolios were best over 10 years and gave a level annual yield of 20,5 percent. Old Mutual was Number One on taxed business (21,1 percent return).

Norwich Life performed well in the 10 years to December 1987, returning the highest yield of 20,8 percent on annual premium life policies, ahead of Mutual's 19,9 percent and Sanlam's 19,8 percent.

Quick repayment of a bond is the best investment going

Star 31/12/88

(21) (58)

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DEREK TOMMEY 31/12/88

WHERE should you put your money in 1989?

Investment experts say the share market still has attractions, works by top South African artists could be a good investment, and large good-quality diamonds are worth holding.

But overwhelmingly they feel the first investment choice of anyone with a mortgage bond should be to use surplus cash to repay it.

With the mortgage rate now 18 percent, they claim this is probably the most profitable and safest investment available.

By increasing mortgage repayments and reducing the bond, the housebuyer is actually getting a real return of 18 percent tax-free, with complete security on the money employed for this purpose — something which could not be matched by any other investment in South Africa today.

The tax free-aspect is also a vital point no one can afford to ignore.

People earning R1300 a month (marginal tax rate of 20 percent) would need to find an investment paying 22,5 percent before tax to get 18 percent after tax.

Someone earning R2100 (30 percent marginal tax bracket) a month would need an investment paying 25 percent; if they earned R4000 a month (40 percent marginal tax), they would need 30 percent; and anyone earning more than R6600 a month (45 percent marginal tax) would need 32,7 percent.

There is indeed much benefit to be gained from investing in your bond.

THE SHARE MARKET: People in the investment team at Mathison and Hollidge see two cycles in the share market this year.

In the first three or four months of the year they see a lower gold price, platinum in a consolidation period and interest rates firming.

After that they expect the inflation rate to rise, interest rates to start declining, platinum to recover, copper to remain firm and gold shares to enter a bull phase.

The upshot of all this is that they are not advising investors to buy platinum at the moment, but to take a stake in Barplats, Rustenburg and Vansa when platinum starts running.

They see Gold Fields Namibia as an attractive copper share and Samancor as a manganese counter worth holding.

They prefer the mining houses to the mining holding companies and like Anglo American, JCI and Consgold.

They believe rand hedges will continue to do well in 1989 and recommend Consgold again, Charter, Minorco, Richemont and Lonrho.

When the time comes to buy gold shares, they recommend Welkom and Winkelhaak.

Diamond shares are expected to move in line with mining financials.

Because they expect a downturn in the economy, they feel industrial shares are overvalued.

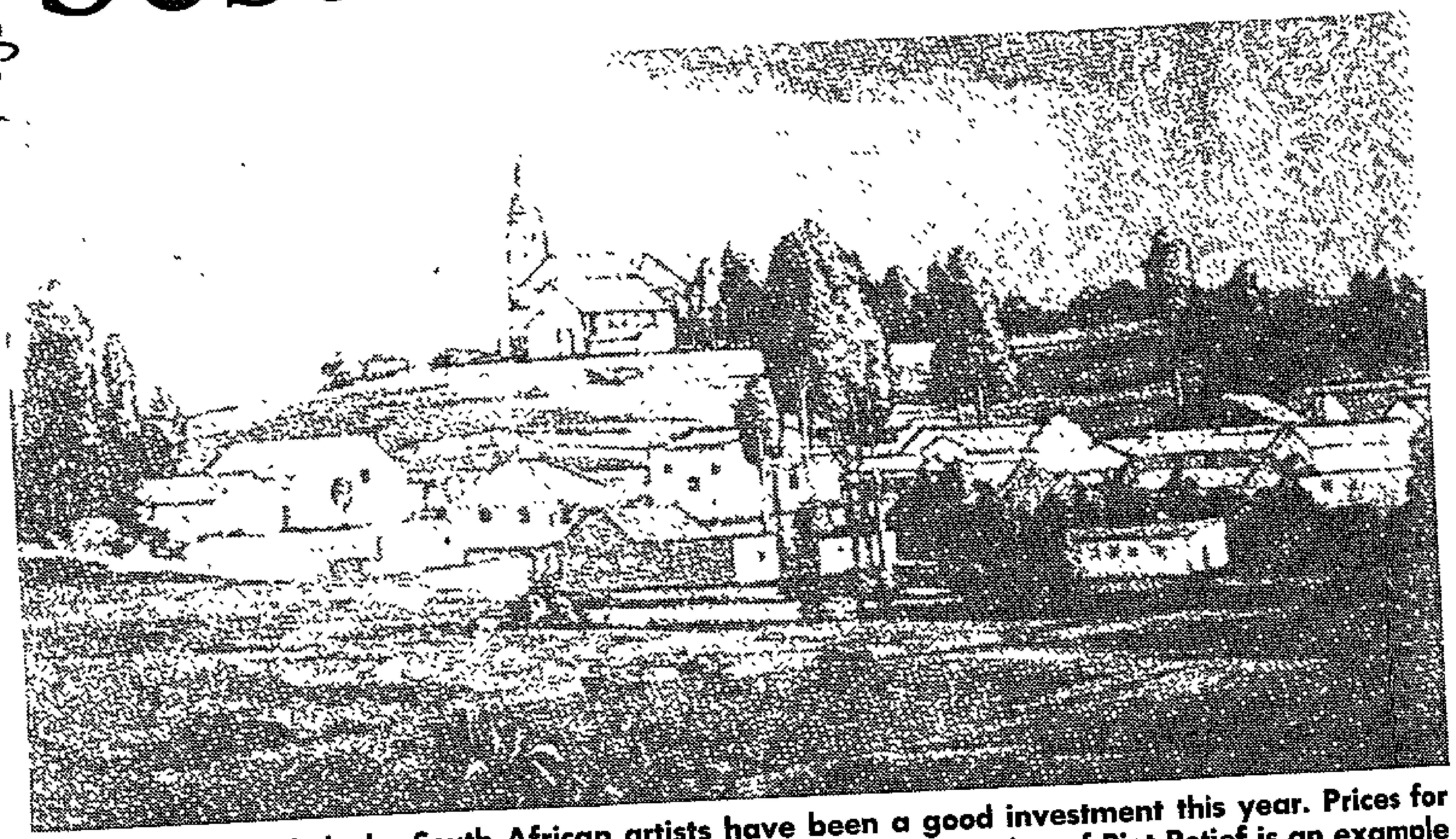
However, they believe selective buying of building, food and electronic shares could produce rewards.

Finally, the expected decline in interest rates later this year should enhance the attractions of property and property trust counters.

OTHER FINANCIAL INSTRUMENTS: Unit trusts are expected to continue to do well. However, as commodity prices are likely to remain firm and commodity shares improve, a switch to one of the trusts with a large portfolio of commodity shares would seem good policy.

Ten-year endowment policies with insurance companies are still an attractive investment for anyone paying too much tax and wanting more security that the stock exchange can offer.

For people in lower tax brackets seeking a high return with security, participation bonds offered by trust companies have much to recommend them.



BRASS IN ART: Works by South African artists have been a good investment this year. Prices for Pierneefs and Irma Sterns have risen by up to 50 percent. This painting of Piet Retief is an example of Pierneef's work.

SPECIAL INVESTMENTS: With few people willing to deny the possibility that platinum could go to $650 or $700 an ounce later this year, an investment in platinum coins could be profitable. Similarly, as the gold price is expected to end the year higher than it is today, a holding of gold coins could give a good return.

An investment that has proved profitable in recent years has been paintings by major SA artists.

Prices paid for works by Irma Stern and Pierneef have risen 50 percent this year, says Mr Louis Schachat, proprietor of Die Kunskamer.

Medium-sized paintings by these two artists are selling for R50 000 to R80 000, depending on quality. Their large paintings are selling for up to R150 000.

Not many years ago — in 1980 — the best price paid until then for a Pierneef was R35 000 and in 1969 the payment of R3600 for an Irma Stern made headlines.

Mr Schachat says foreigners are beginning to take an interest in SA art. This is one reason for the rise in prices.

By European standards, SA works of art are cheap.

One should not regard works of art as a pure investment because they could be difficult to sell in times of recession, says Mr Schachat.

But art lovers should find that SA paintings by recognised artists have a considerable investment worth over time.

If you are looking at jewellery as an investment, jewellers still regard the best buy as the diamond solitaire, preferrably of more than half a carat.

Diamond prices overseas continue to climb and are dragging up local prices along with them.

MEDIA & MARKETING